THALES

PRESS RELEASE

Paris La Défense, 19 October 2017

Order intake and sales at 30 September 2017

- **Order intake in line with expectations: €8.8 billion, down 14%**
- **Sales: €10.3 billion, up 3.5% on an organic basis[1] (up 3.0% on a reported basis)**
- **IFRS 15 implementation: limited impact on the H1 2017 financial statements, non-representative of the effects on future periods**
- **All objectives confirmed**

Thales (Euronext Paris: HO) announced today its order intake and sales for the period ending 30 September 2017. Patrice Caine, Chairman and Chief Executive Officer, commented: *"In the first nine months of the year, thanks to the commitment of our teams around the world, Thales has maintained a solid commercial momentum. Order intake is in line with our expectations and, unsurprisingly, lower than in the first nine months of 2016, which benefited from the Indian Rafale contract. We confirm all of our annual objectives, with the slight decline in sales in the third quarter due solely to phasing effects."*

Order intake *(in € millions)*	**9m 2017**	**9m 2016**	**Total change**	**Organic change**
Aerospace	3,049	3,735	-18%	-18%
Transport	976	687	+42%	+43%
Defence & Security	4,766	5,748	-17%	-17%
Other	42	47		
Total	**8,833**	**10,216**	**-14%**	**-13%**
Sales *(in € millions)*				
Aerospace	4,068	3,898	+4.4%	+4.5%
Transport	1,060	1,046	+1.3%	+2.3%
Defence & Security	5,163	5,028	+2.7%	+3.5%
Other	45	61		
Total	**10,336**	**10,033**	**+3.0%**	**+3.5%**
Of which mature markets[2]	7,103	7,077	+0.4%	+0.8%
Of which emerging markets[2]	3,233	2,956	+9.4%	+10.1%

[1] In this press release, "organic" means "at constant scope and exchange rates".
[2] Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries. See page 10.

Order intake

In the first nine months of 2017, **order intake** amounted to **€8,833 million, down 14%** compared with 9m 2016 (down 13% at constant scope and currency), which had benefited from the booking in Q3 2016 of an order for 36 Rafale fighter aircraft by the Indian government.

Over 9m 2017, Thales booked 11 **large orders with a unit value of over €100 million**, representing a total amount of €1,745 million:

- 1 contract booked in Q1 2017, covering the supply of a telecommunications satellite to an emerging-market customer.
- 7 large orders booked in Q2 2017:
  - The supply of in-flight entertainment (IFE) systems to a major carrier
  - The construction for Inmarsat of a very high throughput satellite (V-HTS)
  - The operation and maintenance of critical security, information and communication systems at the French Ministry of Defence's new headquarters
  - A contract in the framework of the development and construction of five intermediate-sized frigates (FTIs) for the French Navy
  - The contract to manufacture the first armoured vehicles as part of the Scorpion programme, for the French Ministry of Defence
  - The supply of AREOS reconnaissance pods to a military customer
  - The delivery of several systems and sensors to an emerging-market navy
- 3 large orders booked in Q3 2017:
  - An additional contract in the framework of the development and construction of FTIs for the French Navy
  - The notification of an additional contract in the framework of the CONTACT tactical digital communications programme for the French Ministry of Defence
  - The sale of an integrated air defence system to an Asian country

Orders with a unit value of less than €100 million were stable compared with 9m 2016.

From a geographical point of view[1], order intake in emerging markets (€2,268 million) logically declined sharply (down 47% on an organic basis), given that the Group had booked the Rafale contract in India in the prior year. Order intake in mature markets displayed strong momentum (€6,565 million, up 12% on an organic basis).

Order intake in the **Aerospace** segment, which was particularly dynamic over 9m 2016, returned to a level close to that of 2014 and 2015, amounting to **€3,049 million**, compared to €3,735 million in 9m 2016 (down 18%). IFE orders declined, notably because the Group had booked a large order in 2016 from Emirates airlines. Despite the two contract wins listed above, orders for the Space segment were also down, as the Group had booked several large contracts for this business in the prior year.

[1] See table on page 10.

Order intake in the **Transport** segment surged to **€976 million**, compared to €687 million over the same period in 2016 (up 43%), driven by a strong momentum in both urban signalling and mainline signalling markets.

At **€4,766 million**, order intake in the **Defence & Security** segment was down 17% year on year. As mentioned above, this segment had booked the Rafale order in India in Q3 2016. Excluding this non-recurring item, order intake in the segment rose significantly, fuelled by good commercial dynamics in most businesses.

Sales

9m 2017 **sales** stood at **€10,336 million**, compared to €10,033 million in the same period in 2016, up 3.0% on a reported basis and up 3.5% at constant scope and currency ("organic" change).

From a geographic point of view[1], this trend primarily reflected the continued strong growth in emerging markets (+10.1%), while sales in mature markets inched up by 0.8% on an organic basis compared with 9m 2016, which had seen a particularly dynamic performance in these markets (organic growth of 8.3% between 9m 2015 and 9m 2016).

Sales in the **Aerospace** segment totalled **€4,068 million**, a 4.4% increase compared with 9m 2016 (4.5% increase at constant scope and currency). The Avionics and In-Flight Entertainment businesses remain buoyant, but were impacted by phasing effects, which explain the negative Q3 organic growth (slowdown in deliveries of avionics systems to Airbus after a sharp increase in H1, weaker seasonal fluctuations than in 2016 in In-Flight Entertainment). Sales of tubes and imaging systems remained impacted by the weakening global satellite market. Despite a high comparison basis, sales in the Space segment continued to grow thanks to the contracts signed in 2015 and 2016, notably with commercial and military customers.

In the **Transport** segment, sales came in at **€1,060 million**, up 1.3% compared with 9m 2016 (up 2.3% at constant scope and currency). This performance can be attributed to a high basis of comparison, with 9m 2016 benefiting from the combined effect of the start of invoicing on the three major urban rail signalling contracts won in 2015 and of the return to schedule for projects impacted by execution delays. When compared to the same period in 2015, sales for the segment have continued on a strong growth trajectory (up 27% at constant scope and currency).

Sales in the **Defence & Security** segment represented **€5,163 million**, up 2.7% compared with 9m 2016 (up 3.5% at constant scope and currency). Most businesses contributed to this momentum. The Land and Air Systems business recorded steady growth, notably in missile electronics and protected vehicles, with the ramp-up of the Hawkei vehicle supply contract with the Australian Defence Force. The Defence Mission Systems business benefited in particular from a high level of activity in combat aircraft systems and from the Watchkeeper and Crowsnest programmes in the United Kingdom. Only the Secure Communications and Information Systems business was down, impacted by strong sales phasing in radio communication products.

[1] See table on page 10.

IFRS 15 implementation

During the quarter, the Group continued to work on the implementation of IFRS 15 – Revenue from contracts with customers. This standard, which becomes mandatory as of 1st January 2018, provides for:

- new criteria to demonstrate the continuous transfer of control of goods to the customer and enable the recognition of revenue over time;
- the unbundling of multiple performance obligations within a single contract;
- measurement of progress towards completion of a contract (or performance obligation for unbundled contracts) based on costs incurred.

Had the standard been applied as of 1 January 2017, the Group estimates that its H1 2017 results would have been as follows:

H1 2017 *In € millions, except earnings per share (in €)*	**Restated for IFRS 15**	**Reported**	**Difference**	
			€m	**%**
Order intake	**6,009**	**5,972**	+37	+1%
Order book at end of period	**31,548**	**31,861**	-313	-1%
Sales	**7,118**	**7,241**	-123	-2%
Adjusted gross margin[1]	**1,700**	**1,741**	-40	-2%
in % of sales	*23.9%*	*24.0%*		*-0.1pts*
Adjusted indirect costs[1]	**(1,163)**	**(1,154)**	-9	+1%
Restructuring costs	**(24)**	**(24)**	-	+0%
Share in net income of equity affiliates	**74**	**74**	-	+0%
EBIT[1]	**587**	**637**	-50	-8%
in % of sales	*8.3%*	*8.8%*		*-0.5pts*
Adjusted net income, Group share[1]	**387**	**424**	-37	-9%
Adjusted net income, Group share, per share[1]	**1.83**	**2.00**	-0.17	-9%
Consolidated net income, Group share	**299**	**336**	-37	-11%
Free operating cash flow[1]	**216**	**216**	-	+0%

The standard introduces an accounting definition of the **order book** ("revenue to be recognised"). For Thales, this accounting definition will require an adjustment to the current definition of order book and order intake, the impact of which is not material at Group level: the adjustment to the order book at end-June 2017 results in a difference of less than 1% (€31,548 million under IFRS 15 compared to

[1] Non-GAAP measures, see definitions page 8.

€31,861 million under the current standards). Restated **order intake** stands at €6,009 million, 1% higher than reported order intake.

With regard to **sales** and **adjusted gross margin**, the differences are primarily due to the change in the percentage-of-completion method for long-term contracts. Currently, contract sales and margins are recognised as and when technical milestones are reached, which attest to the effective stage of completion of a portion of the work or the performance of services provided for in the contract. Under IFRS 15, the percentage-of-completion method used is the cost-to-cost method, whereby revenue is recognised based on costs incurred at a given date divided by total costs expected at completion. For each contract, depending on the stage of completion and the type of milestones reached and costs incurred during the period, this change of method may lead to the recognition of revenue and margins being deferred from one period to another.

To a lesser degree, these differences are due to certain contracts being unbundled into performance obligations with differentiated margins (particularly for contracts combining construction and operation, or the construction and launch of a satellite), which may also lead to the deferral of the recognition of revenue and margins.

Finally, the impact of the requalification of contracts no longer fulfilling over time recognition criteria is very limited. A detailed analysis of the contract portfolio found that this requalification, which could have generated very significant deferrals in the recognition of revenue and margins if it had applied to a large number of contracts, only concerns a small number, the total revenue of which represents less than 1% of the order book at 31 December 2016.

In H1 2017, these impacts taken together result in a reduction of €123 million in sales, and of €40 million in adjusted gross margin, which accordingly amounts to 23.9% of sales (down 0.1 points). As the new standard affects neither the total revenue nor the overall profitability of each contract, this impact corresponds solely to timing differences.

The impact of the standard on **adjusted indirect costs** amounts to €9 million, corresponding solely to the derecognition of bid costs from costs at completion and their subsequent recognition under indirect costs for the period.

The impact on **share in net income of equity affiliates**, including in particular Naval Group, is not material.

As a result, restated H1 2017 **EBIT** comes in at €587 million, €50 million lower than reported EBIT for the period. The decline in **EBIT margin,** 8.3% under IFRS 15 compared to 8.8% under current standards, is mainly due to the decrease in sales (negative operating leverage): gross margin only decreases by 0.1 points and indirect costs are virtually unchanged by the standard.

These amounts reflect the impact on the aggregate sales and margin of several thousand contracts; they are not representative of the standard's impact on the financial statements of future periods.

Under IFRS 15, sales and EBIT by operating segment would have broken down as follows:

H1 2017	Restated for IFRS 15			Reported			Difference		
In € millions	Sales	EBIT	EBIT margin	Sales	EBIT	EBIT margin	Sales	EBIT	EBIT margin
Aerospace	2,797	260	9.3%	2,872	263	9.2%	-3%	-1%	+0.1pts
Transport	761	8	1.1%	711	6	0.9%	+7%	+30%	+0.2pts
Defence & Security	3,533	325	9.2%	3,631	374	10.3%	-3%	-13%	-1.1pts
Total – operating segments	**7,090**	**594**	**8.4%**	**7,214**	**644**	**8.9%**	**-2%**	**-8%**	**-0.6pts**
Other	28	(6)		27	(7)	-	-	-	-
Total	**7,118**	**587**	**8.3%**	**7,241**	**637**	**8.8%**	**-2%**	**-8%**	**-0.5pts**

In H1 2017, **Aerospace segment** sales are negatively impacted by the implementation of IFRS 15 (down 3%). This is primarily due to phasing effects (milestones reached in the period with low related costs, for example because they were recognised in 2016). The impacts on EBIT (down 1%) and EBIT margin (down 0.1 points) are not material, involving positive and negative items that offset each other.

Sales in the **Transport segment** are positively impacted by the implementation of IFRS 15 (up 7%), also due to phasing effects (fewer milestones reached than costs incurred over the period). EBIT margin benefits slightly from the application of IFRS 15 (up 0.2 points), with the additional sales being recorded at low margin.

The introduction of IFRS 15 has a negative 3% impact on **Defence & Security segment** sales. Over the period, this segment is notably impacted by phasing effects and the unbundling of certain contracts into performance obligations, whose phases in progress have lower margins than future phases, as well as, to a lesser degree, the requalification of contracts at delivery. The restatement has a negative 1.1 point impact on the segment's EBIT margin, notably reflecting the negative operating leverage on indirect costs as well as the unbundling of certain contracts into performance obligations, which has a disproportionate impact on gross margin.

After restatement, **adjusted net income, Group share** amounts to **€387 million**, €37 million lower than the reported amount, reflecting the deferral of sales recognition resulting from the new standard.

The change of standard has a similar negative impact, €37 million, on **consolidated net income, Group share**.

At €216 million in H1 2017, **free operating cash flow** is not impacted by the application of the new standard, as cash flows are defined by contractual provisions independently of sales and income recognition rules.

Given that Thales has chosen the full retrospective method, the H1 and FY 2018 financial statements will include comparative 2017 financial statements restated to reflect the impact of applying IFRS 15. The balance sheet at 1 January 2017 will also be presented in restated form.

The change of standards will result in a 5% reduction (€254 million) in **consolidated equity** in the balance sheet at 1 January 2017 (€4,866 million), after deferred tax assets and liabilities have been taken into account.

Outlook

Performance in the first nine months of the year has been in line with expectations. In this context, the Group confirms all its objectives, as set out below.

Thales should continue to benefit from positive trends in most of its markets. Although below the highs recorded in 2015 and 2016, the order intake in 2017 should remain brisk, at around €14 billion.

Sales in 2017 should see mid-single digit organic growth compared to 2016.

This positive trend, combined with continuing efforts to improve competitiveness, should result in Thales delivering between €1,480 million and €1,500 million in EBIT (based on February 2017 scope and exchange rates), representing an increase of 9% to 11% versus 2016.

Thales also confirms its mid-term objectives of mid-single digit organic sales growth on average in the 2016-2018 period, and an EBIT margin of between 9.5% and 10% in 2017/2018.

****

About Thales

Contacts

@ThalesPress

Thales, Media Relations

Cédric Leurquin
+33 1 57 77 86 26
pressroom@thalesgroup.com

Thales, Analysts/Investors

Bertrand Delcaire
+33 1 57 77 89 02
ir@thalesgroup.com

Appendices

Note on methodology

In this press release, 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 changes are calculated based on underlying amounts, which feature in the consolidated financial statements.

"Organic change" measures the movement in monetary indicators excluding the effects of changes in exchange rates and scope of consolidation. It is defined as the difference between (i) the indicator for the prior period, recomputed at the exchange rate applicable for the current period to entities whose reporting currency is not the euro, less the contribution of entities divested during the current period, and (ii) the value of the indicator for the current period less the contribution of entities acquired during the current period.

Operating segments

Aerospace	Avionics, Space
Transport	Ground Transportation Systems
Defence & Security	Secure Communications and Information Systems, Land and Air Systems, Defence Mission Systems

Definitions of non-GAAP financial indicators

In order to facilitate monitoring and benchmarking of its financial and operating performance, the Group presents three key non-GAAP indicators, which exclude non-operating and/or non-recurring items. They are determined as follows:

- **EBIT**, an adjusted operating indicator, corresponds to income from operations plus the share in net income of equity affiliates, before the impact of entries relating to the amortisation of intangible assets acquired (purchase price allocation – PPA) recorded as part of business combinations. From 1 January 2016, it also excludes the other expenses recorded in income from operations that are directly related to business combinations, which are unusual by nature.

  This definition drives the definition of other operating indicator on the adjusted P&L:

  - **Adjusted gross margin** corresponds to the difference between sales and the cost of sales, less expenses recorded in cost of sales that are directly related to business combinations, which are unusual by nature.
  - **Adjusted indirect costs** correspond to the indirect costs on the consolidated profit and loss account (research and development expenses, marketing and selling expenses, general and administrative expenses), less expenses recorded as part of these expenses and that are directly related to business combinations, which are unusual by nature.

- **Adjusted net income** corresponds to net income, excluding the following items and net of the corresponding tax effects:
  - amortisation of acquired intangible assets (PPA) recorded as part of business combinations;

- expenses recognised in income from operations that are directly related to business combinations, which are unusual by nature;
- gains and losses on disposals of assets, changes in scope of consolidation and other;
- changes in the fair value of derivative foreign exchange instruments (recognised under "Other financial income and expenses" in the consolidated financial statements);
- actuarial gains (losses) on long-term benefits (recognised under "Finance costs on pensions and other long-term employee benefits" in the consolidated financial statements).

- **Free operating cash flow** corresponds to the net cash flow from operating activities before contributions to reduce the pension deficit in the United Kingdom, and after deducting net operating investments.

Readers are reminded that only the consolidated financial statements at 31 December were audited by the Statutory Auditors, including the calculation of EBIT, which is described in Note 2 "Segment Information" to the consolidated financial statements, and free operating cash flow, which is described in Note 11.1. Adjusted financial information other than that provided in the notes to the consolidated financial statements is subject to the verification procedures applicable to all information included in this report.

The impact of these adjustment entries on the profit and loss account for H1 2017 and H1 2016 is presented in the tables on pages 11 and 12 of the H1 2017 press release disclosed on 26 July 2017. Calculation of free operating cash flow is outlined on page 13 of the same document.

Order intake by destination – 9 months 2017

In € millions	9m 2017	9m 2016	Total change	Organic change	9m 2017 weighting in %
France	2,899	1,939	+49%	+50%	33%
United Kingdom	545	537	+1%	+9%	6%
Rest of Europe	1,737	2,038	-15%	-15%	20%
Sub-total Europe	**5,181**	**4,514**	**+15%**	**+16%**	**59%**
United States and Canada	912	820	+11%	+10%	10%
Australia and New Zealand	472	536	-12%	-14%	5%
Total mature markets	**6,565**	**5,870**	**+12%**	**+12%**	**74%**
Asia	1,175	2,880	-59%	-59%	13%
Middle East[1]	696	873	-20%	-20%	8%
Rest of the world[1]	397	593	-33%	-31%	4%
Total emerging markets	**2,268**	**4,346**	**-48%**	**-47%**	**26%**
Total all markets	**8,833**	**10,216**	**-14%**	**-13%**	**100%**

Sales by destination – 9 months 2017

In € millions	9m 2017	9m 2016	Total change	Organic change	9m 2017 weighting in %
France	2,517	2,442	+3.1%	+3.2%	24%
United Kingdom	907	886	+2.4%	+8.9%	9%
Rest of Europe	2,086	2,081	+0.3%	-0.1%	20%
Sub-total Europe	**5,511**	**5,409**	**+1.9%**	**+2.8%**	**53%**
United States and Canada	967	1.095	-11.6%	-12.0%	9%
Australia and New Zealand	625	573	+9.0%	+6.3%	6%
Total mature markets	**7,103**	**7,077**	**+0.4%**	**+0.8%**	**69%**
Asia	1,501	1.388	+8.2%	+8.9%	15%
Middle East[1]	1,079	935	+15.3%	+15.8%	10%
Rest of the world[1]	653	633	+3.2%	+4.4%	6%
Total emerging markets	**3,233**	**2,956**	**+9.4%**	**+10.1%**	**31%**
Total all markets	**10,336**	**10,033**	**+3.0%**	**+3.5%**	**100%**

[1] The 2016 figures have been adjusted to reflect the transfer of certain countries out of the "Middle East" region and into the "Rest of the world" region within the Group's organisation. The emerging markets total remains unchanged.

Order intake and sales – Q3 2017

Order intake *(in € millions)*	**Q3 2017**	**Q3 2016**	**Total change**	**Organic change**
Aerospace	812	1,516	-46%	-46%
Transport	314	180	+75%	+78%
Defence & Security	1,731	3,078	-44%	-43%
Other	4	19		
Total	**2,861**	**4,793**	**-40%**	**-40%**
Sales *(in € millions)*				
Aerospace	1,197	1,231	-2.8%	-1.6%
Transport	349	328	+6.2%	+7.6%
Defence & Security	1,532	1,604	-4.5%	-3.1%
Other	18	25		
Total	**3,095**	**3,187**	**-2.9%**	**-1.6%**
Of which mature markets[1]	2,145	2,221	-3.4%	-2.2%
Of which emerging markets[1]	950	966	-1.7%	-0.3%

Organic change in sales by quarter

In € millions	**2016 sales**	**Exchange rate effect**	**Impact of disposals**	**2017 sales**	**Impact of acquisitions**	**Total change**	**Organic change**
Q1	2,732	10	0	3,058	15	+11.9%	+11.0%
Q2	4,113	(25)	11	4,183	3	+1.7%	+2.5%
H1	**6,846**	**(16)**	**11**	**7,241**	**19**	**+5.8%**	**+5.9%**
Q3	3,187	(45)	4	3,095	7	-2.9%	-1.6%
9m	**10,033**	**(60)**	**16**	**10,336**	**26**	**+3.0%**	**+3.5%**

[1] Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries.