

Q1 2019 order intake and sales

- Solid order intake: €2.3 billion, up 4% excluding impact of OneSKY jumbo order in Australia, worth €855m (down 25% on a reported basis)
- Sales: €3.4 billion, down 2.0% on an organic basis¹ (down 1.5% on a reported basis)
- All financial objectives confirmed

Thales (Euronext Paris: HO) announced today its order intake and sales for the first quarter of 2019.

Order intake, in € millions	Q1 2019	Q1 2018	Total change	Organic change
Aerospace	672	751	-11%	-12%
Transport	249	488	-49%	-49%
Defence & Security	1,335	1,782	-25%	-24%
Other	16	11		
Total	2,273	3,032	-25%	-25%

Sales, in € millions	Q1 2019	Q1 2018	Total change	Organic change
Aerospace	1,221	1,285	-5.0%	-6.5%
Transport	398	386	+3.1%	+1.3%
Defence & Security	1,722	1,729	-0.4%	+0.2%
Other	21	11		
Total	3,361	3,412	-1.5%	-2.0%
Of which mature markets ²	2,439	2,463	-1.0%	-1.2%
Of which emerging markets ²	922	949	-2.8%	-4.0%

“Sales and order intake for the first quarter of 2019 are in line with our expectations. Predictably, order intake is lower than in Q1 2018, which was exceptionally high thanks to the booking of OneSKY, an €855m jumbo contract in Australia. The decline in sales is due to a high basis of comparison in each of our operating segments. We confirm all our financial objectives for 2019.”

Patrice Caine, Chairman & Chief Executive Officer

¹ In this press release, “organic” means “at constant scope and currency”.

² Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries. See table on page 6.

Order intake

In Q1 2019, order intake amounted to €2,273 million, down 25%³ compared to Q1 2018, when the Group booked the contract to modernise Australia's air traffic management system (OneSKY), worth €855 million. Excluding this contract, it is up 4% compared to Q1 2018.

Three large orders worth over €100 million were booked for a total of €390 million:

- the purchase by the Royal Netherlands Army of new multi-mission mobile radars
- a military support contract in a European country
- the supply of rocket launchers to equip Indian Armed Forces helicopters

Orders with a unit value of less than €100 million totalled €1,883 million, up 3% from Q1 2018.

From a **geographical**⁴ point of view, order intake in mature markets was understandably significantly lower than in Q1 2018, when the OneSKY contract was booked (€1,719 million, -31%). At €553 million, order intake in emerging markets was up 3%.

At €672 million, compared to €751 million in Q1 2018, order intake in the **Aerospace** segment was down 11%. Order intake in the space business was up compared to last year but remained low. Commercial avionics order intake was up, but down in the military sector. The in-flight entertainment (IFE) and training & simulation businesses were down, with no significant contracts booked, unlike in Q1 2018.

At €249 million, order intake in the **Transport** segment returned to a more normal level after a particularly robust Q1 2018 that benefited from two significant contracts in Poland and Norway. Order intake was down 49% against Q1 2018 (€488 million), but up 16% compared to Q1 2017 (€215 million).

At €1,335 million versus €1,782 million in Q1 2018, order intake in the **Defence & Security** segment was also down (-25%), impacted by the very high basis of comparison resulting from the booking of the abovementioned OneSKY jumbo contract. Compared to Q1 2018 adjusted for this contract, it is up 44%, reflecting the increased commercial momentum the segment has experienced in recent years.

³ -25% as well at constant scope and currency.

⁴ See table on page 6.

Sales

Q1 2018 sales came in at €3,361 million versus €3,412 million in Q1 2018, down 1.5% on a reported basis, and down 2.0% at constant scope and currency⁵ (“organic” change). This drop is explained by a high basis of comparison after 2 years of strong Q1 growth (+11.0% in Q1 2017, +7.2% in Q2 2018). Over 4 years, Q1 sales have increased by almost €800 million, from €2.6 billion in 2015 to €3.4bn in 2019 (+30% on a reported basis, +25% organically).

Geographically,⁶ this decline can be seen both in emerging markets (organic decline of -4.0%, following on from organic growth of +16.6% in Q1 2017 and +8.9% in Q1 2018) and mature markets (organic decline of -1.2%, following on from organic growth of +8.7% in Q1 2017 and +6.6% in Q1 2018).

In the **Aerospace** segment, sales totalled €1,221 million, down 5.0% compared to Q1 2018 (-6.5% at constant scope and currency). This decline was due to the slowdown in the Space business, which generates around 40% of aerospace sales, after two particularly strong years (organic growth exceeding +30% in Q1 2017 and +1% in Q1 2018). Over the full year, the slower than expected recovery of the commercial space market should result in a 5 to 10% decline of space sales. The other businesses in the segment are doing well, with the exception of military avionics.

In the **Transport** segment, sales came in at €398 million, up 3.1% compared to Q1 2018 (+1.3% at constant scope and currency). Logically, growth in this segment slows down after an exceptional year in 2018 (organic growth of +17.9% for the full year 2018 and +29.3% in Q1 2018). Combined with phasing effects, this high basis of comparison should weigh as well on growth in Q2.

At €1,722 million, sales in the **Defence & Security** segment were stable compared to Q1 2018 (-0.4% on a reported basis, +0.2% at constant scope and currency). Growth in this segment was impacted by the strong performance in the first quarter of last year, particularly in surface radars, military aircraft systems and cybersecurity (organic growth in the segment in Q1 2018: +9.5%). The robust momentum in this segment should result in strong sales growth over the full year, especially in H2.

Acquisition of Gemalto

In December 2017, Thales and Gemalto 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.⁷

⁵Taking into account a positive exchange rate effect of €37 million and a net negative scope effect of €21 million. See page 7.

⁶ See table on page 6.

⁷ Valuing the equity capital of Gemalto at approximately €4.8 billion.

At the end of the Post-Closing Acceptance Period on 15 April 2019, more than 97% of Gemalto shares were tendered to the Offer, for an amount of €4.62 billion. Thales will initiate statutory buy-out proceedings as soon as possible in order to obtain 100% of Gemalto shares. The Gemalto share will be delisted from Euronext on 29 May 2019.

Gemalto is consolidated in Thales's financial statements since 1 April 2019.

Outlook

Order intake and sales in Q1 were in line with expectations. Against this backdrop, and in spite of the slower than expected recovery of the commercial space market, the Group confirms all its objectives, which are described below.

These objectives do not take into account the acquisition of Gemalto, nor the ongoing disposal of the GP HSM business⁸. On 13 June 2019, the Group will update its 2019 outlook to take into account the impact of these two 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.

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**⁹ 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 improvement¹⁰ related to competitiveness initiatives, partly reinvested in self-funded R&D, representing approximately 50 to 100 basis points¹⁰.

⁸ Deconsolidated from 1 January 2019. This business generated sales of €108 million in 2018. See page 7.

⁹ Compared to 2017 pro forma IFRS 15 sales.

¹⁰ Compared to the EBIT margin (9.8%) and the level of self-funded R&D (5.0%) on the reported 2017 income statement.

This press release may contain forward-looking statements. Such forward-looking statements represent trends or objectives and cannot be construed as constituting forecasts regarding the Company's results or any other performance indicator. Actual results may differ significantly from the forward-looking statements due to various risks and uncertainties, as described in the Company's Registration Document, which has been filed with the French financial markets authority (Autorité des marchés financiers — AMF).

This press release does not constitute an offer, or any solicitation of any offer, to buy or subscribe for any securities in Gemalto. Any offer is only made by means of the Offer Document, available since 27 March 2018.

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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 80,000 employees in 68 countries, Thales reported sales of €19 billion in 2018.

CONTACTS

Thales, Media Relations

Cédric Leurquin
+33 (0)1 57 77 90 93
cedric.leurquin@thalesgroup.com

Thales, Analysts / investors

Bertrand Delcaire
+33 (0)1 57 77 89 02
ir@thalesgroup.com

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Order intake by destination – Q1 2019

	Q1 2019	Q1 2018	Total change	Organic change	Q1 2019 weighting in %
<i>(in € millions)</i>					
France	481	433	+11%	+11%	21%
United Kingdom	335	97	+244%	+251%	15%
Rest of Europe	580	728	-20%	-19%	26%
Sub-total Europe	1,396	1,258	+11%	+12%	61%
United States and Canada	234	278	-16%	-17%	10%
Australia and New Zealand	89	961	-91%	-91%	4%
Total mature markets	1,719	2,496	-31%	-31%	76%
Asia	395	180	+119%	+119%	17%
Near and Middle East	82	304	-73%	-73%	4%
Rest of the world	77	52	+47%	+44%	3%
Total emerging markets	553	536	+3%	+3%	24%
Total all markets	2,273	3,032	-25%	-25%	100%

Sales by destination – Q1 2019

	Q1 2019	Q1 2018	Total change	Organic change	Q1 2019 weighting in %
<i>(in € millions)</i>					
France	982	994	-1.2%	-1.4%	29%
United Kingdom	281	303	-7.1%	-7.6%	8%
Rest of Europe	675	659	+2.5%	+2.8%	20%
Sub-total Europe	1,939	1,956	-0.9%	-1.0%	58%
United States and Canada	299	322	-7.3%	-8.7%	9%
Australia and New Zealand	202	185	+9.0%	+10.5%	6%
Total mature markets	2,439	2,463	-1.0%	-1.2%	73%
Asia	469	471	-0.4%	-1.0%	14%
Near and Middle East	304	292	+4.0%	+1.9%	9%
Rest of the world	149	185	-19.6%	-20.9%	4%
Total emerging markets	922	949	-2.8%	-4.0%	27%
Total all markets	3,361	3,412	-1.5%	-2.0%	100%

Organic change in sales

	2018 sales	Currency impact	Impact of disposals	2019 sales	Impact of acquisitions	Total change	Organic change
<i>(in € millions)</i>							
Q1	3,412	+37	-25	3,361	4	-1.5%	-2.0%

Main scope effects:

- Disposals: deconsolidation of the GP HSM business from 1 January 2019 (Defence & Security segment). This activity generated sales of €108 million in 2018.
- Acquisitions: consolidation of Ercom and Suneris from 1 January 2019 (Defence & Security segment). Sales of approximately €40 million in 2018.

Scope impacts

<i>(in € millions)</i>	Sales					EBIT		
	Q1	Q2	Q3	Q4	2018	H1	H2	2018
GP HSM business (1)	24	27	25	32	108	15	16	31
D&S businesses transferred to DIS (2)	41	44	42	59	186	6	10	16

(1) Thales's GP HSM business is deconsolidated as of 1st January 2019. In 2018, it was assigned to the "Defence & Security" segment.

(2) Thales businesses transferred from the "Defence & Security" to the "Digital Identity and Security" segment.