



Investor meeting

November 2018



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

Introduction to Thales

2018-21: targeting industry leadership

Five key priorities for 2018-21

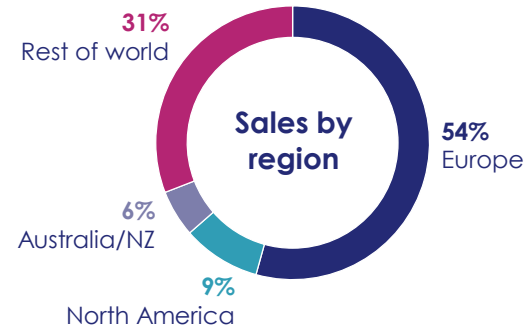
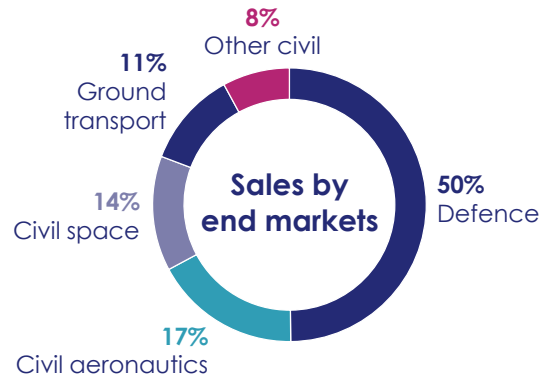
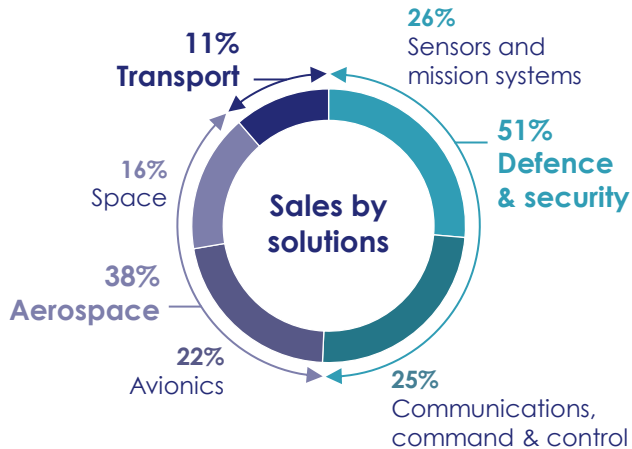
H1 and 9m 2018 results

Outlook



1 million
passengers each day enjoy
Thales in-flight technologies

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



**Flight
avionics**

#3

worldwide



**In-flight
entertainment**

#2

worldwide



**Space
solutions**

#2

worldwide
(civil satellites)



**Rail signalling
and supervision**

#2

worldwide



**Advanced
defence systems**

#1

in Europe
(defence sensors
and mission systems)



**Air Traffic
Management**

#1

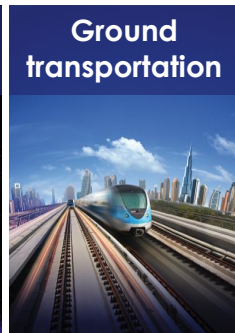
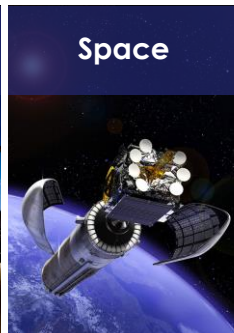
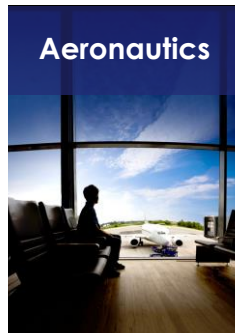
worldwide

Thales: a pure player focused on intelligent systems

Addressing
some of the most
demanding
end markets...



...leveraging a
unique portfolio
of key common
technologies



← Critical decision chain →

**Sensing and
data gathering**



**Data
transmission
and storage**



**Data processing
and decision
making**

*Hardware +
software*

*Hardware +
software*

*Software +
systems*

Sensors, mission systems, communication, command and control systems

Thales builds on 4 key strengths



Cutting edge R&D

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



Deep domain knowledge

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

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

Resilience embedded in business model

High geographical diversification

- Sales >€100m in 23 markets

Platform-agnostic positioning

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

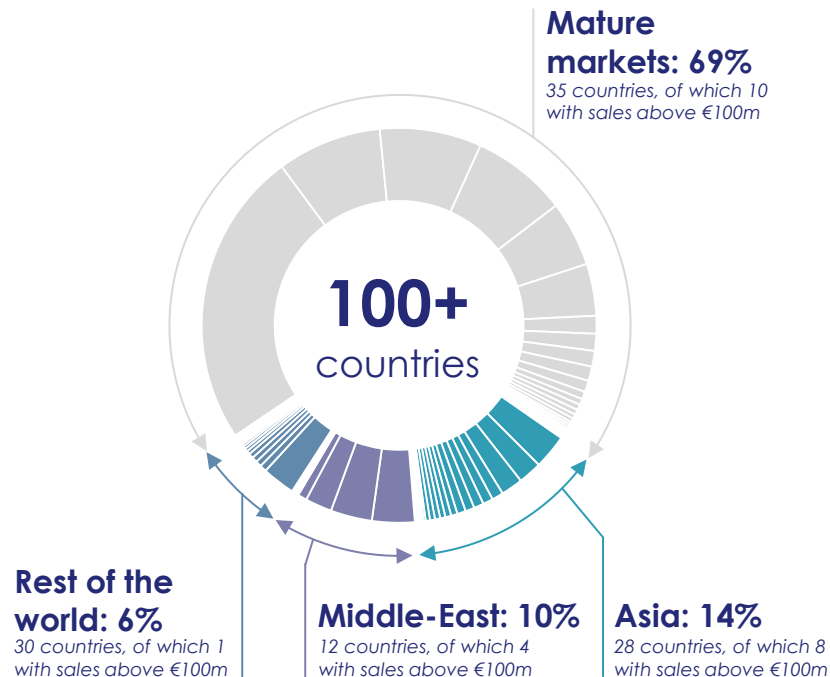
Strong program diversification

- Largest program represents less than 5% of sales

Balancing defence and civil business models

Ability to cross-sell technologies across end markets

Geographical sales breakdown



Thales delivers a best-in-class ROCE

ROCE in line with best-in-class peers

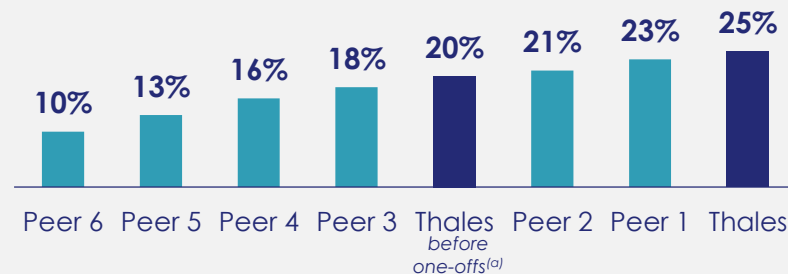
Asset turn higher than peers

Thales light asset base underpinned by

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

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

2017 ROCE



2017 asset turn



(a) Capital employed adjusted up by €950m accumulated one-off positive WCR effects recorded at end 2017

- Introduction to Thales

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50 countries
across the globe protect their populations
with Thales technologies

Ambition 10: a 10-year journey to industry leadership in all segments



2014

2017

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



2018

2021

Leadership in all segments

- Grow faster than the market
- Grow profitably in a sustainable way

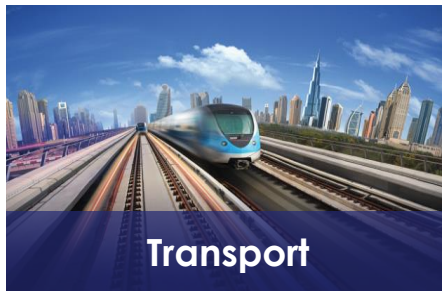
All Thales markets benefit from solid underlying trends...



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



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



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



- Confirmed trend-up of defence budgets in mature countries, facing increased geopolitical tensions and the return of symmetric threats
- Need to address growing security concerns related to asymmetric threats and terrorism
- High demand for cybersecurity, in particular corporate data protection

...supporting ~3% sustained market growth...

Civil aviation



+3.5%

2017-36

Space



+1%

2018-21

+4%

2018-30

Rail signalling



+3%

2014-20

Civil cybersecurity



+8%

2018-21

Global defence budgets



+3.5%

Europe
2018-22

+6%

Asia-Pacific and
Middle-East
2018-22

Annual growth forecasts - sources:

- Civil aviation: IATA (air passenger numbers)
- Space: 2018-21: NSR, ESA budget request, 2018-30: Morgan Stanley
- Rail signalling: UNIFE, 3-year average forecasts 2019-21 vs 2013-15
- Civil cybersecurity: Gartner
- Defence budgets: Jane's defence, current terms, country budget planning, excludes China and Russia

...combined with Digital as a long-term disrupter

Digital technologies will revolutionize the future of Thales markets

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



Adoption of digital technologies will take time

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

Acceleration of digital innovation increases opportunities for bold technology leaders

- Introduction to Thales

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- Five key priorities for 2018-21**

- H1 2018 results

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A photograph of two young women smiling and posing next to a train. The woman on the left is wearing a black hat and glasses, and the woman on the right is wearing a dark jacket. They are both looking towards the camera. The train is visible in the background, and the scene is brightly lit, suggesting a sunny day.

8 billion
passengers each year benefit
from Thales technologies

2018-21: five key priorities



1

Reinforce customer-centric organization and culture



2

Relentlessly optimize operational performance



3

Accelerate R&D investments to drive technological excellence



4

Lead in digital transformation of markets



5

Execute on transformative acquisition of Gemalto



1

Reinforce customer-centric organization and culture

Three 2018-21 priorities...

**Deepen
customer intimacy**

**Consistently optimize
sales pipeline**

**Develop exports
from large countries**

...capitalizing on marketing and sales excellence

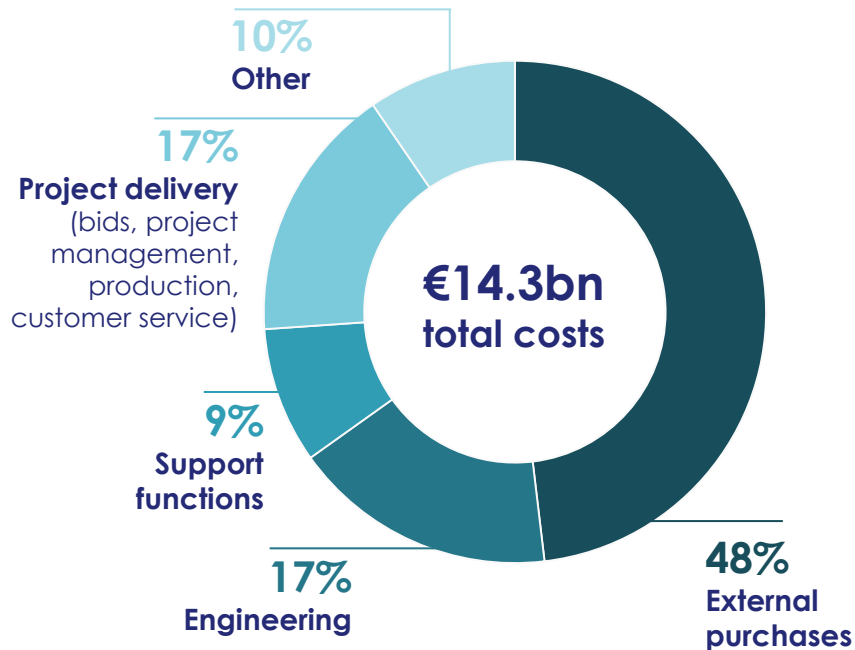
- Value-based marketing approach
- Positioning as partner in digital transformation
- Reinforcement of value-selling competencies
- Optimization of resource deployment and management
- Strengthening of customer engagement and cross-selling capabilities leveraging innovative digital tools



2

Relentlessly optimize operational performance

Group cost structure



Focus on 4 high impact initiatives

Procurement performance

Engineering competitiveness

Support function efficiency

Excellence in delivery



4 key initiatives to sustainably optimize operational performance

Procurement performance

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

Engineering competitiveness

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

Support function efficiency

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

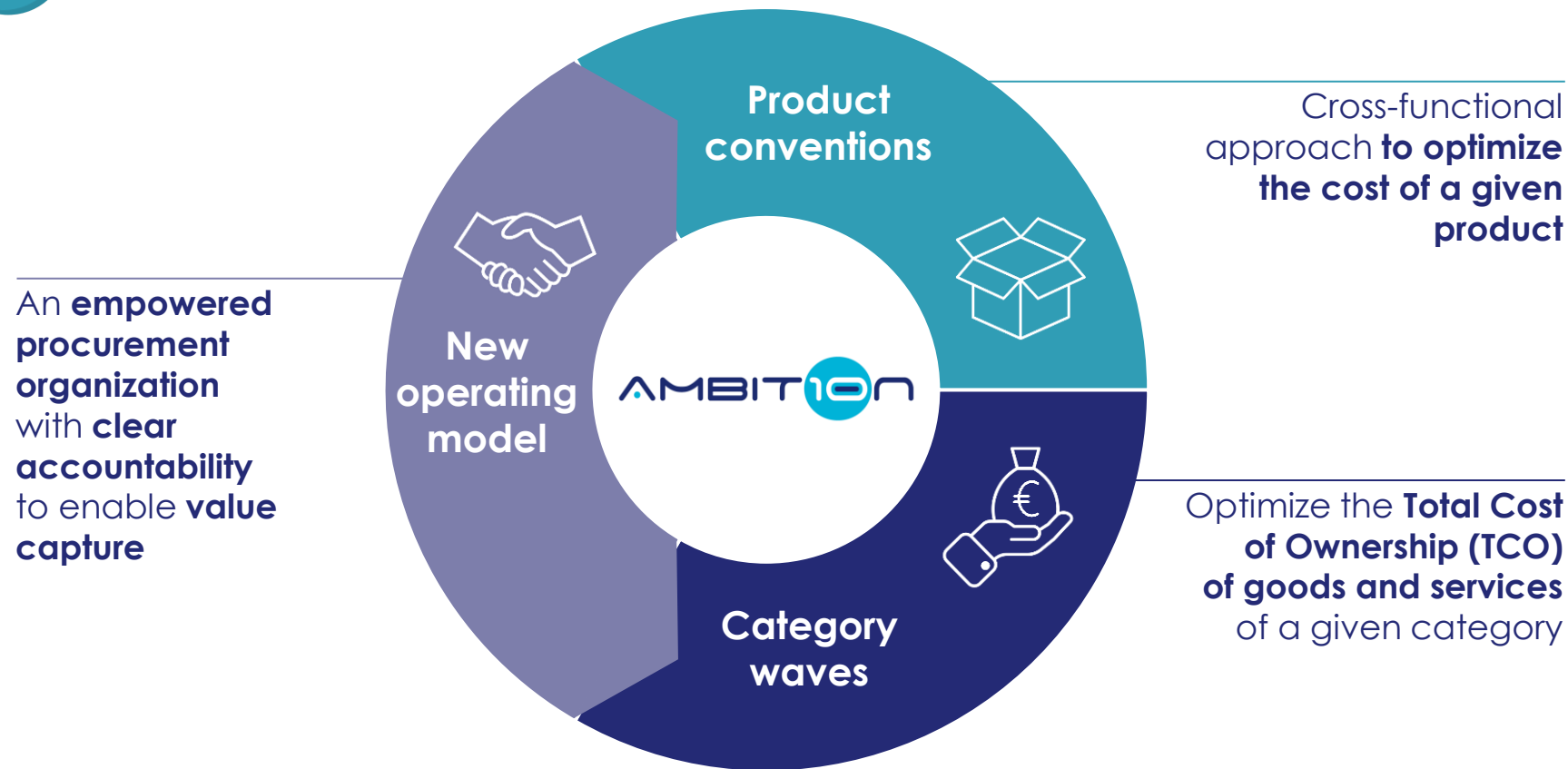
Excellence in delivery

- Continuous improvement in operational excellence, from bids to project execution, while delivering growth
- Maintaining specific focus on project execution in Transport
- Industry 4.0 and lean supply chain processes



2

Procurement: a 3-fold approach to the transformation





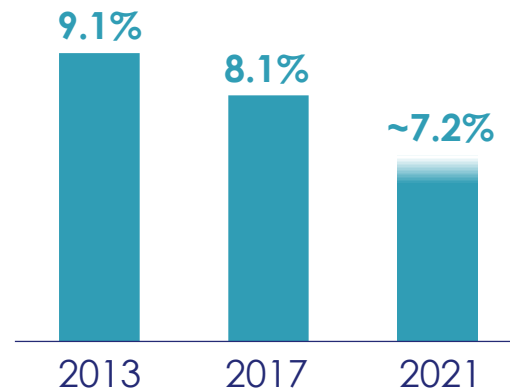
Support function efficiency: global transformation under-way driven by new operating models, processes and tools

Effectiveness, efficiency, quality and focus on value add for Thales customers at the core of support function transformation

Further roll-out of key levers expected to firm up trend to reach ~7.2% of sales target by 2021

- Standardization of processes across Thales
- Development of shared service centers and centers of expertise for all functions
- Investment in state-of-the-art IT tools and digital platforms to boost productivity and knowledge management
- Investment in skills development

Support function cost^(a) as a percentage of sales



(a) Includes both support function costs reported in the P&L "G&A expenses" line and the ones included in "cost of sales"

**3**

Accelerate R&D investments to drive technological excellence

Technological innovation vital in Thales markets

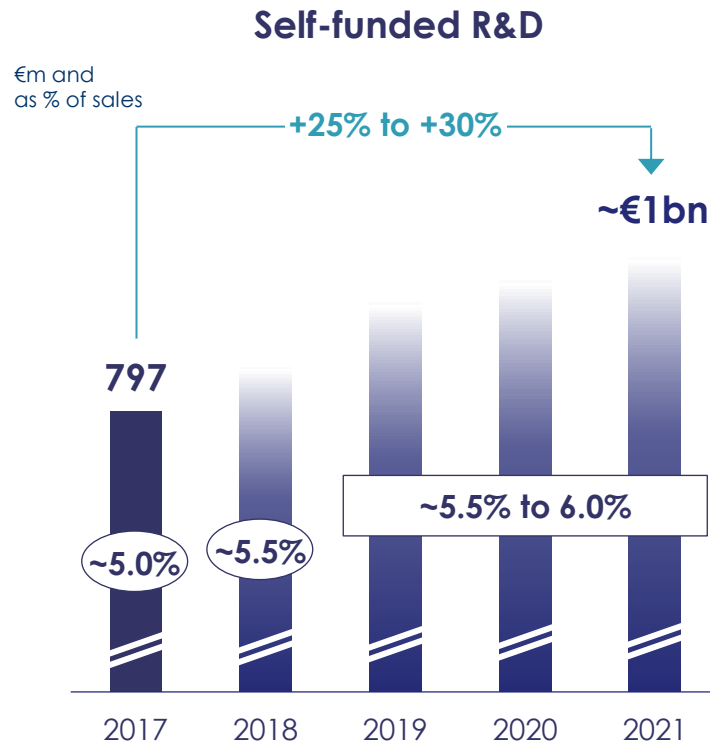
- Differentiation in usage features to bring more performance to clients
- Source of competitiveness for solutions

R&D investments: a key driver of innovation

- Further 25-30% growth over next 4 years
- Total R&D to reach ~€4bn in 2021 when combined with increase in customer-funded R&D

Self-funded R&D focused on

- Dream products: market-driven and high growth/accretive to margin
- Digital





4

Lead digital transformation of markets

Partnering with our customers through their digital transformation

- “Digital-inside” dream products
- Breakthrough innovations and autonomy
- New digital services

Harnessing key digital technologies

- Capitalizing on Thales digital assets and recent acquisitions: Thales e-Security, Vormetric, Sysgo, Guavus...
- Thales, a leader in cybersecurity: 2,000 experts, €700m of revenues^(a) in 2017, covering the full cybersecurity lifecycle
- Transformative acquisition of Gemalto

Digital Factory: accelerating the digital transformation across Thales

(a) ~€500m external revenues + ~€200m internal revenues

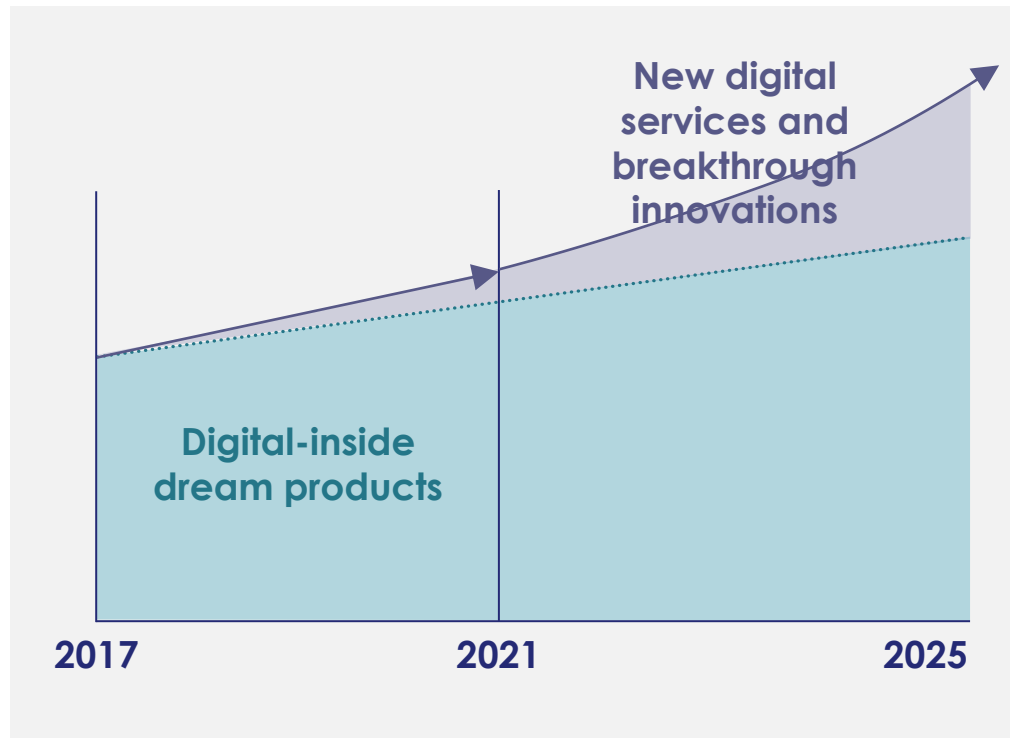
**4**

Digital: facilitating growth acceleration now and beyond 2021

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

Emerging digital services boosting longer-term growth post 2022

- “As a service” business models delivering steady growth and recurring revenues



**4**

Examples: digital driving growth acceleration

Digital breakthroughs and new digital services

2018-21**Overall opportunity >€100m**

- > Airline digital services
- > High altitude platform stations

2022 and beyond**Overall opportunity >€1bn**

- > Single pilot operation
- > Unmanned Traffic Management
- > In-orbit operations and servicing

Overall opportunity >€50m

- > Predictive maintenance
- > Cybersecurity

Overall opportunity >€500m

- > Autonomous trains
- > Smart infrastructures: "rail Internet of Things"

Overall opportunity >€100m

- > Cybersecurity and data protection
- > Defence big data platform

Overall opportunity >€1bn

- > Robots in naval domain
- > Battlefield cloud for collaborative combat
- > "Self-learning" sensors (radars...)



Aerospace



Ground transportation



Defence & Security



5

Gemalto: a global player in digital security

Global specialist in authentication systems and data protection

Leading technologies with applications in broad range of industries

Moving from hardware to embedded software, then to software platforms

2017 revenues of €3.0bn



48
countries



15,000
employees

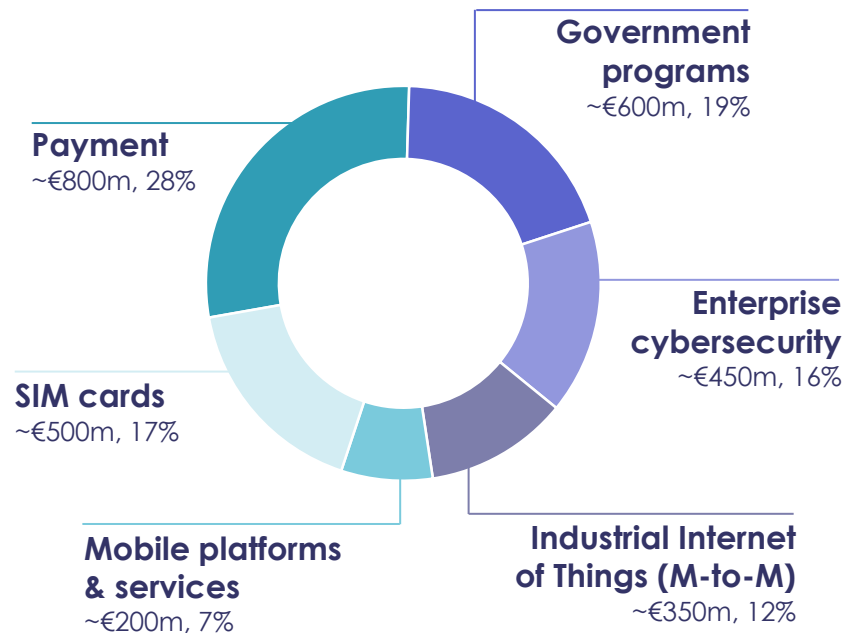


19
production
facilities



30
R&D
centers

2017 revenue breakdown by division





5

Thales + Gemalto: powering and securing the complete critical digital decision chain

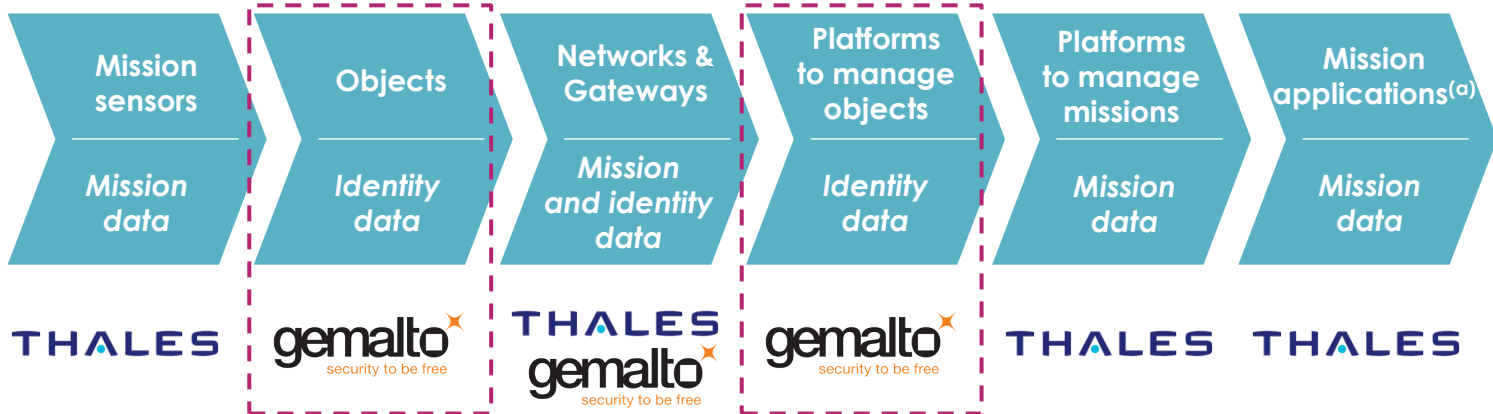
Critical
decision
chain

Sensing and
data gathering

Data
transmission
and storage

Data processing
and decision
making

Critical
digital
decision
chain



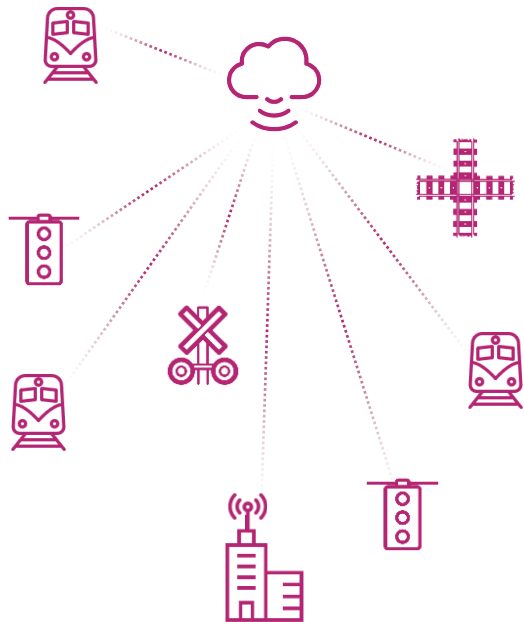
(a) Including big data analytics, artificial intelligence algorithms



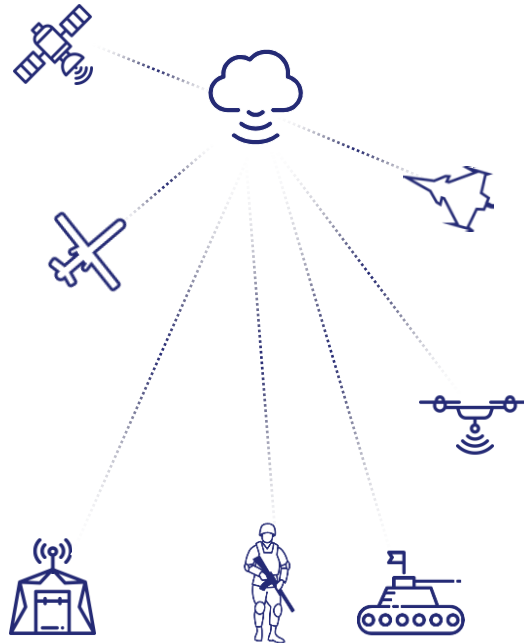
5

Thales and Gemalto: selected use cases

Smart rail infrastructures



Battlefield cloud



Silent authentication

- | | | |
|---|--|--|
| 1 | | |
| 2 | | |
| 3 | | |



5

Creation of a digital security Global Business Unit

Gemalto well advanced in its transition from its historical businesses to faster-growing markets

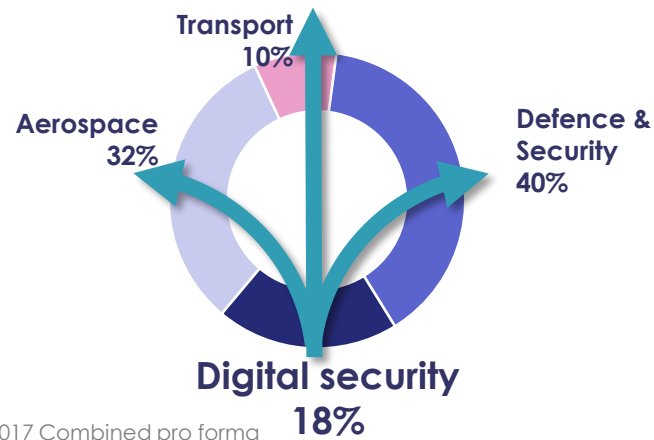
Thales to combine key digital assets with Gemalto in order to:

- Strengthen common digital capabilities
- Accelerate growth of combined entity

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



Segment revenue breakdown^(a)



(a) 2017 Combined pro forma

THALES



5

Gemalto acquisition progressing well

Execution of transaction

- Offer formally launched in March 2018
- €4.8bn offer price fully financed
 - €1.5bn financing completed at very attractive rate (<1%)
- Filing of regulatory authorizations progressing well
 - 7 / 14 authorizations granted at 20 October^(a)
- Expected closing: Q1 2019
 - 2 weeks after obtaining of last regulatory clearance

Integration planning

- Common 'DNA' and culture: a strong foundation for successful integration
- Straightforward organizational plan: Gemalto to become Thales "Digital security" Global Business Unit
 - Complemented with key Thales digital assets
- Integration team in place
 - Managing 18 workstreams in parallel
 - Focused on maximizing synergies from day 1, once all approvals are granted

(a) 7 remaining authorizations to obtain: antitrust clearance in Australia, the EU, Mexico, New Zealand, Russia and in the USA, foreign investment clearance in Russia. 7 authorizations already obtained: antitrust clearance in China, Israel, South Africa and Turkey, foreign investment clearance in Australia, Canada and the USA.

Summary

Unique portfolio positioning

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

Continued focus on operational performance

- Reinforcement of customer-centric organization and culture
- New competitiveness initiatives gaining momentum in coming years

Strong development levers

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

**Executing on long-term vision:
leadership in all segments**



**Grow faster than
the market**

**Grow profitably in
a sustainable way**

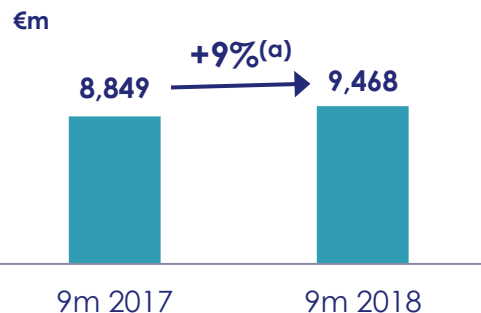
- Introduction to Thales
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- **H1 and 9m 2018 results**
- Outlook



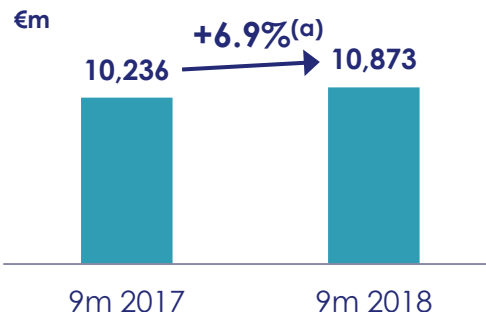
75%
of satellite constellations connecting
people are built by Thales

H1 and 9m 2018 key figures (all prior year figures restated for IFRS 15)

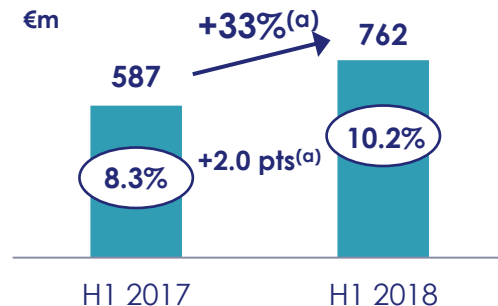
9m order intake



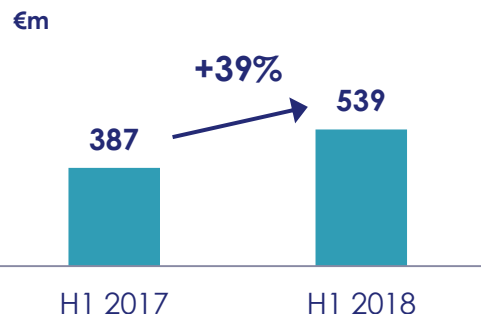
9m sales



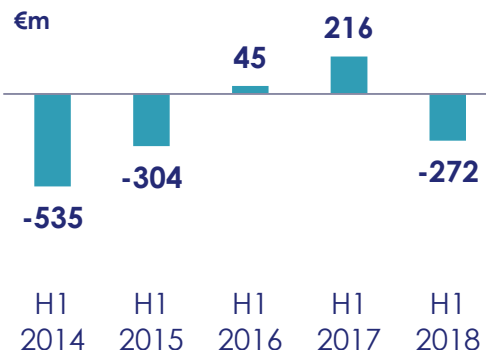
H1 EBIT and EBIT margin^(b)



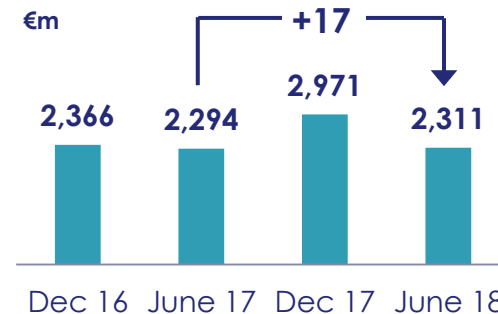
H1 adjusted net income^(b)



H1 free operating cash-flow^(b)



Net cash position



(a) Organic: at constant scope and exchange rates

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

9m 2018 order intake

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

**4 large^(a) orders booked in Q3 2018,
for a total of 10 in 9m 2018**

- Rider to MTG meteorological satellites project (EUMETSAT)
- London subway radio system
- New tranche of French software-defined radio program (CONTACT)
- Air defense equipment service contract for UK MoD (Adapt)

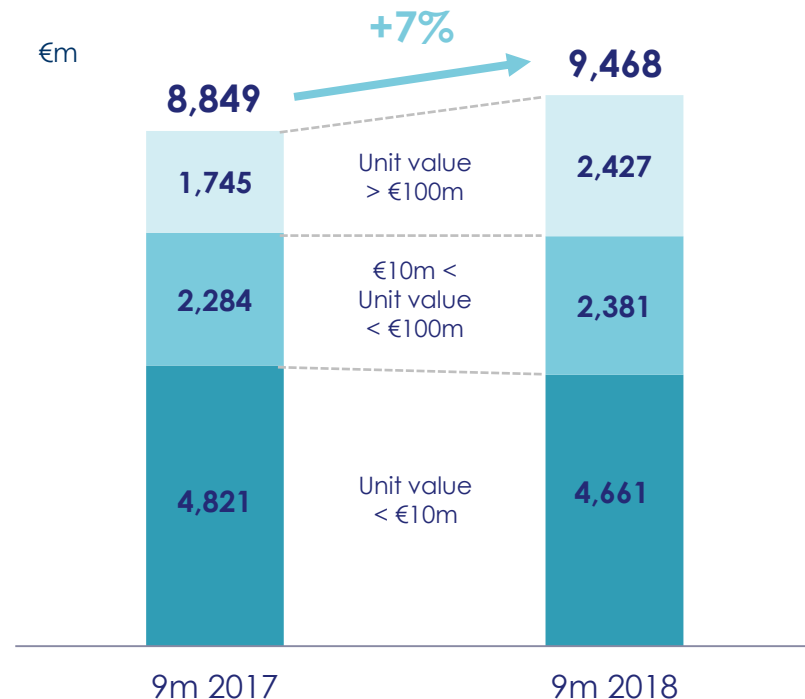
**Significant recovery of smaller
orders^(b), in line with expectations**

(a) With a unit value over €100m

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

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Order intake by contract unit value



THALES



Aerospace: 9m 2018 key figures

€m	9m 2018	9m 2017 (IFRS15)	Change	
			total	organic
Order intake	3,044	3,082	-1%	+1%
Sales	4,010	3,930	+2.0%	+3.4%

Stable order intake

- Space orders recovering from a low base

9m sales growth affected by slowdown of commercial telecom satellite market and high comps in IFE

- Q3 growth driven by phasing effects





Transport: 9m 2018 key figures

€m	9m 2018	9m 2017 (IFRS15)	change	
			total	organic
Order intake	1,267	976	+30%	+32%
Sales	1,373	1,156	+18.7%	+21.1%

Solid order intake momentum

- 2 significant metro signaling orders booked in Q3

Strong sales growth, driven by both urban rail and main line signaling

- High basis of comparison in Q4





Defence & Security: 9m 2018 key figures

€m	9m 2018	9m 2017 (IFRS15)	change	
			total	organic
Order intake	5,132	4,750	+8%	+10%
Sales	5,450	5,106	+6.7%	+8.4%

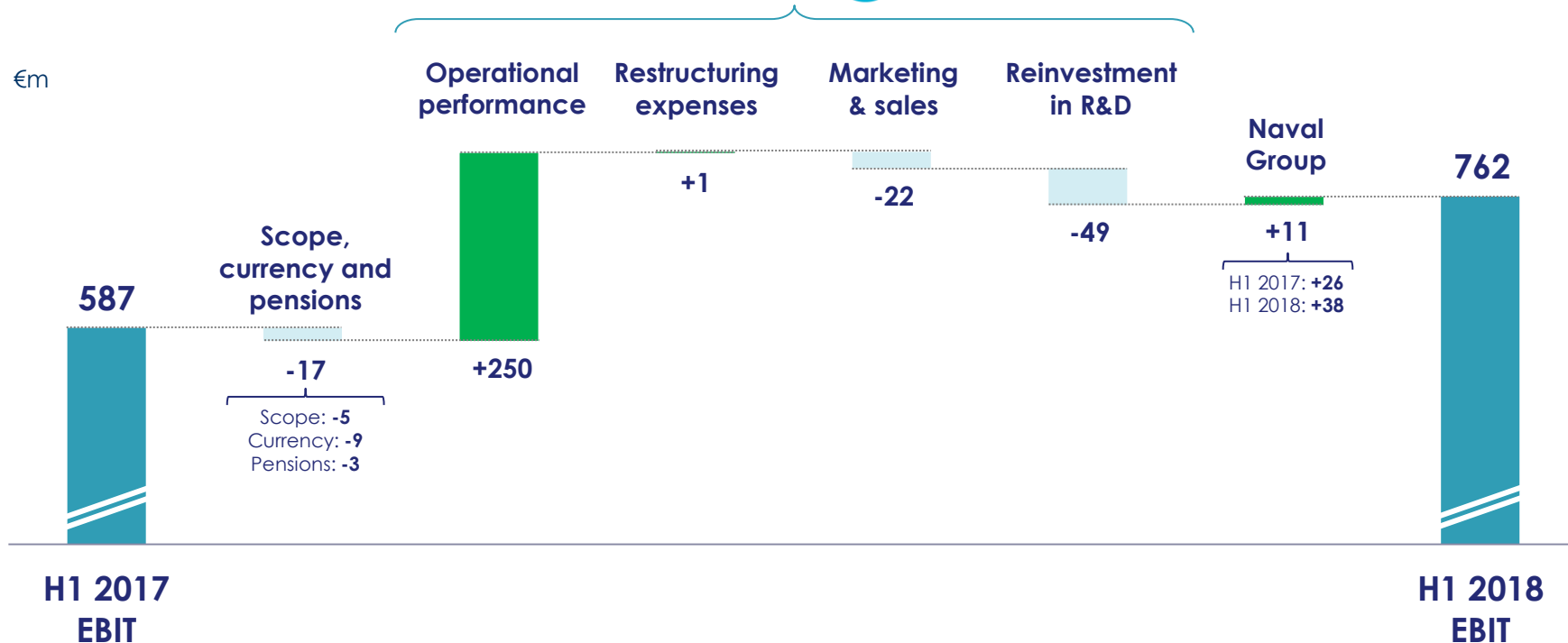
Good order intake momentum, notably in naval systems, tactical radios, Air Traffic Management, and cybersecurity

Broad-based sales growth: radars, combat aircraft, naval systems, tactical radios, cybersecurity...

➤ High basis of comparison in Q4



H1 EBIT improvement driven by solid operational performance



- Introduction to Thales
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- **Outlook**

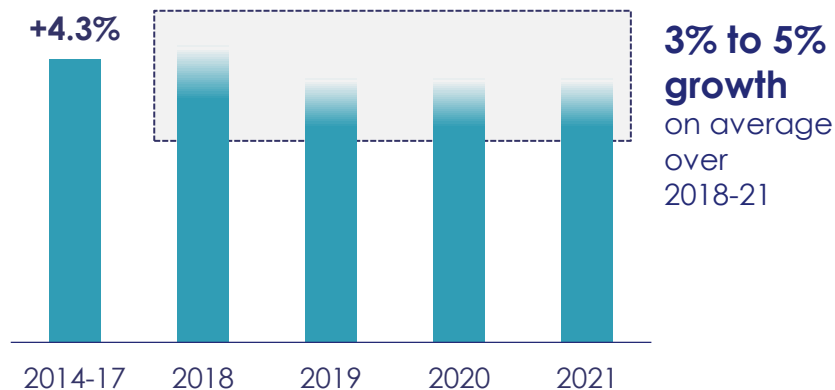


The people we all rely on
to make the world go round,
they rely on Thales

Organic sales growth sustainably above market

NB: targets excluding Gemalto

Group organic sales growth target



Aerospace

Market trend

~+2%

Organic sales growth target

+2-3%



Transport

~+3%

+4-5%



Defence & Security

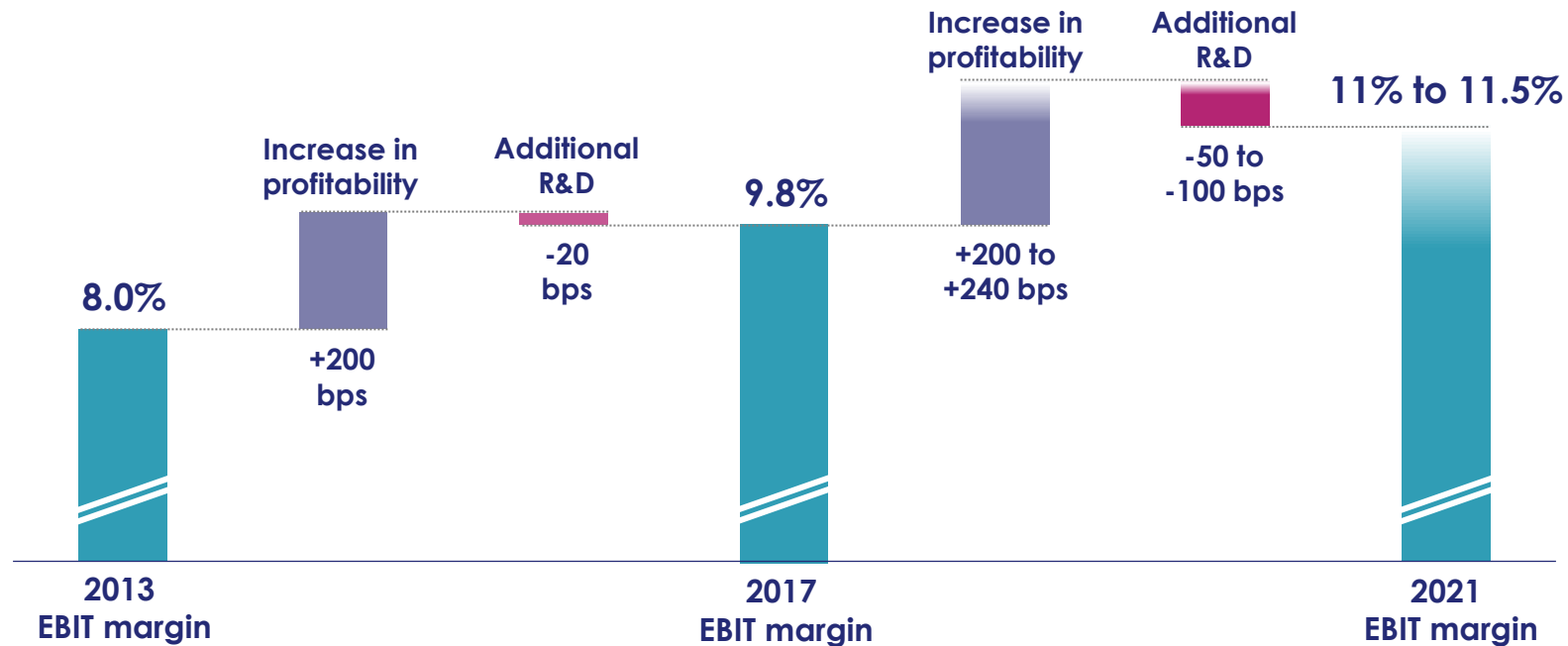
~+3.5%

+4-6%

Sustainable new round of margin increase

NB: targets excluding Gemalto

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



All operating segments to contribute to EBIT margin improvement

NB: targets excluding Gemalto

EBIT margin targets

Aerospace



+50 to
+100
bps

10.0%

10.5%
to 11.0%

2017

2021

Transport



+400 to
+450
bps

4.1%

8.0%
to 8.5%

2017

2021

Defence & Security



+60 to
+160
bps

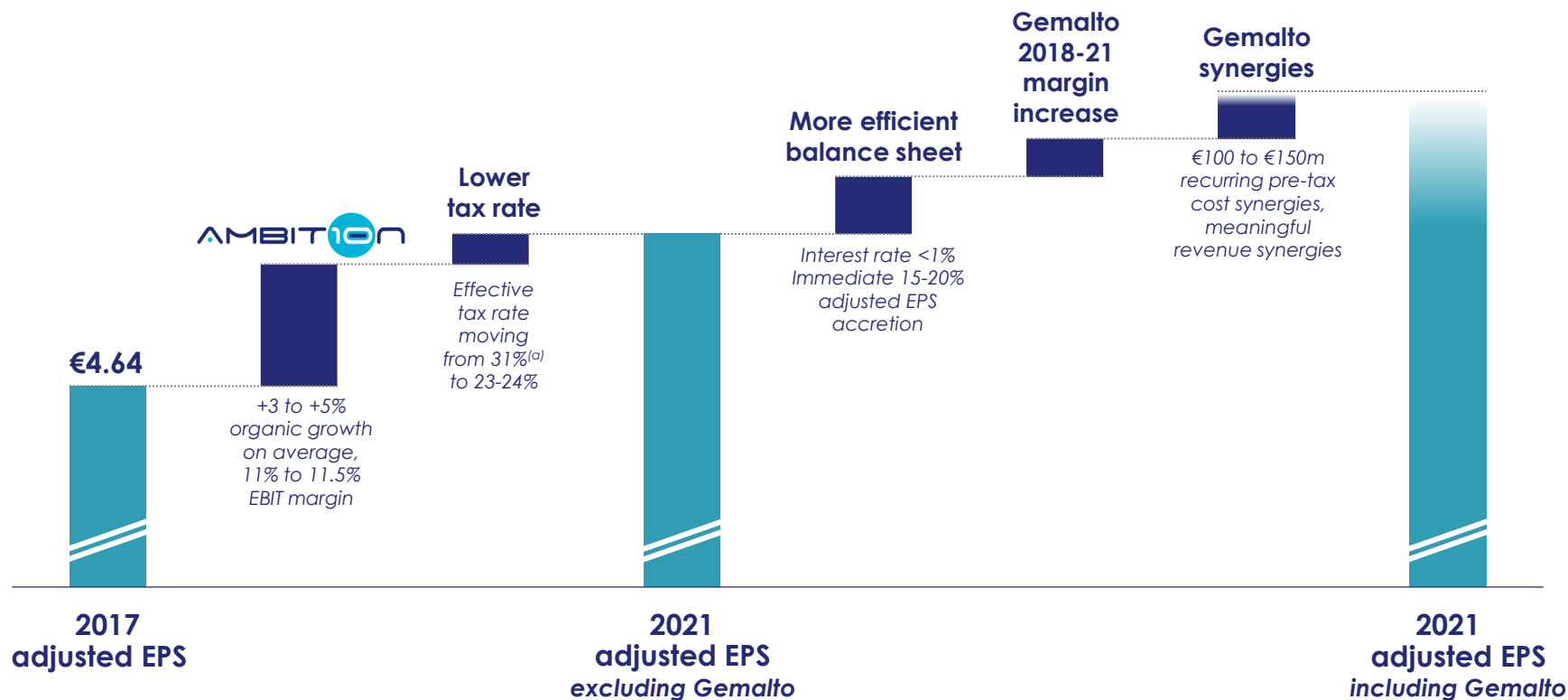
10.9%

11.5%
to 12.5%

2017

2021

Strategic initiatives deliver significant EPS accretion, with further upside from Gemalto integration



(a) 2017 effective tax rate. 25.9% excluding one-off non-cash tax items

Maintaining strong focus on cash flow generation

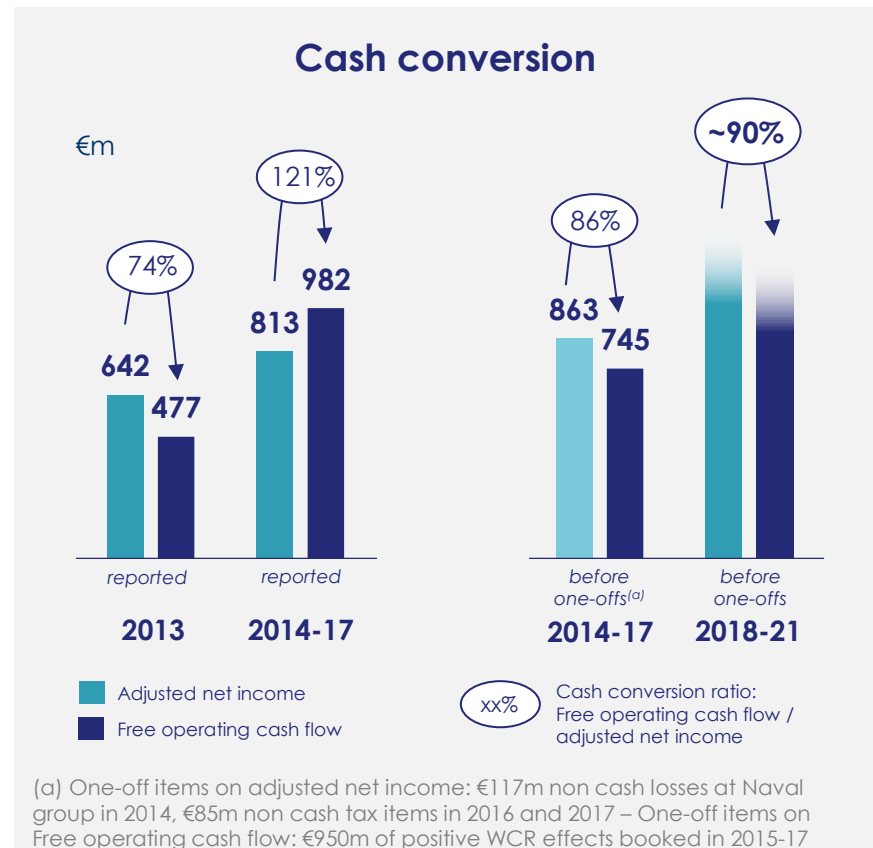
NB: targets excluding Gemalto

2014-17: turning Thales into a cash-flow minded company

- Incentives at all levels
- No compromise on payment terms
- Higher hurdle rate on capex
- Limited tax cash out vs. tax P&L expense

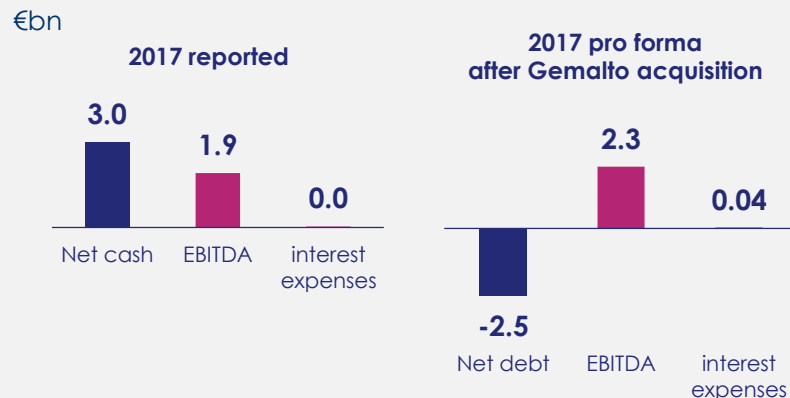
2018-21: further increase in cash conversion before one-offs

- Targeting ~90%
- In spite of less favorable gap between tax P&L expense and cash out following consumption of net operating losses



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

Improved balance sheet efficiency after Gemalto acquisition



Dividend growth in line with adjusted EPS

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

Strong investment grade maintained

S&P	AAA	A- / BBB+	B
Moody's	Aaa	A2 / A3	C

2018 financial objectives

NB: targets excluding Gemalto

Order intake

Around €15.5bn

Sales^(a)

Organic growth between 4% and 5%

EBIT^(b)

€1,620-1,660m^(c)

*Now targeting
high end of range
on both KPIs*

(a) Compared to pro forma IFRS 15 sales of €15,228m

(b) Under IFRS 15 standard - non-GAAP measure: see definition in appendix

(c) Based on February 2018 scope and foreign exchange rates
























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	2017 sales(€m) (restated IFRS15)	Market position
Aerospace <i>38% of 2017 sales</i>	Flight avionics including cockpit avionics, communications, electrical systems, training and simulation				~2,050	#3 worldwide (flight avionics)
	Connected in-flight entertainment (IFE)				~800	#2 worldwide
	Microwave tubes for satellite, medical, scientific and military applications				~400	#1 worldwide
	Space solutions for telecom, observation, navigation and exploration				~2,500	#2 worldwide (civil satellites)
Transport <i>11% of 2017 sales</i>	Rail signalling and supervision including passenger payment collection systems				~1,700	#2 worldwide
Defence & security <i>50% of 2017 sales</i>	Sensors and mission systems including radars, sonars, optronics, mission systems for combat aircraft, ships and submarines, missiles and armored military vehicles				~3,850	#1 in Europe
	Communications, command and control systems including military communications and networks, military command and control systems (C4I), civil and military cybersecurity, Air Traffic Management, and security solutions for countries, cities and critical infrastructures				~3,850	#2 worldwide (military tactical communications) #1 worldwide (air traffic management)

Aerospace business overview

€6.0bn 2017 sales

+6.2% 2014-17 sales CAGR (reported)

+3.6% 2014-17 sales CAGR (organic)

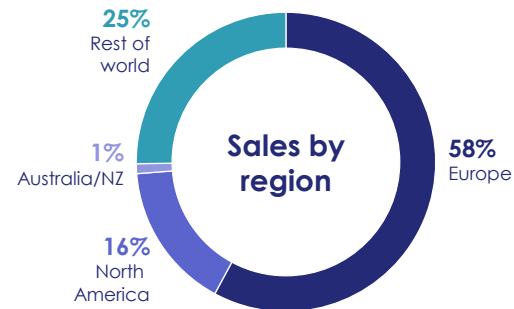
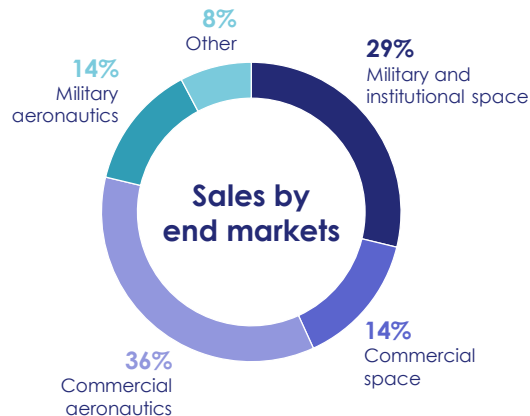
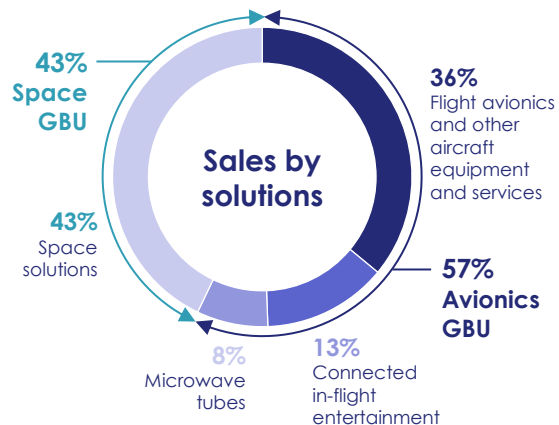
10.0% 2017 EBIT margin

2 Global Business Units

Avionics
Space

19,000
employees
in 32 countries

Main industrial footprint
France, Italy,
USA, UK

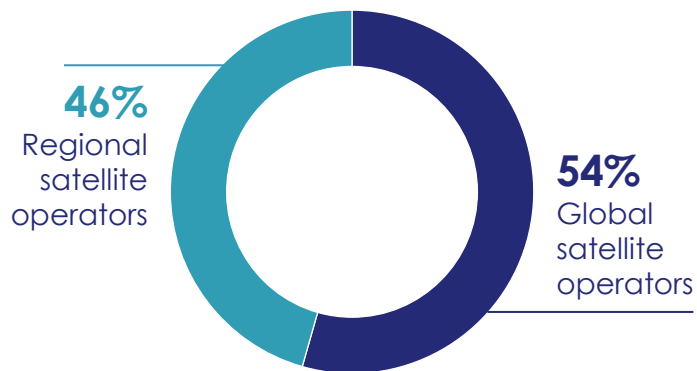


Commercial telecom satellites: leveraging 3 key assets to outcompete peers

1

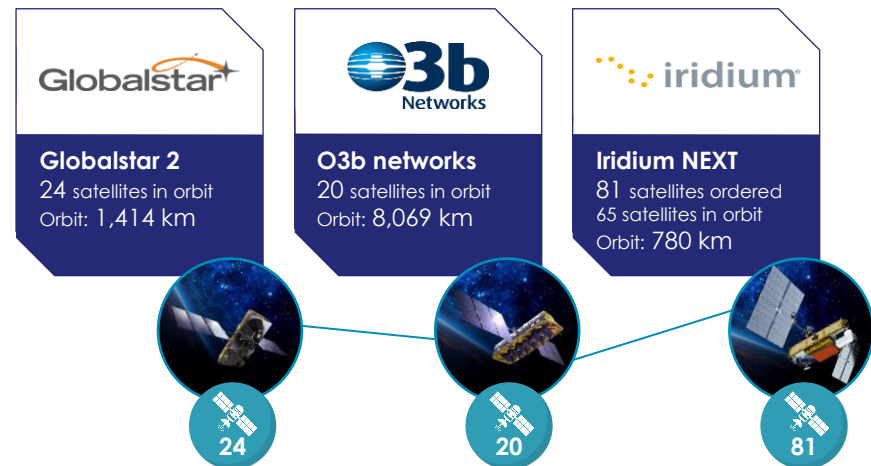
Diversified geostationary telecom satellite client base

2013-17 Thales order intake



2

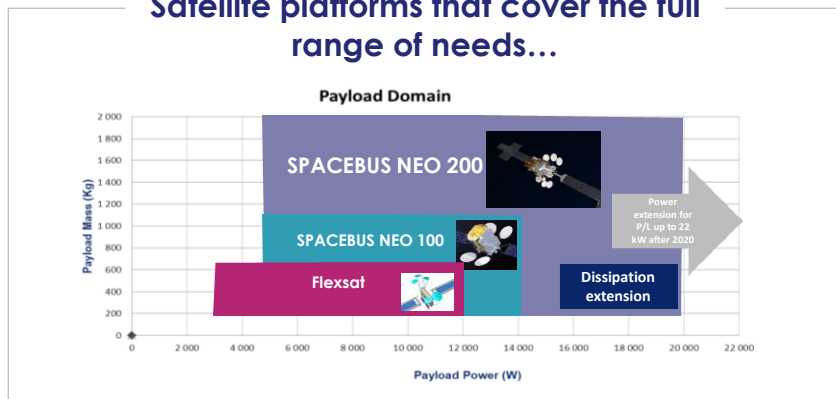
Leadership position in constellations



Commercial telecom satellites: leveraging 3 key assets to outcompete peers

3 State-of-the-art solutions supported by €300m+ self-funded R&D since 2010 - as demonstrated recently by KONNECT VHTS win

Satellite platforms that cover the full range of needs...



... and ground segments (integrated or proposed independently)...



... boosted by fully digitalized 5G and 6G payloads



Note: Tbps: terabit by second, Gbps: gigabit by second – HTS: High Throughput Satellite – VHTS: Very High Throughput Satellite

Transport business overview

€1.7bn 2017 sales

+5.0% 2014-17 sales CAGR (reported)

+4.9% 2014-17 sales CAGR (organic)

3.5% 2017 EBIT margin

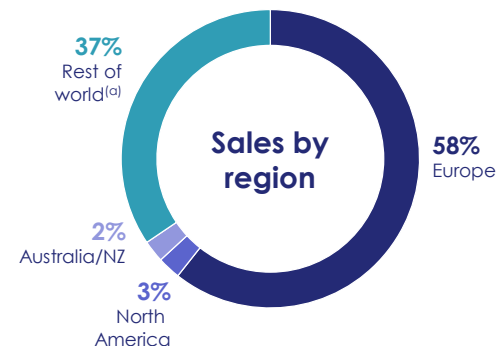
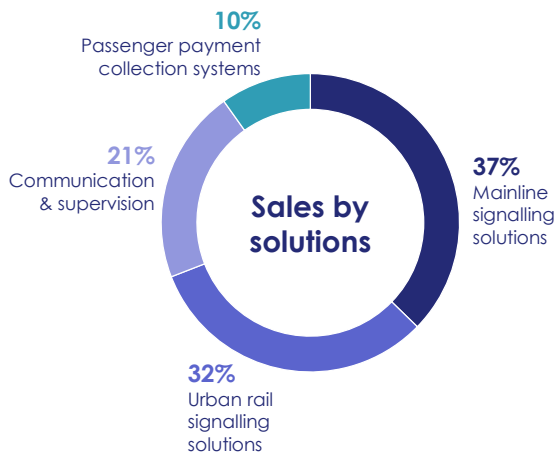
1 Global Business Unit

Ground transportation systems

7,000 employees in 42 countries

Main industrial footprint

Germany, Canada, UK



(a) Excludes sales through non-consolidated China JV

Transport strategy: 3 pillars



Recovery and transformation

Deliver current and near term commitments

- > Governance: full accountability in the business
- > Bids & projects: mastering engineering transformation
- > Competitiveness focus: procurement, deployment, engineering, products & solutions
- > Product policy: structured approach across all projects



Investing in the future

Increase investment in future product policy, leveraging Group digital and cybersecurity portfolio

- > New route and train control
- > Digital Traffic Management System
- > Mobility platform and connected journeys
- > Data-driven operations (artificial intelligence and big data analytics)
- > Autonomous train
- > Smart infrastructures (rail IoT)



Global growth

Focus for growth on long-term markets and large contracts

- > Mainline in Europe and Asia
- > Major urban city markets
- > Chinese urban rail market through JV
- > Recurring revenue base
- > Support and services

**Outperforming the market and
delivering an 8% to 8.5% EBIT margin by 2021**

Defence & security business overview

€8.0bn 2017 sales
+5.5% 2014-17 sales CAGR (reported)
+4.7% 2014-17 sales CAGR (organic)
10.9% 2017 EBIT margin

3 Global Business Units

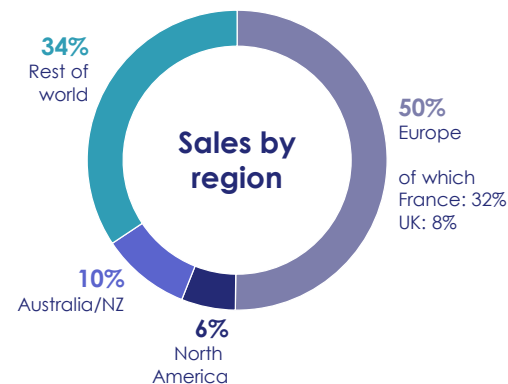
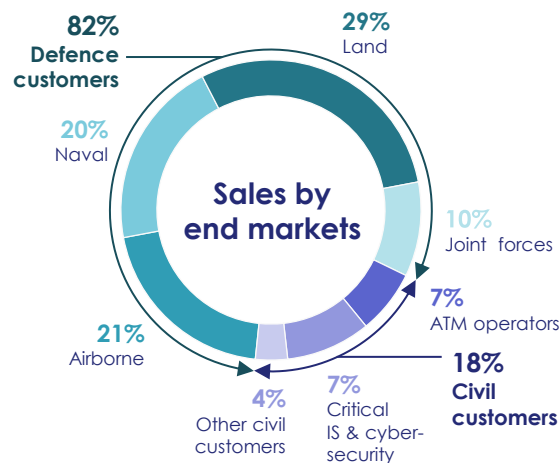
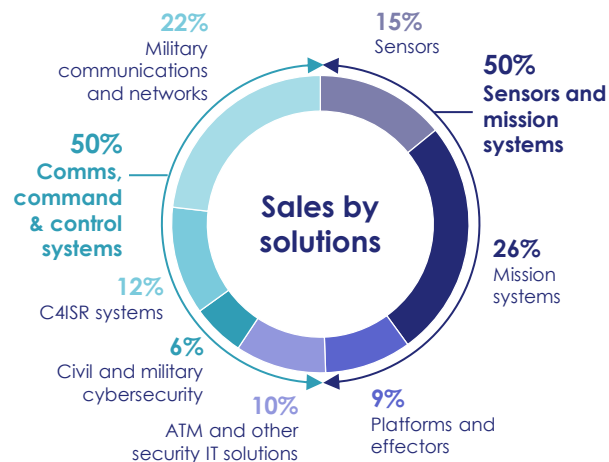
Land & Air Systems
Defence Mission Systems
Secure Communications & Information Systems

34,000

employees
in 33 countries

Main industrial footprint

France, UK,
Netherlands,
Australia

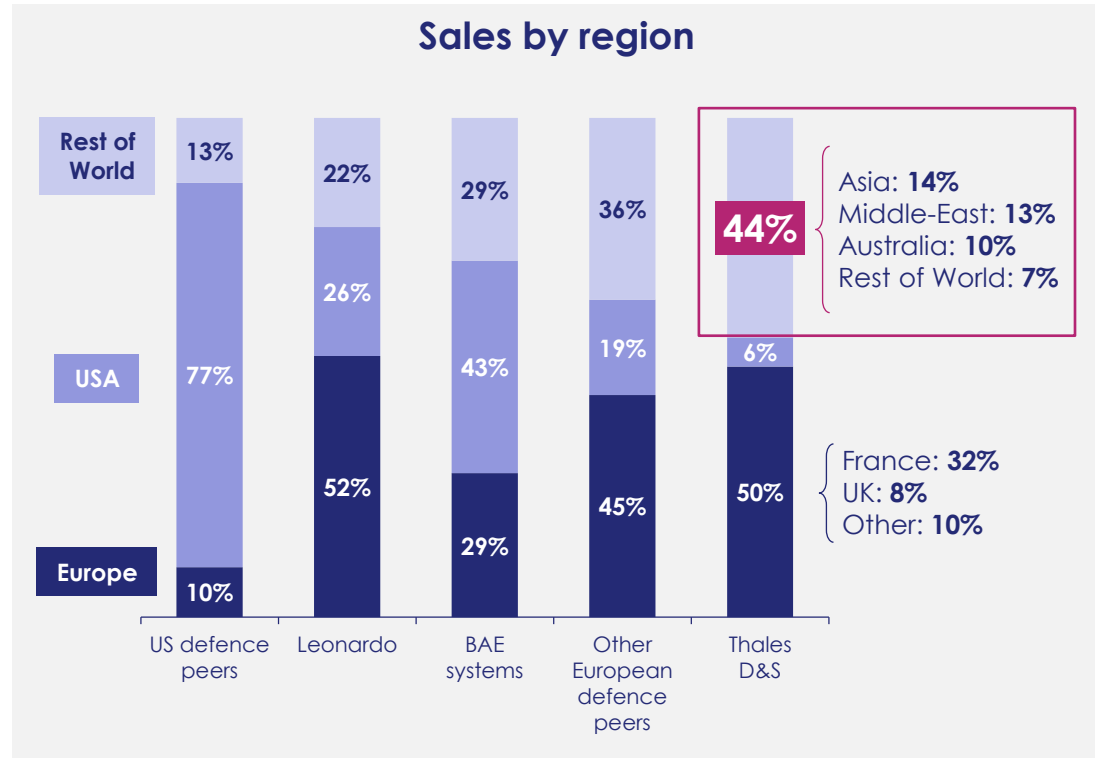


Defence & security: successful international expansion

Capitalizing on 7 home countries:
France, United Kingdom,
Netherlands, Germany, Canada,
Australia, USA

40-year+ presence in export
markets with strong brand
affiliation and customer proximity

Unique know-how in export
and technology transfer



2017 sales by destination – source: annual reports

US defence peers: average of Raytheon, Lockheed-Martin, Northrop-Grumman, General Dynamics ex. Gulfstream, L3 and Harris; Europe share estimated

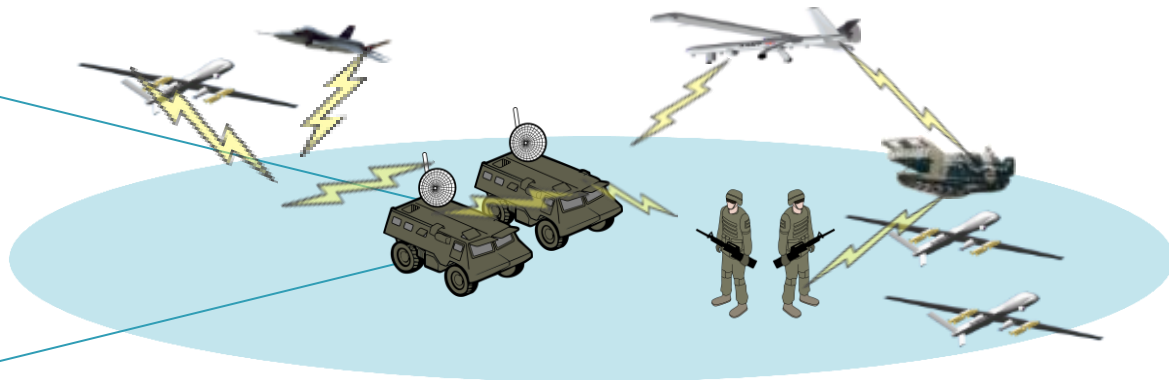
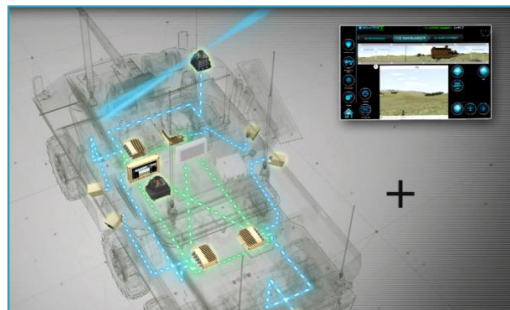
Other European peers: average of Saab, Rheinmetall defence, Cobham

New trends: platform interconnection, sensor data fusion, real-time transmission enabling collaborative combat

Advanced armies are looking at **collaborative combat** solutions built on digital architectures, highly connected networks, artificial intelligence-aided decision-support to **improve combat efficiency**

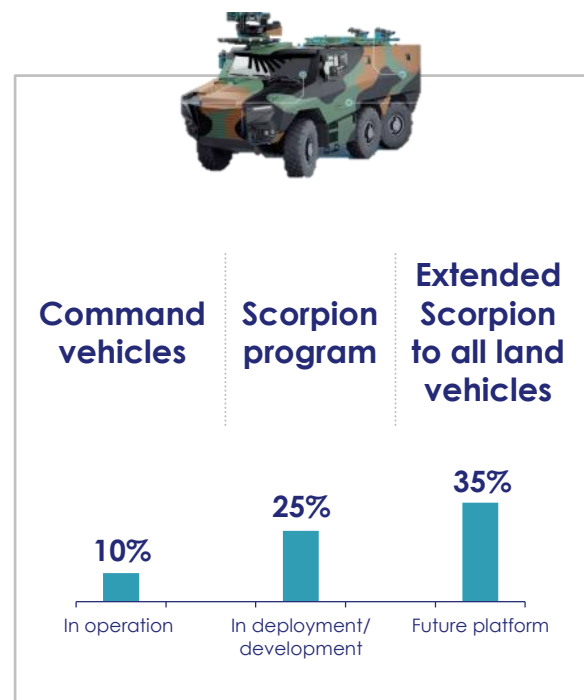
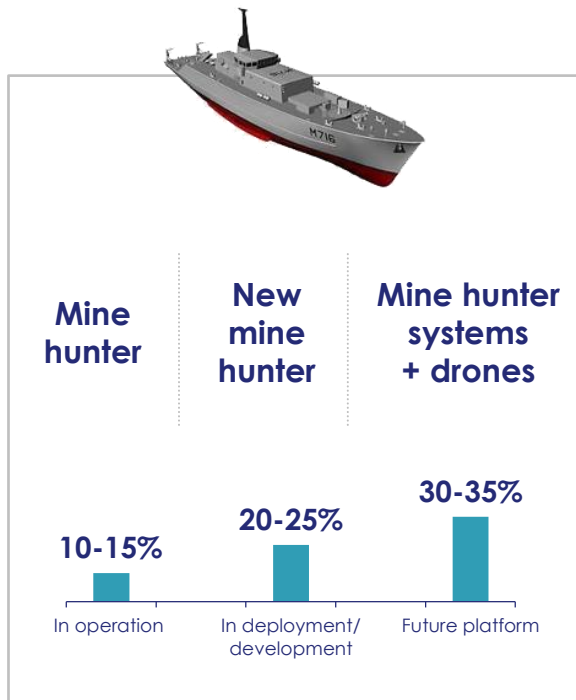
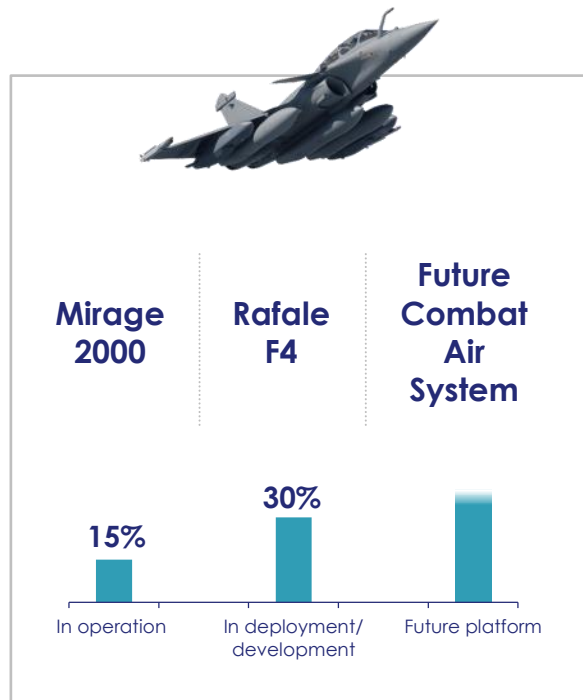
*Real time or
near-real time*

Sensor data fusion



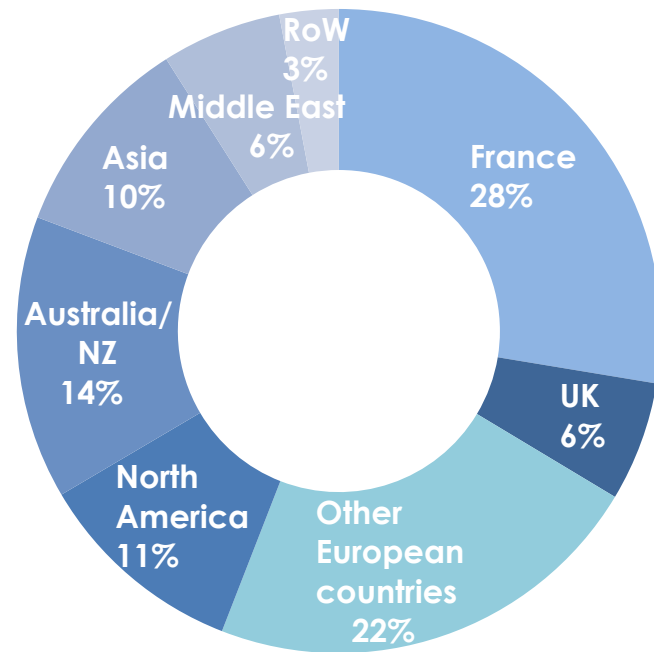
Long-term growth of intelligent systems content in defence platforms

Illustrative value of intelligent systems in platform



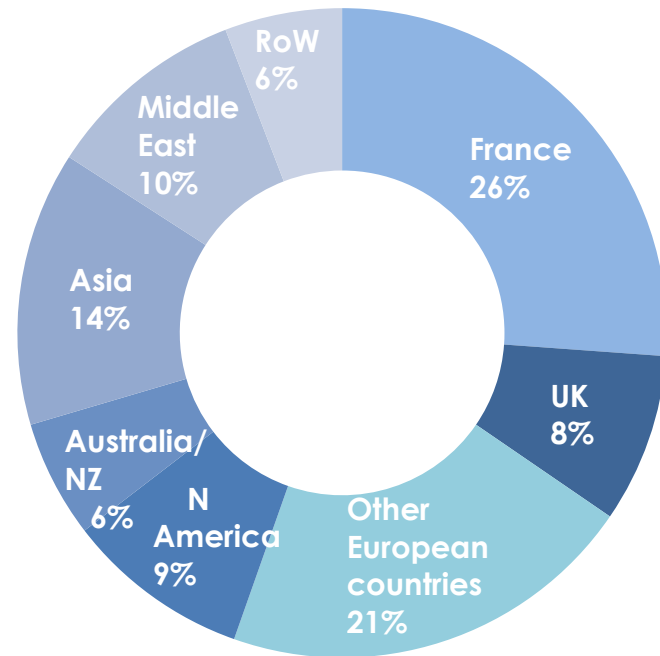
9m 2018 order intake by destination

€m	9m 2018	9m 2017 (IFRS15)	change	
			total	organic
France	2,614	2,823	-7%	-7%
United Kingdom	568	545	+4%	+5%
Other European countries	2,112	1,737	+22%	+22%
Europe	5,294	5,105	+4%	+4%
North America	1,004	900	+12%	+17%
Australia/NZ	1,346	472	+185%	+208%
Mature markets	7,644	6,478	+18%	+20%
Asia	971	1,242	-22%	-20%
Middle East	571	705	-19%	-18%
Rest of the world	281	426	-34%	-32%
Emerging markets	1,823	2,372	-23%	-21%
Total	9,468	8,849	+7%	+9%



9m 2018 sales by destination

€m	9m 2018	9m 2017 (IFRS15)	change	
			total	organic
France	2,843	2,578	+10.3%	+10.7%
United Kingdom	916	918	-0.3%	+0.9%
Other European countries	2,266	2,155	+5.1%	+5.6%
Europe	6,024	5,652	+6.6%	+7.2%
North America	998	923	+8.2%	+11.2%
Australia/NZ	636	608	+4.7%	+13.2%
Mature markets	7,659	7,182	+6.6%	+8.2%
Asia	1,486	1,460	+1.8%	+3.5%
Middle East	1,093	1,016	+7.5%	+9.5%
Rest of the world	636	578	+10.0%	+12.3%
Emerging markets	3,215	3,054	+5.3%	+7.2%
Total	10,873	10,236	+6.2%	+7.9%



H1 2018 EBIT by operating segment

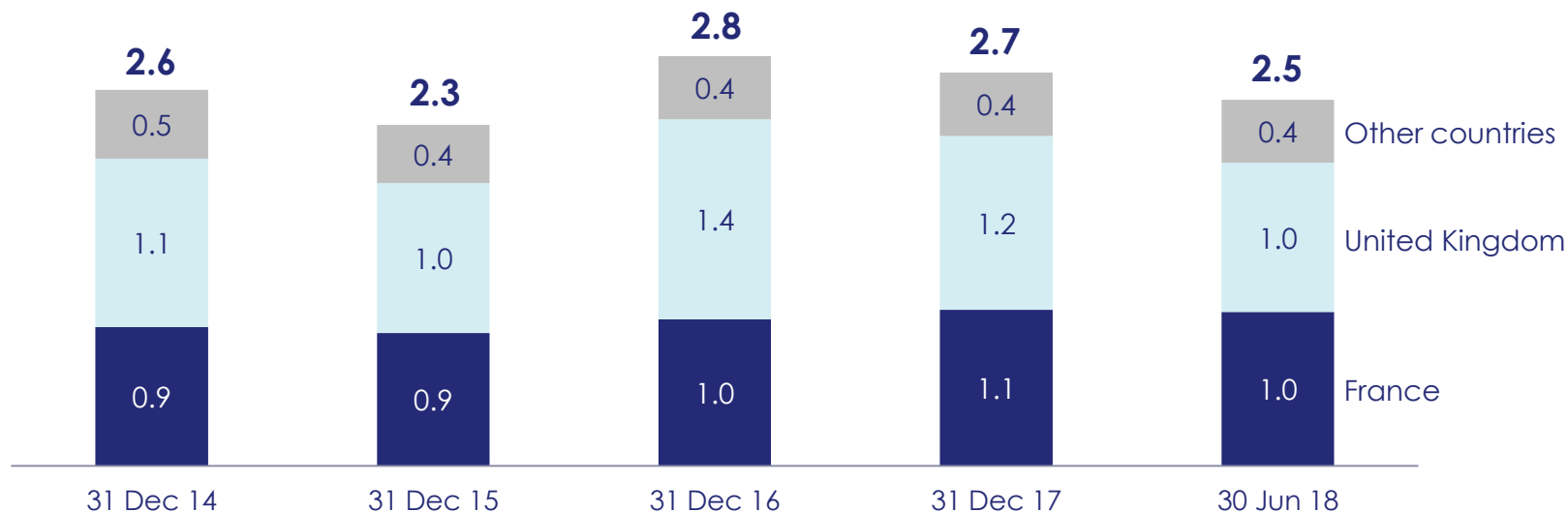
€m / % of sales	H1 2018		H1 2017 (IFRS15)		Change	
					total	organic
Aerospace	291	10.5%	260	9.3%	+12%	+13%
Transport	27	2.9%	8	1.1%	+220%	+231%
Defence & Security	444	11.8%	325	9.2%	+37%	+40%
EBIT – operating segments	761	10.3%	594	8.4%	+28%	+31%
Other	(37)		(33)			
EBIT – excluding Naval Group	724	9.7%	561	7.9%	+29%	+32%
Naval Group	38		26		+42%	+42%
EBIT – total	762	10.2%	587	8.3%	+30%	+33%

Recovery of Transport on track

Solid performance of Aerospace and Defence & Security segments

Evolution of net pension provision

€bn



Liability discount rate

France	1.5%	2.0%	1.5%	1.2%	1.5%
UK	3.7%	4.0%	2.8%	2.6%	2.8%

Summary adjusted P&L: from sales to EBIT

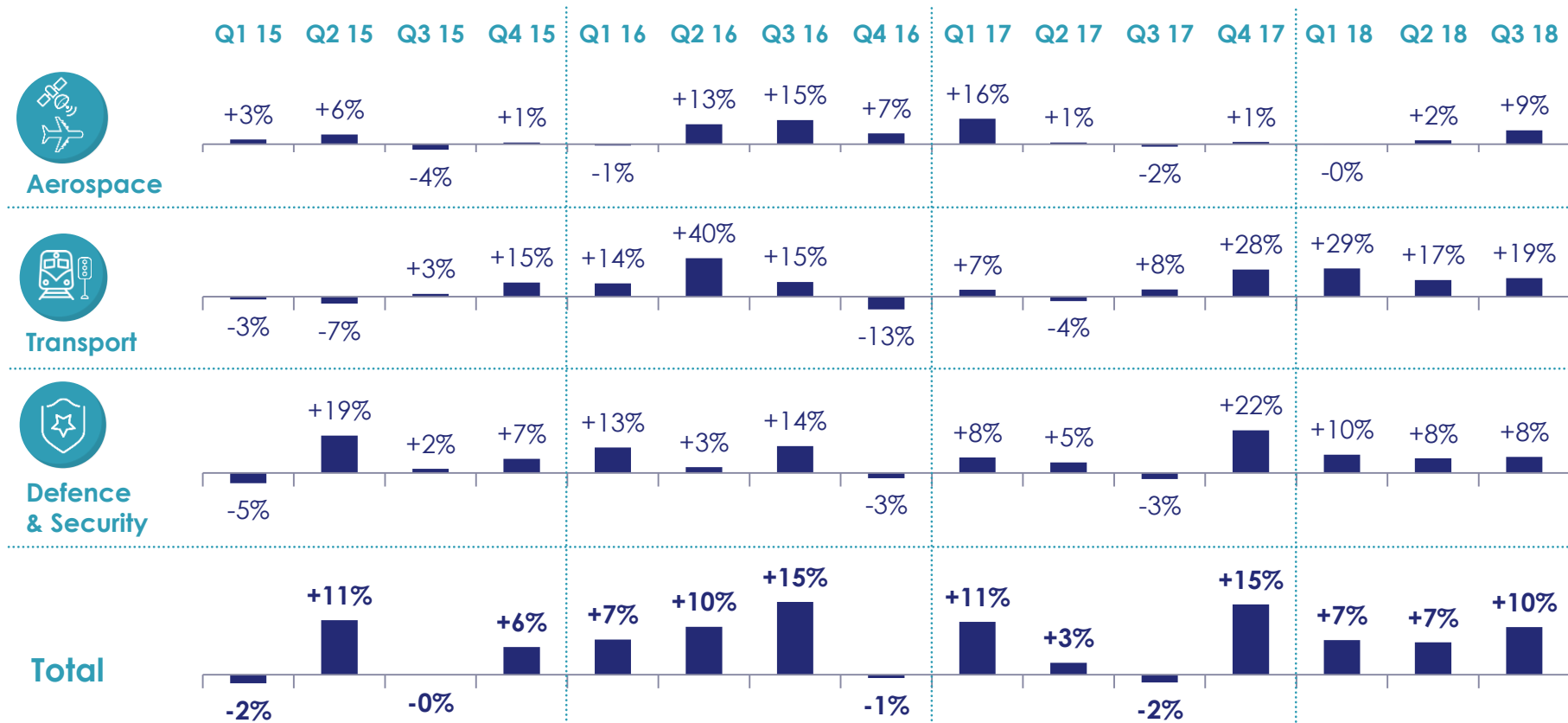
	2017 (restated for IFRS 15)		2017 (as reported)		Difference	
	€m	% of sales	€m	% of sales	€m	Margin
Sales	15,228		15,795		(568)	
Gross margin	3,711	24.4%	3,845	24.3%	(133)	+0 .0 pt
Indirect costs	(2,404)	-15.8%	(2,375)	-15.0%	(29)	-0.8 pt
o/w R&D expenses	(797)	-5.2%	(797)	-5.0%	0	-0.2 pt
o/w Marketing & Sales expenses	(1,065)	-7.0%	(1,036)	-6.6%	(29)	-0.4 pt
o/w General & Administrative expenses	(542)	-3.6%	(542)	-3.4%	0	-0.1 pt
Restructuring costs	-81	-0.5%	-81	-0.5%	0	-0.0 pt
Share of net result of equity-accounted affiliates	139	0.9%	154	1.0%	(15)	-0.1 pt
EBIT	1,365	9.0%	1,543	9.8%	(177)	-0.8 pt

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

€m	2017	2016
EBIT	1,543	1,354
Cost of net financial debt and other financial results	(24)	(4)
Finance costs on pensions and other employee benefits	(63)	(66)
Income tax	(403)	(314)
<i>Effective tax rate</i>	31.0%	27.2%
<i>Effective tax rate excluding one-off tax items</i>	25.9%	25.7%
Adjusted net income	1,052	971
Minorities	(71)	(74)
Adjusted net income, Group share	982	897
EPS: Adjusted net income, Group share, per share (in €)	4.64	4.25

**2017 effective tax rate impacted by several one-off tax items,
for a total of €66m, with no cash impact**

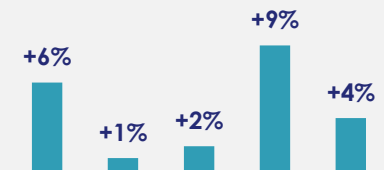
Organic sales growth per quarter



Historical sales and EBIT performance by segment

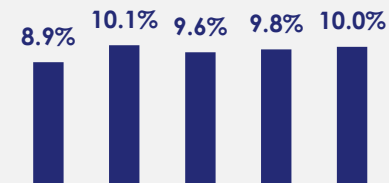
Aerospace

Organic sales growth



2013 2014 2015 2016 2017

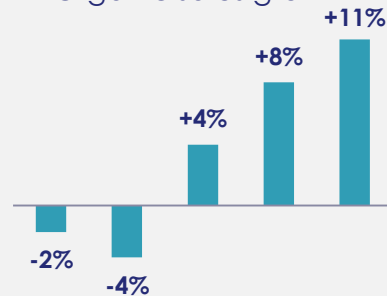
EBIT margin



2013 2014 2015 2016 2017

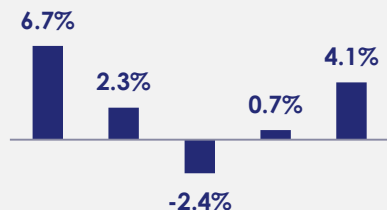
Transport

Organic sales growth



2013 2014 2015 2016 2017

EBIT margin



2013 2014 2015 2016 2017

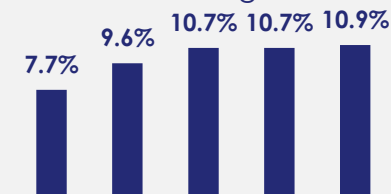
Defence & Security

Organic sales growth



2013 2014 2015 2016 2017

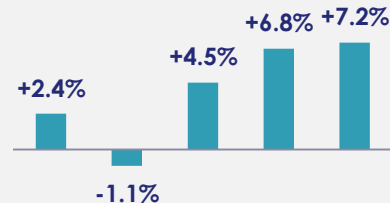
EBIT margin



2013 2014 2015 2016 2017

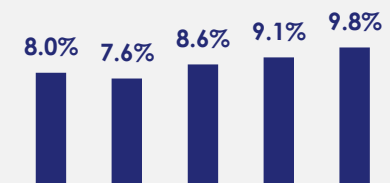
Total Group

Organic sales growth



2013 2014 2015 2016 2017

EBIT margin

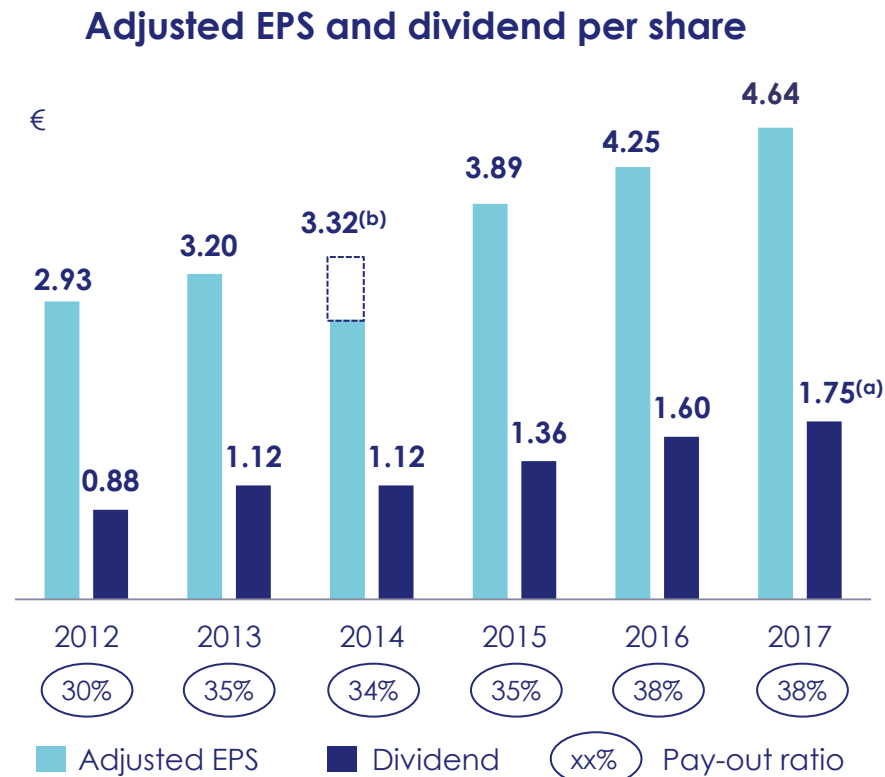


2013 2014 2015 2016 2017

Note: Group EBIT includes equity associate Naval Group (losses in 2014)

THALES

Adjusted EPS and dividend



(a) Approved by the 23 May 2018 Annual General Meeting

(b) Corrected for negative Naval Group (ex DCNS) contribution (€0.57)

Adjusted EPS up 10% per year since 2012

2017 dividend : €1.75 per share^(a)

➤ Pay-out ratio : 37.7%

Dividend up 15% per year since 2012

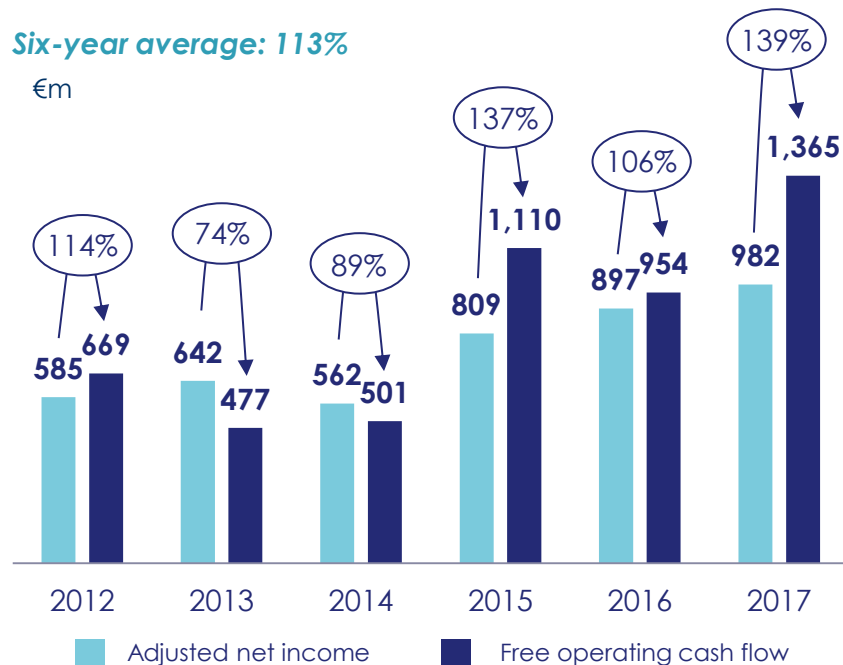
➤ Doubling in 5 years

Historical trend in cash conversion

Adjusted net income conversion into Free operating cash flow

Six-year average: 113%

€m



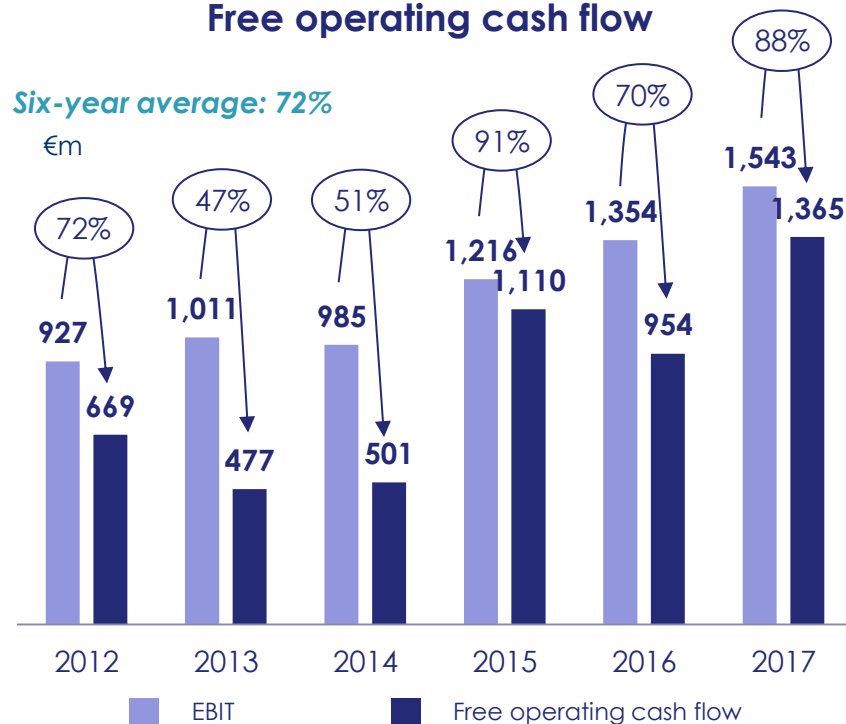
xx%

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

EBIT conversion into Free operating cash flow

Six-year average: 72%

€m



xx%

Cash conversion ratio: Free operating cash flow / EBIT

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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). From 1 January 2016, it also excludes expenses recorded in the income from operations and in the financial result that are directly related to business combinations (2017 impact: +€18m, 2016 impact: €+19m). See also notes 13-a and 2 of the consolidated financial statements at 31 December 2017.
- **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 (2017 impact: +€12m, 2016 impact: €+12m), (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 note 13-a of the consolidated financial statements at 31 December 2017. 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 2018 Half year press release for detailed calculation of these other indicators over H1 2018.
- **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 2017.



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