



# Investor meeting

March 2017

[www.thalesgroup.com](http://www.thalesgroup.com)








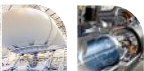




















■ **Introduction to Thales**

■ 2016 results

■ Key Ambition 10 initiatives

■ Outlook

# A strong set of focused businesses...

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

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

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### **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...

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### **Transport**

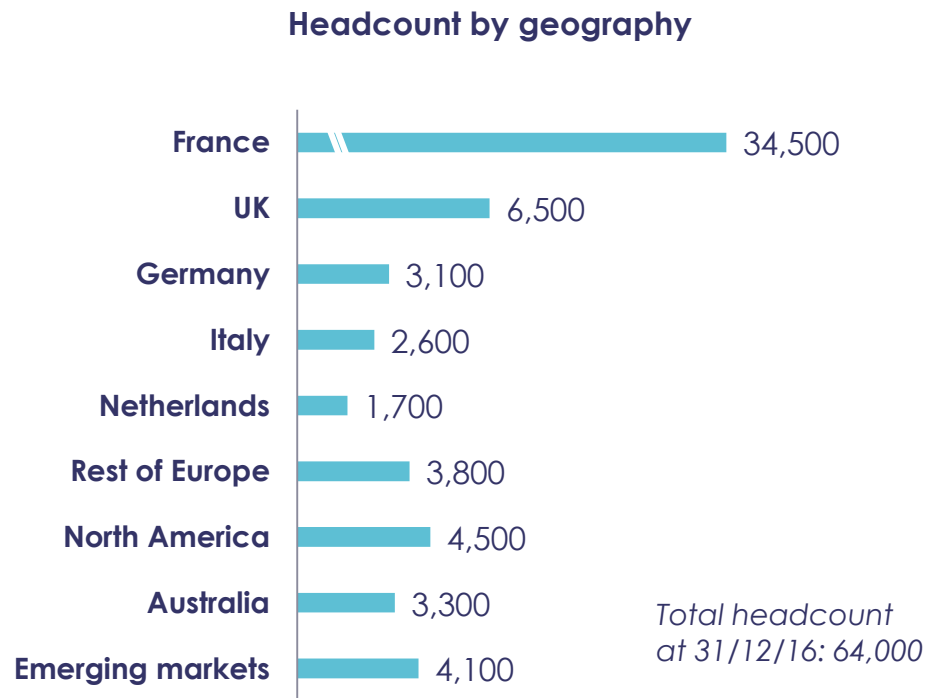
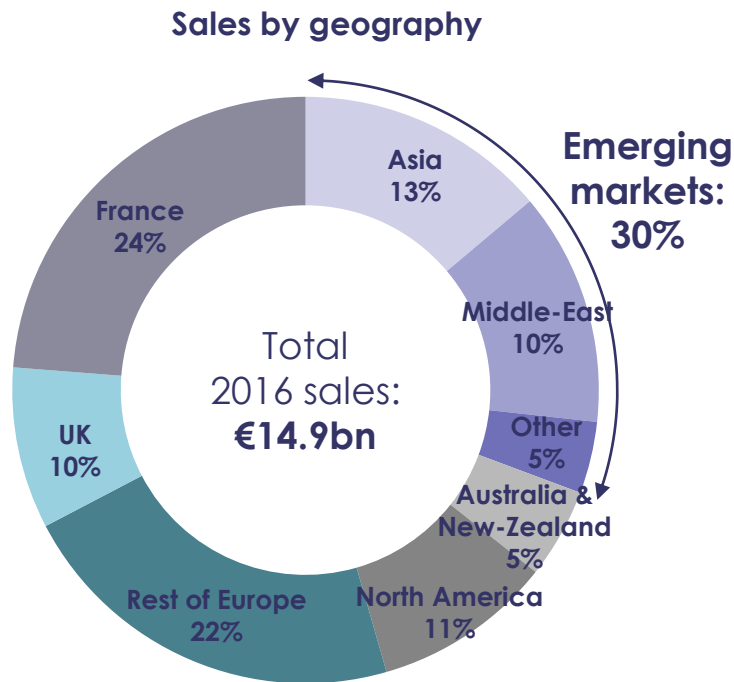
- Strong demand in both emerging markets and Europe
- Record high order book

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### **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
- **2016 results**
- Key Ambition 10 initiatives
- Outlook



## Aerospace

- Avionics: continued positive dynamics for cockpit avionics and in-flight entertainment and connectivity
- Space: strong interest in new generation satellite solutions

## Transport

- Robust demand in both emerging markets and Europe

## Defence and security

- Increased geopolitical tensions and security threats
- Inflection of defence budgets in Europe confirmed

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

# 2016 highlights

- Robust order intake, supporting record year-end backlog
- Strong sales growth, across all segments
- Significant increase in profitability
- Good progress in deployment of Ambition 10 strategy

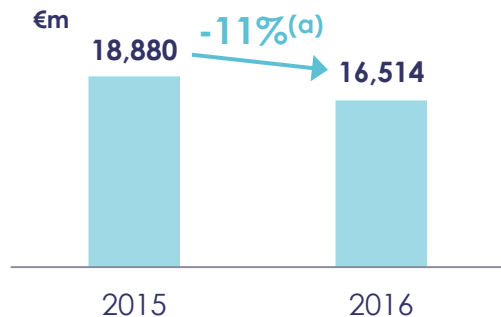
**Continued focus on profitable and sustainable growth**



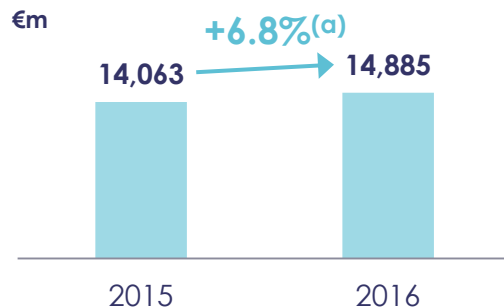


# 2016 key figures

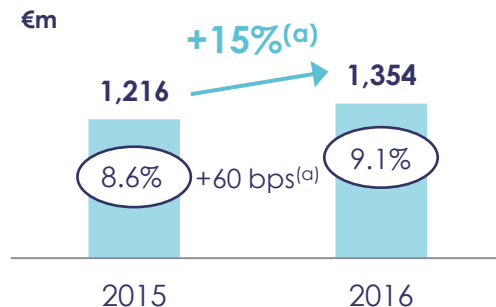
## Order intake



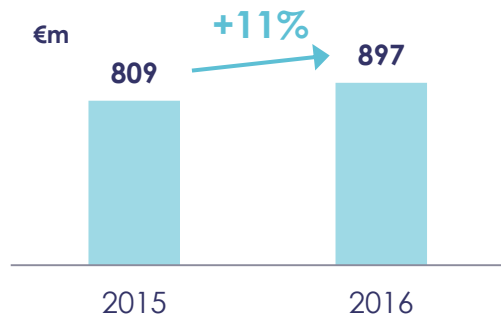
## Sales



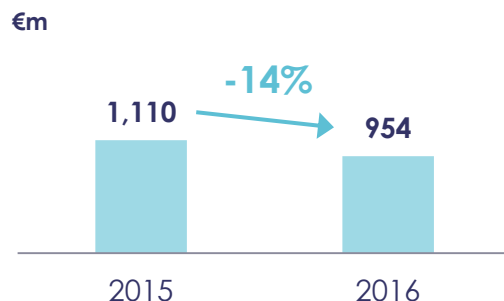
## EBIT and EBIT margin<sup>(b)</sup>



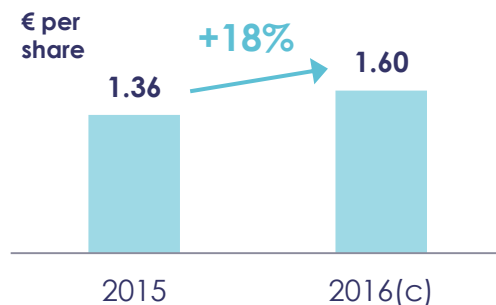
## Adjusted net income<sup>(b)</sup>



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



## Dividend



(a) Organic: at constant scope and exchange rates

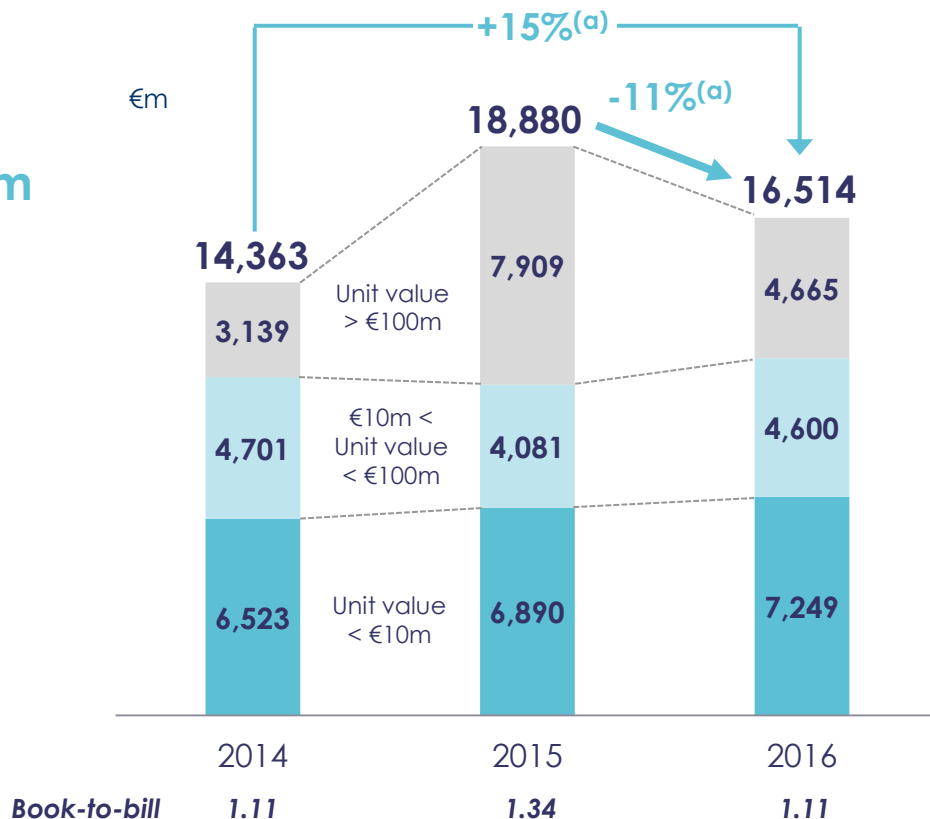
(b) The definition of all non-GAAP measures can be found in appendix

(c) Proposed to the 17 May 2017 AGM

# 2016 order intake

- Third year with book-to-bill significantly above 1
- Signature of 14 contracts over €100m
  - Including one “jumbo” contract: Rafale in India
- Continued momentum from orders with a unit value below €10m
  - +5% vs 2015 and +11% vs 2014
- End 2016 order book: €33.5bn
  - €1.2bn above end 2015 level
  - €9.1bn above end 2013 level

(a) Organic: at constant scope and exchange rates



THALES

# 2016 organic sales growth

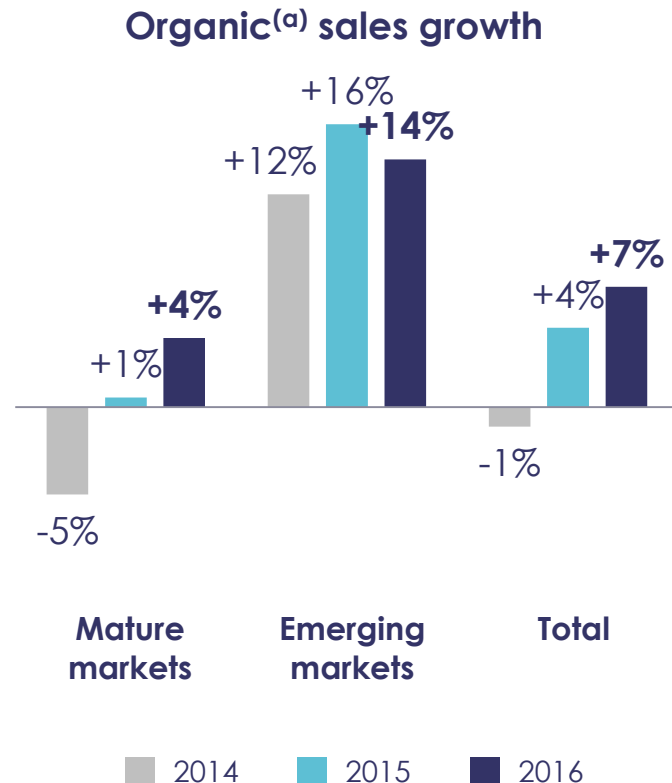
## Return to growth in mature markets

## Continued high growth in emerging markets

- +14% after +16% in 2015
- Broad-based growth: top 10 emerging markets represent only 67% of emerging market sales

## As expected, Q4 sales slightly down

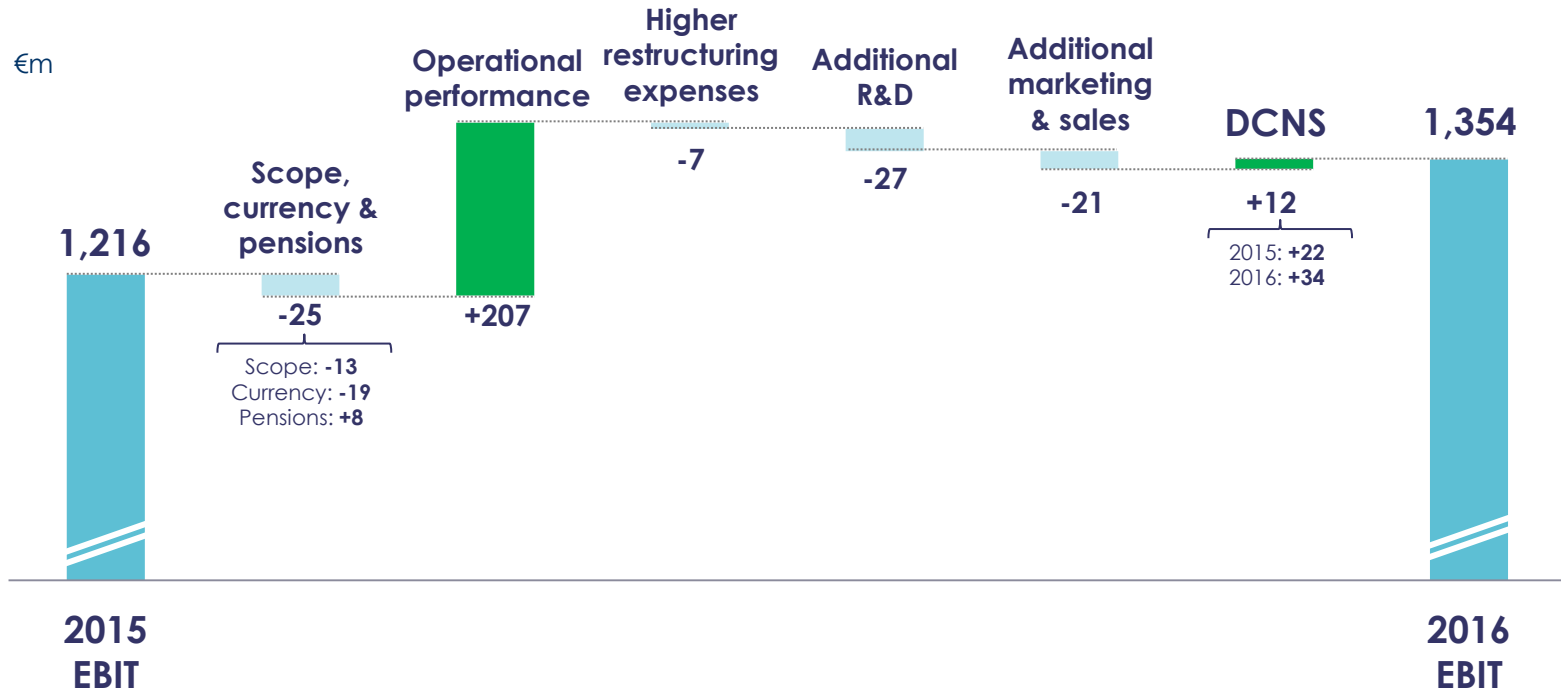
- Cutoff effects and strong bases of comparison



(a) Organic: at constant scope and exchange rates

# EBIT bridge

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



# Aerospace: 2016 key figures

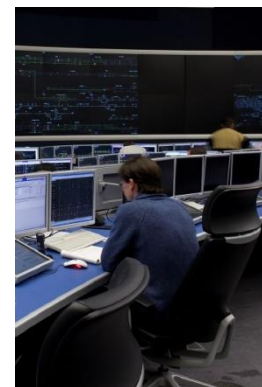
€m	2016	2015	Change	
			total	organic
Order intake	5,872	6,281	-7%	-6%
Sales	5,812	5,387	+7.9%	+8.5%
EBIT	571	518	+10%	+11%
<i>in % of sales</i>	9.8%	9.6%	+0.2 pts	+0.3 pts

- Solid order intake, supported by very good commercial momentum of In-Flight Entertainment
- Strong sales growth driven by aircraft avionics, In-Flight Entertainment and Space
- Margin improvement slowed down by increase in restructuring expenses (€16m) and change in allocation rule of shared commercial costs (€10m)



# Transport: 2016 key figures

€m	2016	2015	Change	
			total	organic
Order intake	1,504	2,826	-47%	-44%
Sales	1,603	1,519	+5.5%	+8.3%
EBIT	11	(37)	-	-
<i>in % of sales</i>	<i>0.7%</i>	<i>-2.4%</i>	<i>+3.1 pts</i>	<i>+3.3 pts</i>



- Order intake down compared to exceptional 2015 level
- Sales growth driven by initial delivery of large contracts won in 2015 and recovery of execution
- Loss-making contracts still weighing on profitability

# Defence & Security: 2016 key figures

€m	2016	2015	Change	
			total	organic
Order intake	9,052	9,701	-7%	-6%
Sales	7,383	7,079	+4.3%	+5.0%
EBIT	788	760	+4%	+8%
<i>in % of sales</i>	<i>10.7%</i>	<i>10.7%</i>	<i>-0.1 pts</i>	<i>+0.3 pts</i>

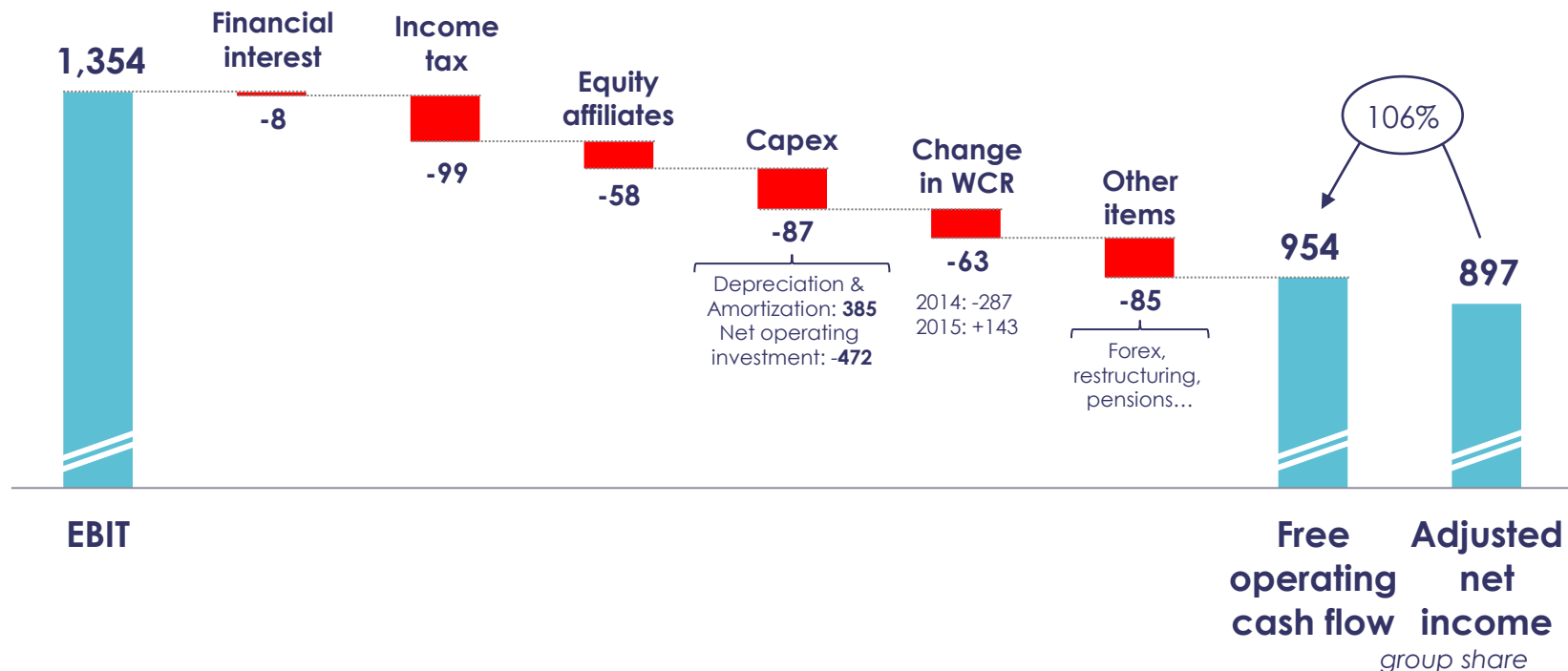
- Strong order intake
- Broad-based sales growth
- EBIT affected by disposal of stakes in two joint-ventures (impact: €19m)



# Cash conversion: from EBIT to Free operating cash-flow

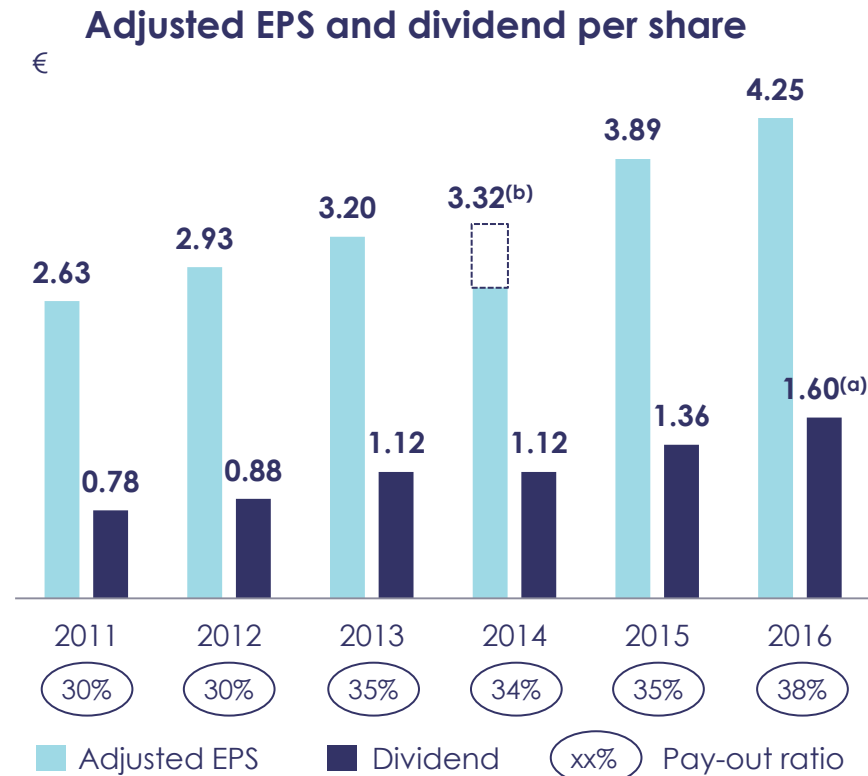
2016, €m

- Increased capex to support future growth
- High rate of cash conversion





# Adjusted EPS and dividend



(a) Subject to approval by the 17 May 2017 Annual General Meeting

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

■ Adjusted EPS up 10% per year since 2011

■ Proposed dividend :  
€1.60 per share<sup>(a)</sup>  
➤ Pay-out ratio : 37.6%

■ Dividend up 15% per year since 2011



- Introduction to Thales
- 2016 results
- **Key Ambition 10 initiatives**
- Outlook

# Unchanged strategic focus



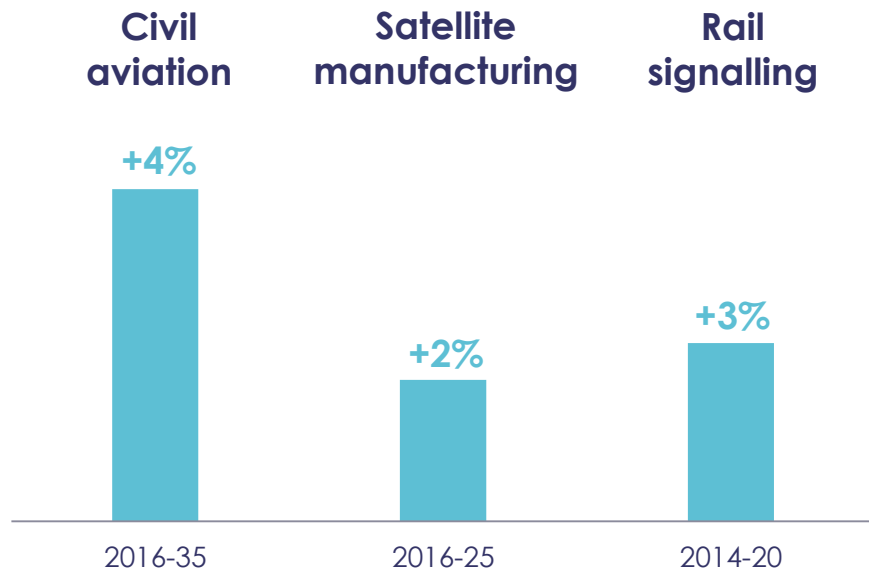
*Building a growing, more global and more profitable Thales*



# 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

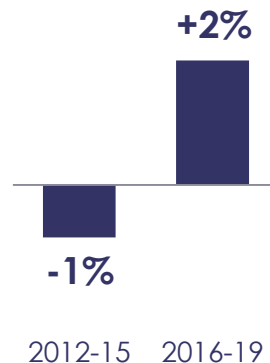
# Leverage growth in civil markets and inflection of defence budgets



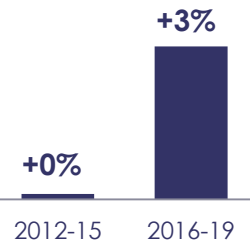
## Annual growth forecasts - sources:

- 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

## Global defence procurement

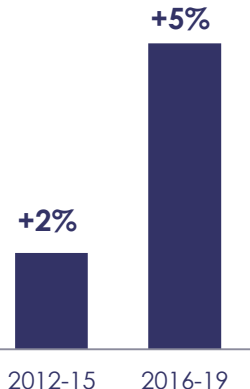


## Europe



**~50%**  
of Thales  
Defence &  
Security  
segment  
sales

## Asia-Pacific and Middle-East



**~40%**  
of Thales  
Defence &  
Security  
segment  
sales

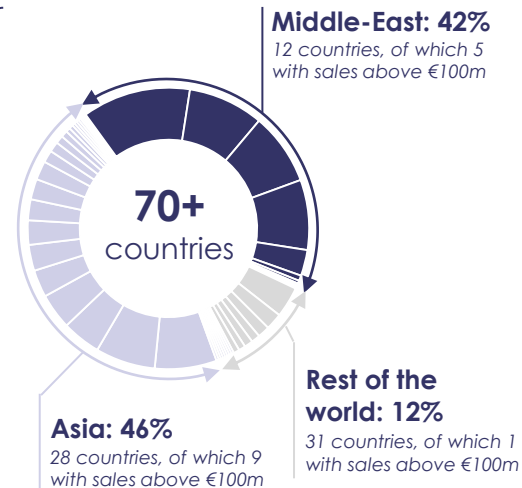
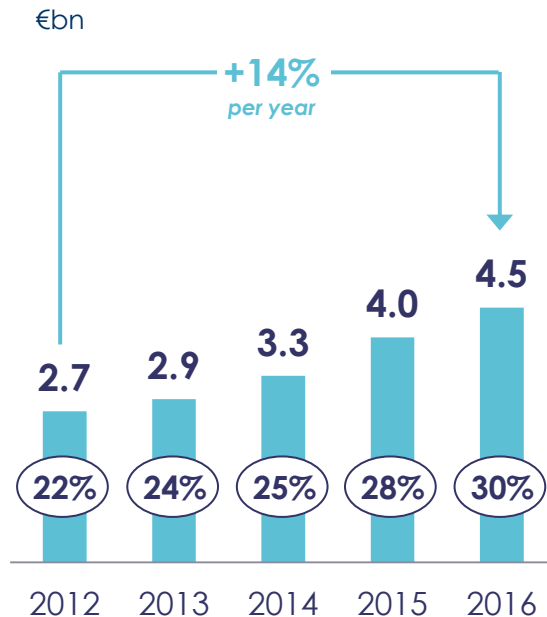
# Build on successful expansion into emerging markets

## 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 15 emerging markets**

# Reinforce technology leadership through focused R&D investment

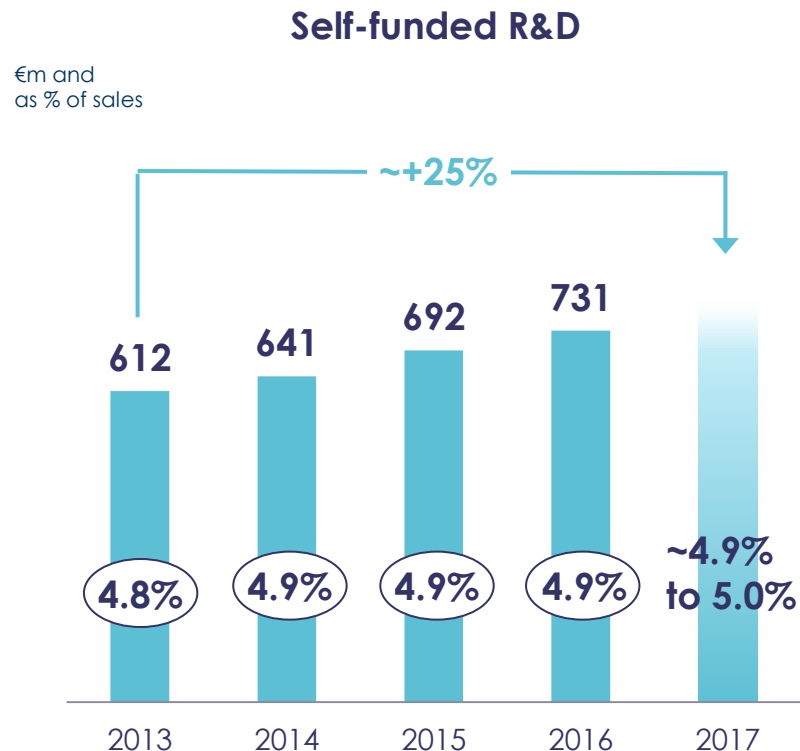
## Innovation and technology leadership a key differentiator

## 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



# Thales, digital “by nature”

## Uniquely broad expertise

- Built on our strong positions in 5 vertical markets

## 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”**

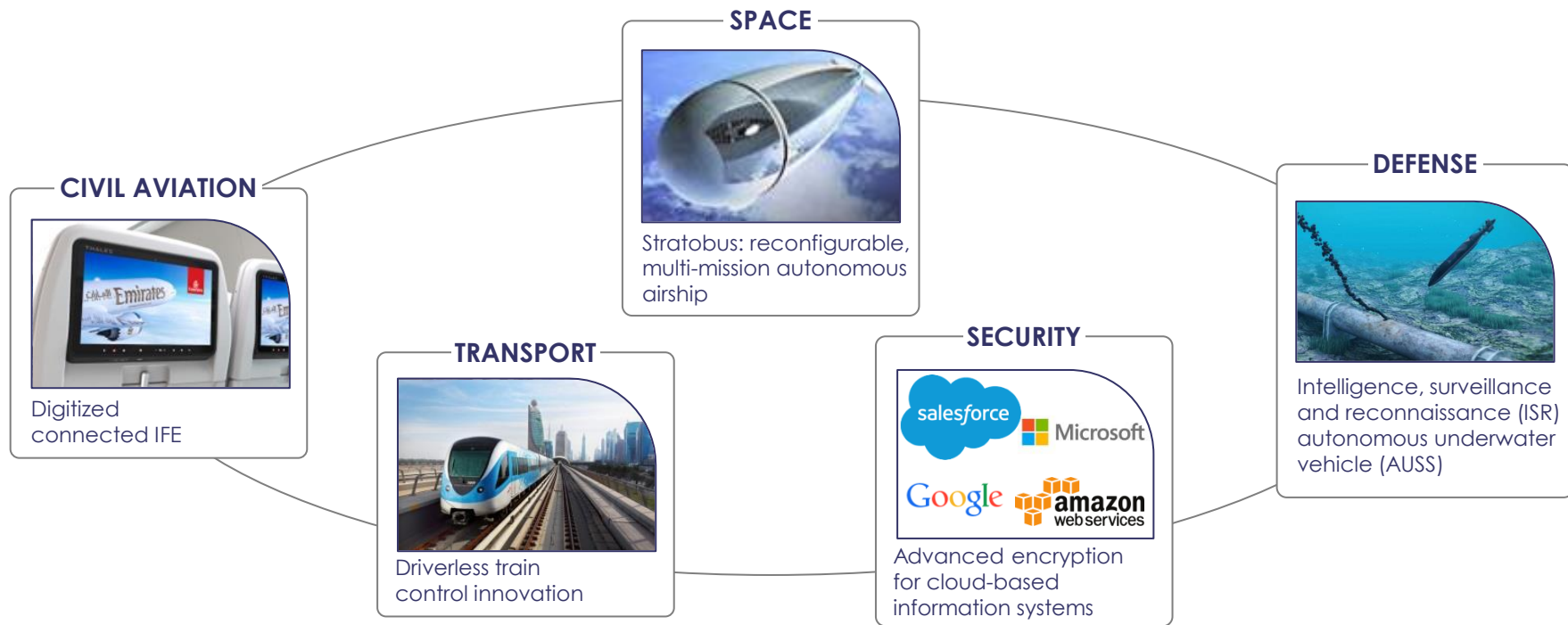


(a) IoT: Internet of Things

(b) Big data: advanced solutions to capture, store, and process very large data sets

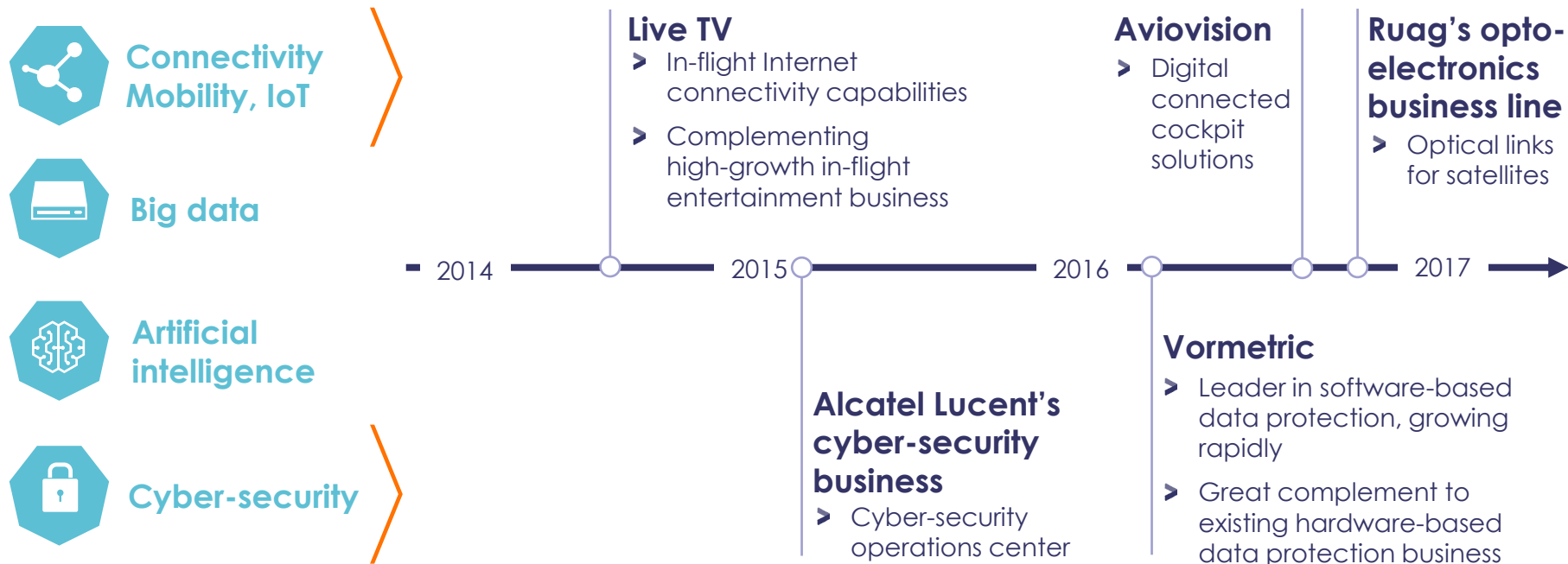


# Leveraging digital technologies to design breakthrough innovations



**Driving increased synergies among Thales' businesses**

# M&A reinforcing strength in 4 core digital technologies



**Strong interest in targets supporting digital strategy in several Group markets**

# Our priorities for 2017: continued focus on competitiveness

- 1 Strengthen 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



# Engineering competitiveness: ongoing deployment of best practices

## Engineering: the core added value of Thales

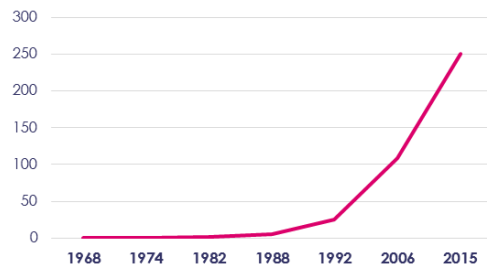
- 23,000+ engineers worldwide (1/3 of group staff)
- Combining hardware, software and systems expertise to design differentiated solutions
- Addressing increasingly complex and critical situations
- Improved methods, processes and tools key to increase engineering performance

## 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

Software size evolution on board a commercial aircraft



# Acceleration of procurement initiatives

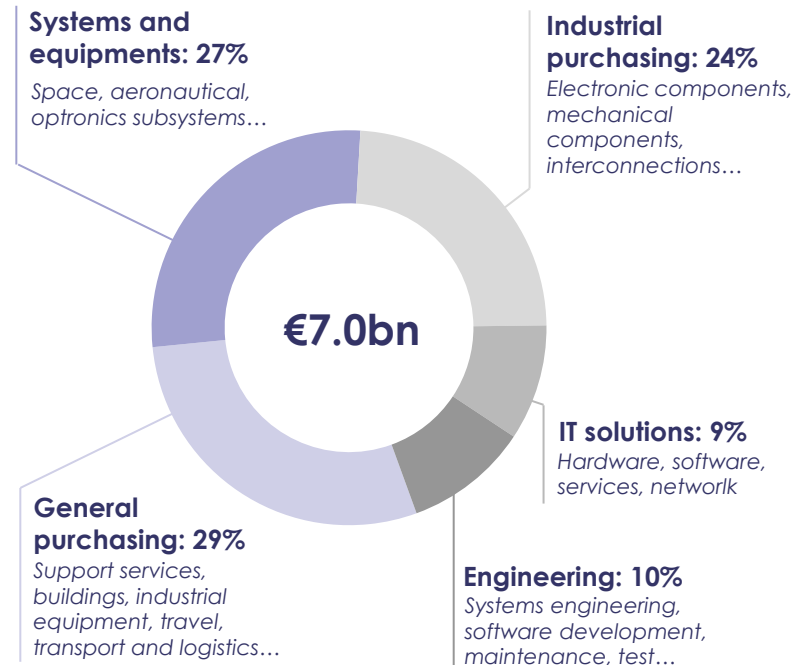
## Leveraging long-term competitiveness drivers

- 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



# Transformation plan of support functions well engaged

## Infrastructure optimization plan

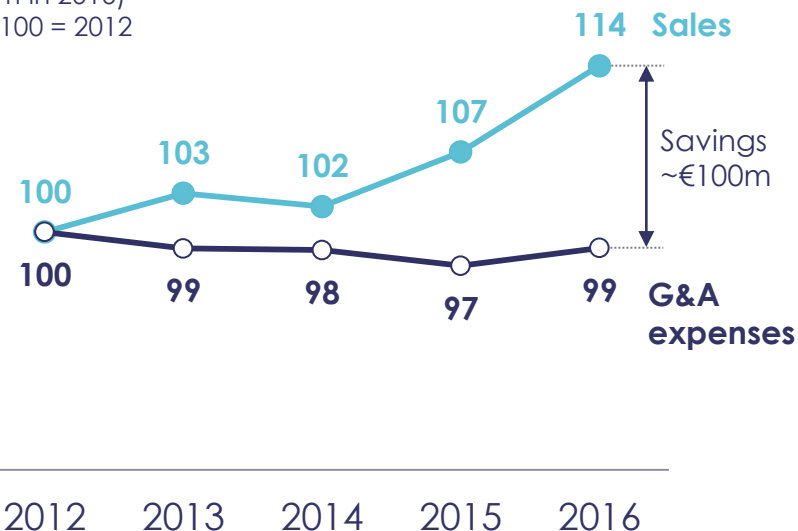
- Rationalization of industrial footprint achieved in several countries
- Ongoing convergence of Information Systems

## 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

Sales and P&L G&A expenses  
(€543m in 2016)  
base 100 = 2012



# Progressive recovery of transport profitability well underway

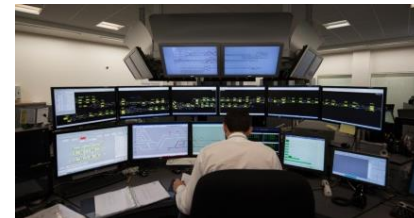
## Operational recovery plan deployed

- 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







- Introduction to Thales
- 2016 results
- Key Ambition 10 initiatives
- **Outlook**

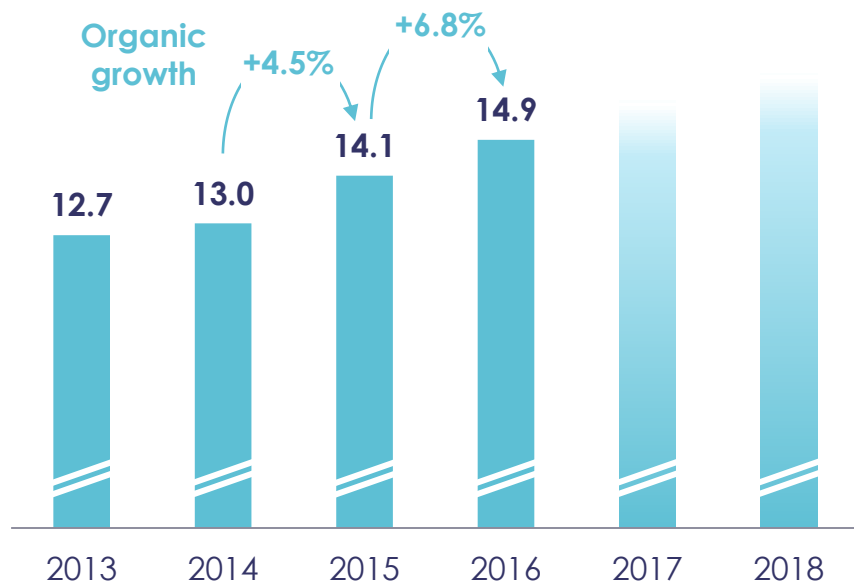
# Progress on mid-term financial objectives

## Sales

In €bn

**2016-18 target**

Mid-single digit organic growth on average

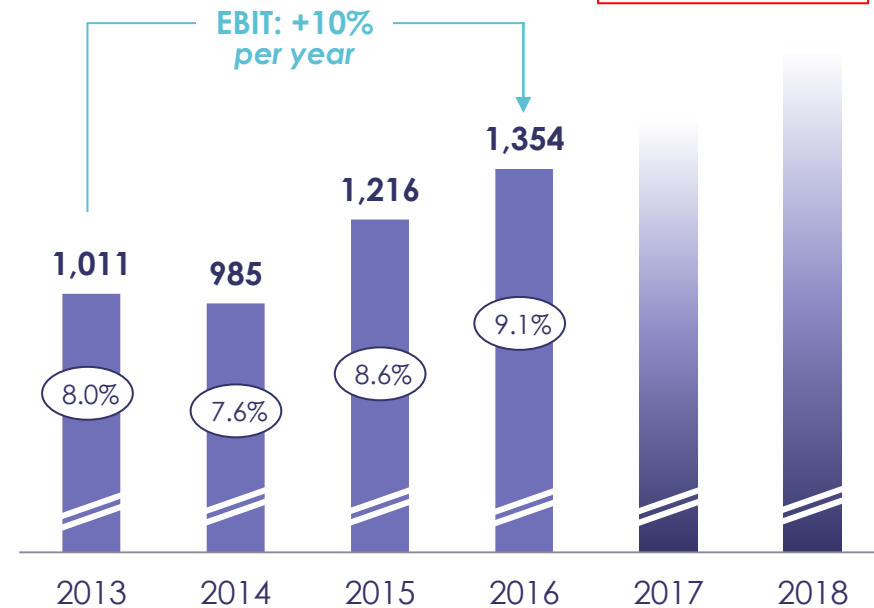


## Profitability

EBIT, in €m  
EBIT margin (%)

**2017/18 target**

EBIT margin:  
9.5 to 10%



# 2017 financial objectives

**Order intake**

**Around €14bn**

**Sales**

**Mid-single digit organic growth**

**EBIT<sup>(a)</sup>**

**€1,480-1,500m<sup>(b)</sup>**

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

(b) Based on February 2017 scope and foreign exchange rates



## Appendix

# 2016: 14 contracts over €100m

## Aerospace: 7

- In-flight entertainment systems for Emirates
- Satellite for a customer in the Middle-East
- In-flight connectivity satellite (SES)
- Galileo satellite navigation system (EU)
- Additional tranche of Sentinel 1C and 1D observation satellites (ESA)
- Additional tranche of Sentinel 3C and 3D observation satellites (ESA)
- Additional tranche of the Exomars program (ESA)

## Transport: 1

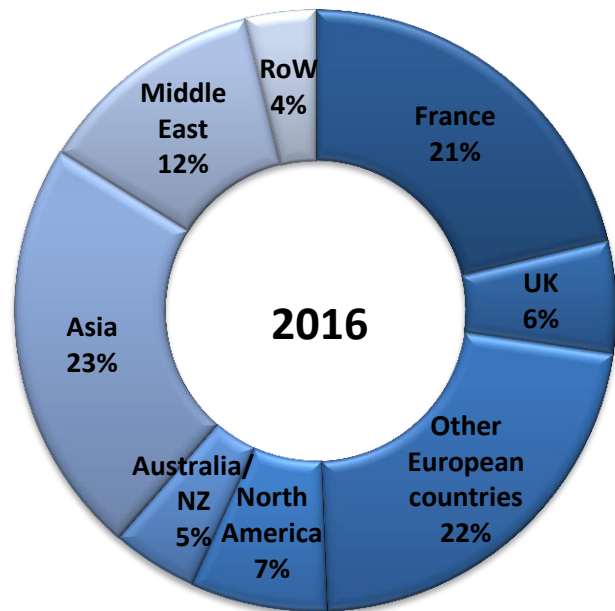
- Extension of Dubai metro

## Defence & Security: 6

- Watchkeeper drone support (UK MoD)
- Security of 170 sites of the Dutch MoD
- Rafale (India)
- Crowsnest airborne radars (UK MoD)
- MMCM unmanned naval systems against sea mines (France)
- Modernisation of Bolivian civil and military Air Traffic Management (Sidacta)

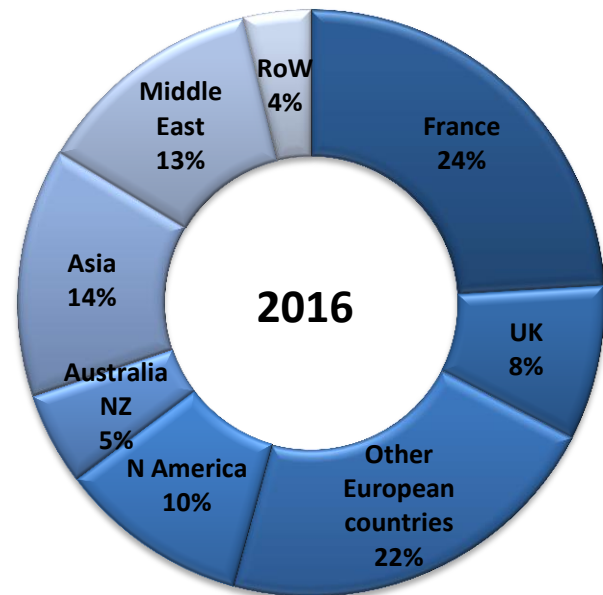
# 2016 order intake by destination

€m	2016	2015	change	
			total	organic
France	3,509	4,102	-14%	-14%
United Kingdom	1,003	2,227	-55%	-50%
Other European countries	3,646	3,483	+5%	+5%
Europe	8,159	9,812	-17%	-15%
North America	1,216	1,364	-11%	-16%
Australia/NZ	764	1,525	-50%	-50%
Asia	3,708	1,982	+87%	+90%
Middle East	2,043	3,726	-45%	-45%
Rest of the world	625	470	+33%	+35%
Emerging markets	6,376	6,179	+3%	+4%
<b>Total</b>	<b>16,514</b>	<b>18,880</b>	<b>-13%</b>	<b>-11%</b>

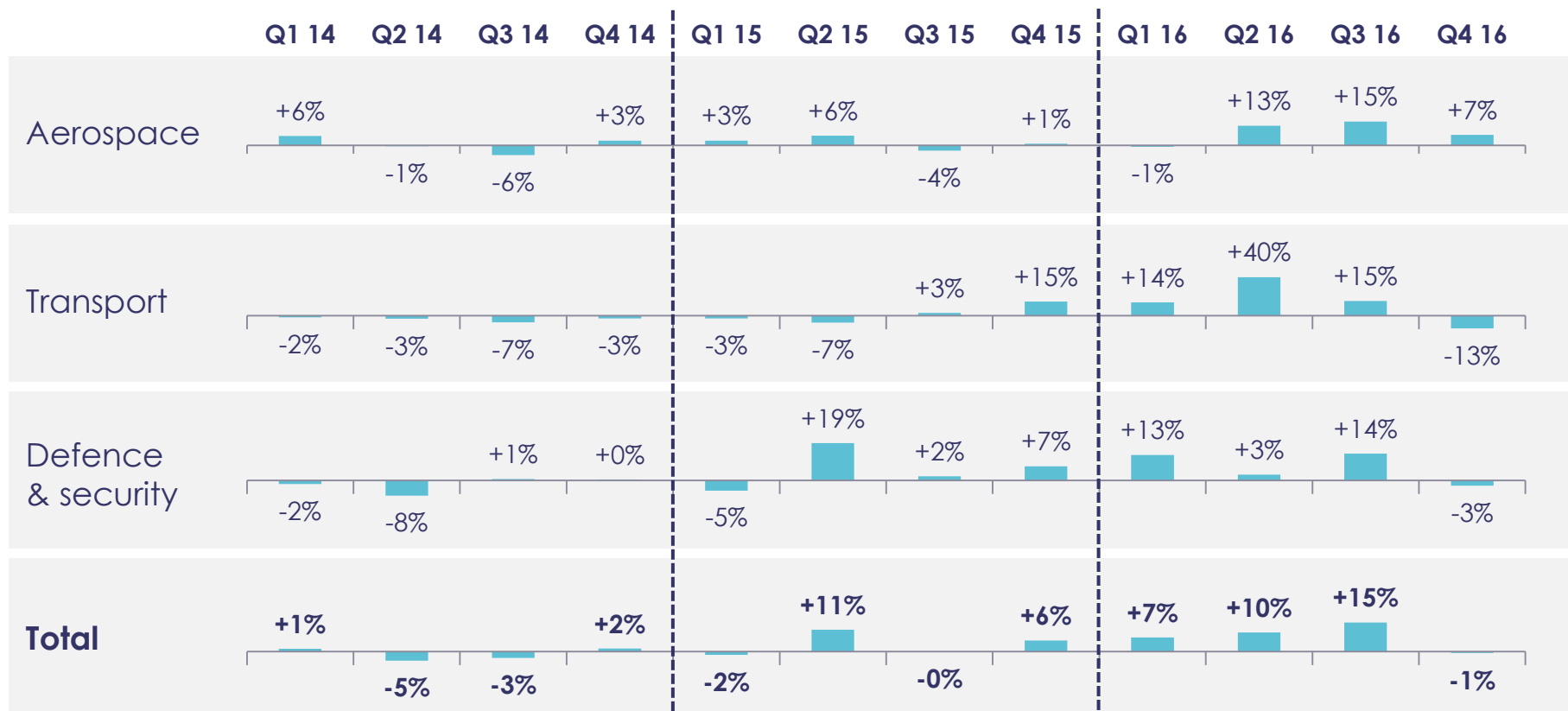


# 2016 sales by destination

€m	2016	2015	change	
			total	organic
France	3,581	3,420	+5%	+5%
United Kingdom	1,272	1,382	-8%	+2%
Other European countries	3,227	3,040	+6%	+7%
Europe	8,080	7,842	+3%	+5%
North America	1,556	1,533	+1%	-3%
Australia/NZ	759	726	+5%	+5%
Asia	2,048	1,898	+8%	+8%
Middle East	1,887	1,431	+32%	+33%
Rest of the world	555	633	-12%	-12%
Emerging markets	4,490	3,962	+13%	+14%
<b>Total</b>	<b>14,885</b>	<b>14,063</b>	<b>+6%</b>	<b>+7%</b>



# Organic sales growth per quarter





# Update on 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
- Restated 2017 P&L and 31/12/17 balance sheet disclosed with Full Year 2017 results
- Communication on estimated impacts expected in H2 2017

## 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

# EBIT by segment

€m	2016		2015		Change	
					total	organic
<b>Aerospace</b>	<b>571</b>	<b>9.8%</b>	<b>518</b>	<b>9.6%</b>	<b>+10%</b>	<b>+11%</b>
<b>Transport</b>	<b>11</b>	<b>0.7%</b>	<b>(37)</b>	<b>-2.4%</b>	<b>-</b>	<b>-</b>
<b>Defence &amp; Security</b>	<b>788</b>	<b>10.7%</b>	<b>760</b>	<b>10.7%</b>	<b>+4%</b>	<b>+8%</b>
<b>EBIT - operating segments</b>	<b>1,371</b>	<b>9.3%</b>	<b>1,241</b>	<b>8.9%</b>	<b>+10%</b>	<b>+14%</b>
Other	(50)		(47)		-	-
<b>EBIT – before DCNS</b>	<b>1,321</b>	<b>8.9%</b>	<b>1,194</b>	<b>8.5%</b>	<b>+11%</b>	<b>+14%</b>
DCNS (35% share of net result)	34		22		+54%	+54%
<b>EBIT - total</b>	<b>1,354</b>	<b>9.1%</b>	<b>1,216</b>	<b>8.6%</b>	<b>+11%</b>	<b>+15%</b>

■ Recovery of Transport

■ Strong performance of Aerospace and Defence & Security

# Summary P&L: from sales to EBIT

	2016		2015		change	
	€m	% of sales	€m	% of sales	total	organic
Sales	14,885		14,063		+6%	+7%
Gross margin <sup>(a)</sup>	3,611	24.3%	3,375	24.0%	+7%	+6%
Indirect costs <sup>(a)</sup>	(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)

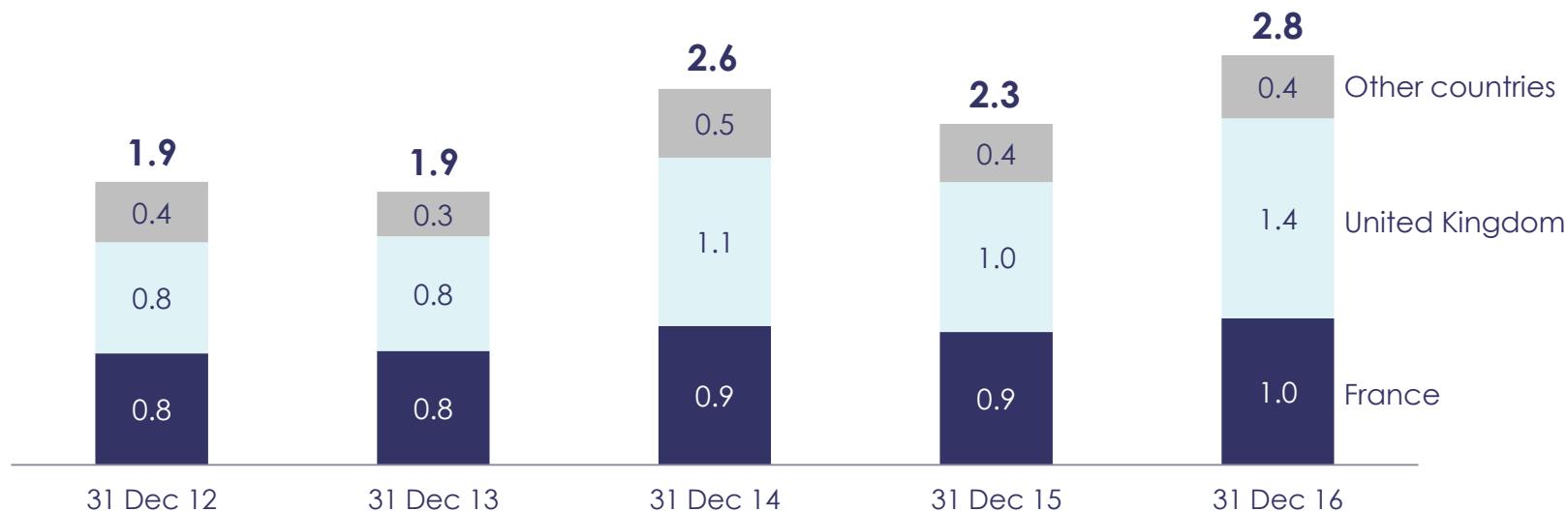
# Summary P&L: from EBIT to adjusted net income

€m	2016	2015
<b>EBIT</b>	<b>1,354</b>	<b>1,216</b>
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)
<i>Effective tax rate</i>	<i>27.2%</i>	<i>26.7%</i>
<b>Adjusted net income</b>	<b>971</b>	<b>871</b>
Minorities	(74)	(62)
<b>Adjusted net income, Group share</b>	<b>897</b>	<b>809</b>
<b>EPS: Adjusted net income, Group share, per share (in €)</b>	<b>4.25</b>	<b>3.89</b>

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

# Evolution of net pension provision

€bn



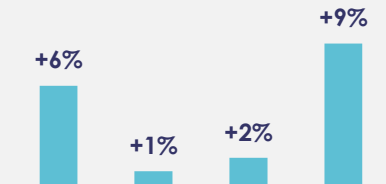
## Liability discount rate

France	2.9%	3.2%	1.5%	2.0%	1.5%
UK	4.5%	4.6%	3.7%	4.0%	2.8%

# Historical sales and EBIT performance by segment

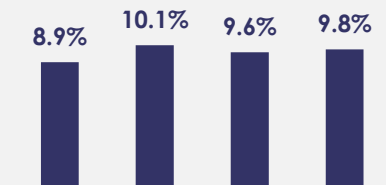
## Aerospace

Organic sales growth



2013 2014 2015 2016

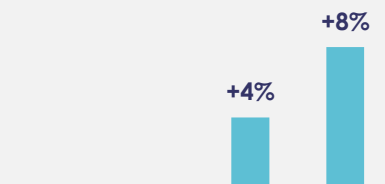
EBIT margin



2013 2014 2015 2016

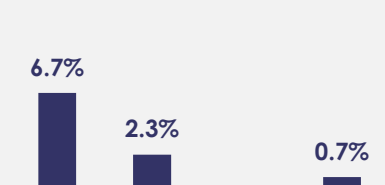
## Transport

Organic sales growth



2013 2014 2015 2016

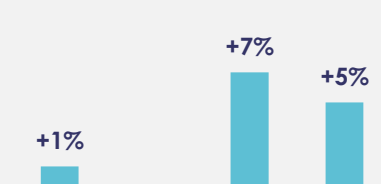
EBIT margin



2013 2014 2015 2016

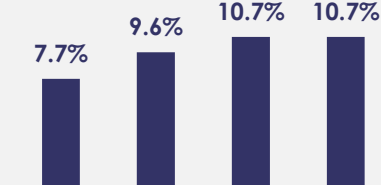
## Defence & security

Organic sales growth



2013 2014 2015 2016

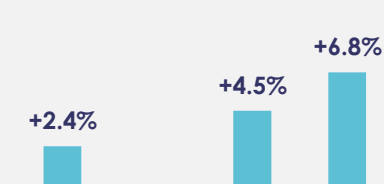
EBIT margin



2013 2014 2015 2016

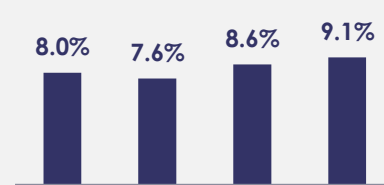
## Total Group

Organic sales growth



2013 2014 2015 2016

EBIT margin



2013 2014 2015 2016

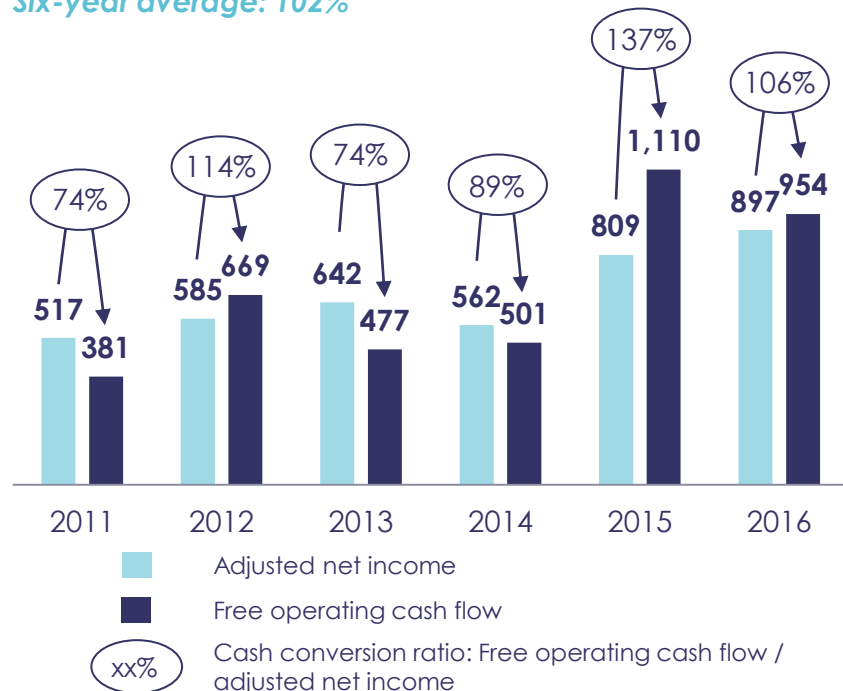
Note: Group EBIT includes equity associate DCNS (losses in 2014)

**THALES**

# Historical trend in cash conversion

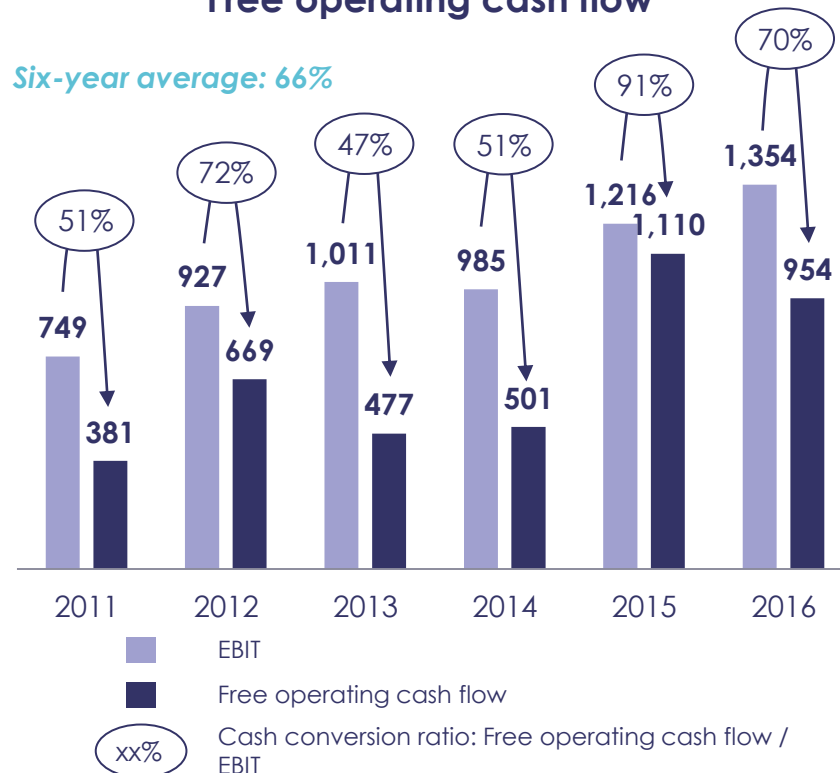
## Adjusted net income conversion into Free operating cash flow

Six-year average: 102%



## EBIT conversion into Free operating cash flow

Six-year average: 66%



# 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 (2016 impact: €+19m, 2015 impact: 0). 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 (2016 impact: €+12m, 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 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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