



# Investor meeting

September 2016

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








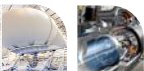




















- Introduction to Thales

- H1 2016 results

- Key Ambition 10 initiatives

- Outlook

# A strong set of focused businesses...

Segment	Sub-segment		Civil	Military	2015 sales(€m)	Market position
<b>Aerospace</b> <i>38% of 2015 sales</i>	<b>Flight avionics</b>				~1,600	#3 worldwide (commercial avionics)
	<b>Other aerospace businesses</b> including training & simulation and microwave systems				~1,000	#1 worldwide (microwave systems)
	<b>In-flight entertainment and connectivity (IFEC)</b>				~700	#2 worldwide
	<b>Space solutions</b> for telecom, observation, navigation and exploration				~2,100	#3 worldwide (civil satellites)
<b>Transport</b> <i>11% of 2015 sales</i>	<b>Signaling and supervision of rail networks</b> including passenger payment collection systems				~1,500	#2 worldwide
<b>Defense &amp; security</b> <i>50% of 2015 sales</i>	<b>Advanced defense systems</b> 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)
	<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				~2,600	#2 worldwide (military tactical communications)
	<b>Air Traffic Management</b>				~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: constellations, High Throughput Satellites, high resolution observation satellites...

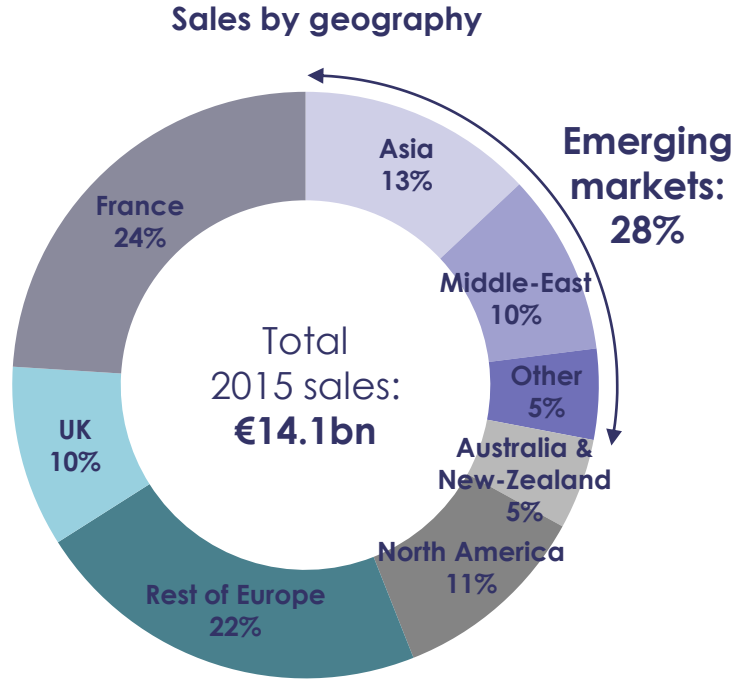
### Transport

- Upgrade of existing mainline and metro signaling systems to increase throughput
- Construction of new metro systems to address increased urbanization in emerging markets

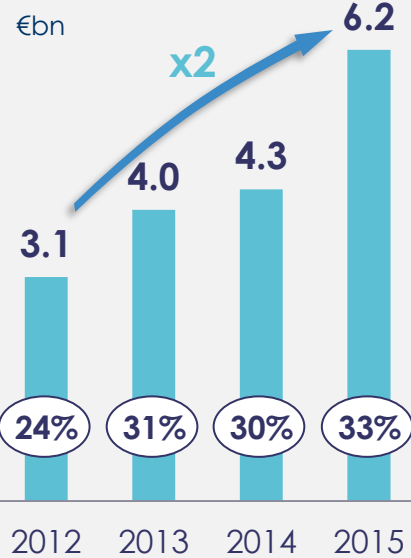
### Defense & security

- Positioning on “force-enabler” technologies: advanced sensors, Intelligence, Surveillance and Reconnaissance (ISR) solutions, new generation radio-communication, command and control (C4I) systems...
- Inflection of defense budgets in mature markets combined with continued growth in emerging markets
- Upgrade of Air Traffic Management systems, often integrating both civil and military systems
- High demand for corporate data protection (cyber-security) solutions

# ...across an increasingly diversified geographical portfolio

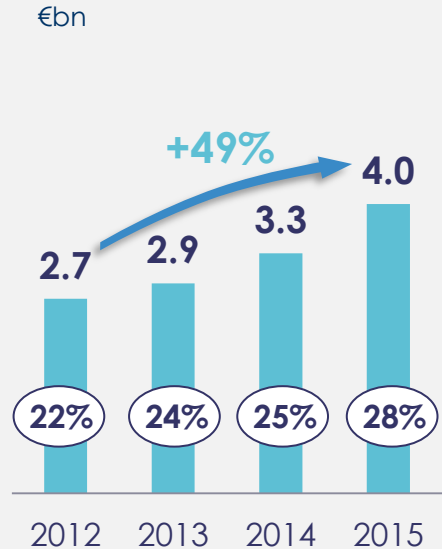


**Emerging market order intake**  
(and % of total order intake)



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

**Emerging market sales**  
(and % of total sales)



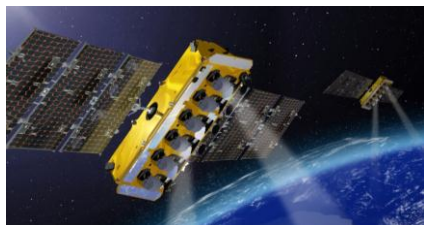
Significant footprint in ~60 countries

Successful development in emerging markets



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

# H1 2016 business environment



## 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

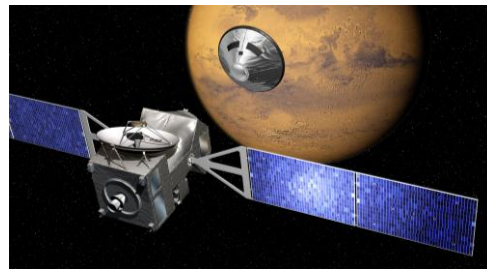
## Defense and security

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

# H1 2016 highlights

- Order intake in line with expectations
- Strong sales growth, across all segments
- Significant increase in profitability, in line with targets
- Recovery of transport on track
- Closing of Vormetric acquisition

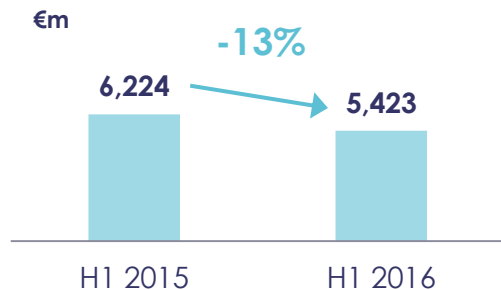
**Continued focus on profitable and sustainable growth**



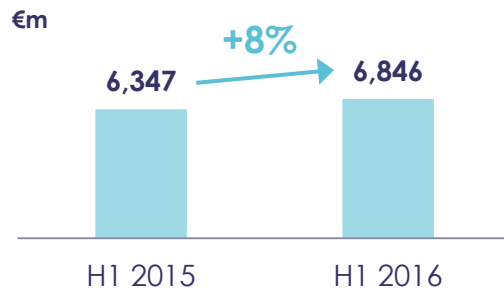


# H1 2016 key figures

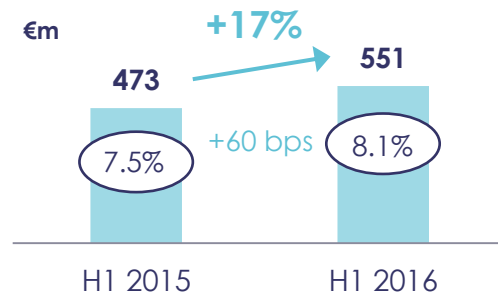
## Order intake



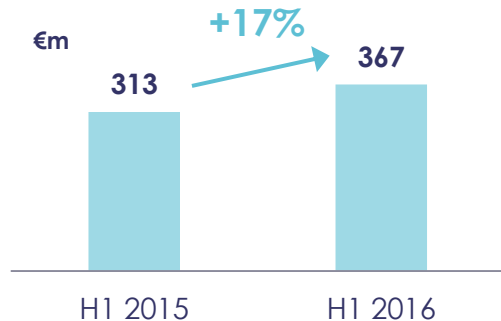
## Sales



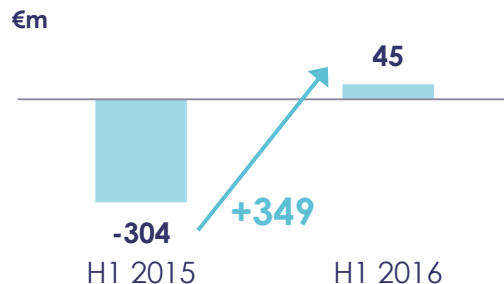
## EBIT and EBIT margin <sup>(a)</sup>



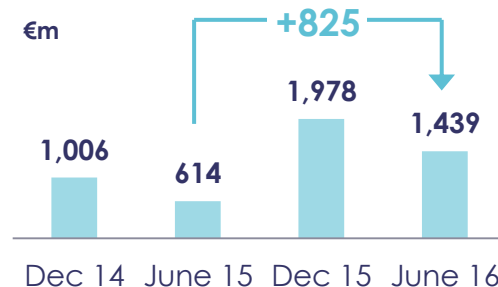
## Adjusted net income <sup>(a)</sup>



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



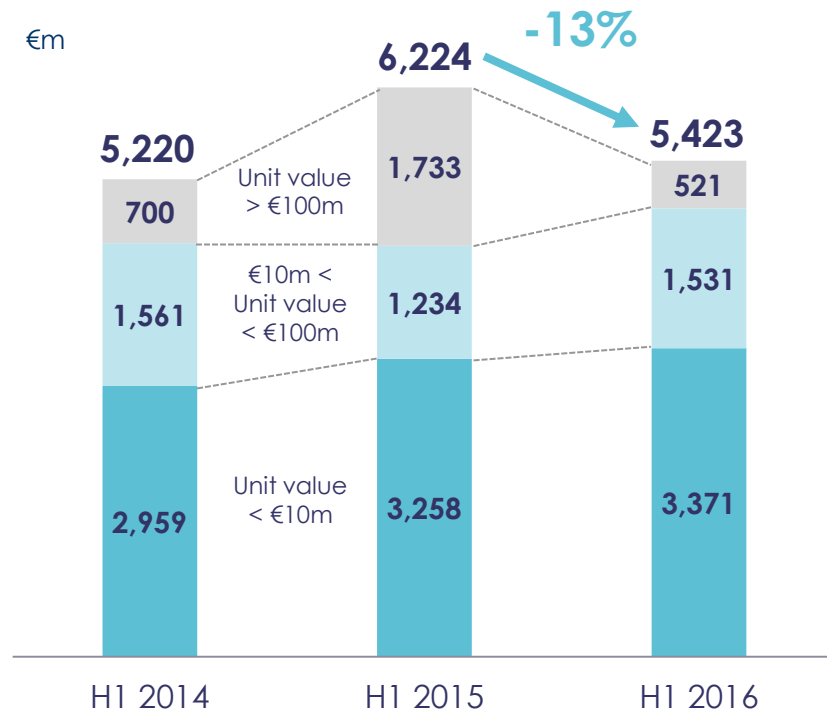
## Net cash position



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

# H1 2016 order intake

- Order intake in line with expectations
- 3 contracts over €100m, of which one in emerging markets
  - Watchkeeper drone support for UK Ministry of Defense
  - Satellite for a customer in the Middle-East
  - Security of 170 sites of the Dutch Ministry of Defense
- Solid base of small contracts (unit value < €10m)



# H1 2016 organic sales growth

## Return to growth in mature markets

- Europe: +8%, of which France: +6%, UK: +4%
- Australia-New Zealand: +8%

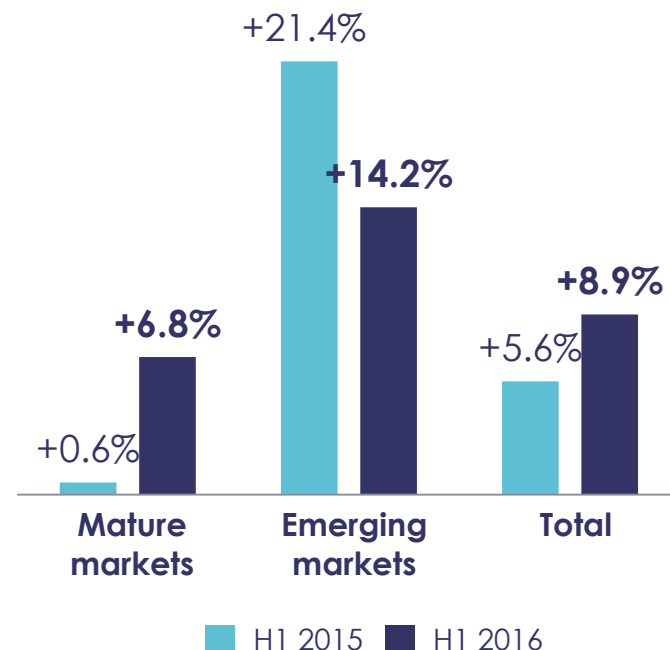
## Continuous high growth in emerging markets

- +14%, after +21% in H1 2015

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

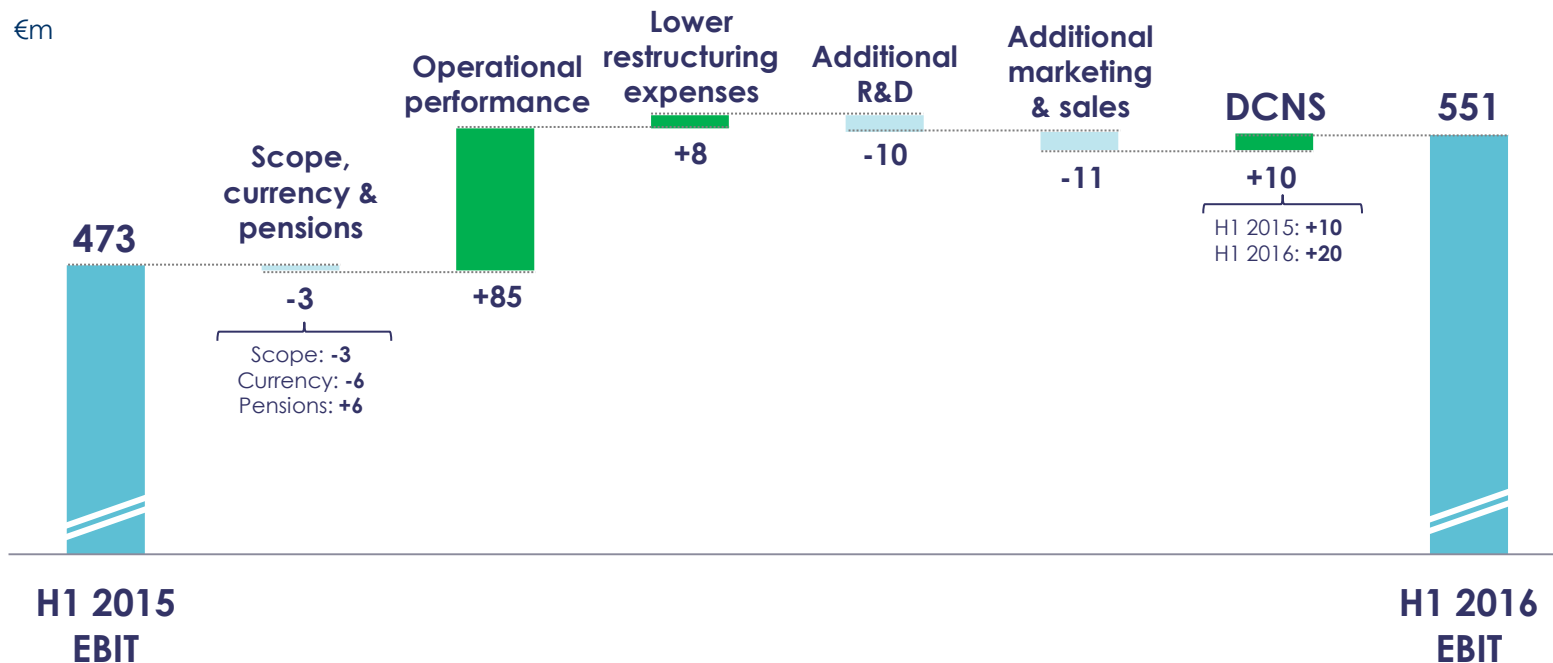
(a) In this presentation, "organic" means "at constant scope and exchange rates"

## Organic<sup>(a)</sup> sales growth



# H1 EBIT bridge

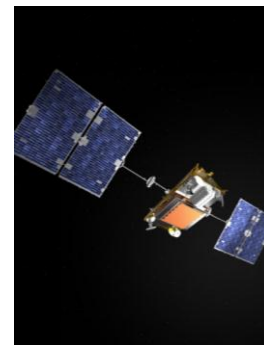
- Solid operational performance
- Increased R&D and marketing & sales investments



# Aerospace: H1 2016 key figures

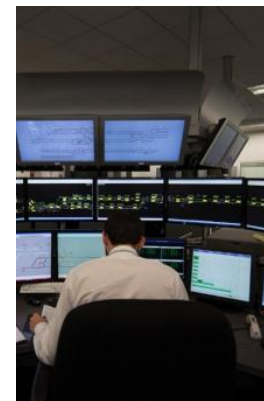
€m	H1 2016	H1 2015	change	
			total	organic
Order intake	2,218	1,851	+20%	+21%
Sales	2,667	2,512	+6%	+7%
EBIT	239	224	+7%	+8%
<i>in % of sales</i>	9.0%	8.9%		

- Strong order intake momentum
- Good progress on key programs: A350 ramp-up, Exomars, Iridium Next...
- Revenue growth driven by aircraft avionics and space
- Margin improvement slowed down by change in allocation rule of shared commercial costs



# Transport: H1 2016 key figures

€m	H1 2016	H1 2015	change	
			total	organic
Order intake	507	1,197	-58%	-56%
Sales	717	569	+26%	+29%
EBIT	(12)	(39)	-	-
<i>in % of sales</i>	<i>-1.6%</i>	<i>-6.9%</i>		



- Order intake down compared to exceptional H1 2015
- Strong revenue growth, driven by initial delivery of large contracts won in 2015 and recovery of execution
- Operational recovery on track

# Defense & Security: H1 2016 key figures

€m	H1 2016	H1 2015	change	
			total	organic
Order intake	2,665	3,150	-15%	-15%
Sales	3,421	3,228	+6%	+7%
EBIT	335	301	+11%	+15%
<i>in % of sales</i>	9.8%	9.3%		

- Order intake logically down on H1 2015 (Egyptian Rafale contract)
- Strong revenue growth across wide range of activities
- Increased profitability driven by top line growth and lower restructuring



# H1 2016 Free operating cash-flow

- Increased capex to support future growth
- Strong WCR performance

€m	H1 2016	H1 2015
<b>Operating cash-flow before interest and taxes</b>	<b>704</b>	<b>683</b>
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)
<b>Net cash-flow from operating activities</b>	<b>271</b>	<b>(106)</b>
Net operating investments	(226)	(198)
<b>Free operating cash-flow</b>	<b>45</b>	<b>(304)</b>





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

# 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*

 <b>COMPREHENSIVE PERFORMANCE PROGRAM</b>	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...

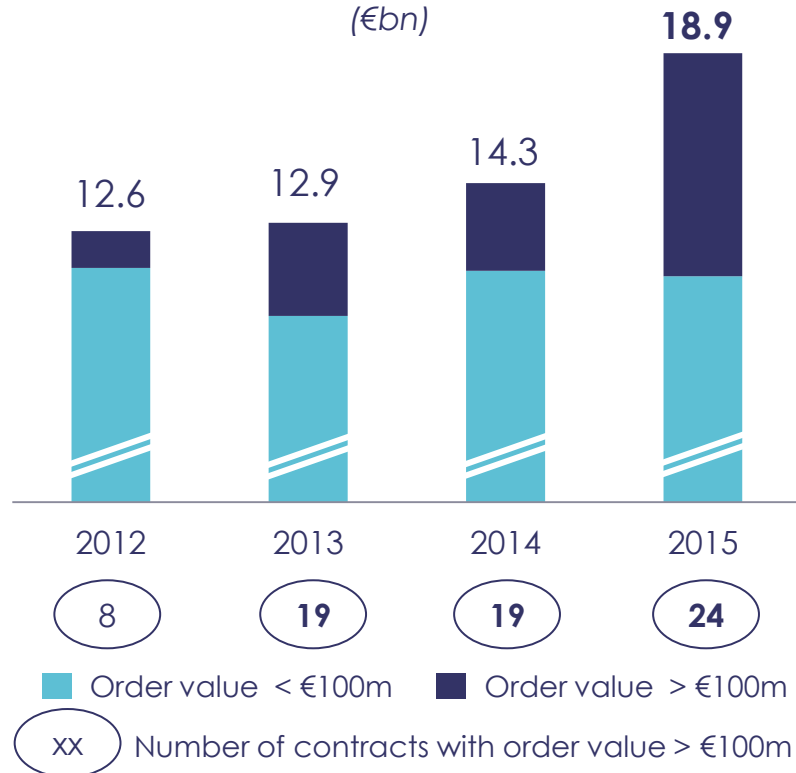
- Dedicated international development organization focused on emerging markets
- Targeting of larger contracts and of multi-year service agreements
- Increased focus on marketing

## ...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)

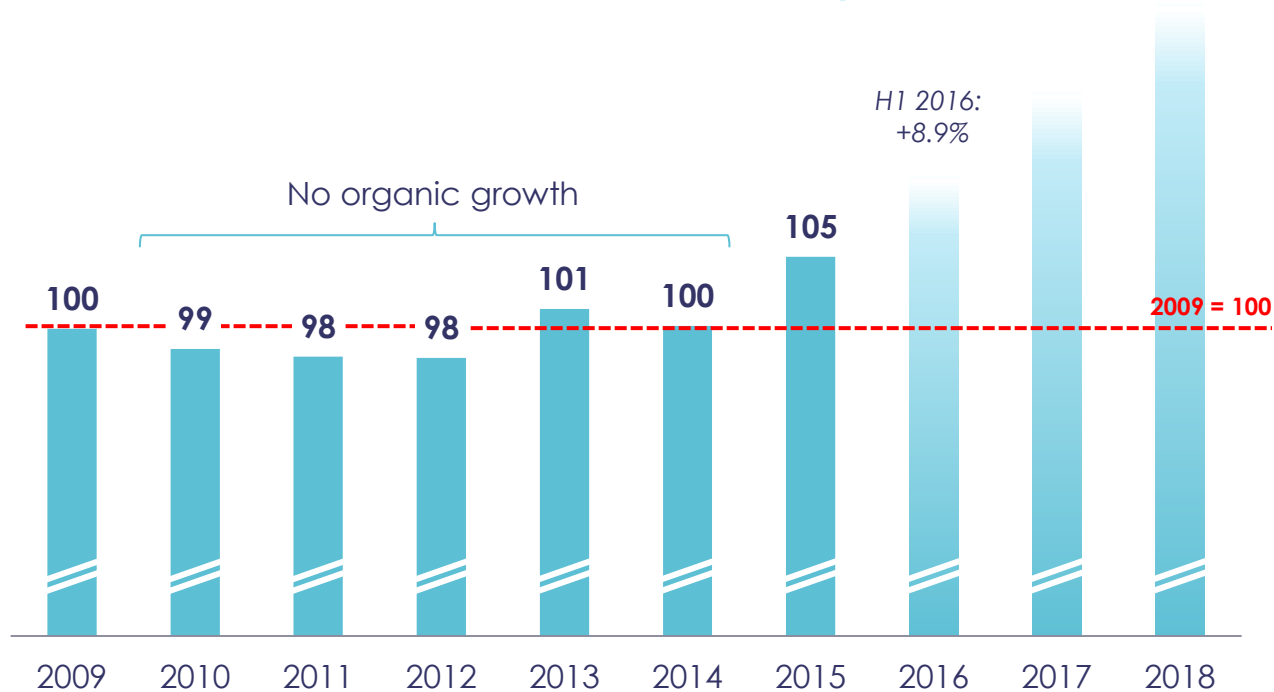


Note: 2012 excluding DCNS, pre IFRS10/11

**THALES**

# Return of sustainable sales growth

Organic sales evolution,  
base 100 = 2009 sales

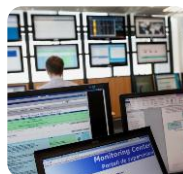


# Focused M&A accelerating profitable growth



## 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 in 2015



## 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

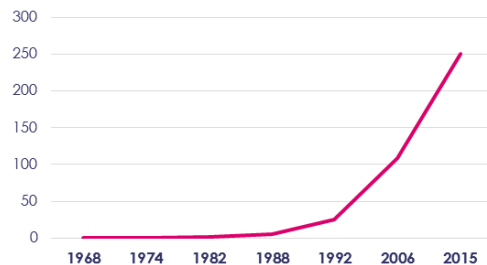
- ~22,500 engineers worldwide (1/3 of group staff)
- Combining hardware, software and systems expertise to design differentiated solutions
- Addressing increasingly complex and critical situations
- Improved methods, processes and tools key to increase engineering performance

## 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

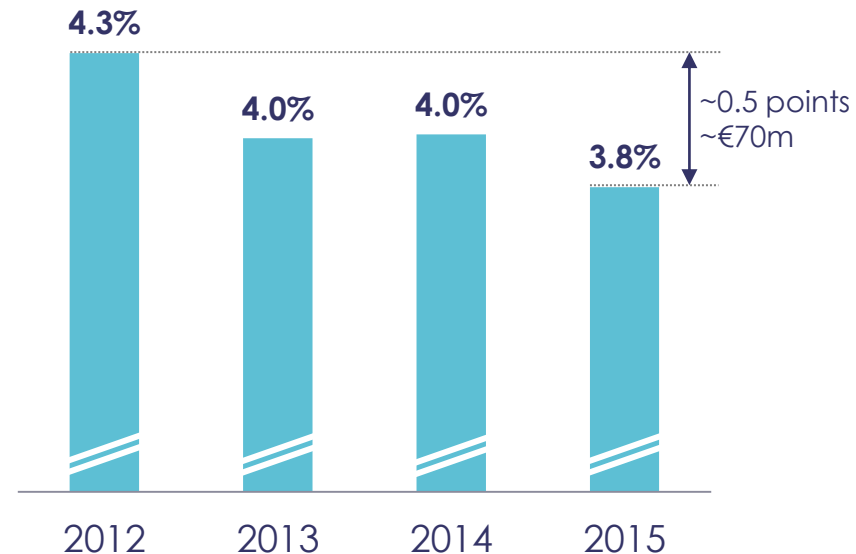
- Systematic internal and external benchmarking
- Ongoing transformation plan of support functions

## 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



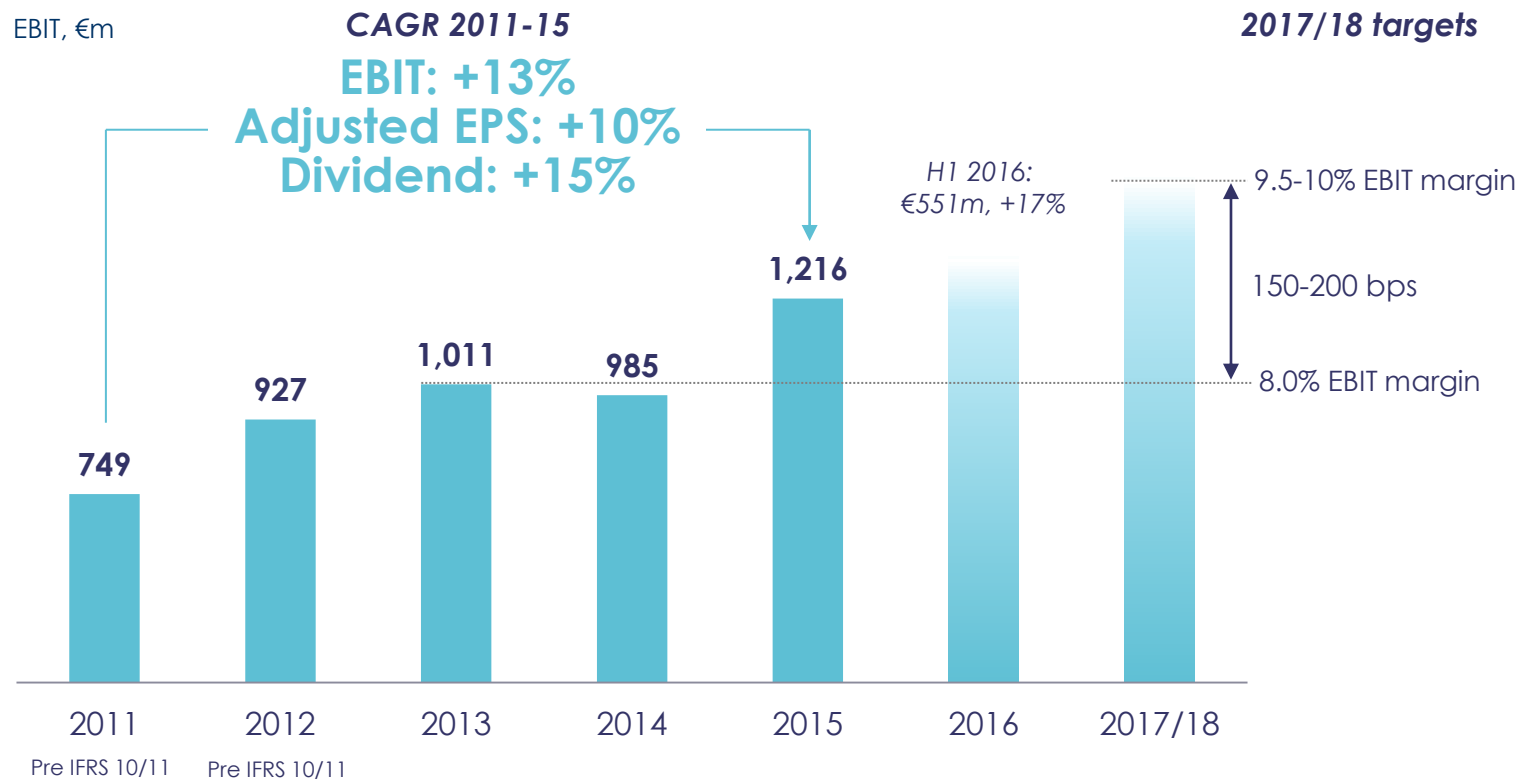
## 2015: definition and deployment of recovery plan

- 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





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

# Financial objectives

## 2016

<b>Order intake</b>	<b>Remaining at a high level, close to 2013-14<sup>(a)</sup></b>
<b>Sales</b>	<b>Mid-single digit organic growth</b>
<b>EBIT<sup>(b)</sup></b>	<b>€1,300-1,330m<sup>(c)</sup></b>

## 2017/18

<b>Sales</b>	<b>Mid-single digit organic growth per year</b>
<b>EBIT<sup>(b)</sup> margin</b>	<b>9.5-10%</b>

(a) Average 2013-14 order intake: €13.6 billion

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

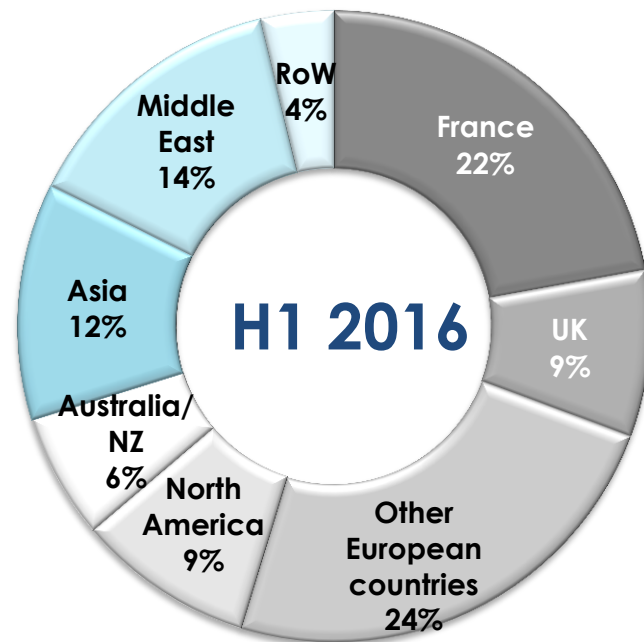
(c) Based on foreign exchange rates as of February 2016



## Appendix

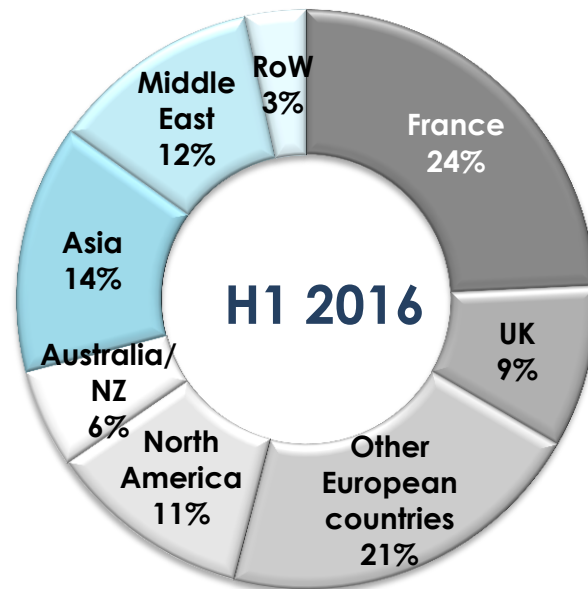
# H1 2016 order intake by destination

€m	H1 2016	H1 2015	change	
			total	organic
France	1,201	1,225	-2%	-2%
United Kingdom	463	513	-10%	-4%
Other European countries	1,304	1,031	+27%	+27%
<b>Europe</b>	<b>2,968</b>	<b>2,769</b>	<b>+7%</b>	<b>+9%</b>
<b>North America</b>	<b>492</b>	<b>564</b>	<b>-13%</b>	<b>-18%</b>
<b>Australia/NZ</b>	<b>346</b>	<b>399</b>	<b>-13%</b>	<b>-9%</b>
Asia	659	665	-1%	-1%
Middle East	755	1,688	-55%	-55%
Rest of the world	203	139	+46%	+52%
<b>Emerging markets</b>	<b>1,617</b>	<b>2,492</b>	<b>-35%</b>	<b>-34%</b>
<b>Total</b>	<b>5,423</b>	<b>6,224</b>	<b>-13%</b>	<b>-12%</b>



# H1 2016 sales by destination

€m	H1 2016	H1 2015	change	
			total	organic
France	1,661	1,569	+6%	+6%
United Kingdom	623	638	-2%	+4%
Other European countries	1,417	1,263	+12%	+13%
<b>Europe</b>	<b>3,701</b>	<b>3,470</b>	<b>+7%</b>	<b>+8%</b>
<b>North America</b>	<b>780</b>	<b>759</b>	<b>+3%</b>	<b>+0%</b>
<b>Australia/NZ</b>	<b>375</b>	<b>365</b>	<b>+3%</b>	<b>+8%</b>
Asia	953	842	+13%	+14%
Middle East	804	647	+24%	+25%
Rest of the world	233	265	-12%	-10%
<b>Emerging markets</b>	<b>1,990</b>	<b>1,753</b>	<b>+14%</b>	<b>+14%</b>
<b>Total</b>	<b>6,846</b>	<b>6,347</b>	<b>+8%</b>	<b>+9%</b>





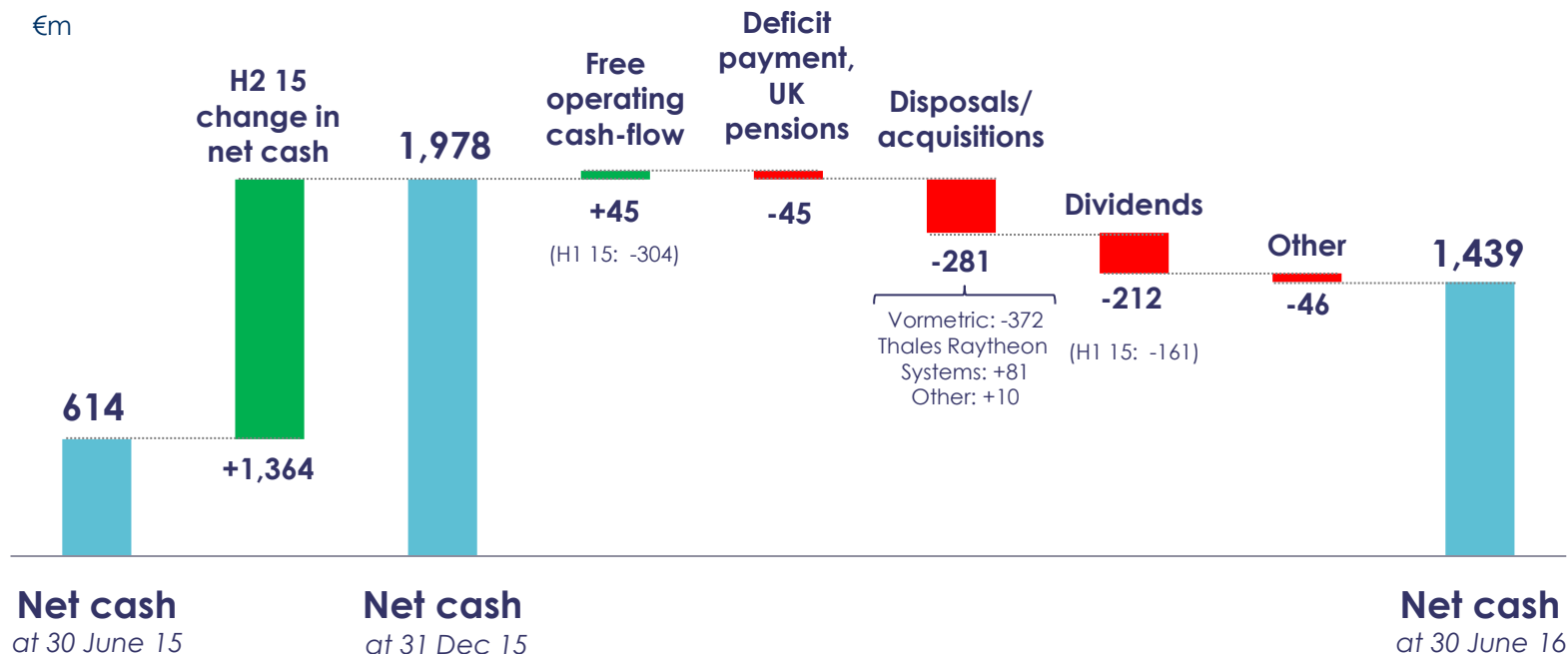
# H1 2016 EBIT by segment

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

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

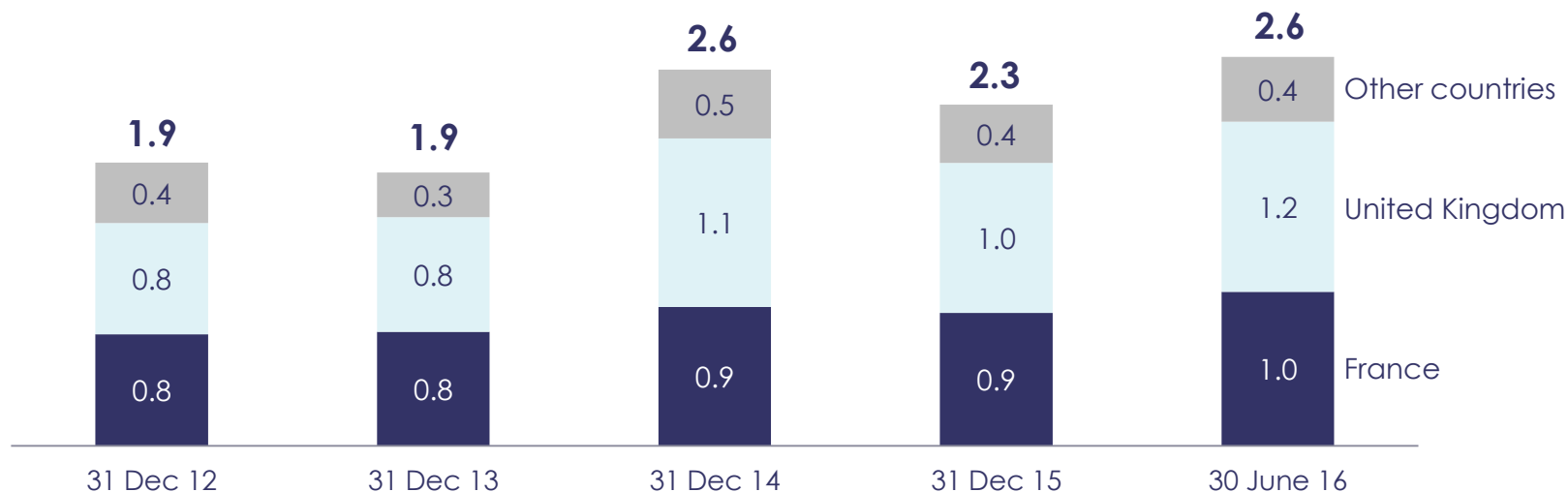
# Movement in net cash over H1 2016

High net cash position driven by free operating cash-flow



# Evolution of net pension provision

€bn

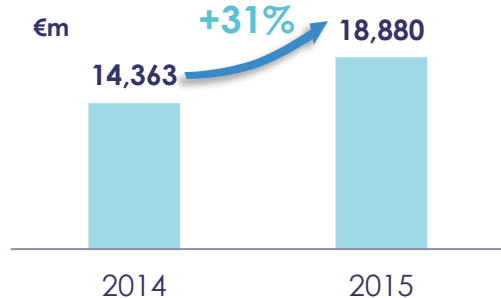


## Liability discount rate

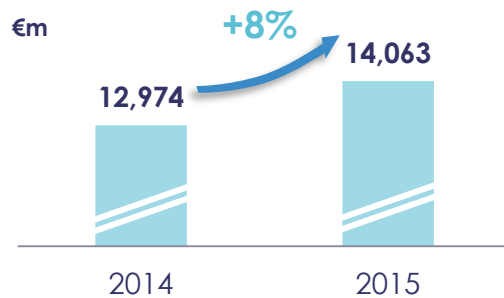
France	2.9%	3.2%	1.5%	2.0%	1.2%
UK	4.5%	4.6%	3.7%	4.0%	3.2%

# 2015 key figures

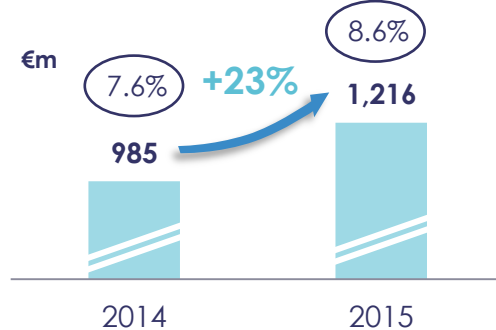
## Order intake



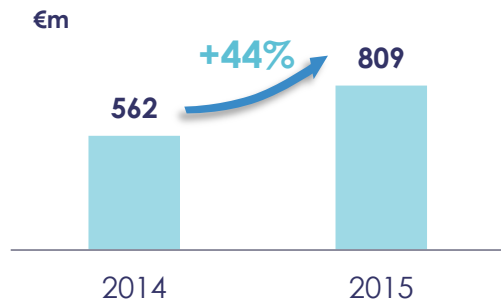
## Sales



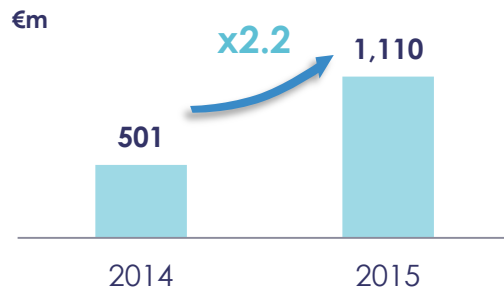
## EBIT<sup>(a)</sup>



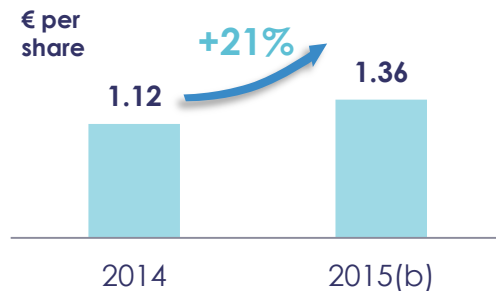
## Adjusted net income<sup>(a)</sup>



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



## Dividend



(a) 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

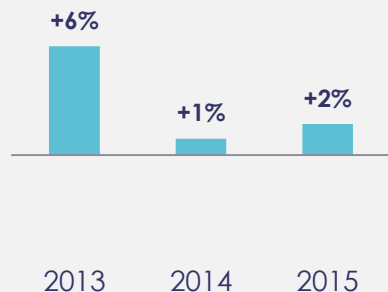
# 2015 summary P&L: from sales to EBIT

	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%

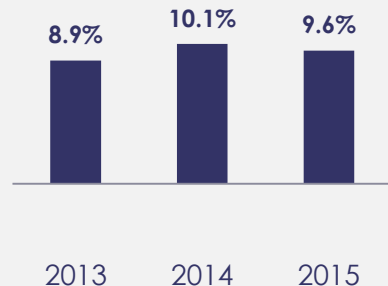
# Historical sales and EBIT performance by segment

## Aerospace

Organic sales growth

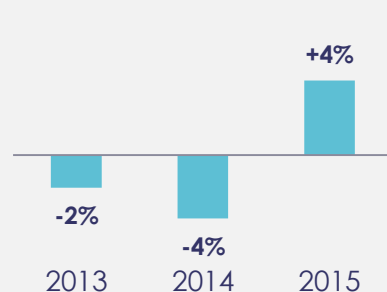


EBIT margin

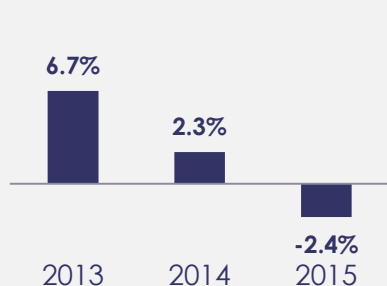


## Transport

Organic sales growth

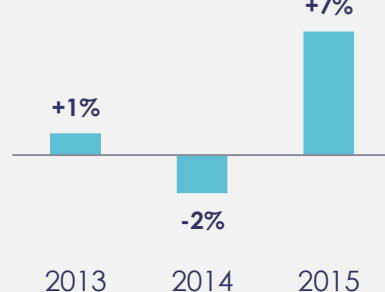


EBIT margin

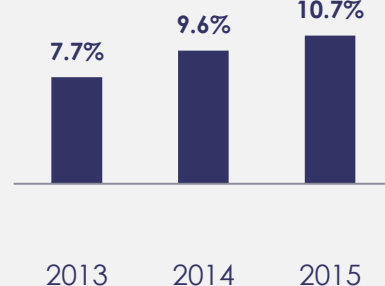


## Defence & security

Organic sales growth

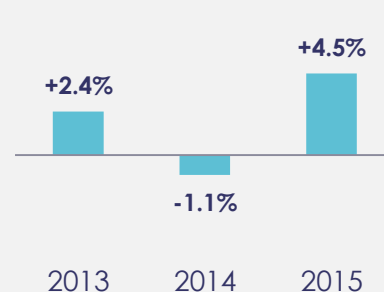


EBIT margin

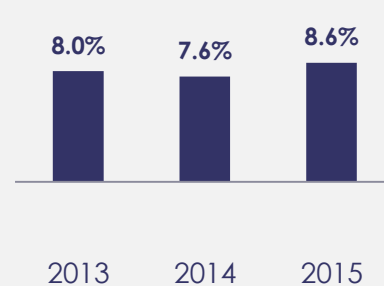


## Total Group

Organic sales growth



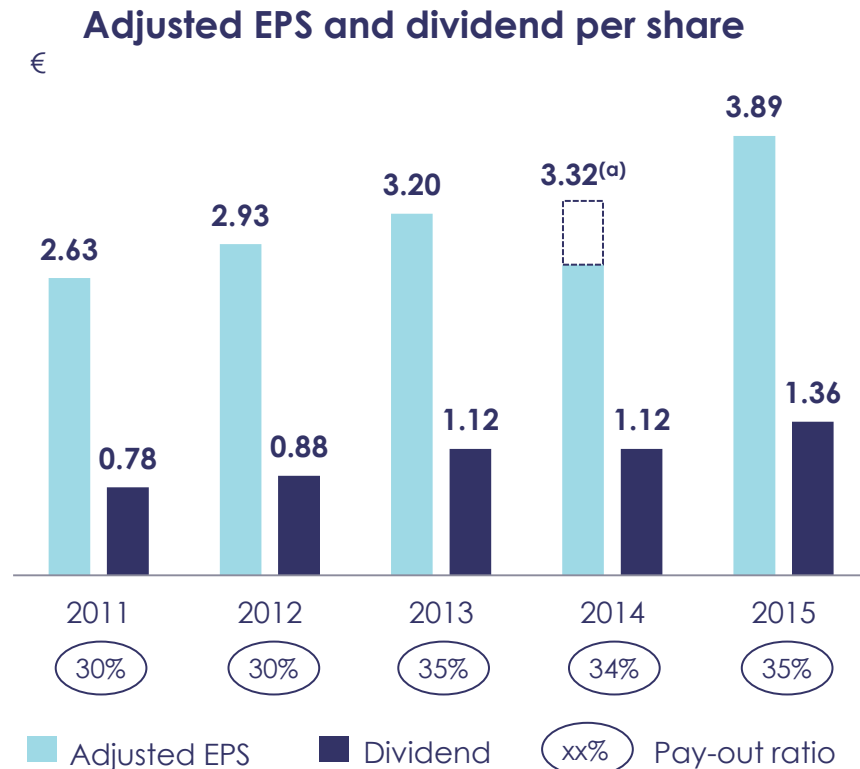
EBIT margin



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

**THALES**

# Historical adjusted EPS and dividend



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

Adjusted EPS up 10% per year since 2011

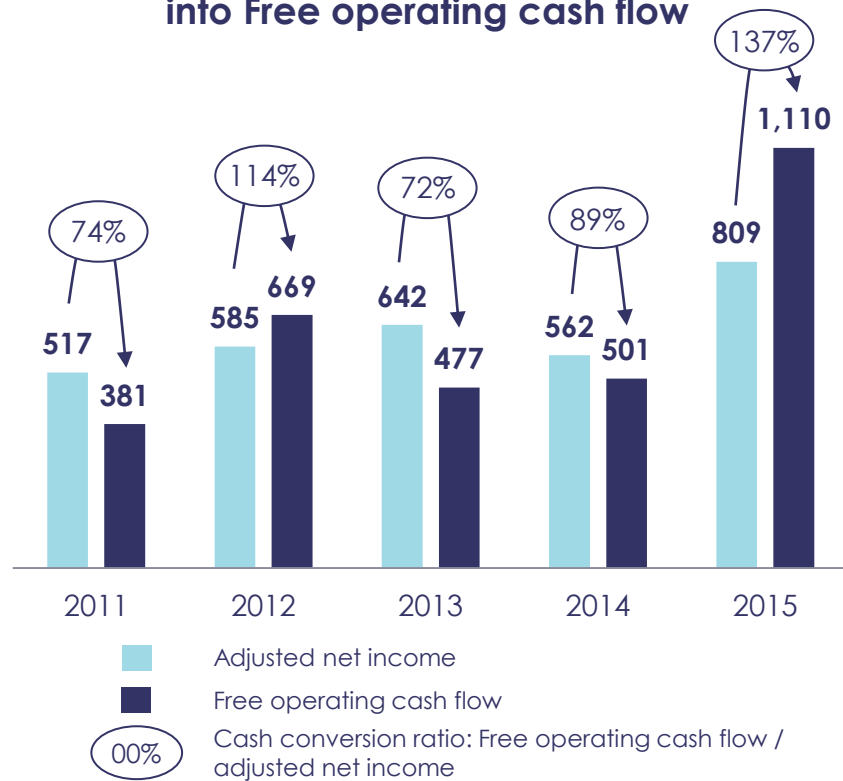
Dividend : €1.36 per share  
➤ Pay-out ratio : 35%

Dividend up 15% per year since 2011

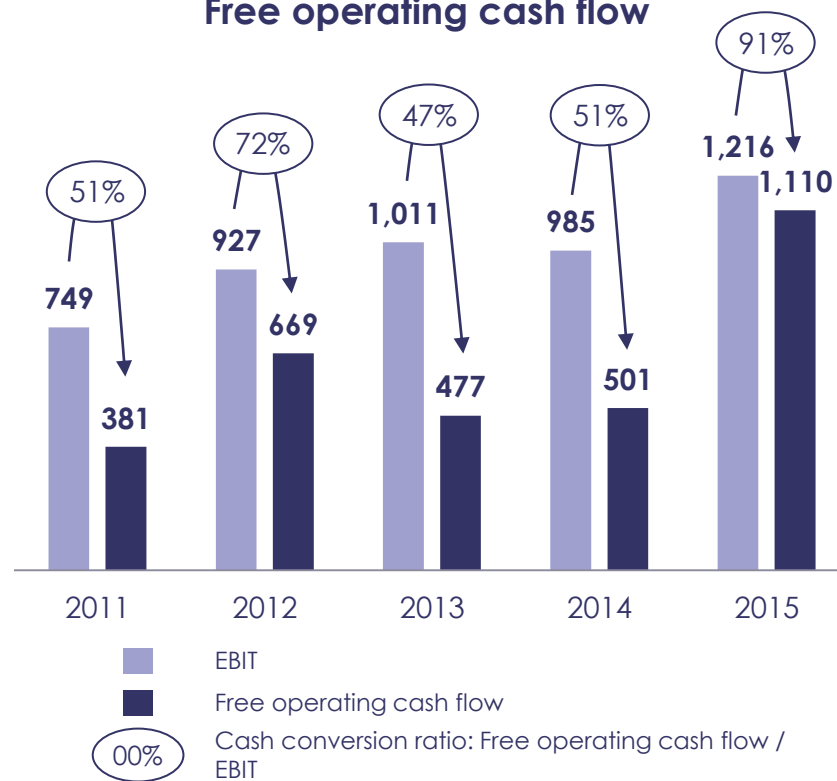


# Historical trend in cash conversion

## 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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