THALES

PRESS RELEASE
4 September 2019
Paris La Défense, France

Thales discloses its 2019 half-year results

- Order intake: €7.0 billion, up 10% (-1% on an organic basis[1])
- Sales: €8.2 billion, up 9.9% (-0.5% on an organic basis)
- EBIT[2]: €820 million, up 8% (+4% on an organic basis)
- Adjusted net income, Group share[2]: €574 million, up 7%
- Consolidated net income, Group share: €557 million, up 22%
- Free operating cash flow[2]: -€332 million
- All 2019 financial objectives confirmed, with organic sales growth at the lower end of the previous guidance (3% to 4%)

Thales's Board of Directors (Euronext Paris: HO) met on 3 September 2019 to review the financial statements for the first half of 2019[3].

"In the first half of 2019, Thales posted a solid performance, once again demonstrating the resilience of its business model.

In spite of the slowdown in the commercial space market as well as a high basis of comparison in the Transport and Defence & Security segments, sales remained stable at constant scope and currency. The commercial momentum remained solid, with the booking of 7 large orders with a unit value of more than €100 million. Operating margin grew organically, led by a very good performance in the Defence & Security segment. The results achieved by Gemalto, consolidated since 1 April 2019, were in line with our expectations.

This positive momentum allows us to confirm our 2019 financial objectives.

All Group teams remain focused on the implementation of the second phase of Ambition 10, our strategic plan, and on Gemalto's integration."

Patrice Caine, Chairman & Chief Executive Officer

[1] In this press release, "organic" means at constant scope and currency. See note on methodology on page 11 and calculation on page 16
[2] Non-GAAP financial indicators, see definitions in the appendices, page 11
[3] The limited review of the financial statements has been completed and the statutory auditors' report has been issued following the meeting of the Board of Directors

Key figures

In € millions *except earnings per share (in €)*	H1 2019	H1 2018[4]	Total change	Organic change
Order intake	**6,995**	**6,331**	+10%	-1%
Order book at end of period	**31,701**	**30,987**	+2%	
Sales	**8,190**	**7,452**	+9.9%	-0.5%
EBIT[5]	**820**	**762**	+8%	+4%
in % of sales	*10.0%*	*10.2%*	*-0.2 pts*	*+0.4 pts*
Adjusted net income, Group share[5]	**574**	**539**	+7%	
Adjusted net income, Group share, per share[5]	**2.70**	**2.54**	+6%	
Consolidated net income, Group share	**557**	**457**	+22%	
Free operating cash flow[5]	**-332**	**-272**	-60	
Net cash (debt) at end of period	**-4,397**	**1,673[6]**	-6,071	

H1 2019 **order intake** amounted to **€6,995 million**, **up 10%** compared to H1 2018 (-1% at constant scope and currency), driven by a solid momentum in the Defence & Security segment. At 30 June 2019, the consolidated **order book** stood at **€31.7 billion**, which represents 1.9 years of sales.

Sales stood at **€8,190 million**, up 9.9% compared to the first half of 2018 following the consolidation of Gemalto, and down slightly (-0.5%) at constant scope and currency.

In the first half of 2019, the Group posted **EBIT** of **€820 million** (**10.0%** of sales), compared to €762 million (10.2% of sales) in H1 2018, up **8%**. EBIT margin increased by 0.4 points at constant scope and currency. The slight dip in the reported margin is due to the consolidation of Gemalto, whose profitability is more seasonal than the rest of the Group.

At **€574 million**, **adjusted net income, Group share** grew by **7%**, in line with the increase in EBIT.

[4] Since 1 January 2019, the Group has been applying IFRS 16 "Leases". Since the Group chose to use the modified retrospective method, the 2018 figures in this press release have not been restated. The impact of this standard on the H1 2019 financial statements is outlined in Note 1.2 of the consolidated financial statements.
In addition, in the framework of the Gemalto acquisition, a new "Digital Identity & Security" operating segment was created. It includes Gemalto's businesses (consolidated since 1 April 2019) and a number of digital businesses formerly assigned to the "Defence & Security" operating segment. Segment data for 2018 was restated to take account of this change in organisation.
[5] Non-GAAP financial indicators, see definitions in the appendices, page 11
[6] At 1 January 2019: net cash at 31 December 2018 (€3,181 million) less IFRS 16 lease debt (€1,507 million)

Consolidated net income, Group share stood at **€557 million**, up **22%** compared to H1 2018, with the capital gains made on the disposal of the GP HSM business (€221 million) offsetting the fall in income from operations (-€125 million) arising from the accounting entries (PPA) related to Gemalto's acquisition.

At -**€332 million**, H1 2019 **free operating cash flow** was negative, reflecting the seasonal nature of the WCR. **Net debt** stood at **€4,397 million** at 30 June 2019, following the acquisition of Gemalto and the application of IFRS 16.

Order intake

In € millions	H1 2019	H1 2018	Total change	Organic change
Aerospace	1,758	2,042	-14%	-15%
Transport	556	835	-33%	-34%
Defence & Security	3,809	3,350	+14%	+16%
Digital Identity & Security	829	84	n.m.	n.m.
Total – operating segments	**6,952**	**6,311**	**+10%**	**-2%**
Other	43	20	+116%	+113%
Total	**6,995**	**6,331**	**+10%**	**-1%**
Of which mature markets[7]	5,280	5,011	+5%	-3%
Of which emerging markets[7]	1,715	1,320	+30%	+4%

H1 2019 **order intake** amounted to **€6,995 million, up 10%** compared to H1 2018 (-1% at constant scope and currency[8]). The **book-to-bill** ratio was **0.85** for H1 2019, as was the case in H1 2018, and **1.0** over the last 12 months.

In H1 2019, Thales booked **7 large orders with a unit value of over €100 million** (compared with 6 such orders in H1 2018), representing a total amount of €1,653 million:

- 3 large orders booked in Q1 2019, covering the acquisition of new mobile radars by the Dutch army, a support contract for a European army and the provision of equipment for Indian army helicopters;
- 4 large orders booked in Q2 2019:
  - The ground segment of the Syracuse IV radiocommunication satellite, designed to ensure all military communications between France and the units deployed in the field (Defence & Security segment)

[7] Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries. See table on page 15
[8] Taking into account a positive exchange rate effect of €32 million and a net positive scope effect of €718 million, relating mainly to Gemalto's consolidation at 1 April 2019 (Digital Identity & Security segment) and the disposal of the GP HSM business, effective 1 January 2019 (Defence & Security segment)

- Delivery of on-board electronic systems on Belgian Scorpion vehicles, as part of the strategic partnership between Belgium and France (CaMo project, Defence & Security segment)
- A significant long-term maintenance contract for the French air force (Defence & Security segment)
- The design, in consortium, of two next-generation geostationary satellites to ensure Spanish government and military communications (SpainSat NG project, Aerospace segment)

At **€5,342 million**, orders with a unit value of less than €100 million rose by 18% compared to H1 2018, after the integration of Gemalto.

From a geographical standpoint[9], order intake in emerging markets was up by 30% after the integration of Gemalto, and by 4% at constant scope and currency. Order intake in mature markets was up by 5% after the integration of Gemalto, though it fell by 3% at constant scope and currency, impacted by a high basis of comparison.

Order intake in the **Aerospace** segment stood at **€1,758 million**, down 14% (€2,042 million in H1 2018). This decline was due to the slower-than-expected recovery of the space market and an adverse basis of comparison in the in-flight entertainment (IFE) and training and simulation businesses, which recorded significant contracts in H1 2018.

At **€556 million**, **Transport** order intake fell by 33% compared to H1 2018, during which this segment won two major railway signalling contracts.

Orders in the **Defence & Security** segment stood at **€3,809 million** compared to €3,350 million in H1 2018 (+14%) thanks to the **6 large orders with a unit value of over €100 million** mentioned above, despite the major OneSKY contract being recorded in H1 2018.

At **€829 million**, order intake in the **Digital Identity & Security** segment was very close to sales, with most of the businesses in this segment not booking long-term orders.

[9] See table on page 15

Sales

In € millions	H1 2019	H1 2018	Total change	Organic change
Aerospace	2,609	2,768	-5.7%	-7.0%
Transport	835	904	-7.6%	-8.9%
Defence & Security	3,881	3,669	+5.8%	+6.8%
Digital Identity & Security	830	87	n.m.	n.m.
Total – operating segments	**8,155**	**7,429**	**+9.8%**	**-0.6%**
Other	35	23		
Total	**8,190**	**7,452**	**+9.9%**	**-0.5%**
Of which mature markets[10]	5,716	5,203	+9.9%	+1.4%
Of which emerging markets[10]	2,474	2,249	+10.0%	-4.7%

H1 2019 **sales** stood at **€8,190 million**, compared to €7,452 million in H1 2018, up 9.9% after the integration of Gemalto. The organic change (at constant scope and currency[11]) came in at -0.5%, with the fall in sales in the Aerospace and Transport segments masking the robust performance in the Defence & Security segment.

From a geographical standpoint[12], this slight fall was mainly due to an organic decline in emerging markets (-4.7%) after two successive years of sharp rises (+15.1% in H1 2017 and +8.4% in H1 2018). Sales continued to grow organically in mature markets (+1.4%).

Sales in the **Aerospace** segment amounted to **€2,609 million**, down 5.7% on H1 2018 (-7.0% at constant scope and currency). This fall in sales was only driven by Space, with all Avionics businesses delivering organic growth. It reflects the prolonged wait-and-see attitude of customers on the commercial telecommunications satellite market, combined with the delivery of the last satellites of the Iridium constellation, and the end of a number of military projects. This situation should continue to weigh on space sales[13] in H2 2019 and 2020. In consequence, space sales are expected to see a fall of around 10% over Full Year 2019, and a decline in a lower proportion in 2020.

In the **Transport** segment, sales amounted to **€835 million**, down 7.6% on H1 2018 (-8.9% at constant scope and currency). This fall mainly resulted from phasing effects on major urban rail signalling contracts, particularly in Doha (Qatar) and London, after exceptional growth in H1 2018 (+22.2% at constant scope and currency).

[10] Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries. See table on page 15
[11] The calculation of the organic change in sales is shown on page 16
[12] See table on page 15
[13] The space business generated sales of €2.45 billion in 2018

Sales in the **Defence & Security** segment amounted to **€3,881 million**, up 5.8% compared to H1 2018 (+6.8% at constant scope and currency). A large number of businesses contributed to this robust performance: systems for combat aircraft and surface ships, optronics, infrastructure systems and networks, radiocommunication products, etc. Organic growth in this segment was particularly strong in mature markets (+8.5%), reflecting the turnaround in defence budgets and the Group's good commercial momentum in these markets.

At **€830 million**, sales in the **Digital Identity & Security** segment were in line with the Full Year objective (organic growth of 0-2%). This level reflects a positive momentum in EMV payment cards, the impact of the reorganisation of the HSM business, and the continuous decline in traditional SIM card sales.

Results

EBIT *In € millions*	**H1 2019**	**H1 2018**	**Total change**	**Organic change**
Aerospace	**270**	**291**	**-7%**	**-8%**
in % of sales	*10.3%*	*10.5%*	*-0.1 pts*	*-0.1 pts*
Transport	**(42)**	**27**	**n.m.**	**n.m.**
in % of sales	*-5.0%*	*2.9%*	*-7.9 pts*	*-7.8 pts*
Defence & Security	**564**	**439**	**+28%**	**+35%**
in % of sales	*14.5%*	*12.0%*	*+2.5 pts*	*+3.0 pts*
Digital Identity & Security	**37**	**6**	**n.m.**	**n.m.**
in % of sales	*4.5%*	*n.m.*	*n.m.*	n.m.
Total – operating segments	**830**	**761**	**+9%**	**+5%**
in % of sales	*10.1%*	*10.3%*	*-0.2 pts*	*+0.4 pts*
Other – excluding Naval Group	(39)	(37)		
Total – excluding Naval Group	**790**	**724**	**+9%**	**+5%**
in % of sales	*9.6%*	*9.7%*	*-0.1 pts*	*+0.5 pts*
Naval Group (35% share)	29	38	-22%	-22%
Total	**820**	**762**	**+8%**	**+4%**
in % of sales	*10.0%*	*10.2%*	*-0.2 pts*	*+0.4 pts*

In H1 2019, the Group posted a consolidated **EBIT**[14] of **€820 million** (**10.0%** of sales), compared to €762 million (10.2% of sales) in H1 2018.

The **Aerospace** segment posted an EBIT of **€270 million** (**10.3%** of sales), versus €291 million (10.5% of sales) in H1 2018. The fall seen over H1 was due to the EBIT impact of the significant drop in space sales, partially offset by improved margins in the Avionics Global Business Unit. In

[14] Non-GAAP financial indicator, see definition in the appendices, page 11, and calculation, pages 14 and 15

H2, EBIT in this segment should also fall due to the previously announced booking of restructuring expenses related to the adjustment of staff in the Space Global Business Unit. The drop in sales expected in 2020 and the increase in R&D investments planned for 2020 and 2021 should weigh on Space EBIT margin over these 2 years.

EBIT in the **Transport** segment amounted to **-€42 million** (**-5.0%** of sales), compared with €27 million (2.9% of sales) in H1 2018. This deterioration is due to the combination of 3 one-off factors: the recognition of a restructuring expense as part of an engineering transformation plan, the 9% fall in sales linked to contract phasing effects, and the impact of execution delays on a metro project.

In the **Defence & Security** segment, EBIT increased sharply to **€564 million** (**14.5%** of sales) versus €439 million in H1 2018 (12.0% of sales). The substantial rise in margin reflects a combination of positive factors: sustained commercial momentum, ongoing efforts to increase gross margin, strict control of overheads, and robust project execution.

At **€37 million** (**4.5%** of sales), EBIT in the **Digital Identity & Security** segment is in line with the Full Year objective (€240-260 million). It reflects the seasonal nature of profitability in this segment, combined with the impact of the integration costs of Gemalto and of the HSM business reorganisation.

The contribution made by **Naval Group** to EBIT returned to a more normal level of seasonality than in 2018. It stood at **€29 million** for H1 2019, compared with €38 million the previous year.

The increase in **net financial interest** (**-€16 million** compared to -€3 million in H1 2018) was due to the recognition, according to IFRS 16, of a financial interest expense of €13 million relating to lease debts. **Other adjusted financial results**[15] remained very low (-€4 million compared with €1 million in H1 2018). **Adjusted finance costs on pensions and other long-term employee benefits**[15] remained stable at **-€27 million**.

As a result, **adjusted net income**, **Group share**[15] was **€574 million** versus €539 million in H1 2018, after an adjusted income tax charge[15] of -€184 million, compared with -€173 million in H1 2018. At 26.6%, the effective tax rate was stable.

Adjusted net income, Group share, per share[15] stood at **€2.70**, up 6% on H1 2018 (€2.54).

At **€557 million**, **consolidated net income, Group share** was up **22%**, with the capital gains made on the disposal of the GP HSM business (€221 million) offsetting the fall in income from operations (-€125 million) arising from the accounting entries (PPA) related to Gemalto's acquisition.

[15] Non-GAAP financial indicator, see definition in the appendices, page 11, and calculation, pages 14 and 15

Financial position at 30 June 2019

	In € millions	H1 2019	H1 2018	Change
	Operating cash flow before interest and tax	**1,024**	**915**	**+109**
+	Change in working capital and provisions for contingencies	(1,022)	(915)	-107
+	Pension cash contributions, excluding contributions related to the reduction of the UK pension deficit	(73)	(70)	-3
+	Net financial interest received (paid)	(22)	(16)	-6
+	Income tax paid	(64)	(33)	-31
+	Net operating investments	(175)	(153)	-22
=	**Free operating cash flow**	**(332)**	**(272)**	**-60**
+	Net disposals (acquisitions) of subsidiaries and affiliates	(5,175)	(55)	-5,120
+	Contributions related to the reduction of the UK pension deficit	(48)	(47)	-1
+	Dividends paid	(336)	(276)	-60
+	Changes in exchange rates and other	(181)	(11)	-170
=	**Changes in net cash (debt)**	**(6,071)**	**(661)**	**-5,410**

	Net cash (debt) at beginning of period	3,181	2,971	
+	IFRS 16 lease debt at beginning of period	(1,507)	-	
=	Net cash (debt) at beginning of period, post IFRS 16	1,673		
+	Change in net cash (debt)	(6,071)	(661)	
=	**Net cash (debt) at end of period**	**(4,397)**	**2,311**	

Over H1 2019, **free operating cash flow**[16] amounted to **-€332 million**, compared with -€272 million in H1 2018. This change is mainly due to the change in working capital, which was slightly higher than last year, with operating cash flow before interest and tax virtually stable, excluding the impact of IFRS 16[17].

At 30 June 2019, **net debt** stood at **-€4,397 million** compared to net cash of €1,673 million at 31 December 2018 after taking into account the IFRS 16 lease debt, and after the distribution of €336 million in dividends during the half-year (€276 million in H1 2018) and a net disbursement of €5,175 million for acquisitions and disposals made over the period, mostly relating to the acquisition of Gemalto.

At 30 June 2019, **shareholders' equity, Group share** stood at **€5,138 million,** compared to €5,700 million at 31 December 2018, with the rise in consolidated net income, Group share (€557 million) unable to offset the increase in net pension obligations (€443 million net of tax), the increase in dividend distribution (€336 million) and the purchase of 10.7 million additional Gemalto shares during the post-closing acceptance period (€331 million).

[16] Non-GAAP financial indicator, see definition in the appendices, page 12
[17] IFRS 16 had a positive impact of €91 million on the net cash flow from operating activities in H1 2019, and a negative impact for the same amount on the net cash flow from financing activities. See note 1.2 of the condensed consolidated financial statements.

Acquisition of Gemalto

On 15 April 2019, at the close of the post-closing acceptance period, more than 97% of Gemalto shares had been tendered to the Thales offer, for an amount of €4.62 billion.

On 29 May 2019, Gemalto shares were delisted from Euronext.

In order to obtain 100% of Gemalto shares, Thales initiated a mandatory buy-out procedure on all remaining shares. This procedure should be completed in the coming months.

In addition, Thales obtained over the summer the last regulatory authorisations needed to take control of Gemalto's Russian business. This business is incorporated within Thales since 1 September.

Outlook

The H1 2019 results are in line with expectations. In this context, the Group confirms all its financial objectives for 2019.

Thales should thus continue to benefit from positive trends in the majority of its markets. The acceleration of commercial momentum in the defence businesses should offset the slowdown of the telecom satellite market. **Order intake** is therefore expected to be slightly above €18 billion.

Given the expected fall of around 10% in sales in the global Space business[18] expected over the year, organic **sales** growth should be at the lower end of the previously set guidance (3-4%).

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.

[18] At the top end of the previously set range (fall of 5-10%). This business generated sales of €2.45 billion in 2018.

The growth in sales, combined with the impact of the "Ambition 10" strategy on competitiveness and the differentiation of products and services should result in Thales delivering an **EBIT** of between €1,980 million and €2,000 million, based on June 2019 scope and currency.

The Group will update its medium-term financial outlook at a Capital Markets Day to be held in Paris on 3 October 2019.

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About Thales

Thales (Euronext Paris: HO) is a global technology leader shaping the world of tomorrow today. The Group provides solutions, services and products to customers in the aeronautics, space, transport, digital identity and security, and defence markets. With 80,000 employees in 68 countries, Thales generated sales of €19 billion in 2018 (on a pro forma basis including Gemalto).

Thales is investing in particular in digital innovations — connectivity, *Big Data*, artificial intelligence and cybersecurity — technologies that support businesses, organisations and governments in their decisive moments.

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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 organic change in sales is detailed on page 16.

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 accounting entries recorded as part of business combinations (amortisation of assets valued when determining the purchase price allocation, other expenses directly related to acquisitions).
- **Adjusted net income** corresponds to net income, excluding the following items and net of the corresponding tax effects:
    - amortisation of assets valued when determining the purchase price allocation (business combinations);
    - expenses recognised in income from operations or in finance costs[19] that are directly related to business combinations;
    - 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).

[19] The definition of adjusted net income was changed to take into account the expenses related to the acquisition of Gemalto recorded in finance costs (€8.4 million for H1 2018). See note 6.1 of the consolidated financial statements as at 31 December 2018

- **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 adjusted net income drive the definition of other operating indicators in the **adjusted income statement**: adjusted cost of sales, adjusted gross margin (corresponding to the difference between sales and the adjusted cost of sales), adjusted indirect costs, other adjusted financial income, adjusted 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 13 and 14.

Net cash (debt) 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. From 1 January 2019, it incorporates the lease debt recorded on the balance sheet as part of the application of IFRS 16. 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 (debt), the definition and calculation of which appears in Note 6.2 “Net cash (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 H1 2018 and H1 2019 income statements is detailed in the tables on pages 13 and 14. Calculation of free operating cash flow is outlined on page 8.

Adjusted income statement, EBIT and adjusted net income – H1 2019

In € millions *except earnings per share (in €)*	H1 2019 consolidated P&L	Adjustments (1)	(2)	(3)	(4)	H1 2019 adjusted P&L
Sales	**8,190**					**8,190**
Cost of sales	(6,084)	97				(5,987)
Research and development expenses	(477)	1				(476)
Marketing and selling expenses	(639)	1				(638)
General and administrative expenses	(306)	0				(306)
Restructuring costs	(58)	14				(44)
Amortisation of acquired intangible assets (PPA)	(128)	128				0
Income from operations	**498**	**241**				**N/A**
Disposal of assets, changes in scope and other	220		(220)			0
Impairment of non-current assets	0					0
Share in net income of equity affiliates	67	14				80
EBIT	**N/A**	**255**	**(220)**			**820**
Net financial interest	(16)					(16)
Other financial income and expenses	(44)			40		(4)
Finance costs on pensions and other long-term employee benefits	(39)				11	(27)
Income tax	(123)	(71)	24	(12)	(3)	(184)
*Effective income tax rate **	*-19.8%*					*-26.6%*
Net income	**564**	**184**	**(196)**	**28**	**8**	**588**
Non-controlling interests	(7)	(7)				(14)
Net income, Group share	**557**	**177**	**(196)**	**28**	**8**	**574**
Average number of shares (thousands)	*212,518*					*212,518*
Net income, Group share, per share (in €)	**2.62**					**2.70**

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

Adjustments (see definitions on page 11):
(1) Impact of business combinations: amortisation of assets valued as part of the purchase price allocation, other expenses directly related to acquisitions.
(2) Income from disposals, changes in scope 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 – H1 2018

In € millions *except earnings per share (in €)*	**H1 2018 consolidated P&L**	**Adjustments (1)**	**(2)**	**(3)**	**(4)**	**H1 2018 adjusted P&L**
Sales	**7,452**					**7,452**
Cost of sales	(5,530)	0				(5,530)
Research and development expenses	(407)	1				(406)
Marketing and selling expenses	(543)	1				(541)
General and administrative expenses	(277)	1				(276)
Restructuring costs	(22)					(22)
Amortisation of acquired intangible assets (PPA)	(51)	51				0
Income from operations	**623**	**54**				**N/A**
Disposal of assets, changes in scope and other	(19)		19			0
Share in net income of equity affiliates	71	13				85
EBIT	**N/A**	**67**	**19**			**762**
Net financial interest	(3)					(3)
Other financial income and expenses	(35)	8		27		1
Finance costs on pensions and other long-term employee benefits	(22)				(5)	(27)
Income tax	(140)	(18)	(6)	(9)	2	(173)
*Effective income tax rate **	*-25.8%*					*-26.6%*
Net income	**475**	**58**	**12**	**18**	**(3)**	**560**
Non-controlling interests	(18)	(4)		(1)		(22)
Net income, Group share	**457**	**55**	**12**	**17**	**(3)**	**539**
Average number of shares (thousands)	*212,292*					*212,292*
Net income, Group share, per share (in €)	**2.15**					**2.54**

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

Adjustments (see definitions on page 11):
(1) Impact of business combinations: amortisation of assets valued as part of the purchase price allocation, other expenses directly related to acquisitions.
(2) Income from disposals, changes in scope and other
(3) Change in fair value of foreign exchange derivatives
(4) Actuarial differences on long-term employee benefits

Order intake by destination – H1 2019

In € millions	H1 2019	H1 2018	Total change	Organic change	H1 2019 weighting in %
France	2,075	1,456	+42%	+39%	30%
United Kingdom	551	226	+144%	+132%	8%
Rest of Europe	1,560	1,558	+0%	-9%	22%
Sub-total Europe	**4,186**	**3,240**	**+29%**	**+23%**	**60%**
United States and Canada	821	532	+54%	+15%	12%
Australia and New Zealand	274	1,239	-78%	-79%	4%
Total mature markets	**5,280**	**5,011**	**+5%**	**-3%**	**75%**
Asia	1,046	716	+46%	+27%	15%
Near and Middle East	359	457	-22%	-31%	5%
Rest of the world	310	147	+111%	+8%	4%
Total emerging markets	**1,715**	**1,320**	**+30%**	**+5%**	**25%**
Total all markets	**6,995**	**6,331**	**+10%**	**-1%**	**100%**

Sales by destination – H1 2019

In € millions	H1 2019	H1 2018	Total change	Organic change	H1 2019 weighting in %
France	2,090	1,956	+6.8%	+4.7%	26%
United Kingdom	587	621	-5.6%	-11.5%	7%
Rest of Europe	1,722	1,532	+12.4%	+2.4%	21%
Sub-total Europe	**4,399**	**4,110**	**+7.0%**	**+1.4%**	**54%**
United States and Canada	856	660	+29.6%	-0.8%	10%
Australia and New Zealand	461	433	+6.6%	+4.8%	6%
Total mature markets	**5,716**	**5,203**	**+9.9%**	**+1.4%**	**70%**
Asia	1,191	1,062	+12.2%	-1.4%	15%
Near and Middle East	749	736	+1.8%	-4.1%	9%
Rest of the world	533	452	+18.0%	-13.2%	7%
Total emerging markets	**2,474**	**2,249**	**+10.0%**	**-4.7%**	**30%**
Total all markets	**8,190**	**7,452**	**+9.9%**	**-0.5%**	**100%**

Order intake and sales – Q2 2019

Order intake *In € millions*	Q2 2019	Q2 2018	Total change	Organic change
Aerospace	1,086	1,291	-16%	-17%
Transport	307	347	-11%	-13%
Defence & Security	2,508	1,607	56%	+59%
Digital Identity & Security	795	44	n.m.	n.m.
Total – operating segments	**4,696**	**3,289**	**+43%**	**+14%**
Other	27	9		
Total	**4,723**	**3,298**	**+43%**	**+20%**

Sales *In € millions*	Q2 2019	Q2 2018	Total change	Organic change
Aerospace	1,388	1,483	-6.4%	-7.3%
Transport	437	518	-15.7%	-16.6%
Defence & Security	2,195	1,982	+10.8%	+11.9%
Digital Identity & Security	794	44	n.m.	n.m.
Total – operating segments	**4,814**	**4,028**	**+19.5%**	**+0.8%**
Other	14	12		
Total	**4,828**	**4,040**	**+19.5%**	**+0.8%**

Organic change in sales by quarter

In € millions	2018 sales	Currency impact	Impact of disposals	2019 sales	Impact of acquisitions	Total change	Organic change
Q1	3,412	+37	-25	3,361	+4	-1.5%	-2.0%
Q2	4,040	+23	-26	4,829	+759	+19.5%	+0.8%
H1	**7,452**	**+60**	**-51**	**8,190**	**+763**	**+9.9%**	**-0.5%**

Main scope effects:

- Disposals: deconsolidation and disposal of GP HSM business following the acquisition of Gemalto (Defence & Security segment)
- Acquisitions:
    - Gemalto: consolidated from 1 April 2019 (in the new Digital Identity & Security segment)
    - Ercom and Suneris: consolidated from 1 January 2019 (Defence & Security segment). Sales of around €40 million in 2018.