



Investor meeting

March 2018

www.thalesgroup.com



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This presentation includes "forward-looking statements" and language indicating trends, such as the words "anticipate", "expect", "approximate", "believe", "could", "should", "will", "intend", "may", "potential" and other similar expressions. These forward-looking statements are only based upon currently available information and speak only as of the date of this presentation. Such forward-looking statements are based upon management's current expectations and are subject to a significant business, economic and competitive risks, uncertainties and contingencies, many of which are unknown and many of which Thales and Gemalto are unable to predict or control. Such factors may cause Thales and/or Gemalto's actual results, performance or plans with respect to the transaction between Thales and Gemalto to differ materially from any future results, performance or plans expressed or implied by such forward-looking statements. Neither Thales nor Gemalto, nor any of their advisors accepts any responsibility for any financial information contained in this presentation relating to the business or operations or results or financial condition of the other or their respective groups. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.







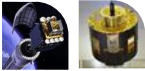

















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- **Introduction to Thales**
- 2017 Full-Year results
- Key Ambition 10 initiatives
- Outlook

A strong set of focused businesses...

Segment	Sub-segment		Civil	Military	2017 sales(€m)	Market position
Aerospace <i>38% of 2017 sales</i>	Flight avionics				~1,700	#3 worldwide (commercial avionics)
	In-flight entertainment (IFE) and connectivity				~800	#2 worldwide
	Space solutions for telecom, observation, navigation and exploration				~2,600	#3 worldwide (civil satellites)
	Other aerospace businesses including training & simulation and microwave systems				~900	#1 worldwide (microwave systems)
Transport <i>11% of 2017 sales</i>	Signaling and supervision of rail networks including passenger payment collection systems				~1,750	#2 worldwide
Defence & security <i>51% of 2017 sales</i>	Advanced defence systems including air defence, missiles, surface radars, optronics, armored military vehicles, equipment for combat aircraft, ships and underwater warfare				~4,750	#1 in Europe (defence electronics)
	Secure communications and information systems including radio-communication products, network and protection systems for armies, countries, cities and critical infrastructures, and cyber-security				~2,700	#2 worldwide (military tactical communications)
	Air Traffic Management				~500	#1 worldwide

... leveraging a broad range of growth opportunities...

Aerospace

- Avionics: ramp-up of recent aircraft platforms, larger installed base
- Solid growth in in-flight entertainment and on-board Internet connectivity
- Increased demand for innovative space solutions: Very High Throughput Satellites (VHTS), constellations, very high resolution observation satellites...

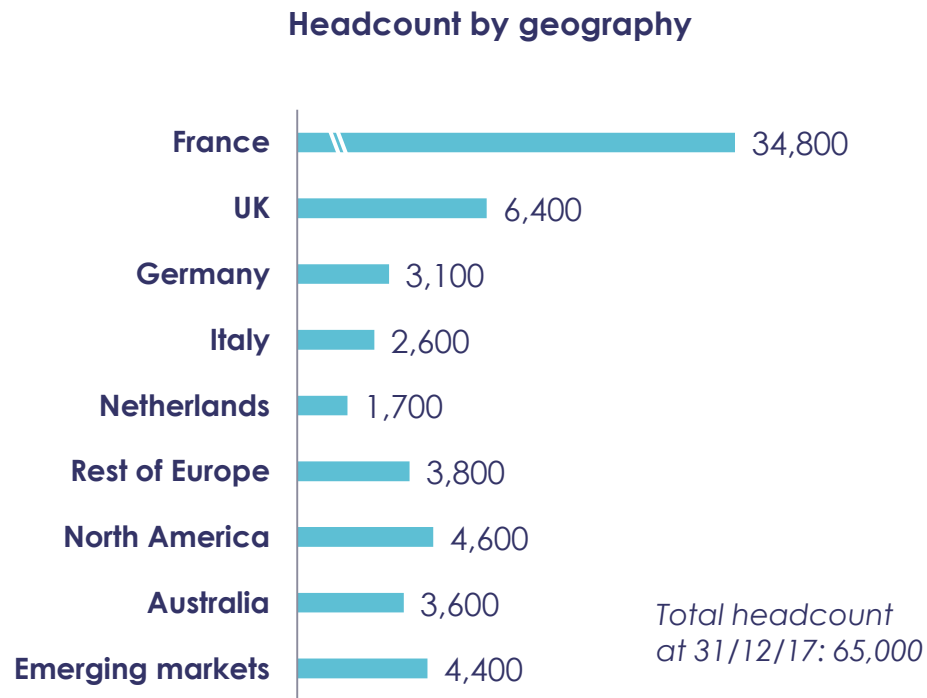
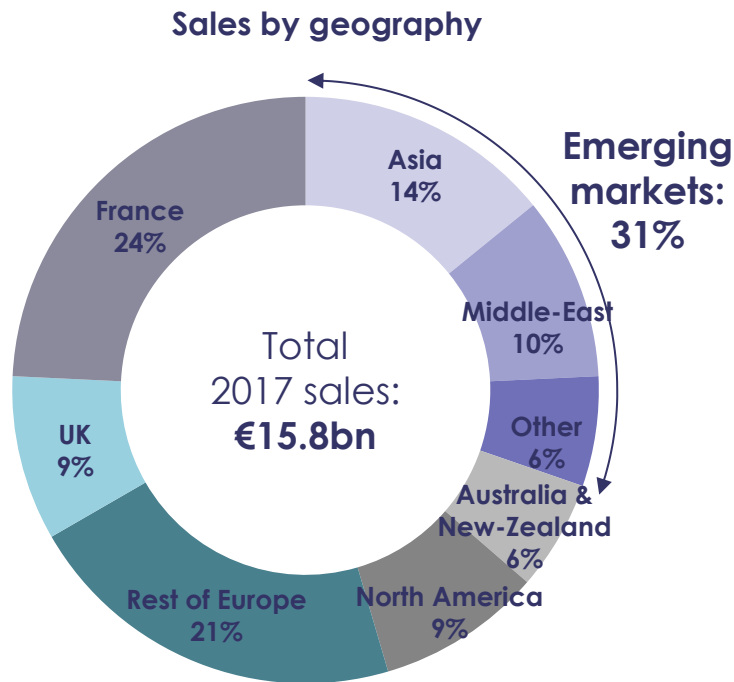
Transport

- Strong demand both in emerging markets and in Europe
- Record high order book

Defence & security

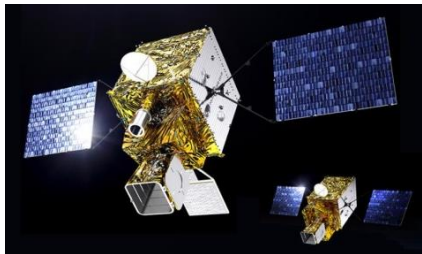
- Inflection of defence budgets in mature markets
 - Good commercial momentum in emerging markets
 - Positioning on “force-enabler” technologies: advanced sensors, Intelligence, Surveillance and Reconnaissance (ISR) solutions, new generation radio-communication, command and control (C4I) systems...
 - High demand for corporate data protection (cyber-security) solutions
-

...across a diversified geographical portfolio





- Introduction to Thales
- **2017 Full-Year results**
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Aerospace

- Continued positive dynamics for cockpit avionics and in-flight entertainment and connectivity
- Space: wait-and-see attitude from civil telecom satellite operators

Transport

- Robust demand both in emerging markets and in Europe

Defence and security

- Geopolitical tensions and security threats
- Confirmed ramp-up of defence budgets in mature markets

**Strong interest in digital solutions
across all markets**

2017 highlights: overachievement on all financial targets

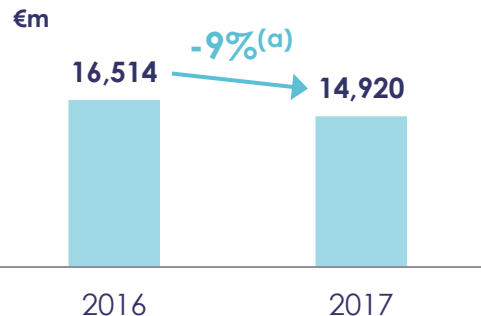
- Solid order intake, in a year with no “jumbo” contracts
- Stronger than expected sales growth, across all segments
- Further increase in profitability
- Acceleration of Ambition 10 strategy, ending the year with announcement of transformative offer to acquire Gemalto

Persistent focus on profitable and sustainable growth

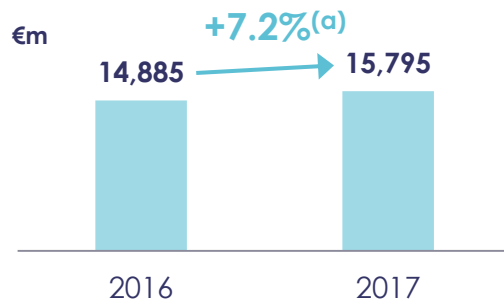


2017 key figures

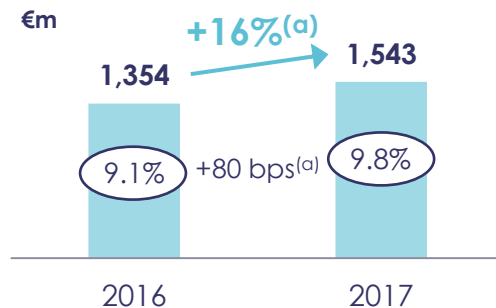
Order intake



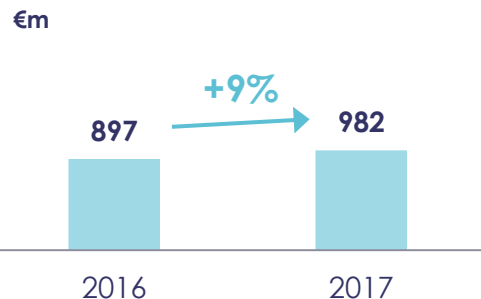
Sales



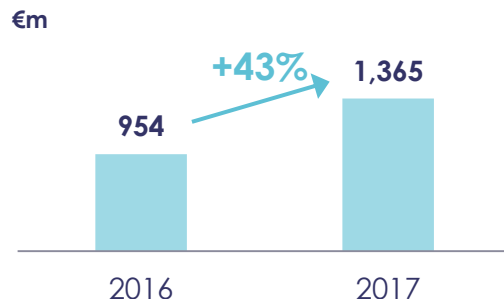
EBIT and EBIT margin^(b)



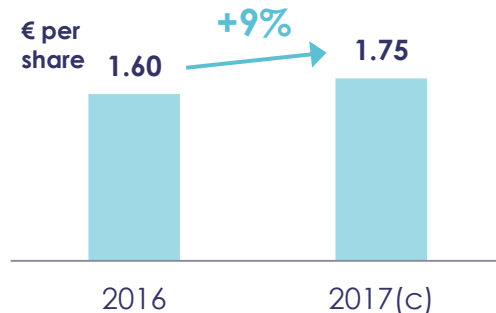
Adjusted net income^(b)



Free operating cash flow^(b)



Dividend



(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 23 May 2018 Annual General Meeting

2017 order intake

Booking of 19 orders over €100m

- No “jumbo”^(a) contract, unlike 2015 and 2016

Steady growth in smaller orders, under €100m

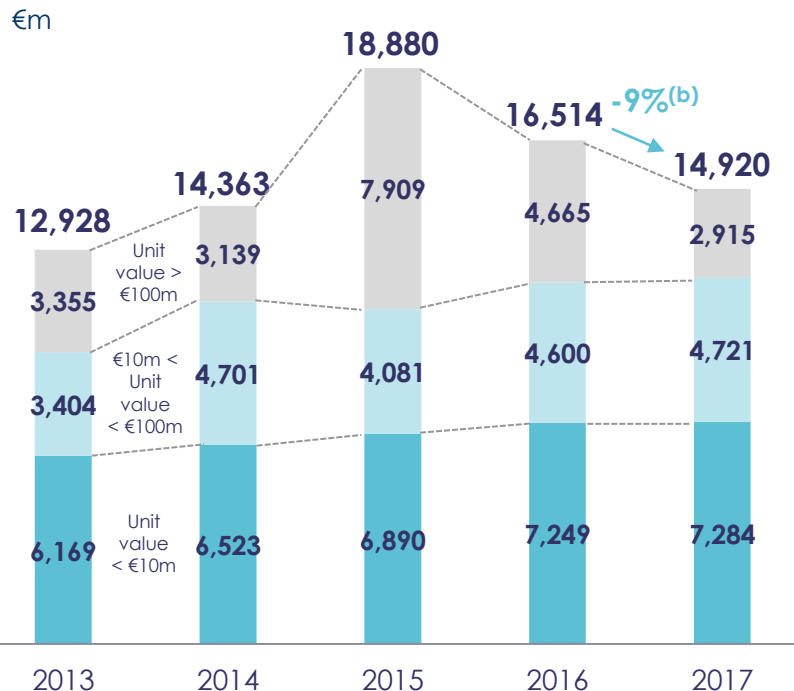
Order intake up 7%^(b) in mature markets

End 2017 order book: €31.9bn

- €7.4bn above end 2013 level

(a) Jumbo: with a unit value of more than €500m
 (b) Organic: at constant scope and exchange rates

Order intake by contract unit value



Book-to-bill
 Number of
 jumbo^(a) orders

2013	2014	2015	2016	2017
1.02	1.11	1.34	1.11	0.95
0	0	4	1	0

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2017 organic sales growth

Continued high growth in emerging markets

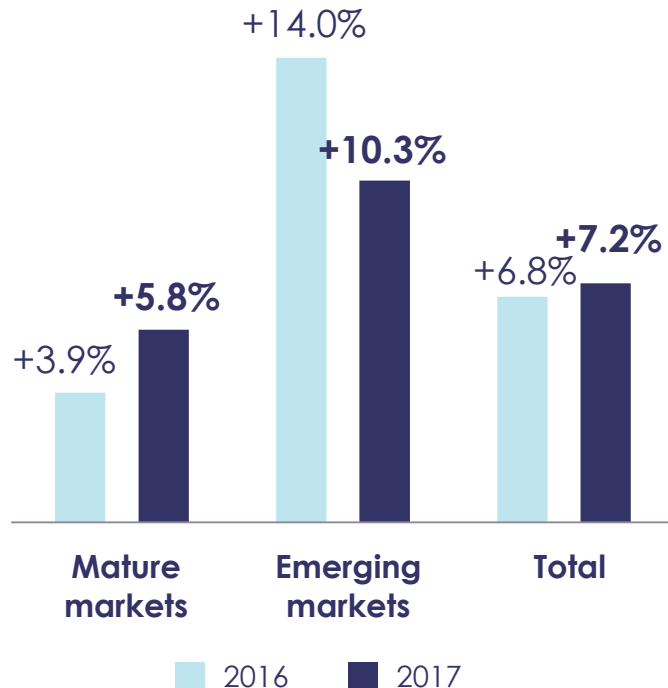
- Broad-based growth: top 10 emerging markets represent only 68% of emerging market sales

Growth accelerating in mature markets

As expected, Q4 sales sharply up

- Cutoff effects and favorable bases of comparison

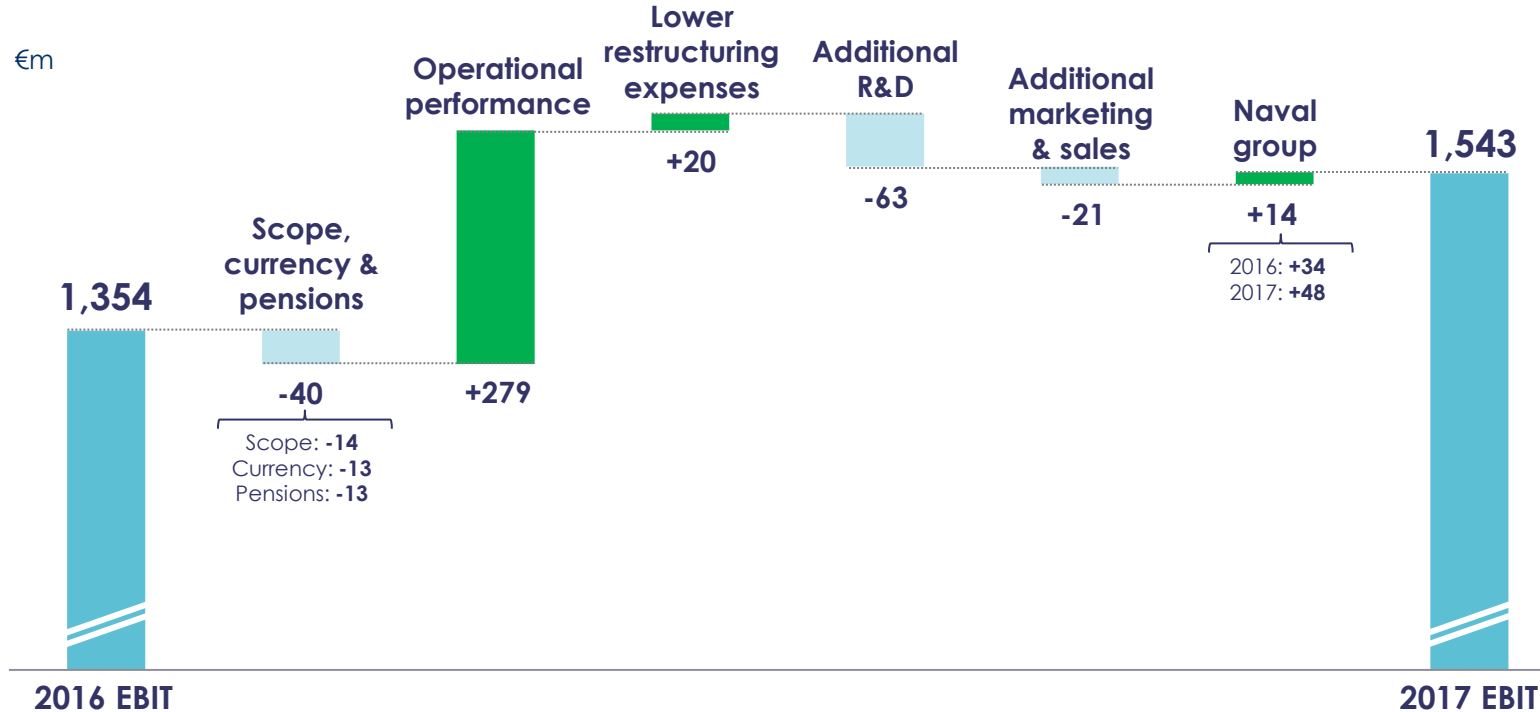
Organic^(a) sales growth



(a) Organic: at constant scope and exchange rates

EBIT bridge

Strongest operational performance since launch of Ambition 10



Aerospace: 2017 key figures

€m	2017	2016	change	
			total	organic
Order intake	5,200	5,872	-11%	-11%
Sales	5,985	5,812	+3.0%	+3.6%
EBIT	601	571	+5%	+7%
<i>in % of sales</i>	10.0%	9.8%	+0.2 pts	+0.3 pts

- Slowdown of Space order intake offsets good momentum in avionics and in In-Flight Entertainment
- Sales growth driven by aircraft avionics and Space
- Margin improving while implementing significant ramp up in R&D expenses (+10%)



Transport: 2017 key figures

€m	2017	2016	change	
			total	organic
Order intake	1,780	1,504	+18%	+20%
Sales	1,761	1,603	+9.9%	+11.2%
EBIT	72	11	x6.3	x6.3
<i>in % of sales</i>	4.1%	0.7%	+3.4 pts	+3.3 pts

- Solid order intake
- Sales growth driven by progress on large contracts won in 2015 and 2016
- Significant increase in profitability, fully in line with recovery plan launched mid-2015



Defence & Security: 2017 key figures

€m	2017	2016	change	
			total	organic
Order intake	7,883	9,063	-13%	-12%
Sales	7,983	7,390	+8.0%	+9.4%
EBIT	869	787	+10%	+13%
<i>in % of sales</i>	10.9%	10.7%	+0.2 pts	+0.3 pts

Order intake down due to high comps

- High 2016 level thanks to Rafale in India order booked in Q3 2016

Strong, broad-based sales growth

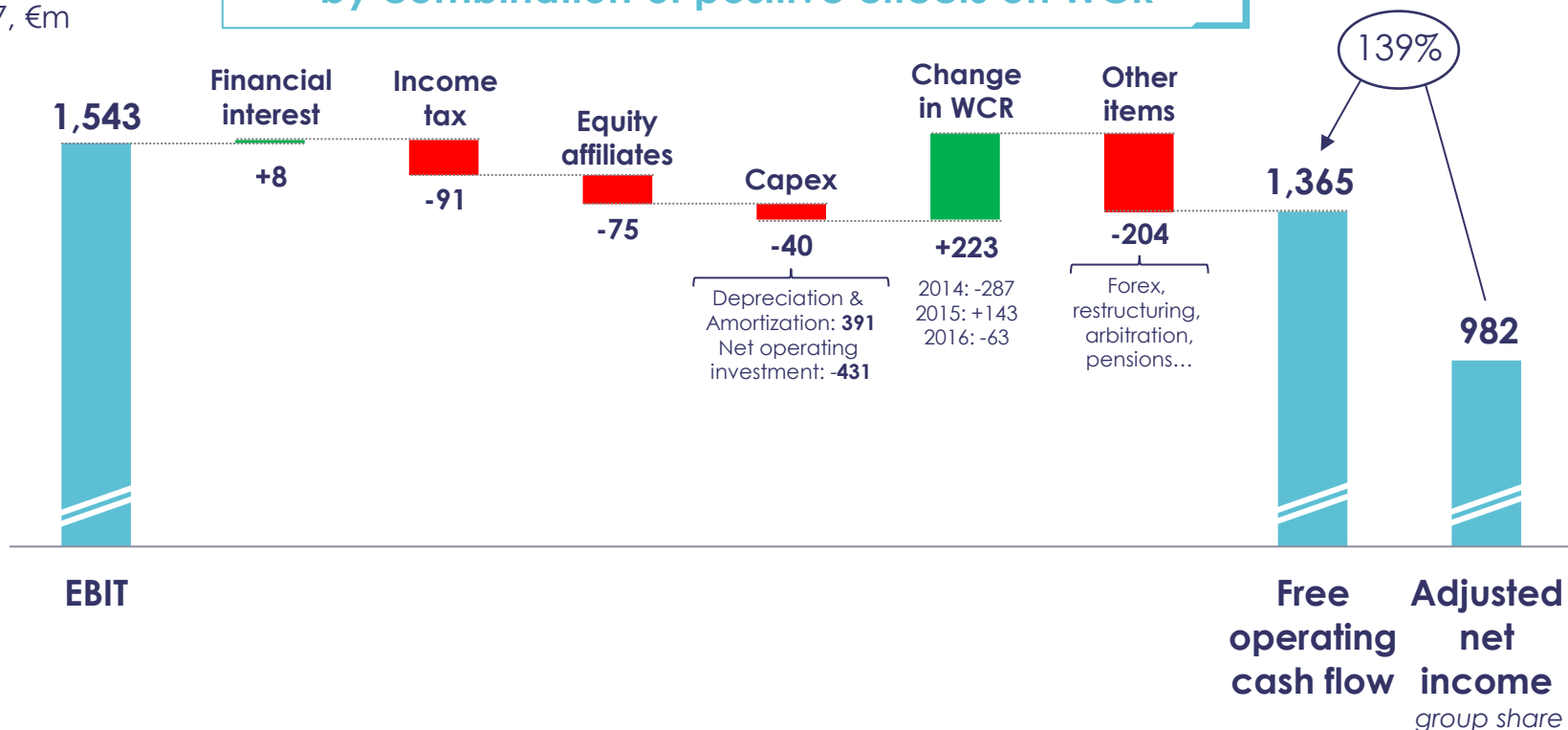
Further EBIT margin improvement, supported by control of costs and lower restructuring



Cash conversion: from EBIT to free operating cash flow

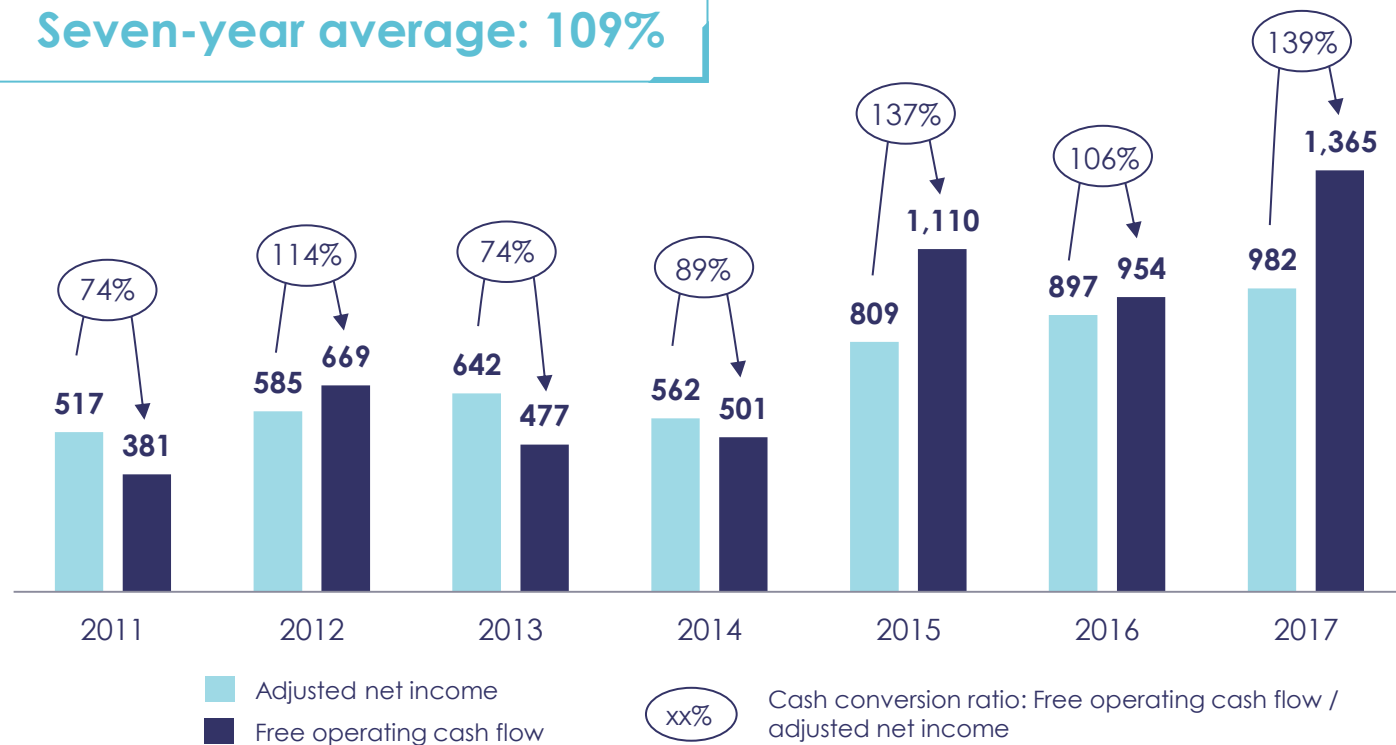
2017, €m

Record high rate of cash conversion, supported by combination of positive effects on WCR



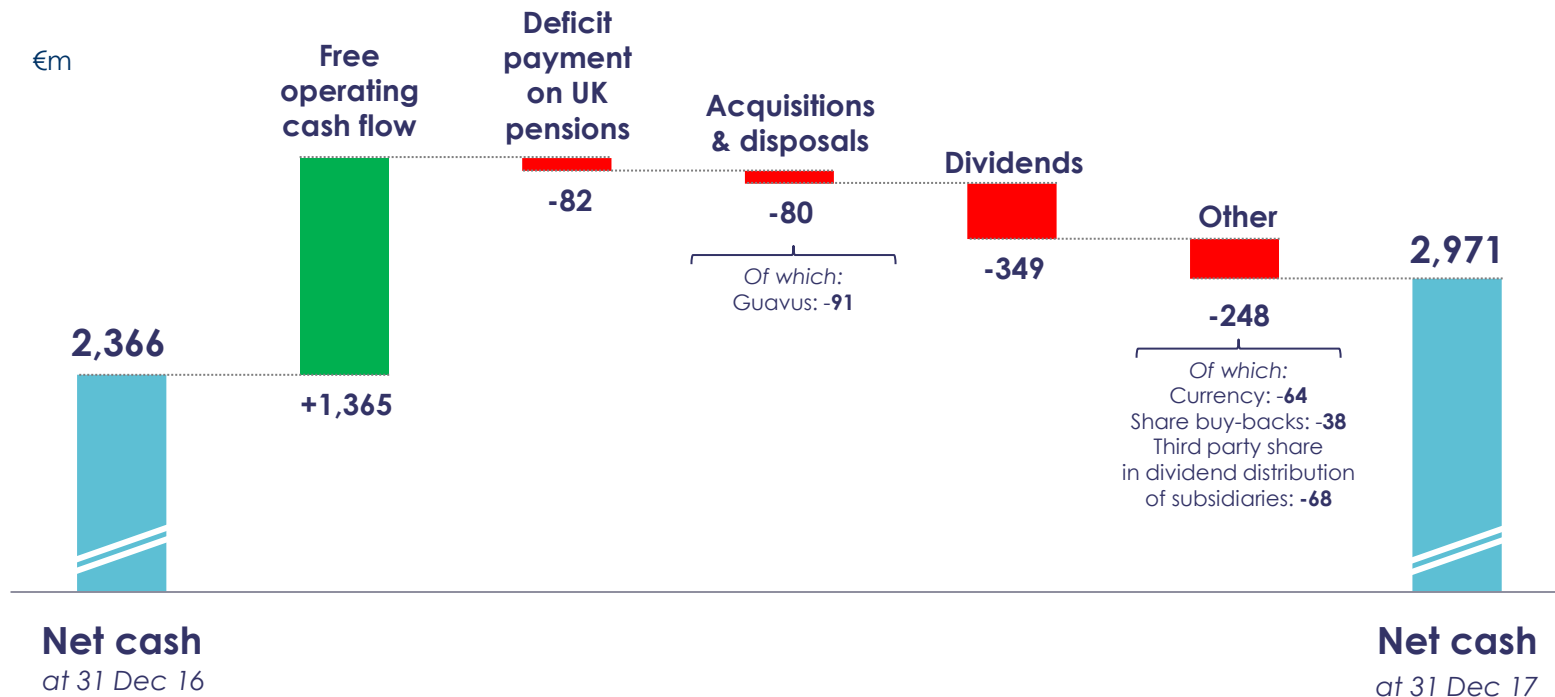
Historical trend in cash conversion

Seven-year average: 109%



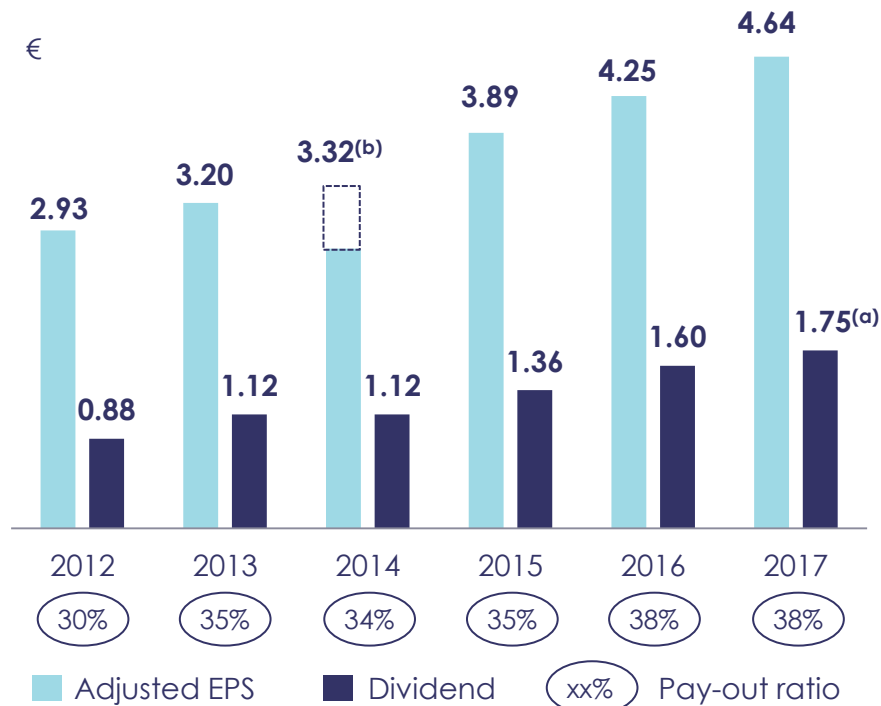
Movement in net cash

High net cash position driven by free operating cash flow



Adjusted EPS and dividend

Adjusted EPS and dividend per share



(a) Subject to approval by the 23 May 2018 Annual General Meeting

(b) Corrected for negative DCNS contribution (€0.57)

■ Adjusted EPS up 10%
per year since 2012

■ Proposed 2017 dividend :
€1.75 per share^(a)
➤ Pay-out ratio : 37.7%

■ Dividend up 15%
per year since 2012
➤ Doubling in 5 years



- Introduction to Thales
- 2017 Full-Year results
- **Key Ambition 10 initiatives**
- Outlook

Unchanged strategic focus



Building a growing, more global and more profitable Thales



Leverage growth in civil markets and inflection of defence budgets

Civil aviation

+3.5%



2017-36

Satellite manufacturing

+2%



2016-25

Rail signalling

+3%



2014-20

Annual growth forecasts - sources:

- Civil aviation: IATA (air passenger numbers)
- Satellite manufacturing: NSR study, average 2016-25 vs 2015, global telecom and earth observation
- Rail signaling: UNIFE, 3-year average forecasts 2019-21 vs 2013-15
- Defence procurement: Jane's defence, real terms, excluding China and Russia

Global defence procurement

+2%

~0%

2012-16 2017-20

Europe

+3.5%

+1%

2012-16

2017-20

~50%
of Thales
Defence &
Security
segment
sales

Asia-Pacific and Middle-East

+6%

+2%

2012-16

2017-20

~40%
of Thales
Defence &
Security
segment
sales

THALES

Solid trends in key Defence and Security markets

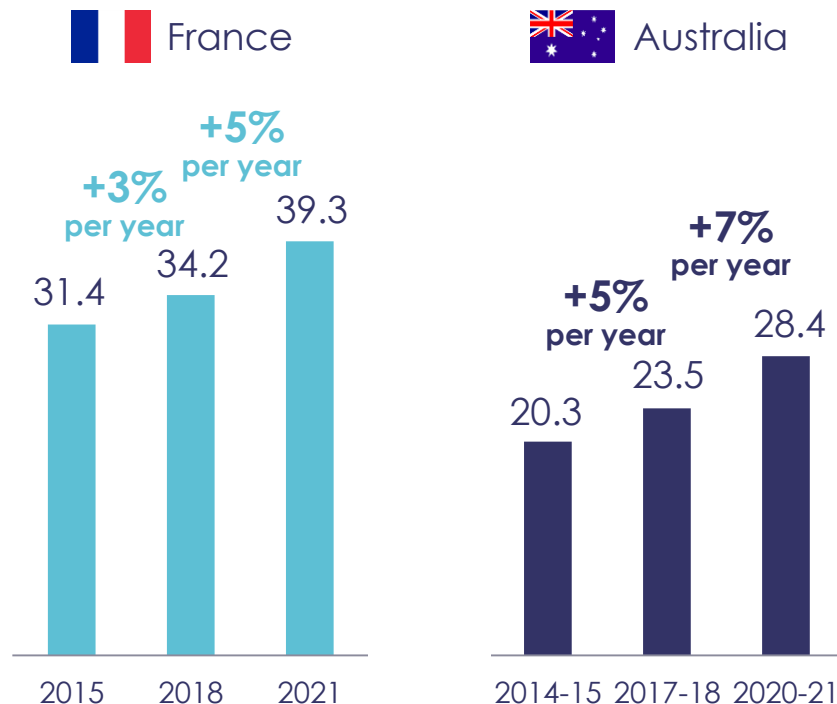
French 2019-25 Military Programming Law made public

- Confirms significant inflection of defence budget
- Priorities well aligned with Thales's portfolio: focus on intelligence, innovation, digitization
- Increased support for exports

Australian defence budget expected to further accelerate

- Driven by major capital investment programs
- Country aiming to become a top 10 global defence exporter

Defence budget trends (€bn)



Sources: France: PLF 2015, LPM 2019-25. Australia: ASPI analysis, amounts converted in € at average 2017 AUD/€ exchange rate of 1.479

THALES

Space: well-positioned to manage current market transition

■ Long-term broadening of applications

- Broadband Internet access, in-flight and maritime connectivity, global IoT connectivity
- Increasing demand for advanced civil observation
- In-orbit servicing
- Situational awareness

■ Acceleration of technology and business innovation

■ More affordable access to space

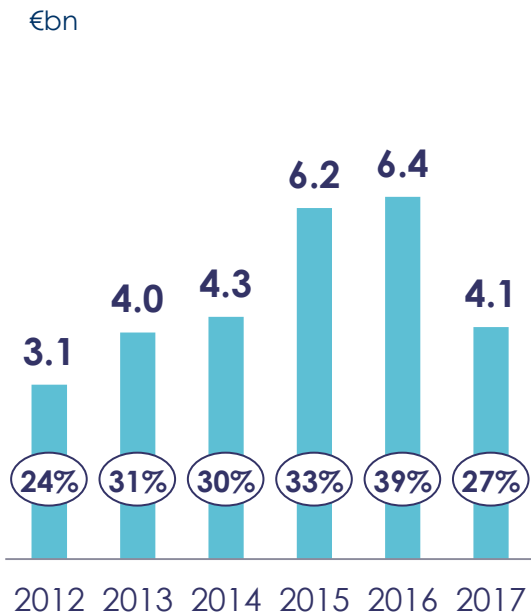
■ Wait-and-see attitude from civil telecom satellite operators

■ Thales: high basis of comparison following strong commercial performance in 2015 and 2016

2018: increasing investments in differentiating technologies

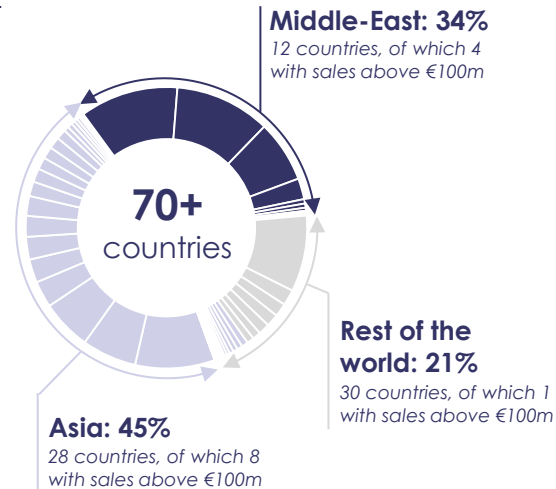
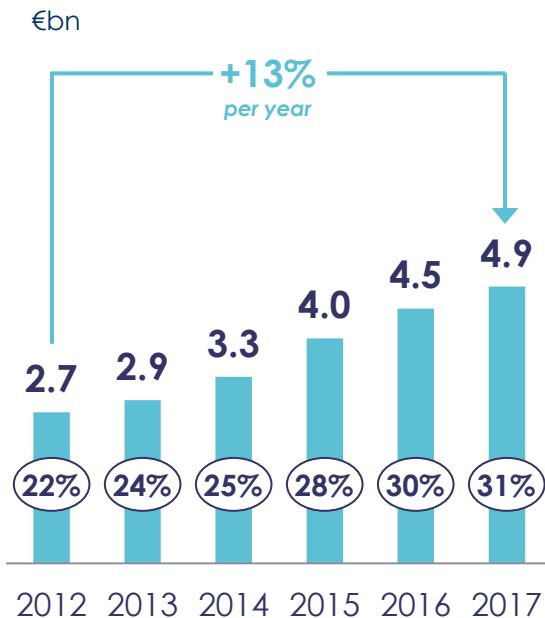
Successful expansion into emerging markets

Emerging market order intake
(and % of total order intake)



Note: 2012 proforma, restated based on reported 2012-13 growth

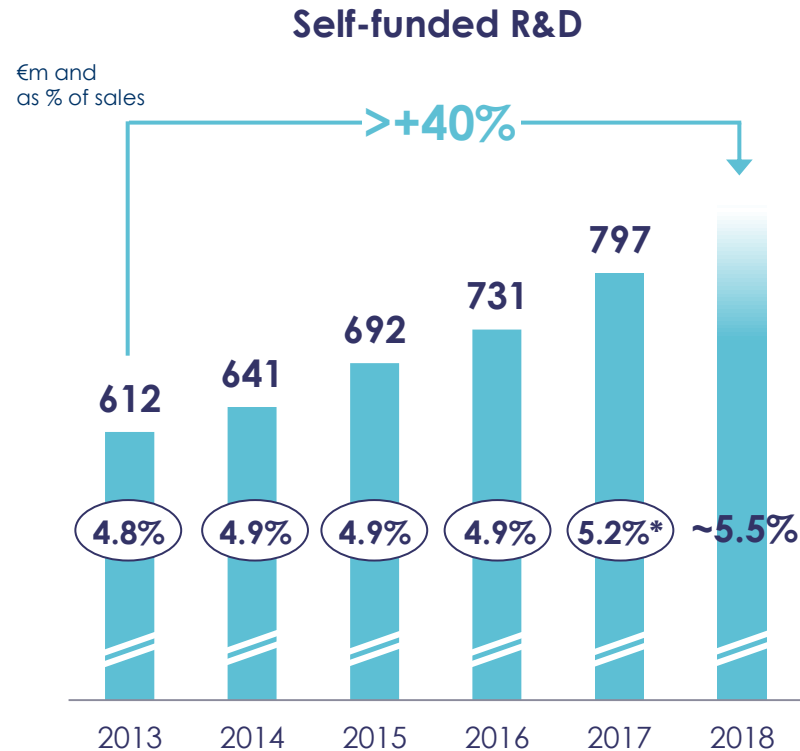
Emerging market sales
(and % of total sales)



**Sales above €100m
in 13 emerging markets**

Reinforcing R&D leadership, with an increased digital focus

- **Innovation and technology leadership a key differentiator across all segments**
- **Self-funded R&D again growing faster than sales in 2018**
 - ~10% growth in 2018
- **Two areas targeted**
 - Key technologies supporting aerospace and transport innovations
 - Thales “digital factory” and digital technologies



* 2017 percentage pro forma IFRS 15

2017: significant acceleration of Thales's digital strategy



Connectivity
Mobility, IoT



Cyber-security



Big data



Artificial
intelligence

Organic initiatives

THALES **DIGITAL**FACTORY

AI Saclay
CortAlx Canada

Leveraging start-up ecosystems

STATION F



Acquisitions



gemalto (a)

guavus

(a) Contemplated acquisition, expected to close in H2 2018

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

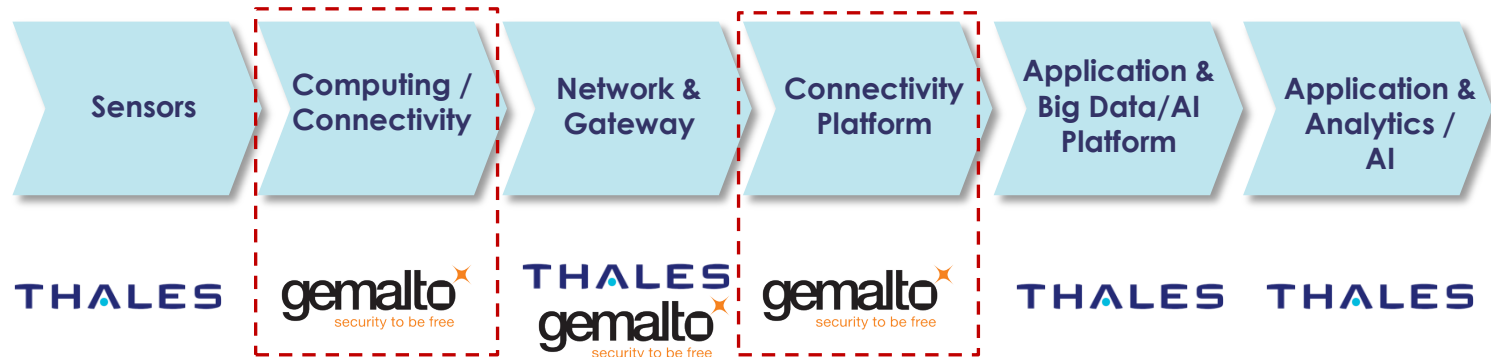
Critical
decision
chain

Sensing and
data gathering

Data
transmission
and storage

Data processing
and decision
making

Critical
digital
decision
chain

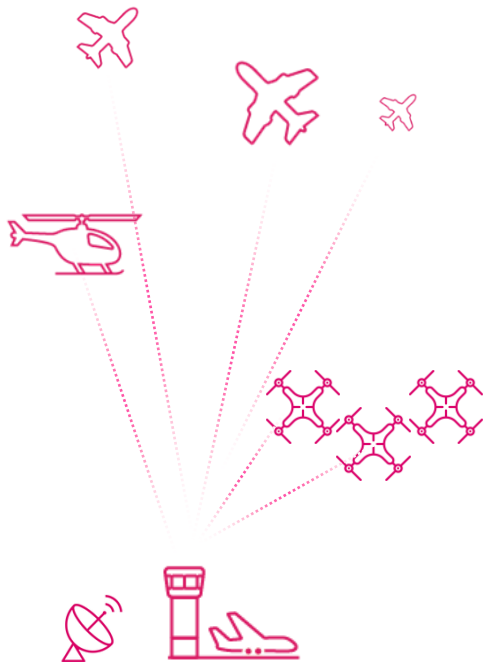


IoT
cyber-
security

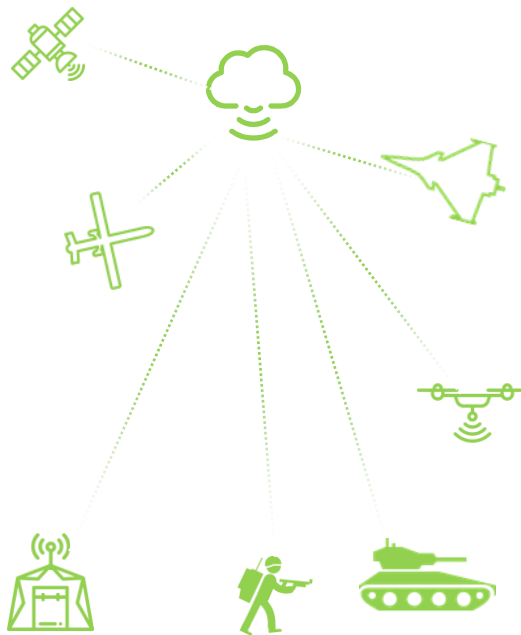


Thales and Gemalto: selected use cases

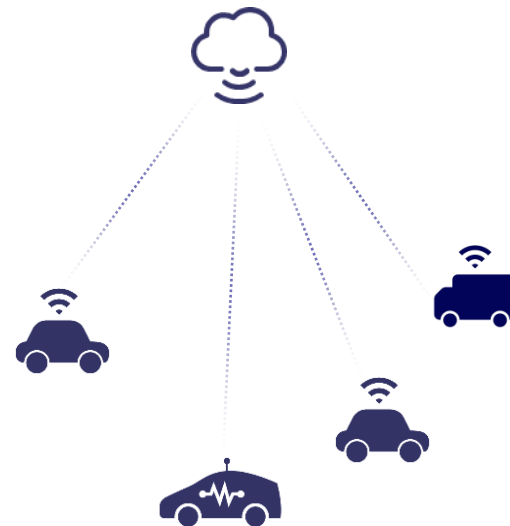
Air traffic management



Battlefield cloud



Connected cars



Continued focus on competitiveness



Engineering
competitiveness

Competitiveness
in sourcing

Efficiency of
structure

Excellence in
delivery

**Strengthening culture of competitiveness
through group-wide initiatives**

Acceleration of procurement initiatives

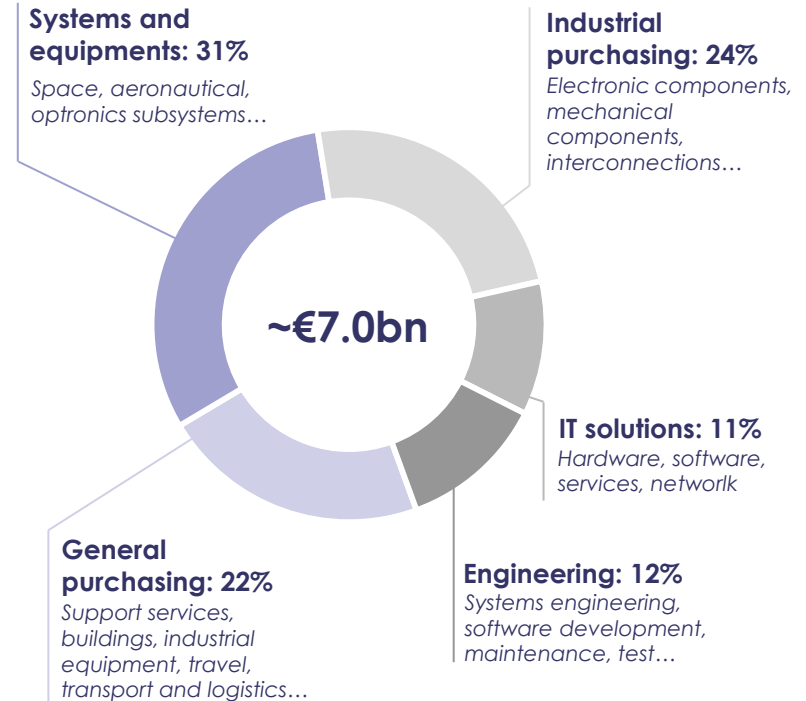
Leveraging long-term competitiveness drivers

- Further pooling to leverage Thales scale
- Global sourcing
- Earlier involvement of procurement in product design and bid phase
- Deeper partnerships with suppliers

New procurement organization launched in H1 2018

First initiatives demonstrate significant saving opportunities

2017 external procurement breakdown



Transformation plan of support functions well engaged

Infrastructure optimization plan

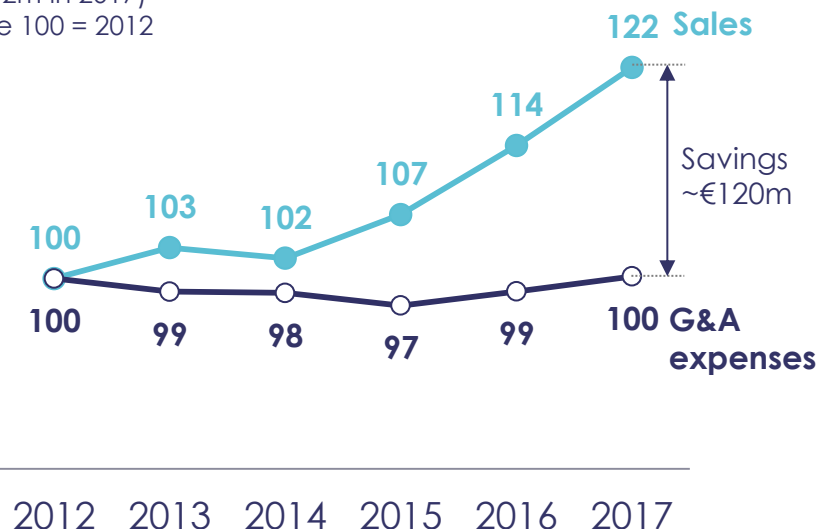
- Rationalization of industrial footprint achieved in several countries
- Convergence of Information Systems

Transformation plan of support functions

- Implementation of new operating models
- Reduction in number of French legal entities

Organic evolution of sales and of G&A expenses

Sales and P&L G&A expenses
(€542m in 2017)
base 100 = 2012





- Introduction to Thales
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- **Outlook**

2018 financial objectives

Order intake

Around €15.5bn

Sales^(a)

Organic growth between 4% and 5%

EBIT^(b)

€1,620-1,660m^(c)

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

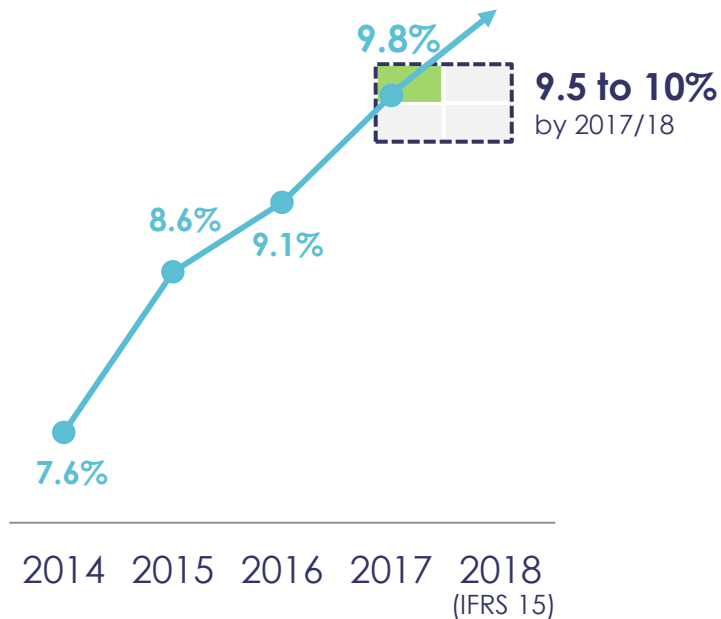
(b) Under IFRS 15 standard - non-GAAP measure: see definition in appendix

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

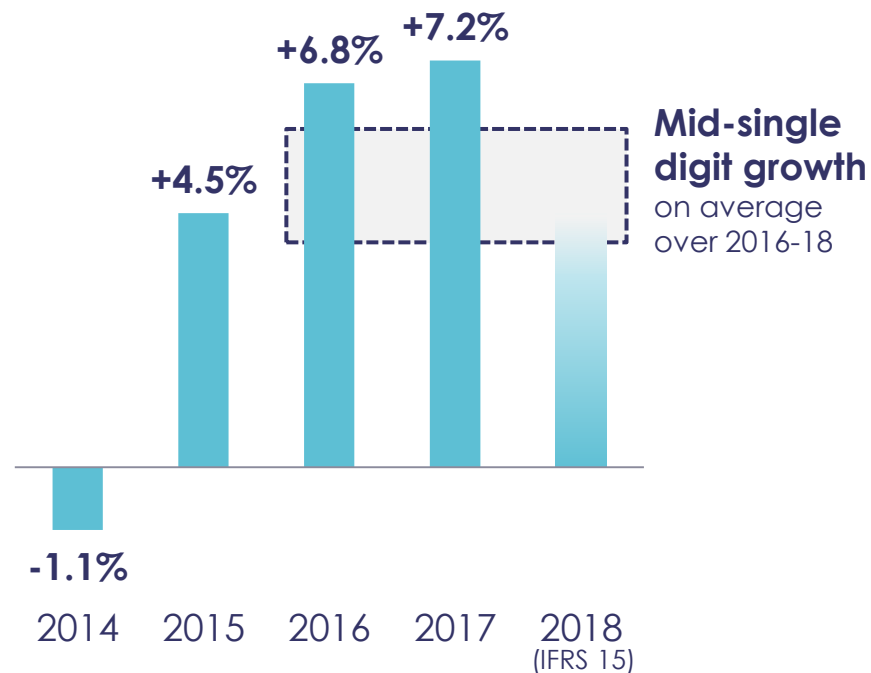
Delivering ahead of mid-term financial objectives



EBIT margin target set in April 2014



Organic sales growth target set in February 2016





Appendix



Thales and Gemalto create a world leader in digital security

Other background information

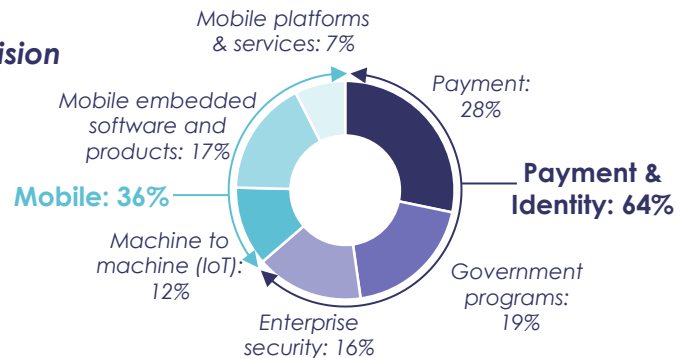
Gemalto, a global player in digital security

- 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

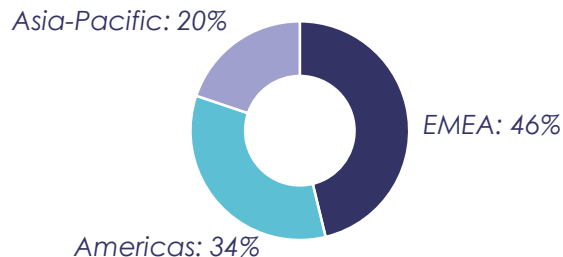


2017 revenue breakdown

By division



By geography



Securing identities, connected objects & data

(Percent of 2017 revenue)



Thales and Gemalto: creating a world leader in digital security

Compelling strategic rationale for Thales

- Accelerating Thales's digital strategy
- Creating global market leader in fast-growing digital security market

Shared vision for the future

- Strong industrial and cultural fit
- Thales to combine its digital assets with Gemalto, within a new Global Business Unit
- Friendly approach essential to deliver value in talent-based industries

Significant shareholder value creation

- Immediate mid to high-teens adjusted EPS accretion, pre-synergies
- €100m to €150m recurring pre-tax cost synergies by 2021, as well as meaningful revenue synergies
- Acquisition's ROCE exceeding Cost of Capital within 3 years following closing
- Solid investment grade rating preserved, dividend policy reaffirmed

Strong industrial and cultural fit: foundation for successful integration

Common 'DNA' and culture

- Deep roots in technology and passion for innovation
- Product-focus
- Global organizations driven by product lines rather than geographies

Innovation champions

- R&D-oriented innovation powerhouses combining more than 28,000 engineers and 3,000 researchers
- Extensive Intellectual Property portfolio of 20,000+ patents
- Investing more than €1 bn in self-funded R&D

Human capital as critical asset

- A unique talent pool in digital and cybersecurity
- Enhanced attractiveness to hire and retain talents, a key competitiveness driver

Friendly approach a critical success factor in combining talent-based high-tech companies

Creation of a digital security Global Business Unit

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

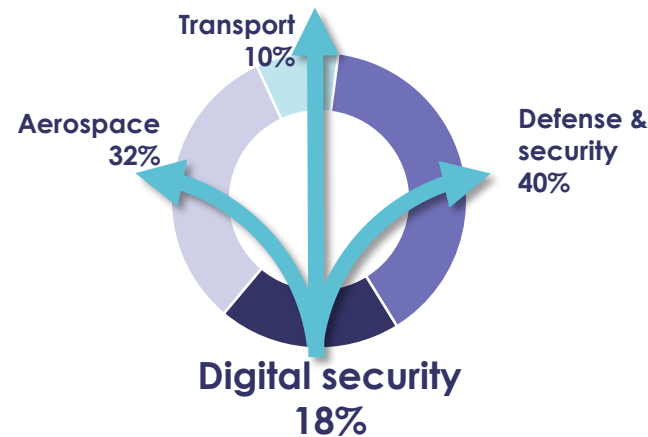
■ Thales to combine key digital assets with Gemalto in order to:

- Strengthen common digital capabilities
- Accelerate growth of combined entity

■ New GBU to accelerate digital transformation across all Thales vertical markets



Segment revenue breakdown⁽¹⁾



(1) 2017 Combined pro forma

Acquisition further strengthens Thales's margin and growth profile

Revenues

Market		Growth potential
Securing identities	Payment cards	→
	E-Payment	↗↗
	Government	↗
Securing connected objects and data	Mobile	↘
	Enterprise security	↗
	IoT/M2M	↗↗

EBIT margin

Upon integration, Gemalto's margin in line with Thales's expected profitability

Potential for margin expansion above Thales level

➤ 2 to 3 years after acquisition

Solid cost synergies, with significant revenue synergies upside

■ Recurring pre-tax cost synergies of €100m to €150m by 2021

- R&D and SG&A optimization on enterprise security
- SG&A savings on Gemalto perimeter
- Savings on purchasing
- Footprint optimization

■ Significant revenue synergies

- Enlarged customer base
- Strengthened cybersecurity portfolio
- Thales's Artificial Intelligence and Big Data capabilities supporting Gemalto's business development...

■ Thales and Gemalto to uniquely shape the emerging 'secured industrial IoT' market

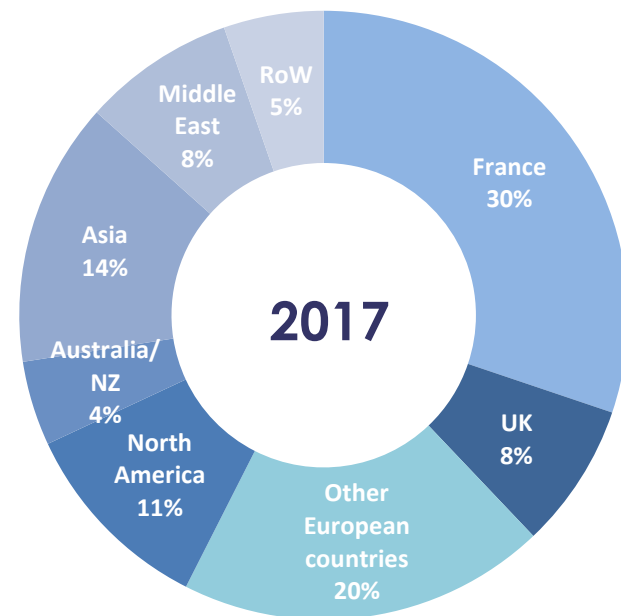


Thales and Gemalto create a world leader in digital security

Other background information

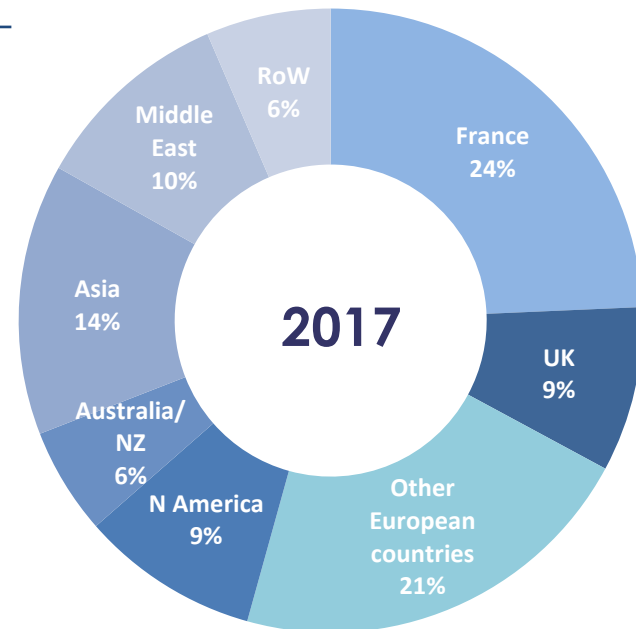
2017 order intake by destination

€m	2017	2016	change	
			total	organic
France	4,503	3,509	+28%	+29%
United Kingdom	1,153	1,003	+15%	+21%
Other European countries	2,919	3,646	-20%	-20%
Europe	8,574	8,159	+5%	+6%
North America	1,579	1,216	+30%	+31%
Australia/NZ	671	764	-12%	-12%
Mature markets	10,824	10,138	+7%	+7%
Asia	2,097	3,708	-43%	-43%
Middle East	1,206	1,674	-28%	-27%
Rest of the world	792	994	-20%	-18%
Emerging markets	4,095	6,377	-36%	-35%
Total	14,920	16,514	-10%	-9%



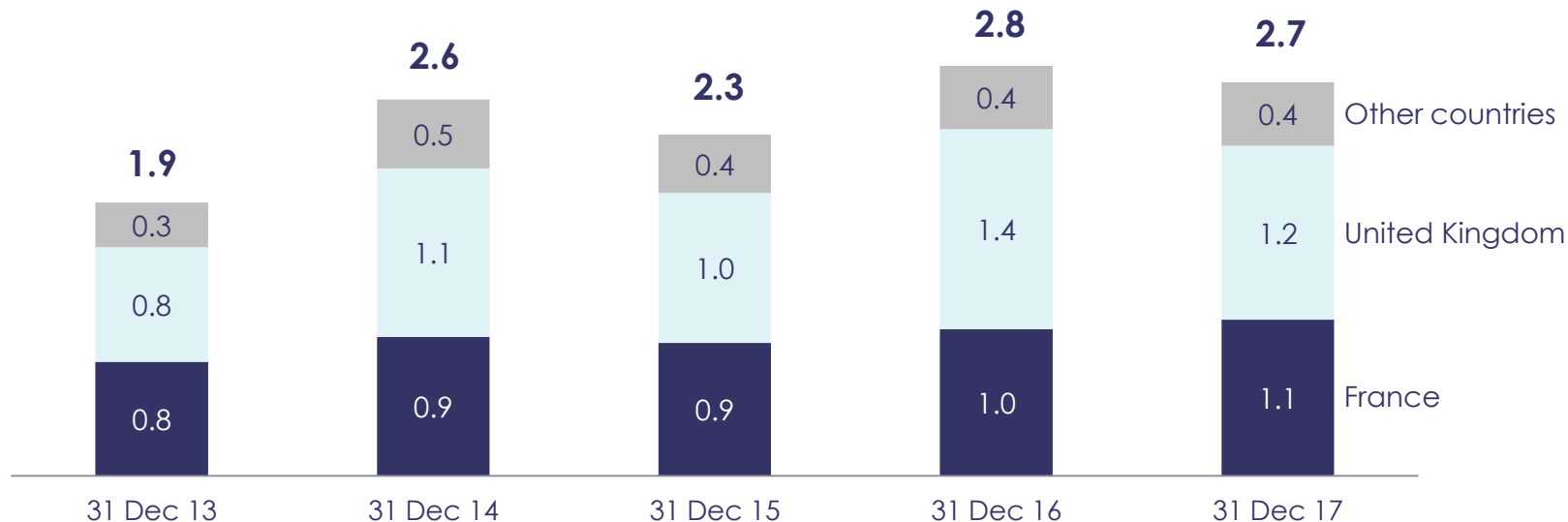
2017 sales by destination

€m	2017	2016	change	
			total	organic
France	3,840	3,581	+7.2%	+7.6%
United Kingdom	1,352	1,272	+6.3%	+11.6%
Other European countries	3,387	3,227	+5.0%	+4.8%
Europe	8,579	8,080	+6.2%	+7.1%
North America	1,460	1,556	-6.2%	-5.4%
Australia/NZ	875	759	+15.2%	+15.0%
Mature markets	10,913	10,395	+5.0%	+5.8%
Asia	2,219	2,048	+8.3%	+9.7%
Middle East	1,641	1,515	+8.4%	+9.6%
Rest of the world	1,022	927	+10.2%	+12.8%
Emerging markets	4,882	4,490	+8.7%	+10.3%
Total	15,795	14,885	+6.1%	+7.2%



Evolution of net pension provision

€bn



Liability discount rate

France	3.2%	1.5%	2.0%	1.5%	1.2%
UK	4.6%	3.7%	4.0%	2.8%	2.6%

Summary adjusted P&L: from sales to EBIT

	2017		2016		change	
	€m	% of sales	€m	% of sales	total	organic
Sales	15,795		14,885		+6.1%	+7.2%
Gross margin	3,845	24.3%	3,609	24.3%	+7%	+7%
Indirect costs	(2,375)	15.0%	(2,285)	15.3%	+4%	+4%
o/w R&D expenses	(797)	5.0%	(731)	4.9%	+9%	+9%
o/w Marketing & Sales expenses	(1,036)	6.6%	(1,017)	6.8%	+2%	+2%
o/w General & Administrative expenses	(542)	3.4%	(537)	3.6%	+1%	+2%
Restructuring costs	(81)	0.5%	(101)	0.7%	-19%	-20%
Share in net result of equity-accounted affiliates excl. Naval Group	106		97		+9%	+15%
EBIT excluding Naval Group	1,495	9.5%	1,321	8.9%	+14%	+15%
Share in net result of Naval Group	48		34			
EBIT	1,543	9.8%	1,354	9.1%	+14%	+16%

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

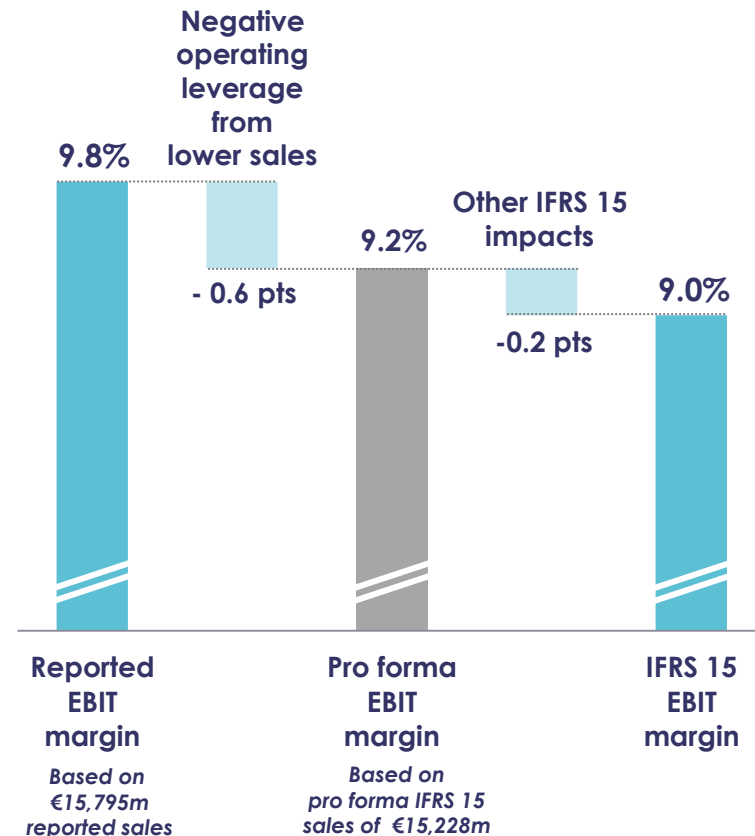
■ 2017 effective tax rate impacted by several one-off tax items, for a total of €66m, with no cash impact

Impact of IFRS 15 standard

A broad standard with far-reaching accounting consequences

Thales impact dominated by timing of sales and profit on long-term contracts

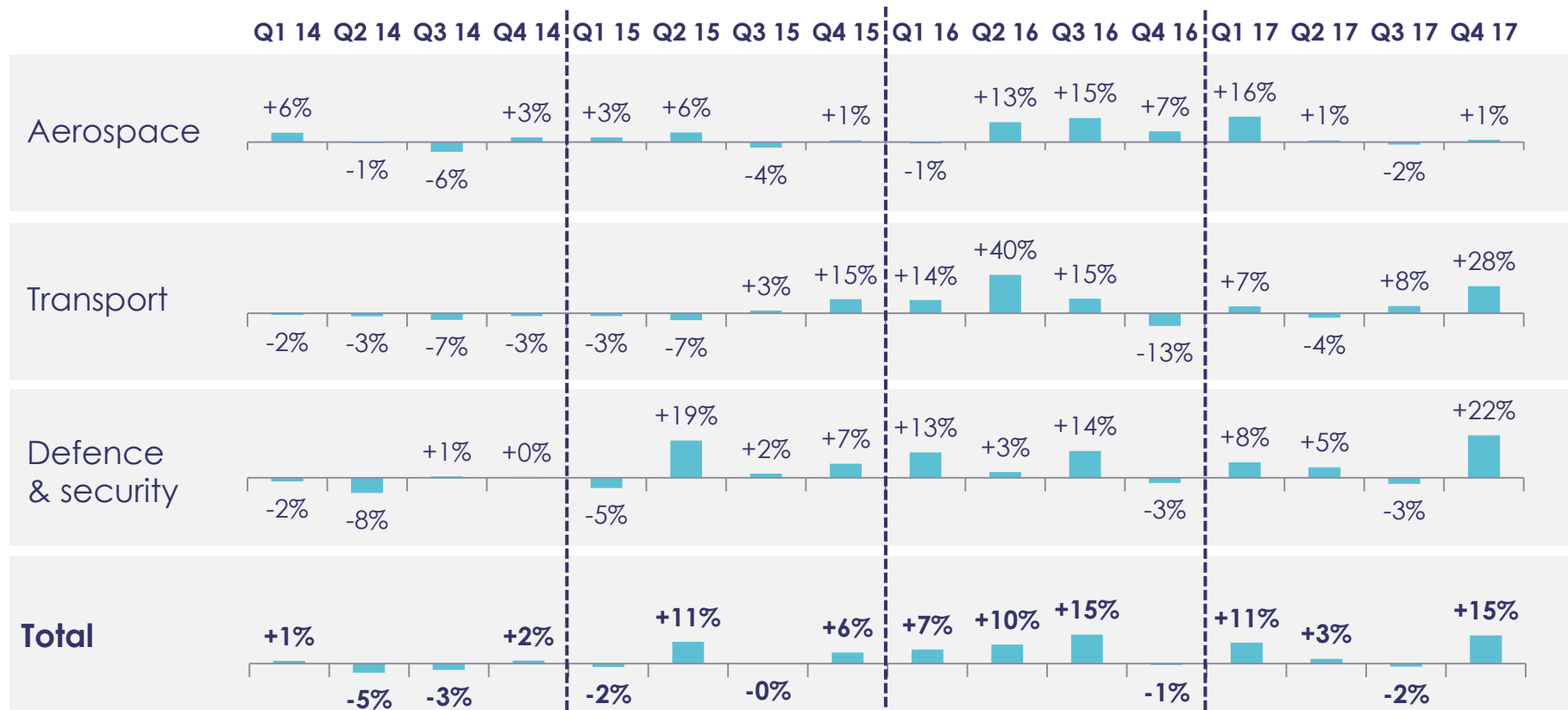
- Very few contracts no longer fulfill over time recognition criteria
- Phasing effects, with no impact on total revenues and profits of individual contracts, and no impact on cash flow



IFRS 15: restated 2017 adjusted P&L

	IFRS 15		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

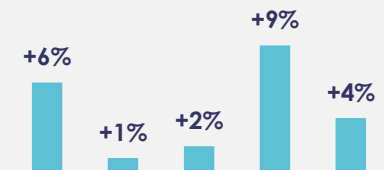
Organic sales growth per quarter



Historical sales and EBIT performance by segment

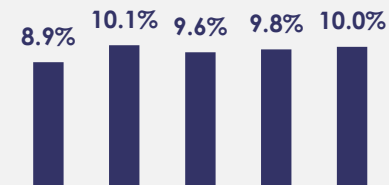
Aerospace

Organic sales growth



2013 2014 2015 2016 2017

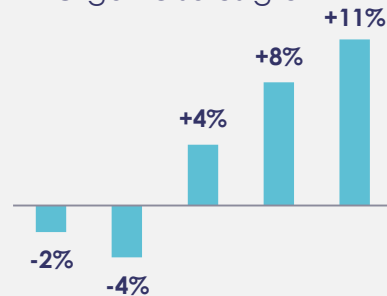
EBIT margin



2013 2014 2015 2016 2017

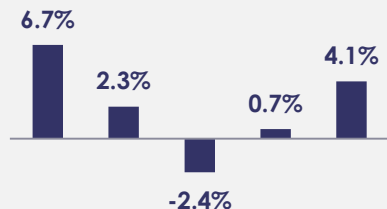
Transport

Organic sales growth



2013 2014 2015 2016 2017

EBIT margin



2013 2014 2015 2016 2017

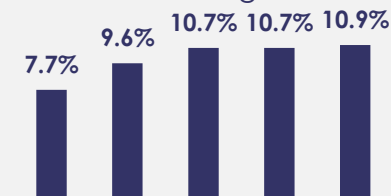
Defence & security

Organic sales growth



2013 2014 2015 2016 2017

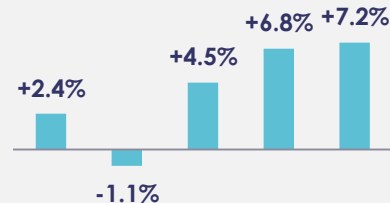
EBIT margin



2013 2014 2015 2016 2017

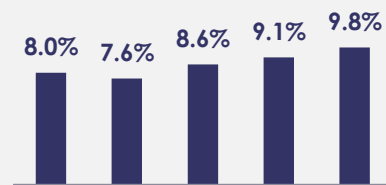
Total Group

Organic sales growth



2013 2014 2015 2016 2017

EBIT margin



2013 2014 2015 2016 2017

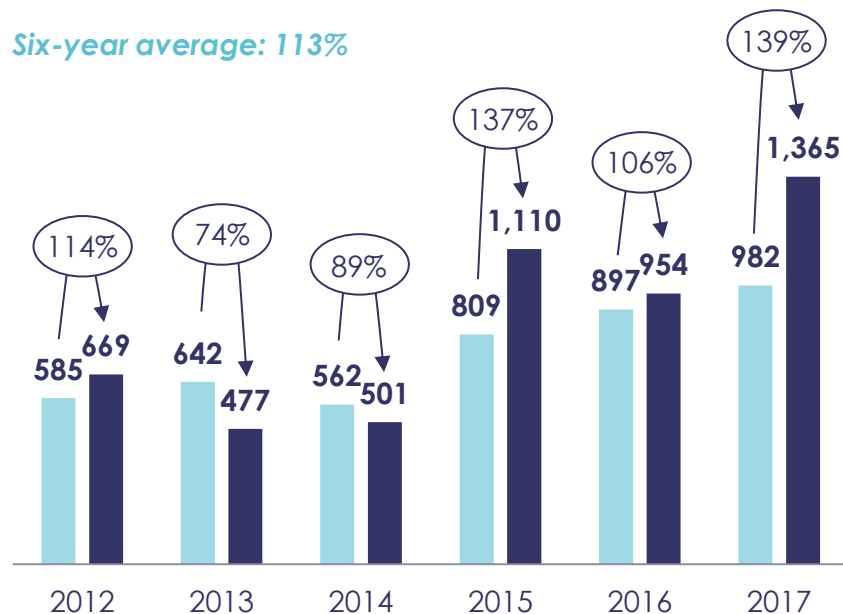
Note: Group EBIT includes equity associate Naval Group (losses in 2014)

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Historical trend in cash conversion

Adjusted net income conversion into Free operating cash flow

Six-year average: 113%

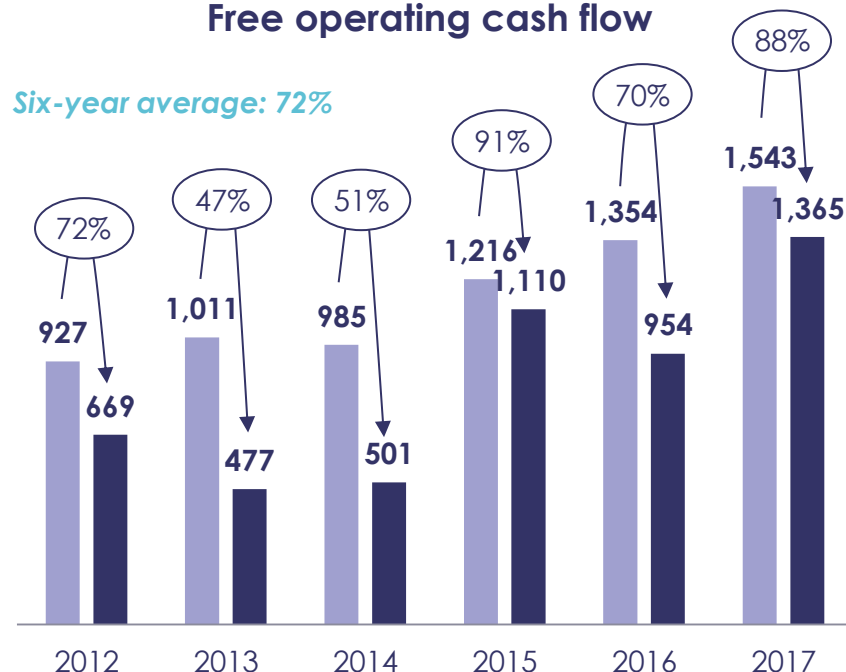


Adjusted net income Free operating cash flow

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

EBIT conversion into Free operating cash flow

Six-year average: 72%



EBIT Free operating cash flow

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, ie Middle East, Asia, Latin America and Africa.

Non-GAAP measures

This presentation contains non-Generally Accepted Accounting Principles (GAAP) financial measures. Thales regards such non-GAAP financial measures as relevant operating and financial performance indicators for the Group, as they allow non-operating and non-recurring items to be excluded. Thales definitions for such measures may differ from similarly titled measures used by other companies or analysts.

- **EBIT:** income from operations; *plus* the share of net income or loss of equity affiliates *less*: amortization of acquired intangible assets (PPA). From 1 January 2016, it also excludes expenses recorded in the income from operations 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 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.
- **Adjusted EPS:** ratio of adjusted net income (as defined above) to average number of shares outstanding. See note 13-a of the consolidated financial statements at 31 December 2017.
- **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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