THALES

PRESS RELEASE
26 February 2019
Paris La Défense, France

2018 Full-Year results

- All 2018 objectives exceeded
  - Order intake: €16.0 billion, up 7%[1] (+9% on an organic basis[2])
  - Sales: €15.86 billion, up 4.1% (+5.3% on an organic basis)
  - EBIT[3]: €1,685 million, up 23% (+25% on an organic basis)
- Adjusted net income, Group share[3]: €1,178 million, up 40%
- Consolidated net income, Group share: €982 million, up 44%
- Free operating cash flow[3]: €811 million, 69% of adjusted net income
- Dividend[4] up 19% to €2.08
- Finalisation of the acquisition of Gemalto expected in March 2019
- 2019 objectives: organic sales growth between 3% and 4%
  EBIT between €1,780 million and €1,800 million

Thales's Board of Directors (Euronext Paris: HO) met on 25 February 2019 to examine the 2018 financial statements[5].

"Thanks to the commitment of its 66,000 employees, 2018 has been an excellent year for Thales. Order momentum stepped up in the fourth quarter, enabling order intake to reach €16 billion and exceed the annual objective. For the third year running, organic sales growth exceeded 5%, driven by an exceptional year in Transport and strong growth in the Defence & Security segment. Operating profitability improved across all segments and reached 10.6%, a level never before achieved by the Group.

Our action plan until 2021 is clear: to support profitable growth in the long term, we will continue to roll out our operational performance initiatives and to strengthen our customer-centric culture while also continuing to step up our investments in innovation.

The integration of Gemalto, which we have been actively preparing for over a year, will, in the coming weeks, consolidate our position as a global leader in digital security.

In an increasingly digital world, Thales's business model, both robust and balanced, delivers value more than ever."

Patrice Caine, Chairman and Chief Executive Officer

[1] Since 1 January 2018, the Group has been applying IFRS 15 "Revenue from Contracts with Customers". All changes in this press release are calculated compared with the figures restated for the application of this standard, which appear in the 2018 consolidated financial statements.
[2] In this press release, "organic" means "at constant scope and currency". See note on methodology, page 13.
[3] Non-GAAP financial indicators, see definitions in the Appendices, page 13.
[4] Proposed to the Shareholders' Meeting on 15 May 2019.
[5] At the date of this press release, the audit procedures have been completed and the Statutory Auditors' report was in the process of being issued.

Key figures

In € millions, except earnings per share and dividend (in €)	2018	2017 restated for IFRS 15	2017 reported	Total change[6]	Organic change
Order intake[7]	**16,034**	14,931	14,920	+7%	+9%
Order book[7] at end of period	**32,329**	32,064	31,914	+1%	+1%
Sales	**15,855**	15,228	15,795	+4.1%	+5.3%
EBIT[8]	**1,685**	1,365	1,543	+23%	+25%
in % of sales	*10.6%*	*9.0%*	*9.8%*	*+1.7 pts*	*+1.7 pts*
Adjusted net income, Group share[8]	**1,178**	840	982	+40%	
Adjusted net income, Group share, per share[8]	**5.55**	3.97	4.64	+40%	
Consolidated net income, Group share	**982**	680	822	+44%	
Free operating cash flow[8]	**811**	1,365	1,365	-554	
Net cash at end of period[8]	**3,181**	2,971	2,971	+209	
Dividend per share	**2.08[9]**	1.75	1.75	+19%	

2018 **order intake** amounted to **€16,034 million, up 7%** on 2017 (+9% at constant scope and currency). Order momentum was particularly strong in the Defence & Security segment. At 31 December 2018, the Group's **order book** stood at **€32.3 billion**, which represents 2 years' worth of sales.

Sales totalled **€15,855 million,** up 4.1% compared to 2017 pro forma IFRS 15 sales, and **5.3% at constant scope and currency** ("organic" change). Sales growth remained high, driven by strong momentum in the Transport (up +17.9% on an organic basis) and Defence & Security (up +5.6% on an organic basis) segments.

In 2018, consolidated **EBIT** was **€1,685 million** (**10.6%** of sales) compared to €1,365 million (9.0% of sales) in 2017, up **23%** compared to 2017 pro forma IFRS 15 EBIT. All operating segments improved their EBIT margin while increasing their R&D investments.

[6] All the "total changes" are calculated compared with the figures restated for the application of IFRS 15, which appear in the 2018 consolidated financial statements.
[7] As of 1 January 2018, the Group has been applying the IFRS 15 standard "Revenue from contracts with customers", which introduces the concept of accounting order book ("revenue remaining to be recognized"). The definitions of "order book" and "order intake" have been adjusted accordingly, with no material impact at Group level.
[8] Non-GAAP financial indicators, see definitions in the Appendices, page 13.
[9] Proposed to the Shareholders' Meeting on 15 May 2019.

As such, the Group exceeded all the financial objectives it had set for 2018: an order intake of around €15.5 billion, an organic sales growth of +4% to +5% compared to 2017, and an EBIT of between €1,620 million and €1,660 million, based on February 2018 scope and currency.

At **€1,178 million**, **adjusted net income, Group share** was up **40%**, thanks to the strong improvement in EBIT.

Consolidated net income, Group share was **€982 million**, up **44%**, thanks to the strong improvement in income from operations (+€307 million).

Free operating cash flow[10] was **€811 million** versus €1,365 million in 2017. This decrease is explained by the partial reversal of one-off items which had driven working capital to a very low level at 31 December 2017.

As a result, the Board of Directors decided to propose payment of a dividend of €2.08 per share, a rise of 19% compared to 2017.

Order intake

In € millions	**2018**	**2017 restated for IFRS 15**	**2017 reported**	**Total change**	**Organic change**
Aerospace	5,346	5,237	5,200	+2%	+3%
Transport	1,858	1,781	1,780	+4%	+6%
Defence & Security	8,775	7,857	7,883	+12%	+13%
Total – operating segments	**15,979**	**14,875**	**14,863**	**+7%**	**+9%**
Other	55	57	57		
Total	**16,034**	**14,931**	**14,920**	**+7%**	**+9%**
Of which mature markets[11]	12,797	10,722	10,824	+19%	+21%
Of which emerging markets[11]	3,237	4,210	4,095	-23%	-22%

2018 **order intake** amounted to **€16,034 million, up 7%** on 2017 (+9% at constant scope and currency[12]). The ratio of order intake to sales ("**book-to-bill**") stood at **1.01** compared to 0.98 in 2017.

[10] Non-GAAP financial indicator, see definition in the Appendices, page 13.
[11] Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries. See table on page 17.
[12] Taking into account a negative currency effect of €175 million and a net negative scope effect of €18 million, mainly linked to the consolidation of Guavus as of 12 September 2017 (Defence & Security segment) and to the disposal of the identity management business during Q2 2017 (same segment).

Thales booked **19 large orders with a unit value of over €100 million**, representing a total amount of **€4,593 million**:

- 3 large orders recorded in Q1 2018, covering the modernisation of air traffic control in Australia (OneSKY project), the supply of systems on board the 12 additional Rafale combat aircraft ordered by Qatar, and the renovation of signalling systems on one of the main railways in Poland;
- 3 large orders recorded in Q2 2018, covering the design of a new-generation very high throughput satellite for Eutelsat (Konnect VHTS), the supply to the German Navy, in a consortium with Atlas Elektronik, of the combat management system (CMS) for 5 K130 corvettes, and the modernisation of sonar systems equipping the Australian Royal Navy's Collins class submarines;
- 4 large orders recorded in Q3 2018, linked to the projects "Meteosat Third Generation" (meteorological observation satellites), Connect (London metro radio network), CONTACT (military software radios in France) and Adapt (service contract for the British Army);
- 9 large orders booked in Q4 2018:
    - A new framework agreement to upgrade the mission segment of the Galileo satellite navigation system
    - The development, through a consortium, of 4 radar observation satellites for South Korea
    - The design of several systems for the future metro lines of the Grand Paris Express
    - Signalling systems for the extension of a major railway line in an emerging country
    - A contract related to the development by MBDA of the new Mica NG missile for the French Army
    - 2 contracts for the modernisation of the French Army's telecommunication systems
    - The development contract for the new Rafale F4 standard for the French Army, including new sensors and communication systems
    - The development of a new state-of-the-art defence system for the future frigates of the Royal Netherlands Navy

At **€11,441 million**, orders **of less than €100 million per unit** were down 5% on 2017, with the Group having recorded fewer orders with a unit value of between €10 million and €100 million. Orders with a unit value of less than €10 million remained stable compared to 2017, with the growth in Q4 fully absorbing the delay observed in the first part of the year.

From a geographical perspective[13], order intake in emerging markets, which had benefited from 7 large orders in 2017 versus only 3 this year, was down 23% to €3,237 million. Meanwhile, order intake in mature markets rose significantly (+19% to €12,797 million), driven by the increase in defence budgets in many countries.

[13] See table on page 17.

At **€5,346 million** compared to €5,237 million in 2017, order intake in the **Aerospace** segment was up +2%. This slight increase is explained by opposing trends: order intake in the avionics and In-Flight Entertainment (IFE) businesses was down, having benefited in 2017 from the booking of two large orders in these domains. As expected, order intake in the Space business showed clear signs of recovery following a weak 2017, benefiting from several successes with large institutional clients.

At **€1,858 million**, order intake in the **Transport** segment remained buoyant, up 4% on 2017. This segment benefited in particular from several large main line signalling contracts.

Order intake in the **Defence & Security** segment was **€8,775 million** compared to €7,857 million in 2017 (+12%), benefiting from robust bookings in equipment for ships, fighter aircraft, air traffic management, military communication networks and cybersecurity. For the first time, the order book for this segment exceeded €20 billion, representing 2.5 years' worth of sales, and increasing visibility on the business in the years to come.

Sales

In € millions	2018	2017 restated for IFRS 15	2017 reported	Total change	Organic change
Aerospace	5,780	5,747	5,985	+0.6%	+1.4%
Transport	2,001	1,723	1,761	+16.1%	+17.9%
Defence & Security	8,020	7,690	7,983	+4.3%	+5.6%
Total – operating segments	**15,800**	**15,160**	**15,729**	**+4.2%**	**+5.4%**
Other	55	67	66		
Total	**15,855**	**15,228**	**15,795**	**+4.1%**	**+5.3%**
Of which mature markets[14]	10,960	10,570	10,913	+3.7%	+4.7%
Of which emerging markets[14]	4,894	4,657	4,882	+5.1%	+6.5%

2018 **sales** amounted to **€15,855 million**, compared to €15,228 million in 2017, up 4.1%. The organic change (at constant scope and currency[15]) came in at +5.3%, driven by strong momentum in the Transport and Defence & Security segments.

[14] Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries. See table on page 17.
[15] The calculation of the organic change in sales is shown on page 18.

As expected, sales remained stable in Q4[16] (-0.2% on a reported basis, +0.1% on an organic basis), affected by a high basis of comparison in the Transport and Defence & Security segments, and by phasing effects between Q3 and Q4 2018 in the Aerospace segment.

From a geographical[17] perspective, this performance reflected solid growth in both emerging (+6.5% at constant scope and currency) and mature markets (+4.7% at constant scope and currency). As a result, in 5 years, the Group's sales in emerging markets have increased by more than €2 billion, from €2.9 billion in 2013 to €4.9 billion in 2018 (+70%).

In the **Aerospace** segment, sales totalled **€5,780 million**, up 0.6% compared to 2017 (+1.4% at constant scope and currency). This limited growth reflects the slowdown of the commercial telecom satellite market, along with a high basis of comparison in In-Flight Entertainment, partly offset by good momentum in the aeronautical businesses. The drop in sales in Q4 is not an indication of this business' momentum; it reflects phasing effects between Q3 and Q4 (Q3 organic growth: +8.8%; Q4: -2.9%).

In the **Transport** segment, sales totalled **€2,001 million**, up 16.1% compared to 2017 (+17.9% at constant scope and currency). The segment benefited from the ramp-up of the large urban rail signalling contracts signed in 2015 and 2016, combined with an upturn in main line activity.

Sales in the **Defence & Security** segment reached **€8,020 million**, up 4.3% compared to 2017 (+5.6% at constant scope and currency). Many different businesses contributed to this momentum: surface radars, optronics, systems for fighter aircraft, systems and services for military ships, military radiocommunications, cybersecurity, etc.

As expected, sales in the Defence & Security segment remained stable in Q4 (-0.5% on a reported basis, +0.0% at constant scope and currency), affected by a very high basis of comparison (Q4 2017 growth: +22.1% at constant scope and currency).

[16] See table on page 18.
[17] See table on page 17.

Results

EBIT *In € millions*	**2018**	**2017 restated for IFRS 15**	**2017 reported**	**Total change**	**Organic change**
Aerospace	**580**	**567**	**601**	+2%	+3%
in % of sales	*10.0%*	*9.9%*	*10.0%*	*+0.2 pts*	*+0.2 pts*
Transport	**88**	**57**	**72**	+56%	+57%
in % of sales	*4.4%*	*3.3%*	*4.1%*	*+1.1 pts*	*+1.1 pts*
Defence & Security	**1,007**	**757**	**869**	+33%	+35%
in % of sales	*12.6%*	*9.8%*	*10.9%*	*+2.7 pts*	*+2.8 pts*
Total – operating segments	**1,675**	**1,380**	**1,542**	+22%	+23%
in % of sales	*10.6%*	*9.1%*	*9.8%*	*+1.5 pts*	*+1.5 pts*
Other – excluding Naval Group	(53)	(48)	(47)		
Total – excluding Naval Group	**1,623**	**1,333**	**1,495**	+22%	+23%
in % of sales	*10.2%*	*8.8%*	*9.5%*	*+1.5 pts*	*+1.5 pts*
Naval Group (35% share)	63	33	48	+91%	+91%
Total	**1,685**	**1,365**	**1,543**	+23%	+25%
in % of sales	*10.6%*	*9.0%*	*9.8%*	*+1.7 pts*	*+1.7 pts*

In 2018, consolidated **EBIT**[18] amounted to **€1,685 million**, or **10.6%** of sales, compared to €1,365 million (9.0% of sales) in 2017.

The **Aerospace** segment posted EBIT of **€580 million** (**10.0%** of sales), versus €567 million (9.9% of sales) in 2017. The margin in this segment improved slightly, with competitiveness initiatives and lower restructuring costs offsetting the acceleration of R&D expenses, particularly in the space segment.

EBIT for the **Transport** segment continued to recover, reaching **€88 million** (**4.4%** of sales) compared to €57 million (3.3% of sales) in 2017. The delivery of old low or zero margin contracts proceeded as planned. In 2019, the improvement in this segment's margin should be affected by the recording of a restructuring provision related to the implementation of an ambitious engineering transformation plan.

[18] Non-GAAP financial indicator, see definition in the Appendices, page 13, and the calculation, pages 15 and 16.

In **Defence & Security,** EBIT markedly improved to reach **€1,007 million**, compared to €757 million in 2017 (+33%). This segment's margin was **12.6%** compared to 9.8% in 2017 pro forma IFRS 15, and 10.9% in 2017 on a reported basis. Besides the non-recurrence of the negative effect linked to the application of IFRS 15, this significant improvement is explained by the strong sales momentum, the impact of competitiveness initiatives, solid project execution and an exceptional provision reversal of €20 million following the resolution of two trade disputes.

The contribution of **Naval Group** to EBIT was **€63 million** in 2018, compared to €33 million in 2017, benefiting in particular from the increase in its sales (+13%), its competitiveness initiatives, and the non-recurrence of the negative effect linked to the application of IFRS 15.

At -**€7 million** in 2018 compared to €5 million in 2017, the amount of **net financial interest** remained very low. **Other adjusted financial results (expenses)**[19] amounted to a net expense of **-€8 million** in 2018, compared to a net expense of -€29 million in 2017, primarily due to the recovery in foreign exchange performance. **Financial costs on pensions and other long-term employee benefits**[19] improved (**-€52 million** compared to -€63 million in 2017), benefiting in particular from the decrease in net liability and a lower discount rate in the United Kingdom.

Adjusted net income, Group share[19] amounted to **€1,178 million**, compared to €840 million in 2017, after an adjusted income tax[19] of -€387 million compared to -€375 million in 2017. At 26.7%, the effective tax rate was up slightly on 2017 excluding one-off items[20] (26.2% -- 33.0% including these one-off items).

Adjusted net income, Group share, per share[19] came out at **€5.55**, up 40% on 2017 (€3.97).

At **€982 million**, **consolidated net income, Group share** was up **44%**, benefiting from the strong improvement in income from operations (+€307 million).

[19] Non-GAAP financial indicator, see definition in the Appendices, page 13, and calculations pages 15 and 16.
[20] In 2017, the tax expense included 3 non-cash one-off items, linked to changes in the tax rules in France and the United States, for a sum of €77 million on the 2017 pro forma IFRS15 adjusted income statement.

Financial position at 31 December 2018

In € millions	2018	2017 restated for IFRS 15	Change
Operating cash flow before working capital changes, interest and tax	**1,932**	**1,596**	**+336**
+ Change in working capital and provisions for contingencies	(519)	403	-921
+ Pension expense, excluding contributions related to the reduction of the UK pension deficit	(129)	(121)	-8
+ Net financial interest received (paid)	(2)	8	-10
+ Income tax paid	(91)	(91)	-1
+ Net operating investments	(380)	(431)	+50
= **Free operating cash flow**	**811**	**1,365**	**-554**
+ Net balance of disposals (acquisitions) of subsidiaries and affiliates	(61)	(80)	+18
+ Contributions related to the reduction of the UK pension deficit	(98)	(82)	-16
+ Dividends paid	(382)	(349)	-33
+ Changes in exchange rates and other	(60)	(248)	+188
= **Change in net cash (debt)**	**209**	**606**	**-397**
Net cash (debt) at start of period	**2,971**	**2,366**	
+ Change in net cash (debt)	209	606	
= **Net cash (debt) at end of period**	**3,181**	**2,971**	

In 2018, **free operating cash flow**[21] amounted to **€811 million** compared to €1,365 million in 2017. This decrease is explained by the partial reversal of one-off items which had driven working capital to a very low level at 31 December 2017.

At 31 December 2018, **net cash** totalled **€3,181 million** compared to €2,971 million at 31 December 2017, after the distribution of €382 million in dividends (€349 million in 2017) and a net disbursement of €61 million linked to acquisitions and disposals completed during the year, corresponding in particular to an additional stake acquired by Thales Alenia Space in the US company Spaceflight Industries, as part of the "BlackSky" constellation project.

Shareholders' equity, **Group share** totalled **€5,700 million**, compared to €4,922 million as at 31 December 2017, with consolidated net income, Group share (€982 million) and the decrease in the net pension liability (€287 million net of tax) largely offsetting the distribution of dividends (€382 million) and the decrease in the value of currency hedges (€88 million net of tax).

[21] Non-GAAP financial indicator, see definition in the Appendices, page 13.

Proposed dividend

At the Annual General Shareholders' Meeting on 15 May 2019, the Board of Directors will propose the distribution of a **dividend** of **€2.08** per share, an increase of 19% on 2017, corresponding to an adjusted net income per share pay-out ratio of 38%, stable compared to 2017.

If approved, the ex-dividend date will be 21 May 2019 and the payment date will be 23 May 2019. The dividend will be paid fully in cash and will amount to €1.58 per share, after deducting the interim dividend of €0.50 per share paid in December 2018.

Update on the projected Gemalto acquisition

On 17 December 2017, Thales and Gemalto (Euronext Amsterdam and Paris: GTO) announced the signing of a merger agreement including an all-cash offer for all issued and outstanding ordinary shares of Gemalto, for a price of €51 per share cum dividend[22] (the "Offer"). This Offer was unanimously recommended by Gemalto's Board of Directors.

The proposed merger is progressing satisfactorily. There are only 3 regulatory authorisations still to be obtained: the antitrust authorisations in the United States and in Russia, and the authorisation pertaining to foreign investments in Russia.

As required by certain antitrust authorities, Thales signed a definitive agreement to dispose of its General Purpose Hardware Security Modules (GP HSM) business.

Thales and Gemalto expect to close the "Offer" in March 2019, once all the regulatory authorisations have been obtained.

Outlook

The outlook described below does not take into account the acquisition of Gemalto, nor the ongoing disposal of the GP HSM business. The Group may need to update it depending on the effective closing date of these 2 transactions.

Since 1st January 2019, the Group has been applying the IFRS 16 "Leases" standard. Based on the current assessment, this standard is expected to have no material impact on Group EBIT.

In 2019, Thales should continue to benefit from positive trends in the majority of its markets, combined with its unique positioning in digital solutions. In this context, **order intake** is expected to be around **€16 billion**.

[22] Valuing the equity capital of Gemalto at approximately €4.8 billion.

Sales are expected to continue showing solid momentum and achieve **organic growth of 3% to 4%** compared to 2018, incorporating the normalisation of growth in the Transport segment after an exceptional performance in 2018.

As announced during the June 2018 Capital Markets Day, the Group will continue to step up its R&D investments, specifically targeting digital technologies. Self-funded R&D expenses are therefore expected to grow slightly faster than sales.

The growth in sales, combined with the impact of the Ambition 10 strategy on competitiveness and differentiation of products and services, should result in Thales delivering an **EBIT** of between €1,780 million and €1,800 million (based on February 2019 scope and currency), representing an increase of 6% to 7% compared to 2018.

Over the 2018-2021 period, and based on February 2019 scope, Thales has set the following medium-term targets:

- an **organic sales growth**[23] of +3% to +5% on average over the 2018-2021 period, with each operating segment expected to outperform its market.
- an **EBIT margin** of 11% to 11.5% by 2021, resulting from a 200 to 240 basis point improvement[24] related to competitiveness initiatives, partly reinvested in self-funded R&D, representing approximately 50 to 100 basis points[24].

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[23] Compared to 2017 pro forma IFRS 15 sales.
[24] Compared to the EBIT margin (9.8%) and the level of self-funded R&D (5.0%) on the reported 2017 income statement.

About Thales

The people who make the world go round – they rely on Thales. Our customers come to us with big ambitions: to make life better, to keep us safer.

Combining a unique diversity of expertise, talents and cultures, our architects design and deliver extraordinary high technology solutions. Solutions that make tomorrow possible, today. From the bottom of the oceans to the depths of space and cyberspace, we help our customers think smarter and act faster, mastering ever greater complexity at every decisive moment along the way.

With 66,000 employees in 56 countries, Thales reported sales of €15.9 billion in 2018.

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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.

"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 rates 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. The calculation of the organic change in sales is outlined on page 18.

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 the net income of equity-accounted companies, before the impact of entries relating to the amortisation of intangible assets acquired (purchase price allocation – PPA) recorded as part of business combinations. It also excludes other expenses booked to income from operations that are directly linked 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 or financial income[25], 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;
  - impairment of non-current assets;
  - 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).

[25] The definition of adjusted net income has been adapted to take into account expenses related to the acquisition of Gemalto recorded in financial result (€8.4 million in 2018). See note 6.1 of the 2018 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.

The definitions of EBIT and of adjusted net income drive the definition of other operating indicators on the **adjusted income statement**: adjusted cost of sales, adjusted gross margin (which corresponds to the difference between sales and adjusted cost of sales), adjusted indirect costs, other adjusted financial income, finance costs on pensions and other long-term employee benefits, adjusted income tax, adjusted net income, Group share, per share, the calculation of which is outlined on pages 15 and 16.

Net cash corresponds to the difference between the sum of “cash and cash equivalents” and “current financial assets” items and short and long-term borrowings, after deduction of interest rate derivatives. Its calculation appears in note 6.2 of the consolidated financial statements.

Readers are reminded that only the 2018 consolidated financial statements were audited by the statutory auditors, including the calculation of EBIT, which is outlined in Note 2 “Segment information”, net cash, the definition and calculation of which appears in Note 6.2 “Cash (net debt)” and free operating cash flow, the definition and calculation of which are specified in Note 6.4 “Changes in net cash”. 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 press release.

The impact of these adjustment entries on the 2017 and 2018 income statements is outlined in the tables on pages 15 and 16. Calculation of free operating cash flow is outlined on page 9.

Adjusted income statement, EBIT and adjusted net income – 2018

In € millions, except earnings per share (in €)	**2018 consolidated P&L**	**Adjustments (1)**	**(2)**	**(3)**	**(4)**	**2018 adjusted P&L**
Sales	**15,855**					**15,855**
Cost of sales	(11,768)	1				(11,767)
R&D expenses	(881)	2				(879)
Marketing and selling expenses	(1,098)	3				(1,095)
General and administrative expenses	(554)	2				(552)
Restructuring costs	(48)					(48)
Amort. of acquisition-related intangible assets (PPA)	(103)	103				0
Income from operations	**1,403**					**N/A**
Disposal of assets, changes in scope of consolidation and other	(73)		73			0
Impairment on non-current assets	0					0
Share in net income of equity affiliates	145	27				172
EBIT	**N/A**					**1,685**
Net financial interest	(7)					(7)
Other financial income and expenses	(78)			71		(8)
Finance costs on pensions and other long-term employee benefits	(47)				(5)	(52)
Income tax	(314)	(31)	(20)	(24)	2	(387)
*Effective income tax rate **	*-26.2%*					*-26.7%*
Net income	**1,028**	**107**	**53**	**46**	**(3)**	**1,232**
Non-controlling interests	(46)	(7)		(0)		(53)
Net income, Group share	**982**	**100**	**53**	**46**	**(3)**	**1,178**
Average number of shares (thousands)	*212,437*					*212,437*
Net income, Group share, per share (in €)	**4.62**					**5.55**

(*) Income tax divided by net income before income tax and before share in net income of equity affiliates

Adjustments (see definitions on page 13):
(1) Impact of acquisitions: amortisation of acquired intangible assets (PPA) recorded as part of business combinations; expenses recorded under income from operations or financial income and directly linked to these business combinations
(2) Disposal of assets, changes in scope of consolidation and other
(3) Change in fair value of foreign exchange derivatives
(4) Actuarial differences on long-term employee benefits

Adjusted income statement, EBIT and adjusted net income – 2017 restated for IFRS 15

In € millions, except earnings per share (in €)	2017 consolidated P&L	Adjustments (1)	(2)	(3)	(4)	2017 adjusted P&L
Sales	**15,228**					**15,228**
Cost of sales	(11,517)	1				(11,516)
R&D expenses	(802)	5				(797)
Marketing and selling expenses	(1,070)	5				(1,065)
General and administrative expenses	(550)	7				(542)
Restructuring costs	(81)					(81)
Amort. of acquisition-related intangible assets (PPA)	(113)	113				0
Income from operations	**1,096**					**N/A**
Disposal of assets, changes in scope of consolidation and other	(82)		82			0
Impairment on non-current assets	0					0
Share in net income of equity affiliates	120	19				139
EBIT	**N/A**					**1,365**
Net financial interest	5					5
Other financial income and expenses	(99)			70		(29)
Finance costs on pensions and other long-term employee benefits	(66)				3	(63)
Income tax	(237)	(85)	(29)	(24)	(1)	(375)
*Effective income tax rate **	*-27.7%*					*-33.0%*
Net income	**737**	**65**	**53**	**46**	**2**	**903**
Non-controlling interests	(58)	(5)		(1)		(63)
Net income, Group share	**680**	**60**	**53**	**46**	**2**	**840**
Average number of shares (thousands)	*211,661*					*211,661*
Net income, Group share, per share (in €)	**3.21**					**3.97**

(*) Income tax divided by net income before income tax and before share in net income of equity affiliates. In 2017, the tax expense included 3 non-cash one-off items, linked to changes in the tax rules in France and the United States, for a sum of €77 million on the 2017 adjusted income statement restated for IFRS 15. The effective income tax rate comes to 26.2% when excluding these items.

Adjustments (see definitions on page 13):
(1) Impact of acquisitions: amortisation of acquired intangible assets (PPA) recorded as part of business combinations; expenses recorded under income from operations or financial income and directly linked to these business combinations
(2) Disposal of assets, changes in scope of consolidation and other
(3) Change in fair value of foreign exchange derivatives
(4) Actuarial differences on long-term employee benefits

Order intake by destination – 2018

In € millions	2018	2017 restated for IFRS 15	2017 reported	Total change	Organic change	2018 weighting in %
France	5,183	4,443	4,503	+17%	+17%	32%
United Kingdom	746	1,153	1,153	-35%	-35%	5%
Rest of Europe	3,872	2,919	2,919	+33%	+33%	24%
Sub-total Europe	**9,802**	**8,515**	**8,574**	**+15%**	**+16%**	**61%**
United States and Canada	1,501	1,536	1,579	-2%	+1%	9%
Australia and New Zealand	1,494	671	671	+123%	+138%	9%
Total mature markets	**12,797**	**10,722**	**10,824**	**+19%**	**+21%**	**80%**
Asia	1,764	2,168	2,097	-19%	-17%	11%
Near and Middle East	952	1,218	1,206	-22%	-21%	6%
Rest of the world	521	824	792	-37%	-35%	3%
Total emerging markets	**3,237**	**4,210**	**4,095**	**-23%**	**-22%**	**20%**
Total all markets	**16,034**	**14,931**	**14,920**	**+7%**	**+9%**	**100%**

Sales by destination – 2018

In € millions	2018	2017 restated for IFRS 15	2017 reported	Total change	Organic change	2018 weighting in %
France	3,985	3,700	3,840	+7.7%	+7.9%	25%
United Kingdom	1,253	1,327	1,352	-5.5%	-4.6%	8%
Rest of Europe	3,498	3,313	3,387	+5.6%	+5.9%	22%
Sub-total Europe	**8,736**	**8,340**	**8,579**	**+4.7%**	**+5.1%**	**55%**
United States and Canada	1,367	1,392	1,460	-1.8%	-0.1%	9%
Australia and New Zealand	858	838	875	+2.3%	+9.2%	5%
Total mature markets	**10,960**	**10,570**	**10,913**	**+3.7%**	**+4.7%**	**69%**
Asia	2,297	2,156	2,219	+6.5%	+7.7%	14%
Near and Middle East	1,647	1,569	1,641	+4.9%	+6.2%	10%
Rest of the world	950	932	1,022	+2.0%	+4.2%	6%
Total emerging markets	**4,894**	**4,657**	**4,882**	**+5.1%**	**+6.5%**	**31%**
Total all markets	**15,855**	**15,228**	**15,795**	**+4.1%**	**+5.3%**	**100%**

Order intake and sales – Q4 2018

Order intake *In € millions*	**Q4 2018**	**Q4 2017 restated for IFRS 15**	**Q4 2017 reported**	**Total change**	**Organic change**
Aerospace	2,301	2,156	2,151	+7%	+7%
Transport	591	805	804	-27%	-26%
Defence & Security	3,643	3,107	3,117	+17%	+18%
Total – operating segments	**6,535**	**6,067**	**6,072**	**+8%**	**+8%**
Other	32	14	14		
Total	**6,566**	**6,082**	**6,086**	**+8%**	**+9%**

Sales *In € millions*					
Aerospace	1,769	1,817	1,917	-2.6%	-2.9%
Transport	628	567	701	+10.7%	+11.4%
Defence & Security	2,569	2,583	2,820	-0.5%	+0.0%
Total – operating segments	**4,966**	**4,968**	**5,438**	**+0.0%**	**+0.3%**
Other	15	24	21		
Total	**4,981**	**4,992**	**5,460**	**-0.2%**	**+0.1%**

Organic change in sales by quarter

In € millions	**2017 sales restated for IFRS 15**	**Currency impact**	**Impact of disposals**	**2018 sales**	**Impact of acquisitions**	**Total change**	**Organic change**
Q1	3,278	-94	-9	3,412	8	+4.1%	+7.2%
Q2	3,841	-53	-5	4,040	4	+5.2%	+6.7%
H1	**7,118**	**-147**	**-14**	**7,452**	**12**	**+4.7%**	**+6.9%**
Q3	3,117	-8	0	3,421	3	+9.7%	+9.9%
Q4	4,992	-12	-3	4,981	1	-0.2%	+0.1%
H2	**8,109**	**-19**	**-3**	**8,403**	**4**	**+3.6%**	**+3.9%**
Full year	**15,228**	**-166**	**-18**	**15,855**	**16**	**+4.1%**	**+5.3%**

Main scope effects:

- Disposals: identity management activity, deconsolidated from 1 May 2017 (Defence & Security segment)
- Acquisitions: consolidation of Guavus from 12 September 2017 (Defence & Security segment)

Notice to U.S. holders of Gemalto Shares

The Offer is made for the securities of Gemalto, a public limited liability company incorporated under Dutch Law, and is subject to Dutch disclosure and procedural requirements, which are different from those of the United States. The Offer is made in the United States in compliance with Section 14(e) of the U.S. Securities Exchange Act of 1934, as amended (the "U.S. Exchange Act"), and the applicable rules and regulations promulgated thereunder, including Regulation 14E (subject to any exemptions or relief therefrom, if applicable) and otherwise in accordance with the requirements of Dutch law. Accordingly, the Offer is subject to disclosure and other procedural requirements, including with respect to the Offer timetable, settlement procedures, withdrawal, waiver of conditions and timing of payments that are different from those applicable under U.S. domestic tender offer procedures and laws.

The receipt of cash pursuant to the Offer by a U.S. holder of Gemalto Shares may be a taxable transaction for U.S. federal income tax purposes and under applicable state and local, as well as foreign and other tax laws. Each holder of Gemalto shares is urged to consult his independent professional advisor immediately regarding the tax consequences of accepting the Offer.

To the extent permissible under applicable laws and regulations, including Rule 14e-5 under the U.S. Exchange Act, and in accordance with normal Dutch practice, Thales and its affiliates or its broker and its broker's affiliates (acting as agents or on behalf of Thales or its affiliates, as applicable) may from time to time after the date of the joint press release by Thales and Gemalto dated 17 December 2017, and other than pursuant to the Offer, directly or indirectly purchase, or arrange to purchase Shares or any securities that are convertible into, exchangeable for or exercisable for such Shares. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices. In no event will any such purchases be made for a price per Share that is greater than the Offer Price. To the extent information about such purchases or arrangements to purchase is made public in The Netherlands, such information will be disclosed by means of a press release or other means reasonably calculated to inform U.S. shareholders of Gemalto of such information. No securities will be purchased outside the Offer, in the United States, by Thales or its affiliates. In addition, the financial advisors to Thales may also engage in ordinary course trading activities in securities of Gemalto, which may include purchases or arrangements to purchase such securities. To the extent required in The Netherlands, any information about such purchases will be announced by press release in accordance with Section 5 paragraph 4 or Section 13 of the Dutch Decree on public takeover bids (*Besluit openbare biedingen Wft*) on the Thales website at www.thalesgroup.com.

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Additional information and where to find it
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Gemalto shareholders may obtain a free copy of the offer memorandum, as well as other filings containing information about Thales, on the Thales website (www.thalesgroup.com). Copies of the offer memorandum and the filings that are incorporated by reference therein can also be obtained, without charge, by directing a request to Thales' Investor Relations Department.