THALES

2018 Half year results

- Solid order intake: €6.3 billion, up 5%[1] (up 8% on an organic basis[2])
- Sales: €7.45 billion, up 4.7% (up 6.9% on an organic basis)
- EBIT[3]: €762 million, up 30% (up 33% on an organic basis)
- Adjusted net income, Group share[3]: €539 million, up 39%
- Consolidated net income, Group share: €457 million, up 53%
- Free operating cash flow[3]: -€272m
- All 2018 financial objectives confirmed

Thales's Board of Directors (Euronext Paris: HO) met on 19 July 2018 to review the financial statements for the first half of 2018[4].

"In the first half of 2018, Thales again posted a very solid performance. Organic sales growth reached almost 7%, ahead of the full year target. Order intake, up by 5%, was in line with our expectations. The operating margin rose sharply, breaking through the 10% barrier in H1 for the first time. As planned, we significantly increased our R&D investments, up 13% for H1 2018, in order to accelerate the development of the most innovative solutions in every one of our markets and plan for the future. These positive dynamics allows us to confirm our 2018 financial objectives."

"All Group teams are focused on the implementation of the second phase of our strategic plan Ambition 10, which combines the strengthening of our position as a technology leader in all of our markets with the ramp-up of new operational performance initiatives."

"The projected acquisition of Gemalto, a booster of this strategy, is proceeding as planned. It should be completed before the end of the year, once we have obtained all the necessary regulatory authorizations."

"Our ambition is simple: to grow profitably, faster than the market, and in a sustainable way, in order to maximize value creation."
Patrice Caine, Chairman & Chief Executive Officer

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[1] As of 1st 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 H1 2018 figures restated for the application of this standard, which appear in the H1 2018 consolidated financial statements
[2] In this press release, "organic" means at constant scope and currency. See note on methodology on page 12 and calculation on page 17
[3] Non-GAAP financial indicators, see definitions in the appendices, page 12
[4] 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 2018**	**H1 2017 restated for IFRS 15**	**H1 2017 reported**	**Total change[5]**	**Organic change**
Order intake[6]	**6,331**	6,009	5,972	+5%	+8%
Order book[6] at end of period	**30,987**	32,064[7]	31,914[7]	-3%	-3%
Sales	**7,452**	7,118	7,241	+4.7%	+6.9%
EBIT[8]	**762**	587	637	+30%	+33%
in % of sales	*10.2%*	*8.3%*	*8.8%*	*+2.0 pts*	*+2.0 pts*
Adjusted net income, Group share[8]	**539**	387	424	+39%	
Adjusted net income, Group share, per share[8]	**2.54**	1.83	2.00	+39%	
Consolidated net income, Group share	**457**	299	336	+53%	
Free operating cash flow[8]	**-272**	216	216	-488	
Net cash at end of period	**2,311**	2,971[7]	2,971[7]	-661	

H1 2018 **order intake** amounted to **€6,331 million**, **up 5%** compared with H1 2017 (up +8% at constant scope and currency). The commercial dynamics remained particularly solid in the Transport and Defence & Security segments. At 30 June 2018, the consolidated **order book** stood at **€31.0 billion**, which represents nearly two years of sales.

Sales in H1 2018 came to **€7,452 million**, up 4.7% compared with the H1 2017 sales restated for the application of IFRS 15, and **up 6.9% at constant scope and currency** ("organic" change). Sales maintained a high growth rate, driven by strong momentum in the Transport (organic growth of 22.2%) and Defence & Security (organic growth of 8.5%) segments.

In H1 2018, the Group posted consolidated **EBIT** of **€762 million** (**10.2%** of sales), compared to €587 million (8.3% of sales) in H1 2017, **up 30%** compared with the H1 2017 EBIT restated for the application of IFRS 15. All operating segments recorded a sharp increase in their EBIT margin while accelerating their investments in R&D, up by 14% on an organic basis.

[5] All through this press release, "total changes" are calculated compared with the H1 2018 figures restated for the application of the IFRS 15 standard, which appear in the H1 2018 consolidated financial statements
[6] As of 1st January 2018, the Group has been applying IFRS 15 "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, without having a material impact at Group level
[7] At 31 December 2017
[8] Non-GAAP financial indicators, see definitions in the appendices, page 12

Adjusted net income, Group share rose by **39%** to **€539 million**, boosted by the improved EBIT performance.

Consolidated net income, Group share was **€457 million**. This figure was up **53%**, benefiting primarily from the sharp rise in income from operations (+€174 million).

At **-€272 million**, **operating free cash flow** for the first half of 2018 returned to a negative figure, with the change in WCR experiencing its usual seasonality. At 30 June 2018, **net cash** amounted to **€2,311 million**, down €661 million compared with 31 December 2017.

Order intake

In € million	H1 2018	H1 2017 restated for IFRS 15	H1 2017 reported	Total change	Organic change
Aerospace	2,042	2,274	2,238	-10%	-8%
Transport	835	662	662	+26%	+28%
Defence & Security	3,434	3,035	3,035	+13%	+16%
Total – operating segments	**6,311**	**5,971**	**5,934**	**+6%**	**+8%**
Other	20	38	38		
Total	**6,331**	**6,009**	**5,972**	**+5%**	**+8%**
Of which mature markets[9]	5,011	4,371	4,401	+15%	+18%
Of which emerging markets[9]	1,320	1,638	1,571	-19%	-17%

H1 2018 **order intake** amounted to **€6,331 million, up 5%** compared with H1 2017 (up +8% at constant scope and currency[10]). The **book-to-bill** ratio was **0.85** for H1 2018 (0.84 for H1 2017), and **0.98** over the last 12 months.

In H1 2018, Thales booked **six large orders with a unit value of over €100 million** (compared with eight such orders in H1 2017), representing a total amount of €1,814 million:

- 3 large orders recorded in Q1 2018, covering the modernization of air traffic control in Australia (OneSKY project), the supply of systems onboard the 12 additional Rafale combat aircraft ordered by Qatar, and the renovation of signaling systems on one of the main railways in Poland;

[9] Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries. See table on page 16
[10] Taking into account a negative exchange rate effect of €139 million and a net negative scope effect of €14 million, mainly related to the consolidation of Guavus as of 12 September 2017 (Defence & Security segment) , offset by the disposal of the identity management business in Q2 2017 (same segment)

- 3 large orders booked in Q2 2018:
  - for Eutelsat, the design of a very high throughput next-generation satellite, fitted with the most powerful digital processor ever sent into orbit (Konnect VHTS)
  - for the German Navy, the combat management system (CMS) for five K130 corvettes, in a consortium with Atlas Elektronik
  - for the Australian Royal Navy, the modernization of sonar systems on six Collins class submarines

At €4,517 million, orders with a unit value of less than €100 million were down by 6% on H1 2017, impacted by phasing effects during the year (Q1: -15%, Q2: -0%).

From a geographical perspective[11], order intake in emerging markets, which had benefited from three major orders in the previous year compared with just one this year, stood at €1,320 million, down 19%. Meanwhile, order intake in mature markets rose sharply (+15% to €5,011 million), driven in particular by the OneSKY project in Australia.

Order intake in the **Aerospace** segment stood at **€2,042 million**, down 10% from €2,274 million in H1 2017. This drop can be explained by lower order intake in military avionics and In-Flight Entertainment (IFE), with H1 2017 having benefited from the booking of a large order from a North American airline. Order intake in the Space segment posted slight growth compared with the H1 2017; however, the first part of the year not being very material in this segment.

At **€835 million**, order intake in the **Transport** segment remained particularly buoyant, up 26% compared with H1 2017, driven in particular by two major railway signaling contracts.

Order intake in the **Defence & Security** segment amounted to **€3,434 million**, up 13% from €3,035 for H1 2017, notably with strong momentum in equipment for military ships and submarines, air traffic control (with the OneSKY project), and cybersecurity.

[11] See table on page 16

Sales

In € million	H1 2018	H1 2017 restated for IFRS 15	H1 2017 reported	Total change	Organic change
Aerospace	2,768	2,797	2,872	-1.0%	+1.1%
Transport	904	761	711	+18.8%	+22.2%
Defence & Security	3,757	3,533	3,631	+6.3%	+8.5%
Total – operating segments	**7,429**	**7,090**	**7,214**	**+4.8%**	**+7.0%**
Other	23	28	27		
Total	**7,452**	**7,118**	**7,241**	**+4.7%**	**+6.9%**
Of which mature markets[12]	5,203	4,988	4,958	+4.3%	+6.3%
Of which emerging markets[12]	2,249	2,130	2,283	+5.6%	+8.4%

Sales for H1 2018 stood at **€7,452 million**, compared to €7,118 million in H1 2017, up 4.7%. The organic change (at constant scope and exchange rate[13]) came in at +6.9%, driven by strong momentum in the Transport and Defence & Security segments.

From a geographical perspective[14], this performance reflected strong momentum, both in emerging markets (up 8.4%) and in mature markets (up 6.3%).

Sales in the **Aerospace** segment amounted to **€2,768 million**, down 1.0% on H1 2017 (+1.1% at constant scope and currency). This low growth reflected the slowdown of the commercial telecommunications satellites market as well as a high basis of comparison in In-Flight Entertainment (IFE), partly offset by strong momentum in the military and institutional space markets.

In the **Transport** segment, sales amounted to **€904 million**, up 18.8% on H1 2017 (+22.2% at constant scope and currency). The segment benefited from the ramp-up of the large urban rail signaling contracts signed in 2015 and 2016, combined with an upturn in mainline activity. However, growth in this segment is expected to slow down significantly during H2, with the basis of comparison becoming less favorable.

[12] Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries. See table on page 16
[13] The calculation of the organic change in sales is shown on page 17
[14] See table on page 16

Sales in the **Defence & Security** segment represented **€3,757 million**, up 6.3% compared to H1 2017 (+8.5% at constant scope and currency). A large number of activities contributed to this momentum: surface radar, combat aircraft systems, systems and services for military ships and submarines, military radio communications, and cybersecurity. Organic growth in this segment was particularly strong in mature markets (up 10.2%), reflecting the positive inflection of defence budgets and the Group's solid commercial momentum in these markets. This growth is nevertheless expected to experience a slowdown in H1 2018, with the basis of comparison being significantly higher (organic growth in H1 2017: +6.5%, in H2 2017: +11.8%).

Results

EBIT *(in € millions)*	**H1 2018**	**H1 2017** restated for IFRS 15	**H1 2017** reported	**Total change**	**Organic change**
Aerospace	**291**	**260**	**263**	**+12%**	**+13%**
in % of sales	*10.5%*	*9.3%*	*9.2%*	*+1.2 pt*	*+1.1 pt*
Transport	**27**	**8**	**6**	**+220%**	**+231%**
in % of sales	*2.9%*	*1.1%*	*0.9%*	*+1.8 pt*	*+1.9 pt*
Defence & Security	**444**	**325**	**374**	**+37%**	**+40%**
in % of sales	*11.8%*	*9.2%*	*10.3%*	*+2.6 pts*	*+2.7 pts*
Total – operating segments	**761**	**594**	**644**	**+28%**	**+31%**
in % of sales	*10.3%*	*8.4%*	*8.9%*	*+1.9 pt*	*+1.9 pt*
Other – excluding Naval Group	(37)	(33)	(34)		
Total – excluding Naval Group	**724**	**561**	**610**	**+29%**	**+32%**
in % of sales	*9.7%*	*7.9%*	*8.4%*	*+1.8 pt*	*+1.9 pt*
Naval Group (35% share)	38	26	27	+42%	+42%
Total	**762**	**587**	**637**	**+30%**	**+33%**
in % of sales	*10.2%*	*8.3%*	*8.8%*	*+2.0 pts*	*+2.0 pts*

In H1 2018, the Group posted consolidated **EBIT**[15] of **€762 million** (**10.2%** of sales), compared to €587 million (8.3% of sales) in H1 2017.

The **Aerospace** segment posted EBIT of **€291 million** (**10.5%** of sales), versus €260 million (9.3% of sales) for the same period in 2017. The margin in this segment increased significantly, with the competitiveness initiatives and savings on sales and administrative expenses largely offsetting the acceleration in R&D expenses, particularly in Space.

[15] Non-GAAP financial indicator, see definition in the Appendices, page 12, and calculation, pages 14 and 15

EBIT for the **Transport** segment continued to recover, reaching **€27 million** (**2.9%** of sales), compared with €8 million (1.1% of sales) in H1 2017. The segment benefited from the gradual phasing-out of old contracts with low or zero margin and the leverage on indirect costs brought on by the strong growth in sales.

In the **Defence & Security** segment, EBIT increased significantly to **€444 million** (**11.8%** of sales) versus €325 million in H1 2017 (9.2% of sales). The increase in margin was driven by the strong commercial momentum, savings on sales and administrative expenses, and an exceptional provision reversal of €20 million following the resolution of two trade disputes, which largely offset the sharp rise in R&D expenses.

Naval Group contributed **€38 million** to EBIT in H1 2018, compared with €26 million in H1 2017, benefiting from solid sales growth (up 10% over the half year) and its competitiveness initiatives. For the Full Year 2018, Naval Group targets a growth in its net income, group share of around 10% compared with 2017.

At **-€3 million** in H1 2018 versus €2 million in H1 2017, **cost of net debt** remained very low. **Other adjusted financial income and expenses**[16] amounted to a **net expense of -€1 million** in H1 2018, compared with a net expense of -€20 million in H1 2017, primarily thanks to the recovery in foreign exchange performance. **Adjusted finance costs on pensions and other long-term employee benefits**[16] improved slightly (**-€27 million** versus -€31 million in H1 2017), benefiting primarily from the fall in net pension obligations and in the discount rate in the United Kingdom.

As a result, **adjusted net income**, **Group share**[16] was **€539 million** versus €387 million in H1 2017, after an adjusted income tax charge[16] of -€173 million, compared with -€125 million in H1 2017. A 26.6%, the effective income tax rate was stable (26.9% in H1 2017).

Adjusted net income, Group share, per share[16] came out at **€2.54**, up 39% on H1 2017 (€1.83).

At **€457 million**, **consolidated net income, Group share** posted an increase of **53%**, benefiting from the strong improvement in income from operations (up €174 million) and from the improvement in the financial result (up €29 million).

[16] Non-GAAP financial indicator, see definition in the appendices, page 12, and calculation, pages 14 and 15

Financial position as of 30 June 2018

In € million		H1 2018	H1 2017 restated for IFRS 15	Change
	Operating cash flow before working capital changes, interest and tax	**915**	**692**	**+224**
+	Change in WCR and reserves for contingencies	(915)	(172)	-742
+	Pension cash contributions, excluding contributions related to the reduction of the UK pension deficit	(70)	(62)	-8
+	Net financial interest received (paid)	(16)	(6)	-10
+	Income tax paid	(33)	(46)	+13
+	Net operating investments	(153)	(189)	+36
=	**Free operating cash flow**	**(272)**	**216**	**-488**
+	Net disposals (acquisitions) of subsidiaries and shareholdings	(55)	40	-94
+	Contributions related to the reduction of the UK pension deficit	(47)	(40)	-7
+	Dividends paid	(276)	(254)	-22
+	Changes in exchange rates and other	(11)	(34)	+22
=	**Changes in net cash (debt)**	**(661)**	**(72)**	**-589**
	Net cash (debt) at beginning of period	2,971	2,366	
+	Changes in net cash (debt)	(661)	(72)	
=	**Net cash (debt) at end of period**	**2,311**	**2,294**	

H1 2018 **free operating cash flow**[17] amounted to -**€272 million**, compared with €216 million in H1 2017. This downturn is explained primarily by the partial reversal of exceptional items that had boosted working capital performance at 31 December 2017, as well as the return to the traditionally more visible seasonality of the change in WCR.

At 30 June 2018, **net cash** thus amounted to **€2,311 million**, compared with €2,971 million at 31 December 2017, after the distribution of €276 million of dividends during the half year (€254 million in H1 2017) and a net cash outflow of €55 million related to acquisitions and disposals in the period, corresponding primarily to an additional Thales Alenia Space investment in the American company Spaceflight Industries, as part of the "BlackSky" constellation project.

[17] Non-GAAP financial indicator, see definition in the appendices, page 12

Equity, **Group share** stood at **€5,188 million,** compared with €4,922 million at 31 December 2017, with consolidated net income, Group share (€457 million) and the reduction in net pension obligations (€148 million net of tax) offsetting the distribution of dividends (€276 million) and the reduction in value of foreign exchange hedges (€56 million net of tax).

Update on the projected acquisition of Gemalto

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[18]. This offer was unanimously recommended by Gemalto's Board of Directors.

This projected acquisition is progressing as planned. On 27 March 2018, the offer document was published following its approval by the Dutch financial markets authority (AFM). The offer acceptance period has been extended until 15 August 2018.

2 of the 14 required regulatory authorizations[19] have already been obtained, in Australia[20] and Israel, and the steps to obtain the others are progressing as planned. Given that, as anticipated, all the required regulatory authorizations will not have been obtained before 15 August 2018, Thales has recently requested from the AFM an additional technical extension of the acceptance period.

As expected, the transaction should close shortly after all of the usual regulatory approvals have been secured, which should occur before the end of 2018.

Outlook

The H1 2018 results are in line with expectations. In this context, the Group confirms all its objectives[21], as set out below.

In 2018, Thales should 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. In this context, 2018 **order intake** is expected to be around €15.5 billion.

In spite of a more moderate growth in the aerospace segment, **sales** should see an organic growth of between 4% and 5% compared to 2017 sales restated for the application of the IFRS 15 standard (€15,228 million).

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

[19] For the record, Thales and Gemalto are seeking regulatory authorizations from the competent competition authorities in Australia, China, the European Union, Israel, Mexico, New Zealand, Russia, South Africa, Turkey and the USA. Apart from the CFIUS authorization in the USA, Thales and Gemalto are seeking regulatory authorizations relating to foreign investments from the competent authorities in Australia, Canada and Russia

[20] Investment authorization in Australia, granted by the FIRB

[21] As of 1st January 2018, the Group has been applying IFRS 15 "Revenue from Contracts with Customers". To provide a basis for understanding the 2018 financial objectives, the 2017 results restated to reflect the application of this standard are presented on page 20 of the 2017 full year results press release published on 6 March 2018.

The Group will continue to increase its R&D investments, particularly in digital technologies. The self-funded R&D expenses should therefore increase by around 10% compared to 2017.

The growth in sales, combined with the impact of the Ambition 10 strategy on product competitiveness and differentiation, should result in Thales delivering an **EBIT** of between €1,620 and €1,660 million in 2018 (based on February 2018 scope and exchange rates), representing an increase of 19% to 22% compared to 2017 EBIT restated for the application of the IFRS 15 standard (€1,365 million).

Over the 2018-2021 period, Thales has set itself the following medium-term targets:

- **organic sales growth**[22] 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% and 11.5% by 2021, resulting from a 200 to 240 basis point improvement[23] related to competitiveness initiatives, partly reinvested in self-funded R&D, representing approximately 50 to 100 basis points[23].

These financial targets do not take into account the potential impact of the projected acquisition of Gemalto. The Group may need to update them depending on the effective conclusion date of this transaction.

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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, which is available since 27 March 2018.

This press release is for information purposes only and does not constitute a prospectus or an offer to sell or the solicitation of an offer to buy any security in the United States of America or in any other jurisdiction. Securities may not be offered or sold in the United States of America absent registration or an exemption from registration under the U.S. Securities Act of 1933, as amended (the "Securities Act"). Securities that are the subject of any transaction mentioned in this press release have not been and will not be registered under the Securities Act and there is no intention to make a public offering of such securities in the United States.

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

Thanks to its 65,000 employees in 56 countries, Thales recorded sales of €15.8 billion in 2017.

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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 17.

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 amortization of intangible assets acquired (purchase price allocation – PPA) recorded as part of business combinations. Since 1 January 2016, it has also excluded other expenses recorded in income from operations 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:
  - amortization of acquired intangible assets (PPA) recorded as part of business combinations;
  - expenses recognized in income from operations or in financial result[24] 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 (recognized under "Other financial income and expenses" in the consolidated financial statements);

[25] The definition of adjusted net income was changed to take into account the expenses related to the acquisition of Gemalto recorded in financial result (€8.4 million for H1 2018). See Note 6.1 of the H1 2018 consolidated financial statements

  - actuarial gains (losses) on long-term benefits (recognized 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.

The definitions of EBIT and adjusted net income imply the definition of other operating indicators on the **adjusted income statement**: adjusted cost of sales, adjusted gross margin (equating to the difference between sales and the adjusted cost of sales), adjusted indirect costs, other adjusted financial income and expenses, 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 detailed on pages 14 and 15.

Readers are reminded that only the 2017 consolidated financial statements were audited by the statutory auditors, including the calculation of EBIT, which is described in Note 2.1 "Information by business segment", 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 income statements at 30 June 2018 and 30 June 2017 is detailed in the tables on pages 14 and 15. Calculation of free operating cash flow is outlined on page 8.

Adjusted income statement, EBIT and adjusted net income – H1 2018

In € millions *except earnings per share (in €)*	H1 2018 consolidated income statement	Adjustments (1)	(2)	(3)	(4)	H1 2018 adjusted income statement
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)
Amortization of acquired intangible assets (PPA)	(51)	51				0
Income from operations	**623**					**N/A**
Impairment of non-current assets*	0					0
Disposal of assets, changes in scope and other	(19)		19			0
Share in net income of equity affiliates	71	13				85
EBIT	**N/A**					**762**
Impairment of non-current assets*	0					0
Cost of net debt	(3)					(3)
Other financial income and expenses	(35)	8		27		1
Finance costs on pensions and other long-term employee benefits	(22)				(5)	(27)
Net profit before income tax and share in net income of equity affiliates	**544**					**648**
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**

(*) Included in "Income from operating activities after impact of equity affiliates" in the consolidated income statement and in "Net income" in the adjusted income statement.

Adjustments (see definitions on page 12):
(1) Impact of acquisitions: amortization of acquired intangible assets (PPA) recorded in the context of business combinations, expenses recorded in current operating income or financial income and directly related to these business combinations
(2) Result 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 2017 restated for IFRS 15

In € millions except earnings per share (in €)	H1 2017 consolidated income statement	Adjustments (1)	(2)	(3)	(4)	H1 2017 adjusted income statement
Sales	**7,118**					**7,118**
Cost of sales	(5,419)	0				(5,418)
Research and development expenses	(363)	3				(360)
Marketing and selling expenses	(533)	3				(530)
General and administrative expenses	(278)	4				(274)
Restructuring costs	(24)					(24)
Amortization of acquired intangible assets (PPA)	(54)	54				0
Income from operations	**449**					**N/A**
Impairment of non-current assets*	0					0
Disposal of assets, changes in scope and other	(9)		9			0
Share in net income of equity affiliates	61	13				74
EBIT	**N/A**					**587**
Impairment of non-current assets*	0					0
Cost of net debt	2					2
Other financial income and expenses	(63)			43		(20)
Finance costs on pensions and other long-term employee benefits	(28)				(3)	(31)
Net profit before income tax and share in net income of equity affiliates	**351**					**464**
Income tax	(90)	(22)	1	(15)	1	(125)
Effective income tax rate	*-25.5%*					*-26.9%*
Net income	**322**	**56**	**10**	**28**	**(2)**	**414**
Non-controlling interests	(23)	(4)		(0)		(27)
Net income, Group share	**299**	**52**	**10**	**20**	**(2)**	**387**
Average number of shares (thousands)	*211,611*					*211,611*
Net income, Group share, per share (in €)	**1.41**					**1.83**

(*) Included in "Income from operating activities after impact of equity affiliates" in the consolidated income statement and in "Net income" in the adjusted income statement.

Adjustments (see definitions on page 12):
(1) Impact of acquisitions: amortization of acquired intangible assets (PPA) recorded in the context of business combinations, expenses recorded in current operating income or financial income and directly related to these business combinations
(2) Result 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 2018

In € million	H1 2018	H1 2017 restated for IFRS 15	H1 2017 reported	Total change	Organic change	H1 2018 weighting in %
France	1,456	1,803	1,811	-19%	-18%	23%
United Kingdom	226	370	370	-39%	-38%	4%
Rest of Europe	1,558	1,142	1,143	+36%	+38%	25%
Sub-total Europe	**3,240**	**3,315**	**3,323**	**-2%**	**-1%**	**51%**
United States and Canada	532	676	697	-21%	-15%	8%
Australia and New Zealand	1,239	381	381	+225%	+254%	20%
Total mature markets	**5,011**	**4,371**	**4,401**	**+15%**	**+18%**	**79%**
Asia	716	708	689	+1%	+4%	11%
Middle East	457	570	551	-20%	-18%	7%
Rest of the world	147	359	331	-59%	-58%	2%
Total emerging markets	**1,320**	**1,638**	**1,571**	**-19%**	**-17%**	**21%**
Total all markets	**6,331**	**6,009**	**5,972**	**+5%**	**+8%**	**100%**

Sales by destination – H1 2018

In € million	H1 2018	H1 2017 restated for IFRS 15	H1 2017 reported	Total change	Organic change	H1 2018 weighting in %
France	1,956	1,819	1,768	+7.6%	+8.2%	26%
United Kingdom	621	638	633	-2.6%	-0.8%	8%
Rest of Europe	1,532	1,468	1,415	+4.3%	+5.1%	21%
Sub-total Europe	**4,110**	**3,926**	**3,816**	**+4.7%**	**+5.6%**	**55%**
United States and Canada	660	663	699	-0.4%	+3.9%	9%
Australia and New Zealand	433	399	443	+8.3%	+18.0%	6%
Total mature markets	**5,203**	**4,988**	**4,958**	**+4.3%**	**+6.3%**	**70%**
Asia	1,062	1,001	1,068	+6.1%	+8.8%	14%
Middle East	736	737	789	-0.2%	+2.5%	10%
Rest of the world	452	392	426	+15.2%	+18.5%	6%
Total emerging markets	**2,249**	**2,130**	**2,283**	**+5.6%**	**+8.4%**	**30%**
Total all markets	**7,452**	**7,118**	**7,241**	**+4.7%**	**+6.9%**	**100%**

Order intake and sales – Q2 2018

Order intake *(in € millions)*	**Q2 2018**	**Q2 2017** restated for IFRS 15	**Q2 2017** reported	**Total change**	**Organic change**
Aerospace	1,291	1,349	1,300	-4%	-2%
Transport	347	447	447	-22%	-21%
Defence & Security	1,652	1,923	1,923	-14%	-13%
Total – operating segments	**3,289**	**3,720**	**3,670**	**-12%**	**-10%**
Other	9	22	22		
Total	**3,298**	**3,742**	**3,692**	**-12%**	**-10%**
Sales *(in € millions)*					
Aerospace	1,483	1,465	1,619	+1.2%	+2.4%
Transport	518	451	432	+15.0%	+17.4%
Defence & Security	2,028	1,913	2,120	+6.0%	+7.6%
Total – operating segments	**4,029**	**3,829**	**4,171**	**+5.2%**	**+6.7%**
Other	12	12	12		
Total	**4,040**	**3,841**	**4,183**	**+5.2%**	**+6.7%**

Organic change in sales by quarter

In € million	**2017 SALES** restated for IFRS 15	**Impact of exchange rates**	**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%

Main scope effects:

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