THALES

Investor meeting

September 2017

www.thalesgroup.com

Introduction to Thales

H1 2017 results

Key Ambition 10 initiatives

Outlook

A strong set of focused businesses…

Segment	Sub-segment		Civil	Military	2016 sales(€m)	Market position
Aerospace *39% of 2016 sales*	**Flight avionics**				~1,650	#3 worldwide (commercial avionics)
	Other aerospace businesses including training & simulation and microwave systems				~950	#1 worldwide (microwave systems)
	In-flight entertainment (IFE) and connectivity				~800	#2 worldwide
	Space solutions for telecom, observation, navigation and exploration				~2,400	#3 worldwide (civil satellites)
Transport *11% of 2016 sales*	**Signaling and supervision of rail networks** including passenger payment collection systems				~1,600	#2 worldwide
Defence & security *50% of 2016 sales*	**Advanced defence systems** including air defence, missiles, surface radars, optronics, armored military vehicles, equipments for combat aircraft, ships and underwater warfare				~4,250	#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				~2,650	#2 worldwide (military tactical communications)
	Air Traffic Management				~450	#1 worldwide

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… leveraging a broad range of growth opportunities…

Aerospace	Avionics: ramp-up of new aircraft platforms, larger installed base Strong growth in in-flight entertainment and on-board Internet connectivity Increased demand for innovative space solutions: High Throughput Satellites, constellations, high resolution observation satellites…
Transport	Strong demand in both emerging markets and 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

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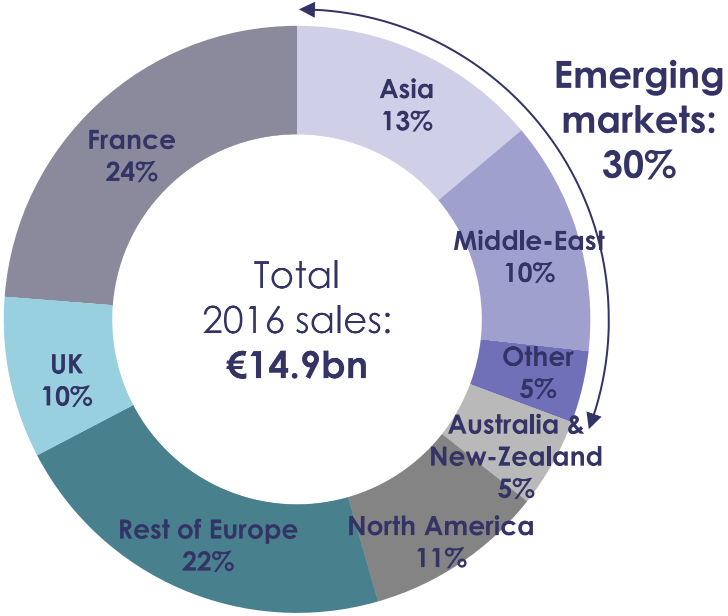
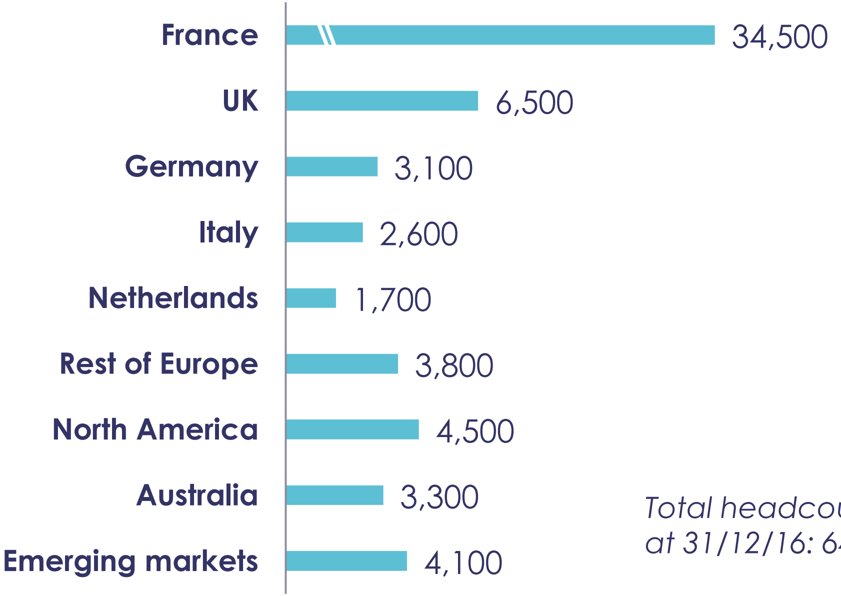
…across a diversified geographical portfolio

Sales by geography



Headcount by geography



Total headcount at 31/12/16: 64,000

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H1 2017 business environment

Aerospace

- Avionics: continued positive dynamics for cockpit avionics and in-flight entertainment and connectivity
- Space: slow start of the year in civil telecom

Transport

- Strong demand in both emerging markets and Europe

Defence and security

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

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H1 2017 highlights

- Solid order intake, driven by multiple large contracts
- Robust sales growth, ahead of full-year target
- Significant increase in profitability, supported by all segments
- Acceleration of R&D investments and digital transformation initiatives

Continued focus on profitable and sustainable growth

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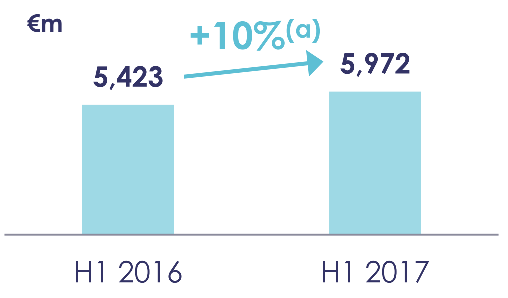
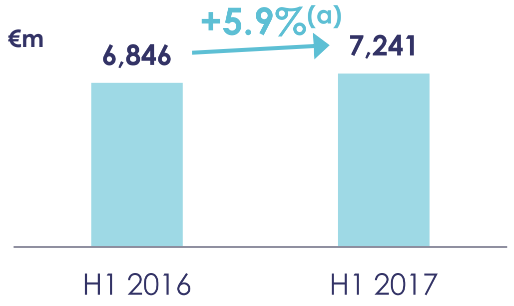
H1 2017 key figures

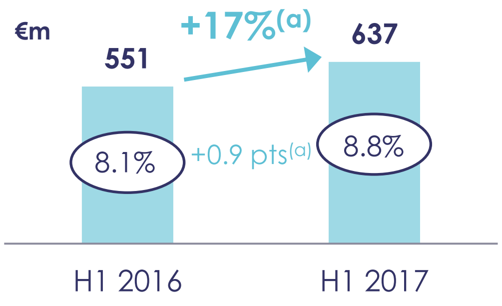
Order intake



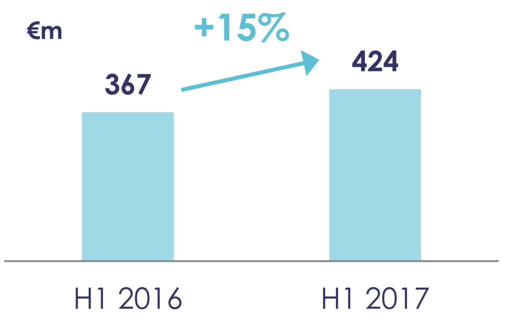
Sales



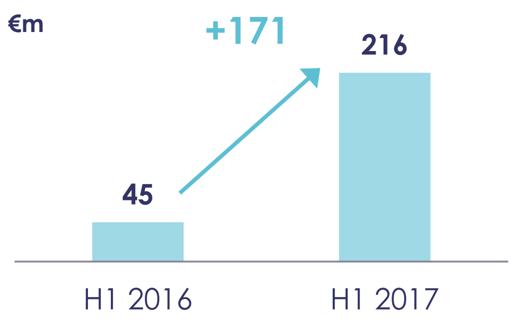
EBIT and EBIT margin[b]



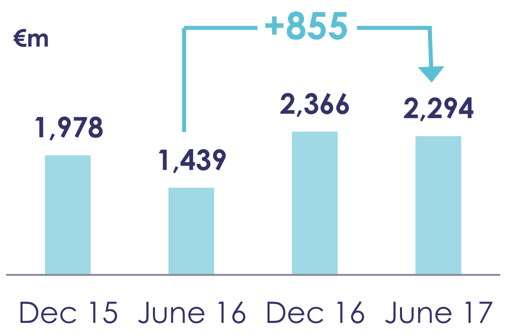
Adjusted net income[b]



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

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H1 2017 order intake

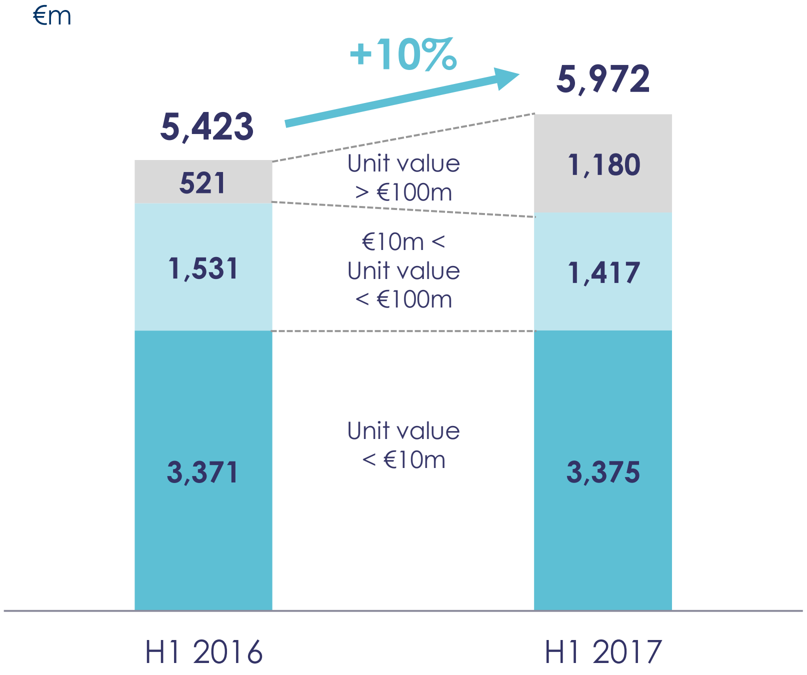
Good order intake momentum, up 10%

8 large[a] orders booked in H1 17

- 2 telecommunication satellites
- In-flight entertainment for a large North American airline
- 4 advanced defence systems in all milieus (air, naval, ground)
- Management and support of French MoD headquarter information and communication systems (Balard)

Solid base of smaller orders

Order intake by contract unit value



(a) With a unit value over €100m

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H1 2017 organic sales growth

Confirmed growth in mature markets

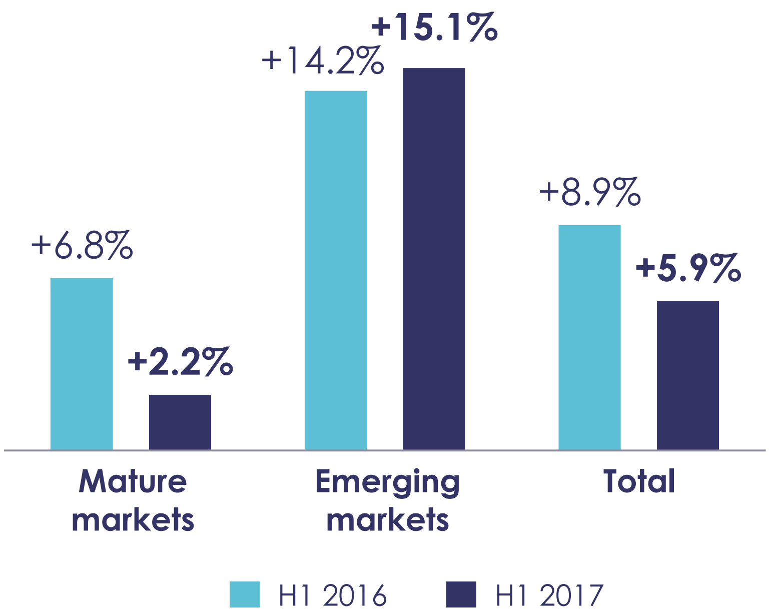
Continuous high growth in emerging markets

- +15%, after +14% in H1 2016

Low sales growth in Q2, as expected

- Cutoff effects and strong bases of comparison

Organic[a] sales growth



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

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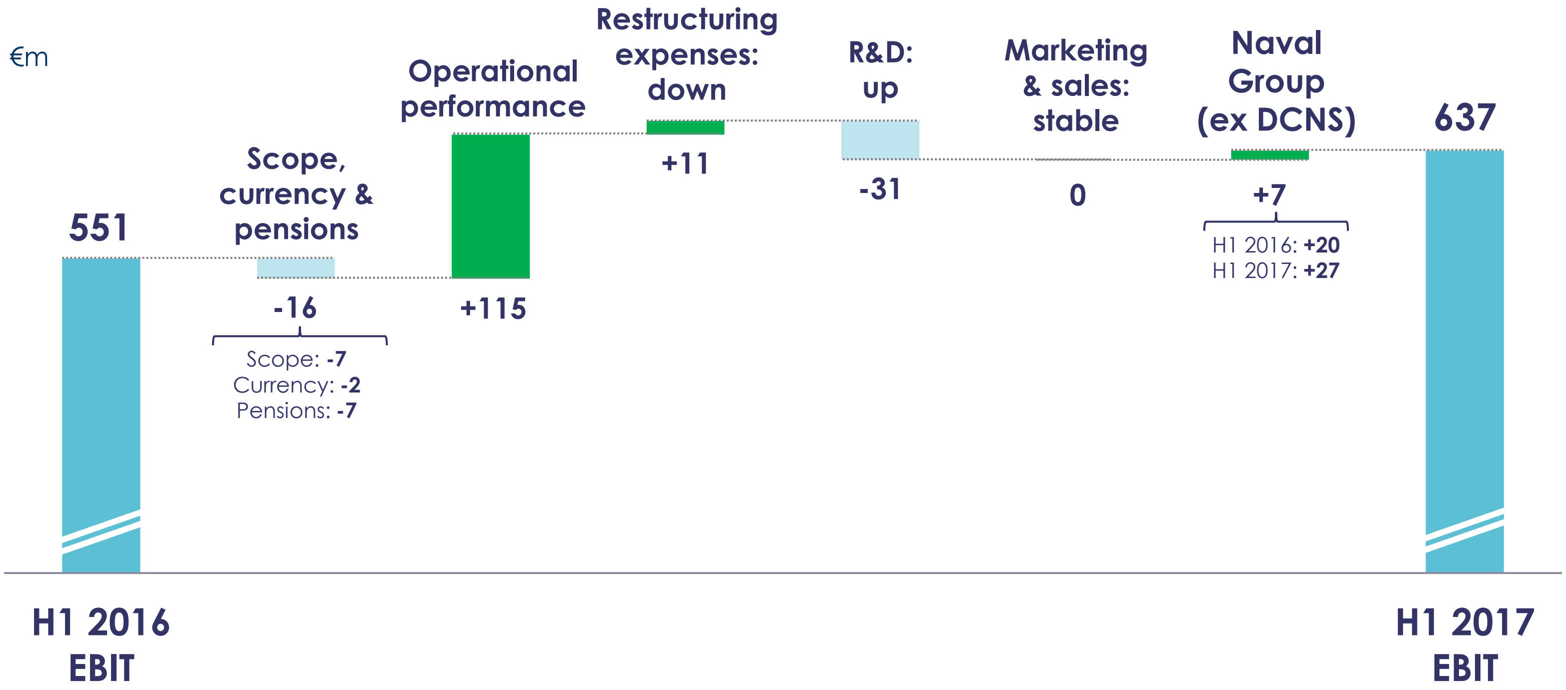
EBIT improvement driven by solid operational performance



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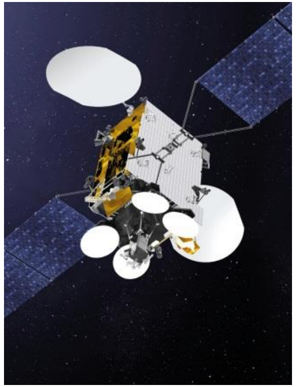
Aerospace: H1 2017 key figures

€m	H1 2017	H1 2016	change total	change organic
Order intake	2,238	2,218	+1%	+1%
Sales	2,872	2,667	+7.7%	+7.2%
EBIT	263	239	+10%	+11%
in % of sales	*9.2%*	*9.0%*	*+0.2 pts*	*+0.3 pts*



- Good momentum in avionics and in-flight entertainment (IFE) order intake, offset by slowdown in Space
- Sales growth driven by commercial aircraft avionics, IFE and Space
- Increase in R&D investments

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Transport: H1 2017 key figures

€m	H1 2017	H1 2016	change total	change organic
Order intake	662	507	+31%	+31%
Sales	711	717	-0.9%	-0.1%
EBIT	6	(12)	N/M	N/M
in % of sales	*0.9%*	*-1.6%*	*+2.5 pts*	*+2.6 pts*

- Solid order intake
- Flat sales growth, due to high comps (H1 2016 sales organically up 29% compared to H1 2015)
- Margin recovery on track

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Defense & Security: H1 2017 key figures

€m	H1 2017	H1 2016	change total	change organic
Order intake	3,035	2,670	+14%	+14%
Sales	3,631	3,424	+6.1%	+6.5%
EBIT	374	334	+12%	+14%
in % of sales	*10.3%*	*9.8%*	*+0.6 pts*	*+0.7 pts*

- Strong order intake momentum, notably in air and naval systems, and information and communication systems
- Sales growth driven by wide range of businesses
- Increased profitability driven by top line growth, savings on structure costs, as well as lower restructuring

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H1 2017 Free operating cash-flow

€m	H1 2017	H1 2016
Operating cash-flow before interest, taxes and WCR changes	747	704
Change in WCR and reserves for contingencies	(227)	(337)
Pension expenses, excluding contributions related to the reduction of the UK pension deficit	(62)	(52)
Net financial interest paid	(6)	(5)
Income tax paid	(46)	(39)
Net cash-flow from operating activities	406	271
Net operating investments	(189)	(226)
Free operating cash-flow	216	45

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Outlook

Unchanged strategic focus

AMBITION 10

Building a growing, more global and more profitable Thales

Boost AMBITION 10

COMPREHENSIVE PERFORMANCE PROGRAM

- Growth
- Competitiveness
- People

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Our priorities for 2017: sustaining sales growth

1. Leverage growth in civil markets and inflection of defence budgets
2. Build on successful expansion into emerging markets
3. Reinforce technology leadership through focused R&D investment
4. Accelerate innovation thanks to group-wide digital expertise

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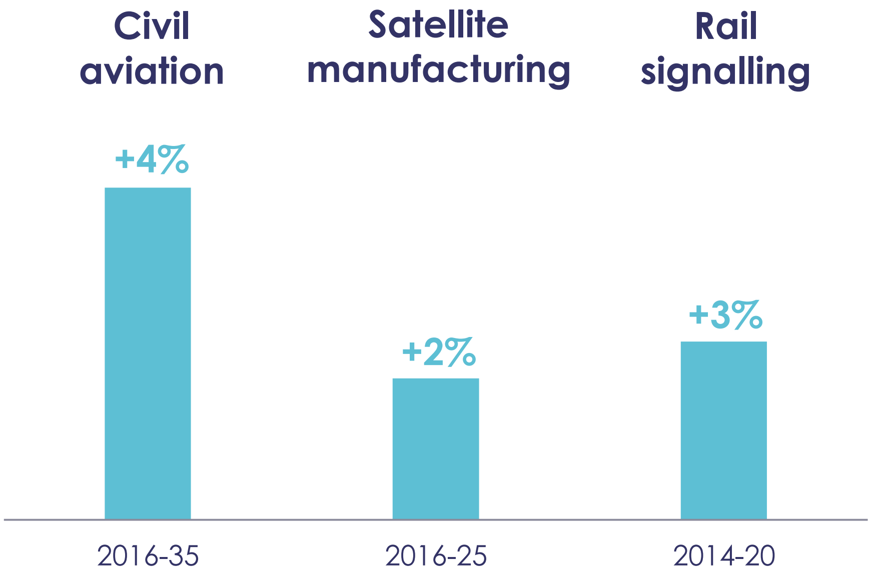
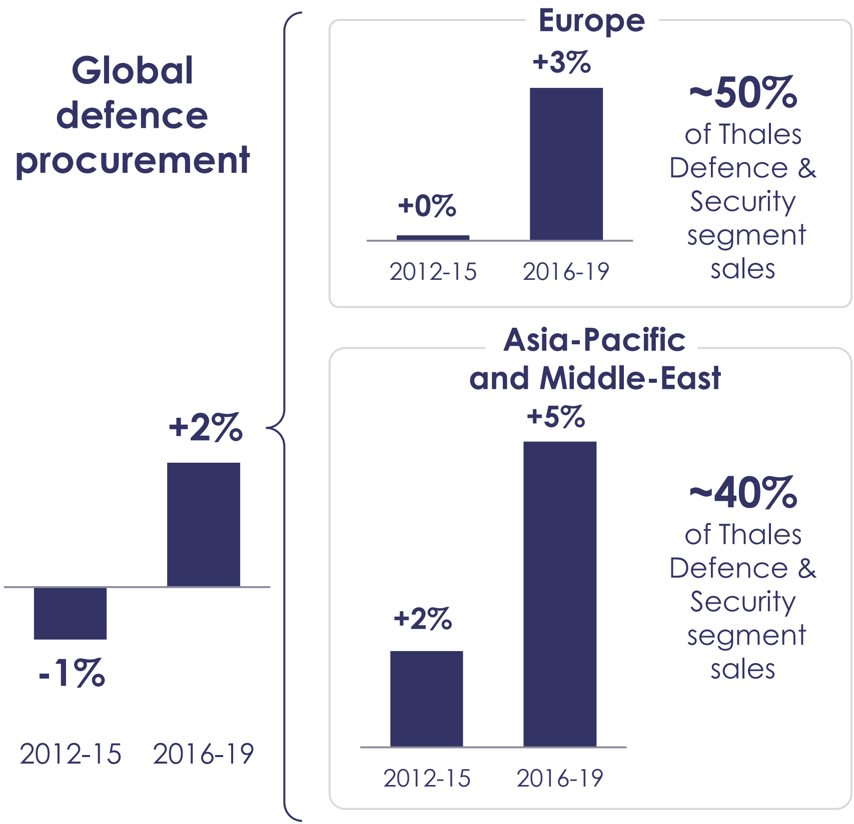
Leverage growth in civil markets and inflection of defence budgets





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
- Defence procurement: Jane's defence, real terms, excluding China

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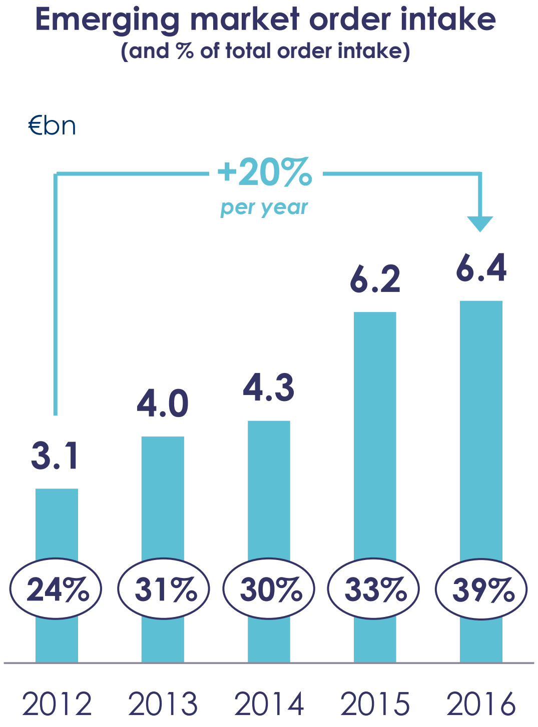
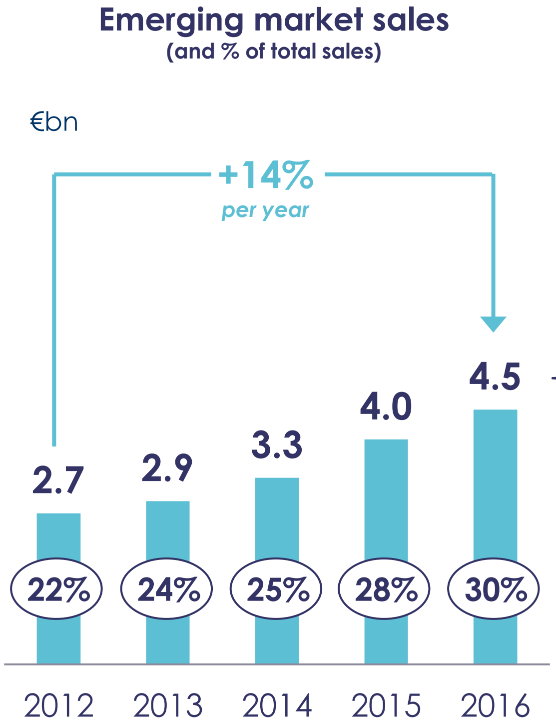
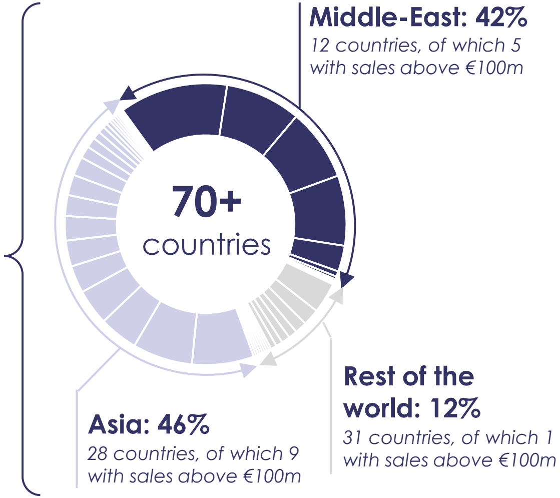
Build on successful expansion into emerging markets



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





Sales above €100m in 15 emerging markets

Reinforce technology leadership through focused R&D investment

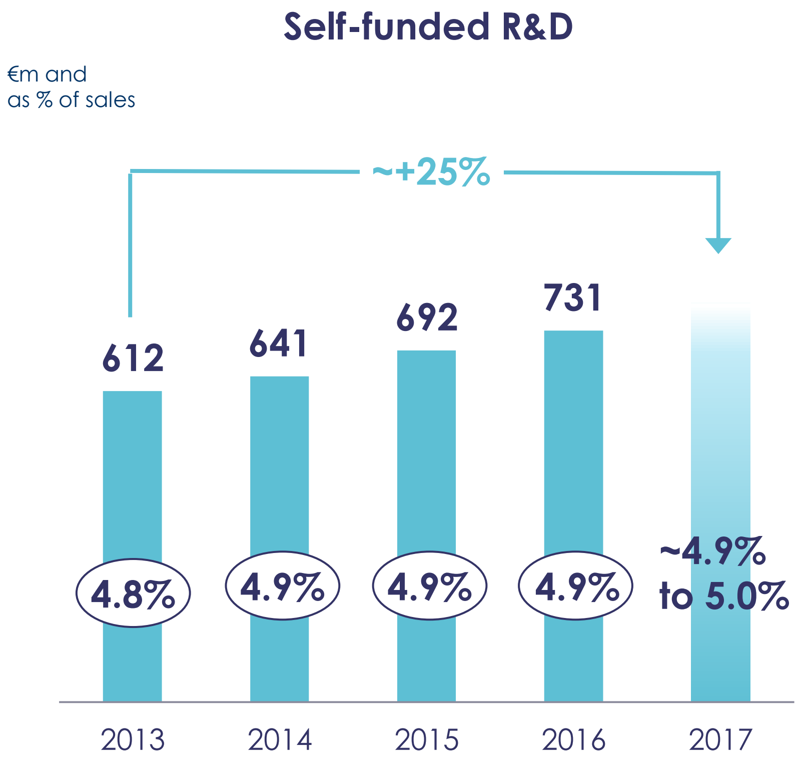
Innovation and technology leadership a key differentiator

Significant increase in self-funded R&D

- ~25% growth over 4 years
- R&D effort growing faster than sales

Targeted investments to prepare Thales' future

- Breakthrough innovation and "dream" products
- Disruptive digital initiatives



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Digital innovation: a key growth opportunity in our markets

Enhanced products and systems

Cybersecured signalling systems

Connected armored vehicles

Artificial intelligence-enhanced reconnaissance

Advanced encryption for cloud-based information systems

Disruptive solutions and business models

Autonomy-driven

Platforms accessing challenging environments

Platforms complementing other solutions

Digital platform-driven

Decision support for improved operations

Digital platforms of services

Strong interest for digital solutions across all our markets

Thales, digital "by nature"

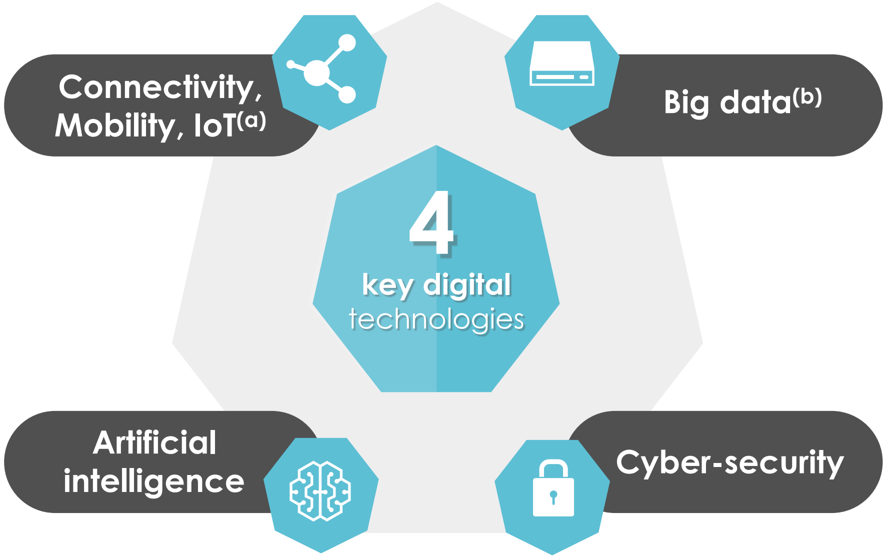
Information management at the heart of Thales solutions

- Sensors (radars, sonars…)
- Real-time processing
- Secured information systems
- Telecommunications

More than 25,000 people in R&D and engineering labs (40% of staff), of which:

- 10,000 systems engineers
- 7,500 software engineers
- 5,000 hardware engineers

80% "digital"



(a) IoT: Internet of Things
(b) Big data: advanced solutions to capture, store, and process very large data sets

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M&A reinforcing strength in 4 core digital technologies

Connectivity, mobility, "Internet of Things"

- Multiple connectivity related business lines, from military tactical radios and telecommunication satellites to resilient networks and in-flight Internet connectivity
- External sales of around €2.8bn in 2016
- Acquisition of **Live TV** to accelerate in-flight Internet connectivity solutions (2014)

"Big Data"

- Increasing number of projects requiring Big Data solutions, in several business lines
- 100+ data scientists
- Multiple use cases identified, across Thales
- Acquisition of **Guavus**, an industrialized real-time Big Data platform, key to accelerate digital offering (to be completed in Q3 2017)

Cyber-security

- Expertise in 4 segments, including global leadership in data protection
- External sales of around €500m in 2016
- 2,000+ cyber-security experts
- Acquisition of **Vormetric**, great complement to existing hardware-based business (2016)

Artificial Intelligence

- Technology maturing rapidly, with many internal proof-of-concept projects ongoing
- 100+ artificial intelligence experts
- Guavus's Big Data processes and tools key to leverage AI algorithms

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Digital factory: €150m investment over 3 years to capitalize on Thales's digital assets

THALES DIGITALFACTORY

Digital center of excellence	Bring together critical mass of experts to accelerate key initiatives
Digital platform foundry	Build common digital platform to maximize economies of scale and synergies
Start-up incubator	Supply simple environment to host both internal and external start-ups
Digital academy	Disseminate digital culture and technologies across Group

Our priorities for 2017: continued focus on competitiveness

1. Strengthening culture of competitiveness through group-wide initiatives
2. Deployment of best engineering practices
3. Acceleration of procurement initiatives
4. Transformation plan of support functions well engaged
5. Progressive recovery of transport profitability well underway

Strengthen culture of competitiveness through group-wide initiatives

Excellence in delivery

Efficiency of structure

Engineering competitiveness

Competitiveness in sourcing

Focus on optimization of key processes across Group

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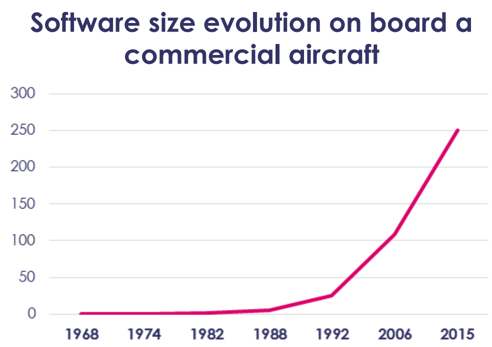
Engineering competitiveness: ongoing deployment of best practices

Engineering: the core added value of Thales

- 23,000+ engineers worldwide (1/3 of group staff)
- Combining hardware, software and systems expertise to design differentiated solutions
- Addressing increasingly complex and critical situations
- Improved methods, processes and tools key to increase engineering performance



2014-15: introducing improved methods and tools

- Gradual deployment of state-of-the-art methods
- Design and initial deployment of a single engineering platform, Orchestra
- All new projects now designed using Orchestra

2016-18: full deployment across all units

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Acceleration of procurement initiatives

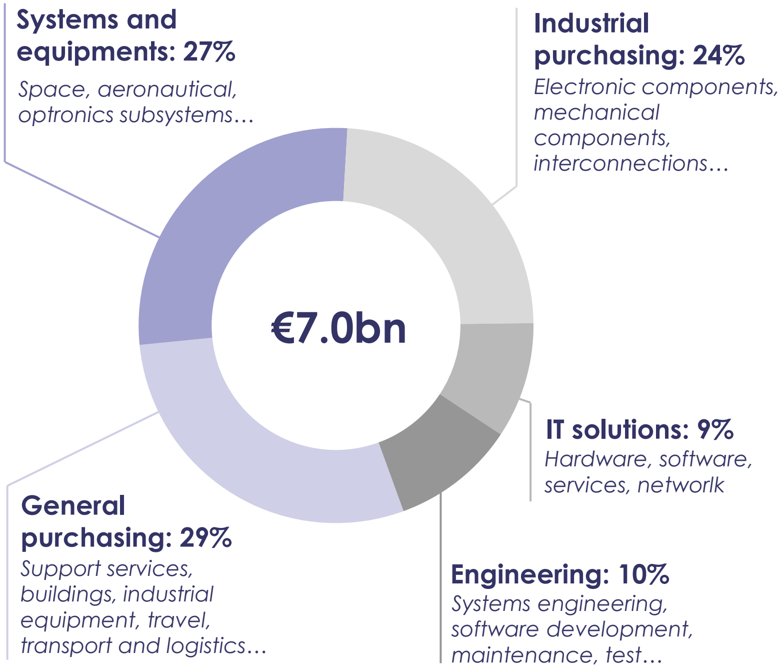
Leveraging long-term competitiveness drivers

- Further centralization to leverage Thales scale
- Global sourcing
- "Design-to-buy": earlier involvement of procurement in design phase

230 spend reduction initiatives launched over 2017-18

- Across all Global Business Units

2015 external procurement breakdown



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Transformation plan of support functions well engaged

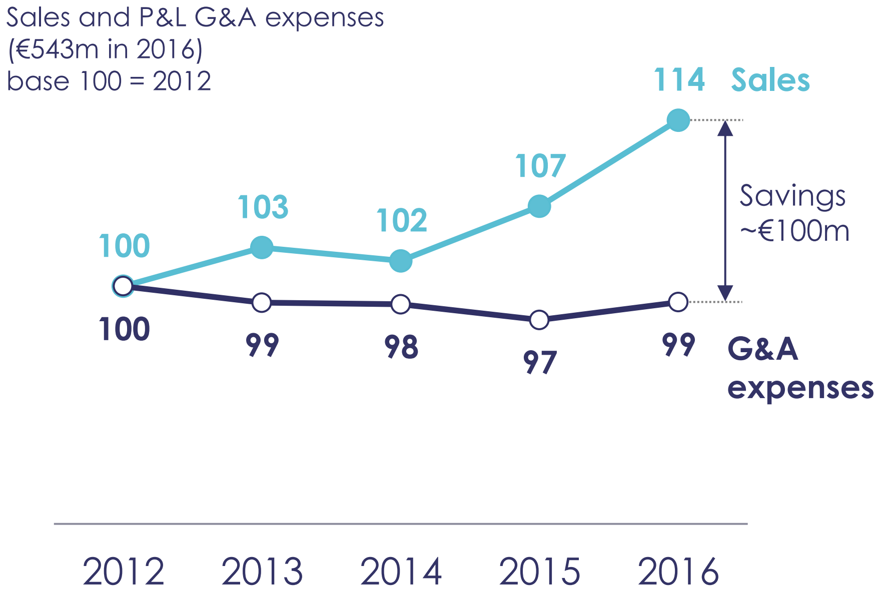
Infrastructure optimization plan

- Rationalization of industrial footprint achieved in several countries
- Ongoing convergence of Information Systems

Transformation plan of support functions

- Systematic internal and external benchmarking
- Further standardization and automation of processes
- Mutualization of resources

Organic evolution of sales and of G&A expenses



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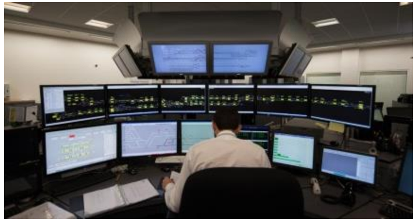
Progressive recovery of transport profitability well underway

Operational recovery plan deployed
- Execution of projects stabilized on new baselines
- Progressive recovery of profitability as loss-making contracts are delivered
- London underground modernization project on-track

Transformation plan underway to address product portfolio competitiveness
- Rationalization of product portfolio
- Product redesign, reduction of deployment costs
- Supply chain optimization



Investments accelerated in R&D and innovation
- Railway digitization
- Autonomous trains

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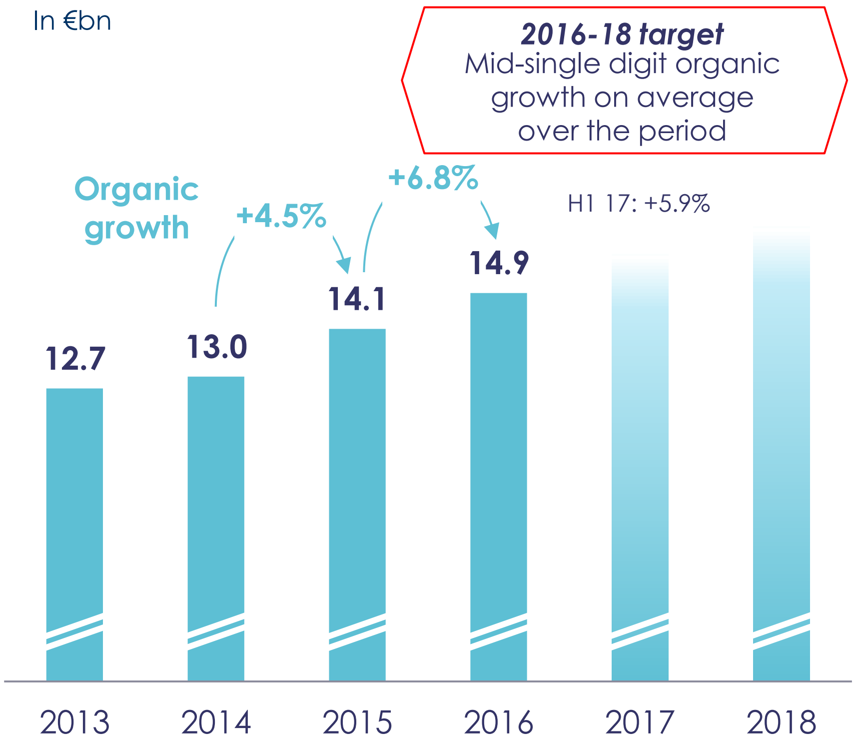
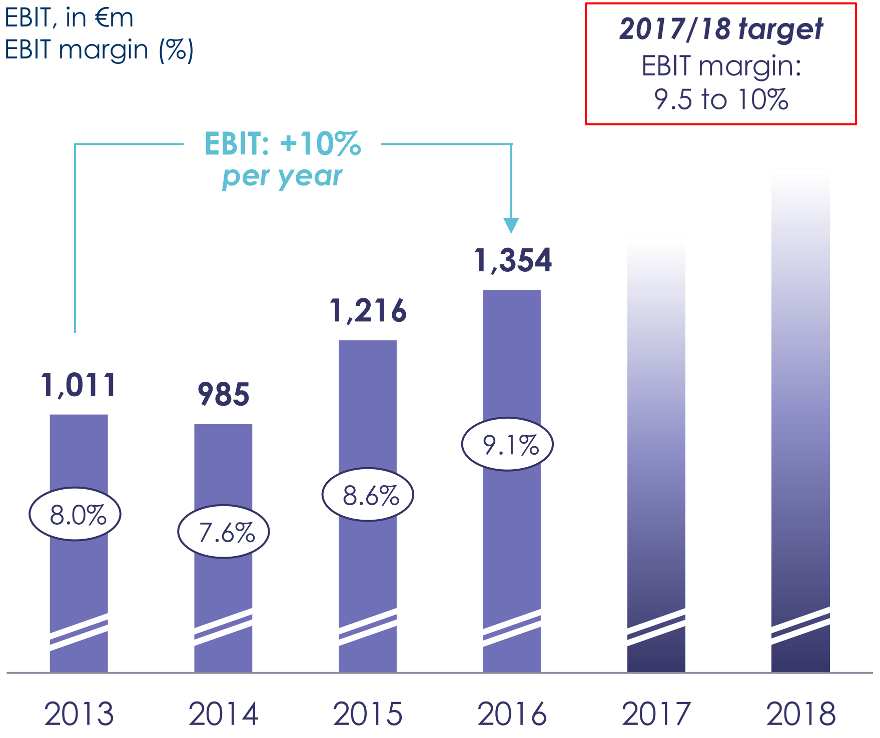
Progress on mid-term financial objectives

Sales



Profitability



2017 financial objectives

Order intake	Around €14bn
Sales	Mid-single digit organic growth
EBIT[a]	€1,480-1,500m[b]

(a) Non-GAAP measure: see definition in appendix
(b) Based on February 2017 scope and foreign exchange rates

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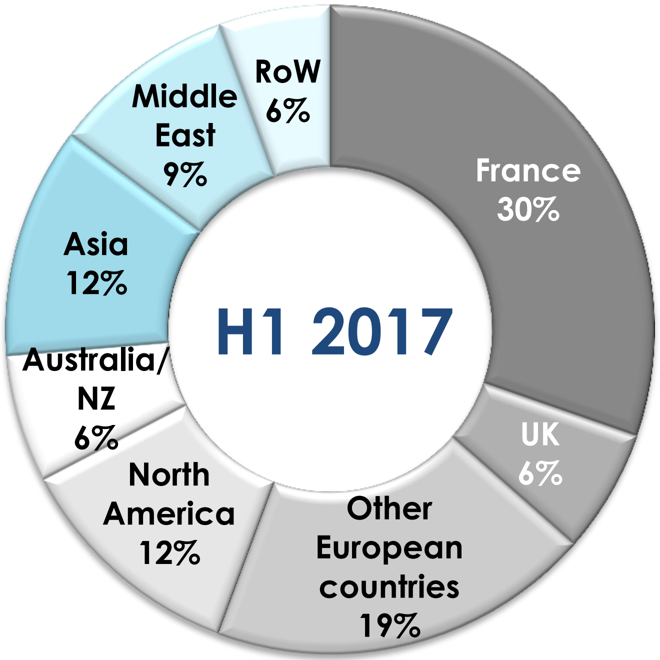
Appendix

H1 2017 order intake by destination

€m	H1 2017	H1 2016	change total	change organic
France	1,811	1,201	+51%	+51%
United Kingdom	370	463	-20%	-13%
Other European countries	1,143	1,304	-12%	-13%
Europe	3,323	2,968	+12%	+13%
North America	697	492	+42%	+38%
Australia/NZ	381	346	+10%	+5%
Asia	689	659	+5%	+6%
Middle East [(a)]	551	461	+19%	+20%
Rest of the world [(a)]	331	497	-33%	-33%
Emerging markets	1,571	1,617	-3%	-2%
Total	**5,972**	**5,423**	+10%	+10%

(a) 2016 numbers adjusted to take into account transfer of some countries from "Middle East" to "Rest of the world"



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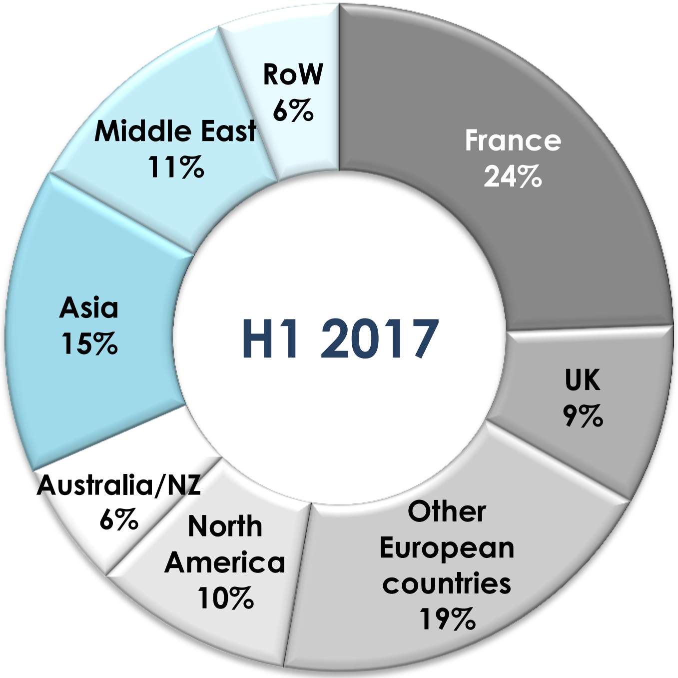
H1 2017 sales by destination

€m	H1 2017	H1 2016	change total	change organic
France	1,768	1,661	+6%	+7%
United Kingdom	633	623	+2%	+9%
Other European countries	1,415	1,417	0%	-1%
Europe	**3,816**	**3,701**	+3%	+4%
North America	**699**	**780**	-10%	-13%
Australia/NZ	**443**	**375**	+18%	+13%
Asia	1,068	953	+12%	+12%
Middle East [a]	789	613	+29%	+28%
Rest of the world [a]	426	424	+1%	+2%
Emerging markets	**2,283**	**1,990**	+15%	+15%
Total	**7,241**	**6,846**	+6%	+6%

(a) 2016 numbers adjusted to take into account transfer of some countries from "Middle East" to "Rest of the world"



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H1 2017 EBIT by operating segment

€m	H1 2017		H1 2016		change total	change organic
Aerospace	263	9.2%	239	9.0%	+10%	+11%
Transport	6	0.9%	(12)	-1.6%	NM	NM
Defence & Security	374	10.3%	334	9.8%	+12%	+14%
EBIT – operating segments	**644**	8.9%	**561**	8.2%	+15%	+17%
Other	(34)		(29)			
EBIT – excluding Naval Group	**610**	8.4%	**532**	7.8%	+15%	+17%
Naval Group	27		20			
EBIT – total	**637**	8.8%	**551**	8.1%	+16%	+17%

- Recovery of Transport on track
- Solid performance of Aerospace and Defence & Security segments

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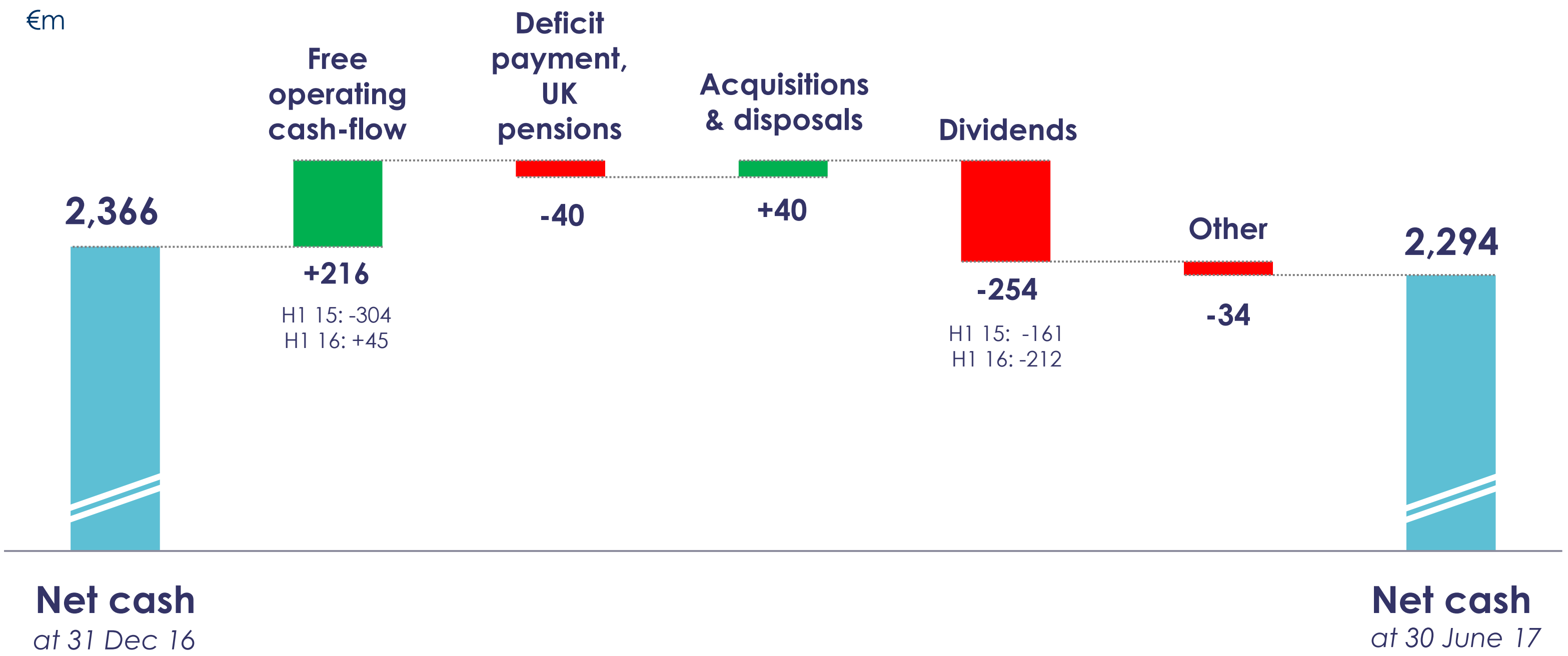
Movement in net cash over H1 2017

High net cash position driven by free operating cash-flow



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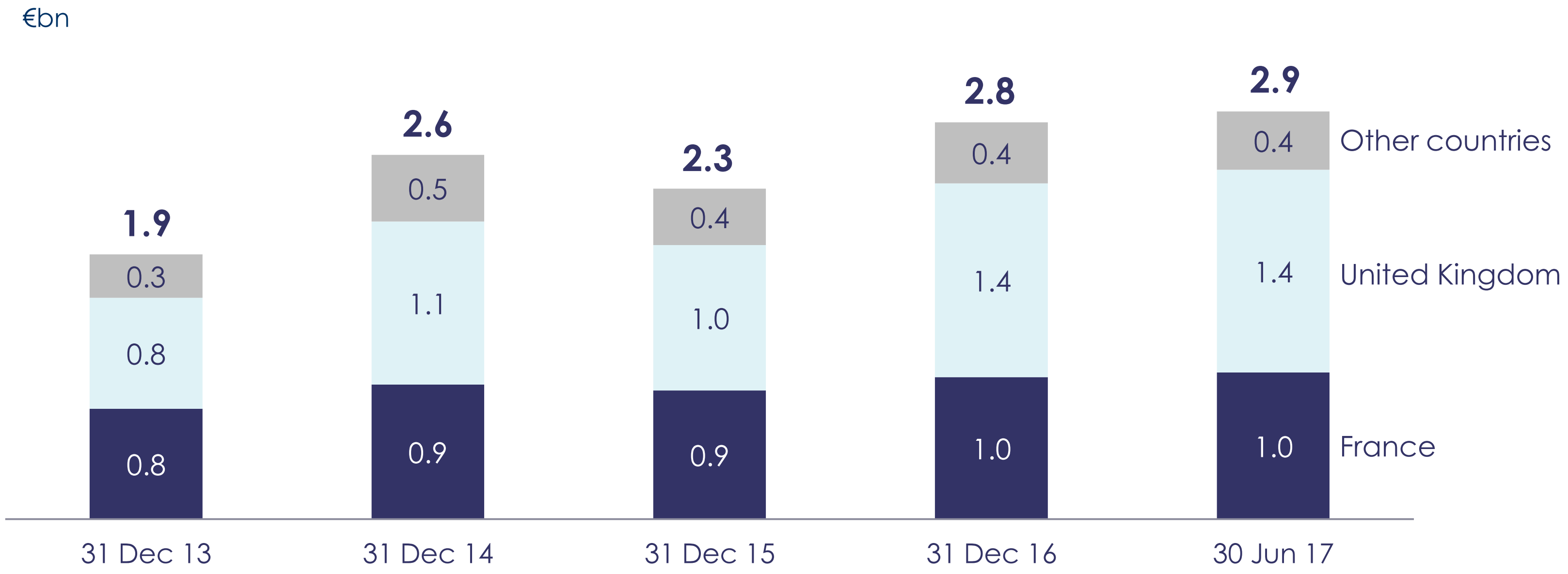
Evolution of net pension provision



Liability discount rate					
France	*3.2%*	*1.5%*	*2.0%*	*1.5%*	*1.6%*
UK	*4.6%*	*3.7%*	*4.0%*	*2.8%*	*2.6%*

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Organic sales growth per quarter

	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
Aerospace	+6%	-1%	-6%	+3%	+3%	+6%	-4%	+1%	-1%	+13%	+15%	+7%	+16%	+1%
Transport	-2%	-3%	-7%	-3%	-3%	-7%	+3%	+15%	+14%	+40%	+15%	-13%	+7%	-4%
Defence & security	-2%	-8%	+1%	+0%	-5%	+19%	+2%	+7%	+13%	+3%	+14%	-3%	+8%	+5%
Total	**+1%**	**-5%**	**-3%**	**+2%**	**-2%**	**+11%**	**-0%**	**+6%**	**+7%**	**+10%**	**+15%**	**-1%**	**+11%**	**+3%**

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Implementation of IFRS15 revenue accounting standard

Primary scope for Thales: construction contracts (50% of sales)

Impact strictly limited to the timing of revenue and profit recognition

- No impact on total revenue and profit of individual contracts
- No impact on cash flow statement
- Challenge: 2017 P&L impact not representative of following year impact

Implementation timeline

- Mandatory from 1/1/2018
- Communication on estimated impacts expected in conjunction with Q3 2017 order intake and sales

Main areas of attention for Thales

1. **Split of contracts among performance obligations**
   Example: build and run contracts
2. **New requirements to recognize revenue over time:**
   - No alternative use
   - Enforceable right to payment
3. **Method to measure percentage of completion moved from "technical milestones" to "cost-to-cost"**
   Uncertain impact in transition period, no expected long-term impact

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2016 summary P&L: from sales to EBIT

	2016 €m	2016 % of sales	2015 €m	2015 % of sales	change total	change organic
Sales	14,885		14,063		+6%	+7%
Gross margin [(a)]	3,611	24.3%	3,375	24.0%	+7%	+6%
Indirect costs [(a)]	(2,287)	15.4%	(2,205)	15.7%	+4%	+2%
o/w R&D expenses	(731)	4.9%	(692)	4.9%	+6%	+4%
o/w Marketing & Sales expenses	(1,019)	6.8%	(981)	7.0%	+4%	+1%
o/w General & Administrative expenses	(537)	3.6%	(532)	3.8%	+1%	+2%
Restructuring costs	(101)	0.7%	(94)	0.7%	+7%	+7%
Share of net result of equity-accounted affiliates excl. DCNS	97	0.7%	118	0.8%	-18%	+2%
EBIT before DCNS	1,321	8.9%	1,194	8.5%	+11%	+14%
Share of net result of DCNS	34	0.2%	22	0.2%	+54%	+54%
EBIT	1,354	9.1%	1,216	8.6%	+11%	+15%

(a) Gross margin and indirect costs items adjusted for impact of expenses linked to Vormetric acquisition (€19m)

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2016 summary P&L: from EBIT to adjusted net income

€m	2016	2015
EBIT	1,354	1,216
Cost of net financial debt and other financial results	(4)	(6)
Finance costs on pensions and other employee benefits	(66)	(73)
Income tax	(314)	(266)
Effective tax rate	*27.2%*	*26.7%*
Adjusted net income	971	871
Minorities	(74)	(62)
Adjusted net income, Group share	897	809
EPS: Adjusted net income, Group share, per share (in €)	*4.25*	*3.89*

- Effective tax rate slightly down excluding one-off non-cash €18m item due to planned reduction of French corporate income tax

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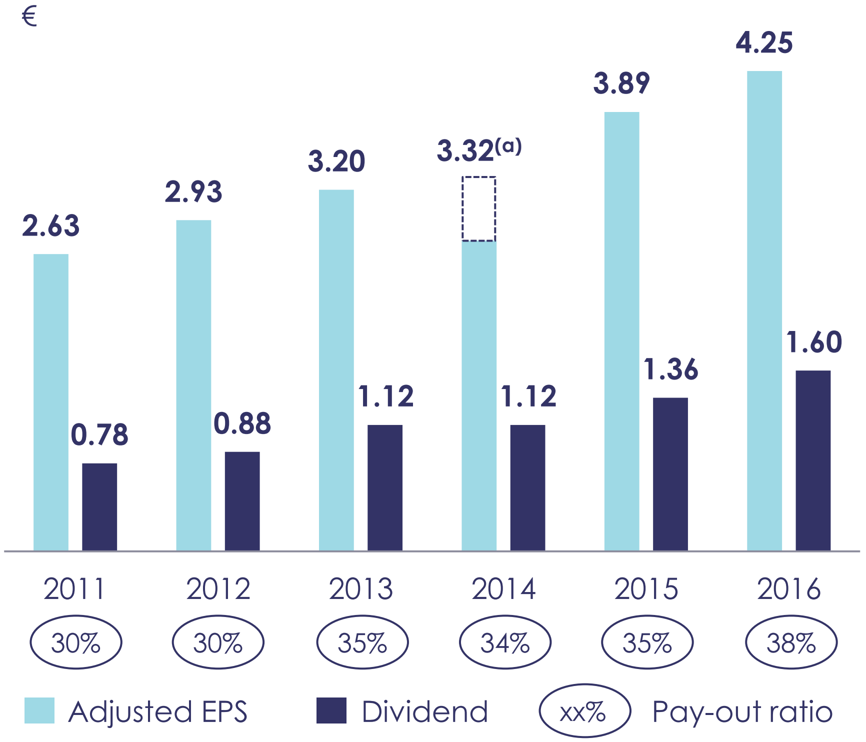
Historical adjusted EPS and dividend

Adjusted EPS and dividend per share



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

Adjusted EPS up 10% per year since 2011

2016 dividend: €1.60 per share

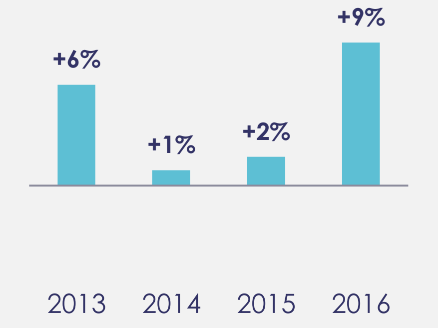
- Pay-out ratio : 37.6%

Dividend up 15% per year since 2011

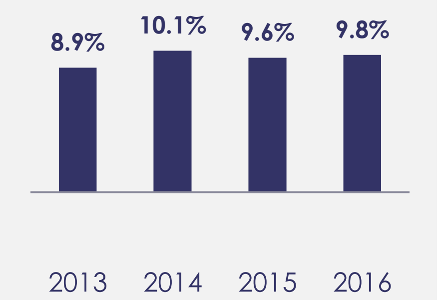
Historical sales and EBIT performance by segment

Aerospace

Organic sales growth

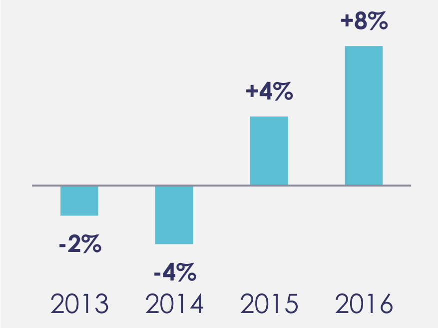


EBIT margin

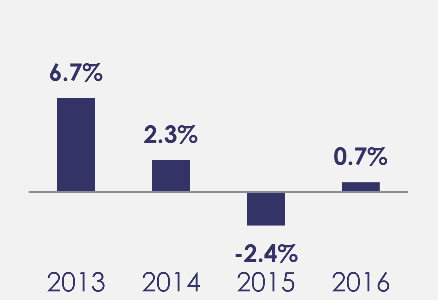


Transport

Organic sales growth

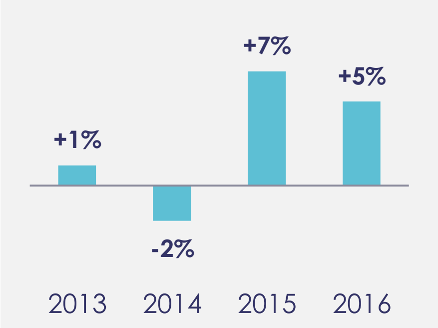


EBIT margin

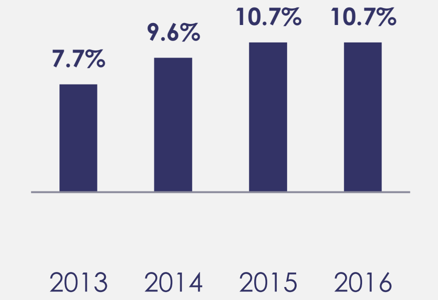


Defence & security

Organic sales growth

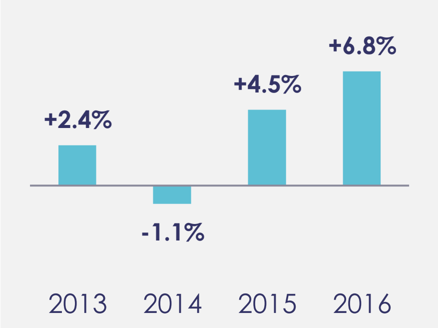


EBIT margin

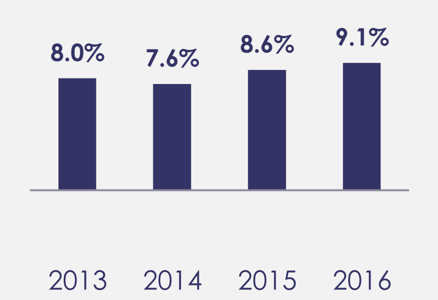


Total Group

Organic sales growth



EBIT margin



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

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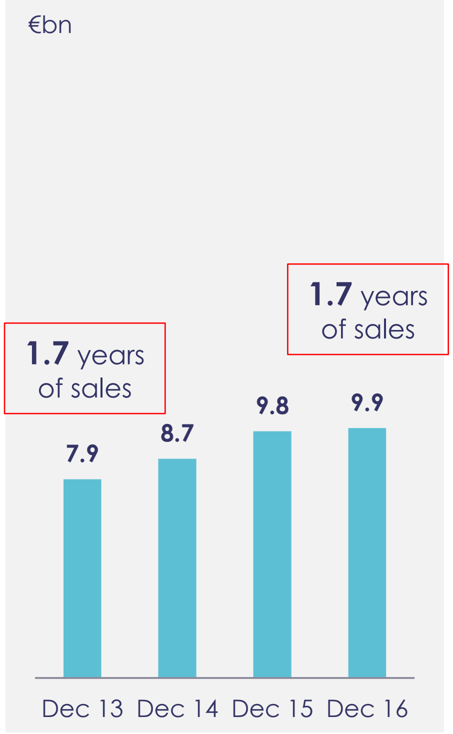
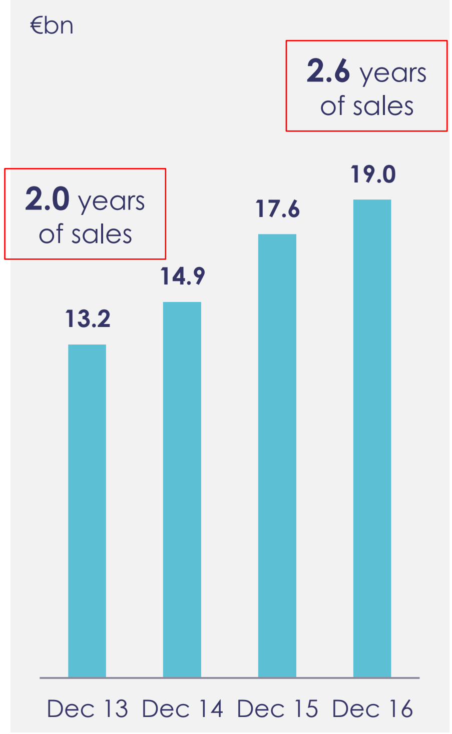
Historical order book by segment

Aerospace



Transport

Defence & security



Total Group

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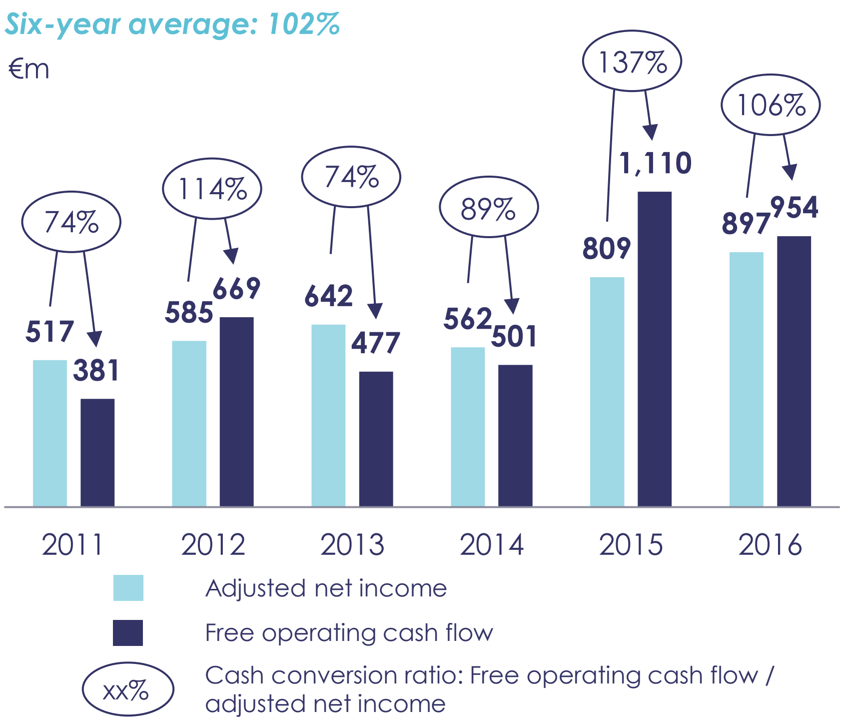
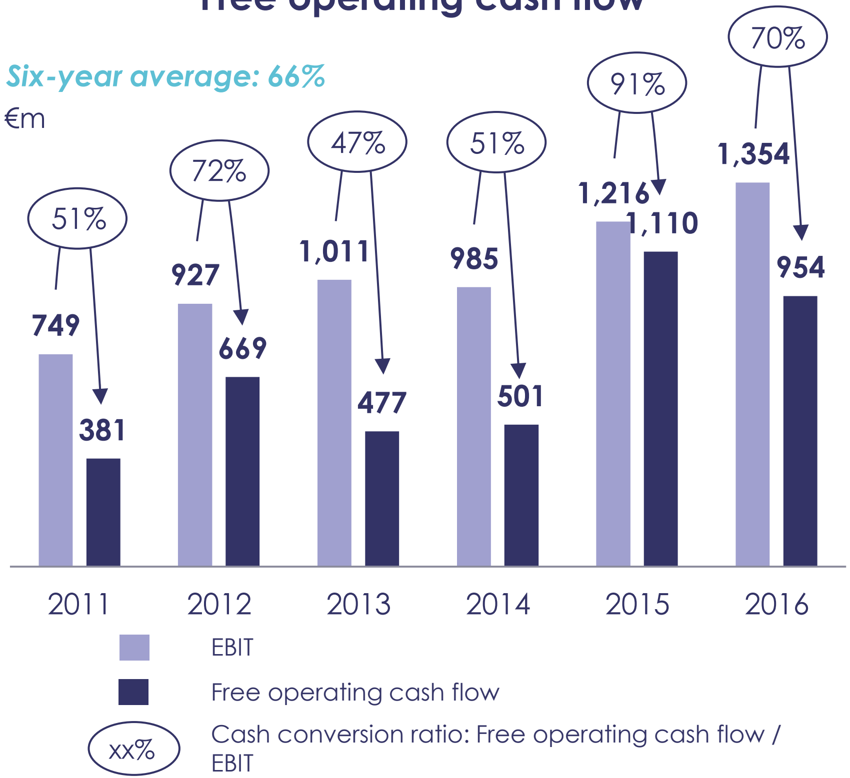
Historical trend in cash conversion

Adjusted net income conversion into Free operating cash flow



EBIT conversion into Free operating cash flow



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Reference table

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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 (H1 2017 impact: €+10m€, 2016 impact: €+19m, H1 2016 impact: €+7m). See also notes 14-a and 2 of the consolidated financial statements at 31 December 2016.
- **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 (H1 2017 impact: €+7m, 2016 impact: €+12m, H1 2016 impact: €+5m), (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 14-a of the consolidated financial statements at 31 December 2016.
- **Adjusted EPS**: ratio of adjusted net income (as defined above) to average number of shares outstanding. See note 14-a of the consolidated financial statements at 31 December 2016.
- **Net cash (net debt):** cash and other short-term financial assets, *less:* long-term and short-term financial debt, *less*: fair value of interest rate derivatives. See notes 14-a and 6.2 of the consolidated financial statements at 31 December 2016.
- **Free operating cash-flow**: net cash flow from operating activities, *less:* capital expenditures, *less:* deficit payments on pensions in the United Kingdom. See notes 14-a and 11.1 of the consolidated financial statements at 31 December 2016.

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