THALES

PRESS RELEASE
24 July 2020
Paris La Défense, France

Thales reports its 2020 half-year results

- Order intake: €6.1 billion, down 13% (-23% on an organic basis[1])
- Sales: €7.8 billion, down 5.4% (-13.6% on an organic basis)
- EBIT[2]: €348 million, down 57% (-63% on an organic basis)
- Adjusted net income, Group share[2]: €232 million, down 60%
- Consolidated net income, Group share: €65 million, down 88%
- Free operating cash flow[2]: -€471 million
- New financial objectives set for 2020, based on a stabilising economy and public health situation:
  - Book-to-bill[3] above 1, benefiting from the positive trend in Defence & Security
  - Sales between €16.5 billion and €17.2 billion
  - Impact of the global adaptation plan: approximately €800 million for the full year[4]
  - EBIT between €1,300 million and €1,400 million

Thales's Board of Directors (Euronext Paris: HO) met on 23 July 2020 to review the financial statements for the first half of 2020.[5]

"The results of the first half of 2020 were heavily impacted by the Covid-19 pandemic. The decline in sales and profits was due both to the sharp contraction of the civil aeronautics market and to the impact of public health measures on production and project execution.

On behalf of the Board of Directors, I would like to thank all Group employees who continued to make every effort to serve our customers throughout this unprecedented crisis.

The global adaptation plan that we launched very early on significantly reduced the impact of the crisis on our first-half financial statements. We expect this plan to save around €800 million over the full year.

The first half of the year was also very busy from a commercial point of view, with historical successes in space-based environmental monitoring and military naval systems. As these contracts are being finalised, they should be booked in the upcoming months.

[1] In this press release, "organic" means "at constant scope and exchange rates". See note on methodology on page 11 and calculation on page 18
[2] Non-GAAP financial indicators, see definitions in the appendices, page 12
[3] Ratio of order intake to sales
[4] Of which, €750 million in savings included in EBIT, and at least a €50 million cut in net operating investments
[5] 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

In the second half of the year, based on a stabilising economy and public health situation, we anticipate a significant increase in sales compared to the first half and a recurring operating margin[6] back to a level close to the second half of 2019.

Thanks to its unique positioning focused on key societal issues of tomorrow's world — sustainable mobility, technological autonomy, digital identity and security — Thales has what it takes to return to profitable growth once this crisis is over."

Patrice Caine, Chairman & Chief Executive Officer

Key figures

In € millions except earnings per share (in €)	H1 2020	H1 2019	Total change	Organic change
Order intake	**6,092**	**6,995**	-13%	-23%
Order book at end of period	**31,662**	**31,701**	-6%	-6%
Sales	**7,751**	**8,190**	-5.4%	-13.6%
EBIT[7]	**348**	**820**	-57%	-63%
in % of sales	*4.5%*	*10.0%*	*-5.5 pts*	*-5.8 pts*
Adjusted net income, Group share[7]	**232**	**574**	-60%	
Adjusted net income, Group share, per share[7]	**1.09**	**2.70**	-60%	
Consolidated net income, Group share	**65**	**557**	-88%	
Free operating cash flow[7]	**-471**	**-332**	-139	
Net cash (debt) at end of period	**-3,928**	**-4,397[8]**	+469	

H1 2020 **order intake** amounted to **€6,092 million**, **down 13%** compared to H1 2019 (-23% at constant scope and exchange rates), following numerous delays in finalising and signing contracts due to the Covid-19 public health crisis and the collapse in civil aeronautics demand in the second quarter. At 30 June 2020, the consolidated **order book** remained robust at **€31.7 billion**, which represents 1.7 years of sales.

Sales stood at **€7,751 million**, down 5.4% from H1 2019 and down 13.6% at constant scope and exchange rates, including a second quarter that was down 20% at constant scope and exchange rates.

[6] Recurring operating margin: EBIT before restructuring costs and joint-venture contributions as a proportion of sales
[7] Non-GAAP financial indicators, see definitions in the appendices, page 12.
[8] Net debt at 30 June 2019.

In the first half of 2020, the Group posted **EBIT** of **€348 million** (**4.5%** of sales), compared to €820 million (10.0% of sales) in the first half of 2019, a decline by 57%. The EBIT margin dropped 5.8 points at constant scope and exchange rates.

In early April, Thales launched a **global adaptation plan** in order to maintain its production capacity at the service of its customers, limit the industrial and financial impact of this crisis and strengthen its funding capacity in the event that the crisis persists or worsens. The plan has generated estimated savings of around **€320 million** in the first half, or approximately 40% of the crisis's estimated €740 million impact on gross margin. It also drove a 16% reduction in net operating investments at constant scope.

At **€232 million**, **adjusted net income, Group share** was down **60%**, in line with the decrease in EBIT.

Consolidated net income, Group share came in at €65 million, down **88%** compared to H1 2019, which had benefited from a €221 million capital gain on the sale of the GP HSM business.

At **-€471 million**, **free operating cash flow** in H1 2020 reflected the usual WCR seasonality as well as the impact of the public health crisis, partially offset by the measures taken under the global adaptation plan. **Net debt** stood at **€3,928 million** at 30 June 2020, down €469 million year-on-year.

Order intake

In € millions	H1 2020	H1 2019	Total change	Organic change
Aerospace	1,625	1,758	-8%	-8%
Transport	442	556	-21%	-20%
Defence & Security	2,425	3,809	-36%	-36%
Digital Identity & Security	1,587	829	n.m.	+5%
Total – operating segments	**6,078**	**6,952**	**-13%**	**-23%**
Other	14	43		
Total	**6,092**	**6,995**	**-13%**	**-23%**
Of which mature markets[9]	4,566	5,280	-14%	-21%
Of which emerging markets[9]	1,526	1,715	-11%	-29%

H1 2020 **order intake** amounted to **€6,092 million, down 13%** compared to H1 2019 (-23% at constant scope and exchange rates[10]). The **book-to-bill** ratio was **0.79** for H1 2020, versus **0.85** in H1 2019 and **1.01** over the last 12 months.

[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 €16 million and a net positive scope effect of €728 million, relating mainly to Gemalto's consolidation at 1 April 2019 (Digital Identity & Security segment)

In H1 2020, Thales booked **four large orders with a unit value of over €100 million** (compared with seven in H1 2019), representing a total amount of €560 million:

- one large order booked in Q1 2020, for an air surveillance system for a Middle Eastern country;
- three large orders booked in Q2 2020:
    - the supply of anti-submarine sonars to the US navy (Defence & Security segment)
    - a 10-year contract for the supply of munitions to the Australian army[11] (Defence & Security segment)
    - a space contract for an undisclosed customer (Aerospace segment)

The Group also recorded major commercial successes in military naval systems and space-based Earth observation:

- In June, the Federal Office of Bundeswehr Equipment awarded a contract to the consortium comprising naval shipyards Damen, Blohm+Voss and Thales to supply the German navy with four MKS180 frigates. It is the largest project in the history of the German Navy.
- The European Space Agency selected Thales Alenia Space for five of the six Copernicus missions planned for the coming years, of which 3 as prime contractor. Copernicus is the world's largest programme for the provision of environmental monitoring data.

The above contracts are expected to be signed in the coming weeks and will be included in H2 order intake, for a total of approximately €1.7 billion.[12]

At **€5,532 million**, orders with a unit value of less than €100 million rose by 4% compared to H1 2019, after the integration of Gemalto.

The base of small orders worth less than €10 million held up well despite the crisis, mitigating the volatility of large contracts. Specifically, small orders were up 7% after the integration of Gemalto, and only down by around 5% at constant scope and excluding the impact of the sharp drop in orders in the civil aeronautics businesses.

Geographically[13], order intake was down 11% in emerging markets after the integration of Gemalto, and down 29% at constant scope and exchange rates. Order intake in mature markets was down 14% after the integration of Gemalto and down 21% at constant scope and exchange rates.

[11] Contract worth a total of €600 million over 10 years, of which €200 million booked in 2020

[12] Approximately €1.5 billion for MKS180 and €200 million for the first phases (advanced definition B2 phases) of the Copernicus projects, per ESA contracting practices.

[13] See table on page 16

Order intake in the **Aerospace** segment stood at **€1,625 million**, down 8% from €1,758 million in H1 2019. This limited decline (considering the collapse in demand in civil aeronautics of around 50% in the second quarter) was due to a strong first quarter and favourable prior-year comparatives in the space business, which had not recorded many orders in H1 2019.

Order intake in the **Transport** segment was down 21% to **€442 million**, due to contract finalisation delays related to the public health crisis.

Order intake in the **Defence & Security** segment stood at **€2,425 million**, compared with €3,809 million in H1 2019 (-36%), including the three large orders with a unit value of over €100 million mentioned above. The decline was due to the natural volatility of large contracts (three large orders in H1 2020 versus six in H1 2019) and contract finalisation delays related to the public health crisis. These delays should disappear in the second half of 2020, which should also benefit from the booking of orders related to the MKS180 project.

At **€1,587 million**, orders in the **Digital Identity & Security** segment were close to sales, considering that most of the businesses in this segment do not book long-term orders. The sharp increase compared to H1 2019 reflects the integration of Gemalto as from 1st April 2019.

Sales

In € millions	H1 2020	H1 2019	Total change	Organic change
Aerospace	1,946	2,609	-25.4%	-25.8%
Transport	717	835	-14.1%	-13.7%
Defence & Security	3,588	3,882	-7.6%	-7.3%
Digital Identity & Security	1,472	829	n.m.	n.m.
Total – operating segments	**7,723**	**8,155**	**-5.3%**	**-13.6%**
Other	28	35		
Total	**7,751**	**8,190**	**-5.4%**	**-13.6%**
Of which mature markets[14]	5,687	5,716	-0.5%	-7.5%
Of which emerging markets[14]	2,064	2,474	-16.5%	-27.9%

H1 2020 **sales** stood at **€7,751 million**, compared with €8,190 million in H1 2019, down 5.4% after the integration of Gemalto. The organic change (at constant scope and exchange rates[15]) was -13.6%, the organic decline in sales being due to the 20% sales drop in the second quarter as a result of the civil aeronautics demand collapse (down by approximately 50%) and Covid-19 –related disruptions affecting operations across all Group businesses.

[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

Geographically[16], the decline in sales was most marked in emerging markets (-27.9% on an organic basis), reflecting anticipated phasing effects on a few large contracts. The decline was more moderate in mature markets (-7.5% on an organic basis).

Sales in the **Aerospace** segment amounted to **€1,946 million**, down 25.8% on an organic basis compared to H1 2019. Unsurprisingly, this decline in sales mainly affected the Group's civil aeronautics businesses (flight avionics and in-flight entertainment and connectivity systems), which were directly impacted by the drop in demand of around 50%. Other businesses (military aeronautics, space, microwave tubes) were impacted by the disruption of operations related to public health measures implemented throughout the second quarter.

In the **Transport** segment, sales amounted to **€717 million**, down 14.1% compared to H1 2019 (-13.7% at constant scope and exchange rates). In addition to the phasing effects on major urban rail signalling contracts (particularly in Doha (Qatar) and London), which have been weighting on the segment’s growth since the end of 2018, the decline was due to disruptions related to the public health crisis, particularly for installations and on-site testing.

Sales in the **Defence & Security** segment totalled **€3,588 million**, down 7.6% compared to H1 2019 (-7.3% at constant scope and exchange rates). Despite the crisis, six of the segment's 13 business lines continued to grow, particularly in naval systems, military communications and protected vehicles.

This limited decrease in sales, after two years of strong organic growth (+8.5% in H1 2018 and +6.8% in H1 2019) reflects the strong momentum of the Group's solutions, based on an order book of more than €20 billion at end-June 2020.

At **€1,472 million**, sales in the **Digital Identity & Security** segment held steady at constant scope (compared to H1 2019 + Gemalto’s Q1 2019). The organic decline was limited to -4.9% in the second quarter, reflecting the adverse impact of the public health crisis on the demand for biometric solutions and IoT connectivity modules, partially offset by stronger-than-expected sales in EMV payment cards and SIM cards.

[16] See table on page 16

Results

EBIT *In € millions*	**H1 2020**	**H1 2019**	**Total change**	**Organic change**
Aerospace	**(109)**	**270**	**n.m.**	**n.m.**
in % of sales	*-5.6%*	*10.3%*	*-15.9 pts*	*-15.9 pts*
Transport	**4**	**(42)**	**n.m.**	**n.m.**
in % of sales	*0.6%*	*-5.0%*	*+5.6 pts*	*+5.6 pts*
Defence & Security	**359**	**564**	**-36%**	**-36%**
in % of sales	*10.0%*	*14.5%*	*-4.5 pts*	*-4.6 pts*
Digital Identity & Security	**140**	**37**	**n.m.**	**n.m.**
in % of sales	*9.5%*	*4.5%*	*+5.0 pts*	*+7.2 pts*
Total – operating segments	**395**	**830**	**-52%**	**-58%**
in % of sales	*5.1%*	*10.2%*	*-5.1 pts*	*-5.3 pts*
Other – excluding Naval Group	(32)	(39)	**n.m.**	**n.m.**
Total – excluding Naval Group	**363**	**790**	**-54%**	**-60%**
in % of sales	*4.7%*	*9.7%*	*-5.0 pts*	*-5.2 pts*
Naval Group (35% share)	(15)	29	**n.m.**	**n.m.**
Total	**348**	**820**	**-57%**	**-63%**
in % of sales	*4.5%*	*10.0%*	*-5.5 pts*	*-5.8 pts*

In H1 2020, the Group posted an **EBIT**[17] of **€348 million** (4.5% of sales), compared with €820 million (10.0% of sales) in H1 2019.

The **global adaptation plan** generated estimated savings of around €320 million in the first half, or just over 40% of the decline in gross margin before savings, estimated at €740 million.

At its 23 July meeting, the Board of Directors accepted the Chairman & Chief Executive Officer's proposal to reduce his fixed annual compensation by around 10% during the temporary furlough period, in order to show solidarity with Group employees subject to these measures. This will come in addition to the substantial reduction in his 2020 variable annual compensation which, if targets are met, represents 50% of his 2020 annual overall compensation.

The **Aerospace** segment posted an EBIT of -€109 million (-5.6% of sales), versus €270 million (10.3% of sales) in H1 2019. The loss recorded for the period was due to the impact on the gross margin of the significant decline in sales (-25.4%) in the first half of the year, partially offset by the impact of the global adaptation plan.

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

The **Transport** segment posted an EBIT of **€4 million** (0.6% of sales), versus a loss of €42 million (5.0% of sales) in H1 2019. Despite the crisis, the transformation plan undertaken in the segment continued to deliver a gross margin improvement. EBIT also benefited from the non-recurrence of negative one-off items recognised in the first half of 2019.

In the **Defence & Security** segment, EBIT came in at **€359 million** (10.0% of sales) versus €564 million in H1 2019 (14.5% of sales). Against the backdrop of the public health crisis, the segment maintained a double-digit margin thanks to a quick adjustment of its indirect costs (proportional to the decline in sales) combined with ongoing efforts to increase gross margin, the strict control of overheads and solid project execution despite operational disruptions.

At **€140 million** (9.5% of sales), the **Digital Identity & Security** segment's EBIT benefited from a positive gross margin mix effect, cost synergies and a significant reduction of indirect costs in the framework of the global adaptation plan.

Naval Group made a negative contribution to H1 2020 EBIT of **-€15 million**, versus a positive contribution of €29 million in H1 2019. This decline was the result of major disruptions to the production of military ships and submarines due to public health measures, causing sales to fall by 26% in the period. The positive impact of the various measures implemented should allow Naval Group to end 2020 with a positive contribution to Thales's EBIT.

The increase in net **financial interest** (**-€30 million** versus -€16 million in H1 2019) was due to the rise in the Group's average debt following the acquisition of Gemalto. **Other adjusted financial income**[18] remained low (**-€15 million** compared with -€4 million in the first half of 2019). At **-€20 million** versus -€27 million at 30 June 2019, **adjusted finance costs on pensions and other long-term employee benefits**[18] fell slightly thanks to the ongoing reduction in discount rates.

As a result, **adjusted net income, Group share**[18] was **€232 million** versus €574 million in H1 2019, after an **adjusted income tax charge**[18] of **-€66 million** (-€184 million in H1 2019). At 23.2% at 30 June 2020 versus 26.6% at 30 June 2019, the effective tax rate benefited notably from a favourable country mix.

Adjusted net income, Group share, per share[18] stood at **€1.09**, down 60% from H1 2019 (€2.70).

Consolidated net income, Group share came in at €65 million, down **88%** compared to H1 2019, which had benefited from a €221 million capital gain on the sale of the GP HSM business.

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

Financial position at 30 June 2020

	In € millions	H1 2020	H1 2019	Change
	Operating cash flow before interest and tax	**709**	**1,024**	**-315**
+	Change in working capital and provisions for contingencies	(832)	(1,022)	+190
+	Pension expense, excluding contributions related to the reduction of the UK pension deficit	(87)	(73)	-15
+	Net financial interest received (paid)	(46)	(22)	-24
+	Income tax paid	(55)	(64)	+9
+	Net operating investments	(161)	(175)	+14
=	**Free operating cash flow**	**(471)**	**(332)**	**-139**
+	Net balance of disposals (acquisitions) of subsidiaries and affiliates	(4)	(5,175)	+5,170
+	Contributions related to the reduction of the UK pension deficit	(49)	(48)	-1
+	Dividends paid	-	(336)	+336
+	Changes in exchange rates and other	(94)	(181)	+87
=	**Changes in net cash (debt)**	**(617)**	**(6,071)**	**+5,453**
	Net cash (debt) at beginning of period	(3,311)	1,673	
+	Change in net cash (debt)	(617)	(6,071)	
=	**Net cash (debt) at end of period**	**(3,928)**	**(4,397)**	**+469**

In the first six months of 2020, **free operating cash flow**[19] amounted to **-€471 million**, versus -€332 million in H1 2019. The change was largely due to the decline in operating cash flow before interest and tax (-€315 million), even though it was smaller than the decline in EBIT (-€471 million). It was partially offset by a negative change in WCR that was smaller than in 2019, thanks in particular to the measures taken under the global adaptation plan.

This free operating cash flow includes **net operating investments** amounting to **€161 million**, down €14 million from H1 2019. The adaptation measures resulted in a decline of €28 million (-16%) compared to H1 2019 at constant scope and exchange rates, which was greater than the decline in sales.

At 30 June 2020, **net debt** amounted to **-€3,928 million**, down €469 million year on year (-€4,397 million at 30 June 2019) but up €617 million since 1 January 2020 when it stood at -€3,311 million. As approved by the General Meeting of 6 May 2020, and in a spirit of responsibility vis-à-vis all Group stakeholders, the Group did not distribute any dividends during the period.

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

At 30 June 2020, **equity attributable to equity holders of the parent company** totalled **€4,843 million**, versus €5,449 million at 31 December 2019, largely due to the increase in pension commitments, driven by the decline in the UK discount rate.

The Group enjoys a very robust **financial position**. At 30 June 2020, it held €3.8 billion in cash and cash equivalents and two confirmed and undrawn syndicated credit facilities totalling €2.8 billion, one maturing in October 2021 and the other in December 2021. The next bond maturity is in March 2021 and amounts to €300 million.

Outlook

The global environment has been profoundly changed by the Covid-19 public health crisis, which is affecting all companies, including Thales. Furthermore, the public health and macro-economic context remains uncertain and could affect the pace of recovery of air traffic and corporate investment plans, particularly in cybersecurity and the Internet of Things.

Thanks to the efforts of all staff, Thales expects internal productivity to return to a level close to normal as from the Summer. However, business will still be disrupted by travel restrictions, difficulties in accessing certain customer sites and occasional supply-chain issues.

The Group will also rely on the visibility afforded by its order book, worth more than €31 billion, and the positive trend in orders in the Defence & Security segment.

Thales will also benefit from the full effect of its global adaptation plan, which should generate savings of around €800 million for the year: around €750 million in the EBIT and a reduction of at least €50 million in net operating investments[20], at least in line with the expected decline in sales.

Consequently, based on a stabilising economy and public health situation, Thales has set itself the following objectives for 2020:

- As in 2019, a **book-to-bill ratio above 1**;
- **Sales** in the range of **€16.5 billion** to **€17.2 billion**[21], taking into account significant disruptions in civil aeronautics combined with the recovery of productivity in other businesses;

[20] 2019 net operating investments: €496 million
[21] Based on the scope and exchange rates of July 2020.

- **EBIT** in the range of **€1,300 million** to **€1,400 million**[22], corresponding to an EBIT margin of around 8% for the full year, thanks to the full effect of the global adaptation plan, ongoing Ambition 10 competitiveness initiatives, and the ramp-up of cost synergies related to the Gemalto acquisition. In the second half of 2020, the recurring operating margin[23] is expected to return to a level close to the second half of 2019.

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About Thales

Thales (Euronext Paris: HO) is a global high technology leader investing in digital and "deep tech" innovations – connectivity, big data, artificial intelligence, cybersecurity and quantum technology – to build a future we can all trust, which is vital to the development of our societies. The company provides solutions, services and products that help its customers – businesses, organisations and states – in the defence, aeronautics, space, transportation and digital identity and security markets to fulfil their critical missions, by placing humans at the heart of the decision-making process.

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

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[22] Based on €130 million in restructuring costs (€102 million in 2019) and €70 million in joint-venture contributions (€171 million in 2019)
[23] Recurring operating margin: EBIT before restructuring costs and joint-venture contributions as a proportion of sales

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 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[24] 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).

[24] 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 to 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.

Defining EBIT and adjusted net income involves defining other operating indicators in the **adjusted income statement**, specifically, 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 financial income on pensions and long-term benefits, adjusted income tax, adjusted net income, Group share, per share, calculated as described 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 incorporates the lease debt recorded on the balance sheet as part of the application of IFRS 16. Its calculation appears in Note 6.2 to the consolidated financial statements.

Please note that only the consolidated financial statements as at 31 December 2019 are audited by the statutory auditors, including EBIT, the calculation of which is outlined in Note 2 "Segment Information", net cash (debt), the definition and calculation of which appear in Note 6.2 "Net cash (debt)", and free operating cash flow, the definition and calculation of which are specified in Note 7 "Changes in net cash (debt)". 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 2020 and 30 June 2019 is detailed in the tables on pages 14 and 15. The calculation of free operating cash flow is outlined on page 9.

Adjusted income statement, EBIT and adjusted net income – H1 2020

In € millions *except earnings per share (in €)*	Consolidated income statement H1 2020	Adjustments (1)	(2)	(3)	(4)	Adjusted income statement H1 2020
Sales	**7,751**					**7,751**
Cost of sales	(6,156)	252				(5,904)
Research and development expenses	(491)	0				(491)
Marketing and selling expenses	(672)	1				(671)
General and administrative expenses	(310)	2				(308)
Restructuring costs	(30)	0				(30)
Income from operations	**92**	**255**				**N/A**
Disposal of assets, changes in scope and other	45		(45)			0
Impairment of non-current assets	0					0
Share in net income of equity affiliates	(13)	14				1
EBIT	**N/A**	**269**	**(45)**			**348**
Net financial interest	(30)					(30)
Other financial income and expenses	(49)			34		(15)
Finance costs on pensions and other long-term employee benefits	(18)				(2)	(20)
Income tax	20	(74)	0	(12)	1	(66)
*Effective income tax rate**	*+49.6%*					*-23.2%*
Net income	**47**	**195**	**(45)**	**22**	**(1)**	**218**
Non-controlling interests	(18)	4				(14)
Net income, Group share	**65**	**191**	**(45)**	**22**	**(1)**	**232**
Average number of shares (thousands)	*212,704*					*212,704*
Net income, Group share, per share (in €)	**0.31**					**1.09**

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

Adjustments (see definitions on page 12):
(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 2019

In € millions *except earnings per share (in €)*	**Consolidated income statement H1 2019**	**Adjustments (1)**	**(2)**	**(3)**	**(4)**	**Adjusted income statement H1 2019**
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 12):
(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 2020

In € millions	H1 2020	H1 2019	Total change	Organic change	H1 2020 weighting in %
France	1,270	2,075	-39%	-40%	21%
United Kingdom	393	551	-29%	-34%	6%
Rest of Europe	1,304	1,560	-16%	-26%	21%
Sub-total Europe	**2,967**	**4,186**	-29%	-34%	**49%**
United States and Canada	1,198	821	+46%	+21%	20%
Australia and New Zealand	402	274	+47%	+48%	7%
Total mature markets	**4,566**	**5,280**	-14%	-21%	**75%**
Asia	705	1,046	-33%	-45%	12%
Near and Middle East	439	359	+23%	-5%	7%
Rest of the world	381	310	+23%	-3%	6%
Total emerging markets	**1,526**	**1,715**	-11%	-29%	**25%**
Total all markets	**6,092**	**6,995**	-13%	-23%	**100%**

Sales by destination – H1 2020

In € millions	H1 2020	H1 2019	Total change	Organic change	H1 2020 weighting in %
France	2,014	2,090	-3.7%	-4.9%	26%
United Kingdom	562	587	-4.3%	-8.6%	7%
Rest of Europe	1,676	1,722	-2.6%	-11.2%	22%
Sub-total Europe	**4,251**	**4,399**	-3.4%	-7.9%	**55%**
United States and Canada	955	856	+11.6%	-12.0%	12%
Australia and New Zealand	480	461	+4.1%	+5.6%	6%
Total mature markets	**5,687**	**5,716**	-0.5%	-7.5%	**73%**
Asia	1,012	1,191	-15%	-27.4%	13%
Near and Middle East	553	749	-26.3%	-31.6%	7%
Rest of the world	500	533	-6.3%	-23.9%	6%
Total emerging markets	**2,064**	**2,474**	-16.5%	-27.9%	**27%**
Total all markets	**7,751**	**8,190**	-5.4%	-13.6%	**100%**

Order intake and Sales – Q2 2020

Order intake *In € millions*	**Q2 2020**	**Q2 2019**	**Total change**	**Organic change**
Aerospace	846	1,086	-22%	-22%
Transport	286	307	-7%	-7%
Defence & Security	1.465	2,507	-42%	-41%
Digital Identity & Security	826	795	+4%	+5%
Total – operating segments	**3,423**	**4,696**	**-27%**	**-27%**
Other	7	27		
Total	**3,429**	**4,722**	**-27%**	**-27%**

Sales *In € millions*				
Aerospace	862	1,388	-37.9%	-38.1%
Transport	370	437	-15.3%	-14.3%
Defence & Security	1,864	2,195	-15.1%	-14.8%
Digital Identity & Security	745	794	-6.0%	-4.9%
Total – operating segments	**3,842**	**4,814**	**-20.2%**	**-19.9%**
Other	11	14		
Total	**3,852**	**4,828**	**-20.2%**	**-19.9%**

Organic change in sales by quarter

In € millions	2019 sales	Currency impact	Impact of disposals	2020 sales	Impact of acquisitions	Total change	Organic change
Q1	3,361	-0	-	3,899	+697	-16.0%	-4.7%
Q2	4,829	-20	-	3,852	+0	-20.2%	-19.9%
H1	**8,190**	**-20**	**-**	**7,751**	**+697**	**-5.4%**	**-13.6%**

Main scope effects:

- Disposals: none
- Acquisitions: consolidation of Gemalto from 1 April 2019 (Digital Identity & Security segment)

Impact of Gemalto's Q1 2019

In € millions	Sales	EBIT	EBIT margin
Thales H1 2019	8,190	820	10.0%
+ Gemalto Q1 2019*	652	10	
= Thales + Gemalto H1 2019	**8,841**	**829**	**9.4%**

* See Note 1.2 to the consolidated financial statements as at 31 December 2019.