

Thales reports its 2019 Full-Year results

- Order intake: €19.1 billion, up 19% (+4% on an organic basis¹)
- Sales: €18.4 billion, up 16.1% (+0.8% on an organic basis)
- EBIT²: €2,008 million, up 19% (+4% on an organic basis)
- Adjusted net income, Group share²: €1,405 million, up 19%
- Consolidated net income, Group share: €1,122 million, up 14%
- Free operating cash flow²: €1,372 million, 98% of adjusted net income, Group share
- Dividend³ of €2.65, up 27%
- 2020 objectives:
 - Book-to-bill⁴ above 1, supporting sales growth acceleration from 2021
 - Sales between €19.0 billion and €19.5 billion
 - EBIT margin between 10.8% and 11.0%

Thales's Board of Directors (Euronext Paris: HO) met on 25 February 2020 to review the 2019 financial statements.⁵

“Thanks to the commitment of its 80,000 employees, Thales ended 2019 with a commercially very dynamic fourth quarter. The booking of 12 projects over €100 million in the last quarter drove us significantly above our order intake objective. After recording growth above 5% in the past three years, sales slowed down due to the commercial Space market downturn and an exceptionally high basis of comparison in Transport. EBIT and adjusted net income were up 19%, boosted by the smooth integration of Gemalto.

Our roadmap between now and 2023 remains unchanged. We are focused on generating profitable growth sustainably.

In a global 2020 environment with several uncertainties, Thales's business model, which is both balanced and resilient, is more than ever creating value.”

Patrice Caine, Chairman and Chief Executive Officer

¹ In this press release, “organic” means “at constant scope and currency”. See note on methodology, page 12, and calculation, page 18.

² Non-GAAP financial indicators, see definitions on page 12 of the appendix.

³ To be proposed to the Shareholders' Meeting on 6 May 2020.

⁴ Ratio of order intake to sales.

⁵ As of the date of this press release, the audit procedures have been completed and the Statutory Auditors' report is in the process of being issued.

Key figures

<i>In € millions, except earnings per share and dividend (in €)</i>	2019	2018⁶	Total change	Organic change
Order intake	19,142	16,034	+19%	+4%
Order book at end of period	33,839	32,329	+5%	+2%
Sales	18,401	15,855	+16.1%	+0.8%
EBIT⁷	2,008	1,685	+19%	+4%
<i>as a % of sales</i>	<i>10.9%</i>	<i>10.6%</i>	<i>+0.3pts</i>	<i>+0.3pts</i>
Adjusted net income, Group share⁷	1,405	1,178	+19%	
Adjusted net income, Group share, per share⁷	6.61	5.55	+19%	
Consolidated net income, Group share	1,122	982	+14%	
Free operating cash flow⁷	1,372	811	+561	
Net cash (debt) at end of period⁷	-3,311	1,673 ⁸	-4,984	
Dividend per share	2.65⁹	2.08	+27%	

Order intake in 2019 amounted to **€19,142 million, up 19%** from 2018 (+4% at constant scope and currency). Order momentum was particularly strong in the Defence & Security segment. At 31 December 2019, the **consolidated order book** stood at **€33.8 billion**.

Sales totalled **€18,401 million**, up 16.1% compared to 2018 and up **0.8% at constant scope and currency** (“organic” change), with the decline in sales in the Aerospace and Transport segments offsetting the robust performance in Defence & Security.

In 2019, the Group posted an **EBIT of €2,008 million (10.9% of sales)** compared to €1,685 million (10.6% of sales) in 2018, up **19%** (and up 4% organically), while continuing to increase investments in R&D.

At **€1,405 million, adjusted net income, Group share** was up 19%, thanks to the strong improvement in EBIT.

Consolidated net income, Group share amounted to **€1,122 million**. It recorded an increase of **14%**, driven primarily by gains on asset disposals.

⁶ 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, with the exception of net cash at 31 December 2018. The impact of this standard on the 2019 financial statements is detailed in note 1.2 to the consolidated financial statements.

⁷ Non-GAAP financial indicators, see definitions on page 12 of the appendix.

⁸ At 1 January 2019: net cash at 31 December 2018 (€3,181m) less IFRS 16 leasing debt (€1,507m).

⁹ To be proposed to the Shareholders’ Meeting on 6 May 2020.

Free operating cash-flow¹⁰ amounted to **€1,372 million** versus €811 million in 2018. This increase was due to the significant rise in adjusted net income (+€227 million), an improvement in the change in working capital requirement and the impact of IFRS 16 (+€203 million).

In this context, the Board of Directors decided to propose the payment of a **dividend of €2.65** per share, up 27% from 2018, corresponding to an adjusted net income, Group share, per share pay-out ratio of 40%.

Order intake

<i>In € millions</i>	2019	2018	Total change	Organic change
Aerospace	4,829	5,346	-10%	-11%
Transport	1,751	1,858	-6%	-7%
Defence & Security	9,906	8,570	+16%	+17%
Digital Identity & Security	2,573	205	n.m.	n.m.
Total – operating segments	19,059	15,979	+19%	+4%
Other	83	55	+49%	+44%
Total	19,142	16,034	+19%	+4%
Of which mature markets ¹¹	14,258	12,797	+11%	+1%
Of which emerging markets ¹¹	4,883	3,237	+51%	+19%

Order intake in 2019 amounted to **€19,142 million, up 19%** from 2018 (+4% at constant scope and currency¹²). The ratio of order intake to sales (“book-to-bill”) stood at 1.04 compared with 1.01 in 2018 (and 1.05 excluding the Digital Identity and Security business, which has an order intake to sales ratio structurally very close to 1).

Thales booked **21 large orders with a unit value of over €100 million**, representing a total amount of **€4,522 million**:

- 3 large orders recorded in Q1 2019, covering the acquisition of new mobile radars systems by the Dutch Army, a support contract for a European army, and the provision of equipment for Indian army helicopters;

¹⁰ Non-GAAP financial indicator, see definition on page 13 of the appendix.

¹¹ Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries. See table on page 16.

¹² Taking into account a positive currency effect of €105 million and a net positive scope effect of €2,310 million, essentially linked to the consolidation of Gemalto as of 1 April 2019 (Digital Identity and Security segment) and to the deconsolidation of the GP HSM business effective 1 January 2019 (Defence & Security segment).

- 4 large orders recorded in Q2 2019, for the design of the ground segment of the Syracuse IV satellite, the delivery of electronic systems aboard Belgian Scorpion vehicles (CaMo project), a significant long-term maintenance contract for the French air force, and the design of two geostationary satellites for Spain as part of a consortium (SpainSat NG);
- 2 large orders recorded in Q3 2019: the supply of combat management systems for two military vessels and a contract to modernise satellite navigation systems for the French army;
- 12 large orders booked in Q4 2019:
 - the construction of 3 commercial telecommunications satellites (Eutelsat 10B for Eutelsat, NileSat-301 for the Egyptian operator NileSat and Amazonas Nexus for the Spanish operator Hispasat);
 - a new tranche of the COSMO-SkyMed Second Generation (CSG) project of radar observation satellites for Italy;
 - supervision and communications systems for the Sydney subway extension;
 - additional work in the context of the project to modernise signalling on 4 lines of the London Underground;
 - the major strategic airborne intelligence programme of the French armed forces (Archange project);
 - an additional tranche in the development of the Rafale F4 standard;
 - the supply of combat management systems aboard British Type 31 frigates;
 - the installation of integrated sonar suites on board 5 F110 Spanish frigates;
 - the design of a new generation of sensors and systems for a major navy;
 - the development, supply and support of the Ground Fire radar for the French army.

At **€14,620 million**, orders **with a unit value of less than €100 million** were up 28% from 2018 (+8% at constant scope), in particular with a sharp increase in orders with a unit value of between €10 million and €100 million (+18% at constant scope).

From a geographical perspective¹³, order intake in emerging markets totalled €4,883 million and were up 19% at constant scope and currency (+51% after consolidation of Gemalto). At €14,258 million, order intake in the mature markets remained high (+1% at constant scope and currency, +11% after consolidation of Gemalto), driven primarily by the increase in defence budgets in many countries.

¹³ See table on page 16.

Order intake in the **Aerospace segment** totalled **€4,829 million** versus €5,346 million in 2018 (-11% at constant scope and currency). This change reflects the drop in order intake in the Space and in-flight entertainment (IFE) businesses. Order intake for the Space business was down 14% over the year, despite the recording in the fourth quarter of some major telecommunications satellite wins. At 31 December 2019, the order book stood at **€7.3 billion**, down 8%.

At **€1,751 million**, order intake in the **Transport** segment was down 7% from 2018 at constant scope and currency. This change primarily reflects the effects of phasing in the award of major contracts (three large orders in 2018 and two in 2019). At 31 December 2019, the consolidated order book totalled **€4.1 billion**.

Order intake in the **Defence & Security** segment was **€9,906 million** compared with €8,570 million in 2018 (+17% at constant scope and currency), benefiting from robust bookings in equipment for ships and fighter aircraft, military communications networks and several long-term maintenance contracts. The order book for this segment amounted to **€21.8 billion**, representing 2.6 years of sales, increasing visibility for the business in the coming years.

At **€2,573 million**, orders for the **Digital Identity & Security** segment are very close to sales, as the majority of the businesses in this segment operate on short cycles. As a result, the order book is not relevant.

Sales

<i>In € millions</i>	2019	2018	Total change	Organic change
Aerospace	5,595	5,780	-3.2%	-4.2%
Transport	1,910	2,001	-4.5%	-5.8%
Defence & Security	8,265	7,828	+5.6%	+6.4%
Digital Identity & Security	2,552	192	n.m.	n.m.
Total – operating segments	18,322	15,800	+16.0%	+0.7%
Other	79	55		
Total	18,401	15,855	+16.1%	+0.8%
Of which mature markets ¹⁴	12,858	10,960	+17.3%	+4.7%
Of which emerging markets ¹⁴	5,543	4,894	+13.3%	-7.7%

Sales for 2019 amounted to **€18,401 million**, compared with €15,228 million in 2018, an increase of 16.1% after consolidation of Gemalto. Organic change (at constant scope and currency¹⁵) was +0.8%, with the decline in sales in Aerospace and Transport masking the strong performance in Defence & Security.

From a geographical perspective,¹⁶ this performance reflects solid growth in mature markets (+4.7% at constant scope and currency), and a slowdown in emerging markets (-7.7% at constant scope and currency) following several years of strong growth (organic growth of +10.3% in 2017 and +6.5% in 2018).

In the **Aerospace** segment, sales totalled **€5,595 million**, down 3.2% compared to 2018 (-4.2% at constant scope and currency). This decline in sales was focused in Space, which fell 13%, reflecting the slowdown in the commercial telecommunications satellite market combined with the end of a number of military projects.

In the **Transport** segment, sales totalled **€1,910 million**, down 4.5% compared to 2018 (-5.8% at constant scope and currency). This segment recorded exceptional growth in 2018 (+18% at constant scope and currency), which reflected the peak load on 4 major urban rail signalling contracts signed in 2015 and 2016 (London, Doha, Dubai and Hong Kong). Excluding these 4 contracts, 2019 sales recorded organic growth of +5%.

Sales in the **Defence & Security** segment came in at **€8,265 million**, up 5.6% from 2018 (+6.4% at constant scope and currency). Many different businesses contributed to this momentum, including air traffic control, optronics, systems for fighter aircraft, systems and services for military ships, military radio communications, and cybersecurity.

¹⁴ Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries. See table on page 16.

¹⁵ The calculation of the organic change in sales is shown on page 18.

¹⁶ See table on page 16.

At **€2,552 million**, sales for the **Digital Identity & Security** segment were in line with the Full Year target (organic growth of 0% to 2%). It reflects a strong performance in EMV payment cards, the negative impact of the reorganisation of the HSM businesses, and the continuous decline in sales of traditional SIM cards.

Results

EBIT <i>In € millions</i>	2019	2018	Total change	Organic change
Aerospace	521	580	-10%	-11%
<i>as a % of sales</i>	<i>9.3%</i>	<i>10.0%</i>	<i>-0.7pts</i>	<i>-0.7pts</i>
Transport	56	88	-36%	-35%
<i>as a % of sales</i>	<i>2.9%</i>	<i>4.4%</i>	<i>-1.5pts</i>	<i>-1.4 pts</i>
Defence & Security	1,153	992	+16%	+21%
<i>as a % of sales</i>	<i>14.0%</i>	<i>12.7%</i>	<i>+1.3pts</i>	<i>+1.6 pts</i>
Digital Identity & Security	264	15	n.m.	n.m.
<i>as a % of sales</i>	<i>10.3%</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>
Total – operating segments	1,994	1,675	+19%	+4%
<i>as a % of sales</i>	<i>10.9%</i>	<i>10.6%</i>	<i>+0.3 pts</i>	<i>+0.3pts</i>
Other – excluding Naval Group	(50)	(53)		
Total – excluding Naval Group	1,943	1,623	+20%	+4%
<i>as a % of sales</i>	<i>10.6%</i>	<i>10.2%</i>	<i>+0.3pts</i>	<i>+0.3pts</i>
Naval Group (35% share)	65	63	+3%	+3%
Total	2,008	1,685	+19%	+4%
<i>as a % of sales</i>	<i>10.9%</i>	<i>10.6%</i>	<i>+0.3 pts</i>	<i>+0.3pts</i>

For 2019, the Group posted an **EBIT¹⁷** of **€2,008 million**, at **10.9%** of sales, compared with **€1,685 million** (10.6% of sales) in 2018.

The **Aerospace** segment posted an **EBIT of €521 million (9.3% of sales)**, versus **€580 million** (10.0% of sales) in 2018. The margin decline in this segment primarily reflects the drop in sales and the increase in restructuring charges recorded in the Space business, combined with an increase in R&D investments in avionics.

EBIT for the **Transport** segment was **€56 million (2.9% of sales)** compared with **€88 million** (4.4% of sales) in 2018. The underlying margin improvement in this segment was hidden by the recognition in the first half of 2019 of two one-off charges totalling around **€60 million** related to an engineering transformation plan and additional costs incurred in the execution of an urban

¹⁷ Non-GAAP financial indicator, see definition on page 12 and calculation on pages 14 and 15 of the appendix.

rail signalling project. Corrected for these one-off charges, the margin was around 6%, thus continuing to increase in line with the medium-term objective.

In the **Defence & Security** segment, EBIT improved significantly to **€1,153 million**, versus €992 million in 2018 (+21% at constant scope and currency). Margin was **14.0%** versus 12.7% in 2018. The substantial rise in margin was due to sales momentum, positive impacts of competitiveness initiatives, solid project execution and reversals of provisions on contracts at completion recorded in the first half, for approximately €40 million.

At **€264 million (10.3%** of sales), EBIT for the **Digital Identity & Security** segment was slightly higher than the target set in June 2019 (€240 million to €260 million), reflecting lower than expected integration costs, partially offset by the negative impact of the reorganisation of the HSM business following the Gemalto acquisition.

The contribution of **Naval Group** to EBIT was stable at **€65 million** in 2019, compared with €63 million in 2018, in line with its 3% sales growth.

The increase in **net financial interest (-€43 million** versus -€7 million 2018) was primarily due to the recognition, according to IFRS16, of a financial interest expense of €27 million relating to lease debts. **Other adjusted financial results¹⁸** remained low (**-€12 million** in 2019, compared with -€8 million in 2018). **Adjusted finance cost on pensions and other long-term employee benefits¹⁸** was stable at constant scope (**-€56 million** compared with -€52 million in 2018).

Adjusted net income, Group share¹⁸ amounted to **€1,405 million**, up from €1,178 million in 2018, after adjusted income tax¹⁸ of -€454 million versus -€387 million in 2018. At 26.3%, the effective tax rate was down slightly from 2018 (26.7%).

Adjusted net income, Group share, per share¹⁸ stood at **€6.61**, up 19% from 2018 (€5.55).

At **€1,122 million, consolidated net income, Group share** increased by **14%**, driven primarily by gains on asset disposals.

¹⁸ Non-GAAP financial indicator, see definition on page 12 and calculation on pages 14 and 15 of the appendix.

Financial position at 31 December 2019

	2019	2018	Change
<i>In € millions</i>			
Operating cash flow before interest and tax	2,548	1,932	+616
+ Change in working capital and provisions for contingencies	(341)	(519)	+178
+ Pension cash contributions, excluding contributions related to the reduction of the UK pension deficit	(148)	(129)	-19
+ Net financial interest received (paid)	(37)	(2)	-35
+ Income tax paid	(154)	(91)	-64
+ Net operating investments	(496)	(380)	-116
= Free operating cash flow	1,372	811	+561
+ Net disposals (acquisitions) of subsidiaries and affiliates	(5,345)	(61)	-5,284
+ Contributions related to the reduction of the UK pension deficit	(98)	(98)	-0
+ Dividends paid	(463)	(382)	-81
+ New leasing debts (IFRS 16)	(299)	-	-299
+ Changes in exchange rates and other	(151)	(60)	-91
= Change in net cash (debt)	(4,984)	209	-5,193
Net cash (debt) at start of period	3,181	2,971	
+ IFRS 16 lease debt at start of period	(1,507)	-	
= Net cash (debt) at start of period, post IFRS 16	1,673	2,971	
+ Change in net cash (debt)	(4,984)	209	
= Net cash (debt) at end of period	(3,311)	3,181	

In 2019, **free operating cash flow**¹⁹ amounted to **€1,372 million** compared with €811 million in 2018. This increase was mainly due to the rise in adjusted net income, Group share (+€227 million), improvement of change in working capital (WCR) and the impact of IFRS 16 (+€203 million). The conversion rate from adjusted net income, Group share, to free operating cash flow stood at 98%. This robust performance includes several one-off items which adversely impacted the change in Working Capital Requirement for approximately -€100 million.

At 31 December 2019, **net cash** totalled **-€3,311 million** versus €1,673 million at 31 December 2018, after taking into account the IFRS 16 lease debt, after the distribution of €463 million in dividends (€382 million in 2018) and a net disbursement of €5,345 million linked to acquisitions and disposals completed during the year, mostly relating to the acquisition of Gemalto and the sale of the GP HSM business.

Shareholders' Equity, Group share totalled **€5,449 million**, versus €5,700 million at 31 December 2018, with consolidated net income, Group share (€1,122 million) not fully offsetting

¹⁹ Non-GAAP financial indicator, see definition on page 13 of the appendix.

the distribution of dividends (€463 million), the increase in the net pension commitment (€454 million net of tax), and the purchase of Gemalto minority interests (€437 million net of tax).

Proposed dividend

At the Annual General Meeting to be held on 6 May 2020, the Board of Directors will propose the distribution of a **dividend** of **€2.65** per share, an increase of 27% from 2018. This level corresponds to an Adjusted Net Income, Group share, per share pay-out ratio of 40%, (37.5% for financial year 2018).

If approved, the ex-dividend date will be 12 May 2020 and the payment date will be 14 May 2020. The dividend will be paid fully in cash and will amount to €2.05 per share, after deducting the interim dividend of €0.60 per share paid in December 2019.

Appointment of a director

The Board of Directors has decided to propose to the 6 May 2020 Annual General Meeting the appointment of Mr. Philippe Knoche, Chief Executive Officer of Orano, as “external director”, for a 4-year term, with a view to succeeding to Mr. Yannick d'Escatha, whose term expires at the end of the Meeting.

Outlook

In 2020, the Group will continue implementing all the levers of its Ambition 10 strategic plan in support of profitable and sustainable growth.

The global environment of early 2020 displays several factors of uncertainty: impact of the Coronavirus on the Group's markets and supply chains, US tariffs in civil aeronautics, return to operations for the Boeing 737 MAX, timing of orders by satellite operators, etc.

Taking into consideration this background, and assuming a limited impact of the Coronavirus crisis based on the current situation, the Group has set the following goals for 2020:

- As in 2019, a **book-to-bill ratio above 1**, benefiting from the solid trend in most of the Group's markets and the acceleration of growth initiatives;
- **Sales** in the range of **€19.0 billion to €19.5 billion**²⁰, including the continued normalisation in urban rail signalling sales and the momentum in Defence & Security and Digital Identity & Security;
- A further increase in **EBIT margin**²⁰ which should stand between **10.8%** and **11.0%**²¹, thanks to the continuation of the Ambition 10 competitiveness initiatives and the ramp-up of cost synergies related to the acquisition of Gemalto.

²⁰ Based on the February 2020 scope and exchange rates.

²¹ Up 20 to 40 basis points compared to the EBIT margin on a basis including Gemalto's Q1 2019. See calculation on page 18.

Over the 2019-2023 period, and based on the February 2020 scope, the Group has set itself the following medium-term goals:

- **Organic sales growth** between +3% and +5% on average over the 2019-2023 period, the strengthening of the Group's growth potential relating to digital investments and to the integration of Gemalto largely offsetting a more uncertain outlook in the commercial space market and no growth in transport over 2019-2023 after strong performance in 2018 (+18%). The phasing of these different factors is expected to translate into lower growth in the first part of the period, and progressive acceleration thereafter.
- **EBIT margin** between 11.5% and 12% by 2023, reflecting the positive impact of competitiveness initiatives and the synergies linked to the acquisition of Gemalto.

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).

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 83,000 employees in 68 countries, Thales generated sales of €19 billion in 2019 (on a pro forma basis including Gemalto over 12 months).

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 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 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 costs²² 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).

²² 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 in 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 of adjusted net income drive the definition of other operating indicators on 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 14 and 15.

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 includes the lease debt recorded on the balance sheet pursuant to IFRS 16. Its calculation appears in note 6.3 to the consolidated financial statements.

Readers are reminded that only the consolidated financial statements at 31 December 2019 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 (financial debt)” and free operating cash flow, the definition and calculation of which are specified in Note 6.3 “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 31 December 2019 and 31 December 2018 is detailed in the tables on pages 14 and 15. Calculation of free operating cash flow is detailed on page 9.

Adjusted income statement, EBIT and adjusted net income – 2019

<i>In € millions, except earnings per share (in €)</i>	2019 consolidated P&L	Adjustments				2019 adjusted P&L
		(1)	(2)	(3)	(4)	
Sales	18,401					18,401
Cost of sales	(13,877)	528				(13,350)
Research and development expenses	(1,099)	1				(1,097)
Marketing and selling expenses	(1,383)	2				(1 381)
General and administrative expenses	(637)	3				(634)
Restructuring costs	(122)	21				(102)
Income from operations	1,283					N/A
Disposal of assets, changes in scope and other	219	-	(219)			0
Impairment on non-current assets	0					0
Share in net income of equity affiliates	142	29				171
EBIT	N/A					2,008
Net financial interest	(43)					(43)
Other financial income and expenses	(84)			73		(12)
Finance costs on pensions and other long-term employee benefits	(69)				13	(56)
Income tax	(301)	(146)	21	(24)	(4)	(454)
<i>Effective income tax rate *</i>	-23.1%					-26.3%
Net income	1,146	436	(198)	49	10	1,443
Non-controlling interests	(25)	(14)				(38)
Net income, Group share	1,122	423	(198)	49	10	1,405
<i>Average number of shares (thousands)</i>	212,502					212,502
Net income, Group share, per share (in €)	5.28					6.61

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

Adjustments (see definitions on pages 12 and 13):

- (1) Impact of business combinations: amortisation of assets valued in the context of the purchase price allocation, other expenses directly related to acquisitions.
- (2) Disposal of assets, 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 – 2018

<i>In € millions, except earnings per share (in €)</i>	2018 consolidated P&L	Adjustments				2018 adjusted P&L
		(1)	(2)	(3)	(4)	
Sales	15,855					15,855
Cost of sales	(11,768)	1				(11,767)
Research and development 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 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)
<i>Effective income tax rate *</i>	-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
<i>Average number of shares (thousands)</i>	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 pages 12 and 13):

- (1) Impact of business combinations: amortisation of assets valued in the context of the purchase price allocation, other expenses directly related to acquisitions.
- (2) Disposal of assets, 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 – 2019

	2019	2018	Total change	Organic change	2019 weighting as a %
<i>In € millions</i>					
France	5,372	5,183	+4%	+1%	28%
United Kingdom	1,730	746	+132%	+119%	9%
Rest of Europe	4,266	3,872	+10%	-1%	22%
Sub-total Europe	11,368	9,802	+16%	+9%	59%
United States and Canada	2040	1,501	+36%	-9%	11%
Australia and New Zealand	850	1,494	-43%	-46%	4%
Total mature markets	14,258	12,797	+11%	+1%	74%
Asia	2,452	1,764	+39%	+12%	13%
Near and Middle East	1,293	952	+36%	+22%	7%
Rest of the world	1,139	521	+119%	+38%	6%
Total emerging markets	4,883	3,237	+51%	+19%	26%
Total all markets	19,142	16,034	+19%	+4%	100%

Sales by destination – 2019

	2019	2018	Total change	Organic change	2019 weighting as a %
<i>In € millions</i>					
France	4,461	3,985	+12.0%	+8.8%	24%
United Kingdom	1,297	1,253	+3.5%	-6.1%	7%
Rest of Europe	4,040	3,498	+15.5%	+2.3%	22%
Sub-total Europe	9,798	8,736	+12.2%	+4.1%	53%
United States and Canada	2,102	1,367	+53.7%	+6.9%	11%
Australia and New Zealand	958	858	+11.6%	+7.2%	5%
Total mature markets	12,858	10,960	+17.3%	+4.7%	70%
Asia	2,642	2,297	+15.0%	-5.3%	14%
Near and Middle East	1,601	1,647	-2.8%	-11.1%	9%
Rest of the world	1,301	950	+36.8%	-7.5%	7%
Total emerging markets	5,543	4,894	+13.3%	-7.7%	30%
Total all markets	18,401	15,855	+16.1%	+0.8%	100%

Order intake and sales – Q4 2019

Order intake <i>In € millions</i>	Q4 2019	Q4 2018	Total change	Organic change
Aerospace	2,204	2,301	-4%	-5%
Transport	883	591	+49%	+46%
Defence & Security	4,636	3,572	+30%	+30%
Digital Identity & Security	952	71	n.s.	n.s.
Total – operating segments	8,676	6,535	+33%	+19%
Other	21	32		
Total	8,696	6,566	+32%	+19%

Sales

In € millions

Aerospace	1,808	1,769	+2.2%	+1.5%
Transport	642	628	+2.3%	+0.7%
Defence & Security	2,595	2,508	+3.5%	+3.9%
Digital Identity & Security	921	61	n.s.	n.s.
Total – operating segments	5,966	4,966	+20.1%	+2.4%
Other	25	15		
Total	5,991	4,981	+20.3%	+2.6%

Organic change in sales by quarter

	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%
Q2	4,040	+23	-26	4,829	+758	+19.5%	+0.8%
H1	7,452	+60	-51	8,190	+763	+9.9%	-0.5%
Q3	3,421	+25	-24	4,220	+766	+23.4%	+0.9%
Q4	4,981	+33	-31	5,991	+876	+20.3%	+2.6%
Full Year	15,855	+118	-106	18,401	+2,405	+16.1%	+0.8%

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.

Impact of Gemalto Q1 2019

<i>In € millions</i>	Sales	EBIT	EBIT margin
Thales	18,401	2,008	10.9%
+ Gemalto Q1 2019*	652	10	
= Thales + Gemalto Q1 2019*	19,053	2,018	10.6%

(*) See note 1.2 to the consolidated financial statements at 31 December 2019.