



Investor meeting

December 2016


































www.thalesgroup.com





- **Introduction to Thales**
- H1 and 9m 2016 results
- Key Ambition 10 initiatives
- Outlook

A strong set of focused businesses...

Segment	Sub-segment		Civil	Military	2015 sales(€m)	Market position
Aerospace <i>38% of 2015 sales</i>	Flight avionics	 			~1,600	#3 worldwide (commercial avionics)
	Other aerospace businesses including training & simulation and microwave systems	 			~1,000	#1 worldwide (microwave systems)
	In-flight entertainment and connectivity (IFEC)				~700	#2 worldwide
	Space solutions for telecom, observation, navigation and exploration	 			~2,100	#3 worldwide (civil satellites)
Transport <i>11% of 2015 sales</i>	Signaling and supervision of rail networks including passenger payment collection systems	  			~1,500	#2 worldwide
Defense & security <i>50% of 2015 sales</i>	Advanced defense systems including air defence, missiles, surface radars, optronics, armored military vehicles, equipments for fighter jets, ships and underwater warfare	  			~4,000	#1 in Europe (defense electronics)
	Secure communications and information systems including radio-communication products, network and protection systems for armies, countries, cities and critical infrastructures, and cyber-security	  			~2,600	#2 worldwide (military tactical communications)
	Air Traffic Management				~450	#1 worldwide

... 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...
- Record high satellite order book

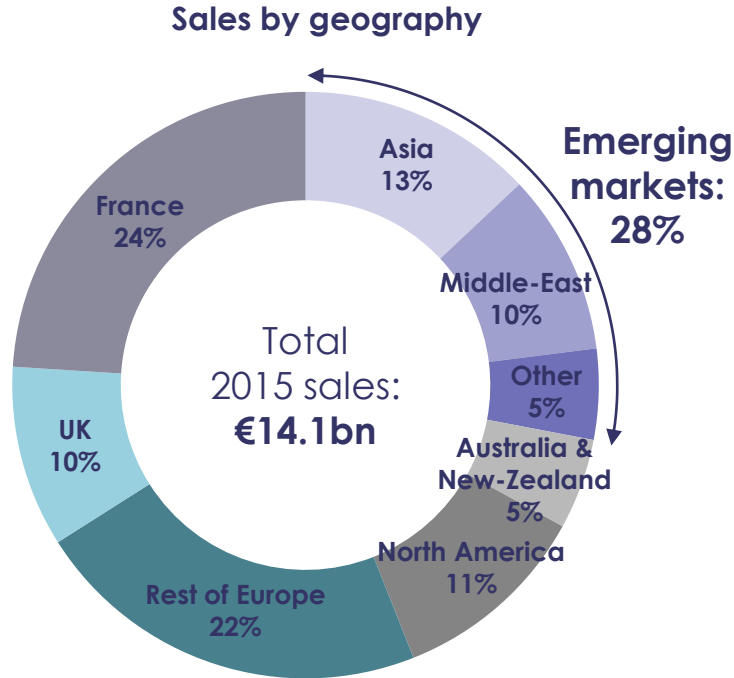
Transport

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

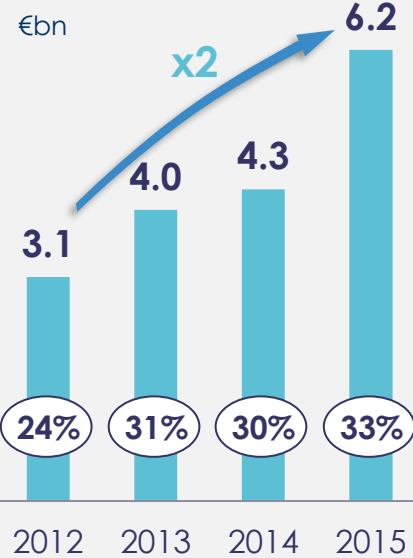
Defense & security

- Inflection of defense 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 an increasingly diversified geographical portfolio

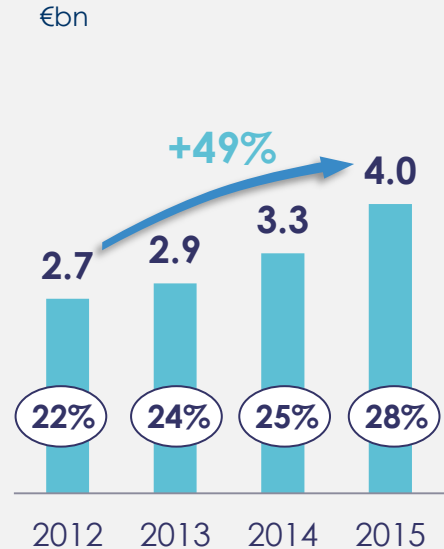


Emerging market order intake
(and % of total order intake)



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

Emerging market sales
(and % of total sales)

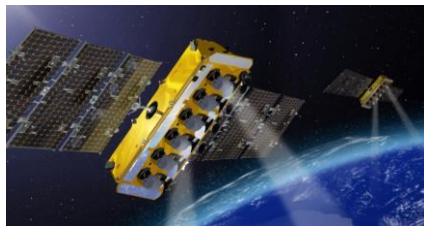


Significant footprint in ~60 countries

Successful development in emerging markets



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Aerospace

- Avionics: continued positive dynamics for cockpit avionics and in-flight entertainment and connectivity
- Space: strong interest in new generation civil telecom solutions, increased demand from institutional and military segments

Transport

- Strong demand in both emerging markets and Europe

Defense and security

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

9m 2016 highlights

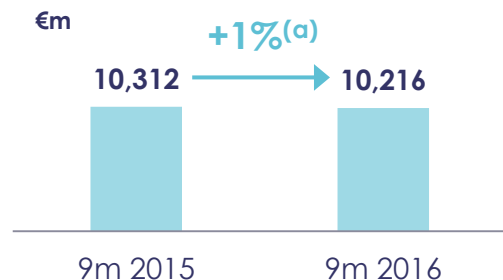
- Solid commercial momentum
- Strong sales growth, across all segments
- Significant increase in H1 profitability, in line with targets
- Recovery of transport on track
- Closing of Vormetric acquisition

Continued focus on profitable and sustainable growth

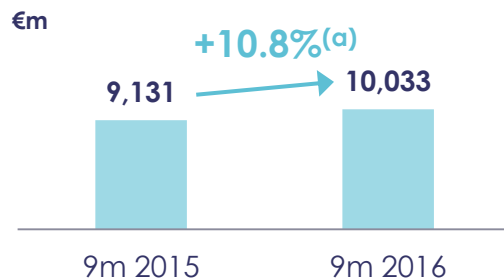


H1 and 9m 2016 key figures

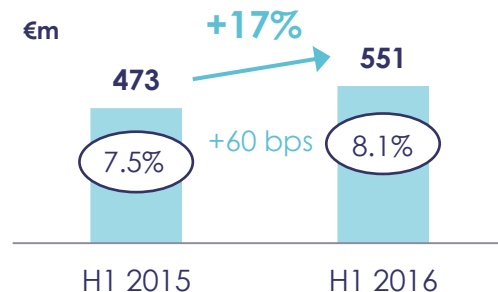
9m order intake



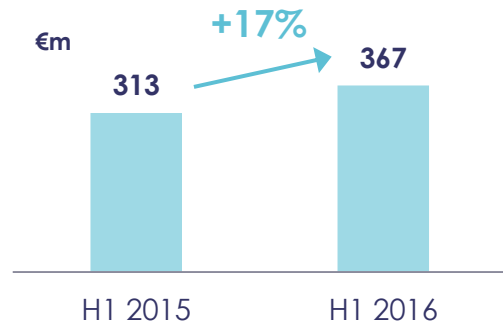
9m sales



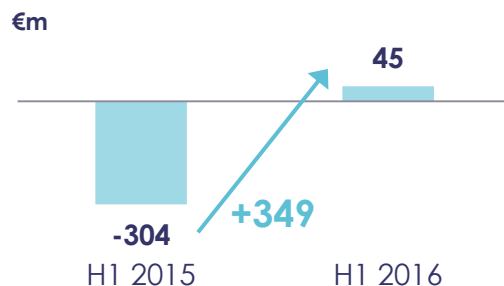
H1 EBIT and EBIT margin (b)



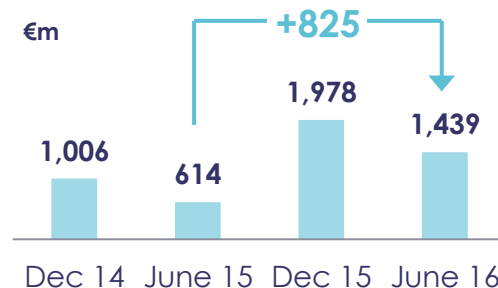
H1 adjusted net income(b)



H1 free operating cash-flow (b)



H1 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 2016 order intake

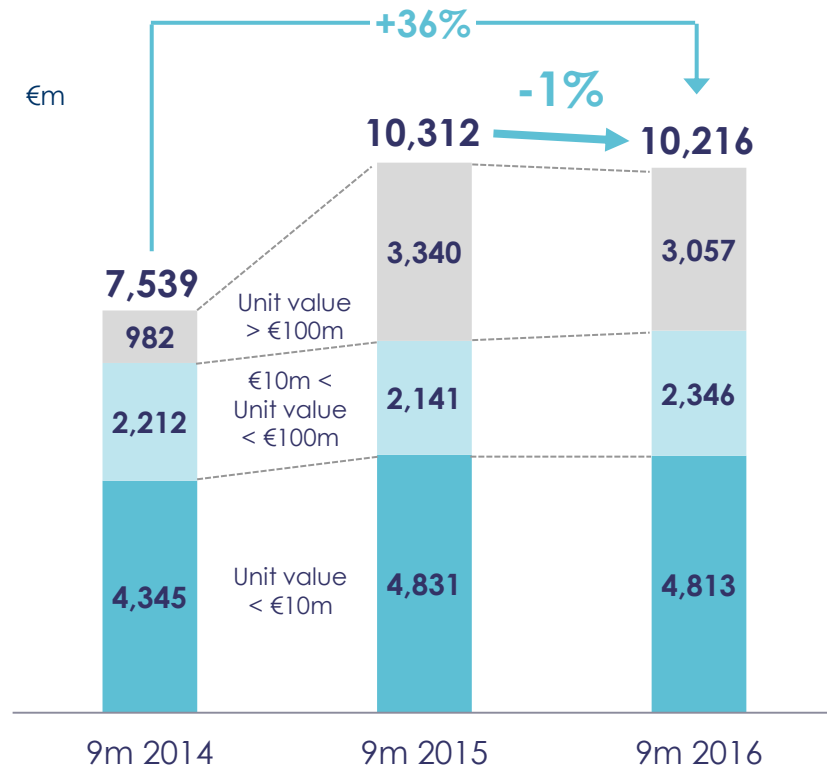
Very strong order intake: €10.2bn

- 9m 2015 included jumbo contracts (Rafale in Egypt, London underground)

Six orders over €100m

- Watchkeeper drone support for UK MoD
- Satellite for a customer in the Middle-East
- Security of 170 sites of the Dutch MoD
- Jumbo Rafale contract in India
- In-flight connectivity satellite for SES
- IFE systems for Emirates B777X

Order intake up 35% in emerging markets



9m 2016 organic sales growth

Return to growth in mature markets

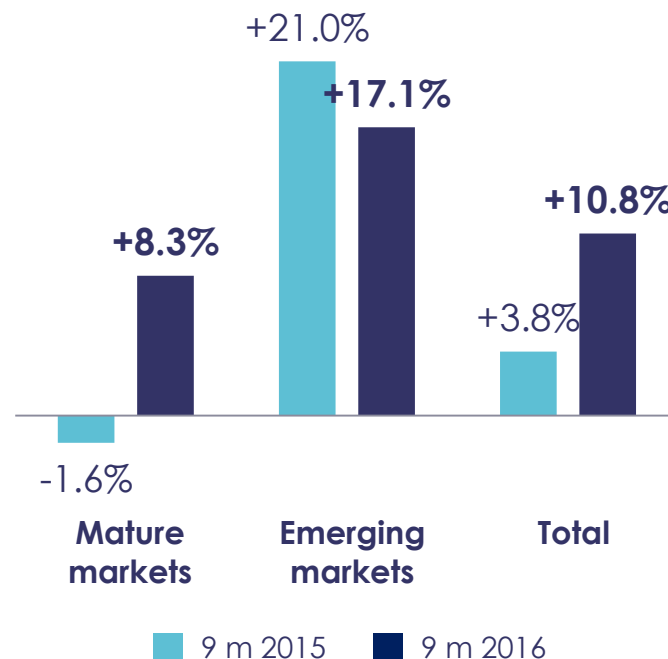
- Significant growth across several geographies: France: +8%, rest of Europe: +15%, Australia: +17%...

Continuous high growth in emerging markets

- +17%, after +21% in 9m 2015

**Confirmed organic growth,
driven by all markets**

Organic^(a) sales growth

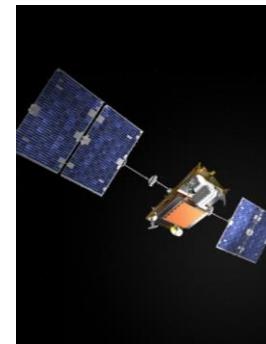
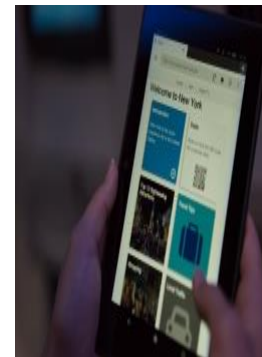


(a) In this presentation, "organic" means "at constant scope and exchange rates"

Aerospace: 9m 2016 key figures

€m	9m 2016	9m 2015	change	
			total	organic
Order intake	3,735	3,153	+18%	+19%
Sales	3,898	3,587	+8.7%	+9.4%

- Strong order intake momentum, driven in particular by IFE and Space
- Revenue growth driven by aircraft avionics and Space



Transport: 9m 2016 key figures

€m	9m 2016	9m 2015	change	
			total	organic
Order intake	687	2,486	-72%	-71%
Sales	1,046	862	+21.2%	+24.6%

- Order intake down compared to exceptional 9m 2015
- Strong revenue growth, driven by recovery of execution and initial delivery of large contracts won in 2015



Defence & Security: 9m 2016 key figures

€m	9m 2016	9m 2015	change	
			total	organic
Order intake	5,741	4,639	+24%	+25%
Sales	5,023	4,633	+8.4%	+9.1%

- Strong increase in order intake, driven by jumbo Rafale contract in India; stable order intake in other activities
- Broad-based sales growth: radars, air defense, combat aircraft, naval systems...



H1 EBIT bridge

- Solid operational performance
- Increased R&D and marketing & sales investments



H1 2016 Free operating cash-flow

- Increased capex to support future growth
- Strong WCR performance

€m	H1 2016	H1 2015
Operating cash-flow before interest and taxes	704	683
Change in WCR & reserves for contingencies	(337)	(697)
Payment of pension benefits, excluding contributions related to the reduction of the UK pension deficit	(52)	(60)
Net financial interest paid	(5)	10
Income tax paid	(39)	(42)
Net cash-flow from operating activities	271	(106)
Net operating investments	(226)	(198)
Free operating cash-flow	45	(304)



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Ambition 10: building on Thales strengths...


- Technological leadership, sustained through continued R&D investments
- Global footprint, combining strength in key mature markets with historical relationships in many emerging markets
- Leading positions in growing end-markets
 - Avionics and in-flight entertainment for civil aviation
 - Satellites, for telecom, scientific and military applications
 - Signaling and supervision of rail systems
 - Advanced defense systems
 - Protection of critical infrastructures, cities and states
 - Cyber-security



...and addressing 3 key areas



Building a growing, more global and more profitable Thales

 COMPREHENSIVE PERFORMANCE PROGRAM	Growth	Competitiveness	People
	Emerging markets Larger contracts Services	International industrial footprint Customer-driven competitive innovation Engineering competitiveness	Leadership and diversity Customer value and customer mindset Teamwork, incentives
	Excellence in project delivery	Competitiveness In sourcing	Efficiency of structure

Ambition Boost delivers

- ✓ Visible acceleration in order intake
- ✓ Return of sustainable sales growth
- ✓ Focused M&A accelerating profitable growth
- ✓ First phase of engineering competitiveness plan
- ✓ Ongoing reduction in structure costs
- ✓ Transport recovery plan well underway

**Ambition Boost: a comprehensive performance plan
delivering continued improvement in profitability**

Visible acceleration in order intake

Deployment of multiple Ambition Boost levers...

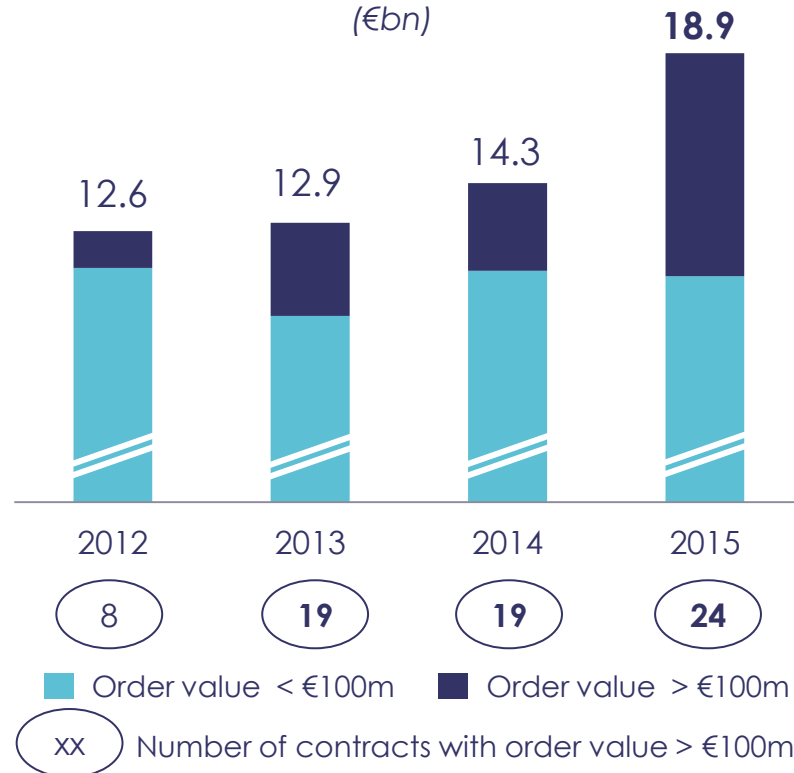
- Dedicated international development organization focused on emerging markets
- Targeting of larger contracts and of multi-year service agreements
- Increased focus on marketing

...supports acceleration of order intake

- Record high order intake in 2015
- Strong growth in large contracts: 24 over €100m in 2015 (8 in 2012)
- Doubling of emerging market orders: €6 bn in 2015 (€3 bn in 2012)

Record high backlog, increasing visibility on future sales growth

Order intake per year
(€bn)

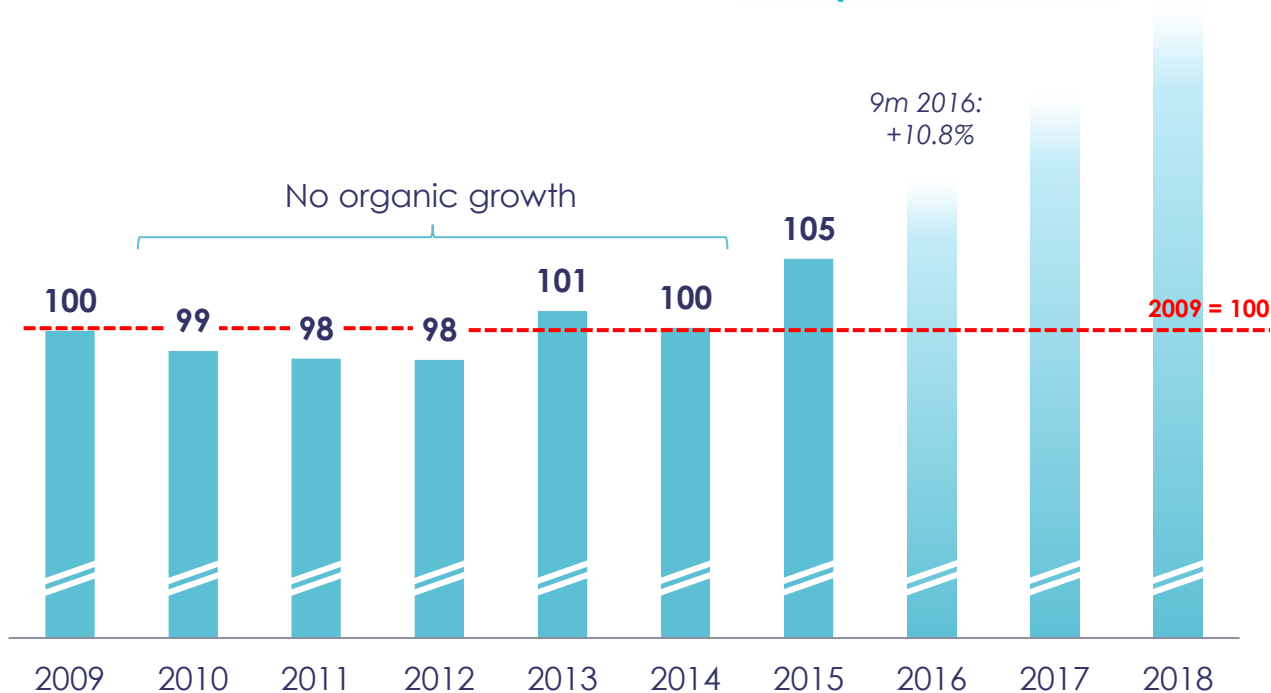


Note: 2012 excluding DCNS, pre IFRS10/11

THALES

Return to sustainable sales growth

Organic sales evolution,
base 100 = 2009 sales

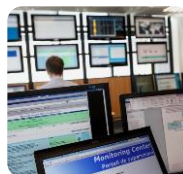


Focused M&A accelerating profitable growth



2014: integration of Live TV to enrich in-flight entertainment offer

- Live TV bringing Internet connectivity capabilities and significant customer base
- Complementing high-growth in-flight entertainment business
- Acceleration of order intake



2016: integration of Vormetric as part of cyber-security offer

- Vormetric, leader in software-based data protection
- Creating a world leader in data protection
- Leveraged as differentiator in other Thales civil markets

Strengthening solid, fast-growing businesses with new capabilities

Engineering competitiveness: ongoing deployment of best practices

Engineering: the core added value of Thales

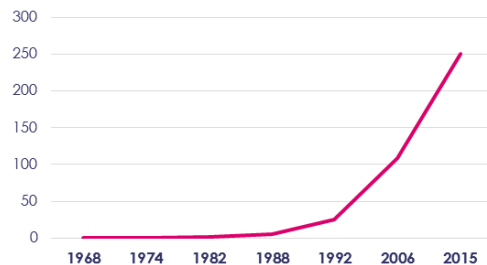
- ~22,500 engineers worldwide (1/3 of group staff)
- Combining hardware, software and systems expertise to design differentiated solutions
- Addressing increasingly complex and critical situations
- Improved methods, processes and tools key to increase engineering performance

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

Software size evolution on board a commercial aircraft



Reduction in structure costs

Further optimization of G&A cost base

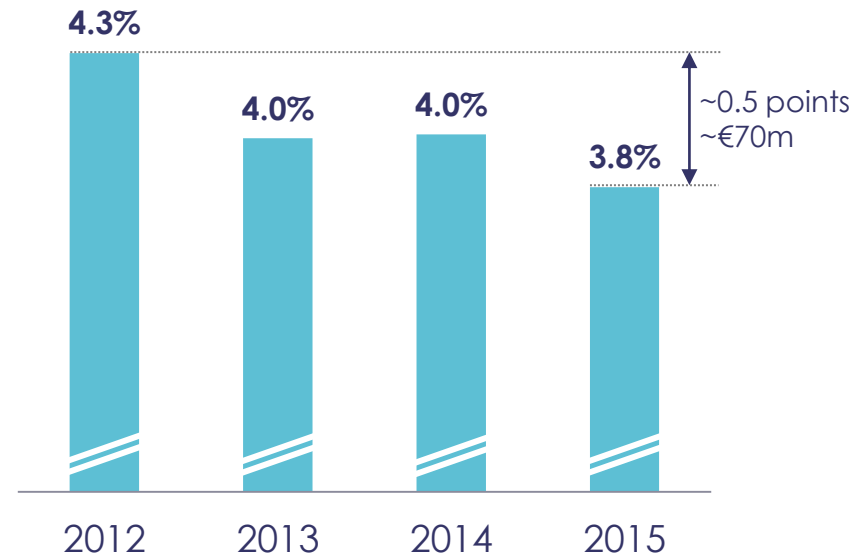
- Systematic internal and external benchmarking
- Ongoing transformation plan of support functions

Significant rationalization of industrial footprint, driving increased efficiency

- Explaining part of ongoing increase in capex

**Maintaining efforts to
reduce structure costs**

General & Administrative expenses as % of sales



Transport recovery plan well underway



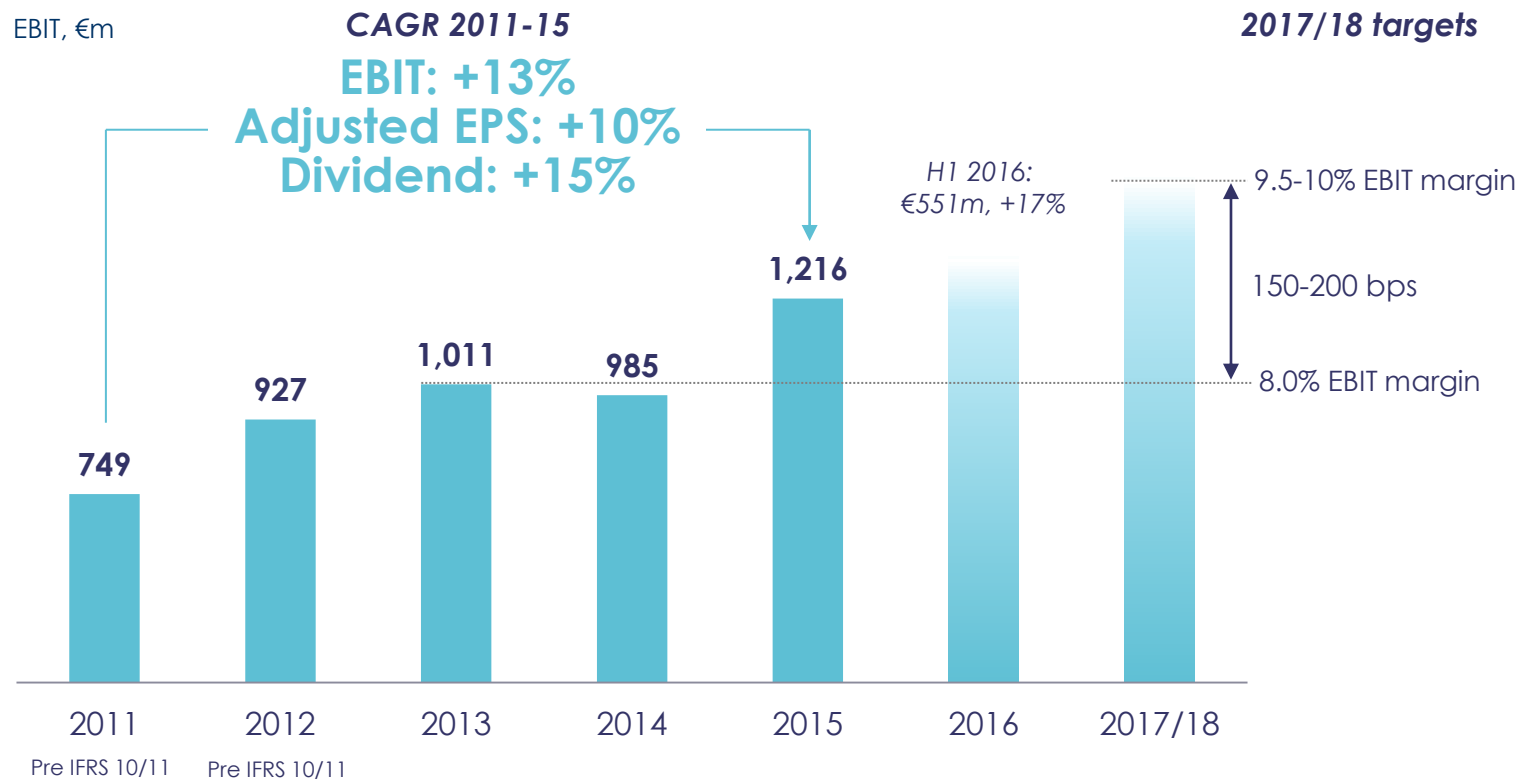
2015: definition and deployment of recovery plan

- New management team
- Comprehensive contract portfolio review
- Reinforced governance to control bid and project execution
- Deep transformation plan launched throughout organization

2016: completion of operational recovery

- Execution of projects stabilized on new baselines
- Further transfer of skills from other Thales activities
- Engineering transformation engaged
- Continuous R&D efforts to develop product offering

Significant improvement in profitability, in line with mid-term targets





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Financial objectives

2016

Order intake	Upgraded to the €15.5 to 16.0 billion range^(a)
Sales	Slightly above +5% (organic)^(b)
EBIT^(c)	€1,300-1,330m^(d)

2017/18

Sales	Mid-single digit annual organic growth
EBIT^(c) margin	9.5-10%

(a) Previous guidance: "remaining at a high level, close to 2013-14" (average 2013-14 order intake: €13.6 billion)

(b) Adjusted from "mid-single digit organic growth"

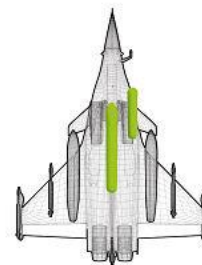
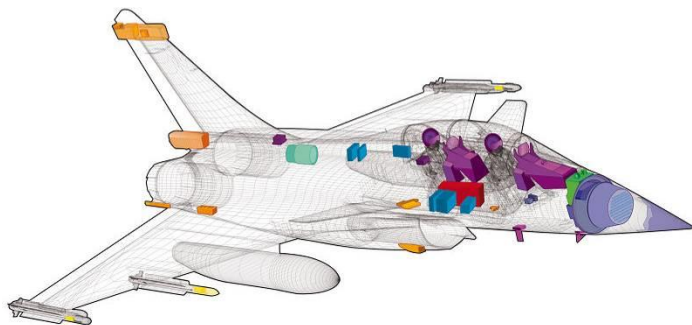
(c) Non-GAAP measure: see definition in appendix

(d) Based on foreign exchange rates as of February 2016



Appendix

Thales onboard the Rafale



Electronic warfare

- SPECTRA integrated system (1)

Detection

- RBE2 electronic-scanning radar
- FSO Front-Sector Optronics suite

(1) In partnership with MBDA

Cockpit

- Avionics
- LCD multifunction display
- Combined head-up / head-level display
- Control & display system
- Autopilot

Electrical systems

- Electrical power generation system
- Emergency AC generator
- Electrical power conversion
- Electrical motors

Mission

- Modular data processing unit
- Display data storage
- Damocles multi-function and laser designation pod
- AREOS strategic reconnaissance system
- SERPAM mission debriefing system

Communication, Navigation, Identification

- V-UHF
- MIDS/L16 tactical datalink
- Radio-altimeter
- Multi-mode receiver
- TACAN
- IFF
- Multifunction probe
- Air data computer
- Data concentrator unit
- INS/GPS

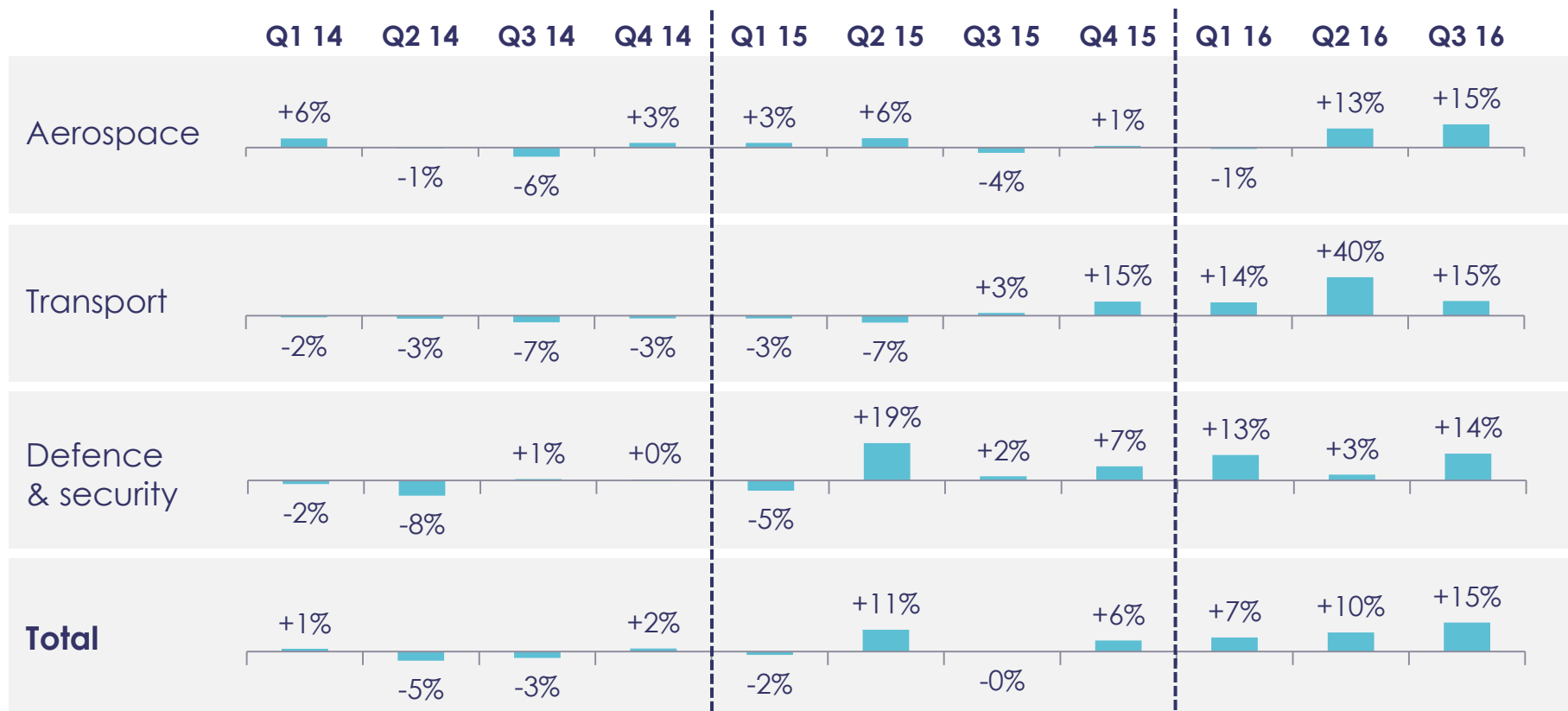
Weapons

- Missile seekers and proximity fuses

Training & simulation

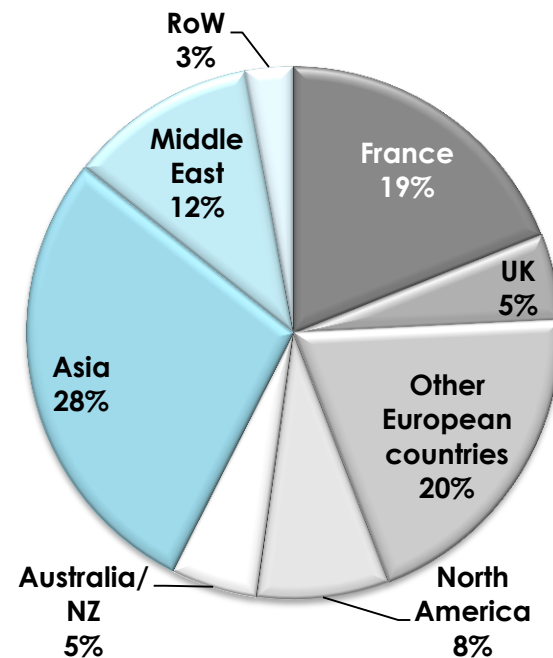
Rafale Simulation Centres

Organic sales growth per quarter



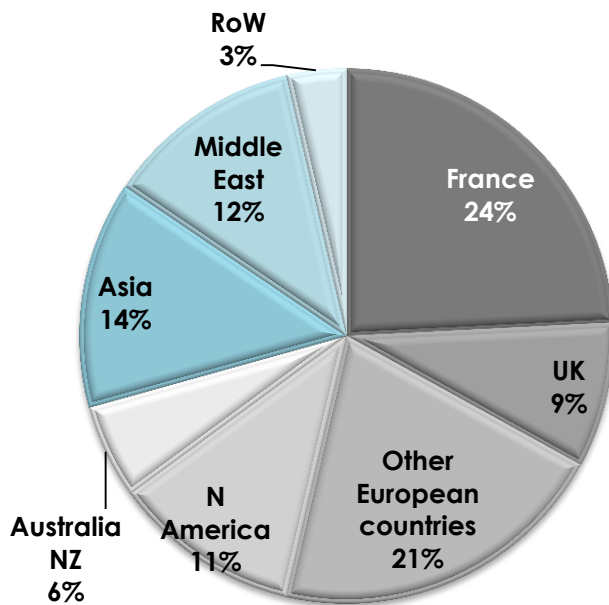
9m 2016 order intake by destination

€m	9 m 2016	9 m 2015	change	
			total	organic
France	1,939	1,912	+1%	+1%
United Kingdom	537	1,723	-69%	-65%
Other European countries	2,038	2,067	-1%	-2%
Europe	4,514	5,702	-21%	-18%
North America	820	816	+1%	-5%
Australia/NZ	536	580	-8%	-6%
Asia	2,880	952	+203%	+204%
Middle East	1,170	1,990	-41%	-41%
Rest of the world	296	272	+9%	+11%
Emerging markets	4,346	3,214	+35%	+36%
Total	10,216	10,312	-1%	+1%



9m 2016 sales by destination

€m	9m 2016	9m 2015	Change	
			total	organic
France	2,442	2,255	+8%	+8%
United Kingdom	886	929	-5%	+4%
Other European countries	2,081	1,829	+14%	+15%
Europe	5,409	5,012	+8%	-2%
North America	1,095	1,081	+1%	+10%
Australia/NZ	573	499	+15%	+17%
Asia	1,388	1,189	+17%	+17%
Middle East	1,204	950	+27%	+27%
Rest of the world	364	400	-9%	-8%
Emerging markets	2,956	2,539	+16%	+18%
Total	10,033	9,131	+10%	+11%



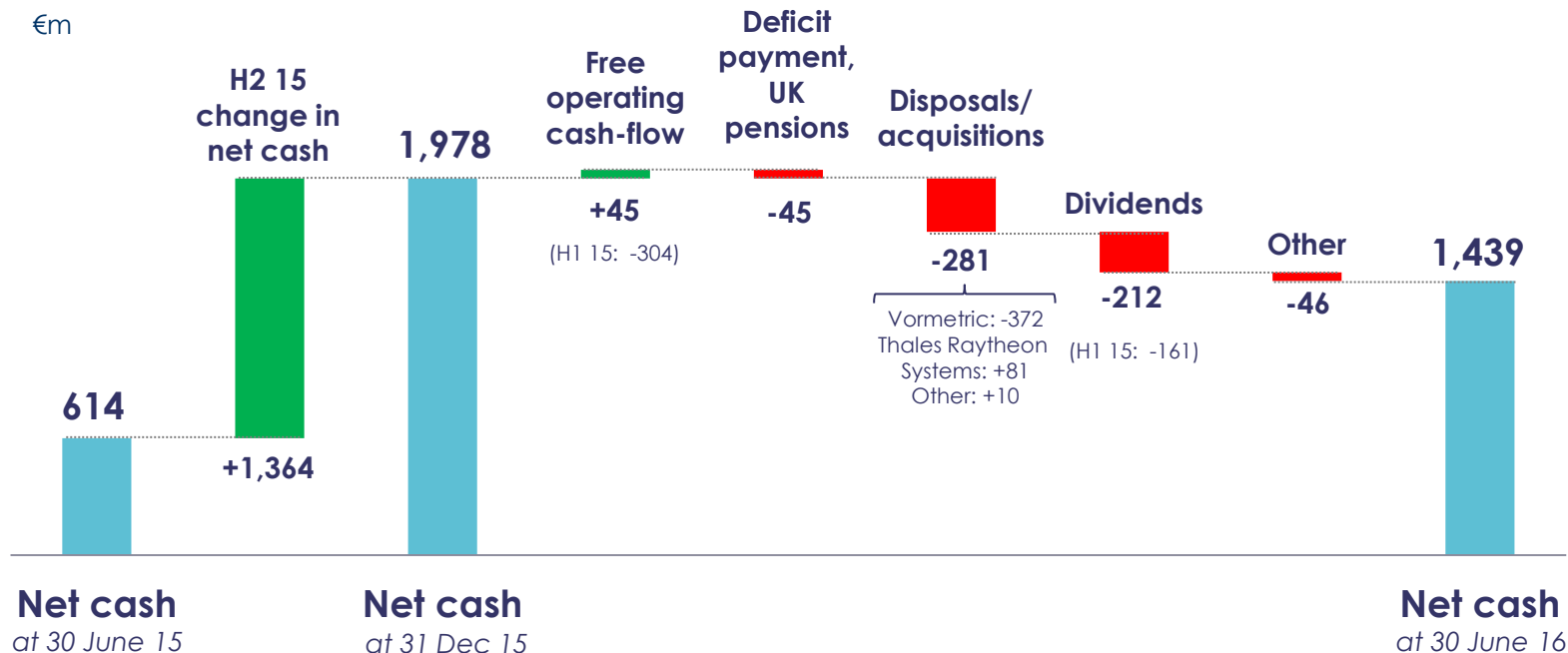
H1 2016 EBIT by segment

- Good performance of both Aerospace and Defense & Security
- Transport: recovery in line with expectations

€m	H1 2016		H1 2015		change	
					total	organic
Aerospace	239	9.0%	224	8.9%	+7%	+8%
Transport	(12)	-1.6%	(39)	-6.9%	-	-
Defense & Security	335	9.8%	301	9.3%	+11%	+15%
EBIT - operating segments	562	8.3%	485	7.7%	+16%	+18%
Other	(30)		(22)			
EBIT - excluding DCNS	532	7.8%	463	7.3%	+15%	+17%
DCNS	20		10			
EBIT - total	551	8.1%	473	7.5%	+17%	+19%

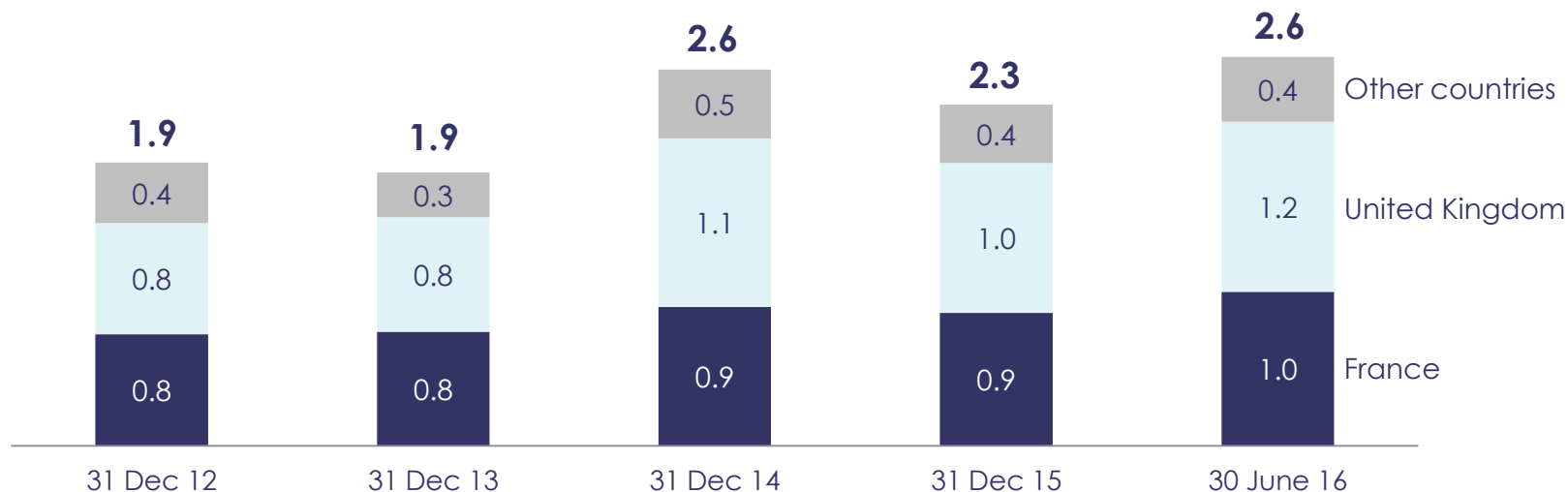
Movement in net cash over H1 2016

High net cash position driven by free operating cash-flow



Evolution of net pension provision

€bn

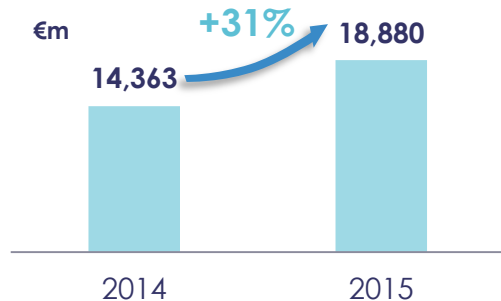


Liability discount rate

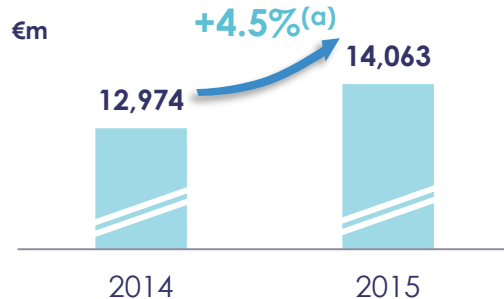
France	2.9%	3.2%	1.5%	2.0%	1.2%
UK	4.5%	4.6%	3.7%	4.0%	3.2%

2015 key figures

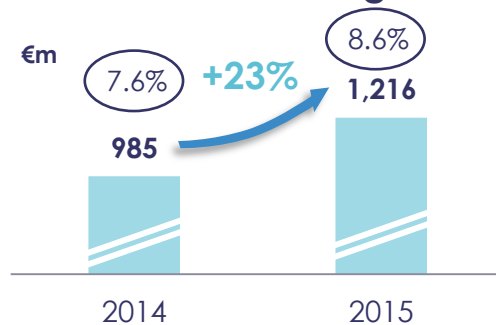
Order intake



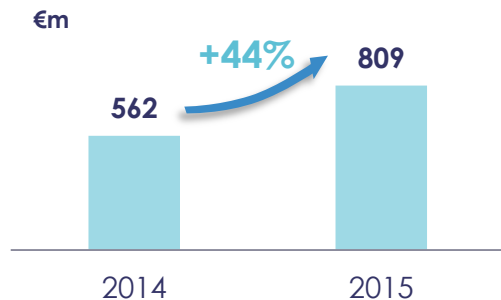
Sales



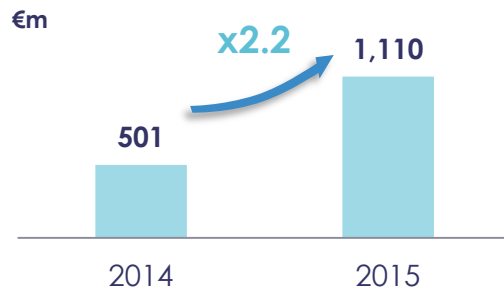
EBIT and EBIT margin^(b)



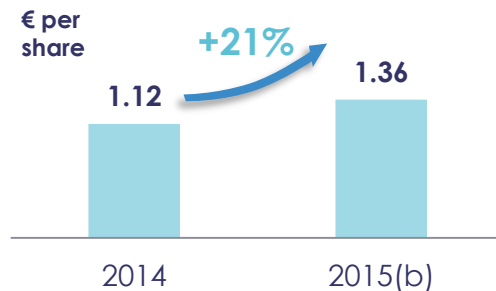
Adjusted net income^(b)



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

2015: 24 contracts over €100m

Aerospace: 12

- In-flight entertainment for JetBlue
- ComSat military satellite (France)
- Ceres military satellite (France)
- Telecom satellite (Bangladesh)
- Telecom satellite (Eutelsat)
- 8 additional satellites for the O3B constellation
- Cosmo Skymed (Italy)
- Galileo satellite navigation system (EU)
- Sentinel 1C and 1D satellites (ESA)
- Sentinel 3C and 3D satellites (ESA)
- Additional tranche of the Euclid scientific satellite program (ESA)
- Additional tranche of the Exomars program (ESA)

Transport: 3

- London underground signaling
- Doha metro signaling
- Hong Kong metro

Defense & Security: 9

- Upgrade of the French army's air-defence system (Aster B1NT)
- Optronics systems for Scout SV armoured vehicles (UK)
- Hawkei light protected vehicles (Australia)
- Rafale (Egypt)
- Rafale (Qatar)
- Airport security (Oman)
- Starstreak air-defence (Malaysia)
- Military equipment contracts in 2 Middle-Eastern countries

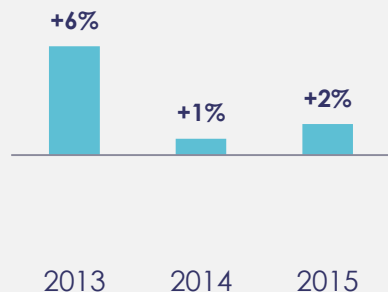
2015 summary P&L: from sales to EBIT

	2015		2014		change	
	€m	% of sales	€m	% of sales	total	organic
Sales	14,063		12,974		+8.4%	+4.5%
Gross margin	3,375	24.0%	3,182	24.5%	+6%	+3%
Indirect costs	(2,205)	15.7%	(2,075)	16.0%	+6%	+3%
o/w R&D expenses	(692)	4.9%	(641)	4.9%	+8%	+5%
o/w Marketing & Sales expenses	(981)	7.0%	(914)	7.0%	+7%	+4%
o/w General & Administrative expenses	(532)	3.8%	(519)	4.0%	+2%	-1%
Restructuring costs	(94)	0.7%	(114)	0.9%	-18%	-20%
Share of net result of equity-accounted affiliates excl. DCNS	118		110		+7%	+7%
EBIT excluding DCNS	1,194	8.5%	1,102	8.5%	+8%	+4%
Share of net result of DCNS	22		(117)			
EBIT	1,216	8.6%	985	7.6%	+23%	+18%

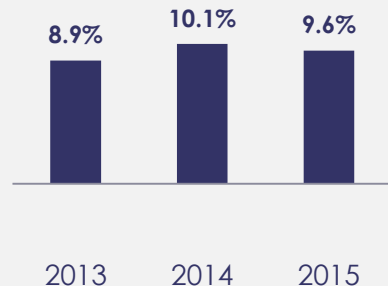
Historical sales and EBIT performance by segment

Aerospace

Organic sales growth

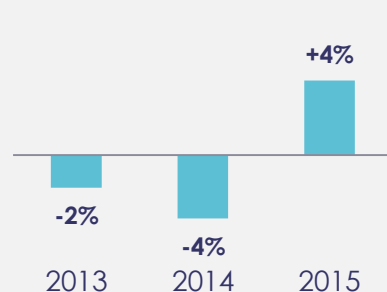


EBIT margin

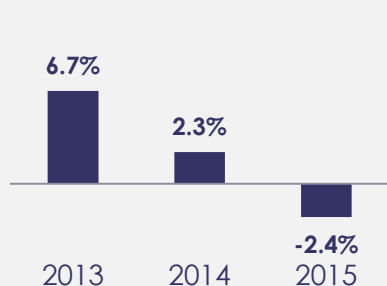


Transport

Organic sales growth

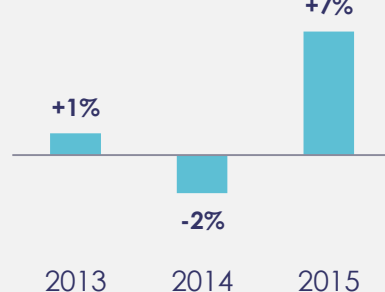


EBIT margin

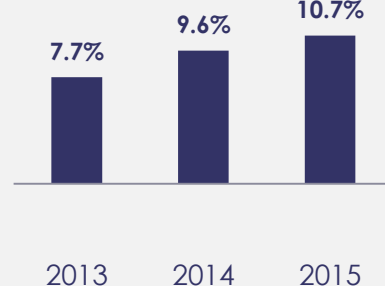


Defence & security

Organic sales growth

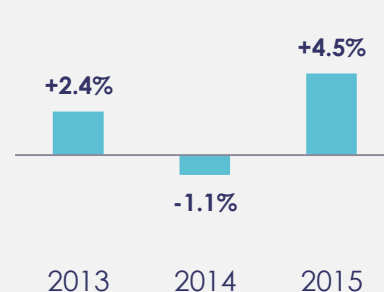


EBIT margin

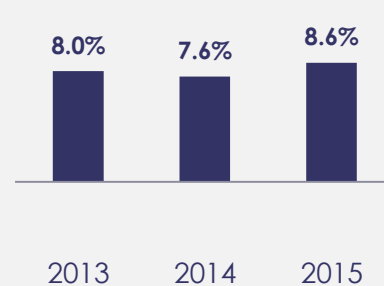


Total Group

Organic sales growth



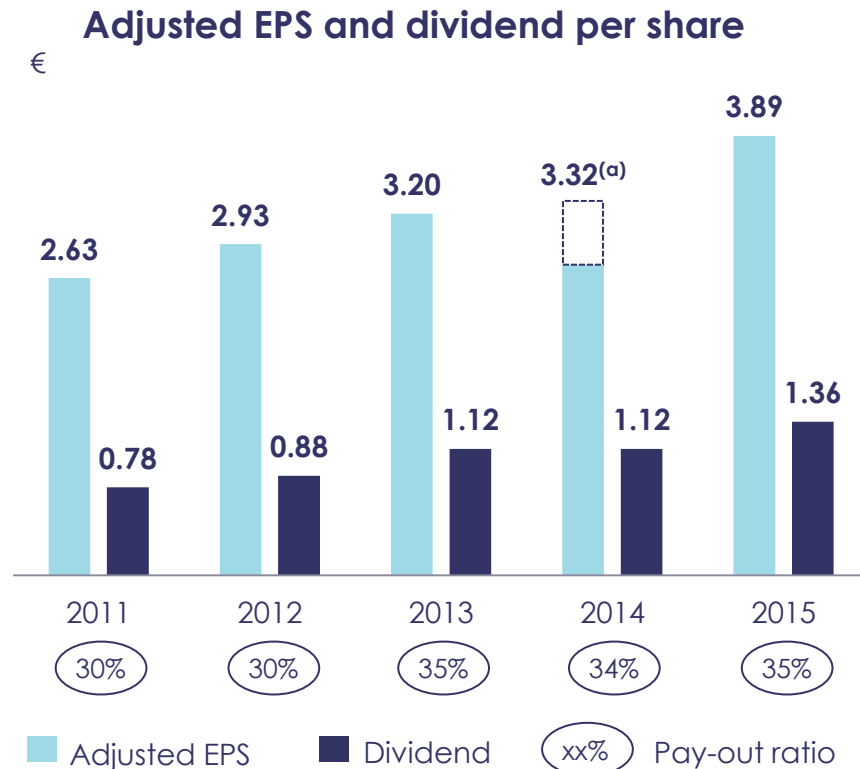
EBIT margin



Note: Group EBIT includes equity associates
(Losses at DCNS in 2014)

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Historical adjusted EPS and dividend



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

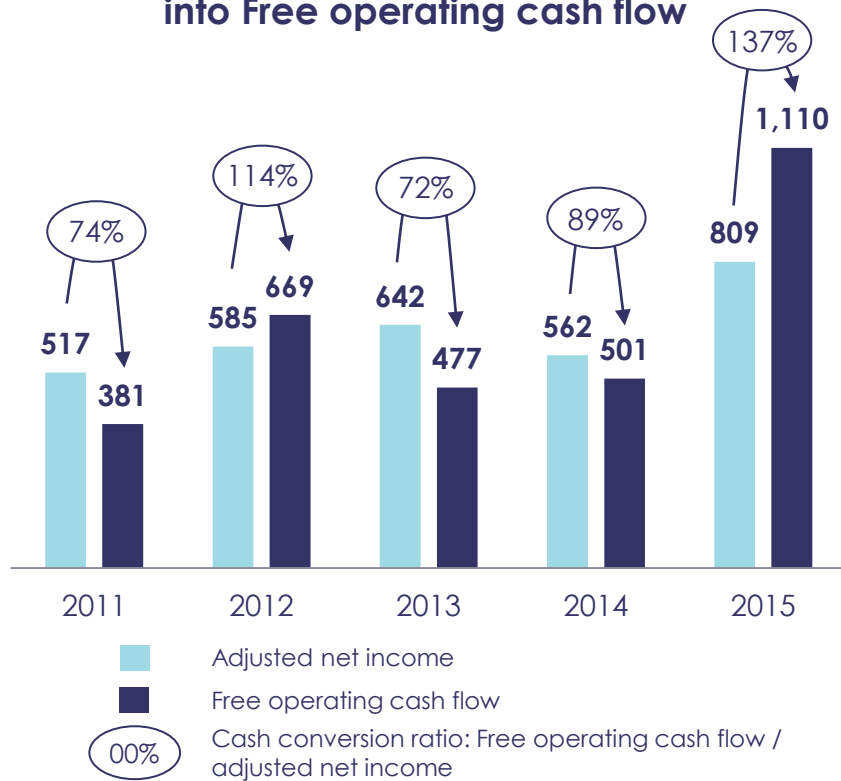
Adjusted EPS up 10% per year since 2011

Dividend: €1.36 per share
➤ Pay-out ratio: 35%

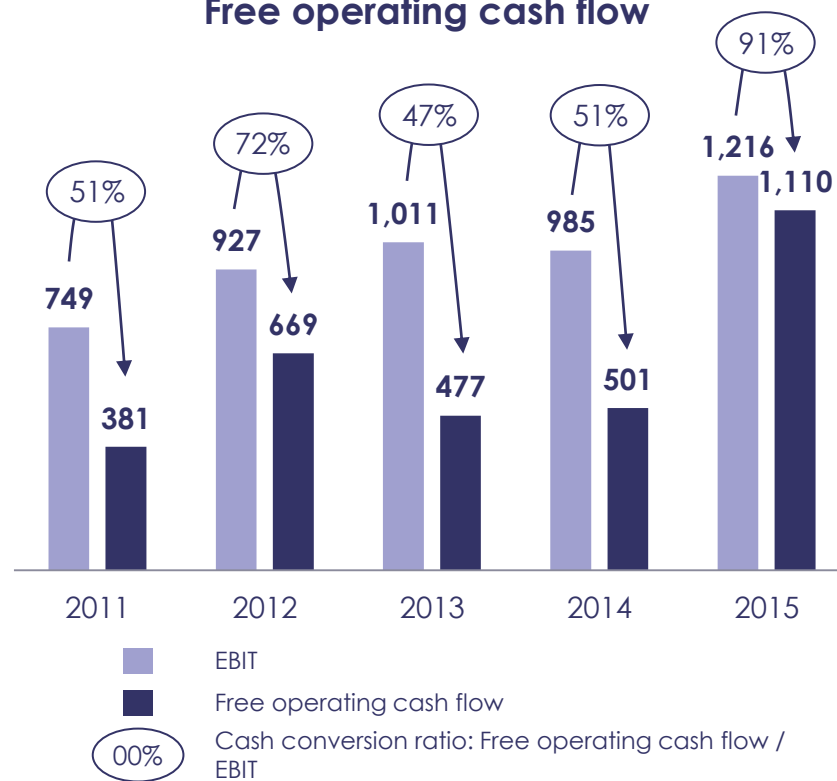
Dividend up 15% per year since 2011

Historical trend in cash conversion

Adjusted net income conversion into Free operating cash flow



EBIT conversion into Free operating cash flow



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 intangible assets acquired (PPA). From 1 January 2016, it also excludes charges recorded in the income from operations that are directly related to business combinations (H1 2016 impact: €+7m, H1 2015 impact: 0). See also note 14-a and 2.2 of the consolidated financial statements at 31 December 2015.
- **Adjusted net income:** net income, *less* the following elements, net of the corresponding tax effects: (i) amortization of intangible assets acquired, (ii) charges recorded in the income from operations which are directly related to business combinations, which by their nature are unusual (H1 2016 impact: €+5m, H1 2015 impact: 0), (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 notes 14-a and 2.2 of the consolidated financial statements at 31 December 2015.
- **Adjusted EPS:** ratio of adjusted net income (as defined above) to average number of shares outstanding. See notes 14-a and 2.2 of the consolidated financial statements at 31 December 2015.
- **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 2015.



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This presentation may contain forward-looking statements. Such forward-looking statements are trends or objectives, as the case may be, and shall not be construed as constituting forecasts regarding the Company's results or any other performance indicator. These statements are by nature subject to risks and uncertainties as described in the Company's registration document ("Document de référence") filed with the *Autorité des Marchés Financiers*. These statements do not therefore reflect future performance of the Company, which may be materially different.

