



## Investor meeting

March 2020



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



- Introduction to Thales

- Key priorities for 2019-23

- 2019 Full-Year results

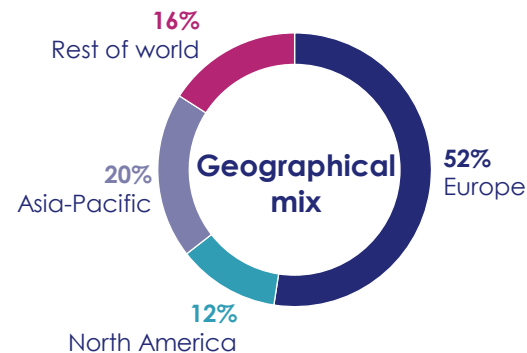
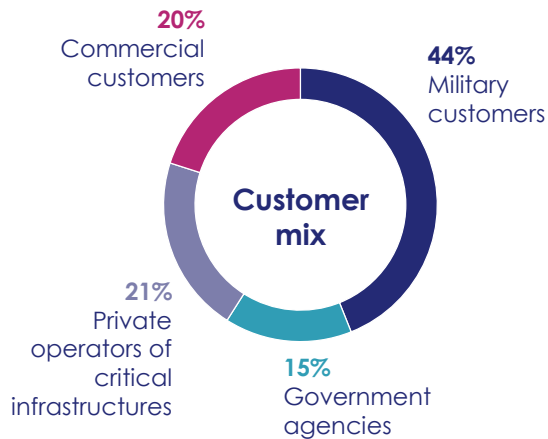
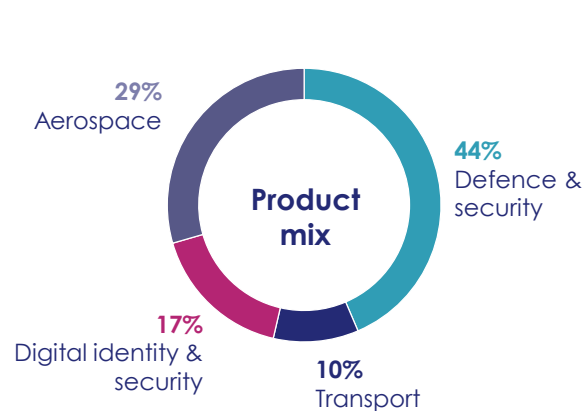
- Outlook



1 million  
passengers each day enjoy  
**Thales in-flight technologies**

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

Pro forma 2019 sales



**Defence sensors  
& mission systems**

**#1**

in Europe



**Air Traffic  
Management**

**#1**

worldwide



**Rail signalling  
and supervision**

**#2**

worldwide



**Data  
protection**

**#1**

worldwide



**Civil  
satellites**

**#2**

worldwide



**Flight  
avionics**

**#3**

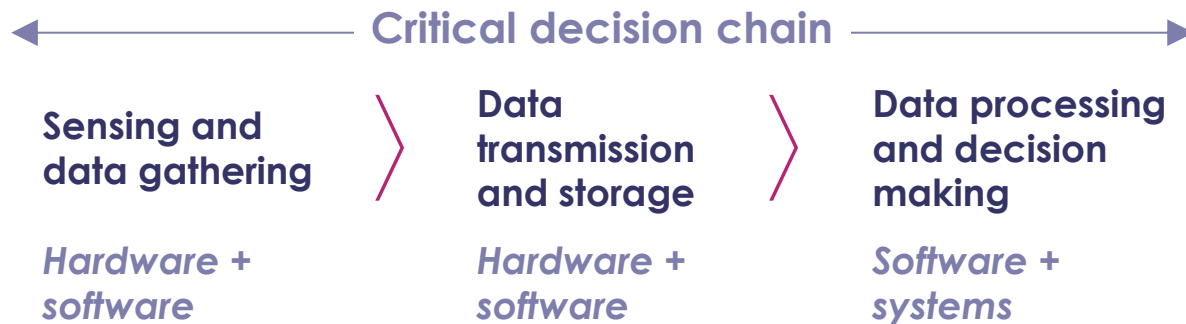
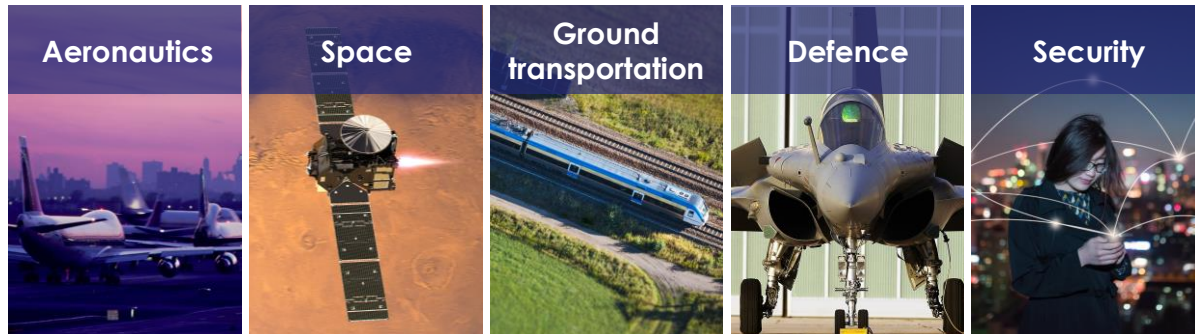
worldwide

# Thales: a pure player focused on intelligent systems

Addressing  
some of the most  
demanding  
end markets...



...leveraging a  
unique portfolio  
of key common  
technologies



*Sensors, mission systems, communications, command and control systems*

# Thales builds on 4 key strengths

Derwent  
Top 100  
Global  
Innovator  
2020

Clarivate  
Analytics



nature

## Cutting edge R&D

- €3.5bn+, ~20% of sales
- ~70% customer-funded
- 29,000+ engineers
- Top 100 global innovator for 5<sup>th</sup> consecutive year



## Deep domain knowledge

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

Connectivity  
Mobility, IoT



Big data  
analytics

Cyber-  
security



Artificial  
intelligence

## 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





- Introduction to Thales
- **Key priorities for 2019-23**
- 2019 Full-Year results
- Outlook



8 billion  
passengers each year benefit  
from Thales technologies

# Ambition 10: unchanged long-term priorities



## Continued focus on operational performance



1

Reinforce customer-centric organization and culture



2

Relentlessly optimize operational performance

## Strong development levers



3

Accelerate R&D investments to drive technological excellence



4

Lead in digital transformation of markets



5

Execute on transformative acquisition of Gemalto



1

## Step up growth initiatives

**2019**

**Record Q4 order intake**

**30% market share in commercial telecom satellites orders**

**Major defence wins in both Europe and emerging markets**

**Already 20+ DIS revenue synergy projects won**

**2020**

**Robust pipeline of defence opportunities**

**Sales transformation project accelerating**

- Streamlined international development organization
- Implementation of strategic account management model
- Increased focus on servicing installed base

**Further ramp up of DIS revenue synergies**

**Solid 2019/2020 order intake dynamics paves the way to sales growth acceleration from 2021**



**1**

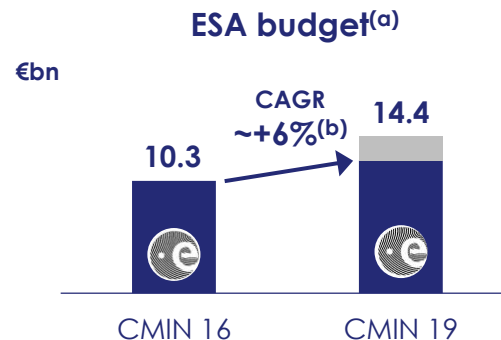
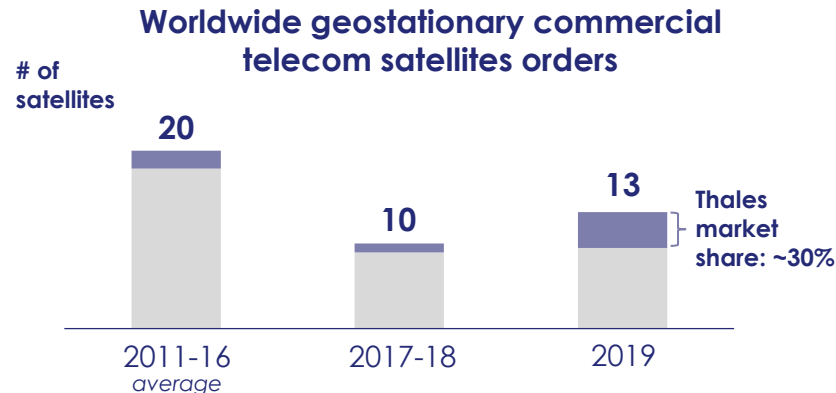
# Position Space to return to growth

## Reinforce best-in-class telecom product range

- Global VHTS leadership confirmed in 2019
- Unique expertise in networked constellations
- Investing in “Space Inspire”: new generation flexible satellite product line
- Cost base significantly adjusted over past 18 months

## Capitalize on growth opportunities across institutional and military markets

- Solid growth confirmed in European Space Agency budget
- Multiple domestic and export prospects



(a) Forecasts for ESA budget post CMIN Space19+

(b) CAGR computed excluding estimated post 2021 commitments

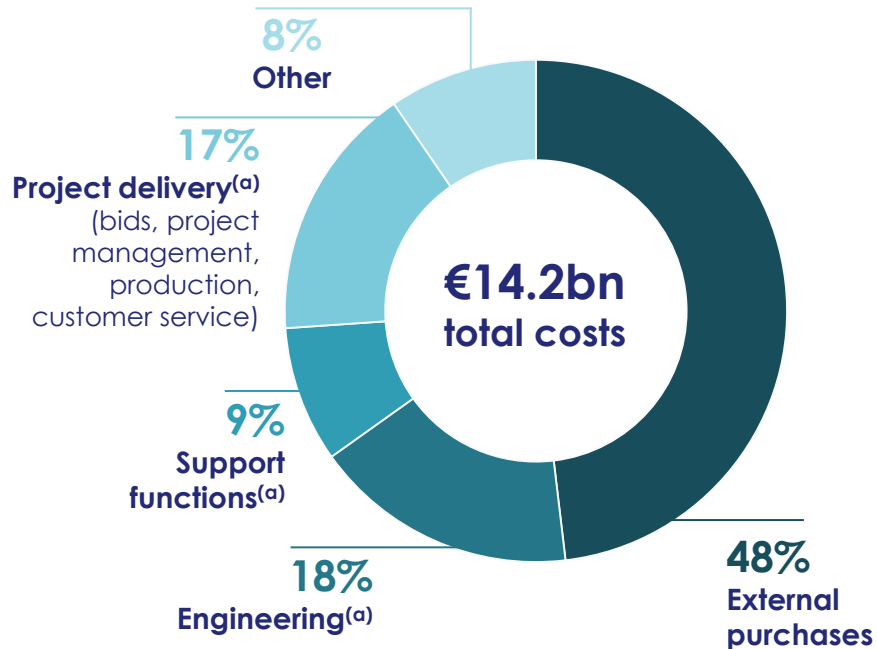


2

## Relentlessly optimize operational performance

### Group cost structure

(2018, before Gemalto)



(a) Excluding external purchases

### Focus on 4 high impact initiatives

Procurement performance

Engineering competitiveness

Support function efficiency

Excellence in delivery

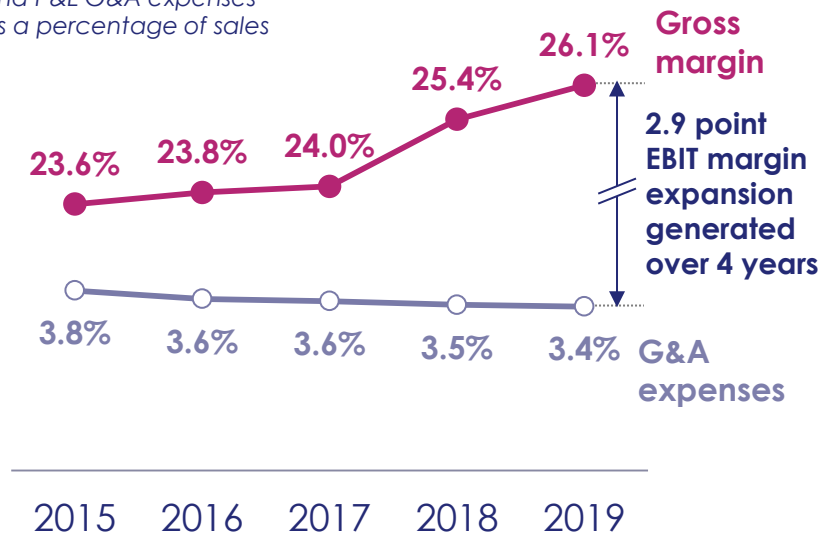


2

## Sustainably deliver on operational performance initiatives

### Significant improvement in gross margin and G&A expenses achieved since 2015

Adjusted gross margin<sup>(a)</sup>  
and P&L G&A expenses  
as a percentage of sales



(a) At constant scope: 2015-2018 adjusted for disposal of GP HSM business. 2019 excluding Gemalto.

### DIS cost synergies fully on track

➤ €25m achieved in 2019

### Performance culture drives constant flow of actions

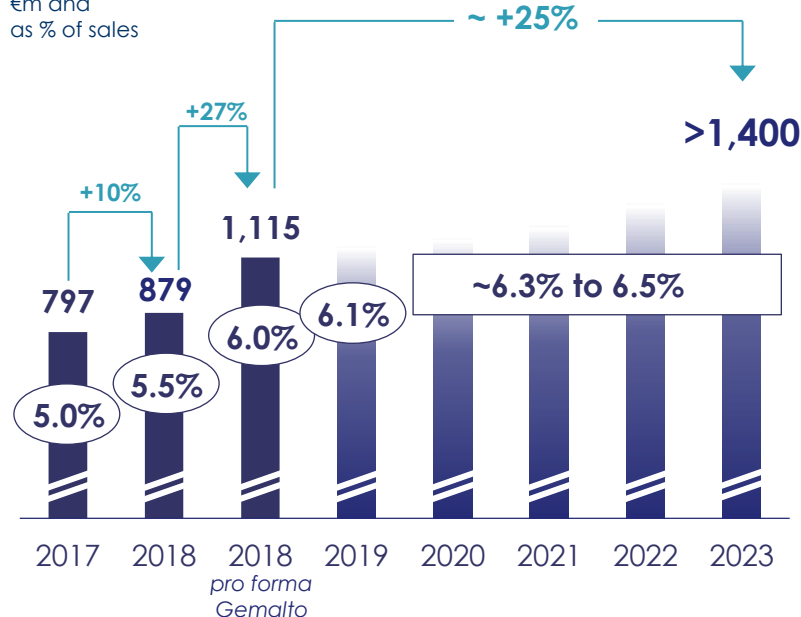
- Worldwide integrated procurement organization fully operational
- Over 30% of spend now concentrated on strategic suppliers
- Development of engineering competency centers in Romania and India
- Deployment of digital engineering best practices across the Group
- Platforming and development of shared support services
- Launch of CA\$H! initiative in 2019

**3**

## Further R&D step-up to drive technological excellence

### Self-funded R&D

€m and  
as % of sales



### Gemalto drives 27% increase in R&D investments

- 2018 R&D organic increase ahead of plan

### 2019-23: continued reinvestment

- Further ~25% growth over 5 years
- Total R&D to reach €4.5bn+ in 2023 when combined with increase in customer-funded R&D

### Unchanged focus: dream products, digital



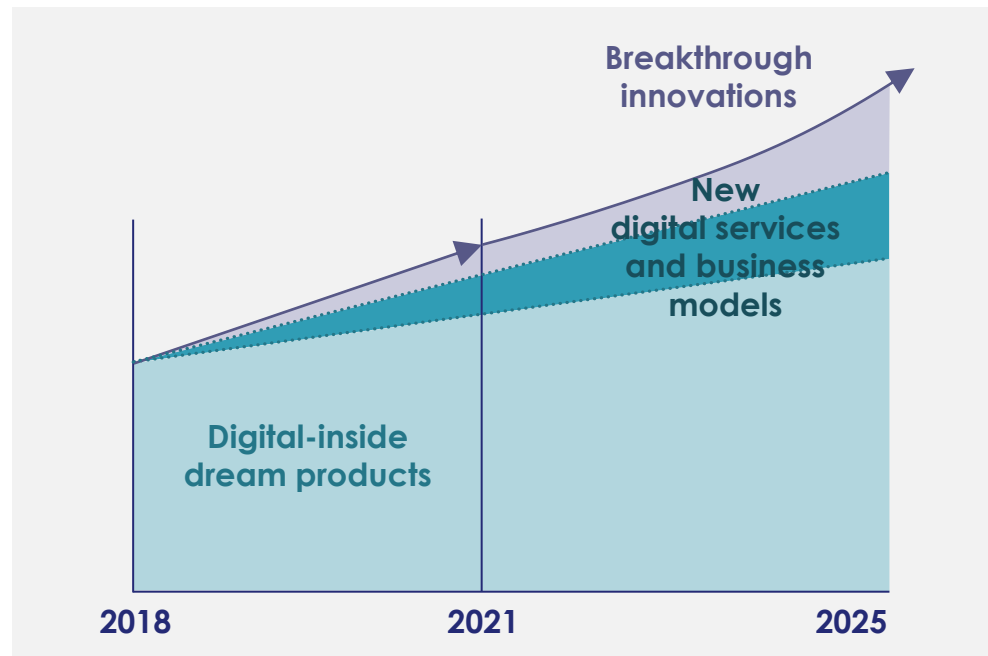
4

## Digital technology leadership enhances long-term growth profile

Quick adoption of digital technologies inside dream products to support top-line growth

Design of new services and business models delivering more recurring revenues

Breakthrough innovations boosting longer-term growth

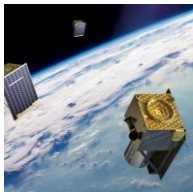


Digital innovations driving mid to long-term growth



4

## Digital offering: expanding the pipeline of digital innovations



**Big data-enabled  
observation  
constellation**



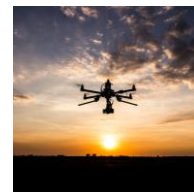
**Autonomous  
trains**



**"Smart"  
radars**



**Predictive  
maintenance  
for defence**



**Drone  
management**



**AI-enabled  
optronics**



**Next generation  
airspace  
surveillance**



**Spare parts  
market place**



**Maritime  
intelligence  
as a service**



**Connected-car  
cybersecurity**

**Concrete digital offerings across all Thales businesses**





5

## Gemalto acquisition: accelerating Thales's digital strategy

Digital security: a unique differentiator to stay at the forefront of intelligent systems

### 3 key technological capabilities



Digital identity - biometrics



Secure connectivity - IoT



Data protection - encryption

Opportunities already materializing in 80% of existing business lines

Access to large pool of digital talents

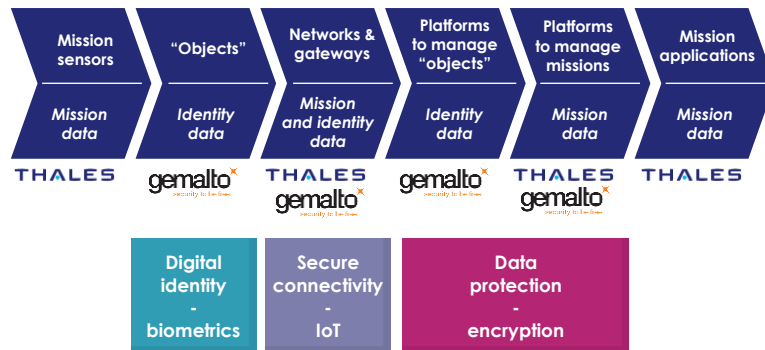
Critical decision chain

Sensing and data gathering

Data transmission and storage

Data processing and decision making

Critical digital decision chain



Reinforcing unique and differentiated market position



5

# Gemalto acquisition: expanding portfolio in highly synergistic growth market

Global leader in fast-growing digital identity and security market

Multiple growth engines, addressing major societal aspirations

Significant cross-selling opportunities, capitalizing on Thales's global sales force

Leveraging Thales's extensive technology portfolio

Maximizing value in mature businesses

## Multiple fast-growing markets

		2023 market size	2019-23 forecasted market growth
	Data protection	~€9bn	x2
	IoT connectivity & security <sup>(a)</sup>	€6bn+	x2
	Biometrics	~€5bn	x1.5
	eSIM shipments	~800 million units	x6

(a) IoT cellular modules and IoT security

Sources: ABI Research, Gartner, IDC, Counterpoint, Thales

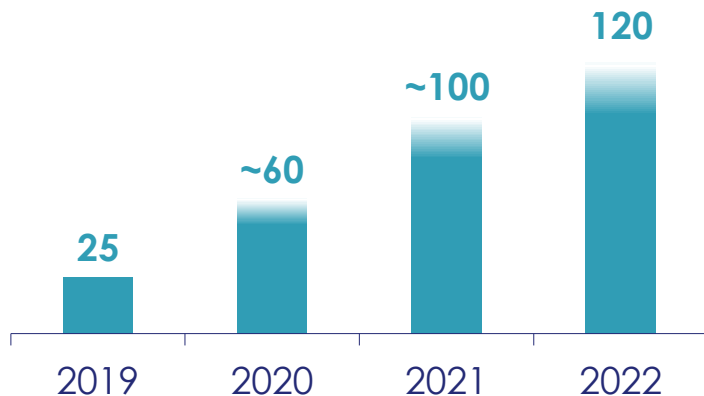


5

## Cost synergies progressing fully in line with plan

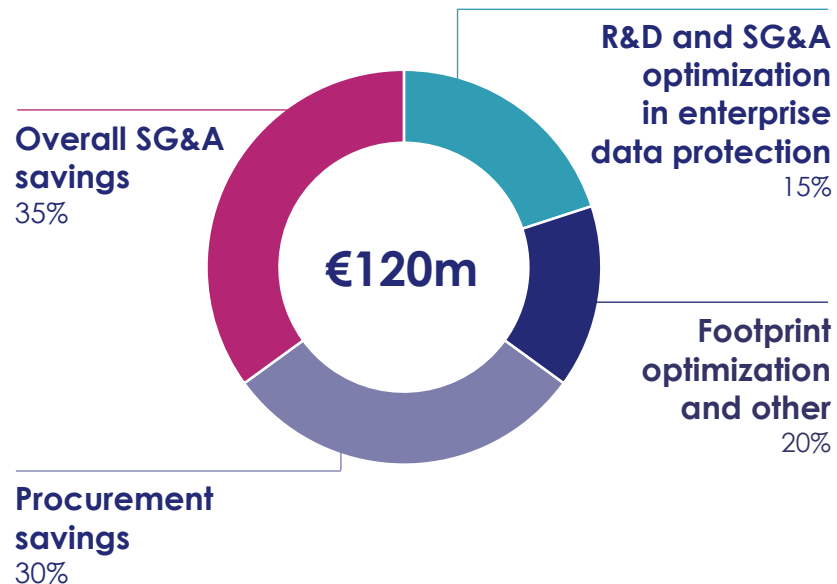
### Expected ramp-up of cost synergies

€m



Integration costs: ~€30m in 2019, ~€10m in 2020

### Breakdown of expected run-rate cost synergies





5

# Revenue synergy opportunities materializing across Group



Digital identity - biometrics



Secure connectivity - IoT



Data protection - encryption

## Defence & Security

- Integration of cybersecurity products and improved go-to-market
- New homeland security offers
- Digitally-enabled asset management, collaborative combat, IoBT (military IoT)
- Drone management and surveillance



## Digital Identity & Security

- Integration of cybersecurity products and improved go-to-market
- Sales of DIS solutions through Thales global sales network



## Aerospace

- Connected aircraft cybersecurity
- Drone management



## Transport

- Smart rail infrastructure
- Autonomous train cybersecurity
- New generation revenue collection



Enhanced by multiple cross-selling opportunities



5

# Revenue synergies deliver growth acceleration now and beyond 2023

## Priority actions

### Short-term

#### Immediate portfolio opportunities

- 460 individual customer opportunities in 25 countries
- Top 10 per country/ region closely tracked
- 20+ first wins already in 2019

### Mid-term

#### Development of new integrated offerings

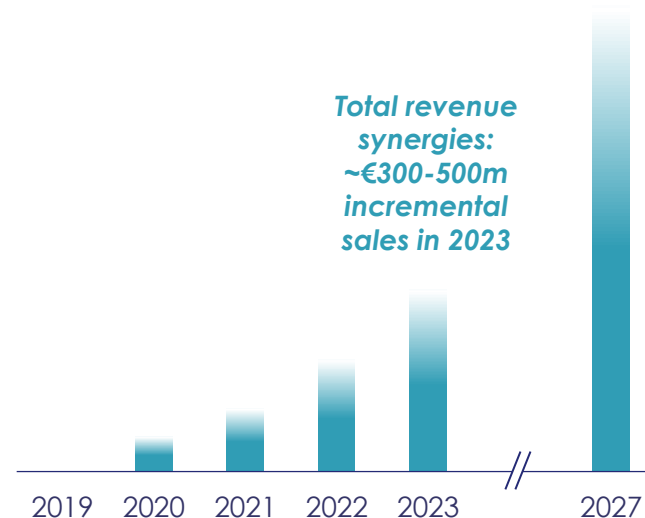
- 50 use cases identified across all Thales segments
- 5 priority themes for new synergistic offers
- 2 first pilot projects launched with Digital Factory

### Long-term

#### Shaping markets

- Experimentations launched for drone management and smart rail infrastructure

## Significant revenue synergies



Note: it is estimated that around 1/3 of run-rate revenue synergies will be recorded in DIS and 2/3 in the other segments

**Teams fully mobilized to capture synergies,  
supported by disciplined organization**



Introduction to Thales

Key priorities for 2019-23

**2019 Full-Year results**

Outlook

A large, curved image on the right side of the slide shows the cockpit and canopy of a fighter jet. The pilot's helmet and oxygen mask are visible inside the canopy. In the background, another fighter jet is flying in a clear blue sky.

50 countries  
across the globe protect their populations  
with Thales technologies



# Full-Year 2019 highlights



Solid order intake, driven by record Q4

Sales in line with revised expectations

EBIT above target

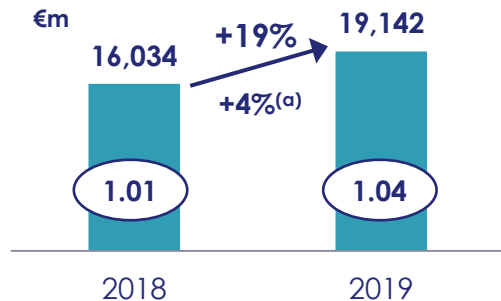
Strong Free operating cash flow

Integration of Gemalto in line with plan

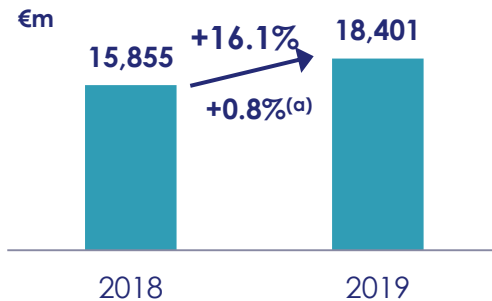
Unchanged focus:  
profitable and sustainable growth

# 2019 key figures

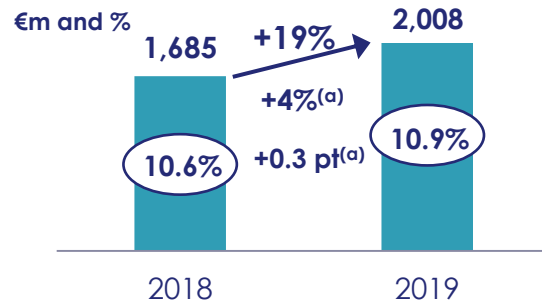
## Order intake and book-to-bill



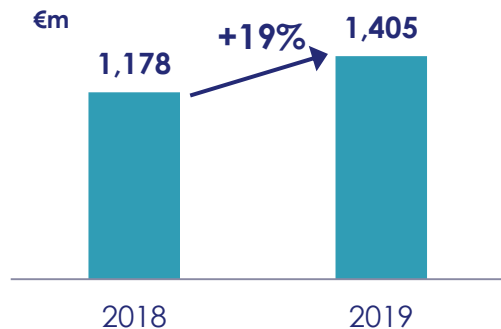
## Sales



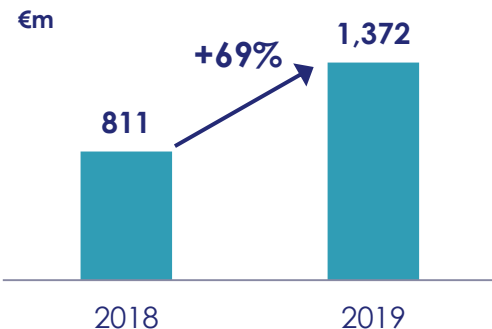
## EBIT and EBIT margin<sup>(b)</sup>



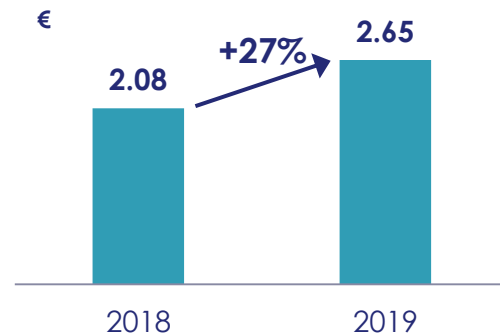
## Adjusted net income<sup>(b)</sup>



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



## Dividend<sup>(c)</sup>



(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 6 May 2020 Annual General Meeting

# 2019 order intake

## Solid order intake momentum, driven by record Q4

- 12 large<sup>(a)</sup> orders booked in Q4 2019
- 21 large<sup>(a)</sup> orders booked in 2019

## 2019 book-to-bill of 1.04

- 1.05 excluding DIS, whose book-to-bill is structurally equal to 1

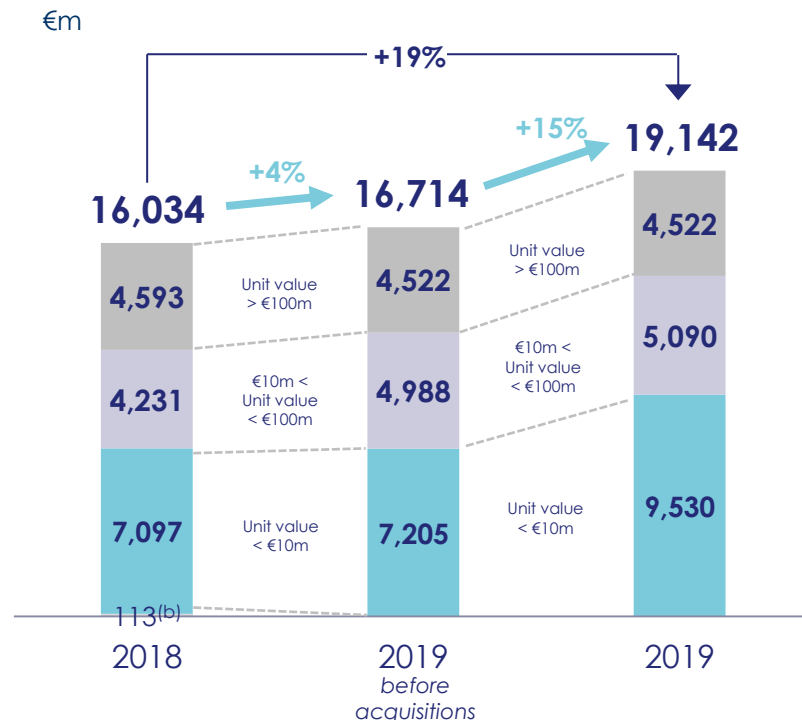
## Second year in a row of record order intake in mature markets

- Emerging market orders recovering in line with expectations

(a) With a unit value over €100m

(b) Order intake of disposed activities (GP HSM)

## Order intake by contract unit value



THALES

# 2019 organic sales growth

## Small positive currency impacts in both Q4 and Full Year 2019

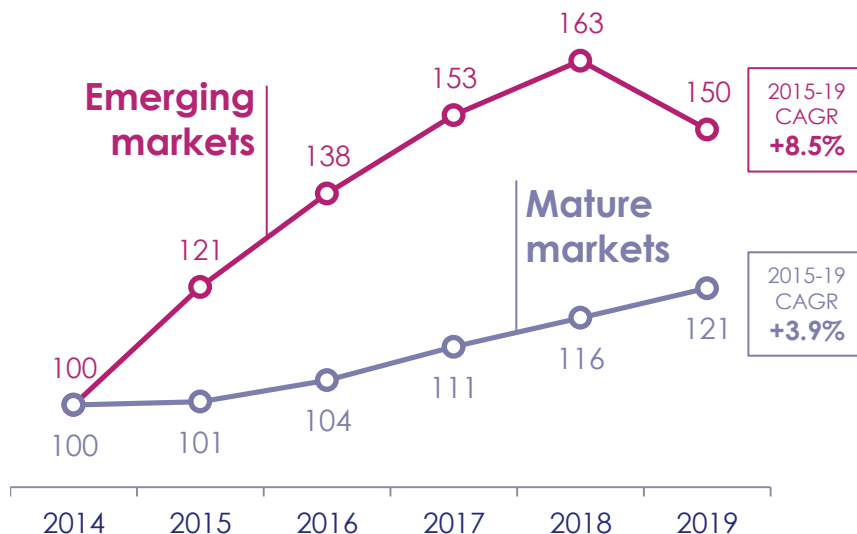
- Q4: +€33m, +0.7% of sales
- 2019: +€118m, +0.7% of sales

## Geographically contrasted organic sales growth

- Confirmed acceleration in mature markets: +4.7%
- Negative growth in emerging markets (-7.7%) after several years of high growth

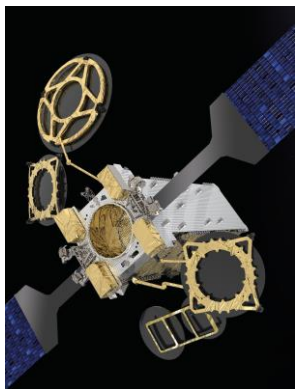
## Organic sales trend by region

Base 100 in 2014





# Aerospace: 2019 key figures



€m	2019	2018	Change	
			total	organic
Order intake	4,829	5,346	-10%	-11%
Sales	5,595	5,780	-3.2%	-4.2%
EBIT	521	580	-10.2%	-10.7%
in % of sales	9.3%	10.0%	-0.7 pt	-0.7 pt

## Decrease in order intake driven by Space and In-Flight Entertainment

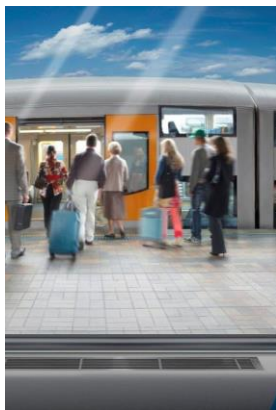
- Strong Q4 performance in commercial telecom satellites: 3 out of 4 RFPs won
- Natural cycle in institutional space market

## Sales affected by 13% decline in Space sales, in line with expectations

Decline in profitability driven by Space sales decline and restructuring costs, while increasing R&D investments



# Transport: 2019 key figures



€m	2019	2018	Change	
			total	organic
<b>Order intake</b>	<b>1,751</b>	<b>1,858</b>	-6%	-7%
<b>Sales</b>	<b>1,910</b>	<b>2,001</b>	-4.5%	-5.8%
<b>EBIT</b>	<b>56</b>	<b>88</b>	-36.5%	-35.2%
in % of sales	2.9%	4.4%	-1.5 pt	-1.4 pt

**Order intake impacted by phasing of large contract awards**

**Sales affected by exceptionally high comps**

- Sales up 5% organically excluding impact of 4 major contracts (London, Dubai, Doha and Hong Kong) ramping down

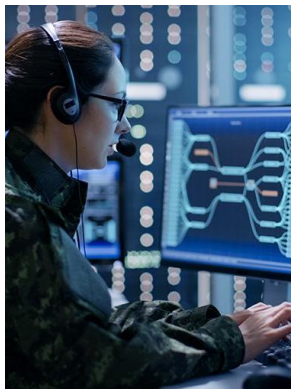
**Underlying EBIT margin of ~6%, in line with mid-term target**

- ~€60m one-offs recorded in H1 2019
- H2 2019 EBIT margin: 9.1%





# Defence & Security: 2019 key figures



€m	2019	2018	Change	
			total	organic
Order intake	9,906	8,570	+16%	+17%
Sales	8,265	7,828	+5.6%	+6.4%
EBIT	1,153	992	+16.2%	+20.5%
in % of sales	14.0%	12.7%	+1.3 pt	+1.6 pt

## Strong order intake momentum

- Record order intake, book-to-bill of 1.2
- Booking of several multi-year contracts, underpinning long-term growth

## Broad-based sales growth

## Exceptional EBIT margin, driven by combination of positive factors

- Solid sales growth, competitiveness initiatives, good project execution, very limited restructuring costs, and provision release recorded in H1



# Digital Identity & Security: 2019 key figures



€m	2019	2018	Change total    organic
<b>Order intake</b>	<b>2,573</b>	<b>205</b>	
<b>Sales</b>	<b>2,552</b>	<b>192</b>	<i>Non meaningful</i>
<b>EBIT</b>	<b>264</b>	<b>15</b>	
in % of sales	10.3%	8.0%	

**Order intake structurally aligned with sales for most businesses**

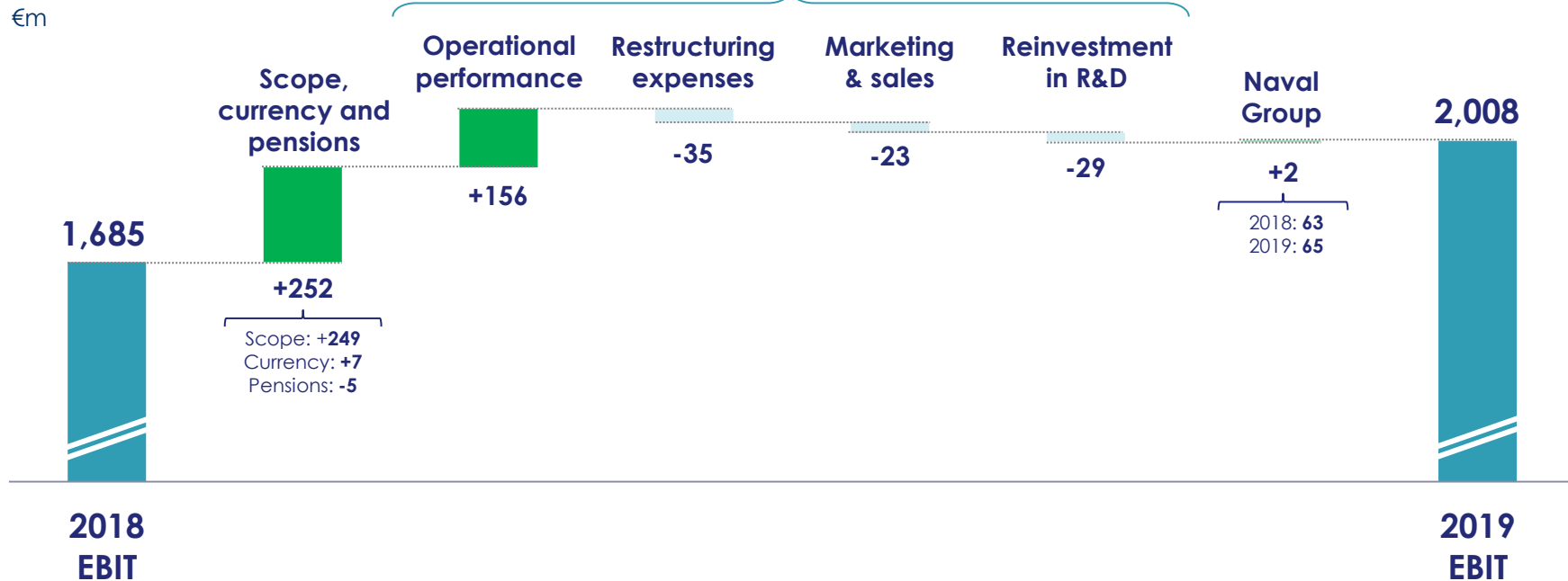
**Full Year organic sales growth of ~1%, in line with expectations**

- Good dynamics of EMV cards, driven by re-issue cycle in the US and new products
- Identity management and data protection affected by reorganization

**EBIT just above upper range of June guidance (€240-260m)**

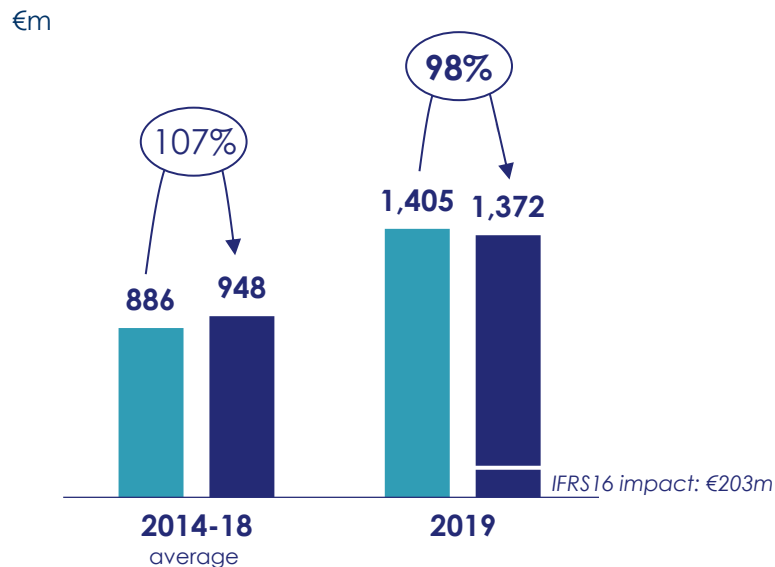
- Lower than expected integration costs (~€30m)

# 2018 to 2019 EBIT bridge

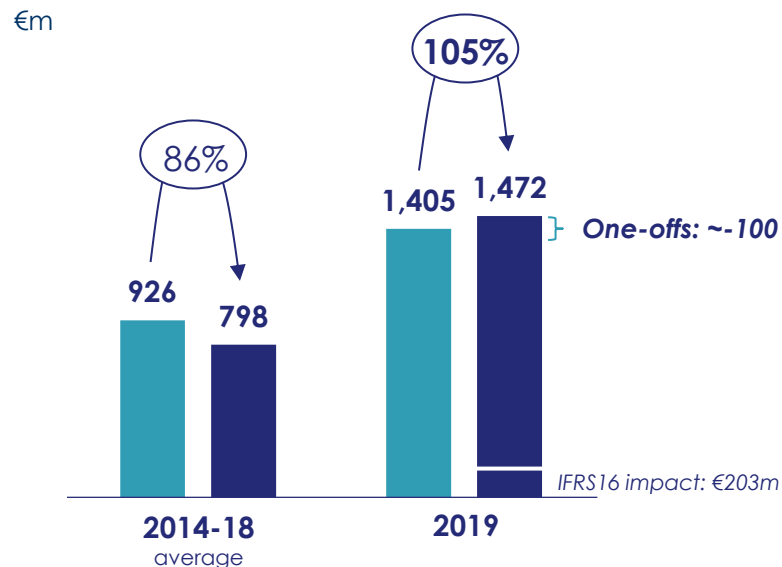


# Solid cash conversion before one-offs

## Reported cash conversion



## Cash conversion before one-offs<sup>(a)</sup>



Adjusted net income  
Free operating cash flow

xx%

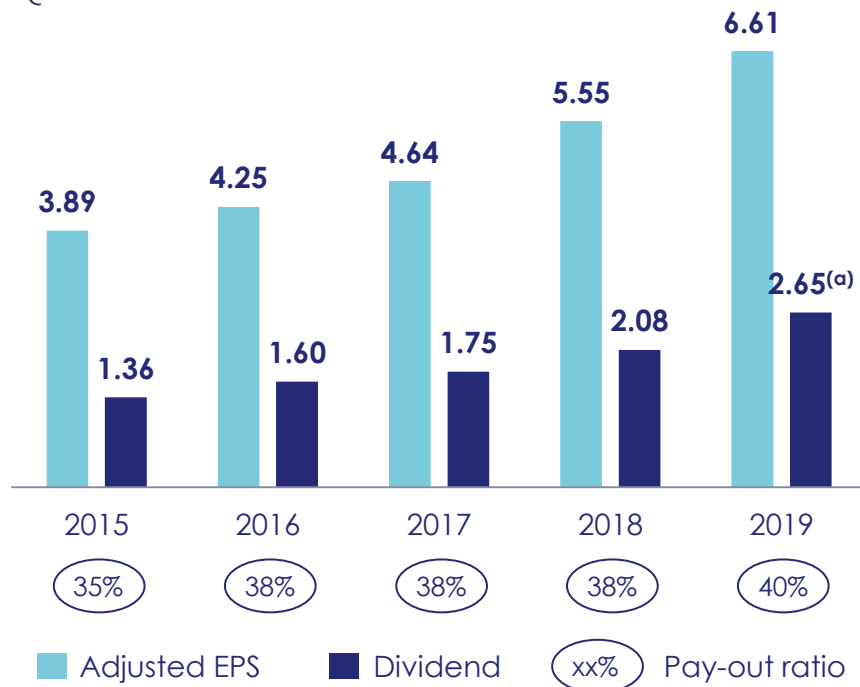
Cash conversion ratio: Free operating cash flow / adjusted net income

(a) See details of one-off items on page 54

# Adjusted EPS and dividend

## Adjusted EPS and dividend per share

€



**Adjusted EPS up 14%  
per year since 2015**

**Proposed 2020 dividend:  
€2.65 per share<sup>(a)</sup>**

➤ Pay-out ratio increased to 40%

**Dividend up 18% per year  
since 2015**

(a) Subject to approval by the 6 May 2020 Annual General Meeting



- | Introduction to Thales
- | Key priorities for 2019-23
- | 2019 Full-Year results
- | **Outlook**

A small, stylized globe is shown, featuring a city skyline, a lush green forest, and a sandy beach with blue water. The globe is set against a dark background with a bright light source, possibly the sun or moon, creating a dramatic effect.

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

# Sustained organic sales growth

## Group organic sales growth target

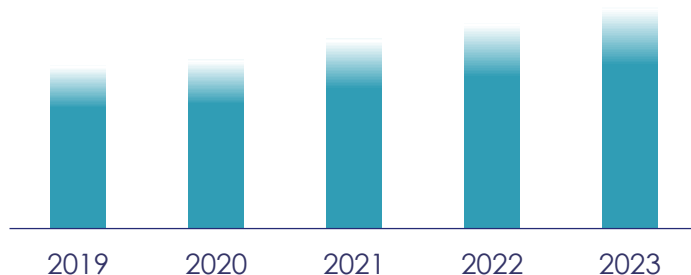
**3% to 5% growth**  
on average over 2019-23

### Lower growth in first part of period

- Impact of space market slowdown
- High comps in transport

### Progressively accelerating thereafter

- Recovery of space market
- DIS revenue synergies
- New digital services and breakthrough innovations



## Market trend

## Organic sales growth target 2019-23



### Aerospace

~+1.5%<sup>(a)</sup>

**+2-3%**



### Transport

~+3%

**Flat<sup>(b)</sup>**  
(2018-23: ~+2%)



### Defence & Security

~+3.5%

**+4-6%**



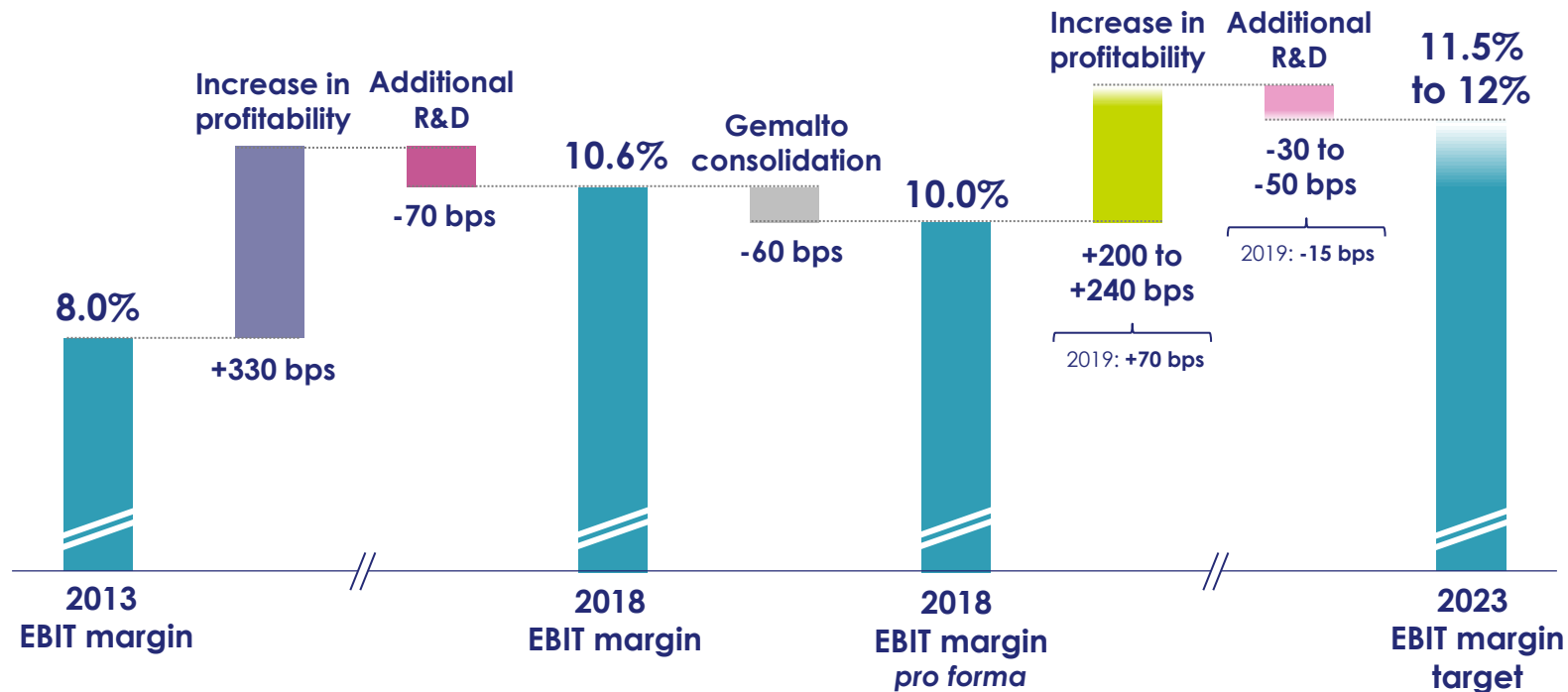
### Digital identity & security

Smart cards      **Flat**  
Digital services and solutions      ~+13%

**+4-6%<sup>(c)</sup>**

(a) Composite market trend adjusted to take into account lower growth in commercial space market  
(b) 2018-23 transport growth above 2% taking into account exceptional outperformance in 2018 (+18%)  
(c) 2020-23 growth target

# Further significant increase in profitability

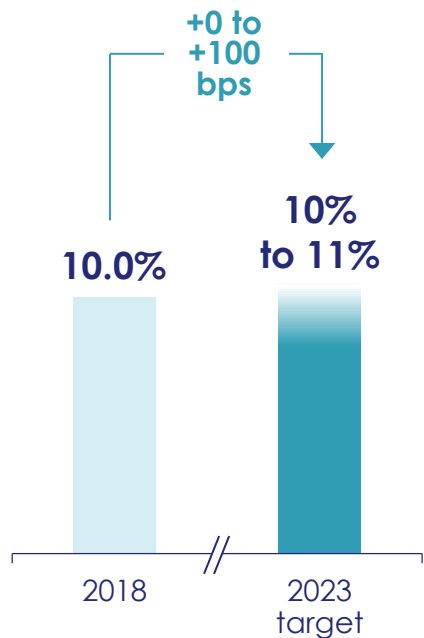




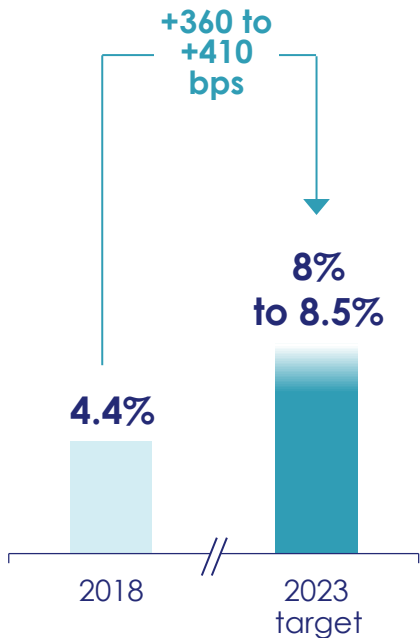
# Defence & security sustaining best-in-class EBIT margin, all other operating segments delivering EBIT margin improvement



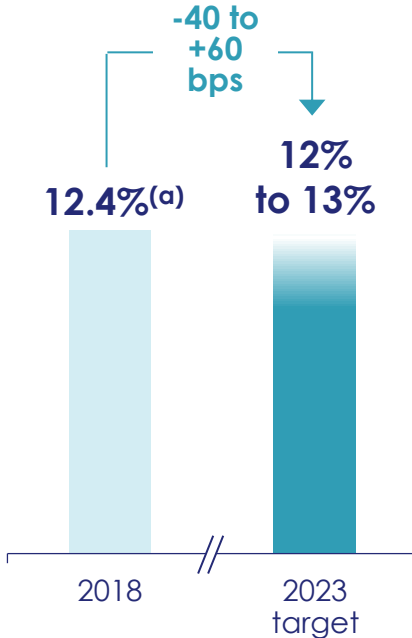
## Aerospace



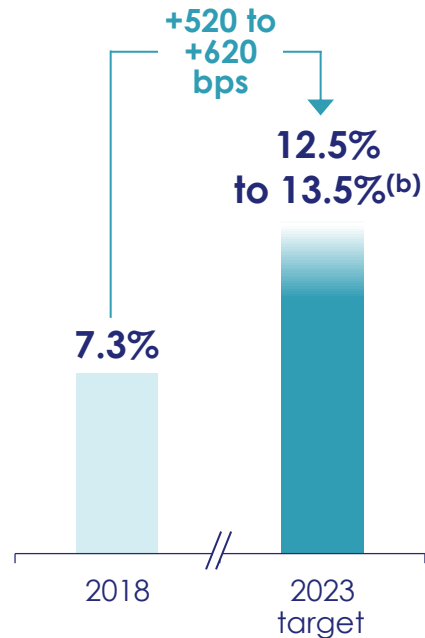
## Transport



## Defence & security



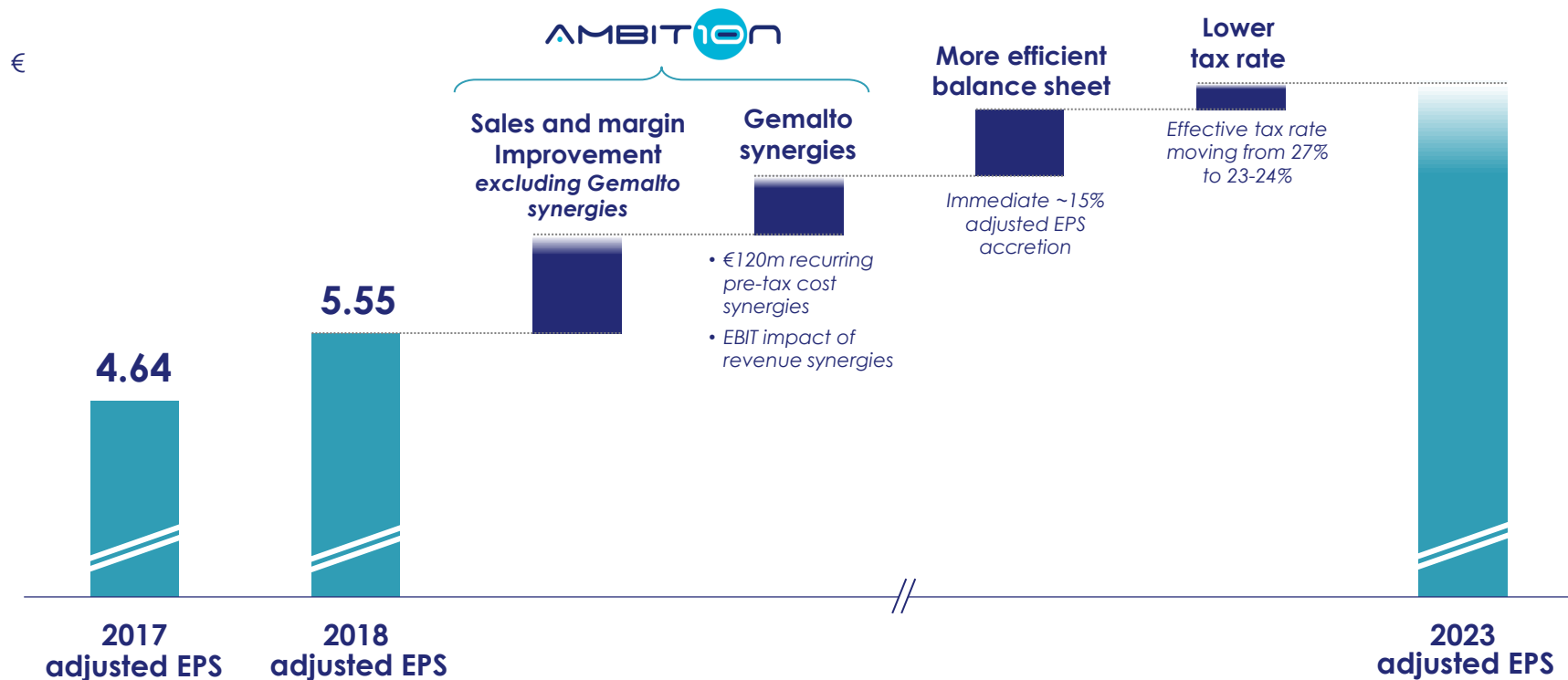
## Digital identity & security



(a) Excluding €20m one-off

(b) Only 2/3 of cost synergies and 1/3 of revenue synergies are expected to be recorded within DIS

# Multiple drivers deliver significant EPS accretion



# Maintaining strong focus on cash flow generation

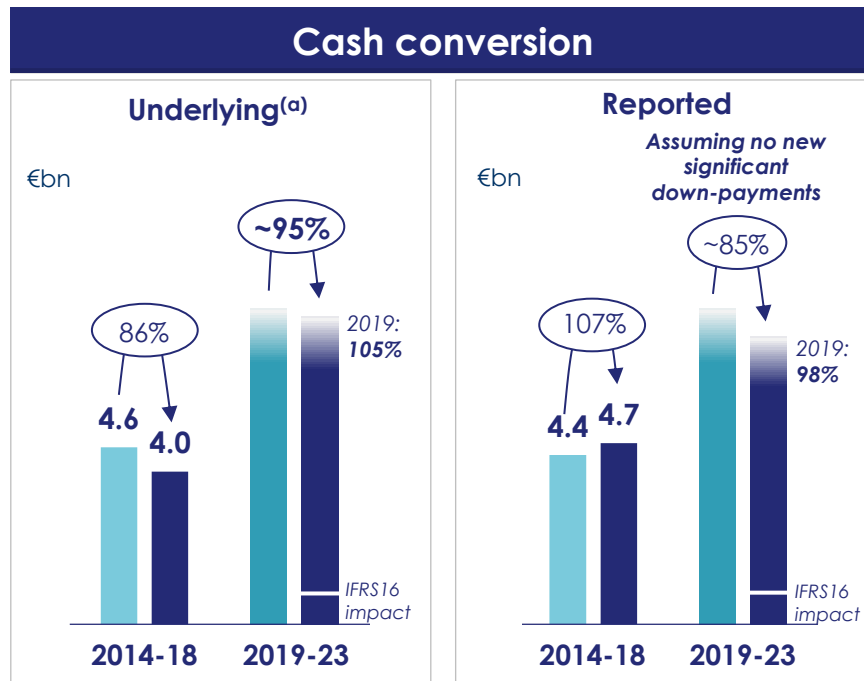
## 2019-23: major increase in underlying free operating cash flow

### Underlying 2019-23 cash conversion comparable to 2014-18

- Mechanical positive IFRS16 effect
- Development of service businesses
- DIS sales growth requiring additional working capital
- Continuous focus on cash flow: launch of CA\$H! initiative

### Reported cash conversion will depend on phasing of down-payments on large export contracts

- €400m remaining down-payments to unwind over 2020-23



Adjusted net income, Group share<sup>(b)</sup>

Free operating cash flow<sup>(b)</sup>

xx%

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

(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: €750m of positive WCR effects booked in 2015-18, of which €100m unwinding in 2019. See page 54

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

**THALES**

# A more efficient capital structure to support significant dividend growth whilst maintaining financial flexibility

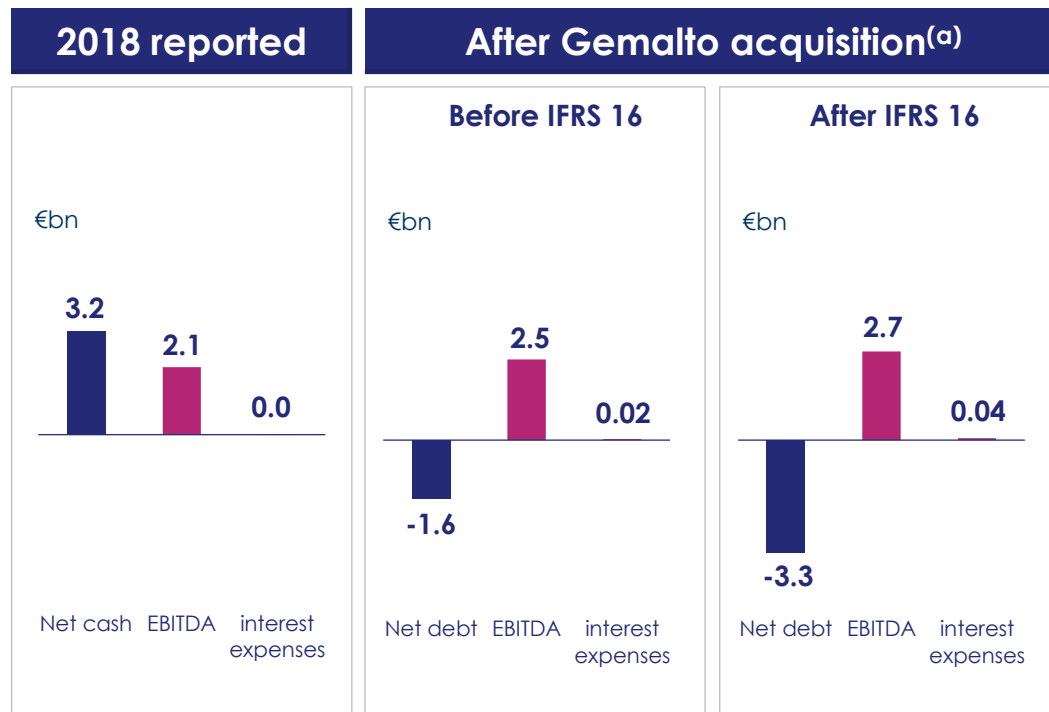
Strong investment grade maintained (A-, A2)

Dividend growth in line with adjusted EPS

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

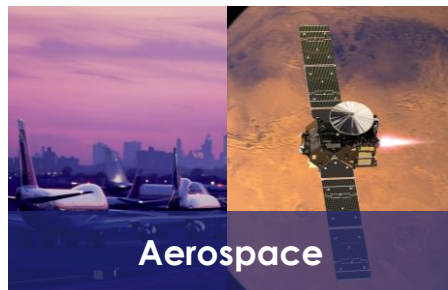
Retaining focus on ROCE

- Pre Gemalto: 19%,  
pro forma 2019: ~13%
- Expected to rise above 16%  
by 2023



(a) 2019, pro forma 12 months

# 2020 business environment



- Slowing rate of growth in Airbus commercial aircraft deliveries
- Strong multi-year funding of European Space Agency
- Low visibility on phasing of commercial space orders



- Robust long-term growth in mainline signaling market
- Ramping down of 4 large urban rail contracts continuing to weigh on growth (€100m+ headwind in 2020)



- Unchanged, solid defence budget outlook across most geographies
- High order book strengthening medium-term visibility



- High demand for data protection, IoT connectivity and security, biometrics, and eSIM
- Decline in EMV card sales after strong growth in 2019
- Identity management and data protection: organization in place to deliver on growth

**Uncertainties affecting global environment: impact of Coronavirus on markets and supply chains, US aeronautics tariffs, resumption of B737 MAX operations...**

# 2020 financial objectives

Order intake	Book-to-bill above 1, supporting sales growth acceleration from 2021
Sales	€19.0 to 19.5 billion <sup>(a)</sup>
EBIT margin <sup>(b)</sup>	10.8% to 11% <sup>(a)</sup> , corresponding to a 20 to 40 bps margin expansion <sup>(c)</sup>

(a) Based on February 2020 scope and foreign exchange rates

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

(c) Compared to Thales reported 2019 + Gemalto Q1

# Summary

## Unique portfolio positioning

- “Intelligent systems” pure player positioning
- Markets benefiting from solid long-term underlying growth
- Portfolio expanded into highly synergistic growth market through Gemalto acquisition

## Continued focus on operational performance

- New competitiveness initiatives gaining momentum in coming years
- DIS cost synergies fully on track

## Strong development levers

- Robust pipeline of opportunities
- Further acceleration of R&D investments
- Gemalto accelerating digital strategy



Sustainable  
value creation,  
with enhanced  
resilience



## Appendix



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



# A strong set of focused businesses

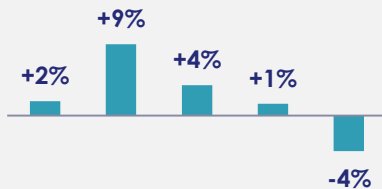
Segment	Sub-segment		Civil	Military	2019 sales <sup>(a)</sup> (€m)	Market position
<b>Aerospace</b> 29% of 2019 sales <sup>(a)</sup>	<b>Flight avionics</b> including cockpit avionics, communications, electrical systems, training and simulation				~2,150	#3 worldwide (flight avionics)
	<b>Connected in-flight entertainment (IFE)</b>				~800	#2 worldwide
	<b>Microwave tubes</b> for satellite, medical, scientific and military applications				~500	#1 worldwide
	<b>Space solutions</b> for telecom, observation, navigation and exploration				~2,150	#2 worldwide (civil satellites)
<b>Transport</b> 10% of 2019 sales <sup>(a)</sup>	<b>Rail signalling and supervision</b> including passenger payment collection systems				~1,900	#2 worldwide
<b>Defence &amp; security</b> 44% of 2019 sales <sup>(a)</sup>	<b>Sensors and mission systems</b> including radars, sonars, optronics, mission systems for aircraft, ships and submarines, missiles and armored military vehicles				~4,300	#1 in Europe
	<b>Communications, command and control systems</b> including military communications and networks, military command and control systems (C4I), cybersecurity, Air Traffic Management, and security solutions for countries, cities and critical infrastructures				~3,950	#2 worldwide (military tactical communications)
<b>Digital identity &amp; security</b> 17% of 2019 sales <sup>(a)</sup>	<b>Digital identity and security solutions</b> including identity management & data protection, biometrics, analytics & Internet of Things, mobile connectivity solutions (removable SIM and eSIM), EMV payment cards				~3,200	#1 worldwide

(a) Based on Thales 2019 + Gemalto Q1 2019

# Historical sales and EBIT performance by segment

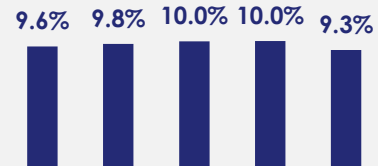
## Aerospace

Organic sales growth



2015 2016 2017 2018 2019

EBIT margin



2015 2016 2017 2018 2019

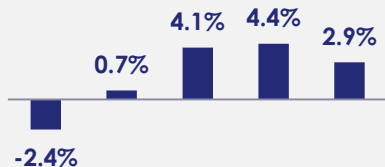
## Transport

Organic sales growth



2015 2016 2017 2018 2019

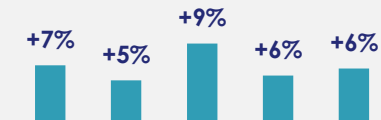
EBIT margin



2015 2016 2017 2018 2019

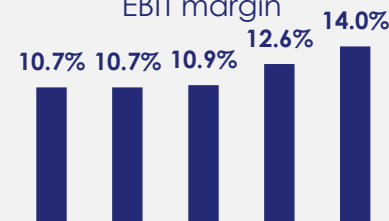
## Defence & Security

Organic sales growth



2015 2016 2017 2018 2019

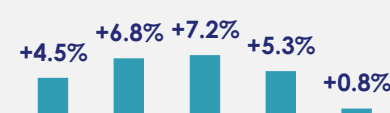
EBIT margin



2015 2016 2017 2018 2019

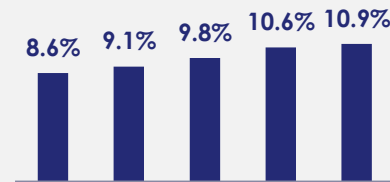
## Total Group

Organic sales growth



2015 2016 2017 2018 2019

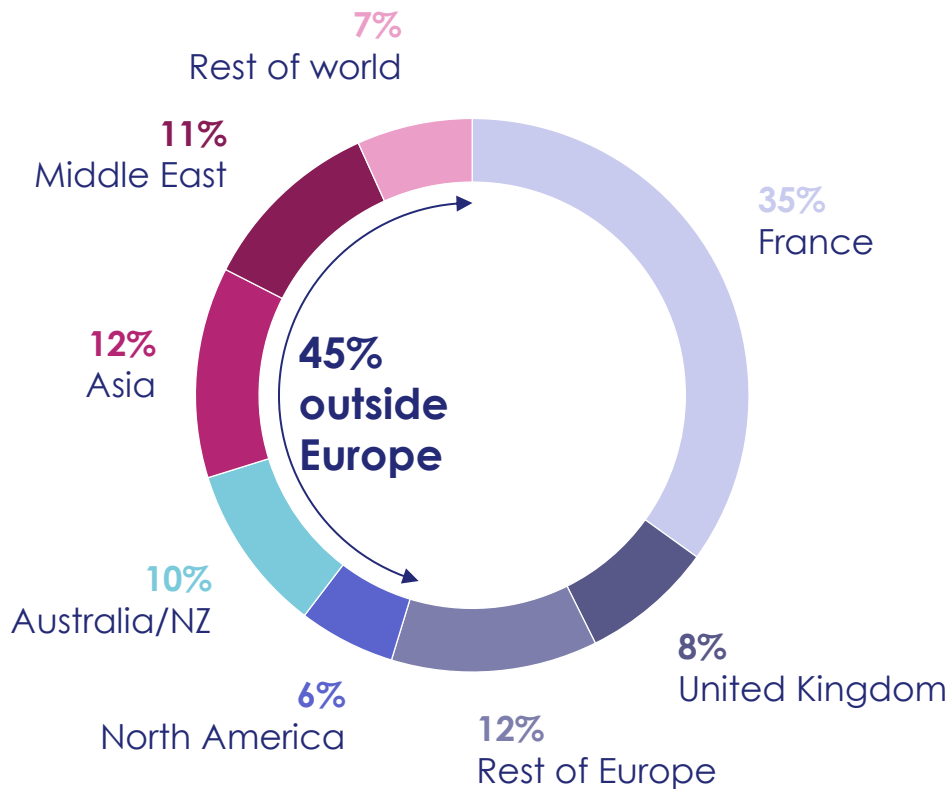
EBIT margin



2015 2016 2017 2018 2019

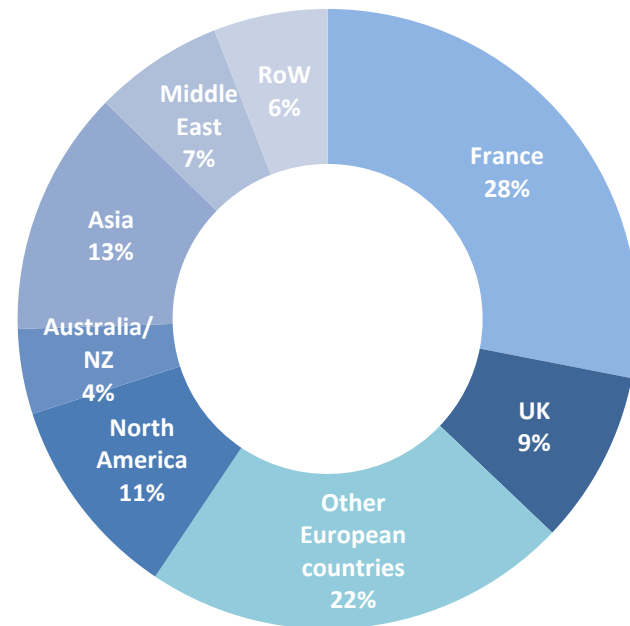
# Highly diversified Defence & security customer base

Defence & security sales by region, 2019



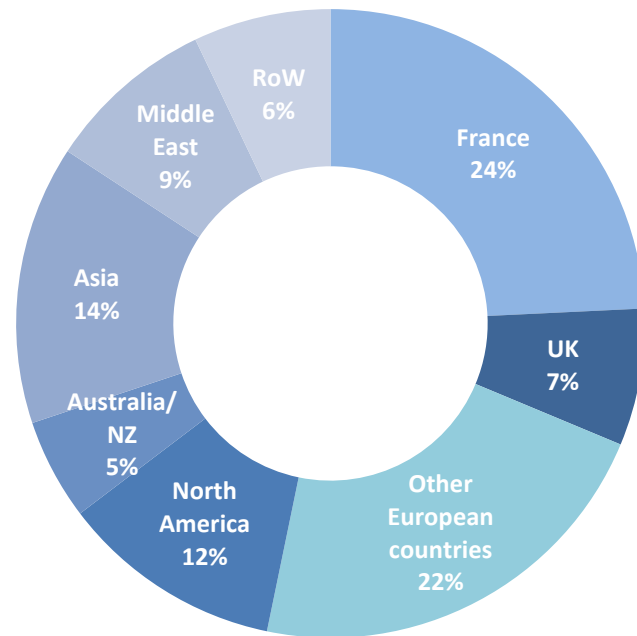
# 2019 order intake by destination

€m	2019	2018	Change	
			Total	organic
France	5,372	5,183	+4%	+1%
United Kingdom	1,730	746	+132%	+119%
Other European countries	4,266	3,872	+10%	-1%
<b>Europe</b>	<b>11,368</b>	<b>9,802</b>	<b>+16%</b>	<b>+9%</b>
North America	2,040	1,501	+36%	-9%
Australia/NZ	850	1,494	-43%	-46%
<b>Mature markets</b>	<b>14,258</b>	<b>12,797</b>	<b>+11%</b>	<b>+1%</b>
Asia	2,452	1,764	+39%	+12%
Middle East	1,293	952	+36%	+22%
Rest of the world	1,139	521	+119%	+38%
<b>Emerging markets</b>	<b>4,883</b>	<b>3,237</b>	<b>+51%</b>	<b>+19%</b>
<b>Total</b>	<b>19,142</b>	<b>16,034</b>	<b>+19%</b>	<b>+4%</b>

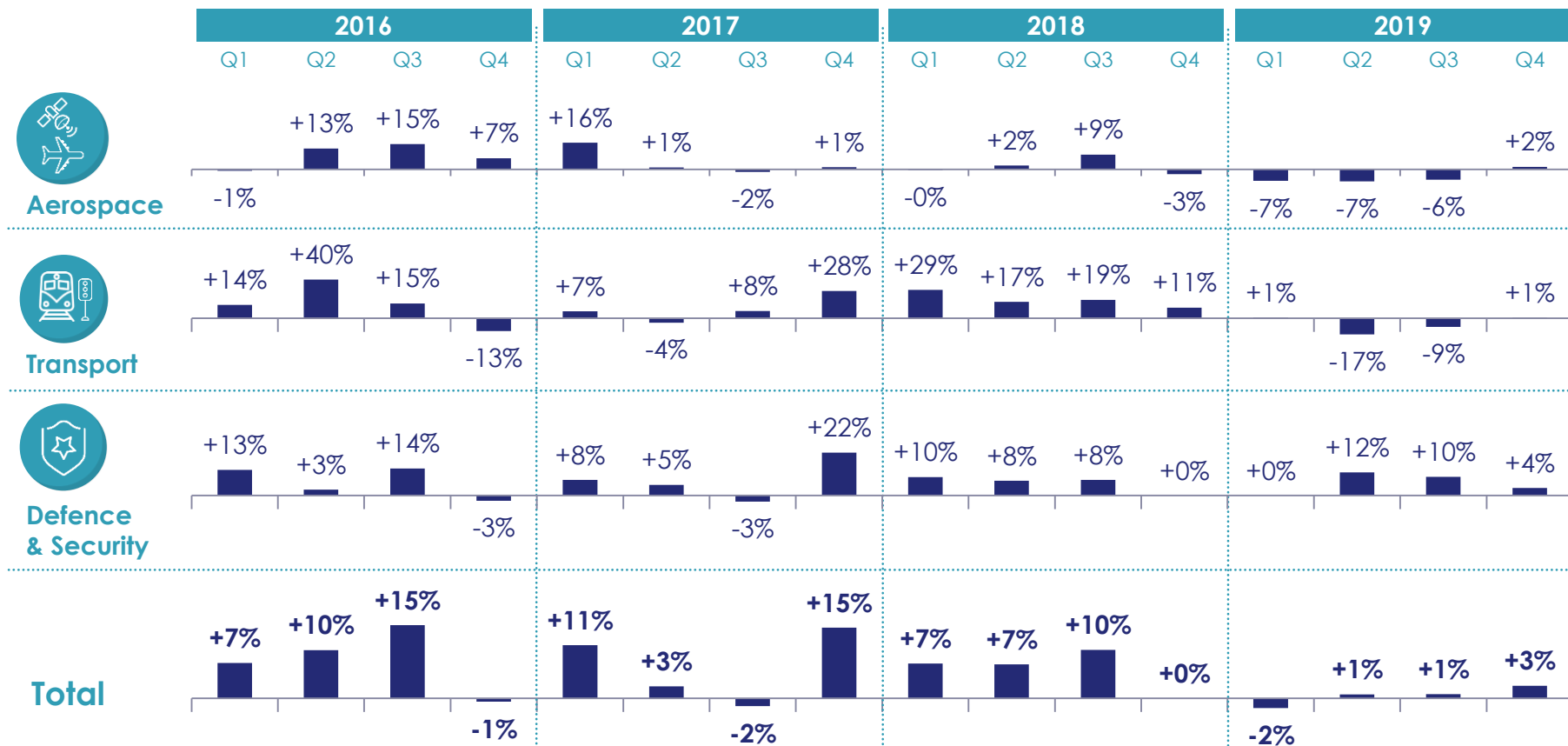


# 2019 sales by destination

€m	2019	2018	change	
			total	organic
France	4,461	3,985	+12.0%	+8.8%
United Kingdom	1,297	1,253	+3.5%	-6.1%
Other European countries	4,040	3,498	+15.5%	+2.3%
<b>Europe</b>	<b>9,798</b>	<b>8,736</b>	<b>+12.2%</b>	<b>+4.1%</b>
North America	2,102	1,367	+53.7%	+6.9%
Australia/NZ	958	858	+11.6%	+7.2%
<b>Mature markets</b>	<b>12,858</b>	<b>10,960</b>	<b>+17.3%</b>	<b>+4.7%</b>
Asia	2,642	2,297	+15.0%	-5.3%
Middle East	1,601	1,647	-2.8%	-11.1%
Rest of the world	1,301	950	+36.8%	-7.5%
<b>Emerging markets</b>	<b>5,543</b>	<b>4,894</b>	<b>+13.3%</b>	<b>-7.7%</b>
<b>Total</b>	<b>18,401</b>	<b>15,855</b>	<b>+16.1%</b>	<b>+0.8%</b>



# Organic sales growth per quarter



NB: DIS organic sales growth not meaningful

# Summary adjusted P&L: from sales to EBIT

	2019		2018		Change	
	€m	% of sales	€m	% of sales	total	organic
<b>Sales</b>	<b>18,401</b>		<b>15,855</b>		<b>+16.1%</b>	<b>+0.8%</b>
Gross margin	5,051	27.5%	4,088	25.8%	+23.6%	+3.5%
Indirect costs	(3,112)	-16.9%	(2,526)	-15.9%	+23.2%	+1.5%
o/w R&D expenses	(1,097)	-6.0%	(879)	-5.5%	+24.8%	+3.2%
o/w Marketing & Sales expenses	(1,381)	-7.5%	(1,095)	-6.9%	+26.2%	+2.2%
o/w General & Administrative expenses	(634)	-3.4%	(552)	-3.5%	+14.8%	-2.7%
Restructuring costs	(102)		(48)			
Share in net result of equity-accounted affiliates, excluding Naval Group	106		109			
<b>EBIT, excluding Naval Group</b>	<b>1,943</b>	<b>10.6%</b>	<b>1,623</b>	<b>10.2%</b>	<b>+19.8%</b>	<b>+4.0%</b>
Share in net result of Naval Group	65		63			
<b>EBIT</b>	<b>2,008</b>	<b>10.9%</b>	<b>1,685</b>	<b>10.6%</b>	<b>+19.2%</b>	<b>+4.0%</b>

# Thales + Gemalto 2018 P&L

	2018 Thales reported		2018 Thales + Gemalto <sup>(a)</sup>	
	€m	% of sales	€m	% of sales
<b>Sales</b>	<b>15,855</b>		<b>18,722</b>	
Gross margin	4,088	25.8%	5,009	26.8%
Indirect costs	(2,526)	-15.9%	(3,237)	-17.3%
o/w R&D expenses	(879)	-5.5%	(1,115)	-6.0%
o/w Marketing & Sales expenses	(1,095)	-6.9%	(1,433)	-7.7%
o/w General & Administrative expenses	(552)	-3.5%	(689)	-3.7%
Restructuring costs	(48)	-0.3%	(75)	-0.4%
Share in net result of equity-accounted affiliates	172		170	
<b>EBIT</b>	<b>1,685</b>	10.6%	<b>1,866</b>	10.0%

(a) Not audited. Thales + Gemalto based on 2018 reported figures adjusted for the Gemalto acquisition and the disposal of the GP HSM business as if these transactions had taken place on 31 December 2017



# Thales + Gemalto 2019 P&L

	2019 <i>Thales reported</i>		2019 <i>Thales + Q1 Gemalto<sup>(a)</sup></i>	
	€m	% of sales	€m	% of sales
<b>Sales</b>	<b>18,401</b>		<b>19,052</b>	
Gross margin	5,051	27.5%	5,261	27.6%
Indirect costs	(3,112)	-16.9%	(3,310)	-17.4%
o/w R&D expenses	(1,097)	-6.0%	(1,163)	-6.1%
o/w Marketing & Sales expenses	(1,381)	-7.5%	(1,477)	-7.8%
o/w General & Administrative expenses	(634)	-3.4%	(670)	-3.5%
Restructuring costs	(102)	-0.6%	(105)	-0.6%
Share in net result of equity-accounted affiliates	171		171	
<b>EBIT</b>	<b>2,008</b>	10.9%	<b>2,018</b>	10.6%

(a) Not audited. 2019 reported figures + Gemalto Q1 2019

# EBIT by operating segment

€m / % of sales	2019		2018		Change	
					total	organic
<b>Aerospace</b>	<b>521</b>	<b>9.3%</b>	580	10.0%	-10%	-11%
<b>Transport</b>	<b>56</b>	<b>2.9%</b>	88	4.4%	-37%	-35%
<b>Defence &amp; Security</b>	<b>1,153</b>	<b>14.0%</b>	992	12.7%	+16%	+21%
<b>Digital Identity &amp; Security</b>	<b>264</b>	<b>10.3%</b>	15	8.0%	nm	nm
<b>EBIT - operating segments</b>	<b>1,994</b>	<b>10.9%</b>	1,675	10.6%	+19%	+4%
Other	(50)		(53)			
<b>EBIT - excluding Naval Group</b>	<b>1,943</b>	<b>10.6%</b>	1,623	10.3%	+20%	+4%
Naval Group	65		63			
<b>EBIT - total</b>	<b>2,008</b>	<b>10.9%</b>	1,685	10.6%	+19%	+4%

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

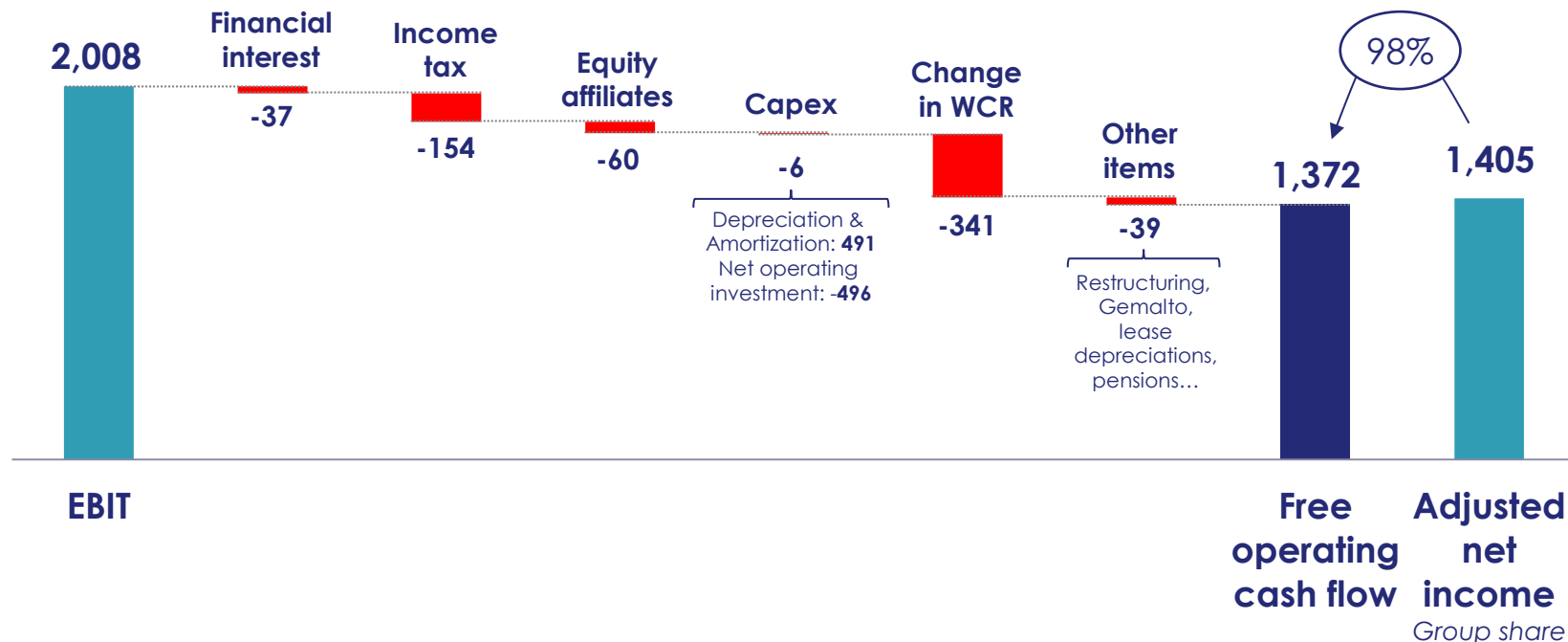
€m	2019	2018
<b>EBIT</b>	<b>2,008</b>	<b>1,685</b>
Cost of net financial debt and other financial results <sup>(a)</sup>	(55)	(15)
Finance costs on pensions and other employee benefits	(56)	(52)
Income tax	(454)	(387)
<i>Effective tax rate</i>	26.3%	26.7%
<b>Adjusted net income</b>	<b>1,443</b>	<b>1,232</b>
Minus, Minorities	(38)	(53)
<b>Adjusted net income, Group share</b>	<b>1,405</b>	<b>1,178</b>
<b>EPS: Adjusted net income, Group share, per share (in €)</b>	<b>6.61</b>	<b>5.55</b>

(a) 2019 includes -€27m IFRS 16 impact on the cost of net financial debt

# Cash conversion: from EBIT to free operating cash flow

2019, €m

**Solid free operating cash flow  
driven by better than expected change in WCR**

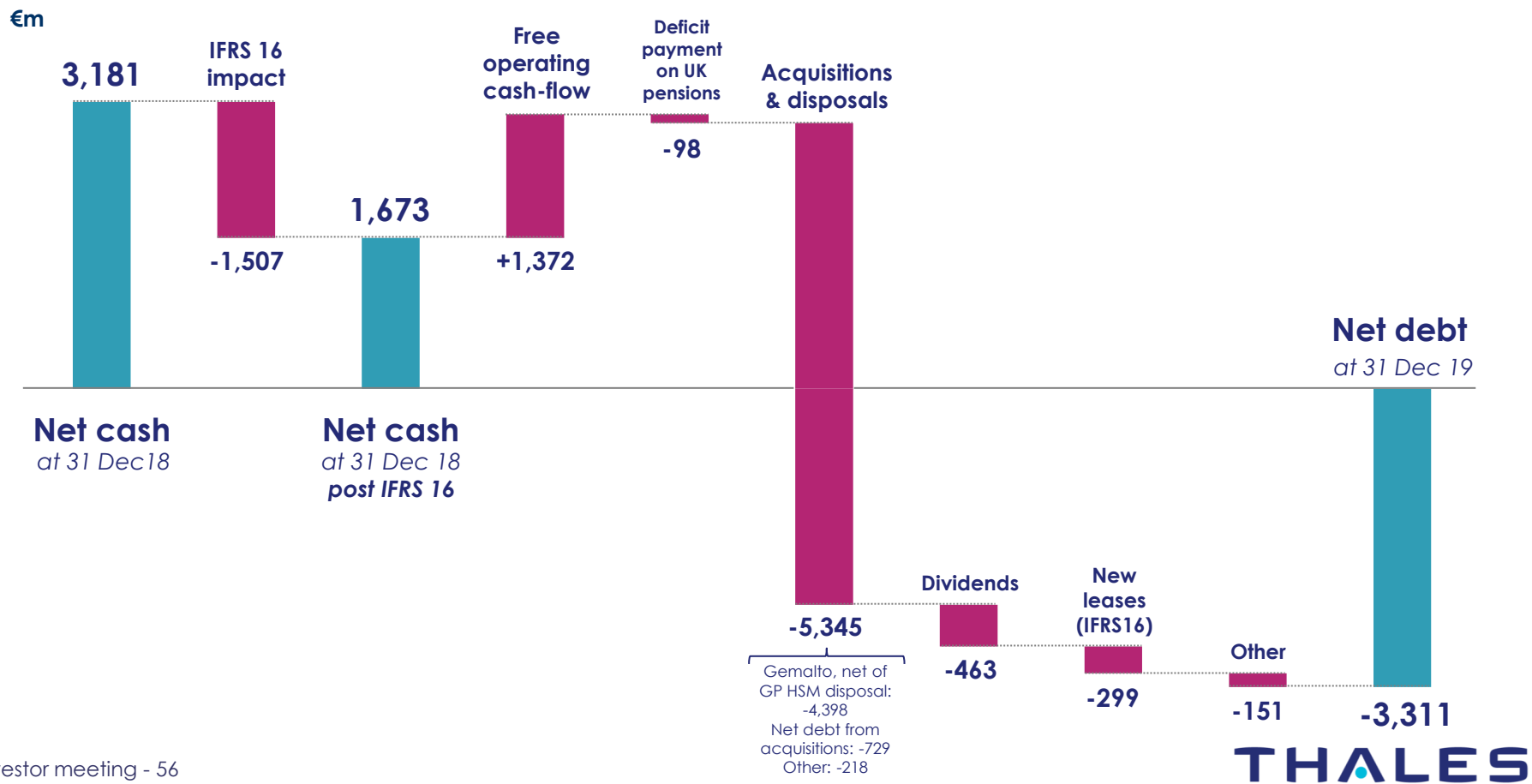


# Cash conversion before one-offs

€m		2014	2015	2016	2017	2018	2014-18 average	2019 <sup>(a)</sup>
<b>Free operating cash flow, <u>before one-offs</u></b>	(A)	<b>501</b>	<b>660</b>	<b>854</b>	<b>965</b>	<b>1,011</b>	<b>798</b>	<b>1,472</b>
+ Exceptional down-payments received			+450	+100			+150	-100
- Exceptional cut-off effects at 31 December					+400			
- Gemalto acquisition one-offs								
- Reversal of down-payments and cut-off effects						-200		
<b>= Free operating cash flow, reported</b>		<b>501</b>	<b>1,110</b>	<b>954</b>	<b>1,365</b>	<b>811</b>	<b>948</b>	<b>1,372</b>
<i>Year-end balance of one-off items to reverse in subsequent years</i>			+450	+550	+950	+750		+700
Adjusted net income, Group share, reported		562	809	897	982	1,178	886	1,405
- One-offs		-	-117	-18	-67	-	-29	-
<b>= Adjusted net income, Group share, <u>before one-offs</u></b>	(B)	<b>562</b>	<b>926</b>	<b>915</b>	<b>1,049</b>	<b>1,178</b>	<b>903</b>	<b>1,405</b>
<b>Cash conversion <u>before one-offs</u></b>	<b>(A)/(B)</b>	<b>89%</b>	<b>71%</b>	<b>93%</b>	<b>92%</b>	<b>86%</b>	<b>88%</b>	<b>105%</b>

(a) IFRS16 impact on 2019 free operating cash flow: €+203m. IFRS16 impact on 2019 adjusted net income, Group share: €-11m.  
2019 cash conversion before one-offs and IFRS16 impact: 90%

# Movement in net cash (debt) over 2019

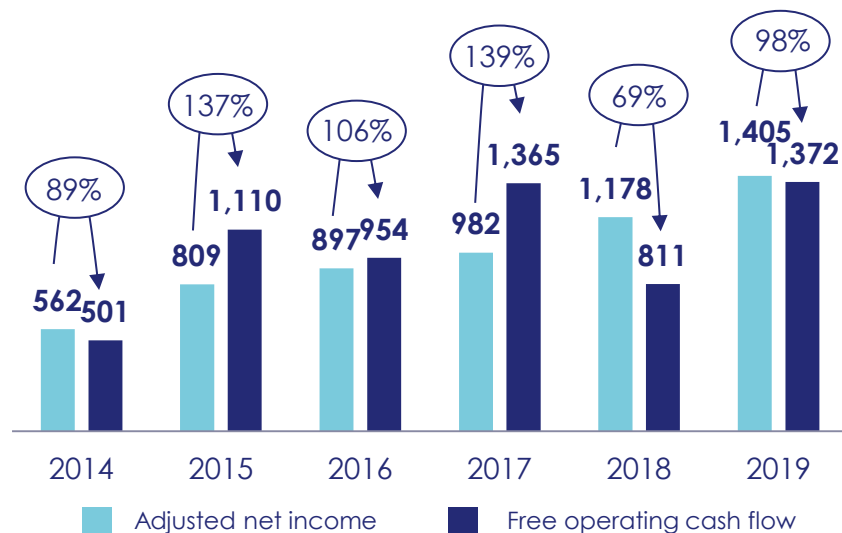


# Historical trend in cash conversion

## Adjusted net income conversion into Free operating cash flow

2014-18 average: 107%

€m

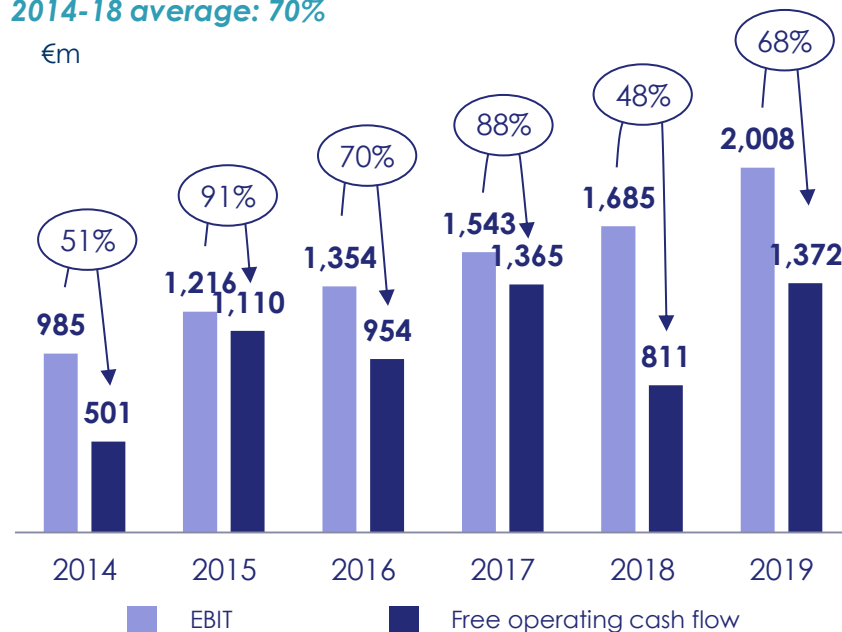


xx% Cash conversion ratio: Free operating cash flow / adjusted net income

## EBIT conversion into Free operating cash flow

2014-18 average: 70%

€m



xx% Cash conversion ratio: Free operating cash flow / EBIT

# 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 2019.
- **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 2019. This definition implies the definition of several other adjusted financial measures, such as adjusted gross margin, adjusted tax, adjusted EPS .... See page 14 and 15 of the 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 6.3 of the consolidated financial statements at 31 December 2019.
- **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 2019.





## **Tour Carpe Diem**

31 Place des Corolles  
92098 Paris La Défense  
France

[ir@thalesgroup.com](mailto:ir@thalesgroup.com)

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