Paris La Défense, 6 March 2018

2017 Full-Year results

- **Order intake: €14.9 billion, down 9% on an organic basis[1]**
- **Sales: €15.8 billion, up 7.2% on an organic basis**
- **EBIT[2]: €1,543 million, up 14% (up 16% on an organic basis)**
- **All 2017 objectives exceeded**
- **Adjusted net income, Group share[2]: €982 million, up 9%**
- **Consolidated net income, Group share: €822 million, down 13%**
- **Free operating cash flow[2]: €1,365 million, 139% of adjusted net income**
- **Dividend[3] up 9% to €1.75**
- **Gemalto acquisition project on track**
- **2018 objectives: organic sales growth between 4% and 5%[4]**
  EBIT between €1,620 and €1,660 million

Thales's Board of Directors (Euronext Paris: HO) met on 5 March 2018 to close the 2017 financial statements[5].

Patrice Caine, Chairman & Chief Executive Officer, stated: *"2017 was another record-breaking year for Thales. The Group exceeded all its annual financial targets. As expected, order intake remained high. It was comparable to the 2016 level if we remove the exceptional Rafale contract for India that was booked in September 2016. For the second consecutive year, organic sales growth exceeded 5%, driven by a solid performance across all of our businesses. At 9.8% – a level never achieved before by the Group – our operating profitability came in at the upper range of the target set in April 2014."*

"This financial performance was made possible by the dynamism of our commercial actions, the pursuit of our competitiveness improvement plans, the strengthening of our technological leadership, and more generally, by the commitment of our 65,000 employees, all of whom I would like to thank today on behalf of the Board of Directors."

"At the same time, Thales is continuing to prepare for the future and is stepping up its growth strategy: in 2017, we increased our R&D investments by 9% and further strengthened our expertise in artificial intelligence, with the set up of a new research laboratory in this field, as well as in big data, *thanks to the acquisition of Guavus, a pioneer in real-time* big data *analytics."*

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[1] In this press release, "organic" means "at constant scope and currency"

[2] Non-GAAP measures, see definitions in the Appendices, page 13. The definitions of EBIT and adjusted net income were adjusted as at 1 January 2016 to exclude expenses recognised in income from operations that are directly attributable to business combinations. These adjustments impacted 2017 EBIT in an amount of €18 million, and 2017 adjusted net income in an amount of €12 million (€19 million and €12 million, respectively in 2016).

[3] Proposed to the Shareholders' Meeting on 23 May 2018.

[4] Compared to 2017 pro forma IFRS 15 sales.

[5] At the date of this press release, the audit procedures have been completed and the Statutory Auditors' report was in the process of being issued.

"We are actively preparing the acquisition of Gemalto, which is expected to close in the second half of 2018. This project will cement our position as a leader in the digital transformation of our industries and customers, and enable us to build a global leader in digital security."

Key figures

New orders in 2017 amounted to **€14,920 million, down 10%** compared to the high level recorded in 2016, which was boosted by the Q3 2016 booking of the 36 Rafale fighter aircraft contract ordered by the Indian government. The Group has therefore exceeded the €14 billion order intake target set at the start of 2017. The strong order momentum in Transport and Defence & Security enabled the Group to offset the slowdown of orders in Space. At 31 December 2017, the Group's **order book** stood at **€31,914 million**, which represents almost 2 years' worth of sales.

Sales came in at **€15,795 million**, up 6.1% on a reported basis, and up **7.2% at constant scope and currency** ("organic" change). Sales benefitted from both a high rate of growth in emerging markets[1] (organic growth of +10.3%, running at more than 10% for the fourth consecutive year) and a marked upturn in organic growth in mature markets[1] (+5.8%, after +3.9% in 2016 and +0.5% in 2015).

In € millions, except earnings per share and dividend (in €)	2017	2016	Total change	Organic change
Order intake	**14,920**	**16,514**	-10%	-9%
Order book at end of period	**31,914**	**33,530**	-5%	-3%
Sales	**15,795**	**14,885**	+6.1%	+7.2%
EBIT[2]	**1,543**	**1,354**	+14%	+16%
in % of sales	*9.8%*	*9.1%*	*+0.7 pt*	*+0.8 pt*
Adjusted net income, Group share[2]	**982**	**897**	+9%	
Consolidated net income, Group share	**822**	**946**	-13%	
Adjusted net income, Group share, per share[2]	**4.64**	**4.25**	+9%	
Dividend per share[3]	**1.75**	**1.60**	+9%	
Free operating cash flow[2]	**1,365**	**954**	+43%	
Net cash at end of period	**2,971**	**2,366**	+26%	

[1] In this press release, "mature markets" include Europe, North America, Australia and New Zealand. "Emerging markets" include all other countries: Asia, Middle East, Latin America and Africa.

[2] Non-GAAP measures, see definitions in the Appendices, page 13.

[3] Proposed to the Shareholders' Meeting on 23 May 2018.

In 2017, consolidated **EBIT** was **€1,543 million** (**9.8%** of sales) compared to €1,354 million (9.1% of sales) in 2016, up 14%. All operating segments contributed to this increase and improved their EBIT margin.

As such, the Group noticeably exceeded all the financial objectives it had set for 2017: an order intake of around €14 billion, a mid-single digit organic sales growth, and an EBIT of between €1,480 million and €1,500 million, up 9% to 11% on 2016, based on February 2017 scope and exchange rates.

At **€982 million**, **adjusted net income, Group share** rose **9%**. Its increase was held back by one-off items relating to tax reforms in France and the United States.

Consolidated net income, Group share was **€822 million**. It posted a fall of **13%**, affected by the sharp fall in capital gains on disposal of assets.

At **€1,365 million** compared to €954 million in 2016, **free operating cash flow** reached a record level, benefiting from the rise in adjusted net income, from a slight reduction in operating investments (€431 million compared to €472 million in 2016) and from a combination of items that improved the change in working capital requirement. At 31 December 2017, **net cash** was **€2,971 million**, up more than €600 million compared to 31 December 2016.

As a result, the Board of Directors decided to propose payment of a **dividend** of **€ 1.75** per share, a rise of 9% compared to 2016.

Order intake

(in € millions)	**2017**	**2016**	**Total change**	**Organic change**
Aerospace	**5,200**	5,872	-11%	-11%
Transport	**1,780**	1,504	+18%	+20%
Defence & Security	**7,883**	9,063	-13%	-12%
Total – operating segments	**14,863**	**16,439**	**-10%**	**-9%**
Other	57	75		
Total	**14,920**	**16,514**	**-10%**	**-9%**
Of which mature markets[1]	**10,824**	10,138	+7%	+7%
Of which emerging markets[1]	**4,095**	6,376	-36%	-35%

2017 **order intake** amounted to **€14,920 million, down 10%** on 2016 (-9% at constant scope and currency[2]). The **book-to-bill** ratio was **0.94** for the year, compared to **1.11** in 2016 and **1.34** in 2015, both years marked by an exceptional intake of large contracts, notably with the booking of 6 “jumbo” orders[3].

[1] Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries. See page 18.

[2] Taking into account a negative exchange rate effect of €142 million and a net positive scope effect of €5 million, mainly linked to the consolidation of RUAG's opto-electronic business as at 1 January 2017 (Aerospace segment), Vormetric as at 16 March 2016 and Guavus as at 12 September 2017 (Defence & Security segment), offset by the disposal of the identity management business, effective as at 9 May 2017 (Defence & Security segment).

[3] With a unit value of more than €500 million.

The Group exceeded the €14 billion order intake target set at the start of 2017. The strong order momentum in Transport and Defence & Security enabled to offset the slowdown of orders in Space.

The consolidated **order book** remained at a high level: **€31.91 billion** at 31 December 2017, an increase of €7.4 billion (30%) since the launch of Ambition 10 (€24.47 billion at 31 December 2013).

Thales received **19 large orders with a unit value of over €100 million**, representing a total amount of €2,915 million:

- 1 contract booked in Q1 2017, for the provision of a telecommunications satellite to the Russian operator Gazprom Space System;
- 7 large orders booked in Q2 2017:
    - The supply of in-flight entertainment (IFE) systems to a major carrier
    - The construction for Inmarsat of a very high throughput satellite (V-HTS)
    - The operation and maintenance of critical security, information and communication systems at the French Ministry of Defence's new headquarters
    - A contract in the framework of the development and construction of five intermediate-sized frigates (FTIs) for the French Navy
    - Thales's stake in the manufacturing of the first armoured vehicles for the Scorpion programme, for the French Ministry of Defence
    - The supply of AREOS reconnaissance pods to a military customer
    - The delivery of several systems and sensors to an emerging-market navy
- 3 large orders booked in Q3 2017:
    - An additional contract in the framework of the development and construction of the intermediate-sized frigates (FTIs) for the French Navy
    - The notification of an additional contract in the framework of the CONTACT tactical digital communications programme for the French Ministry of Defence
    - The sale of an integrated air defence system to an Asian country
- 8 large orders booked in Q4 2017:
    - A new tranche of the construction programme for 6 meteorological observation satellites "Meteosat Third Generation", for ESA and EUMETSAT
    - The modernisation of the signalling and telecommunication systems for one of the main railways in Egypt
    - The extension of a signalling project for one of the world's largest undergrounds
    - A further contract related to the 36 Rafale fighter aircraft ordered by the Indian government
    - An operational support contract for the European air defence systems on behalf of OCCAR, to be delivered through the Eurosam joint venture
    - The support of the "Voyager" air-tanker programme for the United Kingdom's air force
    - The second part of the SSOP sensor support contract for the United Kingdom's Royal Navy
    - The first tranche of the aerospace consumables logistics programme for the French armed forces (LORCA programme)

Orders with a unit value of less than €100 million grew by 1% compared to 2016.

From a geographical point of view[1], order intake was logically down in emerging markets (€4,095 million, -36%), Asia having benefited in 2016 from the order related to Indian Rafale fighter aircraft and the Middle East, from 2 large orders[2]. Order intake in mature markets recorded growth (€10,824 million, +7%), driven especially by France (+28%) and the United Kingdom (+15%).

At **€5,200 million** compared to €5,872 million in 2016, order intake in the **Aerospace** segment was down 11%. Avionics, both civil and military, was particularly robust. In-flight entertainment (IFE) maintained a solid commercial performance, in both the fields of traditional multimedia systems and in connectivity. Space order intake was however significantly down, affected by the wait-and-see attitude of telecommunications satellite operators and by a high basis of comparison in the institutional area (observation, exploration, navigation).

Order intake in the **Transport** segment totalled **€1,780 million**, up 18% on 2016, driven by robust growth in both urban and mainline signalling.

At **€7,883 million**, order intake in the **Defence & Security** segment posted a **13%** fall which can be explained by India's 2016 booking for Rafale fighter aircraft. Excluding this "one-off" item, order intake in this segment was up, benefiting from robust bookings across almost all businesses.

Sales

(in € millions)	2017	2016	Total change	Organic change
Aerospace	**5,985**	5,812	+3.0%	+3.6%
Transport	**1,761**	1,603	+9.9%	+11.2%
Defence & Security	**7,983**	7,390	+8.0%	+9.4%
Total – operating segments	**15,729**	**14,805**	**+6.2%**	**+7.3%**
Other	**66**	80		
Total	**15,795**	**14,885**	**+6.1%**	**+7.2%**
Of which mature markets[3]	**10,913**	10,395	+5.0%	+5.8%
Of which emerging markets[3]	**4,882**	4,490	+8.7%	+10.3%

[1] See table on page 15.
[2] In-flight entertainment systems for Emirates' future Boeing 777X as well as the signalling systems for the Dubai metro extension.
[3] Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries. See table on page 18.

Sales for 2017 stood at **€15,795 million**, compared to €14,885 million for 2016, up 6.1% on a reported basis, and up **7.2% at constant scope and exchange rates**[1] ("organic" change), driven by very good momentum across virtually all segments.

As expected, sales saw a marked acceleration in the fourth quarter[2] (+12.5% on reported basis, +14.8% in organic terms), driven by a weak basis of comparison and by phasing effects between Q3 and Q4 2017.

From a geographical perspective[3], this good performance reflects both continued strong growth in emerging markets, running at more than 10% for the fourth consecutive year (+10.3%), and increased organic growth in mature markets (+5.8%, after +3.9% in 2016 and +0.5% in 2015). Emerging markets accounted for 31% of Group sales, up from 30% in 2016 and 23% in 2013, the year prior to the launch of Ambition 10.

Sales in the **Aerospace** segment came in at **€5,985 million**, up 3.0% compared to 2016 (up +3.6% at constant scope and currency). The commercial avionics business remained robust, driven in particular by the growth in deliveries of avionic systems to Airbus. In-Flight Entertainment was affected by a high basis of comparison and posted a slight drop in sales as a result. Space sales experienced strong growth, lifted by the ramp-up of contracts signed in 2014 and 2015 in both observation and telecommunications activities. Sales in other segment businesses fell, as the growth in the training and simulation business was insufficient to offset the declining sales of microwave tubes, affected by the slowdown of the global satellite market.

In the **Transport** segment, sales totalled **€1,761 million**, up 9.9% compared to 2016 (up +11.2% at constant scope and currency). This growth reflected the progress on the major urban signalling projects won in 2015 and 2016 (Doha, Dubai, Hong Kong, London). The strong rise in sales in the fourth quarter is not representative of the trend in this business activity; it reflects a low basis of comparison and phasing effects between quarters.

Sales in the **Defence & Security** segment were **€7,983 million**, up 8.0% compared to 2016 (up +9.4% at constant scope and currency). Almost all businesses contributed to this momentum. The Land and Air Systems business recorded particularly acute growth in optronics, missile electronics, Air Traffic Management and protected vehicles, with the ramping-up of the Hawkei vehicle supply contract for the Australian Defence Force. The Defence Mission Systems business posted strong growth for combat aircraft systems, driven by the 3 major Rafale contracts in Egypt, Qatar and India. Despite favourable dynamics in cybersecurity and military network and infrastructure systems, the Secure Information Systems and Communication business posted a more modest growth, especially as several major critical infrastructure protection contracts came to an end.

[1] Taking into account a negative exchange rate effect of €145 million and a net positive scope effect of €2 million, mainly linked to the consolidation of RUAG's opto-electronic business as at 1 January 2017 (Aerospace segment), Vormetric as at 16 March 2016 and Guavus as at 12 September 2017 (Defence & Security segment), off-set by the disposal of the identity management business, effective as at 9 May 2017 (Defence & Security segment). The breakdown of these effects by quarter can be found on page 19.

[2] See table on page 19.

[3] See table on page 18.

As expected, sales in the Defence & Security segment recorded strong growth in the fourth quarter[1] (+19.4% based on reported figures, +22.1% on an organic basis), owing to contract phasing effects and a favourable prior-year basis of comparison.

Results

EBIT *(in € millions)*	2017	2016	Total change	Organic change
Aerospace	**601**	**571**	+5%	+7%
in % of sales	*10.0%*	*9.8%*	*+0.2 pt*	*+0.3 pt*
Transport	**72**	**11**	x6.3	x6.3
in % of sales	*4.1%*	*0.7%*	*+3.4 pt*	*+3.3 pt*
Defence & Security	**869**	**787**	+10%	+13%
in % of sales	*10.9%*	*10.7%*	*+0.2 pt*	*+0.3 pt*
Total – operating segments	**1,542**	**1,370**	+13%	+15%
in % of sales	*9.8%*	*9.3%*	*+0.5 pt*	*+0.6 pt*
Other – excluding Naval Group	(47)	(49)		
Total – excluding Naval Group	**1,495**	**1,321**	+13%	+15%
in % of sales	*9.5%*	*8.9%*	*+0.6 pt*	*+0.7 pt*
Naval Group (35% share)	48	34		
Total	**1,543**	**1,354**	+14%	+16%
in % of sales	*9.8%*	*9.1%*	*+0.7 pt*	*+0.8 pt*

In 2017, consolidated **EBIT**[2] was **€1,543 million**, or **9.8%** of sales, compared to €1,354 million (9.1% of revenues) for the same period in 2016. EBIT advanced by 14% based on reported figures, and by 16% on an organic basis. Compared to 2013, the year before the launch of Ambition 10, it is up 53% (+50% on an organic basis).

The **Aerospace** segment posted EBIT of **€601 million** (**10.0%** of sales), versus €571 million (9.8% of sales) in 2016. The EBIT margin rose in particular in the Space and cockpit avionics businesses, even as the Group implemented a sharp upturn in R&D investments. Profitability remained however under pressure within the microwave and imaging systems activities, affected by the slowdown in the global satellite construction market.

EBIT for the **Transport** segment continued to grow sharply, at **€72 million** (**4.1%** of sales), compared to €11 million (0.7% of sales) in 2016. This improvement is fully in line with the recovery plan that has been implemented since mid-2015, but low or zero margin contracts continued to weigh down on profitability. Ongoing transformation efforts and the gradual phasing-out of low-margin contracts should help this business regain its past profitability levels by 2018/2019.

[1] See table on page 19.
[2] Non-GAAP measures, see definitions in the Appendices, page 13.

EBIT for the **Defence & Security** segment was **€869 million** (**10.9%** of sales), compared to €787 million (10.7% of sales) in 2016. Just as in 2016, the EBIT margin for this segment improved organically by 0.3 points, driven by sales growth, good cost control and a drop in restructuring costs.

Naval Group's contribution to EBIT totalled **€48 million** in 2017, compared to €34 million in 2016, buoyed by the improved operating profitability in naval defence (which nevertheless included a few one-time items), partially offset by the depreciation of some assets in renewable marine energies.

At **€5 million** in 2017 compared to €6 million in 2016, the amount of **net financial interest** remained low. **Other adjusted financial results (expense)**[1] amounted to a net expense of **- €29 million**, compared to a net expense of - €10 million in 2016, primarily due to a less favourable foreign exchange performance. **Adjusted finance costs on pensions and other employee benefits**[1] remained stable (**-€63 million,** versus -€66 million in 2016), with the rise in pension obligations between 1 January 2016 and 1 January 2017 offset by a decline in discount rates.

Adjusted income tax expense[1] amounted to a net of -€403 million in 2017 compared to -€314 million in 2016, representing 31.0% of adjusted net income before tax and Thales's share in the net income of equity affiliates. This rise in the effective tax rate can be explained by 3 one-off non-cash items representing a negative amount of €66 million:

- the benefit from the cancellation by France of the 3% tax payable on dividends, which was offset in 2017 by the one-off tax contribution implemented by the government,
- the estimated impact of the French parliament approving a gradual reduction of corporate income tax, which will drop from 34.43% in 2018 to 25.83% in 2022, and
- the estimated impact of the drop in the United States federal tax rate, which moves from 35% to 21% as of 1 January 2018, following the approval of the "Tax Cuts and Jobs Act".

Excluding these 3 one-off items, the effective tax rate would have been 26%, the same rate as in 2016.

Adjusted net income, **Group share**[2] totalled **€982 million**, compared to €897 million in 2016, up **9%**.

Adjusted net income, Group share, per share[1] came out at **€4.64**, also up **9%** on 2016 (€4.25). Without the 3 one-off tax items mentioned above, the adjusted net income, Group share, per share would have come out at **€4.96**, up **14%** compared to 2016.

At **€822 million** versus €946 million in 2016, **consolidated net income, Group share** posted a **13%** fall, affected by changes to the "disposal of assets, changes in scope of consolidation and other" line, which had benefited in 2016 from capital gains on the disposal of shareholdings, totalling €206 million, in Hanwha Thales and Thales-Raytheon Systems LLC.

[1] See the tables on pages 15 and 16.

[2] Non-GAAP measures, see definitions in the Appendices, page 13, and the table, pages15 and 16

Financial position at 31 December 2017

At **€1,365 million** versus €954 million in 2016, **free operating cash flow**[1] reached a record level, benefiting from the rise in adjusted net income, from a good control of operating investments (€431 million compared to €472 million in 2016) and from a combination of items that improved the change in working capital requirement (€223 million versus -€63 million in 2016). Some of these items will have a negative effect on changes in working capital requirement in future periods. As a result, the cash conversion rate from adjusted net income into free operating cash flow reached 139%.

The net balance of acquisitions and disposals amounted to -€80 million. It primarily included the net cash outflow of €91 million incurred when finalising the acquisition of Guavus, one of the pioneers in real-time "big data" analytics, and the proceeds from the disposal of the identity management business finalised in May 2017.

At 31 December 2017, **net cash** totalled **€2,971 million** compared to €2,366 million at 31 December 2016, after the distribution of €349 million in dividends (€297 million in 2016).

At **€5,326 million** versus €4,640 million at 31 December 2016, **equity, Group share** was up, driven by the consolidated net income, Group share, a fall in net pension provisions, and a higher valuation of the currency derivatives portfolio.

Proposed dividend

At the Annual General Meeting on 23 May 2018, the Board of Directors will propose the distribution of a **dividend** of **€ 1.75** per share, an increase of 9% on 2016.

If approved, the ex-dividend date will be 30 May 2018 and the payment date will be 1 June 2018. The dividend will be paid fully in cash and will amount to € 1.30 per share, after deducting the interim dividend of € 0.45 per share paid in December 2017.

IFRS 15 implementation

In 2017, the Group continued to work on the implementation of the IFRS 15 standard "Revenue from contracts with customers". This standard, the application of which has been mandatory since 1 January 2018, provides for:

- new criteria to demonstrate the continuous transfer of control of goods to the customer and enable the recognition of revenue over time;
- the unbundling of multiple performance obligations within a single contract;
- measurement of progress towards completion of a contract (or performance obligation for unbundled contracts) based on costs incurred.

[1] See table on page 17.

Details of this standard’s impact on the key lines of the 2017 adjusted income statement, and on 2017 operating segment sales and EBIT are set out on page 20.

With regard to **sales** and **adjusted gross margin**, the differences are primarily due to the change in the percentage-of-completion method for long-term contracts. Currently, contract sales and margins are recognised as and when technical milestones are reached, which attest to the effective stage of completion of a portion of the work or the performance of services provided for in the contract. Under IFRS 15, the percentage-of-completion method used is the cost-to-cost method, whereby revenue is recognised based on costs incurred at a given date divided by total costs expected at completion. For each contract, depending on the stage of completion and the type of milestones reached and costs incurred during the period, this change of method may lead to the recognition of revenue and margins being deferred from one period to another.

To a lesser degree, these differences are due to certain contracts being unbundled into performance obligations with differentiated margins (particularly for contracts combining construction and operation, or the construction and launch of a satellite), which may also lead to the deferral of the recognition of revenue and margins.

Finally, the impact of the requalification of contracts no longer fulfilling over time recognition criteria is very limited. A detailed analysis of the contract portfolio found that this requalification, which could have generated very significant deferrals in the recognition of revenue and margins if it had applied to a large number of contracts, only concerns a small number, the total revenue of which represents less than 1% of the order book at 31 December 2016.

Had this standard been applicable as of 1st January 2017, these impacts taken together would have led to a negative restatement of €568 million on **2017 sales**, and of €133 million on **2017 adjusted gross margin**, which would in turn amount to 24.4% of sales (+0.0 points). As the new standard affects neither the total revenue nor the overall profitability of each contract, this restatement corresponds solely to timing differences.

The impact of the standard on **2017 adjusted indirect costs** would have amounted to -€29 million, corresponding solely to the derecognition of bid costs from costs at completion and their subsequent recognition under indirect costs for the period.

The impact on the 2017 **share in net income of equity affiliates** would have been negative by €15 million, exclusively linked to Naval Group.

As a result, **restated 2017 EBIT** would have been €1,365 million, €177 million lower than the EBIT reported for the same period. The fall in **EBIT margin** (9.0% under IFRS 15 versus 9.8% under current standards) corresponds primarily to the negative operating leverage due to lower sales, with the gross margin remaining stable in percentage, and indirect costs virtually unchanged by the standard.

These amounts reflect the impact on the aggregate sales and margin of several thousand contracts; they are not representative of the standard's impact on the financial statements of future periods.

After restatement, the **adjusted net income**, **Group share** would have amounted to €840 million, €142 million lower than the reported amount, reflecting the shifts in the timing of sales recognition resulting from the new standard.

The application of the standard would have had a similar negative impact, €142 million, on the **consolidated net income, Group share**.

Update on the projected Gemalto acquisition

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

Preparations for this offer are proceeding as planned. The draft offer document is under review by the Dutch Financial Markets Authority (AFM). The process of obtaining the necessary regulatory authorisations is also underway. The transaction is expected to close shortly after all of the usual regulatory approvals have been secured, which is expected in the second half of 2018.

All charges directly related to this transaction will be excluded from the 2018 EBIT and adjusted net income.

Outlook

As of 1st January 2018, the Group applies the IFRS 15 standard "Revenue from contracts with customers". To provide a basis for understanding the 2018 financial targets, the 2017 results restated for the application of this standard are presented on page 20.

In 2018, Thales should continue to benefit from positive trends in the majority of its markets. The acceleration of the 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).

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

The Group will continue to significantly 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).

Therefore, the Group expects to exceed its two mid-term objectives: the average organic sales growth in the 2016-2018 period should be over 5%, and the 2018 EBIT margin should be above the top end of the range set in April 2014 (9.5% to 10% in 2017/2018).

This outlook does not take into account the projected acquisition of Gemalto. The Group may need to update its outlook depending on the effective conclusion date of this transaction.

The Group will provide a detailed update on its strategy and set medium-term financial targets at a Capital Markets Day to be held on 6th June 2018, at its Gennevilliers site, in the Paris area.

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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).

About Thales

The people we all rely on to 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 depth of space and cyberspace, we help our customers think smarter and act faster - mastering ever greater complexity and every decisive moment along the way. With 65,000 employees in 56 countries, Thales reported 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, which feature in the consolidated financial statements.

"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.

Operating segments

Aerospace	Avionics, Space
Transport	Ground Transportation Systems
Defence & Security	Secure Communications and Information Systems, Land & Air Systems, Defence Mission Systems

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 amortisation of intangible assets acquired (purchase price allocation – PPA) recorded as part of business combinations. From 1 January 2016, it also excludes the other expenses recorded in income from operations that are directly related to business combinations, which are unusual by nature.

  This definition drives the definition of other operating indicator on the adjusted P&L:

  - **Adjusted gross margin** corresponds to the difference between sales and the cost of sales, less expenses recorded in cost of sales that are directly related to business combinations, which are unusual by nature.
  - **Adjusted indirect costs** correspond to the indirect costs on the consolidated profit and loss account (research and development expenses, marketing and selling expenses, general and administrative expenses), less expenses recorded as part of these expenses and 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:
  - amortisation of acquired intangible assets (PPA) recorded as part of business combinations;
  - expenses recognised in income from operations, 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 (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).
- **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.

Readers are reminded that only the consolidated financial statements at 31 December were audited by the statutory auditors, including the calculation of EBIT, which is described in Note 2 “Segment Information” to the consolidated financial statements, and free operating cash flow, which is described and computed in Note 6.4. 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 2017 and 31 December 2016 is shown in the tables on pages 15 and 16. Calculation of free operating cash flow is outlined on page 17.

Calculation of EBIT and adjusted net income – 2017

(in € millions)	2017 consolidated profit and loss account	Adjustments: Amortisation of intangible assets (PPA), related charges*	Adjustments: Gains (losses) on disposals and other	Adjustments: Change in fair value of foreign exchange derivatives	Adjustments: Actuarial differences on long-term employee benefits	2017 adjusted P&L
Sales	**15,795**					**15,795**
Cost of sales	(11,951)	1				(11,951)
Research and development expenses	(802)	5				(797)
Marketing and selling expenses	(1,041)	5				(1,036)
General and administrative expenses	(550)	7				(542)
Restructuring costs	(81)					(81)
Amortisation of acquisition-related intangible assets (PPA)	(113)	113				0
Income from operations	**1,258**					**N/A**
Impairment of non-current assets**	0					0
Disposal of assets, changes in scope and other	(82)		82			0
Share in net income of equity affiliates	135	19				154
EBIT	**N/A**					**1,543**
Impairment of non-current assets**	0					0
Cost of net debt	5					5
Other financial income and expenses	(99)			70		(29)
Finance costs on pensions and other long-term employee benefits	(66)				3	(63)
Income tax	(264)	(85)	(29)	(24)	(1)	(403)
Net income	**887**	**65**	**53**	**46**	**2**	**1,052**
Non-controlling interests	(65)	(5)		(1)		(71)
Net income, Group share	**822**	**60**	**53**	**46**	**2**	**982**
Average number of shares (thousands)	*211,661*					*211,661*
Net income, Group share, per share (in €)	**3.88**					**4.64**

(*) Including expenses related to acquisitions recorded in income from operations. See definitions of EBIT and adjusted net income on page 13.
(**) Included in "Share in net income of equity-accounted companies" in the consolidated income statement and in "Net income" in the adjusted income statement.

Calculation of EBIT and adjusted net income – 2016

(in € millions)	2016 consolidated profit and loss account	Adjustments				2016 adjusted P&L
		Amortisation of intangible assets (PPA), related charges*	Gains (losses) on disposals and other	Change in fair value of foreign exchange derivatives	Actuarial differences on long-term employee benefits	
Sales	**14,885**					**14,885**
Cost of sales	(11,277)	1				(11,276)
Research and development expenses	(736)	6				(731)
Marketing and selling expenses	(1,023)	6				(1,017)
General and administrative expenses	(544)	7				(537)
Restructuring costs	(101)					(101)
Amortisation of acquisition-related intangible assets (PPA)	(107)	107				0
Income from operations	**1,097**					**N/A**
Impairment of non-current assets**	0					0
Disposal of assets, changes in scope and other	205		(205)			0
Share in net income of equity affiliates	120	11				131
EBIT	**N/A**					**1,354**
Impairment of non-current assets**	0					0
Cost of net debt	6					6
Other financial income and expenses	(81)			70		(10)
Finance costs on pensions and other long-term employee benefits	(78)				12	(66)
Income tax	(256)	(58)	28	(24)	(4)	(314)
Net income	**1,015**	**79**	**(177)**	**46**	**8**	**970**
Non-controlling interests	(68)	(4)		(1)		(74)
Net income, Group share	**946**	**75**	**(177)**	**45**	**8**	**897**
Average number of shares (thousands)	*210,872*					*210,872*
Net income, Group share, per share (in €)	**4.49**					**4.25**

(*) Including expenses related to acquisitions recorded in income from operations. See definitions of EBIT and adjusted net income on page 13.
(**) Included in "Share in net income of equity-accounted companies" in the consolidated income statement and in "Net income" in the adjusted income statement.

Calculation of free operating cash flow

(in € millions)	2017	2016	Change
Operating cash flow before working capital changes, interest and tax	**1,776**	**1,698**	**+78**
Change in working capital and reserves for contingencies	223	(63)	+286
Pension expense, excluding contributions related to the reduction of the UK pension deficit	(121)	(102)	-19
Net interest (paid)/received	8	(8)	+16
Income tax paid	(91)	(99)	+9
Net cash flow from operating activities, excluding contributions related to the reduction of the UK pension deficit	**1,796**	**1,426**	**+369**
Net operating investments	(431)	(472)	+41
Free operating cash flow	**1,365**	**954**	**+411**
Net (acquisitions)/disposals	(80)	(94)	+15
Contributions related to the reduction of the UK pension deficit	(82)	(88)	+6
Dividends paid	(349)	(297)	-52
Changes in exchange rates and other	(248)	(87)	-162
Change in net cash	**606**	**388**	**+218**

Order intake by destination – 2017

(in € millions)	2017	2016	Total change	Organic change	2017 weighting in %
France	4,503	3,509	+28%	+29%	30%
United Kingdom	1,153	1,003	+15%	+21%	8%
Rest of Europe	2,919	3,646	-20%	-20%	20%
Sub-total Europe	**8,574**	**8,159**	**+5%**	**+6%**	**57%**
United States and Canada	1,579	1,216	+30%	+31%	11%
Australia and New Zealand	671	764	-12%	-12%	4%
Total mature markets	**10,824**	**10,138**	**+7%**	**+7%**	**73%**
Asia	2,097	3,708	-43%	-43%	14%
Middle East[1]	1,206	1,674	-28%	-27%	8%
Rest of the world[1]	792	994	-20%	-18%	5%
Total emerging markets	**4,095**	**6,376**	**-36%**	**-35%**	**27%**
Total all markets	**14,920**	**16,514**	**-10%**	**-9%**	**100%**

Sales by destination – 2017

(in € millions)	2017	2016	Total change	Organic change	2017 weighting in %
France	3,840	3,581	+7.2%	+7.6%	24%
United Kingdom	1,352	1,272	+6.3%	+11.6%	9%
Rest of Europe	3,387	3,227	+5.0%	+4.8%	21%
Sub-total Europe	**8,579**	**8,080**	**+6.2%**	**+7.1%**	**54%**
United States and Canada	1,460	1,556	-6.2%	-5.4%	9%
Australia and New Zealand	875	759	+15.2%	+15.0%	6%
Total mature markets	**10,913**	**10,395**	**+5.0%**	**+5.8%**	**69%**
Asia	2,219	2,048	+8.3%	+9.7%	14%
Middle East[1]	1,641	1,515	+8.4%	+9.6%	10%
Rest of the world[1]	1,022	927	+10.2%	+12.8%	6%
Total emerging markets	**4,882**	**4,490**	**+8.7%**	**+10.3%**	**31%**
Total all markets	**15,795**	**14,885**	**+6.1%**	**+7.2%**	**100%**

[1] The 2016 figures have been adjusted to reflect the transfer of certain countries out of the "Middle East" region and into the "Rest of the world" region within the Group's organisation. The emerging markets total remains unchanged.

Order intake and sales – Q4 2017

(in € millions)	Q4 2017	Q4 2016	Total change	Organic change
Order intake				
Aerospace	2,151	2,137	+1%	+2%
Transport	804	817	-2%	+0%
Defence & Security	3,117	3,315	-6%	-5%
Total – operating segments	**6,072**	**6,270**	**-3%**	**-2%**
Other	14	28		
Total	**6,086**	**6,298**	**-3%**	**-2%**
Sales				
Aerospace	1,917	1,914	+0.2%	+1.7%
Transport	701	557	+25.9%	+28.2%
Defence & Security	2,820	2,363	+19.4%	+22.1%
Total – operating segments	**5,438**	**4,833**	**+12.5%**	**+14.7%**
Other	21	18		
Total	**5,460**	**4,852**	**+12.5%**	**+14.8%**

Organic change in sales by quarter

(in € millions)	2016 Sales	Impact of exchange rates	Impact of disposals	2017 Sales	Impact of acquisitions	Total change	Organic change
First quarter	2,732	10	0	3,058	15	+11.9%	+11.0%
Second quarter	4,113	(25)	11	4,183	3	+1.7%	+2.5%
H1	**6,846**	**(16)**	**11**	**7,241**	**19**	**+5.8%**	**+5.9%**
Third quarter	3,187	(45)	4	3,095	7	-2.9%	-1.6%
Fourth quarter	4,852	(84)	23	5,460	14	+12.5%	+14.8%
Second half	**8,039**	**(129)**	**27**	**8,554**	**21**	**+6.4%**	**+8.2%**
Full year	**14,885**	**(145)**	**38**	**15,795**	**40**	**+6.1%**	**+7.2%**

Restated key 2017 figures

2017 *In € millions, except earnings per share (in €)*	Restated for IFRS 15	Reported	Difference €m	Difference %
Order intake	**14,931**	14,920	+12	+0%
Order book at end of period	**32,064**	31,914	+150	+0%
Sales	**15,228**	15,795	(568)	-4%
Adjusted gross margin[1]	**3,711**	3,845	(133)	-3%
in % of sales	*24.4%*	*24.3%*		*+0.0 pt*
Adjusted indirect costs[1]	**(2,404)**	(2,375)	(29)	+1%
Restructuring costs	**(81)**	(81)	-	+0%
Share in net income of equity affiliates	**139**	154	(15)	-10%
EBIT[1]	**1,365**	1,543	(177)	-11%
in % of sales	*9.0%*	*9.8%*		*-0.8 pt*
Adjusted net income, Group share[1]	**840**	982	(142)	-14%
Adjusted net income, Group share, per share[1]	**3.97**	4.64	(0.67)	-14%
Consolidated net income, Group share	**680**	822	(142)	-17%

Restated 2017 sales and EBIT by operating segment

2017	Restated for IFRS 15			Reported			Difference		
(in € millions)	Sales	EBIT	EBIT margin	Sales	EBIT	EBIT margin	Sales	EBIT	EBIT margin
Aerospace	5,747	567	9.9%	5,985	602	10.0%	-4%	-6%	-0.1 pt
Transport	1,723	57	3.3%	1,761	72	4.1%	-2%	-21%	-0.8 pt
Defence & Security	7,690	757	9.8%	7,983	869	10.9%	-4%	-13%	-1.1 pt
Total – operating segments	**15,160**	**1,380**	**9.1%**	**15,729**	**1,542**	**9.8%**	**-4%**	**-10%**	**-0.7 pt**
Other	67	-15		66	1				-
Total	**15,228**	**1,365**	**9.0%**	**15,795**	**1,543**	**9.8%**	**-4%**	**-11%**	**-0.8 pt**

[1] Non-GAAP measures, see definitions page 13.

Notice to U.S. holders of Gemalto Shares

The Offer will be made for the securities of Gemalto, a public limited liability company incorporated under Dutch Law, and is subject to Dutch disclosure and procedural requirements, which are different from those of the United States of America. The Offer will be made in the United States of America in compliance with Section 14(e) of the U.S. Securities Exchange Act of 1934, as amended (the "U.S. Exchange Act"), and the applicable rules and regulations promulgated thereunder, including Regulation 14E (subject to any exemptions or relief therefrom, if applicable) and otherwise in accordance with the requirements of Dutch law. Accordingly, the Offer will be subject to disclosure and other procedural requirements, including with respect to the Offer timetable, settlement procedures, withdrawal, waiver of conditions and timing of payments that are different from those applicable under U.S. domestic tender offer procedures and laws.

The receipt of cash pursuant to the Offer by a U.S. holder of Gemalto Shares may be a taxable transaction for U.S. federal income tax purposes and under applicable state and local, as well as foreign and other tax laws. Each holder of Gemalto shares is urged to consult his independent professional advisor immediately regarding the tax consequences of accepting the Offer.

To the extent permissible under applicable laws and regulations, including Rule 14e-5 under the U.S. Exchange Act, and in accordance with normal Dutch practice, Thales and its affiliates or its broker and its broker's affiliates (acting as agents or on behalf of Thales or its affiliates, as applicable) may from time to time after the date of the joint press release by Thales and Gemalto dated 17 December 2017, and other than pursuant to the Offer, directly or indirectly purchase, or arrange to purchase Shares or any securities that are convertible into, exchangeable for or exercisable for such Shares. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices. In no event will any such purchases be made for a price per Share that is greater than the Offer Price. To the extent information about such purchases or arrangements to purchase is made public in The Netherlands, such information will be disclosed by means of a press release or other means reasonably calculated to inform U.S. shareholders of Gemalto of such information. No purchases will be made outside of the Offer in the United States of America by or on behalf of the Thales or its affiliates. In addition, the financial advisors to Thales may also engage in ordinary course trading activities in securities of Gemalto, which may include purchases or arrangements to purchase such securities. To the extent required in The Netherlands, any information about such purchases will be announced by press release in accordance with Section 5 paragraph 4 or Section 13 of the Dutch decree on public takeover bids (*Besluit openbare biedingen Wft*) and posted on the website of the Offeror at www.thalesgroup.com .

Restrictions

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Forward-looking statements

This press release may include '"forward-looking statements" and language indicating trends, such as the words "anticipate", "expect", “approximate”, “believe”, “could”, “should”, “will”, “intend”, “may”, “potential” and other similar expressions. These forward-looking statements are only based upon currently available information and speak only as of the date of this press release. Such forward-looking statements are based upon management’s current expectations and are subject to a significant business, economic and competitive risks, uncertainties and contingencies, many of which are unknown and many of which Thales and Gemalto are unable to predict or control. Such factors may cause Thales and/or Gemalto’s actual results, performance or plans with respect to the transaction between Thales and Gemalto to differ materially from any future results, performance or plans expressed or implied by such forward-looking statements. Neither Thales nor Gemalto, nor any of their advisors accepts any responsibility for any financial information contained in this press release relating to the business or operations or results or financial condition of the other or their respective groups. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Additional information and where to find it

This press release does not constitute or form a part of any offer to sell or exchange or the solicitation of an offer to buy or exchange any securities.

SHAREHOLDERS OF GEMALTO AND OTHER INVESTORS ARE URGED TO READ THE OFFER MEMORANDUM (INCLUDING ANY AMENDMENTS OR SUPPLEMENTS THERETO) REGARDING THE PROPOSED TRANSACTION WHEN THEY BECOME AVAILABLE BECAUSE THIS WILL CONTAIN IMPORTANT INFORMATION.

Gemalto shareholders will be able to obtain a free copy of the offer memorandum, as well as other filings containing information about Thales, without charge, at the website of Thales (www.thalesgroup.com). Copies of the offer memorandum and the filings that will be incorporated by reference therein can also be obtained, without charge, by directing a request to Thales’s Investor Relations Department.