

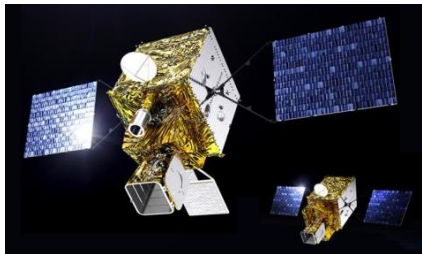


2017 Full-Year results

6 March 2018

www.thalesgroup.com





Aerospace

- Continued positive dynamics for cockpit avionics and in-flight entertainment and connectivity
- Space: wait-and-see attitude from civil telecom satellite operators

Transport

- Robust demand both in emerging markets and in Europe

Defence and security

- Geopolitical tensions and security threats
- Confirmed ramp-up of defence budgets in mature markets

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

2017 highlights: overachievement on all financial targets

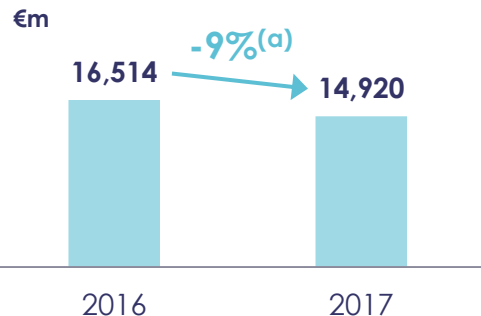
- Solid order intake, in a year with no “jumbo” contracts
- Stronger than expected sales growth, across all segments
- Further increase in profitability
- Acceleration of Ambition 10 strategy, ending the year with announcement of transformative offer to acquire Gemalto

Persistent focus on profitable and sustainable growth

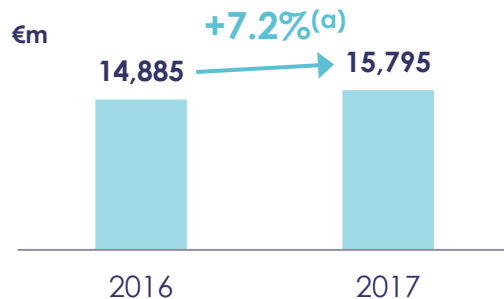


2017 key figures

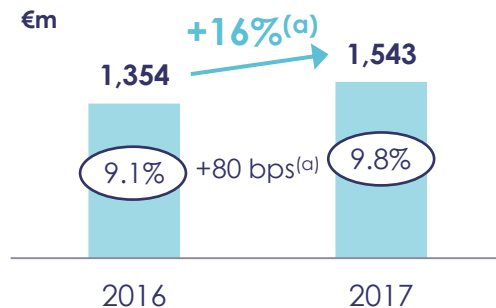
Order intake



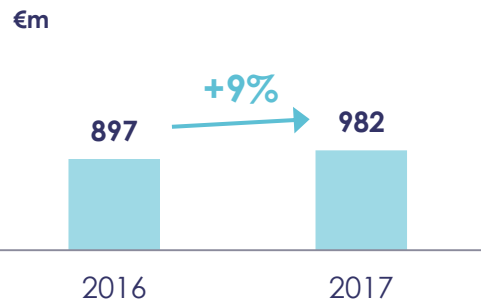
Sales



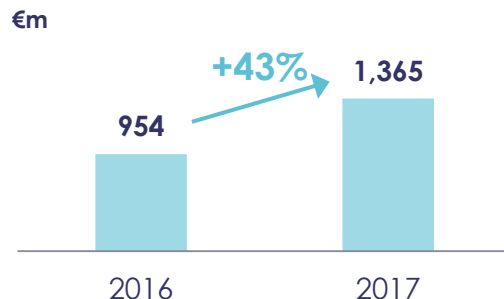
EBIT and EBIT margin^(b)



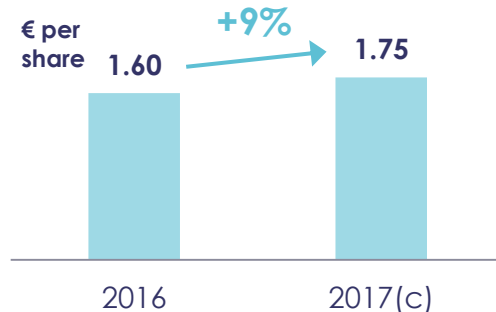
Adjusted net income^(b)



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

(c) Proposed to the 23 May 2018 Annual General Meeting

2017 order intake

Booking of 19 orders over €100m

- No “jumbo”^(a) contract, unlike 2015 and 2016

Steady growth in smaller orders, under €100m

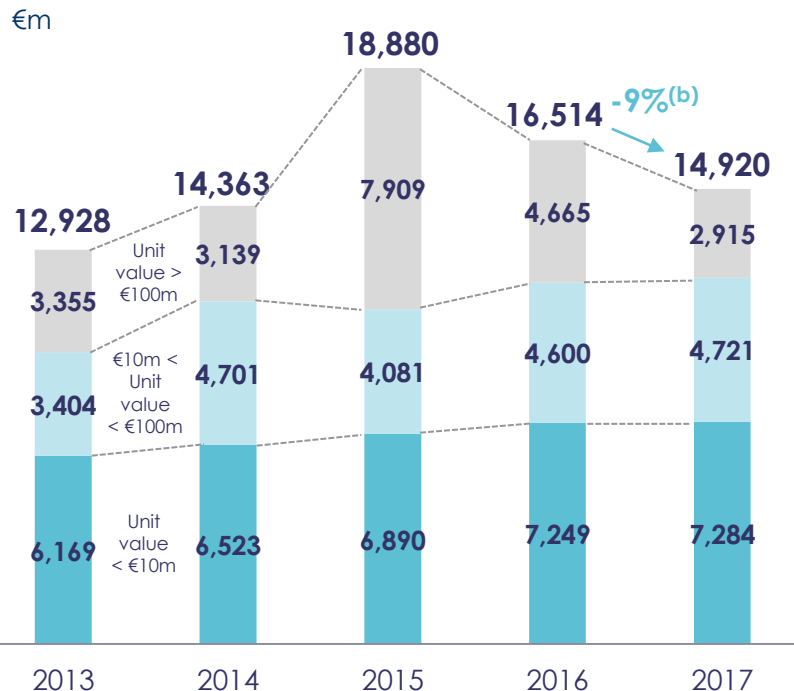
Order intake up 7%^(b) in mature markets

End 2017 order book: €31.9bn

- €7.4bn above end 2013 level

(a) Jumbo: with a unit value of more than €500m
 (b) Organic: at constant scope and exchange rates

Order intake by contract unit value



Book-to-bill
 Number of
 jumbo^(a) orders

2013	2014	2015	2016	2017
1.02	1.11	1.34	1.11	0.95
0	0	4	1	0

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2017 organic sales growth

Continued high growth in emerging markets

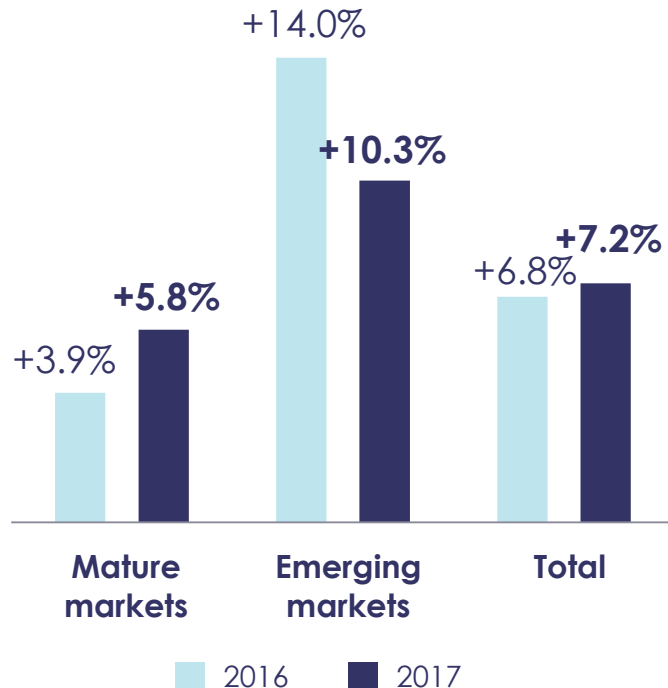
- Broad-based growth: top 10 emerging markets represent only 68% of emerging market sales

Growth accelerating in mature markets

As expected, Q4 sales sharply up

- Cutoff effects and favorable bases of comparison

Organic^(a) sales growth



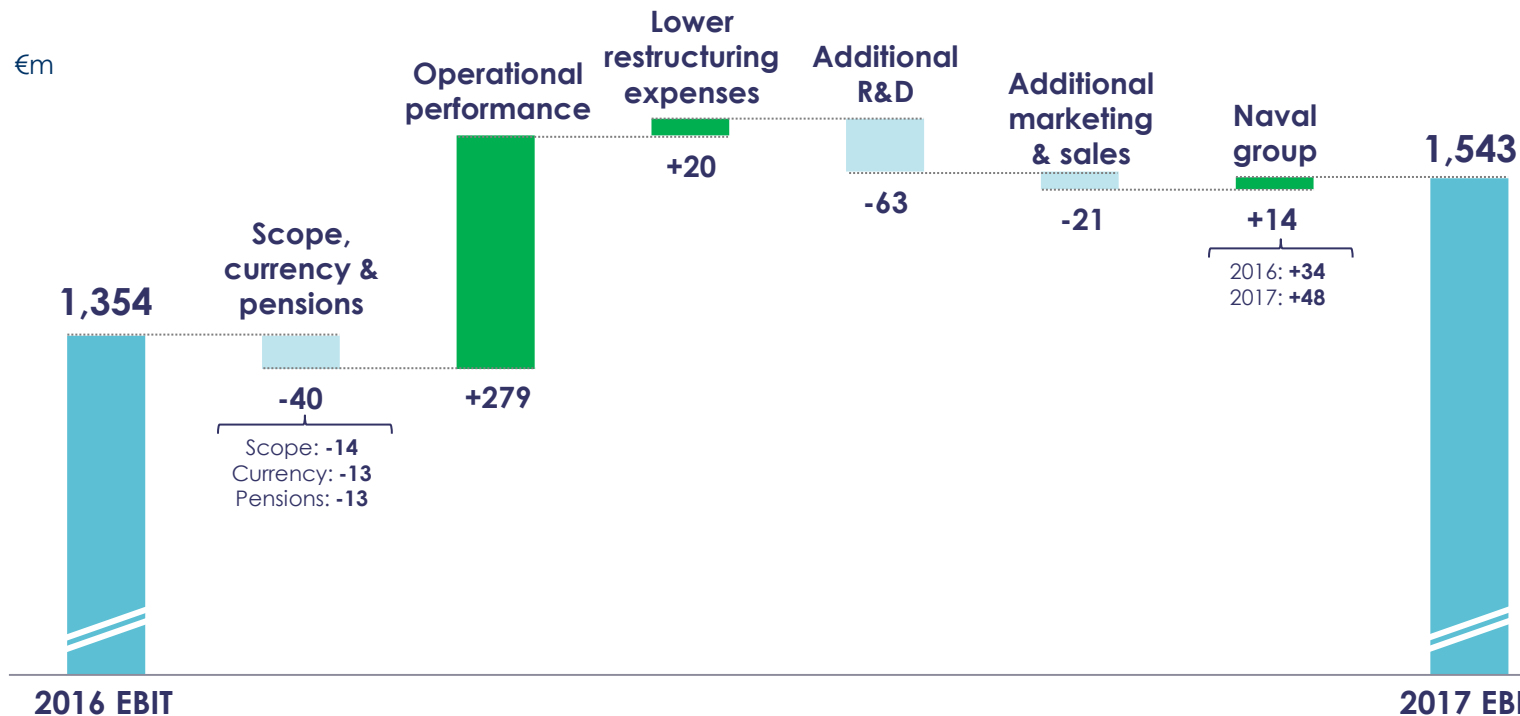
(a) Organic: at constant scope and exchange rates

Summary adjusted P&L: from sales to EBIT

	2017		2016		change	
	€m	% of sales	€m	% of sales	total	organic
Sales	15,795		14,885		+6.1%	+7.2%
Gross margin	3,845	24.3%	3,609	24.3%	+7%	+7%
Indirect costs	(2,375)	15.0%	(2,285)	15.3%	+4%	+4%
o/w R&D expenses	(797)	5.0%	(731)	4.9%	+9%	+9%
o/w Marketing & Sales expenses	(1,036)	6.6%	(1,017)	6.8%	+2%	+2%
o/w General & Administrative expenses	(542)	3.4%	(537)	3.6%	+1%	+2%
Restructuring costs	(81)	0.5%	(101)	0.7%	-19%	-20%
Share in net result of equity-accounted affiliates excl. Naval Group	106		97		+9%	+15%
EBIT excluding Naval Group	1,495	9.5%	1,321	8.9%	+14%	+15%
Share in net result of Naval Group	48		34			
EBIT	1,543	9.8%	1,354	9.1%	+14%	+16%

EBIT bridge

Strongest operational performance since launch of Ambition 10



Operational performance: control of G&A costs

Infrastructure optimization plan

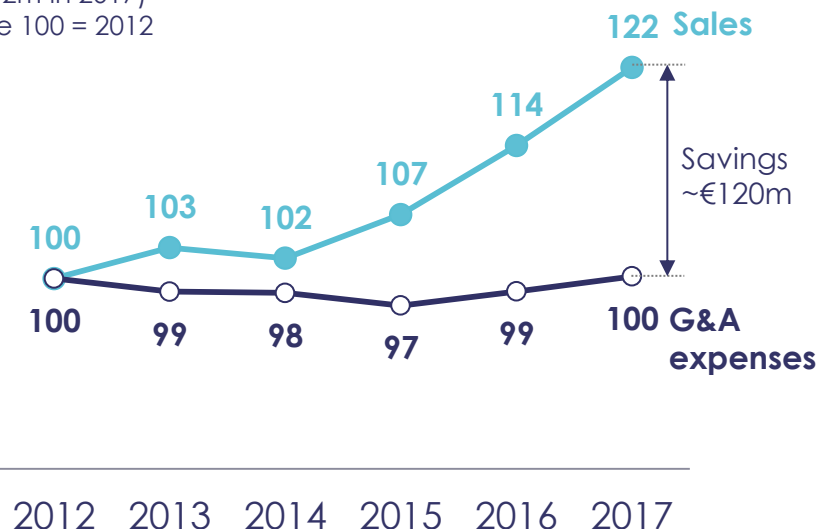
- Rationalization of industrial footprint achieved in several countries
- Convergence of Information Systems

Transformation plan of support functions

- Implementation of new operating models
- Reduction in number of French legal entities

Organic evolution of sales and of G&A expenses

Sales and P&L G&A expenses
(€542m in 2017)
base 100 = 2012



EBIT by operating segment

€m	2017		2016		change	
					total	organic
Aerospace	601	10.0%	571	9.8%	+5%	+7%
Transport	72	4.1%	11	0.7%	x6.3	x6.3
Defence & Security	869	10.9%	787	10.7%	+10%	+13%
EBIT - operating segments	1,542	9.8%	1,370	9.2%	+13%	+15%
Other	(47)		(49)		-	-
EBIT, excluding Naval Group	1,495	9.5%	1,321	8.9%	+13%	+15%
Naval Group (35% share in net result)	48		34		+42%	+42%
EBIT - total	1,543	9.8%	1,354	9.1%	+14%	16%

■ All 3 operating segments improving both EBIT and EBIT margin

Aerospace: 2017 key figures

€m	2017	2016	change	
			total	organic
Order intake	5,200	5,872	-11%	-11%
Sales	5,985	5,812	+3.0%	+3.6%
EBIT	601	571	+5%	+7%
<i>in % of sales</i>	10.0%	9.8%	+0.2 pts	+0.3 pts

- Slowdown of Space order intake offsets good momentum in avionics and in In-Flight Entertainment
- Sales growth driven by aircraft avionics and Space
- Margin improving while implementing significant ramp up in R&D expenses (+10%)



Transport: 2017 key figures

€m	2017	2016	change	
			total	organic
Order intake	1,780	1,504	+18%	+20%
Sales	1,761	1,603	+9.9%	+11.2%
EBIT	72	11	x6.3	x6.3
<i>in % of sales</i>	4.1%	0.7%	+3.4 pts	+3.3 pts

- Solid order intake
- Sales growth driven by progress on large contracts won in 2015 and 2016
- Significant increase in profitability, fully in line with recovery plan launched mid-2015



Defence & Security: 2017 key figures

€m	2017	2016	change	
			total	organic
Order intake	7,883	9,063	-13%	-12%
Sales	7,983	7,390	+8.0%	+9.4%
EBIT	869	787	+10%	+13%
<i>in % of sales</i>	10.9%	10.7%	+0.2 pts	+0.3 pts

Order intake down due to high comps

- High 2016 level thanks to Rafale in India order booked in Q3 2016

Strong, broad-based sales growth

Further EBIT margin improvement, supported by control of costs and lower restructuring



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

€m	2017	2016
EBIT	1,543	1,354
Cost of net financial debt and other financial results	(24)	(4)
Finance costs on pensions and other employee benefits	(63)	(66)
Income tax	(403)	(314)
<i>Effective tax rate</i>	31.0%	27.2%
<i>Effective tax rate excluding one-off tax items</i>	25.9%	25.7%
Adjusted net income	1,052	971
Minorities	(71)	(74)
Adjusted net income, Group share	982	897
EPS: Adjusted net income, Group share, per share (in €)	4.64	4.25

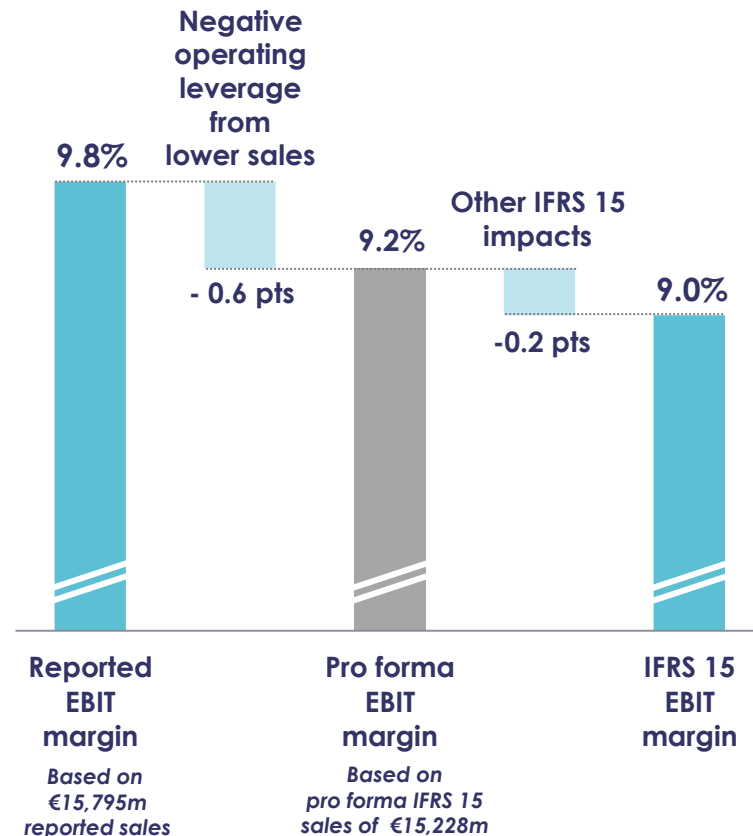
■ 2017 effective tax rate impacted by several one-off tax items, for a total of €66m, with no cash impact

Impact of IFRS 15 standard

■ A broad standard with far-reaching accounting consequences

■ Thales impact dominated by timing of sales and profit on long-term contracts

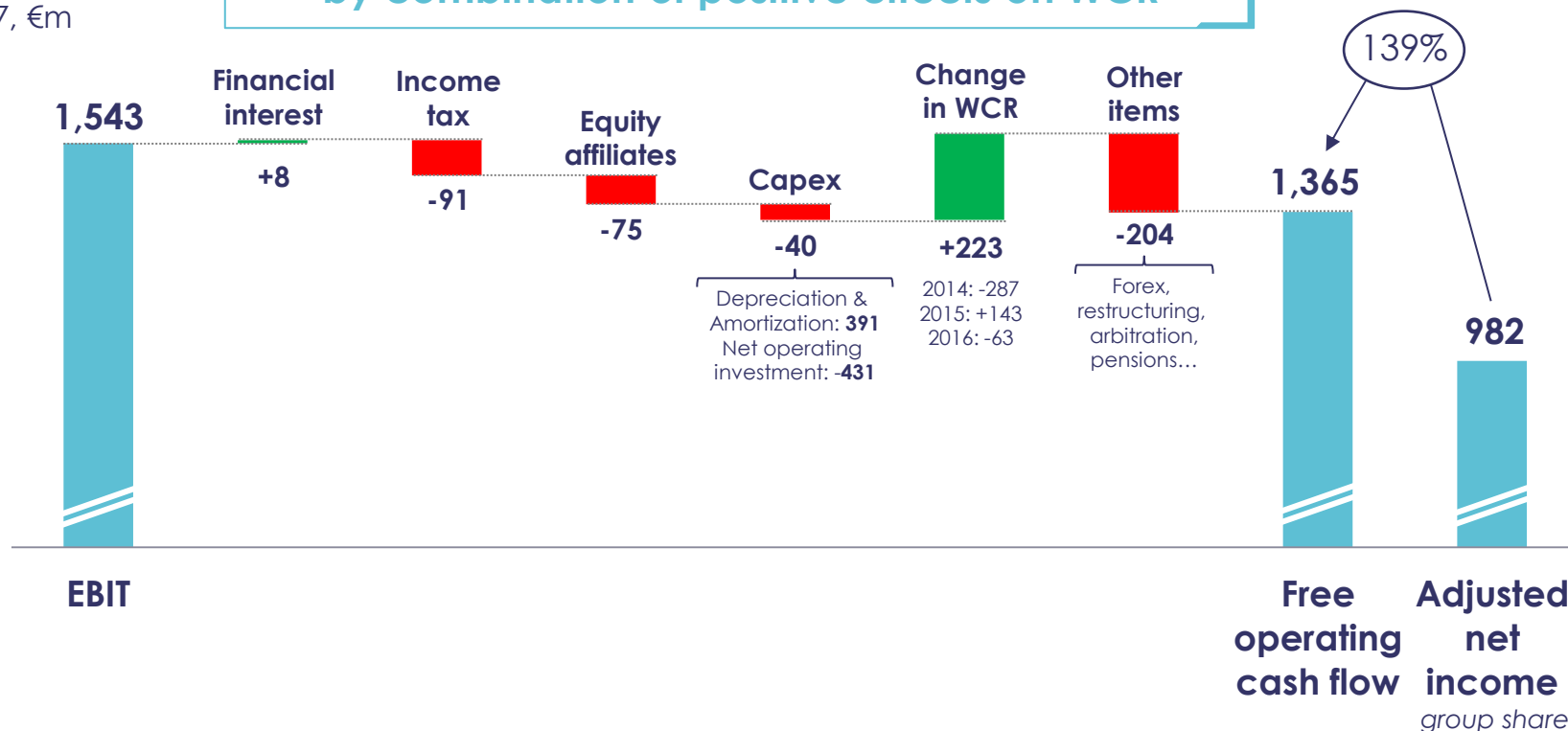
- Very few contracts no longer fulfill over time recognition criteria
- Phasing effects, with no impact on total revenues and profits of individual contracts, and no impact on cash flow



Cash conversion: from EBIT to free operating cash flow

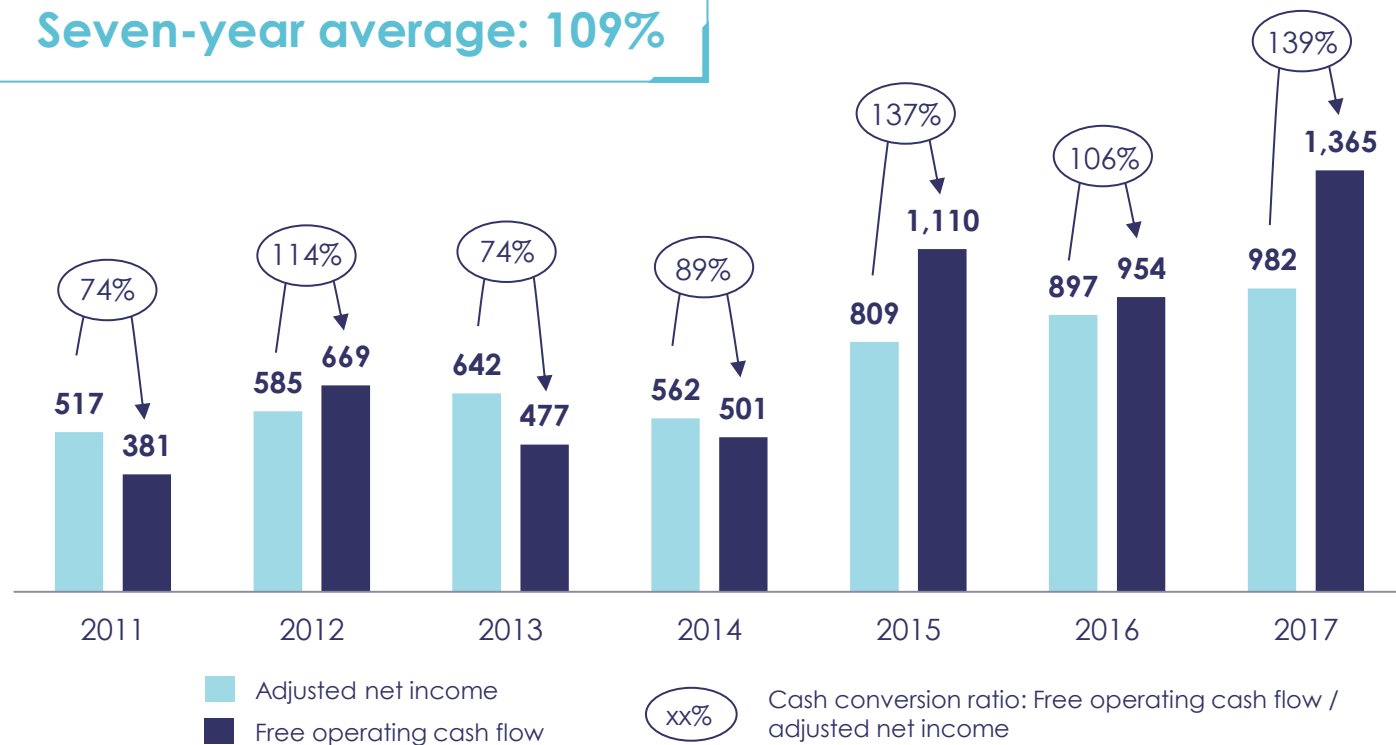
2017, €m

Record high rate of cash conversion, supported by combination of positive effects on WCR



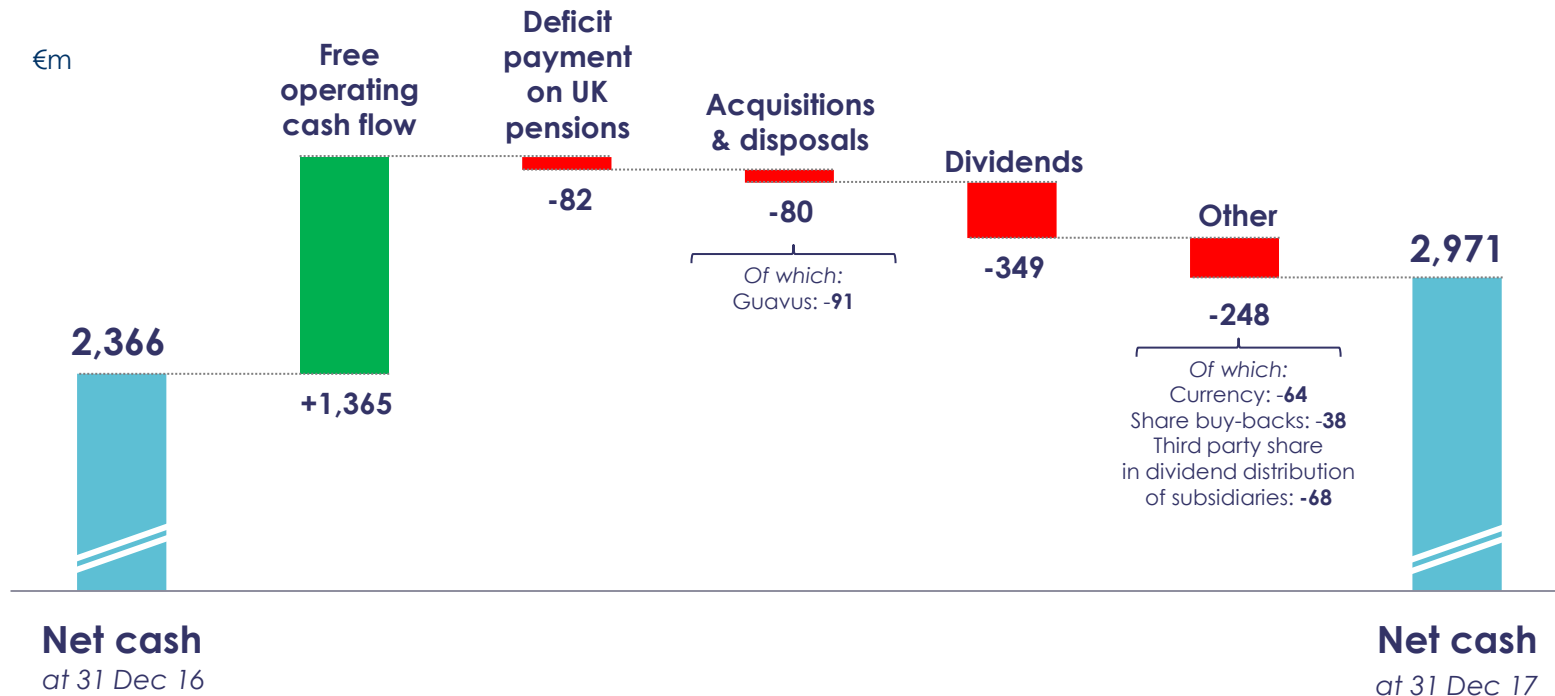
Historical trend in cash conversion

Seven-year average: 109%



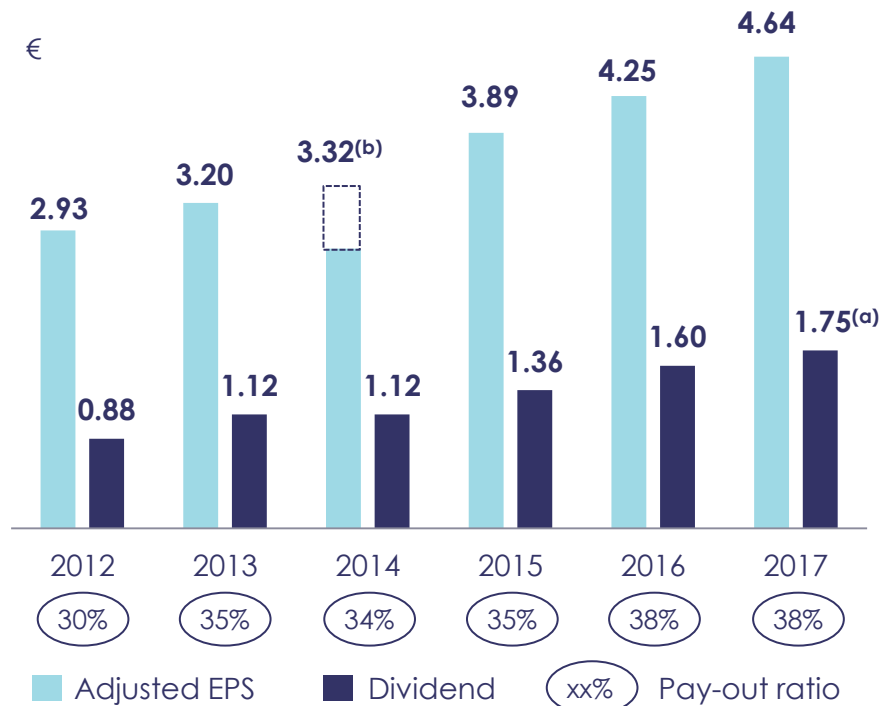
Movement in net cash

High net cash position driven by free operating cash flow



Adjusted EPS and dividend

Adjusted EPS and dividend per share



(a) Subject to approval by the 23 May 2018 Annual General Meeting

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

■ Adjusted EPS up 10%
per year since 2012

■ Proposed 2017 dividend :
€1.75 per share^(a)
➤ Pay-out ratio : 37.7%

■ Dividend up 15%
per year since 2012
➤ Doubling in 5 years



Strategy and outlook

Persistent strategic focus



Building a growing, more global and more profitable Thales



Solid trends in key Defence and Security markets

French 2019-25 Military Programming Law made public

- Confirms significant inflection of defence budget
- Priorities well aligned with Thales's portfolio: focus on intelligence, innovation, digitization
- Increased support for exports

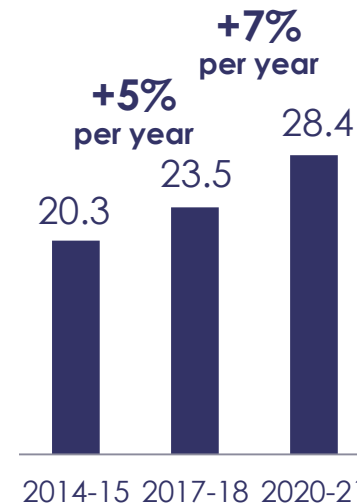
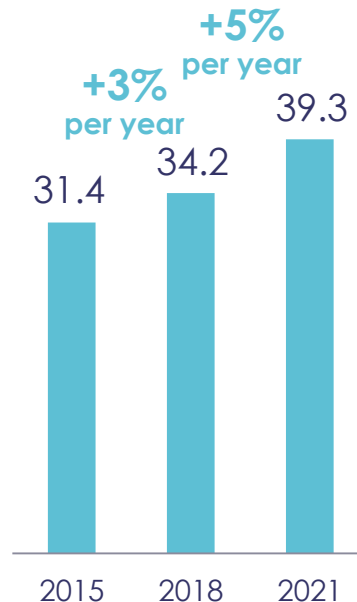
Australian defence budget expected to further accelerate

- Driven by major capital investment programs
- Country aiming to become a top 10 global defence exporter

Defence budget trends (€bn)

 France

 Australia



Sources: France: PLF 2015, LPM 2019-25. Australia: ASPI analysis, amounts converted in € at average 2017 AUD/€ exchange rate of 1.479

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Space: well-positioned to manage current market transition

■ Long-term broadening of applications

- Broadband Internet access, in-flight and maritime connectivity, global IoT connectivity
- Increasing demand for advanced civil observation
- In-orbit servicing
- Situational awareness

■ Acceleration of technology and business innovation

■ More affordable access to space

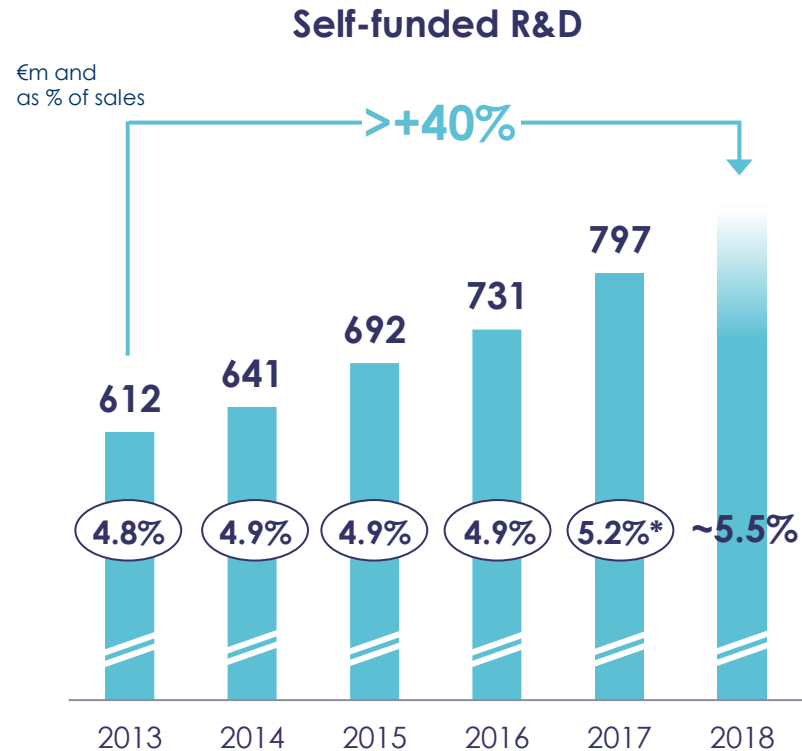
■ Wait-and-see attitude from civil telecom satellite operators

■ Thales: high basis of comparison following strong commercial performance in 2015 and 2016

2018: increasing investments in differentiating technologies

Reinforcing R&D leadership, with an increased digital focus

- **Innovation and technology leadership a key differentiator across all segments**
- **Self-funded R&D again growing faster than sales in 2018**
 - ~10% growth in 2018
- **Two areas targeted**
 - Key technologies supporting aerospace and transport innovations
 - Thales “digital factory” and digital technologies



* 2017 percentage pro forma IFRS 15

2017: significant acceleration of Thales's digital strategy



Connectivity
Mobility, IoT



Cyber-security



Big data



Artificial
intelligence

Organic initiatives

THALES DIGITALFACTORY

AI Saclay
CortAlx Canada

Leveraging start-up ecosystems

STATION F



Acquisitions



gemalto (a)

GUAVUS

(a) Contemplated acquisition, expected to close in H2 2018

Thales + Gemalto: powering and securing the complete critical digital decision chain

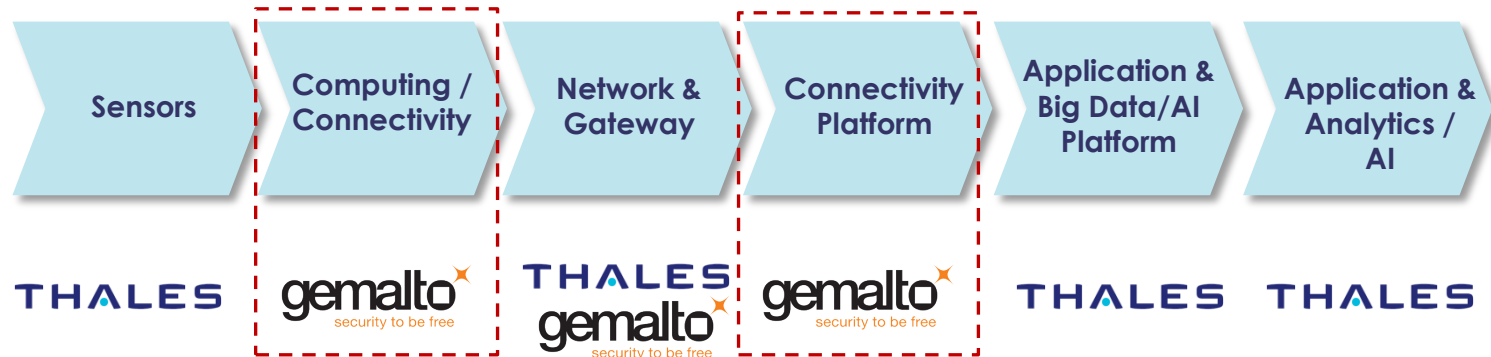
Critical
decision
chain

Sensing and
data gathering

Data
transmission
and storage

Data processing
and decision
making

Critical
digital
decision
chain

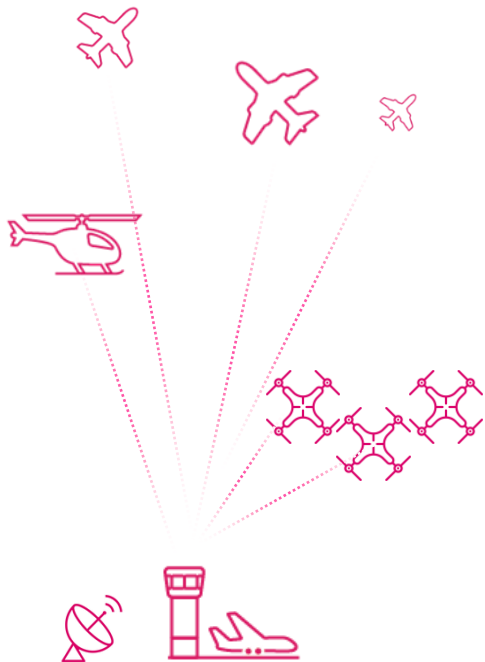


IoT
cyber-
security

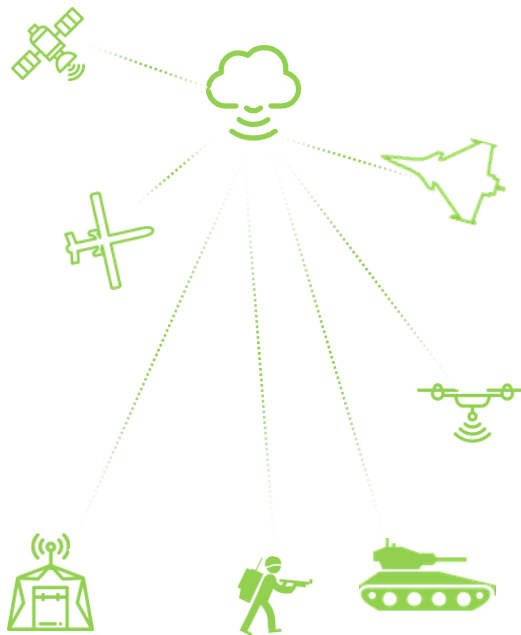


Thales and Gemalto: selected use cases

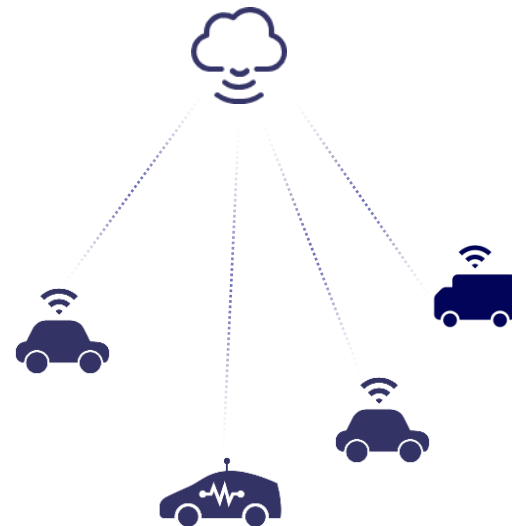
Air traffic management



Battlefield cloud



Connected cars



2018 financial objectives

Order intake

Around €15.5bn

Sales^(a)

Organic growth between 4% and 5%

EBIT^(b)

€1,620-1,660m^(c)

(a) Compared to pro forma IFRS 15 sales of €15,228m

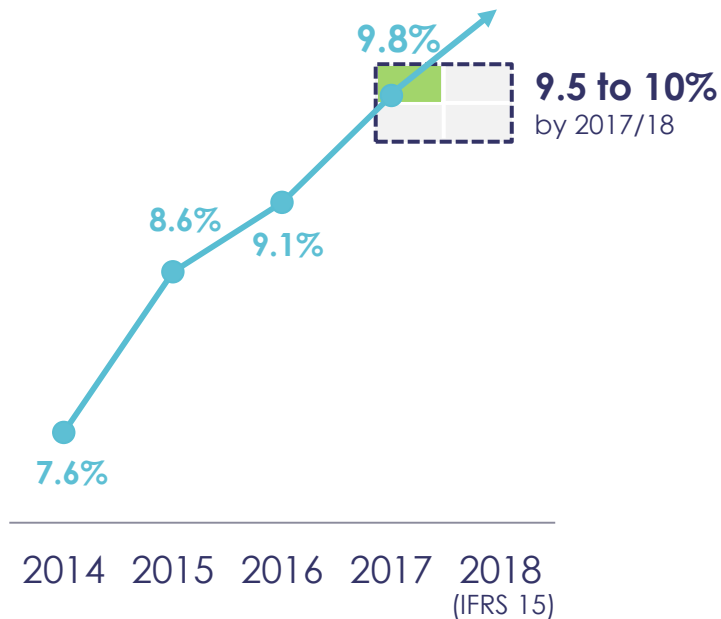
(b) Non-GAAP measure: see definition in appendix

(c) Based on February 2018 scope and foreign exchange rates

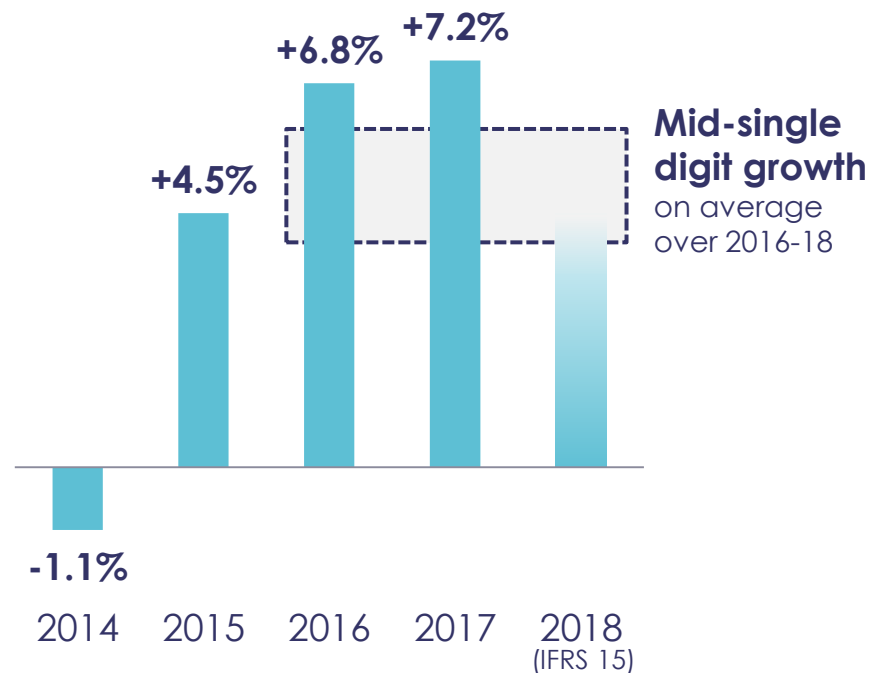
Delivering ahead of mid-term financial objectives



EBIT margin target set in April 2014



Organic sales growth target set in February 2016



Next stage of the Ambition 10 journey

**Wednesday 6 June 2018
from 8:30am**

Capital Markets Day

**Thales Gennevilliers site
(near Paris)**



Appendix

Upcoming events

■ Q1 2018 sales	3 rd May 2018 (before market)
■ Annual General Meeting	23 May 2018
■ Dividend payment ^(a)	1 st June 2018
■ Capital Markets Day	6 June 2018
■ H1 2018 results	20 July 2018 (before market)
■ Q3 and 9m 2018 sales	18 October 2018

(a) Subject to the Annual General Meeting approval on 23 May 2018, ex-dividend date: 30 May 2018.

2017: 19 contracts over €100m

Aerospace: 6

- Telecommunications satellite for Gazprom space system
- In-flight connectivity satellite for Inmarsat
- New generation European meteorological satellites (ESA and EUMETSAT)
- In-flight entertainment for a large airline
- Support of “Voyager” UK air-tanker program
- Additional Indian Rafale contract

Transport: 2

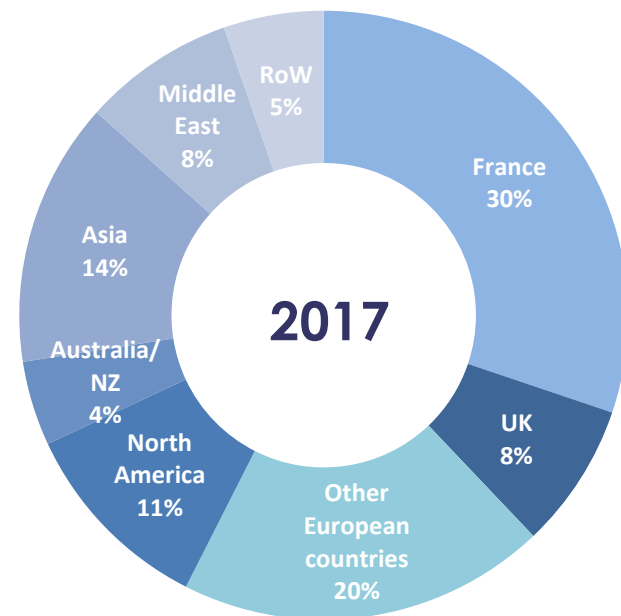
- Mainline signaling and communication in Egypt
- Extension of signaling systems for one of the largest metro networks worldwide

Defence & Security: 11

- Management and support of French MoD headquarters information systems (Balard)
- First tranche of 10-year aeronautical service contract for French MoD (LORCA)
- 2 contracts related to French intermediary-size frigates (FTI)
- Thales's share in production of first batch of Scorpion armored vehicles (France)
- AREOS reconnaissance pods for a military customer
- Systems and sensors for emerging-market navy
- Additional CONTACT contract (France)
- Integrated air defense system (Asian country)
- Second tranche of sensor support contract for the UK Royal Navy (SSOP program)
- Operational support to European air defense systems (via EuroSAM)

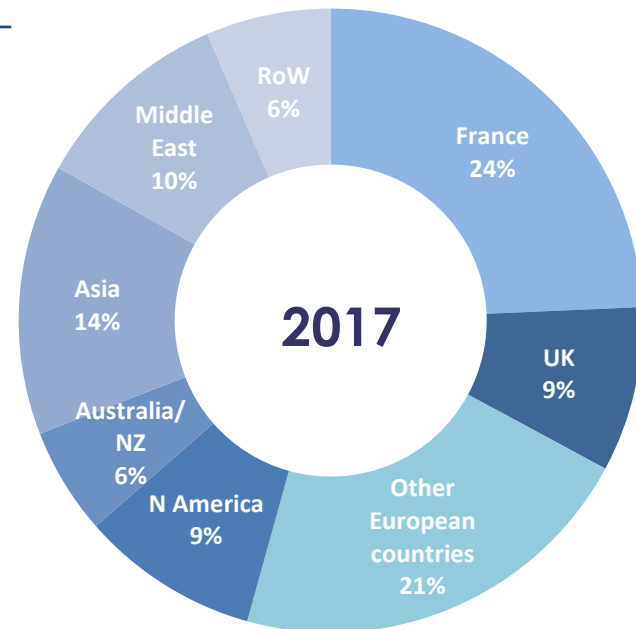
2017 order intake by destination

€m	2017	2016	change	
			total	organic
France	4,503	3,509	+28%	+29%
United Kingdom	1,153	1,003	+15%	+21%
Other European countries	2,919	3,646	-20%	-20%
Europe	8,574	8,159	+5%	+6%
North America	1,579	1,216	+30%	+31%
Australia/NZ	671	764	-12%	-12%
Mature markets	10,824	10,138	+7%	+7%
Asia	2,097	3,708	-43%	-43%
Middle East	1,206	1,674	-28%	-27%
Rest of the world	792	994	-20%	-18%
Emerging markets	4,095	6,377	-36%	-35%
Total	14,920	16,514	-10%	-9%



2017 sales by destination

€m	2017	2016	change	
			total	organic
France	3,840	3,581	+7.2%	+7.6%
United Kingdom	1,352	1,272	+6.3%	+11.6%
Other European countries	3,387	3,227	+5.0%	+4.8%
Europe	8,579	8,080	+6.2%	+7.1%
North America	1,460	1,556	-6.2%	-5.4%
Australia/NZ	875	759	+15.2%	+15.0%
Mature markets	10,913	10,395	+5.0%	+5.8%
Asia	2,219	2,048	+8.3%	+9.7%
Middle East	1,641	1,515	+8.4%	+9.6%
Rest of the world	1,022	927	+10.2%	+12.8%
Emerging markets	4,882	4,490	+8.7%	+10.3%
Total	15,795	14,885	+6.1%	+7.2%



2017 adjusted net result

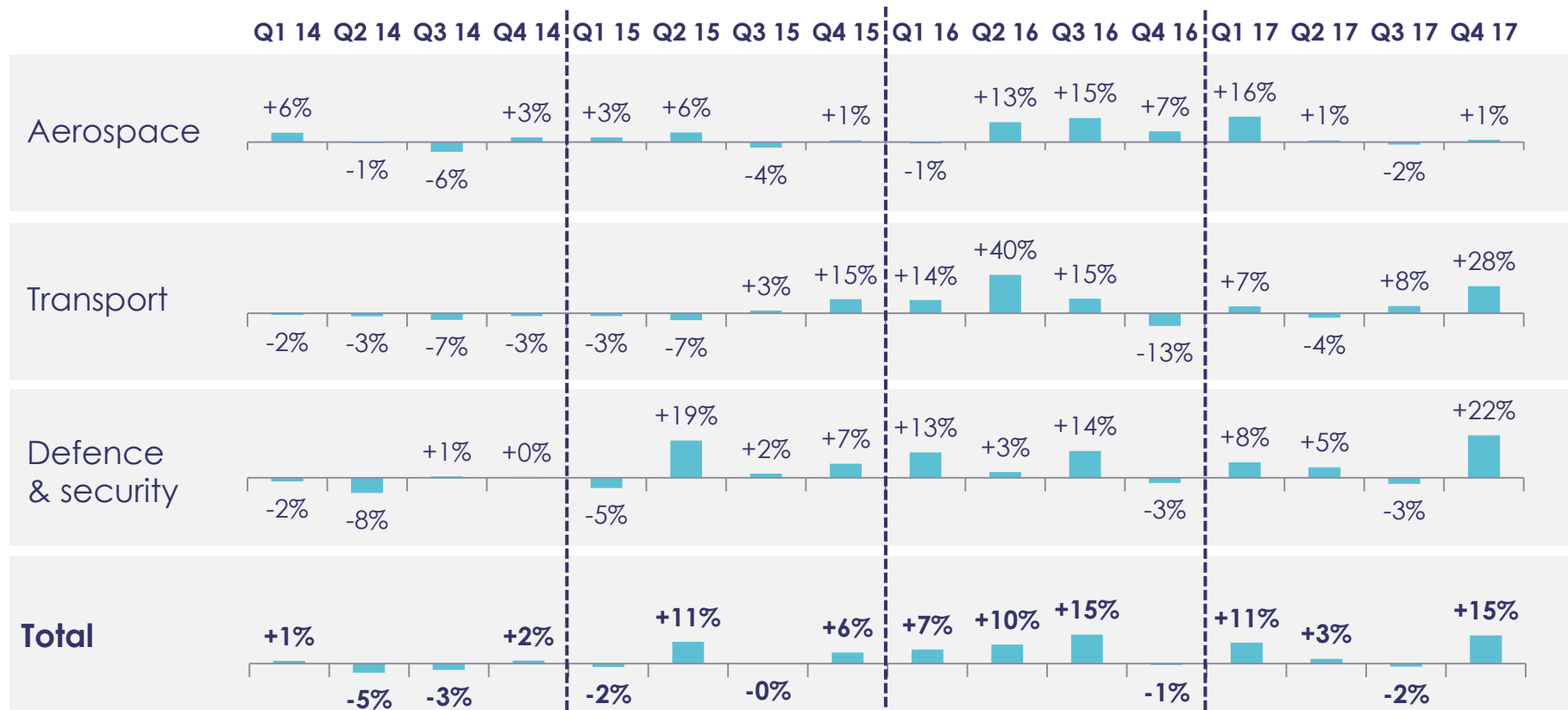
€m	Consolidated P&L 2017	Amortisation of intangible assets (PPA)	Disposal of assets and others	Change in fair value of derivative FX instruments	Actuarial gains/losses on other long term benefits	Adjusted P&L 2017
Sales	15,795					15,795
Cost of sales	(11,951)	1				(11,951)
R&D	(802)	5				(797)
SG&A costs	(1,590)	12				(1,578)
Restructuring costs	(81)					(81)
Amortisation of intangible assets (PPA)	(113)	113				0
Income from operations	1,258					
Impairment of non-current operating assets	0					--- (*)
Disposal of assets, change in scope and others	(82)		82			0
Share in net income (loss) of equity affiliates	135	19				154
Income of operating activities incl. share in net income of equity affiliates	1,311					
EBIT						1,543
Impairment of non-current operating assets	--- (*)					0
Cost of net financial debt	5					5
Other financial income (expense)	(99)			70		(29)
Finance costs on pensions and other employee benefits	(66)				3	(63)
Income tax	(264)	(85)	(29)	(24)	(1)	(403)
Net income (loss)	887	65	53	46	2	1,052
Minorities	(65)	(5)		(1)		(71)
Net income (loss), Group share	822	60	53	46	2	982

(*) included within "Income of operating activities incl. share in net income of equity affiliates" in the consolidated P&L and within "Net income" in the adjusted P&L

2016 adjusted net result

€m	Consolidated P&L 2016	Amortisation of intangible assets (PPA)	Disposal of assets and others	Change in fair value of derivative FX instruments	Actuarial gains/losses on other long term benefits	Adjusted P&L 2016
Sales	14,885					14,885
Cost of sales	(11,277)	1				(11,276)
R&D	(736)	6				(731)
SG&A costs	(1,567)	13				(1,554)
Restructuring costs	(101)					(101)
Amortisation of intangible assets (PPA)	(107)	107				0
Income from operations	1,097					
Impairment of non-current operating assets	0					--- (*)
Disposal of assets, change in scope and others	205		(205)			0
Share in net income (loss) of equity affiliates	120	11				131
Income of operating activities incl. share in net income of equity affiliates	1,422					
EBIT						1,354
Impairment of non-current operating assets	--- (*)					0
Cost of net financial debt	6					6
Other financial income (expense)	(81)			70		(10)
Finance costs on pensions and other employee benefits	(78)				12	(66)
Income tax	(256)	(58)	28	(24)	(4)	(314)
Net income (loss)	1,015	80	(177)	46	8	970
Minorities	(68)	(4)		(1)		(74)
Net income (loss), Group share	946	75	(177)	45	8	897

Organic sales growth per quarter



Restated 2017 adjusted P&L

	IFRS 15		As reported		Difference	
	€m	% of sales	€m	% of sales	€m	Margin
Sales	15,228		15,795		(568)	
Gross margin	3,711	24.4%	3,845	24.3%	(133)	+0 .0 pt
Indirect costs	(2,404)	-15.8%	(2,375)	-15.0%	(29)	-0.8 pt
o/w R&D expenses	(797)	-5.2%	(797)	-5.0%	0	-0.2 pt
o/w Marketing & Sales expenses	(1,065)	-7.0%	(1,036)	-6.6%	(29)	-0.4 pt
o/w General & Administrative expenses	(542)	-3.6%	(542)	-3.4%	0	-0.1 pt
Restructuring costs	-81	-0.5%	-81	-0.5%	0	-0.0 pt
Share of net result of equity-accounted affiliates	139	0.9%	154	1.0%	(15)	-0.1 pt
EBIT	1,365	9.0%	1,543	9.8%	(177)	-0.8 pt

Restated 2017 sales by operating segment

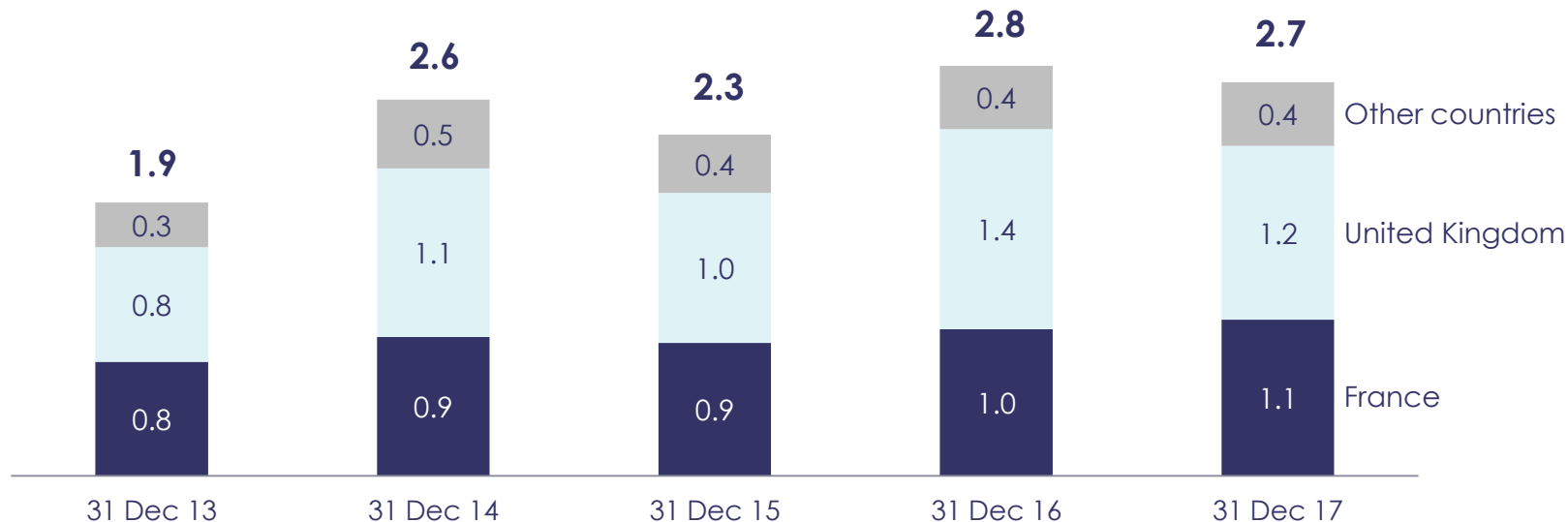
	IFRS 15	As reported	Difference	
	€m	€m	€m	%
Aerospace	5,747	5,985	(238)	-4%
Transport	1,723	1,761	(38)	-2%
Defence & Security	7,690	7,983	(294)	-4%
Total operating segments	15,160	15,729	(569)	-4%
Other	67	66		
TOTAL	15,228	15,795	(568)	-4%

Restated 2017 EBIT by operating segment

	IFRS 15		As reported		Difference	
	EBIT m€	Margin %	EBIT m€	Margin %	EBIT m€	Margin
Aerospace	567	9.9%	602	10.0%	35	-0.1 pt
Transport	57	3.3%	72	4.1%	15	-0.8 pt
Defence & Security	757	9.8%	869	10.9%	112	-1.1 pt
Total operating segments	1,380	9.1%	1,542	9.8%	161	-0.7 pt
Other	-15		1		16	-
TOTAL	1,365	9.0%	1,543	9.8%	177	-0.8 pt

Evolution of net pension provision

€bn



Liability discount rate

France	3.2%	1.5%	2.0%	1.5%	1.2%
UK	4.6%	3.7%	4.0%	2.8%	2.6%

Q4 2017 order intake by operating segment

€m	Q4 2017	Q4 2016	change	
			total	organic
Aerospace	2,151	2,137	+1%	+2%
Transport	804	817	-2%	+0%
Defence & Security	3,117	3,315	-6%	-5%
Other	14	28		
Total	6,086	6,298	-3%	-2%

Q4 2017 sales by operating segment

€m	Q4 2017	Q4 2016	change	
			total	organic
Aerospace	1,917	1,914	+0.2%	+1.7%
Transport	701	557	+25.9%	+28.2%
Defence & Security	2,820	2,363	+19.4%	+22.1%
Other	21	18		
Total	5,460	4,852	+12.5%	+14.8%

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 (2017 impact: +€18m, 2016 impact: €+19m). See also notes 13-a and 2 of the consolidated financial statements at 31 December 2017.
- **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 (2017 impact: +€12m, 2016 impact: €+12m), (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 13-a of the consolidated financial statements at 31 December 2017.
- **Adjusted EPS:** ratio of adjusted net income (as defined above) to average number of shares outstanding. See note 13-a of the consolidated financial statements at 31 December 2017.
- **Free operating cash flow:** net cash flow from operating activities, *less:* capital expenditures, *less:* deficit payments on pensions in the United Kingdom. See notes 13-a and 6.4 of the consolidated financial statements at 31 December 2017.



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