



Investor meeting

November 2017

www.thalesgroup.com











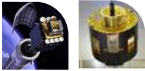

















Introduction to Thales

Key Ambition 10 initiatives

H1 and 9m 2017 results

Outlook

A strong set of focused businesses...

Segment	Sub-segment		Civil	Military	2016 sales(€m)	Market position
Aerospace <i>39% of 2016 sales</i>	Flight avionics				~1,650	#3 worldwide (commercial avionics)
	In-flight entertainment (IFE) and connectivity				~800	#2 worldwide
	Space solutions for telecom, observation, navigation and exploration				~2,400	#3 worldwide (civil satellites)
	Other aerospace businesses including training & simulation and microwave systems				~950	#1 worldwide (microwave systems)
Transport <i>11% of 2016 sales</i>	Signaling and supervision of rail networks including passenger payment collection systems				~1,600	#2 worldwide
Defence & security <i>50% of 2016 sales</i>	Advanced defence systems including air defence, missiles, surface radars, optronics, armored military vehicles, equipment 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

... 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...

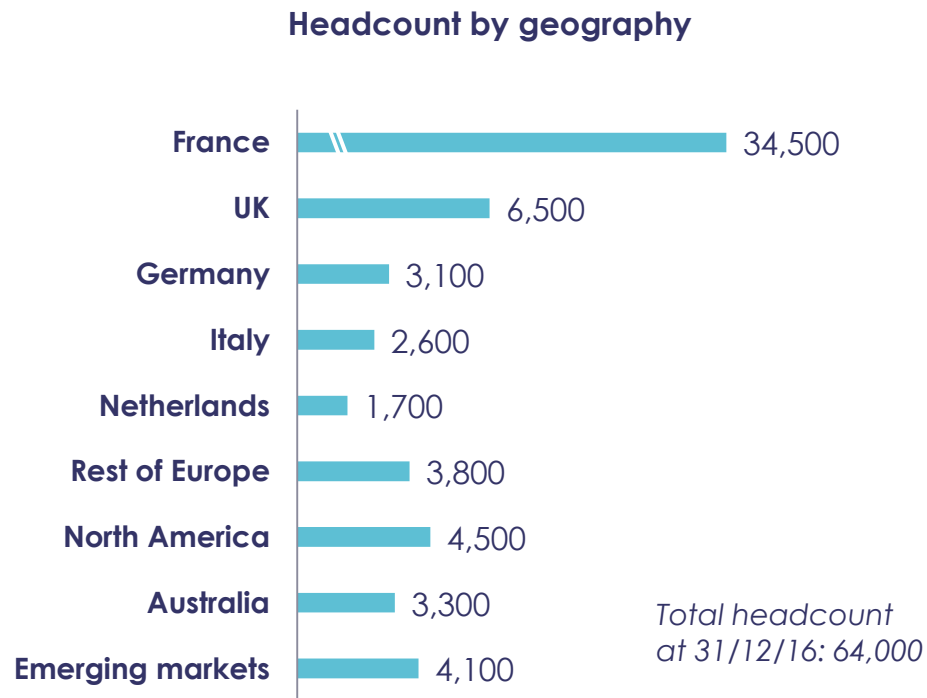
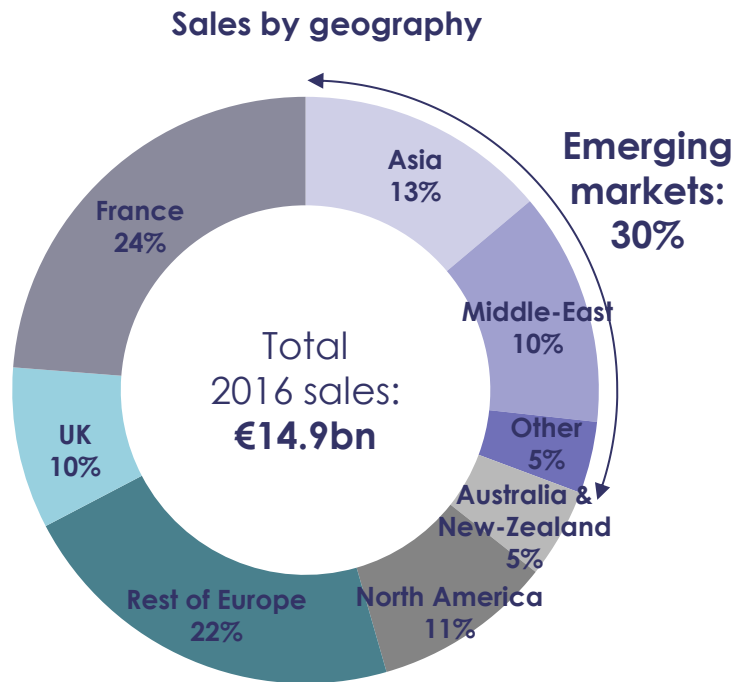
Transport

- 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
-

...across a diversified geographical portfolio





- Introduction to Thales
- **Key Ambition 10 initiatives**
- H1 and 9m 2017 results
- Outlook

Unchanged strategic focus



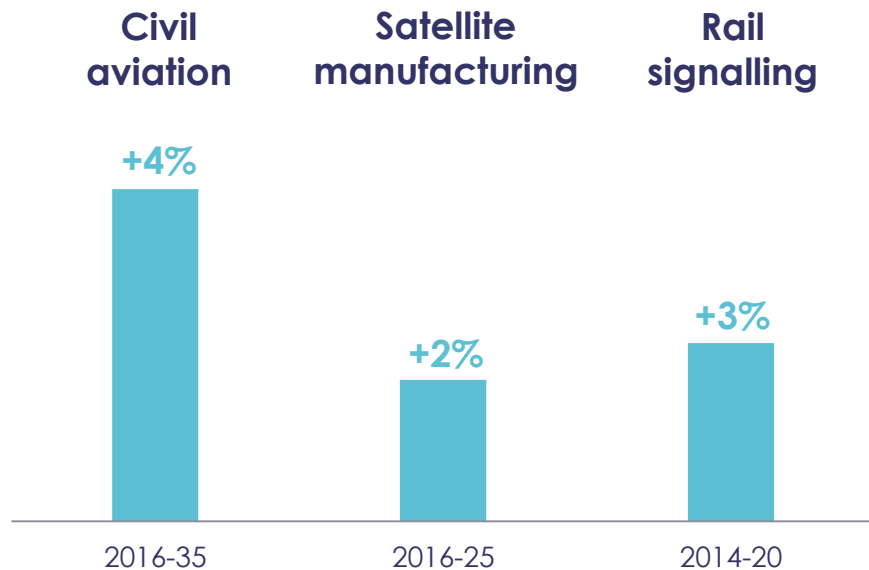
Building a growing, more global and more profitable Thales



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

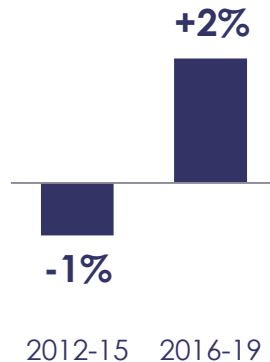
Leverage growth in civil markets and inflection of defence budgets



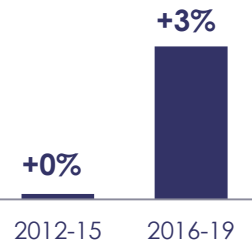
Annual growth forecasts - sources:

- 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

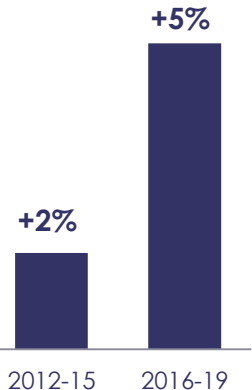


Europe



~50%
of Thales
Defence &
Security
segment
sales

Asia-Pacific and Middle-East



~40%
of Thales
Defence &
Security
segment
sales

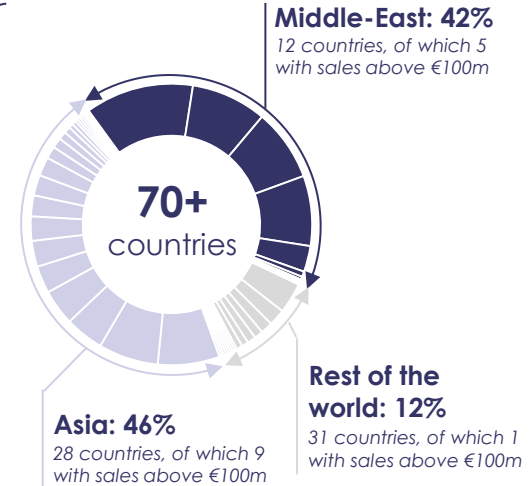
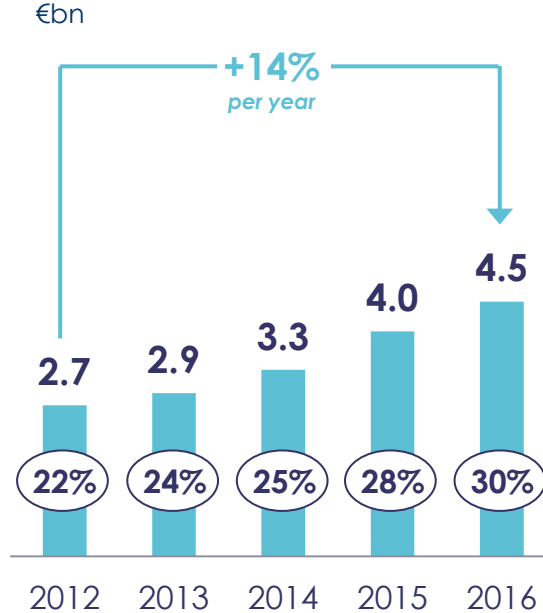
Build on successful expansion into emerging markets

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

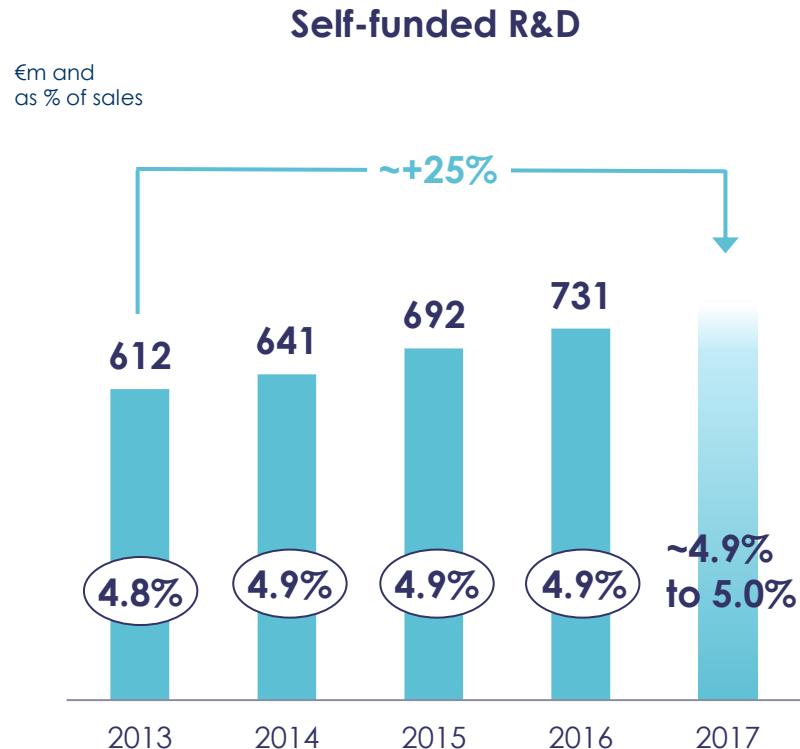
■ Innovation and technology leadership a key differentiator

■ 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



Digital innovation: a key growth opportunity in our markets

Enhanced products and systems



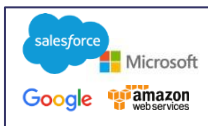
Cyber-secured
signalling systems



Connected
armored vehicles



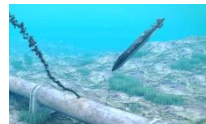
Artificial intelligence-
enhanced reconnaissance



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



THALES

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)



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)



“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 (completed in September 2017)



Artificial Intelligence

- Technology maturing rapidly, with many internal proof-of-concept projects ongoing
- 150+ artificial intelligence experts
- Setting up additional dedicated research center in Montréal (Canada)
- Guavus's Big Data processes and tools key to leverage AI algorithms

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



Engineering competitiveness: ongoing deployment of best practices

Engineering: the core added value of Thales

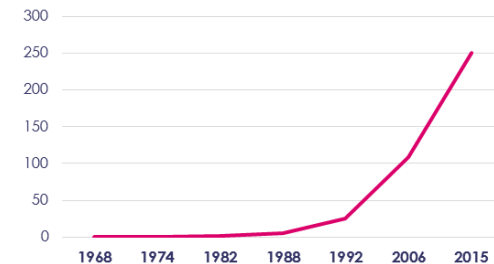
- 23,000+ engineers worldwide (1/3 of group staff)
- Combining hardware, software and systems expertise to design differentiated solutions
- Addressing increasingly complex and critical situations
- Improved methods, processes and tools key to increase engineering performance

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

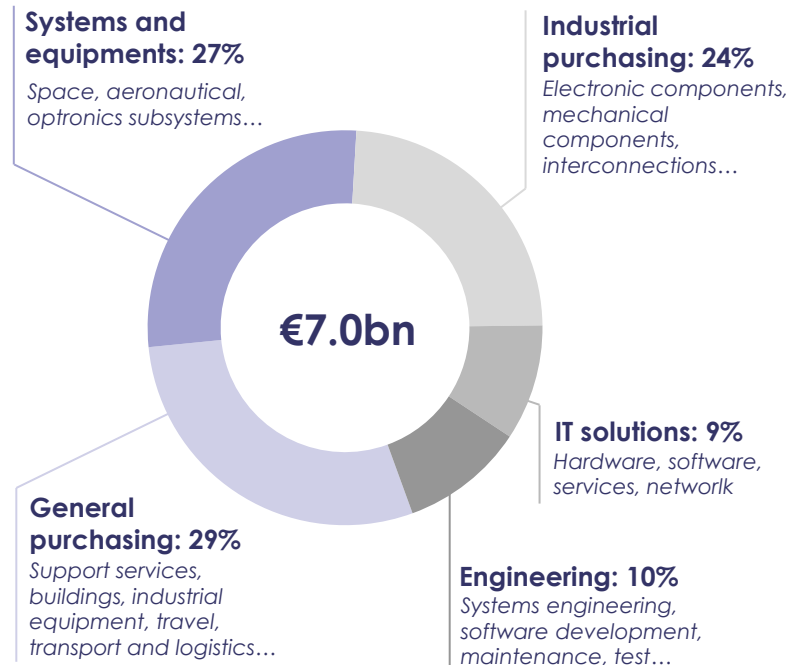
Leveraging long-term competitiveness drivers

- 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

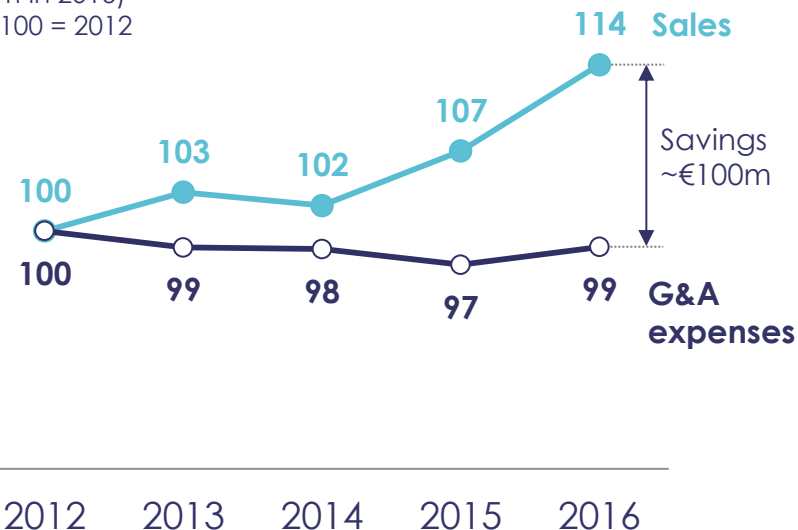
- Rationalization of industrial footprint achieved in several countries
- Ongoing convergence of Information Systems

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

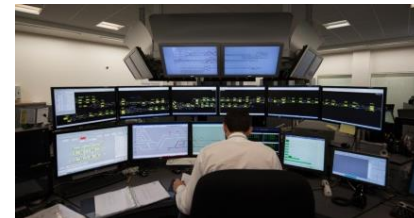
Operational recovery plan deployed

- 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





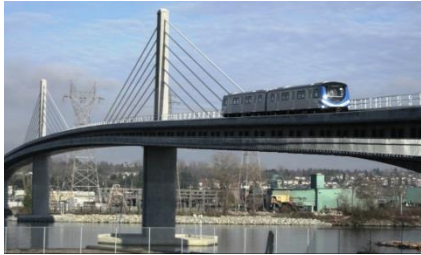
- Introduction to Thales
- Key Ambition 10 initiatives
- **H1 and 9m 2017 results**
- Outlook

9m 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

9m 2017 highlights

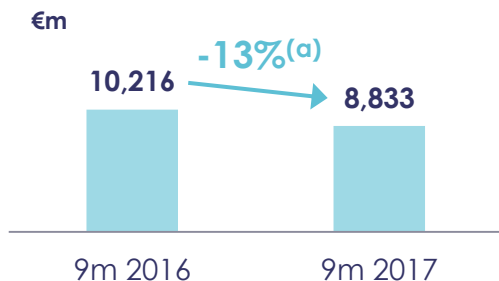
- **Solid order intake, driven by multiple large contracts**
- **Robust sales growth**
 - Negative Q3 growth driven by phasing effects
- **H1: significant increase in profitability, supported by all segments**
- **Acceleration of R&D investments and digital transformation initiatives**

Continued focus on profitable and sustainable growth

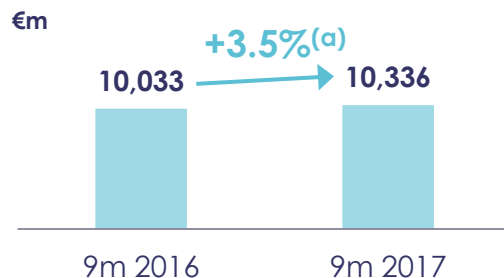


H1 and 9m 2017 key figures

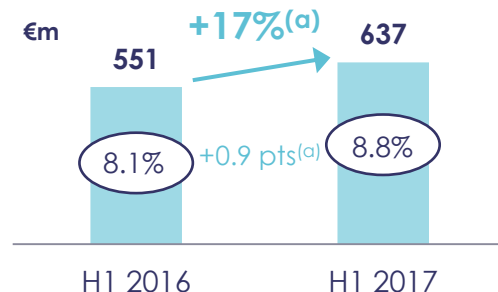
9m order intake



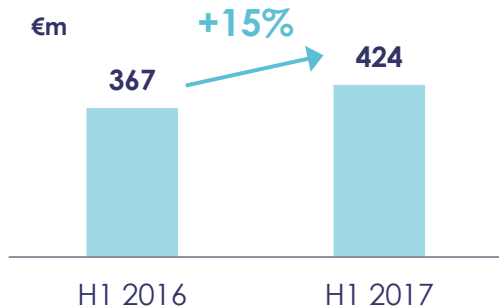
9m sales



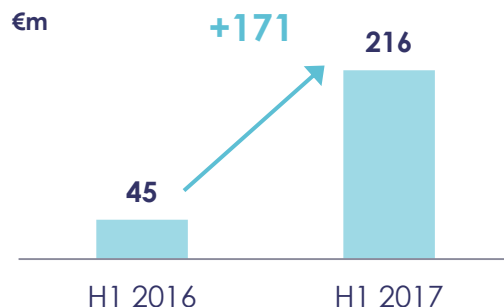
H1 EBIT and EBIT margin^(b)



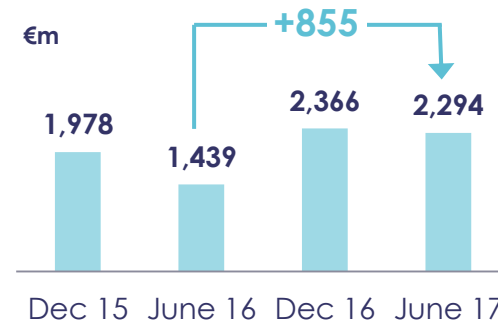
H1 adjusted net income^(b)



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 2017 order intake

Order intake down due to high comps

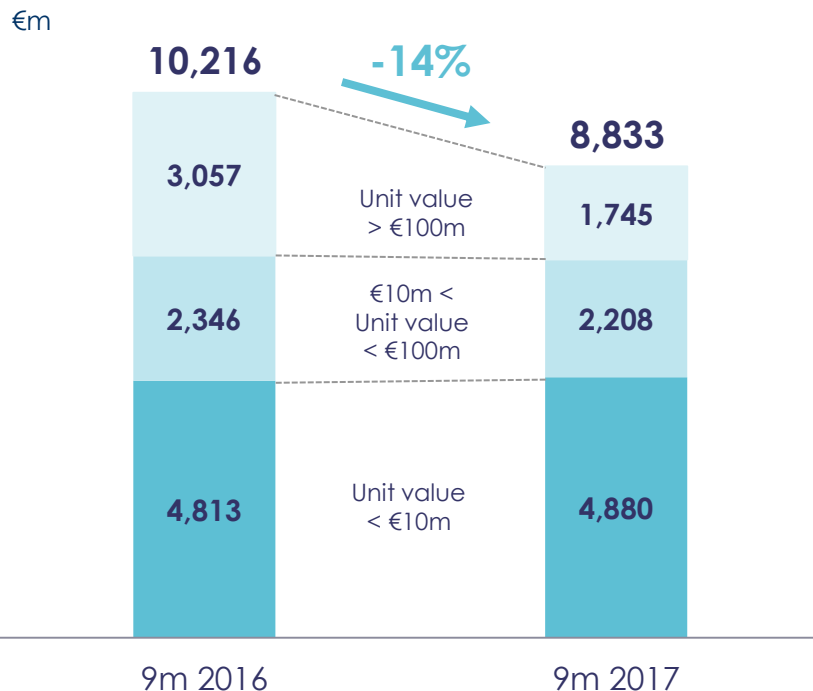
- 9m 2016 included Indian Rafale jumbo contract

11 orders over €100m, including 3 contracts recorded in Q3

- Additional contract linked to French FTI frigates
- Digital military communications (CONTACT)
- Air defence system in Asia

Solid dynamics in mature markets: +12%

Order intake by contract unit value



9m 2017 organic sales growth

Continuous high growth in emerging markets

➤ +10%, after +17% in 9m 2016

Slower growth in mature markets

➤ High comps in 9m 2016

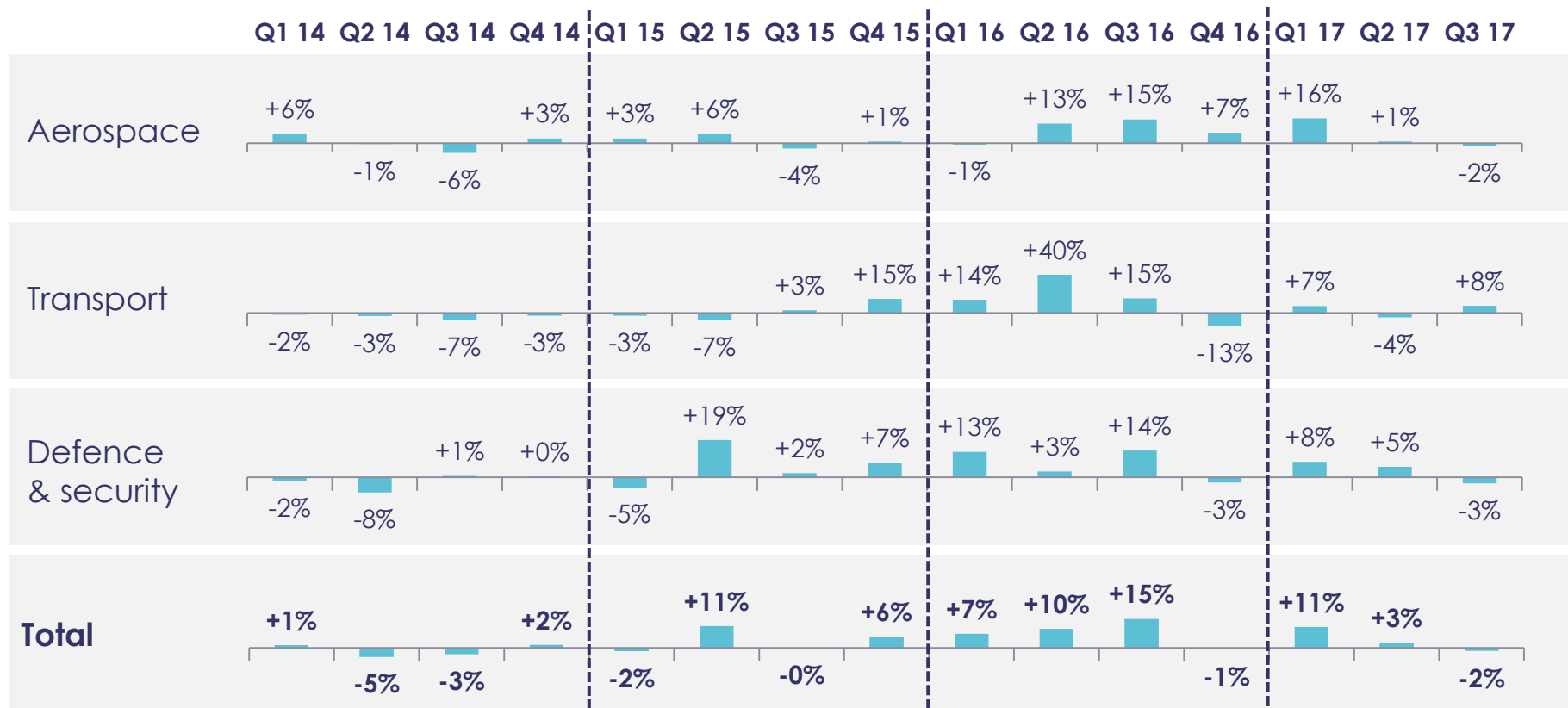
Negative growth in Q3 driven by phasing effects

Organic^(a) sales growth



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

Organic sales growth per quarter



Aerospace: 9m 2017 key figures

€m	9m 2017	9m 2016	change	
			total	organic
Order intake	3,049	3,735	-18%	-18%
Sales	4,068	3,898	+4.4%	+4.5%

- Order intake down due to high comps in in-flight entertainment (IFE) and slowdown of Space
- Sales growth driven by aircraft avionics and Space



Transport: 9m 2017 key figures

€m	9m 2017	9m 2016	change	
			total	organic
Order intake	976	687	+42%	+43%
Sales	1,060	1,046	+1.3%	+2.3%



- Solid order intake momentum, driven by both main lines and urban rail signaling
- Low sales growth, due to high comps
 - 9m 2017 sales organically up 27% compared to 9m 2015

Defence & Security: 9m 2017 key figures

€m	9m 2017	9m 2016	change	
			total	organic
Order intake	4,766	5,748	-17%	-17%
Sales	5,163	5,028	+2.7%	+3.5%

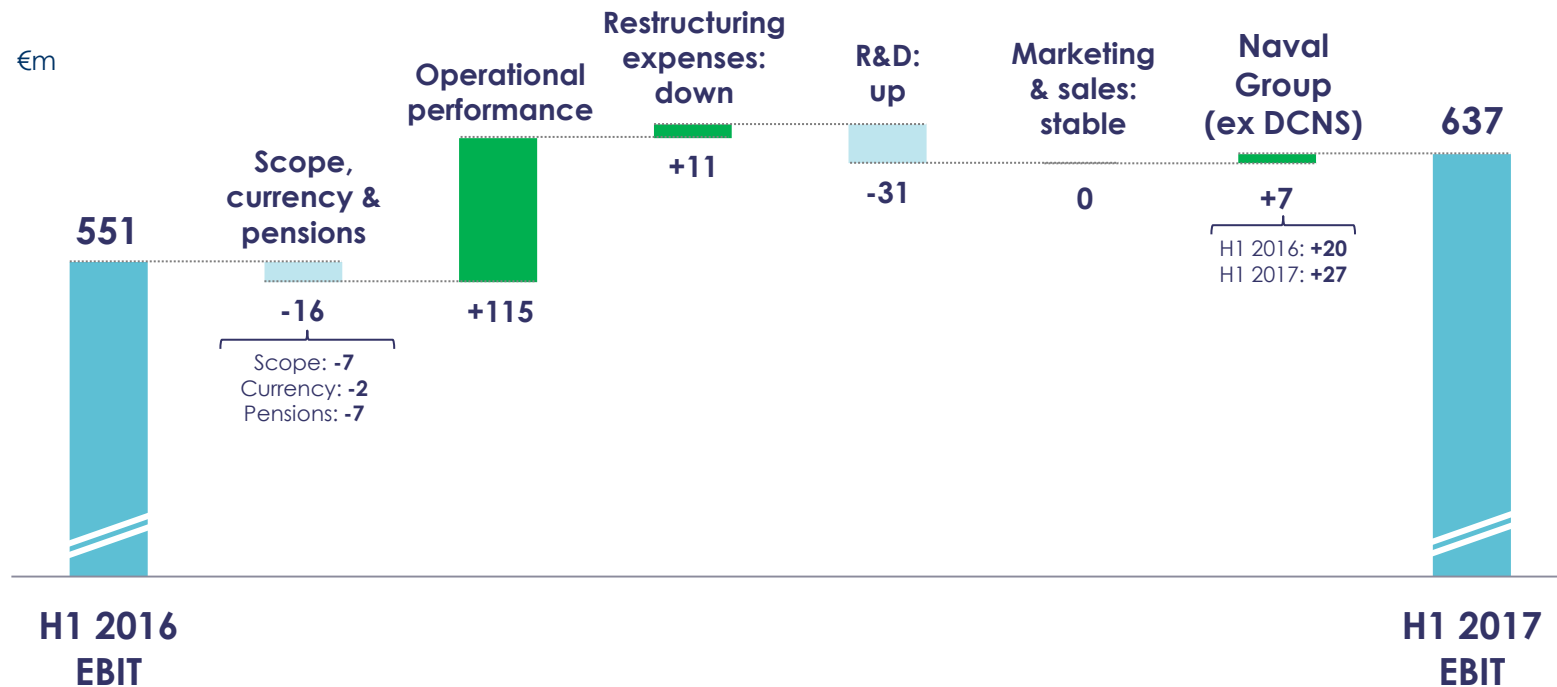
Order intake down due to high comps

- Rafale for India booked in Q3 2016

Broad-based sales growth



H1 EBIT improvement driven by solid operational performance



Implementation of IFRS15 revenue accounting 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
- **2% negative impact on H1 2017 sales, with operating leverage negatively affecting EBIT margin**
 - Impact in a given period not reflective of impact in other periods

Main areas of attention for Thales

- 1 New requirements to recognize revenue over time:**
and { No alternative use
Enforceable right to payment
- 2 Method to measure percentage of completion moved from “technical milestones” to “cost-to-cost”**
- 3 Split of contracts among performance obligations**
Example: build and run contracts

IFRS 15: restated H1 2017 adjusted P&L

H1 2017	Under IFRS 15		As reported		Difference	
	€m	% of sales	€m	% of sales	€m	% of sales
Sales	7,118		7,241		(123)	
Gross margin	1,700	23.9%	1,741	24.0%	(40)	-0.1 pt
Indirect costs	(1,163)	-16.3%	(1,154)	-15.9%	(9)	-0.4 pt
o/w R&D expenses	(360)	-5.1%	(360)	-5.0%	-	-0.1 pt
o/w Marketing & Sales expenses	(530)	-7.4%	(521)	-7.2%	(9)	-0.3 pt
o/w General & Administrative expenses	(274)	-3.8%	(274)	-3.8%	-	-0.1 pt
Restructuring costs	(24)	-0.3%	(24)	-0.3%	-	-
Share of net result of equity-accounted affiliates	74	+1.0%	74	+1.0%	-	-
EBIT	587	8.3%	637	8.8%	(50)	-0.5 pt

Low impact on gross margin

Slight increase in indirect costs

➤ Move of bid costs from “cost of sales” to “marketing and sales”

Negative operating leverage on indirect costs



- Introduction to Thales
- Key Ambition 10 initiatives
- H1 and 9m 2017 results
- **Outlook**

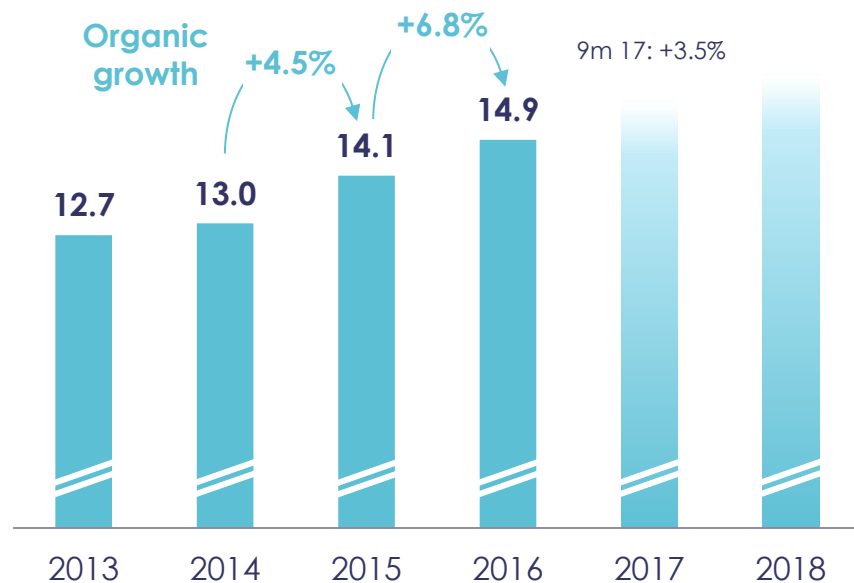
Progress on mid-term financial objectives

Sales

In €bn

2016-18 target

Mid-single digit organic growth on average

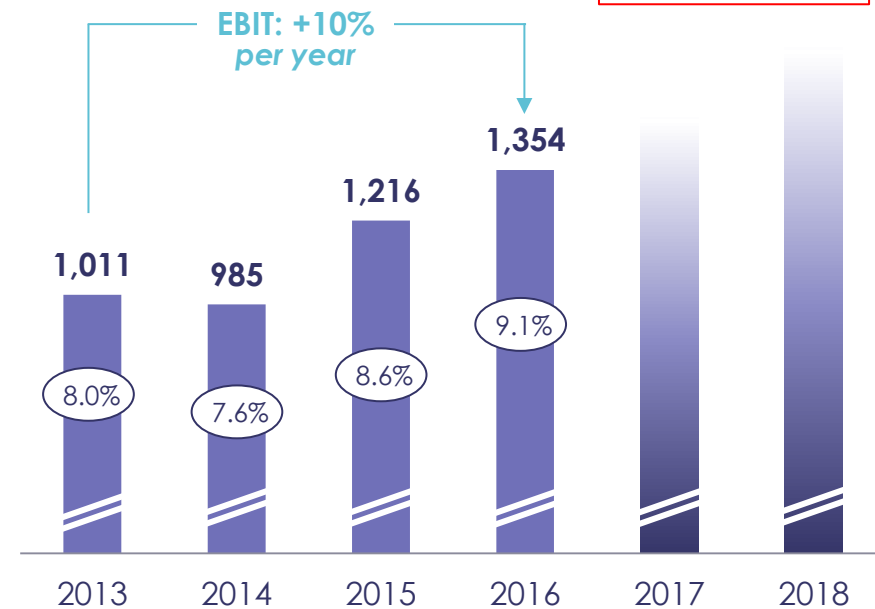


Profitability

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^(a)

€1,480-1,500m^(b)

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

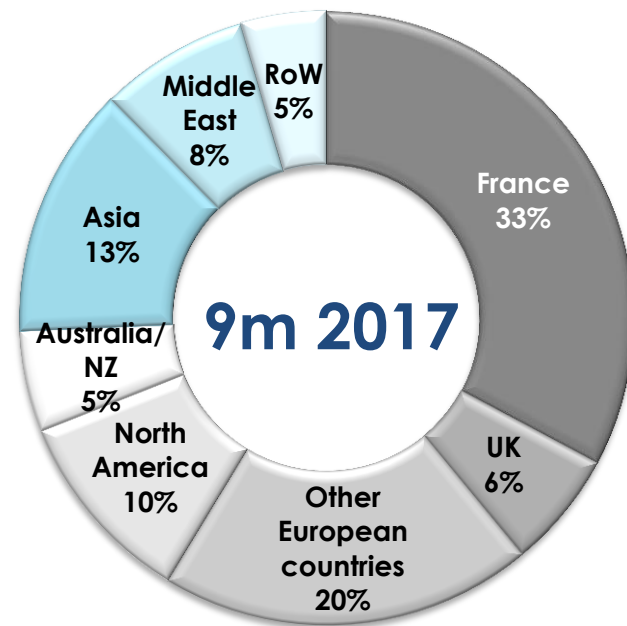
(b) Based on February 2017 scope and foreign exchange rates



Appendix

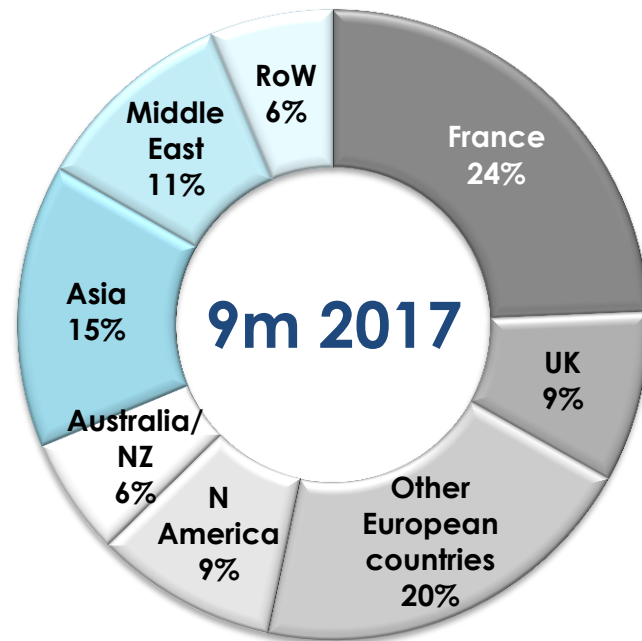
9m 2017 order intake by destination

€m	9m 2017	9m 2016	change	
			total	organic
France	2,899	1,939	+49%	+50%
United Kingdom	545	537	+1%	+9%
Other European countries	1,737	2,038	-15%	-15%
Europe	5,181	4,514	+15%	+16%
North America	912	820	+11%	+10%
Australia/NZ	472	536	-12%	-14%
Asia	1,175	2,880	-59%	-59%
Middle East	696	873	-20%	-20%
Rest of the world	397	593	-33%	-31%
Emerging markets	2,268	4,346	-48%	-47%
Total	8,833	10,216	-14%	-13%



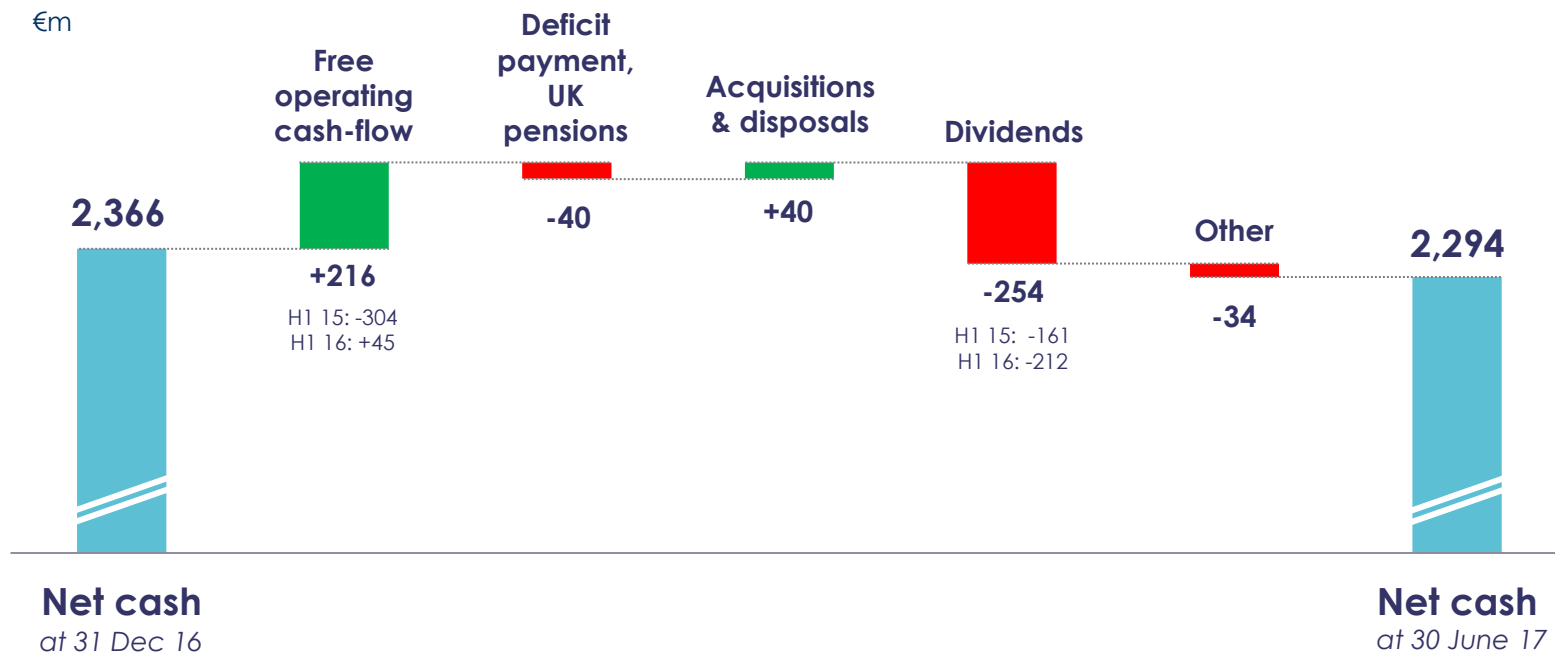
9m 2017 sales by destination

€m	9m 2017	9m 2016	change	
			total	organic
France	2,517	2,442	+3.1%	+3.2%
United Kingdom	907	886	+2.4%	+8.9%
Other European countries	2,086	2,081	+0.3%	-0.1%
Europe	5,511	5,409	+1.9%	+2.8%
North America	967	1,095	-11.6%	-12.0%
Australia/NZ	625	573	+9.0%	+6.3%
Asia	1,501	1,388	+8.2%	+8.9%
Middle East	1,079	935	+15.3%	+15.8%
Rest of the world	653	633	+3.2%	+4.4%
Emerging markets	3,233	2,956	+9.4%	+10.1%
Total	10,336	10,033	+3.0%	+3.5%



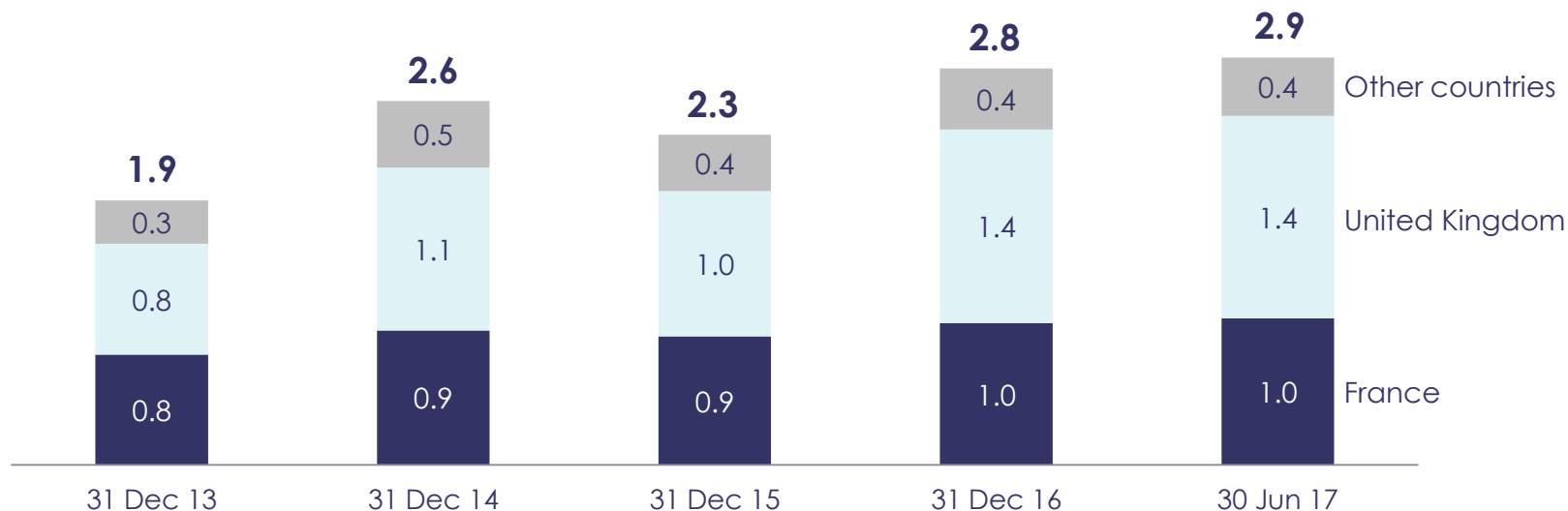
Movement in net cash over H1 2017

High net cash position driven by free operating cash-flow



Evolution of net pension provision

€bn



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%

2016 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 ^(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. Naval Group (ex DCNS)	97	0.7%	118	0.8%	-18%	+2%
EBIT before Naval Group	1,321	8.9%	1,194	8.5%	+11%	+14%
Share of net result of Naval Group	34	0.2%	22	0.2%	+54%	+54%
EBIT	1,354	9.1%	1,216	8.6%	+11%	+15%

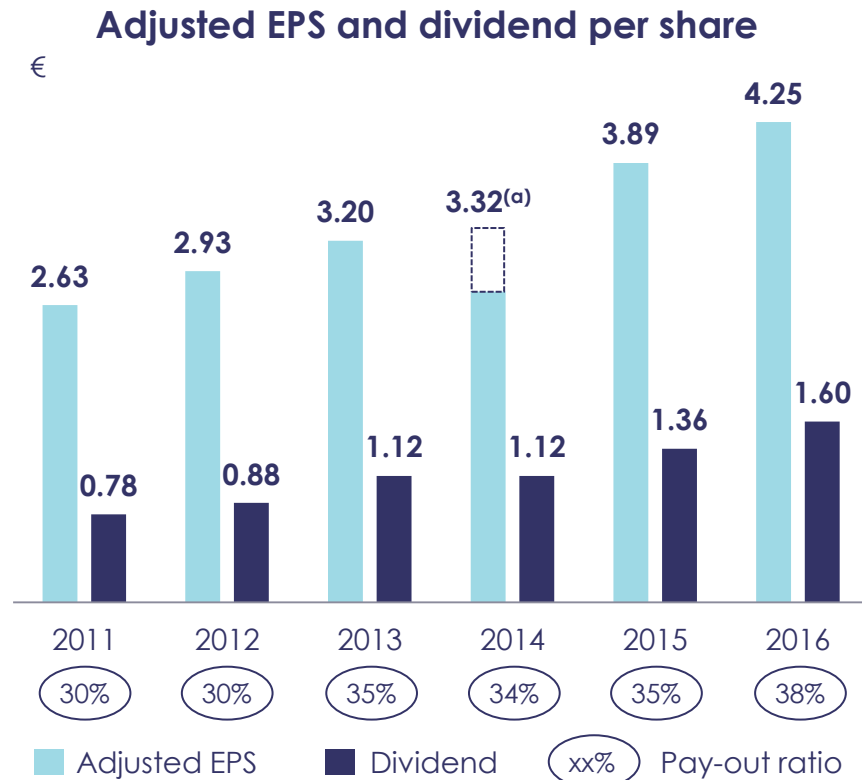
(a) Gross margin and indirect costs items adjusted for impact of expenses linked to Vormetric acquisition (€19m)

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)
<i>Effective tax rate</i>	<i>27.2%</i>	<i>26.7%</i>
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

Historical adjusted EPS and dividend



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

Adjusted EPS up 10% per year since 2011

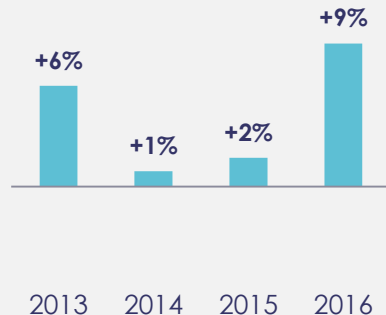
2016 dividend: €1.60 per share
➤ Pay-out ratio : 37.6%

Dividend up 15% per year since 2011

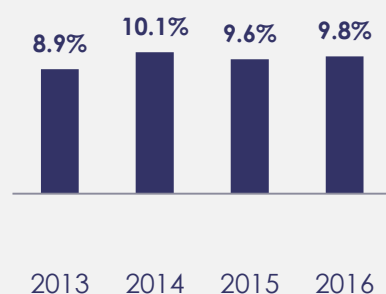
Historical sales and EBIT performance by segment

Aerospace

Organic sales growth

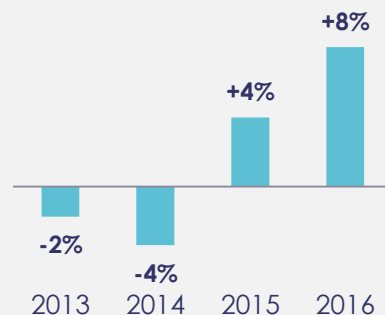


EBIT margin

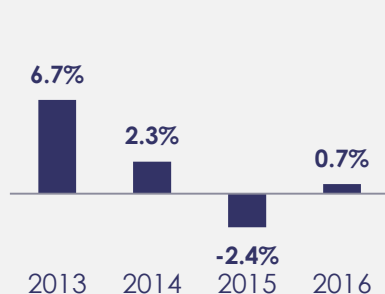


Transport

Organic sales growth

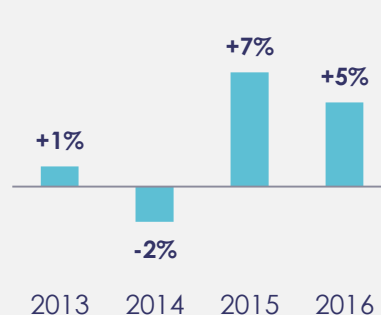


EBIT margin

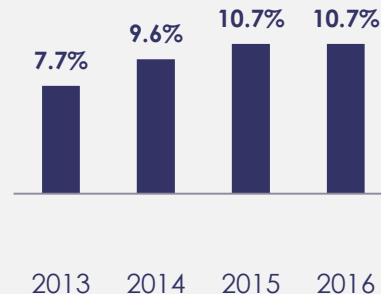


Defence & security

Organic sales growth

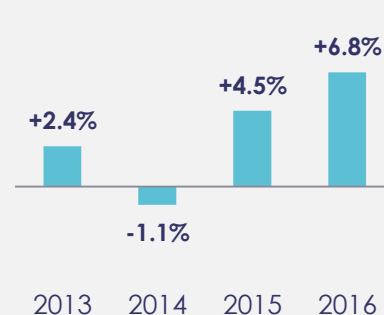


EBIT margin

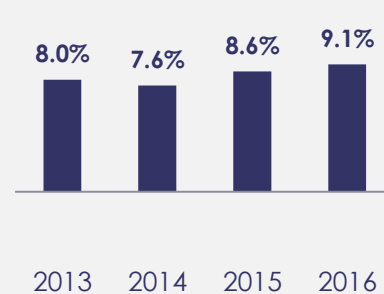


Total Group

Organic sales growth



EBIT margin



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

THALES

Historical order book by segment

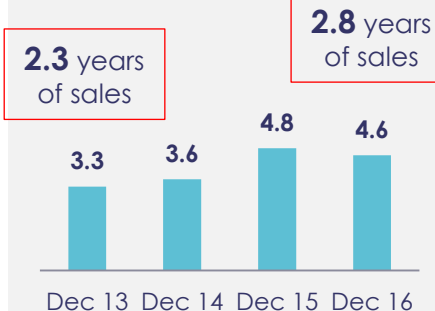
Aerospace

€bn



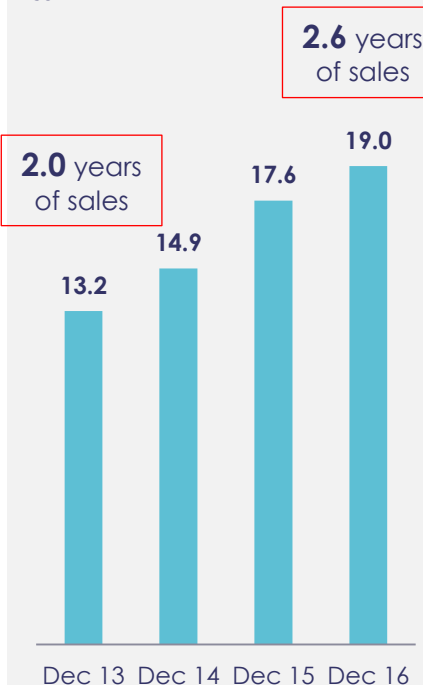
Transport

€bn



Defence & security

€bn



Total Group

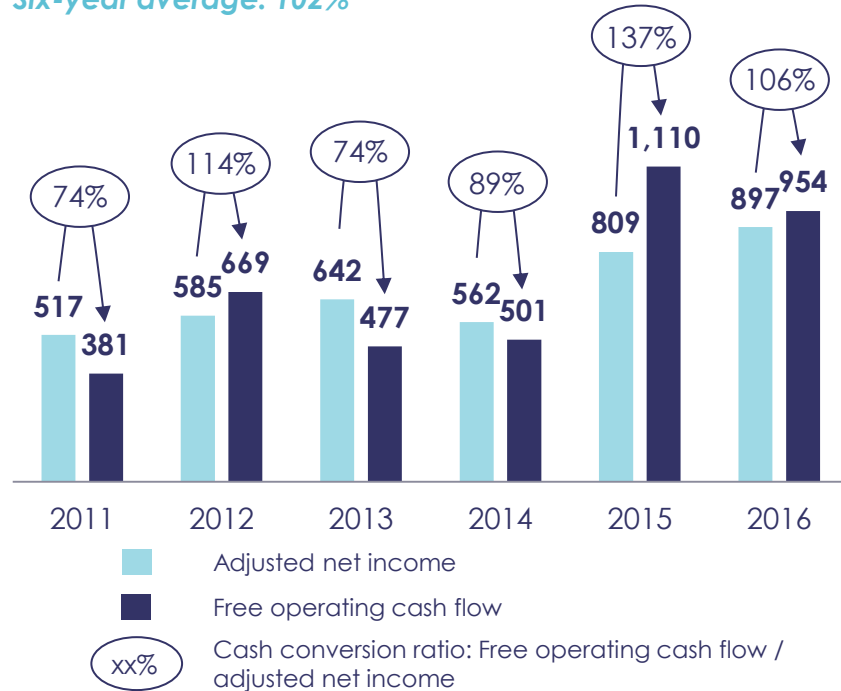
€bn



Historical trend in cash conversion

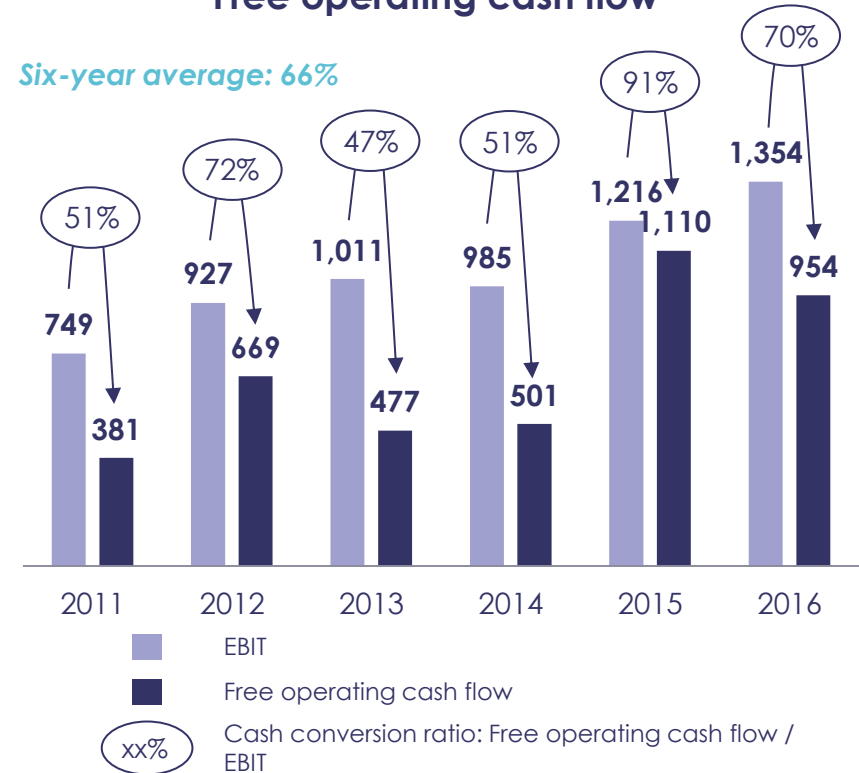
Adjusted net income conversion into Free operating cash flow

Six-year average: 102%



EBIT conversion into Free operating cash flow

Six-year average: 66%



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Definition of non-GAAP measures and other remarks

Rounding of amounts in euros

In the context of this presentation, the amounts expressed in millions of euros are rounded to the nearest million. As a result, the sums of the rounded amounts may differ very slightly from the reported totals. All ratios and variances are calculated based on underlying amounts, which feature in the consolidated financial statements.

Definitions

- **Organic:** at constant scope and exchange rates;
- **Book-to-bill ratio:** ratio of orders received to sales;
- **Mature markets:** All countries in Europe excluding Russia and Turkey, North America, Australia and New Zealand;
- **Emerging markets:** All other countries, i.e. Middle East, Asia, Latin America and Africa.

Non-GAAP measures

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

- **EBIT:** income from operations; *plus* the share of net income or loss of equity affiliates *less*: amortization of acquired intangible assets (PPA). From 1 January 2016, it also excludes expenses recorded in the income from operations that are directly related to business combinations (H1 2017 impact: €+10m€, 2016 impact: €+19m, H1 2016 impact: €+7m). See also notes 14-a and 2.1 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.



Thales – Tour Carpe Diem – 31 Place des Corolles – 92098 Paris La Défense – France
www.thalesgroup.com

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