



Registration document **2010**

Financial information
Business review
Shareholder information



The registration document was filed with the French Financial Markets Authority (Autorité des Marchés Financiers, or AMF) on 5 April 2011, in accordance with Article 212-13 of the AMF General Regulations. It may only be used in support of a financial transaction if accompanied by a prospectus authorised by the AMF. It was drawn up by the issuer and its signatories accept liability.

The English language version of this report is a free translation from the original, which was prepared and filed with the AMF in French language. All possible care has been taken to ensure that the translation is an accurate presentation of the original. However, in all matters of interpretation, views or opinion expressed in the original language version of the document in French take precedence over the translation.

In accordance with Article 28 of Commission Regulation (EC) No 809/2004, the following information is incorporated by reference in this registration document:

- the consolidated financial statements and corresponding audit reports found on pages 24 to 80 of the 2008 registration document filed with the AMF on 8 April 2009;
- the Group's financial information, key figures and management report, found, respectively, on pages 7 and 10 to 23 of the 2008 registration document filed with the AMF on 8 April 2009;
- the consolidated financial statements and corresponding audit reports found on pages 30 to 89 of the 2009 registration document filed with the AMF on 26 March 2010;
- the Group's financial information, key figures and management report, found, respectively, on pages 7 and 10 to 29 of the 2009 registration document filed with the AMF on 26 March 2010.

The sections of these documents which are not included either do not apply to investors, or are covered elsewhere in this registration document.

» 2010 REGISTRATION DOCUMENT

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» PERSON RESPONSIBLE

► DECLARATION FROM THE PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

I certify, after having taken all reasonable measures to this effect, that, to the best of my knowledge, the information contained in this registration document is accurate and does not omit any material fact.

I certify, to the best of my knowledge, that the statutory and consolidated financial statements have been prepared in accordance with applicable accounting standards and give a fair view of the assets, liabilities, financial position and results of the company and of all the entities taken as a whole included in the consolidation, and that the management report included on page 6 of this document presents a fair view of the development and performance of the business and financial position of the company and of all the entities taken as a whole included in the consolidation, as well as a description of the main risks and uncertainties to which they are exposed.

I have received a letter from the statutory auditors confirming that they have completed the work they undertook to audit the information related to the financial situation and the financial statements included in this document, as well as a review of this document in its entirety.

The historic financial information presented in this document has been audited by independent auditors who have issued specific reports. These reports, on the consolidated financial statements for 2010 appearing on pages 91 to 92 of the document, the consolidated financial statements for 2008 and 2009 included by reference, and the annual parent company accounts for 2010 appearing on pages 133 to 134 of the document, have been issued without reservation and contain certain observations.

Neuilly-sur-Seine, 4 April 2011

Luc Vigneron

Chairman and Chief Executive Officer

» OVERVIEW OF THE GROUP

Thales provides integrated solutions and equipment to meet the security requirements of its government and private-sector customers in the aeronautics, space, transport, defence and security markets.

Globalisation and growing urbanisation are driving an increase in the speed and extent of the mobility of people, goods, services and data. Yet this more open world is also more vulnerable. Increasingly interlinked, companies are today more exposed to the risk of failure of major critical infrastructure such as transport networks and information systems. They are also exposed to new threats such as trafficking, terrorism, asymmetric warfare and cybercrime.

Thales draws on its recognised expertise in information systems and electronics to meet the rising demand for security from governments, infrastructure operators and citizens.

Thales is particularly renowned for its technology portfolio, its capability in complex system design and integration, spanning the entire value chain to meet customer needs whether in project management, systems integration, the supply of high added value equipment or service provision.

Thales seeks to form lasting relationships with its customers, maintaining a local presence and building the trust required for complex, long-term projects.

The solutions offered by Thales meet the three key security requirements of its customers:

- **defending and protecting countries and their people.** Thales provides military forces and civil defence organisations with communications, command, force protection and threat detection capabilities. The company also designs and delivers combat systems for all types of air, land and naval platforms.
- **surveillance and monitoring to prevent security breaches against countries and their people.** Thales provides governments with the systems and equipment they need to maintain surveillance,

gather intelligence and control the flow of people, goods and data (Earth observation from space, internet surveillance, intelligence, airspace control and population movement control).

- **making critical infrastructure more reliable and secure and protecting countries and people.** Thales is a major player in transport safety and a global actor in both rail transport security and civil air traffic control. The Group also provides security solutions for interbank transactions, enterprise and government information systems, energy networks and sensitive sites.

The dual civil/military nature of these technologies and applications is central to the Thales strategy and is reflected in its **balanced business portfolio**, divided between Defence and Security (around 55%) and Aerospace and Transport (around 45%), which gives Thales control over crucial technology for the 21st century: large-scale software systems, onboard electronics, secure communications and transactions, sensor technology (radar, sonar, optical), supervision (civil and military command and control systems) and space technologies.

Thales is thus able to leverage the synergies between military and civil applications and technologies, drawing on cross-functional R&D capability with the critical mass to develop and maintain core competencies. The Group's technology platform, which spans all Thales divisions, is continually enhanced by the work of the Group's 22,500 engineers and technical staff. Thales's tradition of technological excellence gained further recognition with the award of the 2007 Nobel Prize in Physics to Albert Fert, scientific director of a joint research unit operated by Thales and France's national research institute CNRS.

Thales benefits from a balanced customer base between Europe (approx 60% of revenues) and the rest of the world (approx 40%). The Group has commercial and industrial premises in all five continents, enabling it to maintain close relations with its domestic customers in all countries in which the Group is present.

» HISTORY

- 1893 Compagnie Française Thomson-Houston (CFTH) established to exploit the patents of the US company Thomson-Houston Electric Corp. in France, in the field of power generation and transport.
- 1918 Compagnie Générale de Télégraphie Sans Fil (CSF), a pioneer in broadcasting, electro-acoustics and radar technology, set up in France.
- 1968 CSF and the professional electronics businesses of Thomson-Brandt merge to form Thomson-CSF.
- 1982 Thomson-CSF nationalised.
- 1983 Civil telecommunications businesses sold to Compagnie Générale d'Électricité (now Alcatel-Lucent).
- 1987 Medical imaging business (CGR) sold to General Electric; semiconductor business merged with those of the Italian company SGS (IRI group) to form SGS-Thomson.
- 1989 Thomson-CSF acquires the defence electronics businesses of the Philips group.
- 1997 Interest in SGS-Thomson (now STMicroelectronics) divested.
- 1998 Thomson-CSF privatised; Alcatel and Groupe Industriel Marcel Dassault (GIMD) contribute assets and become shareholders. Satellite businesses of Alcatel, Aerospatiale and Thomson-CSF merge to form Alcatel Space, jointly owned by Thomson-CSF (49%) and Alcatel (51%).
- 1999 Thomson-CSF acquires 100% control of Sextant Avionique, the avionics joint venture between Thomson-CSF and Aerospatiale (now EADS).
- 2000 Thomson-CSF completes takeover of Racal Electronics in the United Kingdom.
Thomson-CSF changes its name to Thales.
Thales and Raytheon form joint venture ThalesRaytheonSystems in air defence.
- 2001 Thales sells its stake in Alcatel Space, then mainly serving the market for civil telecommunications satellites.
- 2007 Thales acquires the transport, security and space businesses of Alcatel-Lucent and sells the French naval surface business to DCNS, at the same time acquiring a 25% stake in DCNS from the French government.
- 2009 Acquisition by Dassault Aviation of Thales shares held by Alcatel-Lucent and GIMD. Dassault Aviation becomes a shareholder of Thales, with a 26% stake in the company.

» KEY FIGURES

<i>(in € million)</i>	2010 ^(a)	2009 ^(a)	2008 ^(a)
Order book at year-end	25,418	24,731	22,938
Order intake	13,081	13,927	14,298
Revenues ^(b)	13,125	12,881	12,665
<i>France</i>	2,931	3,019	3,165
<i>United Kingdom</i>	1,500	1,467	1,556
<i>Other Europe</i>	3,419	3,464	3,302
<i>Outside Europe</i>	5,275	4,931	4,642
EBIT	(92)	151	877
Net income, Group share	(45)	(128)	650
Operating cash flow	331	485	1,135
Capital expenditure (including capitalised R&D)	(309)	(413)	(523)
Net financial investments	91	(152)	(119)
Company-funded R&D (including capitalised R&D)	(655)	(664)	(569)
Net cash position (net debt)	191	(91)	(456)
Equity, Group share	3,672	3,744	3,949
Consolidated workforce at year-end	63,734	64,285	63,248

(a) Before "Purchase Price Allocation" (PPA) (see box on p. 6).

(b) Revenues by destination

► FINANCIAL INFORMATION 2010

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► 1. GROUP MANAGEMENT REPORT

» ACCOUNTING INFORMATION: APPLICABLE NEW STANDARDS AND INTERPRETATIONS

The accounting standards used to prepare the Group's consolidated financial statements are conform to IFRS (International Financial Reporting Standards) as adopted by the European Union on 31 December 2010. These accounting standards are consistent with those used to prepare the consolidated annual financial statements for the year ended 31 December 2009, save for the adoption of new standards and interpretations, namely: Revised IFRS 3 ("Business

Combinations") and revised IAS 27 ("Consolidated and Separate Financial Statements"). The Group has also decided on the early adoption of the revised IAS 24 ("Related Party Disclosures"). The impact of these new standards and interpretations is described in Notes 1 and 11b of the "Accounting standards" section in the notes to the consolidated financial statements.

A. REPORT ON OPERATIONS AND CONSOLIDATED RESULTS

With a healthy order book, Thales has remained resilient at a time of increasing pressure on European defence budgets. Civil aviation made a gradual recovery during the year, while the space business was particularly dynamic, with several major orders confirmed. However, results for the period were impacted by significant additional charges and provisions on contracts, particularly in the Aerospace & Transport sector (see section on "Results").

The elements led the Group to continue its plans to boost competitiveness by implementing the Probasis performance plan, and by its commercial positioning in growth markets outside Europe.

■ KEY FIGURES AT 31 DECEMBER 2010

(in € million)

	2010	2009	Total change	Organic change
Order intake	13,081	13,927	-6%	-9%
Order book	25,418	24,731	+3%	+0%
Revenues	13,125	12,881	+2%	-1%
EBIT	(92)	151		
as a % of revenues	-0.7%	1.2%		
Net income, Group share	(45)	(128)		
Net cash flow (net debt)	191	(91)		

In order to monitor and compare performance, the Group's consolidated income statement has been restated to include purchase price allocation (PPA) recognised on significant business combinations. These mainly relate to the acquisition of the space, transportation and security businesses of Alcatel-Lucent in 2007 and the 25% equity interest in DCNS.

Unless otherwise indicated, all figures in this report are before adjustment for PPA. In 2010, this had a -€82m impact on income from operations (after restructuring) and a -€62m impact on net income. Taking into account these adjustments, income from operations (after restructuring) was -€173m, compared with €52m at end-2009, while reported net income, Group share, was -€108m at end-2010, compared with -€202m at end-2009.

★ Order intake

New orders booked in the 2010 financial year amounted to €13,081m, down 6% (-9% in organic terms) from the very high level of 2009 (Tranche 4 of the Rafale programme and national stimulus plan in France). The expected pressure on defence budgets in Europe was partially offset by strong orders in the space segment, and confirmation of the gradual recovery in the civil aviation market. The book-to-bill ratio stood at 1.00 at 31 December 2010. Exchange rate fluctuations had a positive impact of €361m, of which €125m was due to fluctuations in the Australian dollar rate.

The order intake includes eight contracts worth in excess of €100m. These large orders include the Iridium and O3b satellite constellations, France's CSO military programme, the Gokturk military observation satellite, a logistics support contract for the Watchkeeper UAV programme in the United Kingdom, the deployment of a major secure communications network for NATO, and an order for in-flight entertainment systems for Qatar Airways. Orders worth less than €100m, which were the most affected by the economic environment in 2009, recorded an upturn in 2010.

At 31 December 2010, the consolidated order book stood at €25,418m – a slight increase compared with 31 December 2009 – and continues to represent approximately 23 months of revenues.

■ ORDER INTAKE BY BUSINESS

Order intake (in € million)	2010	2009	Total change	Organic change	Book- to-bill
Defence & Security	6,173	8,372	-26%	-28%	0.8
Aerospace & Transport	6,845	5,439	+26%	+23%	1.2
<i>Other and divested businesses</i>	<i>63</i>	<i>116</i>	<i>-46%</i>	<i>-48%</i>	<i>0.9</i>
Order intake	13,081	13,927	-6%	-9%	1.0

Defence & Security order intake stood at €6,173m, down 26% (-28% in organic terms) compared with the previous year. Overall, after the very strong order intake in 2009 (partly as a result of the national stimulus plan in France), the expected cuts in defence spending were confirmed in 2010. The reduction in order intake was particularly pronounced in Defence Mission Systems, which had won the Rafale Tranche 4 contract in the fourth quarter of 2009. Order intake in Air Operations also fell significantly, in spite of orders in air traffic control (mainly in Asia and Europe), the success of the GM400 radar in Germany, and the continuation of the SCCOA programme in France. Despite a major order for a secure communications network for NATO, orders for C4I Systems were also substantially down from the high levels of the previous year (during which export contracts were signed in security and radio communications). However, there have been signs of a recovery in the critical information systems business. The downturn in order intake was somewhat less marked in the Land Defence business, thanks to the signing of a number of armaments and optonics contracts.

Order intake for the **Aerospace & Transport** business segment amounted to €6,845m, an increase of 26% (23% in organic terms) compared with 2009, with a book-to-bill ratio of 1.2. This strong growth was driven by exceptional performance in the space segment, where order intake was double the level posted in the previous year, resulting in a book-to-bill ratio of 2.2 for this business. In addition to the €1.1 billion¹ contract with Iridium in the United States for an 81-satellite constellation, order intake in 2010 included the O3b constellation, observation satellites for France (CSO) and Turkey (Gokturk), and several telecommunications satellites (Yamal Gazprom, Apstar and Eutelsat). Avionics also posted a sharp increase in order intake on the back of strong momentum in in-flight entertainment (with orders to supply IFE equipment for Qatar Airways B787s and Saudi Arabian Airlines B777s), as well as growth in orders for commercial flight simulators and tubes and medical imaging systems. However, Transport Systems orders were markedly lower than in 2009, when major orders were booked (notably in Saudi Arabia), in spite of winning contracts for the upgrade of the Flushing line on the New York subway and the extension of the Manchester Metrolink public transport system.

■ ORDER INTAKE BY GEOGRAPHICAL AREA OF ORIGIN

Order intake (in € million)	2010	2009	Total change	Organic change	Book- to-bill
Area A	3,637	3,797	-4%	-12%	0.8
Area B	2,561	3,019	-15%	-17%	0.9
France	6,880	7,105	-3%	-3%	1.1
<i>Other and divested businesses</i>	<i>3</i>	<i>6</i>	<i>-48%</i>	<i>+23%</i>	<i>0.8</i>
Order intake	13,081	13,927	-6%	-9%	1.0

In **Area A**², order intake stood at €3,637m in 2010, down 4% (-12% in organic terms) compared with the previous year. The fall in orders was most significant in the United Kingdom, where contracts awarded in 2010 (the Watchkeeper UAV support contract, the Manchester Metrolink, and follow-on orders for the aircraft carrier programme) only partly compensated for the high level of orders booked in 2009.

However, the United States posted a significant increase in order intake, with the signing of in-flight entertainment contracts as well as the New York subway upgrade referred to above. Order intake in the Netherlands also rose sharply (after a disappointing year in 2009), thanks to several naval support contracts and a major contract with Dutch railways.

¹ At 67%, corresponding to Thales's interest in Thales Alenia Space

² USA, Canada, United Kingdom, Netherlands, Norway, South Korea, Australia, Central and Northern Europe, North Asia

Order intake in **Area B**¹, stood at €2,561m, a decrease of 15% (-17% in organic terms) compared with the previous year. The downturn was particularly marked in Saudi Arabia, where several major orders for Transportation Systems had been booked in 2009. Order intake in Spain was down slightly on the previous year, when major contracts were signed for high-speed rail lines. By contrast, Germany posted a rise in order intake thanks to the civil aviation business and export contracts for air traffic control systems. New orders booked in Italy also increased, driven by space business and a follow-on order for the Dubai metro.

Order intake for Group companies based in **France** came to €6,880m (-3% against 2009). This slight drop in orders masks the significant disparity between the various segments: although growth in civil orders was strong (particularly in the space segment, but also in tubes

and imaging systems, as well as in critical information systems), defence businesses on the whole posted a significantly lower total order intake compared with the exceptionally high level of 2009 (with the exception of Air Systems, where orders remained stable).

* Revenues

Consolidated revenues amounted to €13,125m at 31 December 2010, compared with €12,881m at 31 December 2009, an increase of 2% (-1% in organic terms). Exchange rate fluctuations impacted revenues by +€384m, almost entirely as a result of the conversion into euros of the revenues of subsidiaries based outside the euro zone. The main factors were the strengthening of the Australian dollar (+€136m), the US dollar (+€74m) and sterling (+€66m) against the euro. Changes in the scope of consolidation² impacted revenues by +€26m.

■ REVENUES BY BUSINESS

Revenues (in € million)	2010	2009	Total change	Organic change
Defence & Security	7,515	7,492	+0%	-3%
Aerospace & Transport	5,539	5,317	+4%	+1%
<i>Other and divested businesses</i>	<i>71</i>	<i>72</i>	<i>-2%</i>	<i>-1%</i>
Revenues	13,125	12,881	+2%	-1%

Revenues from the **Defence & Security** business segment was stable at €7,515m, compared with €7,492m in 2009 (-3% in organic terms). Defence Mission Systems revenues fell slightly, mainly due to lower billings in electronic warfare and on the Watchkeeper programme, and despite steady progress in naval sales (sonar systems in France and the USA, Colombian frigates upgrade). Revenues from Land Defence was also down, particularly in optronics. Revenues from C4I Systems remained stable overall, in spite of lower business volumes in tactical radios in the United States, while Air Operations revenues grew during 2010, reflecting the major orders booked in 2009 (GM400 radars, LOC1 replication).

Revenues from the **Aerospace & Transport** segment grew to €5,539m, an increase of 4% (1% in organic terms) over 2009. Revenues from the space business rose very slightly, as did revenues from Transportation Systems, mainly due to higher billings on the rail contracts booked in 2009 in Saudi Arabia. There was a more significant rise in Avionics revenues, driven by an increase in billings for in-flight entertainment systems which offset lower sales for regional aircraft and for Airbus (with lower volumes and less favourable pricing), while revenues from support markets remained stable overall. Finally, a significant increase in revenues from tubes and imaging systems, reflecting the upturn in orders in these short-cycle activities, contributed to revenues growth in Avionics.

¹ Germany, Austria, Switzerland, Italy, Spain, Singapore, Latin America, Rest of Europe, Middle East & Africa, Western Asia, South Asia

² In particular, consolidation from 1 July 2009 of CMT Medical Technologies and from 1 January 2010 of Pons and 50% of Sapura Thales Electronics.

■ REVENUES BY GEOGRAPHICAL AREA OF ORIGIN

Revenues (in € million)	2010	2009	Total change	Organic change
Area A	4,370	4,135	+6%	-2%
Area B	2,764	2,590	+7%	+5%
France	5,987	6,150	-3%	-3%
<i>Other and divested businesses</i>	<i>4</i>	<i>6</i>	<i>-40%</i>	<i>+27%</i>
Revenues	13,125	12,881	+2%	-1%

In **Area A**, revenues amounted to €4,370m, up 6% (-2% in organic terms) compared with the previous year. Growth was particularly strong in the United States and the Netherlands. Growth in the United States was driven by in-flight entertainment and defence radar systems, which offset the fall in tactical radio business. The Netherlands recorded a strong increase in revenues as a result of more business on naval contracts, particularly with Morocco and Denmark. In the United Kingdom, however, revenues dropped as a result of lower billings on the Watchkeeper contract. Revenues in Australia also fell due to lower Bushmaster revenues.

In **Area B**, revenues amounted to €2,764m, up 7% (5% in organic terms) in comparison with 2009. This improvement was driven by Italy, Saudi Arabia and to a lesser extent Germany. Revenues grew in Italy due to aerospace activities (Cygnus contracts for the International Space Station) and billings on the Dubai metro programme. In Saudi Arabia, the increase in revenues reflects billings on the transport contracts signed last year, which compensate for a drop in revenues from defence operations. The slight increase in revenues in Germany comes primarily from transport and tubes and imaging systems. These positive changes compensate for a downturn in business in Spain, where defence and security revenues has declined.

In **France**, revenues decreased by 3% to €5,987m. There has been a sharper decline in the revenues of companies specialised in airborne equipment and optronics, whereas the large Tranche 4 Rafale order recorded at the end of 2009 is yet to generate revenues. Space revenues was practically unchanged, with the continuation of the Globalstar constellation project and the start of the Iridium project. By contrast, solid revenues growth was recorded by French units active in sonar (with projects in France and the United States), surface radar (NATO projects, in Finland and Asia), military simulation, and tubes and imaging systems.

★ Results

1. EBIT

EBIT, at -€92m, represents -0.7% of revenues, compared with €151m (1.2% of revenues) in the previous year. This was largely as a result of additional charges and provisions on the contracts and activities mentioned below, which totalled €721m.

For the ticketing contract in Denmark, an amendment was signed at the end of December 2010 confirming the terms of the contract until completion. For the Meltem (maritime patrol aircraft in Turkey) and A400M contracts, discussions were still ongoing at year-end, with a view to reaching a final agreement on these two contracts with, respectively, the Turkish Ministry of Defence and Airbus. The timetable and technical operating specifications have been finalised for both contracts. These recent developments, which greatly improve visibility in terms of contractual performance, have resolved the major operational uncertainties and enabled estimates to be made of their cost at completion and associated risks.

In addition, major milestones have been reached in current Avionics developments. Priority has been given to satisfying operational commitments towards our clients, which has required the mobilisation of significant resources and impacted results. Thales also strengthened the project management capabilities of its French subsidiary Thales Security Solutions & Services, which is facing significant risks on certain complex contracts. Finally, difficulties for Thales Australia on an air traffic control contract also impacted results.

Against this backdrop and following an in-depth review, the Group has decided to revise its assessment of the most probable scenarios on these pre-2009 programmes, taking a more cautious approach than that hitherto envisaged. The scenarios used factor in the

consequences of any potential cost variances, considered likely given the past experience with the contractual, commercial and technical aspects of these projects. Furthermore, no additional unconfirmed

resource has been taken into account for these contracts, with regard to any ongoing dispute or negotiations, particularly for the A400M contract.

a. EBIT BY BUSINESS

EBIT (in € million)	2010	2009	Total change	Organic change
Defence & Security	153	329	-54%	-56%
<i>as a % of revenues</i>	<i>2.0%</i>	<i>4.4%</i>		
Aerospace & Transport	(221)	(105)		
<i>as a % of revenues</i>	<i>-4.0%</i>	<i>-2.0%</i>		
<i>Other and divested businesses</i>	<i>(24)</i>	<i>(73)</i>		
EBIT	(92)	151		
<i>as a % of revenues</i>	<i>-0.7%</i>	<i>1.2%</i>		

Defence & Security recorded EBIT of €153m, which represents a 54% drop (-56% in organic terms) and corresponds to 2% of revenues. This deterioration is due to a mixed performance across the various defence and security segments. The profitability of C4I Systems, which fell sharply in 2010, was affected by civil contracts for which additional resources had to be mobilised. Results for the Air Operations business also fell significantly, largely due to charges recorded on the Lorads III air traffic control contract in Singapore and high R&D costs resulting from the renewal of the range of radar systems. Land Defence came in significantly lower due to the reduction in volumes in the missiles and optronics businesses and an unfavourable contract mix in weapon systems. However, despite additional provisions for the Meltem programme, the results of the Defence Missions Systems business improved as a result of a favourable contract mix in electronic combat and underwater warfare systems.

In the **Aerospace & Transport** segment, EBIT remained negative at -€221m (-4% of revenues), compared with a loss of -€105m in 2009. Despite the upturn in tubes and imaging systems and improved margins on in-flight entertainment systems, the performance of the Avionics business has deteriorated and is still well into the red, primarily as a result of additional expenses for the A400M contract and the mobilisation of significant resources to meet customer milestones in developments currently under way. The performance of the Transportation Systems business, still affected by charges booked on the Danish ticketing programme, worsened as a result of a less favourable contract mix and an increase in restructuring costs. Finally, EBIT for the space business remained stable overall.

b. EBIT BY GEOGRAPHICAL AREA OF ORIGIN

EBIT (in € million)	2010	2009	Total change	Organic change
Area A	92	192	-52%	-57%
<i>as a % of revenues</i>	2.1%	4.6%		
Area B	111	228	-51%	-54%
<i>as a % of revenues</i>	4.0%	8.8%		
France	(291)	(216)		
<i>as a % of revenues</i>	-4.9%	-3.5%		
<i>Other and divested businesses</i>	(3)	(53)		
EBIT	(92)	151		
<i>as a % of revenues</i>	-0.7%	1.2%		

EBIT for **Area A** fell 52% to €92m (2.1% of revenues) primarily due to a decline in performance in the United Kingdom and Australia. In the United Kingdom, the fall in revenues, an increase in R&D spending and the deterioration of margins in commercial operations weighed on results. Lower results in Australia were caused primarily by difficulties on the air traffic control contract mentioned earlier and higher R&D spending in Land Defence. The United States, however, performed well, largely as a result of higher sales of in-flight entertainment systems. The Netherlands also achieved solid results in the naval sector, while Canada reported an improvement in contractual performance.

Area B recorded EBIT of €111m (4% of revenues), a decrease of 51% (-54% in organic terms) compared with 2009. The solid performance in Italy only partly offset the lower profitability in Spain (with lower revenues and higher restructuring costs), Germany (with a less favourable product mix in signalling systems and an increase in restructuring costs), and Saudi Arabia (where difficulties linked to the development of the civil security business impacted results).

France recorded EBIT of -€291m (-4.9% of revenues), compared with -€216m in 2009. This was caused by significant provisions booked at Thales Avionics (A400M), Thales Security Solutions & Services (Denmark's ticketing programme and others) and Thales Systèmes Aéroportés (Meltem). A less favourable contract mix in the Air Operations business also weighed on results in France.

c. COMPONENTS OF EBIT

The significant negative variances recorded for the period led to a further deterioration in **gross margin** which was only 16%, compared with 17.6% in 2009.

Self-financed R&D totalled €655m (compared with €664m in 2009), of which €43m was capitalised in accordance with IAS 38 (compared with €113m in 2009). The fall in capitalised amount is due to the adoption by the Group of a more restrictive capitalisation policy for R&D expenses, and particularly an increase in the internal rate of return required and stricter requirements in terms of the experience curve required to assess project feasibility.

Strict cost control and measures taken in connection with the Probasis performance plan delivered a reduction in **fixed and administrative costs**, which amounted to €530m compared with €543m in 2009.

Finally, **restructuring costs** amounted to €130m, or 1% of revenues, compared with €116m (0.9%) in 2009.

After taking into account the purchase price allocation (PPA), which amounted to €82m compared with €99m in 2009, reported EBIT is -€173m, compared to €52m in 2009.

2. OTHER RESULTS

Operating income includes a €35m charge for the award handed down on 3 May 2010 in the Taiwan arbitration case, as well as a capital gain of €33m on the sale of the 20% stake held by Thales in Camelot Group plc, operator of the UK national lottery.

Net financial expense, at -€73m, has decreased significantly compared with 2009 (-€111m), mainly as a result of improvements in exchange rate in a market that remains highly volatile. **Other components of pension expense** remained unchanged at -€105m compared with -€105m in 2009. **Income from equity-accounted companies** rose €63m, compared with €56m in 2009, due to the solid performance of DCNS.

¹ Gross margin = revenues – cost of sales

3. NET INCOME

The 2010 financial year closed with a **net loss, Group share**, of -€45m (compared with -€128m in 2009), after tax income of €193m as compared with €142m in 2009.

* Financial situation at 31 December 2010

Strict control of costs and working capital requirements led to the generation of a free operating cash flow¹ of €271m, compared to €800m the previous year, the exceptionally high figure for 2009 being due to payments received in advance from certain government customers.

■ SUMMARY STATEMENT OF CASH FLOW

<i>(in millions of euros)</i>	2010	2009
Operating cash flow	331	485
Change in WCR and contingency reserves	462	925
Payment of pension benefits and scheme settlements	(106)	(99)
Income tax paid	(107)	(98)
Net operating cash flow	580	1,213
Net operating investments	(309)	(413)
<i>of which capitalised R&D</i>	<i>(43)</i>	<i>(113)</i>
Free operating cash flow	271	800
Net (acquisitions)/disposals	87	(148)
Pension deficit payments in the UK	(57)	(58)
Dividends	(98)	(205)
Net cash flow	203	389

Operating cash flow was down at €331m, compared with €485m in 2009. The decrease in investments was mainly due to lower capitalisation of R&D expenses and partially offset the change in working capital requirement (after provisions), which was less favourable than in 2009. After taking into account a positive balance of acquisitions and disposals, mainly linked to the sale of Thales's stake in Camelot (compared with the €130m earn-out payment made in 2009 to Alcatel Lucent on space businesses acquired in 2007), net cash flow totalled €203m, after €57m was paid to finance the pension deficit in the UK.

The Group thus ended the year with net cash flow of €191m, compared with net debt of -€91m at end-December 2009. Group equity stood at €3.672m, compared with €3.744m at end-2009. Thales has committed and unused bank credit facilities totalling €1,500m, not due to expire until late 2015 and not subject to any early repayment clauses based on rating or financial covenants.

* Proposed dividend

The Board of Directors has decided to recommend to shareholders, at the General Meeting on 18 May 2011, the payment of a dividend of €[0.50] per share. If approved, the ex-dividend date will be 26 May 2011. Shareholders will be able to opt for payment of dividends either in cash or shares.

¹ Operating cash flow + changes in working capital requirement (WCR) and reserves for contingencies - payment of pension benefits (excluding deficit payments on pension in the United Kingdom) - tax - net operating investments.

★ Views for 2011 and 2012

For 2011, the business environment look set to remain marked by pressures on defence budgets in Europe. By contrast, the Group should start to benefit more from the gradual upturn in the civil aviation market, while the positive momentum in the space and transport segments is expected to continue.

Therefore, Thales expects revenues to increase slightly, thanks to the Aerospace & Transport segment, and annual orders to be roughly equal to revenues, by leveraging the Group's presence in emerging countries.

As the financial uncertainties surrounding complex contracts are resolved and the Probasis performance plan is successfully implemented, Thales is increasingly confident that its operational profitability will quickly improve. The Group has set an objective of an EBIT margin of 5% in 2011, rising to 6% in 2012.

B. PROBASIS PERFORMANCE PLAN

The **Probasis** performance plan, launched in February 2010, is designed to generate the savings necessary for the implementation of a profitable growth strategy for Thales by delivering, by 2014, an operating profit consistent with that of comparable major companies in Europe.

The Group operates in a fast-changing environment and faces increasingly tough competition and significant budgetary constraints in its core markets. Thales must also continue targeting the expansion of its international footprint.

Probasis is designed to allow Thales to reset its cost base, with a view to offering its customers the most competitive, cutting-edge solutions at all times.

To achieve this, action has been taken throughout the Group in three major areas:

- **Reduction in "non-quality" costs.** These correspond to the gap between objective costs and the costs actually incurred on programmes. By leveraging best practice in this area to improve

programme and engineering management, the Group has set itself the target of reducing these "non-quality" costs by €400m.

- **Improvement in industrial efficiency.** Thales is aiming to generate €650m in savings by optimising its product policy, rationalising its suppliers, resorting more frequently to the "design-to-cost" approach or purchasing the components of a solution rather than creating them in-house.
- **Optimisation of overhead costs** across all Group support functions. The targeted savings for this item are €250m, with a focus on several areas:
 - introducing shared services wherever economically viable;
 - fostering synergies between support functions;
 - rationalising the real estate portfolio.

Probasis represents a package of measures under a single umbrella to boost performance by driving organisational and process improvement. Overall, the productivity gain targeted by Probasis is **€1.3bn** by 2014.

C. RISK FACTORS

Thales is exposed to a number of risks and uncertainties that could have a significant impact on its business, financial position or results. The risks described below are not the only ones that Thales faces. Other risks of which Thales is not currently aware, or which are not believed to be significant at this time, could also have an unfavourable impact on its business, profitability or financial position.

Generally, Thales may be faced with a number of financial, legal, operational and strategic risks.

1. FINANCIAL RISKS

1.1. LIQUIDITY

Thales's liquidity risk corresponds to its level of exposure to changes in the main market indicators which could lead to an increase in the cost of borrowing, or even a temporary restriction on access to external sources of finance.

Thales manages this risk by anticipating its liquidity requirements and by maintaining committed, undrawn credit facilities granted by banks as backup for its commercial paper programme and acting as a financing reserve.

This risk is hedged by Thales's short- and long-term financial resources listed below:

- shareholders' equity, listed by heading in Note 20 to the consolidated financial statements;
- gross debt, listed by maturity in Note 24 to the consolidated financial statements;

Cash and cash equivalents at year-end are held either in bank deposits or invested in very short-term bank certificates of deposit with first-tier banks or money market UCITS. At the date of publication, Thales's debt was rated as follows by the rating agencies:

	Moody's	Standard & Poor's
Medium and long-term loans	A2	BBB+
Outlook	Outlook stable	Outlook stable
Commercial paper and short-term loans	Prime-1	A2

In June 2010, Thales's rating was downgraded from A1 to A2 by Moody's and from A- to BBB+ by Standard & Poor's.

This did not result in the activation of covenants contained in financing agreements. The clause providing for accelerated repayment of committed credit facilities would only take effect in the event that the French state no longer held its golden share and, simultaneously, the

- committed, undrawn credit facilities granted by banks as backup for the commercial paper programme and acting as a financing reserve. These are described in more detail in Note 24 to the consolidated financial statements.

This principle of centralising the short-term surpluses and requirements of units (cash pooling) is applied to units in the same currency zone – euro zone (with separate cash pooling for French units), sterling zone, dollar zone and Australian dollar zone, etc. – and, in some cases, in the same country.

Through the consolidation and centralisation of cash requirements and surpluses of its units, Thales is in a position to:

- simplify cash management and reconcile individual positions of units to produce a single consolidated position, and
- gain access to financial markets through the parent company's financing programmes, rated by Standard & Poor's and Moody's (see below).

At 31 December 2010, cash recorded under consolidated assets amounted to €2.751m (compared with €1.960m at end-2009), including:

- €1.952m held by the parent company and available for immediate use;
- €450m in the form of credit bank balances of subsidiaries, most of them outside France. This figure includes, *inter alia*, payments received in the last few days of the financial year and subsequently transferred to the corporate treasury account;
- €349m in cash invested directly by joint ventures (prorated by Thales's interest in each joint venture), since cash pooling is not applicable to joint ventures.

ratio of consolidated net financial debt to EBITDA (earnings before interest, taxes, depreciation and amortisation) were to exceed 3. Conversely an upgrade would result in an improvement in the applicable margin.

1.2. INTEREST RATES

Thales is exposed to interest rate volatility and in particular its impact on the terms of its variable-rate borrowings. To limit this risk, Thales operates an active policy of interest rate hedging.

The Corporate Financing & Treasury department consolidates data on Thales's exposure to interest rate risk and uses the appropriate financial instruments to hedge those risks.

Thales has an active policy to control interest rate and counterparty risks and to optimise the terms of its borrowing and banking operations.

The breakdown of Thales's debt by type of interest rate is described in Note 24 to the consolidated financial statements. The table below summarises the Group's exposure to interest rate risk before and after hedging.

Based on Thales's average net debt, after hedging, a 1% rise in interest rates would reduce financial expense by €1.5m.

(in € million)	Due in 1 year		Due in 1 to 5 years		Beyond 5 years		Total	
	fixed	variable	fixed	variable	fixed	variable	fixed	variable
Financial liabilities	(832.6)	(385.4)	(747.4)	(32.6)	(629.6)	(28.5)	(2,209.6)	(466.5)
Financial assets		2,847.2					0.0	2,847.2
Net position before management	(832.6)	2,461.8	(747.4)	(32.6)	(629.6)	(28.5)	(2,209.6)	2,400.7
Off-balance-sheet	571.3	(571.3)	182.8	(182.8)	383.5	(383.5)	1,137.6	(1,137.6)
Net position after management	(261.3)	1,890.4	(564.6)	(215.4)	(246.1)	(412.0)	(1,072.0)	1,263.0

1.3. FOREIGN EXCHANGE

Due to the global nature of its business, Thales is exposed to the risk of exchange rate fluctuations.

1.3.1. BUSINESS-RELATED CURRENCY RISK

Business-related currency risk occurs when some of the business is billed in a currency other than that of the related costs.

a. As a general rule, Thales is structurally immune to exchange rate fluctuations for a significant part of its business activity. Almost half of Thales's revenues are generated in the euro zone, which is also where most of its industrial operations are located. In addition, Thales's international development policy, both in Europe and in other parts of the world (United States, Australia, South Korea, etc.) allows the company to manufacture and invoice in local currency, thereby eliminating exchange rate risk on local sales.

b. The accounts of Thales subsidiaries located in countries where the official currency is not the euro are translated into euros in the Group's consolidated accounts. A fall in these currencies against the euro is likely to have a negative impact on the accounts. Its impact on profitability is limited, however, since the cost base of these subsidiaries is essentially in the same currency as their revenues.

c. For some of Thales's business activities (civil avionics, tubes, civil space), the US dollar is the standard transaction currency. For business activities outside the dollar zone (in-flight entertainment business is based essentially in the United States and is therefore largely immune to this risk), a specific currency risk hedging policy is implemented.

- For equipment transactions (avionics, tubes), this policy is defined on the basis of sales forecasts in USD, after accounting for corresponding purchases in USD. For these transactions, net exposure to dollar risk represents around 4% of the Group's total revenues for 2010.

- For longer-term programmes in markets traditionally denominated in USD (primarily in civil space and simulators), each bid or proposal is examined for profitability, including the effect of currency fluctuations, after accounting for corresponding purchases in USD, and, if necessary, is hedged either through market transactions (forward exchange contracts and options), or by reinsurance with private insurance companies such as Coface.

Where necessary, a similar approach is adopted for other Thales activities if a customer specifically requires a contract denominated in USD.

Overall, net exposure represented around 3% of the Group's total revenues for 2010. In future years, the rollout of the Iridium contract will increase the portion of revenues earned in USD.

- As well as this direct dollar risk, which concerned around 7% in total of consolidated revenues at end-2010, Thales is also exposed to an "indirect" dollar risk on contracts denominated in currencies other than the dollar. This occurs when it is bidding against companies that benefit from a cost base in dollars. Analysis by product lines and geographic areas shows that an estimated 15% to 20% of total revenues may be exposed to this "indirect" dollar risk.

Dollar risk is thus the main currency risk that Thales needs to hedge. The figures corresponding to the hedging of business-related dollar risk are as follows:

- US\$3.837m of financial instruments to hedge net firm commitments (USD risk against EUR, CAD and GBP) at 31 December 2010, compared with US\$2.140m at 31 December 2009. The Iridium contract is the main reason for this increase;
- US\$192m of financial instruments to hedge bids at 31 December 2010, compared with US\$299m at 31 December 2009.

Operating receivables and payables denominated in foreign currency are exchange-rate hedged and therefore not exposed to currency risk.

The change in value of financial instruments (forward transactions) used as cash flow hedges is recognised in shareholders' equity. The contango/backwardation component is not eligible for hedge accounting and is recognised in profit and loss. In 2010, the change in market value of the contango/backwardation was €14m. A 5% fall (rise) in the dollar against EUR, GBP and CAD would increase (decrease) shareholders' equity by around €135m at 31 December 2010, compared with €70m at 31 December 2009.

The change in value of financial instruments matched with portfolios of sales offers which are not eligible for hedge accounting is recognised in profit and loss. A 5% fall (rise) in the dollar against EUR, GBP and CAD would increase (decrease) net income by around €2m at 31 December 2010, unchanged from 31 December 2009.

Foreign currency-denominated financial debt does not generate any exposure in profit and loss, as it is either denominated in the functional currency of the entity in which it is recognised, or is used as a net foreign investment hedge.

1.3.2. MANAGEMENT OF RISKS FOR ASSETS HELD IN FOREIGN CURRENCY

Thales hedges a limited part of its foreign currency-denominated assets, mainly those likely to be disposed of at a future date. The main criteria for determining whether or not a given foreign currency-denominated asset should be hedged are as follows:

- the nature of the business involved;
- the structure of Thales's commitment with respect to jointly-held companies, in particular the specific features of the shareholders' agreement in each joint venture.

In general, hedging is achieved by loans or currency swaps in the same currency as the assets to be hedged. The actual application of this policy, however, also depends on:

- the objective of optimising hedges in the light of market conditions (availability of foreign currency, interest rates, hedging rate, etc.);
- the risks inherent in the future value of the assets being hedged and the nature of the business of the corresponding subsidiaries.

■ SUMMARY OF RISKS RELATED TO ASSETS AT 31 DECEMBER 2010

(in € million)	GBP	USD	AUD
Assets	2,008.8	1,074.6	724.4
Liabilities	1,177.7	471.4	429.2
Net position before management	831.1	603.2	295.2
Off-balance sheet position	(38.2)		
Net position after management	792.9	603.2	295.2

1.4. EQUITIES

Thales is not exposed to any significant equity risk at end-2010.

1.5. OFF-BALANCE-SHEET COMMITMENTS AND CONTINGENCIES

1.5.1. PENSION COMMITMENTS

Defined-benefit pension plans are in place for certain Thales employees, mainly in the United Kingdom and the Netherlands, and are externally funded by the company under the provisions of the applicable national legislation.

At 31 December 2010, Thales's commitments in the United Kingdom and the Netherlands toward current employees (access to these plans has been closed to new employees in the UK), former employees and retired employees amounted to €3.162m for both countries, hedged by €2.785m in investments, representing an unfunded status of €377m. At 31 December 2010, these investments consisted of:

- 42% in equities;
- 41% in fixed-rate bonds;
- 2% in real estate assets;
- 9% in inflation-indexed funds;
- 2% in cash;
- 4% in alternative investments.

Changing market parameters could affect the amount of the shortfall and the annual costs of defined-benefit plans. At 31 December 2010, the main risk variables were as follows, listed in order of importance:

- a reduction or increase in the discount rate applied to liabilities, which could increase or reduce the unfunded status; this variable is partly offset by changes in the value of fixed-rate bonds held as plan assets and interest rate swaps;
- changes in the total return on investments in equities and real estate;
- changes in the forecast inflation rate;
- a substantial change in mortality tables;
- exchange rate fluctuations (mainly sterling against the euro).

Thales has introduced quarterly reporting on its pension plan positions and makes regular deterministic and stochastic projections measuring the sensitivity of unfunded status to possible changes in market parameters and incorporating correlation factors. In countries like the UK and the Netherlands, Thales is committed to defined-benefit pension schemes, but plan assets are managed by trustees in accordance with the applicable regulations and in consultation with the Group. Plan assets are allocated with regard to the long-term nature of the commitments they cover.

1.5.2. PARENT COMPANY GUARANTEES

Thales, as the parent company, issues guarantees on commitments undertaken by its subsidiaries on commercial contracts. These guarantees are centralised by the Group Corporate Financing & Treasury department.

Guarantees are limited to a total of €3bn based on the authority granted each year to the Chairman and Chief Executive Officer by the Board of Directors. Prior to each renewal of the authority granted to the Chairman, the Chief Financial Officer reports to the Board of Directors on how this authority has been used, based on the monitoring carried out by the Group Corporate Financing & Treasury department.

At 31 December 2010, guarantees issued by the parent company in support of its subsidiaries stood at €9.354m. This figure includes all commitments given in relation to Thales Alenia Space (matched by a counter-guarantee from Finmeccanica in proportion to its 33% interest in Thales Alenia Space).

Thales manages risk connected to these parent company guarantees and optimises the financial conditions of the transactions guaranteed. The main objectives of this risk management policy are as follows:

- to limit risks to those corresponding to normal commitments on commercial contracts, particularly in terms of volume and duration;
- to limit the issue of guarantees to commitments made by wholly-owned subsidiaries, with guarantees on commitments by consortia or joint ventures only in proportion to Thales's interests in those consortia or joint ventures;
- to enable its subsidiaries to benefit, when appropriate, from the credit rating of the parent company by monitoring the financial terms of the transactions guaranteed.

1.6. CLIENT CREDIT

Credit risk relates to the risk that a party to a contract will default on its commitments or fail to pay what it owes.

1.6.1. RISK OF DEFAULT BY A PRIVATE CLIENT

Private-sector customers (aircraft manufacturers, airlines, civil infrastructure operators, industry) account for approximately 25% of Thales's revenues. These customers may encounter major and/or prolonged financial difficulties that could lead to payment defaults or order cancellations. Such occurrences could have a negative impact on Thales's revenues, profitability and financial position.

To mitigate these risks, Thales regularly analyses the ability of customers to meet their obligations. If necessary, Thales might ask for bank guarantees or corporate guarantees, or use credit insurers.

1.6.2. CREDIT RISK OF A PUBLIC CLIENT

Government and institutional customers account for around 75% of Thales's revenues. Some of the countries that Thales deals with could represent a significant credit risk, potentially resulting in the cancellation of an order in the course of production or the inability to make payment on delivery. To limit its exposure to these risks, Thales arranges insurance with export credit agencies (such as Coface in France) and private insurers.

At 31 December 2010, only two customers represented more than €500m in revenues for Thales: the French government (approximately €2bn) and the British government (approximately €1bn). At that date, both states were rated AAA by Standard & Poor's.

2. LEGAL RISKS

2.1. COMPLIANCE WITH LAWS AND REGULATIONS

The Group operates its business in a strict and evolving complex legal and regulatory environment, both nationally and internationally.

The legal and regulatory framework in which Thales operates covers a broad range of areas, relating in particular to company law, financial market regulation, fiscal legislation, labour law, export control and measures to combat corruption and money laundering.

Thales is able to monitor developments within this legal and regulatory framework through its international network. The company is not always able to foresee them, however, and in this respect its business could be affected.

Despite the steps taken by Thales as a company to comply with all applicable legislation, risks still exist due to their inherent nature, the interpretative powers of regulatory agents and changes in legal/judicial precedent and sanctioning powers.

In most cases, regulators in conjunction with the judicial authorities have the right to initiate legal proceedings, which could lead to civil, administrative or even criminal rulings. Such a ruling could, if applicable, involve a temporary ban on trading, which would in turn have an adverse impact on Thales's profitability and financial position.

To manage this complexity, Thales has set up a Risks & Internal Control Committee, which uses legal and regulatory risk-mapping to evaluate and monitor the implementation and continuous improvement of compliance plans at each unit. Actions to ensure compliance are supported by networks of compliance officers, which include specialists in such areas as export control, as well as a dedicated organisation for issues connected with international trade (see below).

The Risks & Internal Control Committee assists with regular compliance audits conducted by the Internal Audit Department, and follows up on the results of the audits.

Regular reports are submitted to the Audit and Accounts Committee of the Thales Board of Directors, which in turn may issue compliance audit directives applicable to the entire Group.

2.1.1. MANAGEMENT OF ITS BUSINESSES

Due to its presence in 50 countries and the diversity of its markets and business segments, Thales is subject to numerous national and international laws and regulations governing its commercial activities (UN and OECD Conventions and national implementation laws, Foreign Corrupt Practices Act in the United States, etc.).

Infringement of these laws could have serious legal consequences for the individuals or entities concerned. It could also have a significant impact on the image and reputation of the Group as a whole.

In response to the regulatory requirements in terms of prevention of corruption and business ethics in general, Thales has for a number of years operated a strict international compliance and integrity programme.

Its implementation is based on a coherent set of directives enshrined in the Thales reference system, relying on dedicated organisations and independent means of control.

Business risks are described in all governance processes. From the preliminary phase of a project, these operating processes envisage action plans to mitigate business risks, focusing particularly on the prevention of corruption.

Thales maintains strict control over the use of advisors or consultants based on a detailed procedure, which includes comprehensive due diligence (and risk assessment) as well as appropriate representations and commitments from such advisors or service providers. This procedure, conceived by the Group's Ethics and Corporate Social Responsibility department, was significantly improved in 2010.

In addition, alongside its strategy of increasing its international presence and having a solid "footing" in target countries, Thales has a new accreditation and selection procedure for local industrial partners. This procedure aims to foster long-term partnerships with local operators who meet Thales's integrity requirements, while making it more competitive in these markets.

A dedicated international organisation, separate from the commercial operating departments, is in charge of the necessary due diligence – accompanied by external studies and diagnostics – during the selection phase of commercial service providers and industrial partners mentioned above.

In addition, using detailed risk-mapping and rigorous internal control procedures, Thales's internal audit department regularly carries out compliance and integrity audits on all business risk management systems.

Thales is particularly keen to make its employees aware of business ethics as soon as they join the Group. Ownership and accountability are at the heart of the information and training model designed by the Ethics and Corporate Social Responsibility department. A broad array of tools (Code of Ethics, best practice guidelines, etc.) and training are available to staff throughout their professional life.

Thales also continues to disseminate and foster best practice among its suppliers and subcontractors, requiring them to subscribe to the terms of its Purchasing & Corporate Responsibility Charter. This initiative was commended by the United Nations in the latest UN Global Compact Annual Review. Thales formally renewed its commitment to the Global Compact in 2009.

Finally, Thales is closely involved in the relevant professional bodies at national level (MEDEF, GIFAS, ADS, etc.) and international level (ASD, ICC, etc.), as well as in various working groups of intergovernmental organisations (OECD, UN, etc.). The company actively contributes to various initiatives to tackle corruption, particularly through the global initiative in the aerospace and defence industries, which led to the creation of the Global Principles of Business Ethics.

2.1.2. CONTROL OF EXPORTS

Exports account for a significant proportion of Thales's business. Many of the company's products and systems are designed for military or dual-use applications. Consequently, the export of these products or systems to customers located outside Thales's domestic markets where they are manufactured, particularly in the defence sector, may be subject to limitations, export licences or specific export controls (imposed by the countries in which Thales operates, as well as by other countries where the suppliers of component products or technologies are based, most notably the United States).

There are no guarantees that (i) the export controls to which Thales is subject will not be tightened, (ii) new-generation products or systems developed by Thales will not be subject to similar or tighter control, and (iii) geopolitical factors will not make it impossible to obtain export licences for certain customers or make it more difficult for Thales to execute previously signed contracts. Further limitations on access to military markets would thus have a negative impact on Thales's business, profitability and financial position.

Thales has put in place systems and formal procedures to ensure compliance with applicable regulations and controls, and reinforces these measures through awareness-raising programmes with dedicated e-learning modules. In addition, operational units have access to a network of specialists within the Group, in charge of applying compliance rules determined at Group level as well as monitoring the necessary authorisations.

2.1.3. COMPETITION

Thales's business activities are subject to a wide range of national and international regulations mainly aimed at combating anti-competitive practices.

Infringement of these rules could lead to severe sanctions, such as fines, payment of damages, trading restrictions and legal bans. They could also have a serious impact on corporate image and reputation.

To avoid any such infringements, Thales has initiated an awareness-raising programme to ensure employees are properly informed about these rules, in particular through the rollout of a dedicated e-learning programme.

2.1.4. INTELLECTUAL PROPERTY

Thales is exposed to two main types of intellectual property risk: dependence on third-party technology, and third-party actions against the company for any perceived infringement of their intellectual property rights.

To reduce the risk of reliance on third-party technology, Thales has designed and implemented an ambitious policy to control business-critical technology and outsourcing. This policy is updated each year.

Given the nature of its activities and the specific features of its products, Thales conducts most of its research and development work in-house and owns the technology which is critical to the business. Thales's extensive intellectual property portfolio (over 11,000 patents, as well as software and know-how) and its presence throughout the value chain (equipment, systems, systems of systems) reduce its reliance on third-party technology. As a result, Thales's dependence on this technology can be considered very low.

To reduce the risk of third-party actions for alleged infringement of their intellectual property rights by Thales entities, the Group identifies and analyses this risk in the context of its own patent filing procedures and/or when embarking on technical research or product development.

In the event of a third-party infringement claim against a Thales company, the legal and technical analysis of the allegedly infringing products and intellectual property rights are handled centrally by Thales experts, with the assistance of specialist external consultants where needed.

2.2. LITIGATION

Due to the nature of its business, Thales is exposed to the risk of technical and commercial litigation.

To prevent disputes or limit their impact, the Group's policy is to increase recourse to alternative methods of dispute resolution. These recommendations are reviewed on a regular basis to take account of changes in the Group's business segments and are accompanied by training programmes.

In addition, for several years Thales has operated a procedure whereby all civil, commercial and criminal litigation and claims are handled centrally by the Group's Legal department, with the support of the Group companies concerned.

Thales is involved in a major litigation case at arbitration, described below:

The Chinese government went to arbitration over a dispute concerning the performance of an equipment supply contract signed in partnership with another manufacturer in 1991. The arbitration court issued its decision on 3 May 2010, upholding the claim for damages made by the Chinese government for the alleged infringement of contractual clauses governing the use of intermediaries.

Thales has been notified of the award handed down on 3 May, 2010, in the arbitration against the Republic of China. This award has been made as a result of an alleged breach of the terms pertaining to the use of intermediaries contained in a contract entered into in 1991.

The total amount of the award is set at US\$ 482 million and €82 million, bearing interest as from August 2001; as well as around €15 million, bearing interest from 3 May 2010, i.e. a total of around €630 million (including interest).

Thales disputes the very grounds of this decision. The company has filed petition for nullity before the Paris Court of Appeal.

Thales's share in this litigation represents 27.463% of the total, and corresponds to its industrial share in the supply contract. Taking into account the provisions previously booked, an additional provision of € 35 million (pre-tax) was booked in the company's accounts in 2010.

There are no other governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened to the Company's knowledge) which could have or which have had significant effects on the Company and/or the Group's financial position or profitability in the last 12 months.

3. RISKS RELATED TO THALES'S BUSINESSES

3.1. UNFAVOURABLE TRENDS IN THE CIVIL AVIATION MARKET

The commercial aviation market has proved to be inherently cyclical over recent decades. Demand for air travel seems to be closely linked to general economic trends, but is also affected by specific factors, such as the characteristics of aircraft fleets in service, regulatory changes (new environmental standards, deregulation, etc.) and the ability of airlines to access bank or market financing. In addition to its cyclical nature, the civil aviation market is also susceptible to the effects of an intensification (real or perceived) of terrorist activity, as well as the outbreak of conflict or epidemics.

Despite the early signs of a recovery that emerged in the second half of 2010, the economic environment is likely to remain troubled, particularly in North America and Europe. In order to remain profitable in a difficult market, airlines could cancel or postpone orders and aircraft manufacturers might have to downshift production. Similarly, this environment could lead airlines to reduce or delay investment in in-flight entertainment systems and flight simulators. Were they to materialise, these factors could have a negative impact on Thales's profitability and financial position.

To limit the impact of this risk, Thales is pursuing action on two fronts: (i) ongoing improvements to its competitive performance and industrial flexibility in order to better manage trading fluctuations during the cycle, and (ii) a comprehensive strategy seeking a balance within the business portfolio (with exposure to the civil aviation market reduced to around 12% of Group revenues).

3.2. DEPENDENCE ON GOVERNMENT ORDERS

Thales generates most of its business from governments, particularly in the defence markets in France and the UK, and, to a lesser extent, in the rest of Europe and North America. In these markets, public spending is dependent on political and economic factors and is therefore likely to fluctuate from one year to the next. A significant reduction over the next few years in French and/or UK defence budgets, particularly as part of a more restrictive budgetary policy, could adversely affect the Group's future business.

Thales bases its strategy on a balanced portfolio of defence operations (approximately 55% of revenues) and civil operations (approximately 45% of revenues). The overall solidity of the portfolio is underpinned by a diversified base of orders with a unit value of less than €100m. Finally, the broad geographic spread of Thales's business, particularly through its international operations, ensures further diversification of its customer base.

3.3. CONTROL OF PROJECTS AND PROGRAMMES

Many of Thales's products and systems are highly complex due to their advanced technology content, the rigorous constraints and harsh environments in which they operate (which require them to be extremely reliable), and the contractual arrangements surrounding their sale (comprehensive prime contractorships for large-scale systems, public-private partnerships and equivalent, etc.).

The actual cost of design, development and manufacture may therefore exceed initial cost estimates, which in turn may adversely impact Thales's results and financial position, especially considering that the associated contracts are generally based on a fixed, all-inclusive price. In addition, many contracts envisage stringent performance levels and/or tight delivery schedules for the products or systems sold. If Thales is unable to deliver these products or systems in line with the required level of performance and/or delivery schedule, customers may demand penalty payments or even decide to terminate the contract. These lines of action could have a considerable impact on Thales's results and financial position.

In 2010, Thales recognised significant charges linked to the difficulties of implementing several programmes launched prior to 2009 (e.g. A400M, Meltem maritime patrol aircraft, civil avionics, ticketing) and where the Group has decided to revise its assessment of the most probable scenarios on these pre-2009 programmes, taking a more cautious approach than that hitherto envisaged (see management report and Note 16 to the consolidated financial statements).

Bid and project management is therefore subject to a detailed risk management and assessment process, and Thales now ranks the various levels of criticality. Critical bids and projects are carefully monitored by senior management at the various operating entities, or by Group management in the most critical cases.

Contractual risk assessment is an integral part of the tendering process. Depending on the complexity of the bid, this procedure involves a number of steps which progressively reveal the estimated level of profitability and the associated risks to be assessed. Particular attention is paid to long-term sales contracts that include fixed prices valid for the entire duration of the agreement.

For certain contracts that run for several years and involve products and services with a high degree of complexity, regular reviews are organised in order to monitor the technical and financial status.

Given the difficulties encountered on several programmes, in 2010 Thales stepped up its action plans to drive improvements in bid and project management as well as in the engineering and supply chain. These actions aim in particular to:

- improve the management of commitments made, with widespread use of independent peer reviews, closer involvement of Purchasing, Production, Legal and Quality Control, and the introduction of a "Project Design Authority" responsible for developing the project solution (during the bid or project execution phase);
- implement tried-and-tested project management solutions and integrate the supply chain with project management processes. Measures include more systematic implementation of alert reviews at launch, metrics for the correct implementation of project management, engineering and purchasing procedures, and rapid deployment of project management software;

- introduce advanced training for project managers to obtain International Project Management Association (IPMA) certification.

3.4. POLITICAL RISKS

Thales generates a significant proportion of its revenues in emerging markets and countries that can be, or could become, politically or economically unstable. These markets might therefore present risks with the potential to affect the company's profitability and financial position.

In particular, a change in government, major political event, armed conflict, act of terrorism, sharp deterioration in the balance of payments, industrial action, strike or protest could lead to various types of risks. These include:

- more restrictive currency control, with limitations or exclusions on withdrawing currency from a country, preventing it from honouring its financial commitments towards Thales;
- expropriation (by confiscation, nationalisation, requisition, etc.) or forced sale of Thales's interest in a local company or, more broadly, discriminatory measures that compromise Thales's operations in that country;
- a security situation that makes it difficult or impossible for Thales to deliver on its contractual obligations, or that restricts or prohibits the use of its local industrial facilities;
- an unexpected breach of a contract or commitment;
- an unfair call on a bond or a guarantee;
- the non-certification of documents eligible for payment or the failure to make payments as and when due under a contract, preventing contract execution as anticipated.

To limit the financial impact of these risks, Thales uses government and/or private-sector insurers when necessary to provide appropriate cover. It may also transfer non-recourse receivables to financial institutions.

3.5. MANAGEMENT OF SUPPLIER RISK

As part of its critical systems integration strategy, Thales is increasingly relying on external purchases. These now represent almost half of its revenues and include manufacturing, services, systems and equipment. Thales is thus exposed to the risk of industrial, technical or financial failure of any of its suppliers, which in turn could affect the company's profitability and performance.

There are two major types of supplier risk:

- legal or regulatory non-compliance (e.g. ethics, export control, intellectual property, etc.); these risks are handled by the departments concerned using the Group Risk Management system, with the support of the Purchasing department;

- structural and operational risks that could disrupt supply are dealt with by the Purchasing department using the Group Risk Management system. The Purchasing department has identified two key triggers: supplier default and economic dependence. Although individual events might be considered to have a minor financial impact, they could potentially occur several times a year. The financial impact could become significant if several events are considered together, due to the domino effect and the large number of suppliers in Thales's supplier panel.

Management of the risks of supplier failure

Supplier failure could be caused by a major incident at one of its sites, by its external environment (shortage of raw materials or components, major political instability, etc.) or through mismanagement. The supplier's management performance is monitored both in operational terms (lack of procurement planning, failure to manage tier 2 suppliers, loss of control over industrial processes, plant obsolescence, etc.) and in cross-disciplinary and financial terms (poor talent management, loss of know-how, fall in revenues, mismanagement of working capital requirement, cash flow problems, administration or bankruptcy protection, etc.). A combination of problems could lead to the disappearance of a company or its takeover by investors with different interests to Thales.

Therefore, faced with this risk of a supply shortage, Thales seeks to implement a dual sourcing (or alternative-source) policy for each technology family, regularly updated and accompanied by buffer stocks that cover its requirements until contracts have been fulfilled.

In addition, taking into account the increased risk of fragility of certain suppliers in the current economic climate, Thales has introduced a special measure based on close cooperation between Purchasing and Finance aimed at identifying, from among its critical suppliers, those that would be particularly exposed financially and implement an appropriate action plan to ensure continuity of supply. Apart from individual monitoring, analysis is carried out by the technology field in conjunction with the professional bodies concerned to identify appropriate solutions.

Alongside these financial supervision measures, Purchasing and Quality Control have stepped up their appraisal, accreditation and management of supplier performance to better identify structural risks. Supplier performance audits are broad-based (quality control, industrial maturity, flow optimisation, compliance with environmental regulations, expertise in technical and technological processes, financial solidity, etc.) and therefore allow a complete risk analysis to be carried out. When executing a procurement contract, Thales closely monitors the implementation by the supplier of measures aimed at tackling the risks identified during the selection process.

Management of the risks of economic dependence

The economic dependence of small and medium-sized enterprises (SMEs) on Thales is considered a separate risk in its own right. It is particularly significant now that the economic crisis has disrupted the sales portfolios of a number of them, jeopardising the operating cycle with Thales and potentially leading to a supply shortage.

In order to mitigate this risk, the commitment rate (orders placed by Thales as a percentage of the supplier's total annual revenues) is monitored for each panel of suppliers by market segment (vertical approach) and for the main countries (France, UK, Netherlands, etc.). If the commitment rate exceeds 50% for more than two consecutive years, an action plan coordinated with prescriptors and internal users is drawn up and implemented in order to return to a commitment rate of around 25%.

The procurement policy, supplier selection and performance monitoring process, and supervisory and risk mitigation measures are all designed to reduce these risks, both during the bidding phase and during the preliminary project phase.

3.6 RISK RELATED TO FAILURE OF EQUIPMENT

Thales systems and equipment are highly complex and technical and are likely to be integrated within high-value civil or military platforms. A malfunction of any of these systems or equipment could result in claims or litigation. In addition, Thales could be held liable in the event of damage to property or personal injury. Were they to occur, such events would be liable to impact Thales's results and financial position. In order to limit this impact, Thales has introduced quality control procedures and is implementing a policy aimed at maintaining appropriate insurance cover (see section 6 below).

3.7 RISK RELATED TO RAW MATERIALS

Given the nature of its business, Thales uses few raw materials. Its exposure to raw materials risk is therefore negligible.

3.8 RISK RELATED TO LESSER IMPLEMENTATION OF THE PROBASIS PERFORMANCE PLAN

In late 2009, Thales announced the launch of a major performance plan called "Probasis". This comprehensive plan aims to boost the operating profitability of the company, significantly improving project execution and industrial output and substantially reducing fixed costs. The implementation of Probasis should enable Thales to generate €1.3bn in gross savings by 2014.

These savings targets are derived from consolidated estimates based on detailed plans drawn up by the Group's entities and central functions; the actual results may differ significantly from the targets. Specifically, the cost-cutting measures envisaged by Thales are based on economic and commercial assumptions adopted during the preparation of the Group's multi-year budget, and do not take into account any changes affecting Thales's operations or its markets, such as, without limitation, the development of new activities or unfavourable regulatory or legislative changes.

Furthermore, the future earnings and financial position of Thales could be impacted if the Probasis plan were not fully implemented or if the proposed measures failed to generate the expected savings according to the original timetable. The cost of implementing Probasis could also be higher than forecast, depending on the outcome of negotiations with employee representatives.

Thales is thus particularly focused on how Probasis is managed. A central team is in charge of overall management of the plan, supported by a network of correspondents across the Group. A steering committee on which members of the Group Executive Committee sit meets each month to review the progress of key initiatives. Savings forecasts for the year are regularly updated as part of the budgeting process.

3.9 HUMAN RESOURCES RISK

3.9.1 HEALTH AND SAFETY AT WORK

Through its Code of Ethics, applicable to all Thales employees, Thales is committed to providing its employees with a safe and healthy working environment, by implementing the statutory provisions in force, monitoring procedures, preventing health and professional risks and organising staff training. These principles have led to the implementation of concrete resources with a view to preventing discriminatory practices, psychological and sexual harassment and health risks (professional risks, psychosocial risks, etc.), as well as improving working conditions. The main risks likely to affect staff are monitored based on specific metrics.

In France, Thales signed in 2009 an agreement on "Quality of working life" with the majority of representative trade union organisations at Group level. The agreement proposes measures to ensure the health and safety of employees and defines a general safety framework. Under the agreement, the parties have also agreed to monitor and prevent psychosocial risks by implementing protective measures for employees and collective preventive measures. Special training sessions are also organised to raise awareness of these risks among managers.

Proof of the Group's continuing commitment to certification, 78 Thales entities (representing 45% of the workforce) has obtained OHSAS 18001 certification by the end of 2010.

3.9.2 THE GROUP'S ATTRACTIVENESS

Thales's revenues and operating profitability could be adversely affected if it were unable to recruit the necessary qualified personnel at the right time, and retain and motivate key talent to develop and carry on the business, while ensuring that the Group fostered the necessary expertise and continuity in project management.

Therefore, Thales has extended its search for new talent by deploying a proactive diversity policy, welcoming employees from a wide range of backgrounds in terms of training, previous experience and culture, and seeking to recruit more mixed teams (mainly through the diversity targets set in agreements signed by each company). Thales's appeal also stems from its employment policy, which encourages functional and geographical mobility.

Thales has introduced skills management based on the identification of know-how across 15 professional categories. A steering committee composed of operating managers and HR managers monitors the requirements for each category. This system helps to match the allocation of resources to requirements and recommends corrective measures where necessary, particularly in terms of recruitment plan, mobility and training. In addition, the Thales University updates its key courses each year in response to changes in skills requirements.

4. ENVIRONMENTAL RISKS

Due to the nature of Thales's activities, environmental risks are related to the potential adverse environmental and health effects of its activities, the impact of the environment on its operations, and non-compliance with new regulations applicable to activities and products.

For many years, Thales has conducted regular analysis and update of environmental risks in accordance with its business activities, scientific and technical developments and the broader environmental challenges.

This analysis is used to map risks linked primarily to regulatory non-compliance, pollution, asbestos, chemicals (ROHS, REACH, WEEE, etc.) and radiation. The aim of this analysis is to:

- ensure that employees and surrounding residents are not exposed to health and environmental risks;
- ensure the compliance of activities and products;
- analyse the impact of new regulations, including on product design;
- specify an appropriate organisation and associated action plans, either at Group level or locally, according to the risk mapping results.

In addition to this, an Environmental Management System has been deployed at all sites in order to ensure the control and limitation of the environmental impacts in accordance with Thales's commitments. By the end of 2010, over 110 sites had obtained ISO 14001 certification.

At 31 December 2010, the amount of reserves for environmental contingencies amounted to € 6.5 million.

5. RISKS RELATING TO STRATEGIC ACQUISITIONS AND INVESTMENTS

Thales regularly looks to acquire new companies (as well as making strategic investments and combining business activities through joint ventures, etc.) in order to round out its technological portfolio and strengthen its presence in certain markets. Integrating these businesses within Thales could prove more difficult and take longer than envisaged, requiring a more significant involvement by senior managers and the teams concerned and, in turn, negatively impacting the company's results and financial position.

In addition, there are no guarantees that the newly acquired companies will perform as well as expected in accordance with the initial business plans, which form the basis of the investment decision. This type of variance could lead to the recognition of impairment losses on goodwill and other intangible assets, thereby negatively impacting Thales's results and financial position.

Before any planned acquisitions, Thales conducts audits and due diligence with the assistance of external consultants where necessary, in order to analyse the fundamentals of the target company. A review is also conducted at each key stage in the acquisition process to confirm Thales's interest and specify the necessary conditions and parameters to ensure a successful outcome. The newly acquired company is then integrated into Thales's financial reporting system so that its performance can be monitored.

6. INSURANCE

Thales's Insurance and Risk Management department, based at head office, is responsible for the Group's insurance activities and insurable risk management. It is in charge of Group operations and oversees policy implementation by Thales companies.

Thales insures against the accidental risk of damage to property and civil liability by arranging the appropriate insurance with leading international insurers and reinsurers.

The insurance policies arranged by the Group to cover these major risks relate to areas such as:

- damage to property and consequential business interruption;
- transport;
- testing and development;
- aviation liability, including liability for aeronautical products, and hull/test flight insurance;
- civil liability for space products;
- risks of damage to naval vessels by subsidiaries, as naval equipment suppliers;
- general third-party liability;
- environmental liability;
- liability of executive officers and directors.

In 2010, Thales filed a claim for damage caused during testing of a telecommunications satellite prior to its launch.

Thales's policy is to arrange cover on the insurance market based on the rates and limits that it considers reasonable, in view of the conditions offered by the market. Limits are applicable to insurance for major risks and general exclusions for the entire market (e.g. asbestos) also apply to Thales.

The maximum cover for damage to property and consequential business interruption is set at €1.3bn in 2010. This amount corresponds to the maximum foreseeable loss that Thales might incur for direct damage and business interruption at an industrial site.

Levels of liability cover depend on the quantification of a reasonable claim expectancy for Thales, as identified when risk-mapping the core business activities across the Group, and on cover capacity available on the insurance market. Insurance cover for aviation liability is arranged separately and currently stands at US\$2bn.

The insurance industry, which was affected by the recent financial crisis, is still trying to reduce its overall risk exposure. We are witnessing an increase in insurance premiums, a rise in deductibles and additional limits on the scope of cover. In addition, there are fewer insurers with the necessary resources and financial capacity to insure major industrial risks. There are no guarantees that Thales will in future be able to maintain current levels of insurance under similar financial conditions.

In order to reduce its exposure to insurance market volatility, Thales insures major risks on a two-tier basis:

- the Group's contribution, through captive insurance and reinsurance companies, towards the settlement of claims, to a maximum net commitment of €13.5m, for damage to property and consequential business interruption, transport, general third-party liability, testing and development and space risks;
- transfer to insurers of payment for catastrophic losses.

A proactive safety and prevention policy at industrial sites aims to reduce the extent and frequency of accidental risks of fire or explosion, as well as identifying other potential weaknesses. In 2010, more than 80% of insured assets underwent a fire safety audit by an external body and by insurers during their visits to the main industrial sites.

In accordance with Group processes, measures were taken to minimise business interruption and the consequences of any unforeseen events. An organisational structure and crisis management tools are in place to deal as efficiently as possible with the immediate consequences of a catastrophic event and to take the necessary emergency measures.

Thales is seeking to emphasise professional indemnity cover for its staff. In addition, specific and/or local cover has been arranged to comply with the regulations in force and to satisfy the specific requirements of certain activities or projects, particularly public-private partnerships.

D. EVENTS SINCE YEAR-END

At the date of publication of this document, no event liable to modify Thales's financial position had occurred since year-end.

» NOTES TO THE MANAGEMENT REPORT

SUMMARY STATEMENT OF COMPANY SHARE TRANSACTIONS CARRIED OUT IN 2010 BY DIRECTORS, NON-VOTING DIRECTORS AND RELATED PERSONS

In accordance with Article 223-26 of the General Regulations of the French Financial Markets Authority (AMF)

Under article L. 621-18-2 a) of the French Monetary and Financial Code, members of the Board of Directors are subject to this disclosure requirement.

Pursuant to article L. 621-18-2 b) of the French Monetary and Financial Code, the Company has declared to the AMF that all members of the Executive Committee come under the category of non-voting directors in respect of obligations to declare share transactions.

Under article L. 621-18-2 c) of the French Monetary and Financial Code, related persons are persons who have close personal ties, as defined in a decree of the French Council of State, to the persons referred to in the aforementioned articles L. 621-18-2 a) and b).

To the best of the Company's knowledge, the following disclosures have been made to the AMF for publication on its website (<http://www.amf-france.org>):

Name/Title	Purchases/subscriptions ^(a)		Divestments ^(b)	
	Number of shares	euros	Number of shares	euros
L. VIGNERON/Chairman and Chief Executive Officer	5,535.00	148,790.25		
P. LEPINAY/Director representing employee shareholders	306.04	8,000.00		
P-E. POMMELLET/Member of the Executive Committee	1,958.04	102,800.00	1,958.04	118,820.00

(a) Share transactions carried out in 2010 include transactions carried out by related parties, where applicable.

► 2. CONSOLIDATED FINANCIAL STATEMENTS

A. CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€ million)	Notes	2010	2009
Revenues	note 5	13,124.8	12,881.5
Cost of sales		(11,028.6)	(10,633.4)
Research and development expenses		(612.3)	(550.5)
Marketing and selling expenses		(915.7)	(901.9)
General and administrative expenses		(529.7)	(543.4)
Restructuring costs	note 22	(130.1)	(116.1)
Amortisation of intangible assets recognised at fair value on business combination	note 12	(81.7)	(84.4)
Income from operations (EBIT)	note 5	(173.3)	51.8
Impairment of non-current operating assets	note 6	(9.8)	(260.1)
Gain (loss) on disposal of assets and other	note 7	(22.3)	(1.0)
Income from operating activities		(205.4)	(209.3)
Financial interest on gross debt		(81.3)	(91.6)
Financial income from cash at bank and equivalents		24.0	26.0
Cost of net financial debt	note 8	(57.3)	(65.6)
Other financial income (expense)	note 8	(15.3)	(44.9)
Other components of pension charge	note 21	(104.6)	(105.1)
Income tax	note 9	220.5	175.3
Share in net income (loss) of equity affiliates	note 13	54.5	48.0
NET INCOME (LOSS)		(107.6)	(201.6)
Attributable to:			
owners of the parent company		(107.6)	(201.8)
non-controlling interests		—	0.2
Basic earnings per share (in euros)	note 10	(0.55)	(1.03)
Diluted earnings per share (in euros)	note 10	(0.55)	(1.03)

B. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		2010		2009	
		Total attributable to:		Total attributable to:	
	Notes	Owners of the parent company	Non-controlling interests	Owners of the parent company	Non-controlling interests
<i>(€ million)</i>					
Net income (loss)		(107.6)	—	(201.8)	0.2
Cumulated translation adjustments	note 20-e	163.4	0.5	119.1	0.6
Net foreign investments' hedge	note 20-e	(1.2)	—	(3.8)	—
Deferred tax		0.4	—	1.3	—
		162.6	0.5	116.6	0.6
Cash flow hedge	note 20-d	(87.4)	—	70.8	—
Deferred tax		31.3	—	(19.4)	—
		(56.1)	—	51.4	—
Financial assets available for sale	note 20-d	(4.7)	—	1.5	—
Deferred tax		—	—	—	—
		(4.7)	—	1.5	—
Total other comprehensive income (loss), net of tax		101.8	0.5	169.5	0.6
Total comprehensive income (loss) for the period		(5.8)	0.5	(32.3)	0.8

C. CONSOLIDATED BALANCE SHEET

(€ million)	Notes	31/12/10	31/12/09
ASSETS			
Goodwill, net	note 11	3,044.9	2,986.9
Other intangible assets, net	note 12	832.9	925.3
Tangible assets, net	note 12	1,347.2	1,338.3
Total non-current operating assets		5,225.0	5,250.5
Share in net assets of equity affiliates	note 13	681.9	711.0
Available-for-sale investments	note 14	102.1	101.9
Loans and other financial assets	note 14	163.5	171.9
Total non-current financial assets		947.5	984.8
Fair value of derivatives: interest rate risk management	note 24	8.7	24.8
Pension and other employee benefits	note 21	79.6	66.0
Deferred tax assets	note 9	954.7	678.0
Non-current assets		7,215.5	7,004.1
Inventories and work in progress	note 15	2,301.9	2,210.8
Construction contracts: assets	note 16	2,057.7	2,243.2
Advances to suppliers		366.5	342.4
Accounts, notes and other current receivables	note 17	3,981.0	3,934.8
Fair value of derivatives: currency risk management		184.6	172.6
Total current operating assets		8,891.7	8,903.8
Current tax receivables		54.4	40.4
Fair value of derivatives: interest rate risk management	note 24	11.6	—
Current accounts with affiliated companies	notes 19 & 24	88.8	94.8
Marketable securities	note 24	7.9	4.4
Cash at bank and equivalents	note 24	2,750.5	1,960.1
Total current financial assets		2,847.2	2,059.3
Current assets		11,804.9	11,003.5
Total assets		19,020.4	18,007.6

(€ million)	Notes	31/12/10	31/12/09
EQUITY AND LIABILITIES			
Capital, paid-in surplus and other reserves		3,932.7	4,168.3
Cumulative translation adjustment		(120.6)	(283.2)
Treasury shares		(140.3)	(141.5)
Total attributable to owners of the parent company	note 20	3,671.8	3,743.6
Non-controlling interests		9.5	10.2
Total equity		3,681.3	3,753.8
Financial debt: long-term	note 24	1,434.1	1,651.6
Fair value of derivatives: financial debt management	note 24	12.7	—
Pension and other employee benefits	note 21	874.7	856.7
Deferred tax liabilities	note 9	194.9	258.6
Non-current liabilities		2,516.4	2,766.9
Advances received from customers on contracts		3,448.7	3,849.4
Refundable grants		173.3	172.8
Construction contracts: liabilities	note 16	1,365.7	882.7
Reserves for contingencies	note 22	1,458.3	1,129.8
Suppliers, notes and other current payables	note 17	4,956.6	4,736.0
Fair value of derivatives: currency risk management		152.9	100.7
Total current operating liabilities		11,555.5	10,871.4
Current tax payables		37.5	92.2
Financial debt: short-term	note 24	973.6	326.4
Current accounts with affiliated companies	notes 19 & 24	256.1	196.9
Total current financial liabilities		1,229.7	523.3
Current liabilities		12,822.7	11,486.9
TOTAL EQUITY AND LIABILITIES		19,020.4	18,007.6

D. CONSOLIDATED STATEMENT OF CASH FLOWS

(€ million)	Notes	2010	2009
Net income (loss)		(107.6)	(201.6)
Add (deduct):			
Income tax expense (gain)		(220.5)	(175.3)
Share in net (income) loss of equity affiliates (net of dividends received)		(28.9)	(21.5)
Depreciation and amortisation of tangible and intangible assets	note 12-b	444.6	420.8
Provisions for pensions and other employee benefits	note 21	167.4	162.6
Impairment of non-current operating assets	note 6	9.8	260.1
Loss (gain) on disposals of assets and other	note 7	22.3	1.0
Net allowances on restructuring provisions	note 22	22.0	12.1
Other items		22.3	26.6
Operating cash flows before working capital changes		331.4	484.8
Change in working capital requirements and in reserves for contingencies (a)		461.3	924.6
Payment of contributions/pensions benefits (defined benefit plans):	note 21	(163.2)	(156.2)
- deficit payment in the UK		(57.0)	(57.6)
- future service cash		(106.2)	(98.6)
Income tax (paid) received		(106.7)	(98.2)
Net cash flows from operating activities	- I -	522.8	1,155.0
Capital expenditure	note 26-a	(315.2)	(418.9)
Proceeds from disposal of tangible and intangible assets		6.4	5.8
Net operating investments		(308.8)	(413.1)
Acquisitions	note 26-b	(20.0)	(148.0)
Disposals	note 26-b	107.4	—
Change in loans		(5.0)	4.1
Change in current accounts with affiliated companies		11.2	(32.0)
Decrease (increase) in marketable securities		(2.9)	24.0
Net financial investment		90.7	(151.9)
Net cash flows from investing activities	- II -	(218.1)	(565.0)
Dividends paid		(97.7)	(204.7)
Increase (decrease) in equity	note 26-c	1.2	21.6
Increase in debt		778.6	1,125.2
Repayment of debt		(267.6)	(1,103.9)
Net cash flows from financing activities	- III -	414.5	(161.8)
Effect of exchange rate variations	- IV -	71.2	32.1
Total increase (decrease) in cash at bank and equivalents	- I+II+III+IV -	790.4	460.3
Cash at bank and equivalents at beginning of period		1,960.1	1,499.8
Cash at bank and equivalents at end of period ^(b)		2,750.5	1,960.1

(a) Including changes in proceeds from sale of government non-recourse receivables (€ +46.2 million in 2010 and € -50.1 million in 2009). The amount of transferred receivables, including notably mature receivables bearing interest on overdue payments, amounted to € 202.1 million at 31 December 2010 (€ 155.9 million at 31 December 2009 – see note 1-u).

(b) Bank overdrafts are presented in the cash flow from financing activities as they represent a financing resource for the entities concerned.

Financial interest paid was € 104.3 million in 2010 (€ 82.2 million in 2009). Financial interest received was € 37.2 million in 2010 (€ 32.5 million in 2009).

E. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Number of shares outstanding (thousands)	Share capital	Paid-in surplus	Retained earnings	Cash flow hedge	AFS invest- ments	Cumulative translation adjustment	Treasury shares	Total attrib. to owners of the parent company	Non controlling interests	Total
<i>(€ million)</i>											
At 1 January 2009	194,981	596.2	3,647.8	194.6	56.3	4.0	(399.8)	(150.2)	3,948.9	2.9	3,951.8
Net income (loss)	—	—	—	(201.8)	—	—	—	—	(201.8)	0.2	(201.6)
Other comprehensive income	—	—	—	—	51.4	1.5	116.6	—	169.5	0.6	170.1
Total comprehensive income (loss) for 2009	—	—	—	(201.8)	51.4	1.5	116.6	—	(32.3)	0.8	(31.5)
Capital increase	299	0.9	7.5	—	—	—	—	—	8.4	—	8.4
Dividends ^(a)	—	—	—	(204.7)	—	—	—	—	(204.7)	—	(204.7)
Share-based payments (note 20-c)	—	—	—	22.5	—	—	—	—	22.5	—	22.5
Changes in treasury shares	187	—	—	(1.6)	—	—	—	8.7	7.1	—	7.1
Other	—	—	—	(6.3)	—	—	—	—	(6.3)	—	(6.3)
Changes in scope of consolidation	—	—	—	—	—	—	—	—	—	6.5	6.5
At 31 December 2009	195,467	597.1	3,655.3	(197.3)	107.7	5.5	(283.2)	(141.5)	3,743.6	10.2	3,753.8
Net income (loss)	—	—	—	(107.6)	—	—	—	—	(107.6)	—	(107.6)
Other comprehensive income	—	—	—	—	(56.1)	(4.7)	162.6	—	101.8	0.5	102.3
Total comprehensive income (loss) for 2010	—	—	—	(107.6)	(56.1)	(4.7)	162.6	—	(5.8)	0.5	(5.3)
Capital increase	58	0.1	1.5	—	—	—	—	—	1.6	—	1.6
Dividends ^(a)	—	—	—	(97.7)	—	—	—	—	(97.7)	—	(97.7)
Share-based payments (note 20-c)	—	—	—	17.7	—	—	—	—	17.7	—	17.7
Changes in treasury shares	(160)	—	—	(5.7)	—	—	—	1.2	(4.5)	—	(4.5)
Other	—	—	—	9.6	—	—	—	—	9.6	0.1	9.7
Changes in scope of consolidation	—	—	—	7.3	—	—	—	—	7.3	(1.3)	6.0
At 31 December 2010	195,365	597.2	3,656.8	(373.7)	51.6	0.8	(120.6)	(140.3)	3,671.8	9.5	3,681.3

(a) Dividends per share amounted to € 0.50 in 2010 and € 1.05 in 2009.

The Board of Directors will propose that the General Meeting of Shareholders of 18 May 2011 approves a dividend of € 0.50 per share. If approved, this dividend will be paid on 26 May 2011. Shareholders may elect to have dividends paid either fully in cash or fully in shares.

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*All amounts included in these notes are expressed in € million
except for per share data*

On 24 February 2011, the Board of Directors approved, and authorised for issue, Thales's consolidated financial statements for the year ended 31 December 2010. In accordance with French legislation, the financial statements will only be considered definitive after they have been approved by the shareholders of Thales at the Annual General Meeting convened for 18 May 2011.

Thales (the parent company) is a listed French *société anonyme*, registered in the Nanterre Trade and Companies Register (*Registre du Commerce et des Sociétés de Nanterre*) under the number 552 059 024.

• 2010 background:

2010 was marked by increased pressure on budgets in most European countries, which was not fully offset by the very gradual upturn in commercial aeronautics and the more favourable situation in space markets.

Against this backdrop, the Group in particular recorded additional expenses and provisions on the following contracts and businesses:

For the ticketing contract in Denmark, an amendment was signed at the end of December 2010, which confirms the conditions of execution of the contract until completion.

For the Meltem (maritime patrol aircraft in Turkey) and A400M contracts, discussions are still ongoing to date, with a view to reaching a final agreement on these two contracts with, respectively, the Turkish Ministry of Defence and Airbus. The schedules and detailed technical execution conditions have been stabilised on both contracts. These recent developments significantly enhance the visibility on the execution conditions of these contracts, removing the main operational uncertainties and enabling better assessment of the estimated cost at completion and associated risks.

Meanwhile, important milestones have been met on current developments in Avionics. Priority has been given to the satisfaction of operational commitments towards our customers. This required the mobilisation of significant resources and weighed on earnings. In addition, using its own resources, Thales strengthened the project management capabilities of its French subsidiary Thales Security Solutions & Services, which is facing important risks on certain complex contracts. Finally, difficulties for Thales Australia on the Lorads III air traffic management contract in Singapore also impacted results.

As a result and after in-depth review, the Group has decided to revise its evaluation of the most probable scenarios on these pre-2009 programmes, with a more cautious approach than considered up to now. These scenarios incorporate the consequences of potential cost variances that are considered probable based on the contractual, commercial and technical historical track record on these contracts. Moreover, no receipt of any complementary contribution has been taken into account on these contracts, as part of the ongoing claims or negotiations, particularly on the A400M contract (see note 16).

In the 2010 financial year, the additional charges and provisions booked on the contracts and activities mentioned below amount to €721m.

• 2009 background:

2009 was deeply marked by the continuous deterioration of economic environment and the persistence during the second semester of difficulties on some programs, particularly in the aerospace and security fields.

In that specific context, and consistent with the strategy defined by the Group's General Management concerning its main businesses, Thales has updated the estimation of some risks on some on-going programs as well as the performance evaluation of some assets, for the needs of the annual closing.

The Group has thus had to:

- Record significant losses on some programs of the Aerospace Division and, to a lesser extent, the Security Division (note 16),
- Depreciate intangible fixed assets related to some development programs, particularly in the aerospace field (note 6).

1. ACCOUNTING POLICIES

The consolidated financial statements of the Thales Group are prepared in accordance with IFRS (International Financial Reporting Standards) as approved by the European Union (available on the following website: http://ec.europa.eu/internal_market/accounting/ias_fr.htm) at 31 December 2010.

These principles do not differ from the standards and interpretations required at 31 December 2010, as published by the IASB (International Accounting Standards Board).

The accounting policies applied by the Group are consistent with those followed in the preparation of the Group's annual IFRS consolidated financial statements for the year ended 31 December 2009, except for the adoption of the following new standards and interpretations:

• Revised IFRS 3 (Business Combinations) and IAS 27 (Consolidated and Separate Financial Statements):

These revised standards are applied prospectively and have no impact on deals completed prior to January 1st, 2010. The main changes brought by these new standards are described in note 1.b – Business combinations.

• Other standards:

Amendments to IAS 39 (Financial Instruments: Recognition and Measurement – Eligible Hedged Items), to IFRS 2 (Group Cash-settled Share-based Payment Transactions), to IFRS 1 (First-time Adoption of IFRS), Improvements to IFRS published in April 2009, as well as interpretations IFRIC 12 (Service Concession Arrangements), IFRIC 15 (Agreements for the Construction of Real Estate), IFRIC 16 (Hedges of a Net Investment in a Foreign Operation), IFRIC 17 (Distributions of Non-cash Assets to Owners) and IFRIC 18 (Transfers of Assets from Customers) have no material impact on the Group's consolidated financial statements at 31 December 2010.

The Group has decided on the early adoption of Revised IAS 24 (Related Party Disclosures) that partly exempts Thales from disclosing information about transactions with other entities controlled, jointly controlled or significantly influenced by the same State (see note 19).

The following new standards, revised standards, amendments and interpretations, which have been published by the IASB but which are not yet applicable or mandatory at 31 December 2010, have not been applied by the Group:

- IFRS 9 (Financial Instruments) ¹ which should progressively replace IAS 39 requirements,
- Amendment to IAS 32 (Classification of Rights Issues),
- Amendment to IFRIC 14 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction),
- IFRIC 19 (Extinguishing Financial Liabilities with Equity Instruments),
- Improvements to IFRS, published in May 2010 ¹.
- Amendment to IFRS 7 (Disclosures related to the Transfer of Financial Assets), published in October 2010 ¹.

The process to determine possible impacts of these new standards, amendments and interpretations on the consolidated accounts is in progress. At this stage of the analysis process, the Group considers that the impact of the implementation of these standards cannot be determined with sufficient accuracy.

As a first-time adopter of IFRS for the financial year ended 31 December 2005, Thales applied the specific rules for first-time adoption defined in IFRS 1. Any specific options retained are set out in the following notes.

a) CONSOLIDATION

The financial statements of significant subsidiaries directly or indirectly controlled by Thales have been fully consolidated. Companies in which Thales does not have a controlling interest but over which it exercises significant influence, directly or indirectly, are accounted for under the equity method. Companies under joint control are accounted for under the proportionate consolidation method.

Financial statements of consolidated companies, prepared in accordance with accounting standards applicable in the countries in which the companies are incorporated, have been restated for the purposes of the consolidation in order to comply with IFRS.

Transactions between fully-consolidated or proportionately-consolidated companies are eliminated, as well as internal gains and losses related to consolidated companies. Transactions between a fully-consolidated company and a proportionately-consolidated company, whether or not they affect consolidated profit and loss, are eliminated to the extent of the Group's ownership interest in the proportionately-consolidated company. As an exception to this principle, transactions between a fully-consolidated company and a proportionately-consolidated company are fully eliminated when the jointly-controlled company acts simply as an intermediary or performs profit-neutral services on behalf of, or as a direct extension of the activities of, its various shareholders.

b) BUSINESS COMBINATIONS

Business combinations completed after 1 January 2010:

At the acquisition date, business combinations are accounted for using the purchase accounting method.

* Purchase accounting method:

- The identifiable assets acquired and liabilities assumed are measured at fair value.
- The non-controlling interests are measured either at fair value (full-goodwill method) or at the non-controlling interests' proportionate share in the acquired entity's net identifiable assets (partial-goodwill method). This option is available on a transaction-by-transaction basis.
- Acquisition-related costs (valuation fees, consulting fees...) are recognised in profit and loss as incurred (rather than included in goodwill).
- Any contingent consideration assumed in a new business combination is measured at fair value at the acquisition date even if it is not probable. Subsequent changes to the fair value of the contingent consideration beyond twelve months from the acquisition date will be recognised in the profit and loss account (rather than included in goodwill) if the contingent consideration is a financial liability.

* Goodwill:

- Goodwill is measured as the difference between:
 - the fair value of the consideration transferred, plus the amount of any non-controlling interests in the acquired entity and,
 - the net fair value of the identifiable assets acquired and the liabilities assumed on the acquisition date.

The specific case of business combinations achieved in stages is dealt with in the next section.

- Goodwill can be adjusted in the twelve months following the acquisition date to take into account definitive estimates of the acquired assets and liabilities recognised.
- Negative goodwill is immediately recognised in "other operating income (expense)". Goodwill related to controlled companies is recognised in balance sheet assets under "intangible assets". Goodwill related to companies accounted for under the equity method is recognised under "share in net assets of equity affiliates".
- Goodwill is not amortised but is subject, each year, to impairment. Goodwill impairment is booked as an expense in "impairment of non-current operating assets" and cannot be reversed.
- Goodwill impairment related to equity affiliates is accounted for in "share in net income (loss) of equity affiliates" and can be reversed.

¹ This standard has not yet been approved by the European Union.

★ **Changes in a parent company's ownership interest in a subsidiary:**

- An acquirer must remeasure any equity interest it holds in the acquired entity immediately before achieving control at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss.
- Loss of control is accounted for in gain or loss on disposal which is calculated on the whole stake owned at the transaction date. The investment retained in the former subsidiary is measured at its fair value through the profit and loss account at the date when the control is lost.
- Changes in a parent company's ownership interest in a subsidiary that do not result in a change of control are accounted for as changes in equity, with no impact on profit or loss account.

★ **Deferred tax:**

- Deferred tax recognised for the first time after the end of the business combination's measurement period are accounted for in profit or loss and no longer adjusted against goodwill.
- This new rule applies from 1 January 2010 to all business combinations (including those prior to 2010).

Business combinations completed before 1 January 2010:

The principal changes from the standards described above are as following:

- Acquisition-related costs were included in goodwill.
- Minority interests were recognised at their proportionate share in the acquired entity's net identifiable assets.
- In a business combination achieved in stages, each transaction was accounted for separately at its acquisition date, with no impact on initial goodwill.
- Partial loss of control was accounted for in gain or loss on disposal for the proportionate share disposed of, with no revaluation of the retained investment.
- After the end of the business combination's measurement period, changes in the fair value of contingent consideration were included

Main closing and average exchange rates used for translation purposes:

<i>Euros</i>	2010		2009	
	Closing rate	Average rate	Closing rate	Average rate
Australian Dollar	1.3136	1.4390	1.6008	1.7656
Pound Sterling	0.8608	0.8560	0.8881	0.8900
U.S. Dollar	1.3362	1.3207	1.4406	1.3963

In addition, the Group puts in place hedges for its net investment in foreign subsidiaries. Foreign exchange gains or losses on foreign-currency denominated financial instruments corresponding to such hedges are recognised through equity under "cumulative translation adjustment" until the date of disposal of these investments. At this date, these foreign exchange gains or losses are recognised in profit and loss.

in goodwill. At the acquisition date, contingent consideration was recognised only to the extent that its payment was probable and that its amount can be determined reliably.

- If the potential benefit of the acquired entity's income tax loss carry-forwards or other deferred tax assets did not satisfy the criteria for separate recognition when a business combination was initially accounted for, but was subsequently realized, the acquirer would recognize the resulting deferred tax income in profit or loss. In addition:
 - the carrying amount of goodwill was reduced to the amount that would have been recognised if the deferred tax asset had been recognized as an identifiable asset from the acquisition date; and
 - the reduction in the carrying amount of goodwill was recognised as an expense. In the consolidated financial statements, the expense was accounted for in a specific line under "income tax".

As a consequence, there was no effect on the profit and loss.

Reminder of policy applied on first-time adoption of IFRS:

The Group decided not to restate business combinations that occurred before 1 January 2004. Thus, the valuation of the assets and liabilities acquired before 1 January 2004, and initially made under French accounting principles, was not adjusted during the first-time adoption of IFRS.

c) TRANSLATION OF THE FINANCIAL STATEMENTS OF FOREIGN SUBSIDIARIES

The financial statements of companies whose functional currency is different from the Group's functional currency are translated using the following methods:

- Balance sheet items are translated at the exchange rates prevailing at balance sheet dates,
- Profit and loss items and the statement of cash flows are translated at the average exchange rates for the year,
- Translation adjustments are directly recognised in equity within the "cumulative translation adjustment" account.

Reminder of policy applied on first-time adoption of IFRS:

The Group took the option, provided by IFRS 1, of not retrospectively reconstituting cumulative translation adjustments in equity at 1 January 2004. Translation adjustments that arose prior to the IFRS transition date will therefore not be taken into account in calculating gains or losses on future disposals of consolidated subsidiaries or equity affiliates.

d) ACCOUNTING FOR FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated at the rate of exchange prevailing at the transaction date. Foreign currency denominated assets and liabilities are translated into euros at closing exchange rates. Translation gains and losses are recorded in profit and loss as "Foreign exchange gains (losses)".

Foreign currency exposure is managed by the Finance Department of Thales, which uses foreign currency derivatives to protect against changes in the value of future cash flows related to commercial flows in foreign currencies.

In order for a derivative to be eligible for hedge accounting, it is necessary to define and document the hedging relationship and to demonstrate its effectiveness from origination and throughout its duration. When a hedge is shown to be effective, hedge accounting is applied in the following manner:

- the change in the fair value of the hedging instrument is recognised directly in equity for the effective portion of the hedge until such time as the hedged flows affect profit and loss. The ineffective portion is recognised in profit and loss,
- the amount of the foreign currency denominated transaction is subsequently translated at the exchange rate prevailing at the date of the hedge.

Changes in the fair value of premiums or discounts related to forward foreign currency contracts, as well as the "time" value of foreign currency options, are recognised in "other financial income (expense)" as they are excluded from the hedging relationship.

e) TANGIBLE AND INTANGIBLE FIXED ASSETS**★ Tangible assets**

Property, plant and equipment are carried at their acquisition cost, reduced by accumulated depreciation and impairment losses recognised. Depreciation of tangible fixed assets is generally calculated on the basis of the following typical useful lives:

- 20 years for buildings,
- 1 to 10 years for plant and equipment,
- 5 to 10 years for other tangible fixed assets (vehicles, fixtures, etc.).

The depreciable amount takes account of the residual value of the asset. The different components of tangible fixed assets are recognised separately when their estimated useful lives or patterns of use, and thus the period over which they are depreciated or the depreciation methods applicable to them, are materially different.

Borrowing costs that are directly attributable to the acquisition or construction of an asset are capitalised as part of the cost of that asset.

Assets acquired through finance lease arrangements that transfer substantially all the risks and rewards associated with ownership of the asset are recognised in the balance sheet at their fair value or, if lower,

at the present value of the minimum lease payments. Such assets are depreciated in accordance with the methodology described above. The corresponding debt is recognised in liabilities.

★ Intangible assets

The Group's intangible assets mainly include:

- Goodwill (note 1-b),
- Capitalised development costs (note 1-j),
- Assets acquired in business combinations, primarily acquired technologies, customer relationships and the order backlog. These assets are recognised at fair value and amortised over their useful lives. In the profit and loss account, the amortisation is classified as "Amortisation of intangible assets recognised at fair value on business combinations". The fair value of the assets is based on the market value. If no active market exists, the Group uses methods based on forecasts of the present value of the expected future operating cash flows (excess earnings method, royalty method...).

Intangible assets are submitted to impairment tests (see note 1-f).

f) IMPAIRMENT OF NON-CURRENT ASSETS

Each time that events or circumstances indicate that a tangible or an intangible asset may be impaired, and systematically at each annual balance sheet date for goodwill and intangible assets with indefinite useful lives, impairment tests are performed.

To perform impairment tests, goodwill resulting from business combinations and assets that do not generate independent cash flows are allocated to cash generating units (CGU). The scope of a CGU cannot be broader than that of an operational division, before aggregation if any, as defined by IFRS 8.

These tests consist in ensuring that the recoverable amount of each of the Group's CGU is at least equal to the corresponding net assets (including goodwill). The recoverable amount of an asset is the higher of its fair value less costs of sale and its value in use. Value in use is determined on the basis of discounted future operating cash flows over a four-year period and a terminal value. This calculation is based on data from the strategic plans prepared in accordance with Group procedures.

The discount rate used is calculated on the basis of the Group's weighted average cost of capital adjusted if necessary for the specific risks attributable to each business sector. This rate is mainly based on the market risk-free rate, on risk factors inherent in the Group's businesses, on the Group's marginal interest rate and on specific risks for which cash flows have not been adjusted.

Assumptions used concerning growth in revenues and terminal values are based on a reasonable approach in line with specific data available for each business sector (generally terminal value is based on the weighted average of the income from operations from the four-year strategic plans and on growth limited to 2%).

Impairment tests of capitalised development costs (note 1-j) are performed, project-by-project, on the basis of discounted future operating cash flows related to the project.

g) INVESTMENT AND MARKETABLE SECURITIES/FINANCIAL LOANS AND RECEIVABLES

Investment and marketable securities are designated as "available-for-sale" assets and measured at fair value. For listed securities, this value corresponds to their stock market price at the balance sheet date. For unlisted securities, valuation models are used. If fair value cannot be reliably determined, such securities are recognised at cost. Changes in fair value are recognised directly in equity. If an impairment indicator is identified, impairment is recognised in "other financial income (expense)". Such impairments are only written back to profit and loss at the date of disposal of the security in question.

Financial loans and receivables are recognised at amortised cost. They are subject to impairment if an impairment indicator is identified. Such impairment, recognised in the "other financial income (expense)" caption, can subsequently be reversed through profit and loss if the conditions which led to the impairment loss being recognised cease to exist.

h) INVENTORIES AND WORK-IN-PROGRESS

Inventories and work-in-progress are carried at the lower of their production cost (determined using the FIFO or weighted-average cost method) or their net realisable value. Work-in-progress, semi-finished and finished goods are stated at direct cost of raw materials, production labour and subcontract costs incurred during production, plus an appropriate portion of production overhead costs and of any other costs that can be directly allocated to contracts.

In the consolidated balance sheet, work-in-progress related to construction contracts is included in "construction contracts: assets" or "construction contracts: liabilities" (note 1-i).

i) REVENUES

The Group's revenues can be divided into two main accounting categories: sales of goods and services, and construction contracts.

Revenues are measured at the fair value of the consideration received or receivable. In the case where the deferral of payment has a material effect on the determination of such fair value, the amount at which revenues are recognised is adjusted to take the financial impact of the deferral of payment into account.

★ Sales of goods and services

Revenues from the sales of goods and services together with royalty and licence income is recognised when it is probable that the future economic benefits will flow to the Group and when the amount of revenues can be measured reliably. The following specific criteria must also be satisfied in order for revenues to be recognised:

- Revenues from the sale of goods are recognised when the enterprise has transferred the principal risks and rewards inherent to ownership of the goods to the purchaser.

- Revenues related to the rendering of services are recognised on the basis of the percentage-of-completion of the transaction.

The costs related to the service provided (sale of goods or services rendered) are recognised in the statement of income at the same time as the corresponding revenues.

★ Construction contracts

A construction contract is a contract specifically negotiated for the construction of an asset or of a group of assets, which are interrelated in terms of their design, technology, function, purpose or use.

According to its characteristics, a notified construction contract can either be accounted for separately, be segmented into several components which are each accounted for separately, or be combined with another construction contract in progress in order to form a single construction contract for accounting purposes in respect of which revenues and expenses will be recognised.

Revenues and expenses on construction contracts are recognised in accordance with the technical percentage of completion method. However, when there is no significant timing difference between technical percentage of completion and contractual dates of transfer of ownership, the percentage of completion is determined according to the contractual transfer of ownership.

Penalties for late payment or relating to improper performance of a contract are recognised as a deduction from revenues. In the balance sheet, provisions for penalties are deducted from assets related to the contract.

Expected losses on contracts are fully recognised as soon as they are identified.

Selling, administrative and interest expenses are directly charged to the profit and loss account in the financial year in which they are incurred.

Estimates of work remaining to be completed on loss-making contracts do not include revenues from claims made by the Group, except when it is highly probable that such claims will be accepted by the customer.

Progress payments received on construction contracts are deducted from contract assets as the contract is completed. Progress payments received before the corresponding work has been performed are classified in "advances received from customers on contracts" in balance sheet liabilities.

The cumulative amount of costs incurred and profit recognised, reduced by recognised losses and progress billings, is determined on a contract-by-contract basis. If this amount is positive it is classified as "construction contracts: assets" in balance sheet assets. If it is negative it is classified as "construction contracts: liabilities" in balance sheet liabilities.

j) RESEARCH AND DEVELOPMENT EXPENSES

Customers and government agencies fund a significant portion of research and development expenses. Internally funded research and development expenses are charged to the profit and loss account as incurred, except for project development costs that meet the following criteria:

- the product or process is clearly defined, and costs are separately identified and reliably measured,

- the technical feasibility of the project is demonstrated,
- adequate resources are available to complete the project successfully,
- a potential market for the products exists or they will be used internally,
- the company intends to produce and market, or use the new product or process, and can demonstrate its profitability.

Development costs are capitalised once the above criteria are met. Capitalised development costs mainly relate to Aerospace and Security activities, for which the products developed are relatively generic and can be sold to a larger number of potential customers. By contrast, development costs linked to Defence activities are for more specific and restricted markets with a more limited number of players: the specific features of the products developed make it more difficult to share development work and therefore harder to capitalise the associated costs.

In view of recent trends in Aerospace activities and the impact of the current crisis on civil activities in particular, stricter criteria for capitalising development costs were introduced at the end of 2009:

- higher internal rate of return required to capitalise the development costs of a project deemed risky (new competitor on the targeted market segment and/or new sector of activity),
- strengthening of the experience curve required to evaluate project feasibility.

Development costs are then amortised over the useful life of the product. The method of amortisation is determined by reference to expected future quantities or revenues over the period in which future economic benefits will be earned. If the method cannot be determined reliably, linear amortisation is adopted. The period of amortisation depends on the type of activity.

Assets are also subjected to impairment loss tests. The terms and assumptions taken into account to conduct these tests are described in note 6. These impairment losses can be reversed. Impairment losses reversal criteria are identical to those retained when first capitalising development costs on a new project.

The Group receives public financing, in the form of reimbursable advances, for the development of certain projects. Reimbursement of these advances is generally based on the expected future revenues to be generated by the development. The Group recognises such advances in liabilities taking account of the likelihood that they will be reimbursed. Costs incurred in respect of these projects are recognised in work-in-progress.

The Group benefits from tax credits related to research carried out by its subsidiaries. Such tax credits are considered as operating grants and are thus included in income from operations, when obtaining them does not depend on the realisation of a taxable income. If it does, they are recorded in deduction of the income tax expense.

k) INCOME FROM OPERATIONS

Income from operations corresponds to income from operating activities before taking account of:

- gains and losses on disposal of intangible or tangible assets, businesses or operational investments,
- impairment of non-current operating assets,
- other operating income (expense) resulting from events that are unusual because of their frequency, their nature and their amount.

l) DEFERRED TAXATION

Thales recognises deferred taxes when the tax value of an asset or liability differs from its book value. The effects of changes in the corporation tax rate are recorded in the profit and loss account for the financial year in which the rate change was decided, unless the underlying transactions were recognised directly through equity. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are not recognised in the balance sheet if the company concerned does not reasonably expect to recover the tax asset. To assess its ability to recover deferred tax assets, the Group takes into account future taxable results of the tax entities concerned generally on a five-year forecast, non-recurring past events and tax strategies specific to each country.

m) RESTRUCTURING

Provisions for restructuring costs are made when restructuring programs have been agreed and approved by Group management and have been announced before the balance sheet date, resulting in an obligation on the Group with regard to third parties in question, as long as the Group does not expect further consideration for these costs.

Such costs primarily relate to severance payments, costs for notice periods not worked and other costs linked to the closure of facilities such as write-offs of fixed assets. These costs and the costs directly linked to restructuring measures (removal costs, training costs of transferred employees, etc.) are recognised under "restructuring costs" in the profit and loss account.

n) PENSION AND OTHER EMPLOYEE BENEFITS

In accordance with local legislation and practice in the countries in which it operates, the Group grants its employees post-employment benefits (pensions, retirement awards, medical care, etc.) and other long-term benefits (long-service benefits, long-service awards on departure, etc.).

The Group measures and recognises pension and similar benefits as follows:

- For defined contribution schemes and state plans, contributions paid by the Group are in full discharge of the Group's liability and are recognised as an expense for the period.

- Obligations under defined benefit plans are measured by independent actuaries using the projected unit credit method on the basis of estimated salaries at the date of retirement. The calculations mainly take into account assumptions concerning the expected retirement date, future salary levels and staff turnover rates, an appropriate discount rate and an inflation rate.

Changes in actuarial assumptions and experience adjustments – corresponding to the effects of differences between previous actuarial assumptions and what has actually occurred – give rise to actuarial gains and losses. For post-employment benefits, actuarial gains and losses are recognised in income or expense when cumulative unrecognised actuarial gains and losses for the scheme at the end of the previous financial year exceed the greater of 10% of the defined benefit obligation or of the fair value of plan assets at that date. These gains and losses are amortised over the expected average remaining working life of employees benefiting from the scheme (the “corridor” method).

In the case of plans that are subject to a minimum funding requirement under the law or the plan rules, if the Group does not have an unconditional right to a refund of a surplus within the meaning of IFRIC 14, this affects the asset ceiling. In such a case, regardless of whether the plan has a deficit or a surplus, a liability is recognised. The liability is calculated as the difference between the present value of the minimum funding in respect of services already received and the unfunded status determined in accordance with IAS 19.

The expense representing the change in unfunded status is recognised in income from operations for the current service cost component and in “other components of pension charge” for other components.

Reminder of policy applied on first-time adoption of IFRS:

The Group decided to take the option, provided by IFRS 1, of recording its unamortised actuarial gains and losses at 1 January 2004 in equity at that date. As from 1 January 2004, the corridor method has been applied. The new option provided by IAS 19, as revised, of recognising actuarial gains and losses directly in equity has not been taken.

o) SHARE-BASED PAYMENTS

★ Share options and free shares

Thales grants shares, share options and free shares to its employees. The Group uses a binomial model to measure the amount of the benefit to employees receiving the shares and share options granted. The corresponding fair value is determined at the grant date. Such amount is recognised in profit and loss over the vesting period of the rights, not based on a straight-line basis but rather on the specific conditions under which rights vest under each scheme.

★ Company savings plans

Employee share offerings with a discount to the market price proposed within company savings plans do not include any vesting period of the rights but they are subject to a statutory five-year lock-up period. Valuation of the advantage granted to the employees takes into account the cost of the five-year lock-up period.

The expense related to share-based payments is included in income from operations and a corresponding credit is recognised increasing retained earnings. It thus has no effect on the overall amount of equity.

Reminder of policy applied on first-time adoption of IFRS:

The Group took the option, provided by IFRS 1, of not restating share option plans whose grant date was prior to 7 November 2002.

p) EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to shareholders by the weighted average number of shares outstanding during the financial year, excluding treasury shares.

Diluted earnings per share (DEPS) take into account instruments that have a dilutive effect on earnings per share and exclude anti-dilutive instruments. Diluted earnings per share are calculated on the basis of the weighted average number of shares and equity-equivalent bonds outstanding during the financial year, less treasury shares. Net income is adjusted for the after-tax interest expense of related convertible bonds. The dilutive effect of share options is calculated using the treasury stock method, taking into account the average market price for the share in the period in question.

q) BORROWING COSTS

Borrowing costs incurred during the construction of a qualifying asset are treated as part of the cost of that asset. The interest rate used is that of the specific loan related to the asset or, if no specific financing exists, the Group's financing rate.

r) CASH AT BANK AND EQUIVALENTS

Cash at bank and equivalents includes cash on hand, demand deposits and cash equivalents (short-term, liquid investments which can easily be converted into a known amount of cash and which are subject to an insignificant risk of change in value).

s) STRUCTURE OF THE CONSOLIDATED BALANCE SHEET

A significant portion of the Group's activities in its different business segments has long-term operating cycles. Accordingly, assets (liabilities) that are usually realised (settled) within the entities' operating cycles (inventory, accounts receivable and payable, advances, reserves, etc.) are classified in the consolidated balance sheet as current assets and liabilities, without distinction between the amounts due within one year and those due after one year.

t) DERIVATIVES

The Group uses financial instruments to manage and reduce its exposure to risks of changes in interest rates and foreign exchange rates. Derivatives are stated at their fair value in the balance sheet. In order to be eligible for hedge accounting, financial instruments must have the following two characteristics:

- at the date of origination of the financial instrument, the existence of a hedging relationship must be formal and documented,

- the hedge must be expected to be effective. Effectiveness must be capable of being measured in a reliable manner, and must be able to be demonstrated, over the entire period of the hedge relationship as initially determined.

Accounting policies in respect of foreign exchange derivatives are presented above in note 1-d. Financial instruments relating to interest rate hedges are hedge-accounted as either fair value hedges or cash flow hedges:

- a fair value hedge is a hedge of the exposure to changes in the value of assets and liabilities,
- a cash flow hedge is a hedge of the exposure to changes in the value of future cash flows (unknown future interest flows payable on existing variable rate borrowings or on highly probable future borrowing issues, for example).

In the case of fair value hedge relationships, the financial liabilities hedged by the interest rate derivatives are remeasured to the extent of the risk hedged. Changes in value of the hedged item are recognised in the profit and loss for the period and are offset by symmetrical changes of the interest rate derivatives. In the case of cash flow hedge relationships, changes in fair value of interest rate derivatives shown in the balance sheet are recognised directly through equity, for the effective portion thereof, until such time as the hedged flows affect profit and loss.

u) DERECOGNITION OF TRADE RECEIVABLES

The Group transfers trade receivables, mainly from the French *Direction Générale de l'Armement* (Directorate General of Armaments), notably overdue amounts that bear financial interest on arrears.

As these transfers, which are without recourse in case of payment default by the debtor, involve the transfer of substantially all risks and rewards of ownership, the corresponding receivables are derecognised. Under these conditions, transferred trade receivables should be "derecognised" from the balance sheet.

v) MAIN SOURCES OF ESTIMATES

Preparation of the Group's consolidated financial statements involves making estimates and assumptions, which have an impact on the valuation of income, expenses, assets and liabilities. These estimates are based on past experience and factor in the economic conditions prevailing at the end of the reporting period and any information available as of the date of preparation of the financial statements.

In a global economic climate which was characterized by high volatility and a lack of visibility at 31 December 2010, the final amounts recorded may differ significantly from these estimates as a result of different assumptions or circumstances.

The main financial statement captions subject to material accounting estimates are as follows:

★ Construction contracts

Recognition of income and expenses relating to construction contracts is based on estimates of overall profit or loss on completion of such

contracts (see note 1-i). These estimates are made by project managers, under the supervision of General Management, in accordance with Group procedures.

★ Goodwill

Goodwill is subject to impairment tests (see note 1-f). The recoverable amount of goodwill by cash generating unit is assessed on the basis of forecast data from the strategic plans prepared, in accordance with Group procedures, for each of the Group's businesses or divisions.

★ Development costs

Development costs that meet the criteria for capitalisation (note 1-j) are recognised as intangible assets and amortised over their useful lives. Assessments of compliance with the criteria and of the recoverable amount of these assets are carried out on the basis of the forecast revenues and profitability of the corresponding projects.

★ Pension and other employee benefits

Benefit obligations in respect of pensions and other employee benefits are estimated on statistical and actuarial bases in accordance with the policies outlined in note 1-n. Actuarial assumptions made by the Group (discount rates, expected return on plan assets, future compensation increases, rates of employee turnover, mortality tables, etc.) are reviewed each year with the Group's actuaries.

★ Deferred taxes

Deferred tax assets result from the existence of tax loss carry forwards and deductible temporary differences between the book value and the tax value of assets and liabilities. Recovery of these assets is assessed on the basis of forecast data contained in the strategic plans of each of the tax groups in question.

★ Risks and litigation

The Group regularly identifies and reviews litigation in progress and recognizes, depending on the circumstances, accounting provisions that it considers to be reasonable. Any uncertainties concerning litigation in progress are described in note 23.

★ Purchase price allocation in respect of business combinations

Business combinations are accounted for in accordance with the "purchase accounting" method: thus, on the date that control is obtained over a company, the acquired entity's identifiable assets, liabilities and contingent liabilities are measured at their fair value. These valuations are performed by independent experts who base their work on assumptions and estimate the effects of uncertain future events at the acquisition date.

2. MAIN EVENTS

a) GROUP ORGANISATION:

In December 2009, Thales announced a new organisation to simplify its operations, foster transverse synergies and commercial reactivity, and increase performance.

Since January 2010, the Group's organisational structure has been a two-dimensional matrix by Division and by Area.

Divisions are in charge of defining business strategies and priorities for research and development, product policy and industrial policy worldwide, in line with the long-term profitability objectives set by the Group. The two main businesses are as follows:

- Defence and Security (including Defence & Security C4I systems, Defence Mission Systems, Land Defence and Air Operations);
- Aerospace and Transport (including Avionics, Space and Transportation Systems).

Areas are responsible for implementing these global strategies and policies in line with the Group's short-term profitability objectives. Their remits also include the management of the commercial relationship with local customers and order intakes, revenues and results for these activities. Three Geographic Areas have been defined:

- Area A: USA, Canada, the UK, the Netherlands, Norway, South Korea, Australia, Northern and Central Europe and North Asia
- Area B: Germany, Austria, Switzerland, Italy, Spain, Singapore, Latin America, Southern Europe, Middle East & Africa, West & South Asia
- France

Segment information is provided in note 5.

b) CHANGE IN SCOPE OF CONSOLIDATION

In 2010:

- At the end of December 2010, DRS Sonar Systems LLC, a DRS/Thales joint venture, acquired, for an amount of \$ 38 million, Advanced Acoustic Concepts, Inc. (AAC), a technical leader in the fields of sonar systems, sonar signal processing, acoustic training systems, and open architecture system and software integration. This company is proportionately consolidated from 31 December 2010.

- At the beginning of October, Thales Alenia Space sold its stake in Indra Espacio to Indra Sistemas for € 39.2 million, and accounted for a € 13.8 million gain on disposal (corresponding to € 9.2 million at 67%).

- At the end of June 2010, the United Kingdom's National Lottery Commission approved the sale of Thales's 20% stake in Camelot Group Plc, the operator of the British lottery, to the Canadian pension fund Ontario Teachers' Pension Plan.

The sale price was £75.1m and the Group recognised in its consolidated financial statements a capital gain on disposal of € 33.5m.

- The shareholders' agreement dated 30 January 2007 between the French State and Thales gives Thales the possibility of increasing its stake in DCNS from 25% to 35%, through the exercise of a call option. This option can be exercised during a three-year period from 29 March 2009. At 31 December 2010, the option was valued. Taking into account an illiquidity discount, this value is not significant.

The agreement also contains contingent remuneration clauses related to certain contracts being obtained and to certain conditions of operational performance, which were not met at 31 December 2010 and 31 December 2009.

In 2009:

- In February 2009, Thales bought for € 20.3 million, via a tender offer, a 94.6% stake in CMT Medical Technologies Ltd, an Israeli company specialised in medical imaging. This company was consolidated from 1 July 2009¹.
- In accordance with the contractual agreements, the purchase price of Alcatel Alenia Space shares was reassessed in 2009 in the context of a procedure involving all the parties. This procedure led Thales to pay an additional purchase consideration of € 129.6² million to Alcatel-Lucent in May 2009. This additional payment was recorded as a goodwill increase in the financial consolidated statements.

¹ By simplification, and because the time lag between takeover/loss of control was not significant on financial consolidated statements.

² This additional purchase consideration was determined on the basis of a valuation of 67% of Thales Alenia Space shareholders' equity of € 724.5 million, which represents an additional amount of € 124.5 million in excess of the € 600 million initial fixed price, plus € 5.1 million financial interests.

3. ADJUSTED CONSOLIDATED PROFIT AND LOSS ACCOUNT

In order to monitor and compare the Group's economic performances, the consolidated profit and loss account is restated from the adjustment entries related to the Purchase Price Allocation (PPA) recognised through significant business combinations.

These adjustment entries are mainly related to transactions in 2007: acquisition of the space, transportation and security activities of Alcatel-Lucent, and acquisition of a 25% stake in DCNS.

The effect of PPA over the two disclosed periods is analysed as follows:

	2010	2009
Cost of sales	—	(14.8)
Amortisation of intangible assets acquired	(81.7)	(84.4)
Income from operations (EBIT)	(81.7)	(99.2)
Deferred tax	27.8	33.6
Share in net income (loss) of equity affiliates	(8.2)	(8.2)
Net income (loss)	(62.1)	(73.8)

The **adjusted profit and loss account** can be analysed as follows:

	2010	2009
Revenues	13,124.8	12,881.5
Cost of sales	(11,028.6)	(10,618.6)
Research and development expenses	(612.3)	(550.5)
Marketing and selling expenses	(915.7)	(901.9)
General and administrative expenses	(529.7)	(543.4)
Restructuring costs	(130.1)	(116.1)
Income from operations (EBIT)	(91.6)	151.0
Impairment of non-current operating assets	(9.8)	(260.1)
Gain (loss) on disposal of assets and other	(22.3)	(1.0)
Income from operating activities	(123.7)	(110.1)
<i>Financial interest on gross debt</i>	<i>(81.3)</i>	<i>(91.6)</i>
<i>Financial income from cash at bank and equivalents</i>	<i>24.0</i>	<i>26.0</i>
Cost of net financial debt	(57.3)	(65.6)
Other financial income (expense)	(15.3)	(44.9)
Other components of pension charge	(104.6)	(105.1)
Income tax	192.7	141.7
Share in net income (loss) of equity affiliates	62.7	56.2
Net income (loss)	(45.5)	(127.8)
Attributable to:		
Owners of the parent company	(45.5)	(128.0)
Non-controlling interests	—	0.2

4. INFORMATION ON LIKE-FOR-LIKE BASIS WITH CONSTANT EXCHANGE RATES

a) EFFECT OF CHANGES IN SCOPE OF CONSOLIDATION AND FOREIGN EXCHANGE RATES ON CONSOLIDATED INCOME FROM OPERATIONS

On the basis of the adjusted profit and loss account, results in scope of consolidation and foreign exchange rates can be analysed as follows:

	2009 adjusted	Change in consolidation scope ^(a)	Exchange rate change ^(b)	Organic growth	2010 adjusted
Revenues	12,881.5	26.2	384.2	(167.1)	13,124.8
Cost of sales	(10,618.6)	(14.9)	(290.7)	(104.4)	(11,028.6)
Research and development expenses	(550.5)	(2.4)	(8.1)	(51.3)	(612.3)
Marketing and selling expenses	(901.9)	(0.3)	(19.5)	6.0	(915.7)
General and administrative expenses	(543.4)	(2.0)	(19.1)	34.8	(529.7)
Restructuring costs	(116.1)	—	(2.0)	(12.0)	(130.1)
Income from operations (EBIT)	151.0	6.6	44.8	(294.0)	(91.6)

(a) Companies acquired in 2010 are excluded from the restated 2010 profit and loss account and the accounts of companies acquired during 2009 have been restated in order to assign 2010 profit or loss over an identical period to that over which such companies were consolidated in 2009.

Companies sold in 2009 are excluded from the 2009 restated results. The accounts of companies sold during 2010 have been restated in order to impact profit and loss for an identical period in 2010 and in 2009.

(b) The exchange rate change is determined as follows: 2009 results of foreign subsidiaries are translated at 2010 average exchange rates. The exchange difference thus obtained is adjusted to take into account the effect of changes in currency rates on transactions denominated in a different currency from the subsidiary's functional currency.

b) EFFECT OF CHANGES IN SCOPE OF CONSOLIDATION AND FOREIGN EXCHANGE RATES ON THE CONSOLIDATED BALANCE SHEET

The schedule below presents reconciliation between the balance sheet at 31 December 2009 and the balance sheet at 31 December 2010, disclosing the effects of changes in scope of consolidation, changes in foreign exchange rates, reclassifications between balance sheet line items and the effect of cash flows.

	Equity	Pensions and other employee benefits	Current and deferred taxes	Non-current operating assets	Non-current financial assets	Net current operating liabilities/ assets	Net financial debt (excluding cash)	Cash at bank and equivalents
At 31 December 2009	3,753.8	790.7	(367.6)	(5,250.5)	(984.8)	1,967.6	2,050.9	1,960.1
Financial flows:								
Cash flows from operating activities	(121.4)	4.2	(327.2)	454.4	(23.9)	536.7	—	522.8
Cash flows from investing activities	42.1	—	—	(310.1)	41.6	—	8.3	(218.1)
Cash flows from financing activities	(96.5)	—	—	—	—	—	511.0	414.5
Non-financial flows:								
Changes in scope of consolidation	6.0	0.7	(0.2)	(1.0)	(2.4)	3.8	(6.9)	—
Changes in foreign exchange rates	163.1	7.5	(19.4)	(93.5)	(9.4)	(2.0)	24.9	71.2
Financial instruments	(60.8)	—	(31.3)	—	4.7	87.4	—	—
Reclassifications and other	(5.0)	(8.0)	(31.0)	(24.3)	26.7	70.3	(28.7)	—
At 31 December 2010	3,681.3	795.1	(776.7)	(5,225.0)	(947.5)	2,663.8	2,559.5	2,750.5

5. INFORMATION BY SEGMENT

As described in note 2, from the beginning of 2010, the Group's organisation structure is a two-dimensional matrix by Division and by Area. The chief operating decision-maker regularly reviews the operating performances of the two market segments.

In accordance with IFRS 8, the Group has decided to report segment financial information by operating divisions because they are the basis of the Group strategy. These divisions are combined in two main businesses:

- Defence & Security, whose customer base is primarily governments (states, public agencies...), includes Defence & Security C4I systems, Defence Mission Systems, Land Defence and Air Operations Divisions.

- Aerospace & Transport, whose customers are mainly non-governmental (infrastructure operators, aircraft manufacturers), includes Avionics, Space and Transportation Systems Divisions.

Information presented hereafter follows the same accounting standards as those used in the financial consolidated statements. Only adjustment entries related to the Purchase Price Allocation (PPA) recognised through significant business combinations are excluded from income from operations reviewed. Operating income consequently corresponds to the adjusted consolidated income from operations, as described in note 3.

a) INFORMATION BY BUSINESS SEGMENT

2010	Aerospace and Transport	Defence and Security	Other, elim. and non alloc. ^(a)	Total Segment and other	PPA	Thales
Consolidated order backlog	11,022.4	14,310.0	85.5	25,417.9	—	25,417.9
Consolidated new orders	6,844.9	6,173.2	62.5	13,080.6	—	13,080.6
Consolidated revenues	5,538.9	7,514.7	71.2	13,124.8	—	13,124.8
Inter-segment revenues	61.0	301.8	(362.8)	—	—	—
Total revenues	5,599.9	7,816.5	(291.6)	13,124.8	—	13,124.8
Income from operations (EBIT) ^(b)	(220.8)	153.3	(24.1)	(91.6)	(81.7)	(173.3)
Capital expenditure	152.1	95.0	68.1	315.2	—	315.2
Dep. and amortisation of tangible and intang. assets	158.9	142.9	61.1	362.9	81.7	444.6
Consolidated number of employees end of period ^(c)	23,851	36,024	3,859	63,734	—	63,734

2009 restated	Aerospace and Transport	Defence and Security	Other, elim. and non alloc. ^(a)	Total Segment and other	PPA	Thales
Consolidated order backlog	9,408.1	15,222.8	99.9	24,730.8	—	24,730.8
Consolidated new orders	5,439.4	8,372.4	115.3	13,927.1	—	13,927.1
Consolidated revenues	5,317.2	7,491.5	72.8	12,881.5	—	12,881.5
Inter-segment revenues	82.6	268.7	(351.3)	—	—	—
Total revenues	5,399.8	7,760.2	(278.5)	12,881.5	—	12,881.5
Income from operations (EBIT) ^(b)	(105.0)	328.9	(72.9)	151.0	(99.2)	51.8
Capital expenditure	223.1	123.2	72.6	418.9	—	418.9
Dep. and amortisation of tangible and intang. assets	153.7	139.8	42.9	336.4	84.4	420.8
Consolidated number of employees end of period ^(c)	23,883	37,101	3,301	64,285	—	64,285

- (a) The "Other, elim. and non allocated" column corresponds to the elimination of transactions between the two business segments and includes figures relating to corporate activities (Group R&D centres, facilities management, holding companies) and activities disposed of during the prior year. The income from operations includes the corporate income from operations which is not charged back to segments, the cost of vacant premises and the expense related to share-based payments.
- (b) Group income from operations includes tax credits related to research expenses amounting to €153.3 million in 2010 and €150.3 million in 2009.
- (c) The consolidated number of employees includes all employees of fully-consolidated companies and the proportionate share of employees of companies consolidated under the proportionate method. It does not include the employees of companies accounted for under the equity method or of unconsolidated affiliates. Corresponding personnel expenses amount to € 5,059.2 million in 2010 and € 4,814.9 million in 2009.

b) INFORMATION BY GEOGRAPHIC AREA

	Area A ^(a)	Area B ^(b)	France	Other, elim and non allocated ^(c)	Total areas and other	PPA	Thales
2010							
Consolidated order backlog	8,325.4	4,249.7	12,842.8	—	25,417.9	—	25,417.9
Consolidated new orders	3,636.6	2,561.3	6,879.7	3.0	13,080.6	—	13,080.6
Consolidated revenues	4,370.0	2,764.4	5,986.9	3.5	13,124.8	—	13,124.8
Inter-segment revenues	261.0	341.5	793.5	(1,396.0)	—	—	—
Total Revenues	4,631.0	3,105.9	6,780.4	(1,392.5)	13,124.8	—	13,124.8
Income from operations (EBIT)	91.9	110.5	(291.4)	(2.6)	(91.6)	(81.7)	(173.3)
Capital expenditure	75.2	53.3	186.7	—	315.2	—	315.2
Dep. and amortisation of tangible and intangible assets	125.9	51.6	183.0	2.4	362.9	81.7	444.6
Consolidated number of employees end of period ^(d)	18,241	13,390	31,268	835	63,734	—	63,734
	Area A ^(a)	Area B ^(b)	France	Other, elim and non allocated ^(c)	Total areas and other	PPA	Thales
2009 restated							
Consolidated order backlog	8,441.3	4,392.7	11,896.6	0.2	24,730.8	—	24,730.8
Consolidated new orders	3,797.2	3,018.9	7,105.3	5.7	13,927.1	—	13,927.1
Consolidated revenues	4,135.1	2,590.5	6,150.0	5.9	12,881.5	—	12,881.5
Inter-segment revenues	208.0	348.9	801.1	(1,358.0)	—	—	—
Total Revenues	4,343.1	2,939.4	6,951.1	(1,352.1)	12,881.5	—	12,881.5
Income from operations (EBIT)	191.5	228.2	(216.1)	(52.6)	151.0	(99.2)	51.8
Capital expenditure	115.2	76.3	226.7	0.7	418.9	—	418.9
Dep. and amortisation of tangible and intangible assets	110.7	44.2	179.1	2.4	336.4	84.4	420.8
Consolidated number of employees end of period ^(d)	18,750	13,306	31,398	831	64,285	—	64,285

(a) USA, Canada, UK, Netherlands, Norway, South Korea, Australia, Northern and Central Europe and Northern Asia.

(b) Germany, Austria, Switzerland, Italy, Spain, Singapore, Latin America, Southern Europe, Middle East and Africa, West and South Asia.

(c) The "other, eliminations and non allocated" column corresponds to the elimination of transactions between the three areas and includes figures related to Thales (parent company) and Thales International S.A.S. In addition, the income from operations includes the cost of share-based payment.

(d) The consolidated number of employees includes all employees of fully consolidated companies and the proportionate share of employees of companies consolidated under the proportionate method. It does not include the employees of companies accounted for under the equity method or of unconsolidated affiliates. Personnel expenses totalled € 5,059.2m in 2010, compared with € 4,814.9m in 2009.

c) REVENUES (DIRECT AND INDIRECT) BY COUNTRY/REGION OF DESTINATION:

	2010	2009
France ^(a)	2,931.3	3,018.6
United Kingdom	1,499.7	1,467.6
Rest of Europe	3,419.4	3,463.8
North America	1,315.0	1,158.2
Middle East	1,257.4	1,318.5
Asia and Pacific	1,887.4	1,683.3
Africa and Latin America	814.6	771.5
Total	13,124.8	12,881.5

(a) Of which, French Ministry of Defence (main customer): € 2,015.2 million in 2010 and € 2,006.4 million in 2009.

d) INFORMATION BY TYPE OF CONTRACT

	2010	2009
Construction contracts	7,023.9	7,053.8
Sales of goods and equipment	3,414.1	3,232.4
Services	2,618.8	2,536.2
Other	68.0	59.1
Total	13,124.8	12,881.5

More than half of the Group's revenues come from contracts specifically negotiated with the customer, who establishes specifications concerning the contract. These contracts meet different needs depending on the customer, and are generally long-term contracts.

6. IMPAIRMENT OF NON-CURRENT OPERATING ASSETS

	2010	2009
Development costs	—	(240.0)
Goodwill	(8.2)	(17.4)
Other tangible and intangible assets	(1.6)	(2.7)
Total	(9.8)	(260.1)

Development costs

Impairment tests for 2010 did not lead to book impairment losses.

Impairment losses for 2009 mainly included:

- € 158.3 million related to avionics for civil aircraft and the A400M,
- € 43.6 million related to in-flight entertainment activities,
- € 25.5 million related to simulation activities.

Impairment tests were conducted under the following assumptions:

- business plans were determined in line with the strategic plan on periods of up to 15 years in view of the specific characteristics of the sector (long-term profitability),
- discount rates were determined using the weighted average cost of the Group's capital, adjusted as necessary for the specific risks attributable to programmes.

Goodwill

In 2010, as in 2009, impairment losses relate to various activities of the Security Division.

Goodwill reallocations made in the framework of the Group's new organisation structure had no effect on the consolidated financial statements (note 11).

In 2010, as in 2009, impairment tests were performed with the initial assumption of an 8% discount rate for every CGU (Cash Generating

Unit), knowing that these CGU present a risk level more or less equivalent and that the specific risks of CGU are included in the projections. A 1% increase of the discount rate would not have led the Group to book significant additional impairments.

The long-term increase rate used to determine terminal value is 2%. This rate, close to the long-term inflation rate estimated at closing, represents a reasonable estimation by Thales of the future growth of the activity. A 1% decrease of this rate would not lead the Group to book significant additional impairments.

7. GAIN (LOSS) ON DISPOSAL OF ASSETS AND OTHER

	2010	2009
Disposal of investments:	40.8	12.1
Camelot Group Plc	33.5	—
Indra Espacio	9.2	—
Minority investments of Telespazio	—	7.1
Other	(1.9)	5.0
Disposal of other assets:	(9.3)	(3.0)
Real estate assets	(8.3)	—
Equipment	(1.0)	(3.0)
Loss on the L'Aquila earthquake, net ^(a)	(3.8)	(10.1)
Additional provision for litigation ^(b)	(50.0)	—
Total	(22.3)	(1.0)

(a) *Thales Alenia Space's production site at L'Aquila (Italy) was seriously damaged by the earthquake of 7 April 2009. The Group share of the total net loss related to the disaster was recognised in 2009 and amounted to € -10.1 million, after taking into account insurance claims. An additional cost of € -3.8 million has been booked in 2010.*

(b) *This amount includes:*

- *€ 35.0 million additional provision relating to the award handed down on 3 May 2010, in the arbitration against the Republic of China (Taiwan), as detailed in note 23.*
- *€ 15.0 million provision relating to a contract linked with the one mentioned above, in the arbitration against the Republic of China Navy (Taiwan), as detailed in note 23.*

8. FINANCIAL INCOME (EXPENSE)**a) COST OF NET FINANCIAL DEBT**

	2010	2009
Interest expense:		
– on gross debt	(104.4)	(104.4)
– on interest rate swaps	23.1	12.8
	(81.3)	(91.6)
Interest income/cash and equivalents	24.0	26.0
Total	(57.3)	(65.6)

b) OTHER FINANCIAL INCOME (EXPENSE)

	2010	2009
Foreign exchange gains (losses)	(5.4)	(10.5)
Change in fair value of derivative exchange instruments	3.8	(37.3)
Inefficiency of foreign exchange hedges	(4.6)	(5.3)
Net foreign exchange gain (loss)	(6.2)	(53.1)
Net interest income (expense) on non-financial receivables and payables	9.2	6.0
Dividends received	5.0	6.1
Impairment of investments in shares (available-for-sale)	(4.1)	—
Depreciation of loans and other financial debtors	(9.1)	0.9
Other	(10.1)	(4.8)
Total	(15.3)	(44.9)

9. INCOME TAX

Determination of the income tax expense takes into account the specific local rules applied by Thales, including the tax consolidation system in France, Group Relief in the United Kingdom, tax consolidation in the USA, and the "Organschaft" rules in Germany.

a) ANALYSIS OF TAX CHARGE

	2010	2009
Current tax	(62.7)	(66.0)
Deferred tax	283.2	267.7
Reduction of goodwill due to the recognition of deferred tax assets (note 1-b)	—	(26.4)
Total	220.5	175.3

b) EFFECTIVE TAX RATE

	2010	2009
Net income (loss)	(107.6)	(201.6)
Less: income tax	(220.5)	(175.3)
Less: share in net income (loss) of equity affiliates	(54.5)	(48.0)
Profit before tax	(382.6)	(424.9)
Average tax rate	36.1%	38.1%
Theoretical tax gain (expense)	138.0	161.9
Reconciliation:		
- Non taxable items	50.0	49.4
- Change in deferred tax not recorded as an asset	1.0	(22.7)
- Reduction of goodwill due to the recognition of deferred tax assets	—	(26.4)
- Adjustments on prior years	27.2	16.0
- Effect of enacted future tax rate changes	(2.8)	(1.0)
- Other	7.1	(1.9)
Actual net tax charge	220.5	175.3

c) DEFERRED TAX ASSETS AND LIABILITIES

	31/12/10	31/12/09
- Deferred tax assets	954.7	678.0
- Deferred tax liabilities	(194.9)	(258.6)
Deferred tax assets, net	759.8	419.4

d) CHANGES IN NET DEFERRED TAX ASSETS:

- Changes by nature

	01/01/10	(Expense) income of the period	Recognised through equity	Change in exch. rate and scope and other	31/12/10
Temporary differences:	243.1	172.1	32.4	14.8	462.4
- Pensions and other employee benefits	167.6	(6.0)	—	1.9	163.5
- Intangible assets	(222.4)	22.7	—	—	(199.7)
- Reserve for losses at completion	175.6	146.3	—	3.7	325.6
- Other	122.3	9.1	32.4	9.2	173.0
Tax loss carry-forwards	416.0	86.0	—	2.8	504.8
Total	659.1	258.1	32.4	17.6	967.2
Of which non recognised in the balance sheet	(239.7)	25.2	2.2	4.9	(207.4)
Total net deferred tax assets	419.4	283.3	34.6	22.5	759.8

	01/01/09	(Expense) income of the period	Recognised through equity	Change in exch. rate and scope and other	31/12/09
Temporary differences:	42.6	242.9	(18.2)	(24.2)	243.1
– Pensions and other employee benefits	171.6	(5.5)	—	1.5	167.6
– Intangible assets	(282.2)	66.1	—	(6.3)	(222.4)
– Reserve for losses at completion	57.6	117.3	—	0.7	175.6
– Other	95.6	65.0	(18.2)	(20.1)	122.3
Tax loss carry-forwards	352.9	66.8	—	(3.7)	416.0
Total	395.5	309.7	(18.2)	(27.9)	659.1
Of which non recognised in the balance sheet	(230.6)	(42.0)	2.5	30.4	(239.7)
Total net deferred tax assets	164.9	267.7	(15.7)	2.5	419.4

- Deferred tax allocated to equity

	2010	2009
Cash flow hedge	31.3	(19.4)
Net foreign investments' hedge	0.4	1.3
Total deferred tax/other comprehensive income	31.7	(18.1)
Deferred tax/payment in shares	2.5	2.5
Others	0.3	(0.1)
Total deferred tax allocated to equity	34.6	(15.7)

- Tax loss carry-forwards

Total tax loss carry-forwards represent a potential tax saving of € 504.8 million at 31 December 2010 (€ 416.0 million at 31 December 2009). Corresponding expiry dates are:

	31/12/10
2011	1.2
2012-2015	4.7
> 2015 *	498.9
Total	504.8

* Of which € 446.4 million without any time limit.

	31/12/09
2010	0.2
2011-2014	18.9
> 2014 *	396.9
Total	416.0

* Of which € 346.1 million without any time limit.

10. EARNINGS PER SHARE

	2010	2009
Numerator (in millions of euros):		
Income (loss), Group share (a)	(107.6)	(201.8)
Denominator (in thousands):		
Average number of shares outstanding (b)	195,915	195,054
Share options *	129	434
Diluted average number of shares outstanding (c)	196,044	195,488
Earnings per share (in euros) (a)/(b)	(0.55)	(1.03)
Diluted earnings per share (in euros) (a)/(c)	(0.55)	(1.03)

* The average share price amounted to € 28.29 in 2010. Except for the July 2003 plan, share purchase and subscription options plans are antilutative. Consequently, they have been excluded from the diluted earnings per share calculation. Detailed information relating to those plans is presented in note 20-c.

The average share price amounted to € 31.96 in 2009. Except for the July 2003 and 2004 plans, share purchase and subscription option plans were antilutative.

11. GOODWILL

a) GOODWILL BY SEGMENT

Following Thales new organisation, goodwill has been reallocated to new operating divisions. This reallocation has been performed on the basis of transferred activities or, if appropriate, using the related fair value method for former CGUs. This reallocation has no impact on the impairment tests at 31 December 2009.

	31/12/10		31/12/09	
	Gross	Impairment	Net	Net
Avionics	341.7	(24.2)	317.5	313.9
Transportation Systems	927.7	(52.3)	875.4	871.0
Space	467.2	—	467.2	467.2
Aerospace and Transport	1,736.6	(76.5)	1,660.1	1,652.1
Defence & Security C4I Systems	640.2	(55.2)	585.0	566.7
Defence Mission Systems	475.3	—	475.3	450.4
Land Defence	281.7	(7.4)	274.3	269.1
Air Operations	41.8	—	41.8	40.6
Defence and Security	1,439.0	(62.6)	1,376.4	1,326.8
Other	8.4	—	8.4	8.0
Total	3,184.0	(139.1)	3,044.9	2,986.9

b) CHANGES IN NET GOODWILL

	2010	2009
Net book value at 1 January	2,986.9	2,793.2
Acquisitions:	18.0	192.2
– Advanced Acoustic Concepts, Inc	13.8	—
– Price adjustment relating to Alcatel-Lucent's space businesses (note 2)	—	129.6
– Acquisition of nCipher	—	29.3
– Acquisition of CMT Medical Technologies Ltd	—	12.6
– Other	4.2	20.7
Disposals:	—	—
– Other	—	—
Reduction of goodwill due to the recognition of deferred tax assets (note 9)	— *	(26.4)
Impairment (note 6)	(8.2)	(17.4)
Exchange rate variations and other	48.2	45.3
Net book value at 31 December	3,044.9	2,986.9

* According to Revised IFRS3 (note 1-b), deferred tax recognised for the first time after the end of the business combination's measurement period is accounted for in profit or loss and no longer adjusted against goodwill. This adjustment would have amounted to € (41.9) million according to the old standard.

12. TANGIBLE AND INTANGIBLE ASSETS

a) DETAILS OF BALANCE SHEET ITEMS

	31/12/10		31/12/09	
	Gross	Depreciation and impairment	Net	Net
Customer relationships: long-term	397.5	(102.6)	294.9	320.9
Customer relationships: backlog	212.3	(184.1)	28.2	53.0
Acquired technologies	249.8	(115.6)	134.2	163.4
Other	15.7	(3.4)	12.3	13.3
Intangible assets acquired in the context of business combination	875.3	(405.7)	469.6	550.6
Development costs	901.8	(665.1)	236.7	253.7
Other	558.5	(431.9)	126.6	121.0
Intangible assets (excluding goodwill)	2,335.6	(1,502.7)	832.9	925.3
Land	62.6	—	62.6	54.2
Buildings	1,116.3	(608.9)	507.4	507.6
Plant and equipment	2,119.2	(1,593.5)	525.7	511.0
Other	743.4	(491.9)	251.5	265.5
Tangible assets	4,041.5	(2,694.3)	1,347.2	1,338.3
Total	6,377.1	(4,197.0)	2,180.1	2,263.6
Of which:				
Fixed assets held under lease agreements	73.7	(39.9)	33.8	27.1
Fixed assets under construction	32.4	—	32.4	48.8

b) CHANGES IN NET TANGIBLE AND INTANGIBLE ASSETS

	Intangible assets acquired in business combination	Development costs	Other intangible assets	Tangible assets	Total
Net value at 1 January 09	609.2	427.9	92.2	1,262.9	2,392.2
Acquisitions/capitalisations	—	113.2	37.1	268.6	418.9
Disposals	—	—	(2.8)	(3.0)	(5.8)
Depreciation and amortisation	(84.4)	(51.5)	(27.6)	(257.3)	(420.8)
Impairment (note 6)	—	(240.0)	(2.7)	—	(242.7)
Scope, foreign exchange rates and other	25.8	4.1	24.8	67.1	121.8
Net value at 31 December 09	550.6	253.7	121.0	1,338.3	2,263.6
Acquisitions/capitalisations	—	43.4	31.2	240.6	315.2
Disposals	—	—	(0.5)	(5.9)	(6.4)
Depreciation and amortisation	(81.7)	(60.8)	(34.2)	(267.9)	(444.6)
Impairment (note 6)	—	—	—	(1.6)	(1.6)
Scope, foreign exchange rates and other	0.7	0.4	9.1	43.7	53.9
Net value at 31 December 10	469.6	236.7	126.6	1,347.2	2,180.1

13. EQUITY AFFILIATES

a) GROUP SHARE IN NET ASSETS AND NET INCOME OF EQUITY AFFILIATES

	Ownership %		Share in net assets		Share in income (loss)	
	31/12/10	31/12/09	31/12/10	31/12/09	2010	2009
Aviation Com.& Surveillance Syst.	30	30	58.0	54.9	4.7	4.6
Camelot Plc ^(a)	—	20	—	50.0	3.4	6.4
DCNS ^(b)	25	25	538.9	520.2	27.6	23.5
DpiX	20	20	18.2	16.4	0.5	1.3
Elettronica	33	33	32.1	30.4	6.7	6.1
ESG Elektroniksystem & Logistik GmbH	30	30	19.9	16.5	4.7	2.4
Indra Espacio ^(c)	—	33	—	16.3	0.7	1.2
Other	—	—	14.8	6.3	6.2	2.5
Total			681.9	711.0	54.5	48.0

(a) Sold end-June 2010.

(b) The net income of equity affiliates is based on the Group share of DCNS' profit, including amortisation of Thales PPA.

The share in net assets of equity affiliates is based on the Group share in DCNS' equity adjusted with the following elements:

- intangible assets linked to PPA (€ 126.7 million at 31 December 2010 and € 131.8 million at 31 December 2009 net of tax),
- additional goodwill (€ 224.7 million at 31 December 2010 and 2009),
- additional debt of € -61.7 million (€ -67.5 million at 31 December 2009), as Thales excludes DCNS cash payable to the French State.

(c) Sold in October 2010.

b) CHANGES IN "NET ASSETS OF EQUITY AFFILIATES"

	2010	2009
Share in net assets of equity affiliates at 1 January	711.0	692.4
Share in income (loss) of equity affiliates	54.5	48.0
Dividends paid	(25.6)	(26.9)
Disposals (Camelot Plc and Indra Espacio)	(67.4)	—
Effect of changes in exchange rates and other	9.4	(2.5)
Share in net assets of equity affiliates at 31 December	681.9	711.0

c) SUMMARY OF DCNS'S IFRS FINANCIAL STATEMENTS

Statement of Income:

	2010	2009
Revenues	2,503.2	2,406.0
Net income	139.4	128.6

Balance sheet:

	31/12/10	31/12/09
Assets	7,258.2	6,472.6
Liabilities	(6,261.5)	(5,547.8)
Equity	996.7	924.8

14. OTHER NON-CURRENT FINANCIAL ASSETS

a) AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments are measured at fair value when reliable. Changes in fair value are directly recognised through equity. If fair value cannot be reliably determined, such securities are recognised at cost. If an impairment indicator is identified, impairment is recognised in "other financial expense".

■ FAIR VALUE OF INVESTMENT IN SHARES AT 31 DECEMBER

	31/12/10	31/12/09
Investments held by Thales Corporate Ventures ^(a)	17.2	17.0
Investments held by Thales International Offsets ^(b)	33.6	28.3
Other	51.3	56.6
Total	102.1	101.9

(a) The Group's venture capital vehicle.

(b) The Group's subsidiary in charge of negotiating and implementing indirect offset requirements.

■ CHANGES IN THE PERIOD

	2010	2009
Investments in shares at 1 January	101.9	175.4
NCipher ^(a)	—	(63.2)
Diehl Aircabin ^(a)	—	(24.5)
Other acquisitions/disposals	(1.3)	1.1
Impairment of investments (note 8-b)	(4.1)	—
Changes in fair value booked through equity (note 20-d)	—	1.5
Exchange rate variations and other	5.6	11.6
Investments in shares at 31 December	102.1	101.9

(a) Companies acquired in 2009 and consolidated since 1 January 2010.

b) LOANS AND OTHER FINANCIAL ASSETS

Financial loans and receivables are recognised at amortised cost. They are subject to provisions for impairment if an impairment indicator of long-term loss of value is identified.

	31/12/10	31/12/09
Loans to partners	57.8	51.4
Receivables relating to disposals	36.2	35.7
Other	83.0	97.1
Loans and other financial assets, gross	177.0	184.2
Provisions for impairment	(13.5)	(12.3)
Loans and other financial assets, net	163.5	171.9

15. INVENTORIES AND WORK-IN-PROGRESS

	31/12/10	31/12/09
Raw materials	530.5	530.5
Work-in-progress (excluding construction contracts – note 16)	1,215.8	1,195.7
Semi-finished and finished products	947.3	859.6
Finished goods for resale	138.8	125.1
Total, gross	2,832.4	2,710.9
Provisions (note 18)	(530.5)	(500.1)
Total, net	2,301.9	2,210.8

16. CONSTRUCTION CONTRACTS

	31/12/10	31/12/09
Construction contracts: assets	2,057.7	2,243.2
Construction contracts: liabilities	(1,365.7)	(882.7)
Total	692.0	1,360.5
Work in progress on construction contracts	1,097.5	1,305.8
Unbilled receivables on construction contracts	1,033.5	1,080.4
Reserves for losses at completion	(944.7)	(614.1)
Other reserves on construction contracts	(494.3)	(411.6)
Total	692.0	1,360.5
Advances received from customers on construction contracts	2,282.8	2,708.3

The main contracts for which the company has increased provisions are:

A400M

As the supplier to Airbus Military SL (AMSL), the subsidiary of EADS in charge of the A400M programme, Thales is developing and will produce the onboard systems (cockpit and electronic warfare systems) and the central Flight Management System (FMS contract), which interacts with more than 30 other systems on the aircraft.

In September 2008, EADS announced an unspecified delay in the first flight of the A400M, which eventually took place on 11 December 2009, but without confirming a revised engineering schedule. Talks with OCCAR initiated in late 2008 by AMSL and its parent company EADS resulted in an agreement signed on 5 November 2010 that is currently being ratified by each of the programme partner nations.

For the FMS contract, Thales and AMSL also held talks to rescope the contract and redefine functional specifications, execution schedule and related contractual and financial terms. These talks were still ongoing when the financial year ended on 31 December 2010:

- an amendment is currently being drafted covering points of convergence on engineering and schedule aspects, and on milestone acceptance conditions and management principles governing relations with Airbus;
- certain contract clauses, notably financial ones, are still being discussed.

The re-negotiated FMS contract has significantly improved operational visibility, with a new schedule and a clearer engineering scope now being finalised. This has allowed us to redefine the costs on completion and to better assess the risks attached to this complex development contract, which will take several more years to complete. For the 2010 financial statements, based on these new elements, the Group has adopted the execution scenario that reflects this clearer

assessment of the contract's future costs and is more cautious than earlier projections. As an agreement about additional funding was yet to be signed on the date the accounts were closed, no additional resources were taken into account for this contract at 31 December 2010.

For reasons of confidentiality and to protect the Group's interests, in line with accounting standards no detailed disclosure will be made relating to the FMS contract in the consolidated financial statements at 31 December 2010.

Discussions on the part of the contract covering the other avionics systems delivered by Thales for this programme are yet to be finalised.

MELTEM

This contract with the Turkish Ministry of Defence notified in July 2003 covers the supply of 6 naval maritime patrol aircraft and 3 maritime surveillance aircraft for the coastguard, based on the CASA CN235 platform provided by the customer. An amendment notified in July 2005 covers the supply of 10 batches of equipment and mission software for an ATR 72 aircraft.

Given the numerous technical difficulties and schedule overruns encountered on this programme, Thales initiated talks with the customer early in 2010 with a view to reaching a decision on the pursuit of the programme. These talks resulted in an agreement-in-principle at the start of February 2011, which should lead shortly to the signing of a contract amendment. This agreement-in-principle rescopes all engineering and schedule aspects of the contract. It also provides for financial compensation to be paid by Thales (penalties and additional work to be undertaken free of charge).

The financial statements at 31 December 2010 have been established on the assumption that this amendment will be signed, and reflect a

more cautious approach than earlier projections. Costs on completion have been closely reviewed, on the assumption that the programme will be pursued, and incorporate:

- the technical difficulties encountered so far;
- possible financial impacts of executing the contract over a longer period;

- the cost of additional staffing during the certification and warranty phases.

For reasons of confidentiality and to protect the Group's interests, in line with accounting standards no detailed disclosure will be made about this figure.

17. CURRENT RECEIVABLES AND PAYABLES

a) CURRENT RECEIVABLES

	31/12/10			31/12/09
	Total	< 1 year	> 1 year	
Accounts and unbilled receivables, gross	3,107.7	2,988.6	119.1	3,097.5
Provisions on accounts & notes receivable ^(a)	(110.2)	(54.5)	(55.7)	(111.3)
Accounts and unbilled receivables, net	2,997.5	2,934.1	63.4	2,986.2
Other tax receivables (excluding income tax)	607.2	459.0	148.2	591.1
Other debtors and prepaid expenses, gross	433.2	366.9	66.3	411.1
Related provisions ^(a)	(56.9)	(56.2)	(0.7)	(53.6)
Net	983.5	769.7	213.8	948.6
Accounts, notes and other current receivables	3,981.0	3,703.8	277.2	3,934.8

(a) Changes in provisions for depreciation can be analysed as follows:

	Opening	Net depreciation (reversal)	Scope & exch. rates	Closing
31/12/10:				
Depreciation on accounts & notes receivable	111.3	(2.2)	1.1	110.2
Depreciation on other receivables	53.6	3.3	—	56.9
31/12/09:				
Depreciation on accounts & notes receivable	101.0	10.1	0.2	111.3
Depreciation on other receivables	41.8	11.8	—	53.6

b) CURRENT PAYABLES

	31/12/10			31/12/09
	Total	< 1 year	> 1 year	
Suppliers and notes payable	2,168.5	2,131.8	36.7	2,263.3
Accrued holiday pay and social security	1,130.1	1,128.2	1.9	1,075.8
Other tax payables (excluding income tax)	681.1	674.3	6.8	588.0
Other creditors and accrued liabilities	976.9	919.3	57.6	808.9
Suppliers, notes and other current payables	4,956.6	4,853.6	103.0	4,736.0

18. COMPANIES UNDER JOINT CONTROL

The contribution to Thales consolidated financial statements of companies accounted under the proportionate consolidation method is presented below:

■ PROFIT AND LOSS ACCOUNT

	2010	2009
Revenues	2,640.0	2,551.4
Income from operating activities	201.2	180.9
Net income	186.1	118.0

■ BALANCE SHEET

	31/12/10	31/12/09
Non-current assets	1,264.6	1,211.1
Current assets	1,957.6	1,818.9
Total assets	3,222.2	3,030.0
Equity	1,552.9	1,376.4
Non-current liabilities	366.9	384.7
Current liabilities	1,302.4	1,268.9
Total liabilities and equity	3,222.2	3,030.0

■ CASH FLOW STATEMENT

	2010	2009
Cash flow from operating activities	318.4	213.7
Cash flow from investing activities	(178.1)	(149.5)
Cash flow from financing activities	3.0	(43.1)
Change in exchange rate and scope	7.2	5.0
Increase (decrease) in cash at bank and equivalents	150.5	26.1

19. RELATED PARTY TRANSACTIONS

The Group has identified the following related parties: shareholders of Thales parent company (particularly the French State and Dassault Aviation), companies controlled by these shareholders, joint ventures, companies under significant influence, and directors and senior corporate officers.

The Group has decided on the early adoption of Revised IAS 24 *Related Party Disclosures* in its financial consolidated statements at

31 December 2010 that partly exempts Thales from disclosing information about all transactions with other entities controlled or significantly influenced by the French State.

Because of its positioning in the domestic market, Thales's revenues with the French State amount to € 2,015.2 million in 2010 (€ 2,006.4 million in 2009) and are mainly related to its customer DGA ("Direction Générale de l'Armement") in the Defence business. Companies controlled by the French State account for a significant part of Thales's revenues, with mainly DCNS and EADS (which respectively for 2% and 3% of the Group's revenues).

a) TRANSACTIONS

Transactions with joint ventures (for the share of transactions attributable to non-Thales shareholders), companies under significant influence and other related parties are described in the chart below:

	2010	2009
Revenues:		
Non-controlled share of joint ventures	200.8	181.5
Other	53.6	57.4
Purchases:		
Non-controlled share of joint ventures	304.3	308.0
Other	8.9	9.8
Net current operating assets/liabilities:		
Non controlled share of joint ventures	6.2	2.3
Other	28.8	32.7
Financial current accounts receivable		
Non-controlled share of joint ventures	58.5	67.9
Other	30.3	26.9
Financial current accounts payable		
Non-controlled share of joint ventures	241.5	178.2
Other	14.6	18.7

b) AGREEMENTS SIGNED WITH THALES'S SHAREHOLDERS

On 19 May 2009, Dassault Aviation finalised the acquisition of 20.8% of Thales's capital previously owned by Alcatel-Lucent for an amount of € 1.57 billion (€ 38 per share). The same day, Dassault Aviation joined the shareholders' agreement signed on 28 December 2006 between Alcatel-Lucent and the French State. Amendments have been made to this agreement to adapt the provisions concerning Alcatel-Lucent that were not relevant to Dassault Aviation (www.amf-france.org: decisions and information n°209C0770 of 29 May 2009).

On 20 May 2009, Dassault Aviation bought shares in Thales initially held by GIMD for € 0.39 billion (€ 38 per share).

The main rights granted to the French State and/or Dassault Aviation concerning Thales are described in the registration document (shareholders' agreement, convention on protection of strategic national interests and specific convention).

c) AGREEMENTS SIGNED AT THE END OF JANUARY 2007 WITH DCNS

At the end of January 2007, within the framework of the combination of the French naval activities of Thales and DCNS, the shareholders' agreement between the French State and Thales changed: Thales became "the industrial partner shareholder" of DCNS; the terms of governance gave to Thales the rights to play an active role in the Board of Directors of DCNS. Thales also had the opportunity, from 29 March 2009 and, for three years, to increase its stake to 35%.

Thales and DCNS also signed an industrial and trade cooperation agreement, whose objective is to optimise the organisation of the activity of both groups in naval operations (market access, research and development, purchasing).

d) **COMPENSATION OF DIRECTORS AND SENIOR CORPORATE OFFICERS**

Compensation, benefits and social security contributions attributable to Directors and members of the Executive Committee are composed as follows:

EXPENSES

	2010	2009
Short-term benefits		
– Fixed compensation	5.4	6.6
– Variable compensation	2.7	3.7
– Employer's social security contribution	2.6	3.3
– Contract termination benefits resulting from contract commitments	—	16.5
<i>Including former CEO</i>	—	3.0
– Employer's social security contribution/contract termination benefits	—	3.8
– Compensation for attendance at Board meetings	0.5	0.6
Other benefits		
– Post-employment benefits	1.5	3.3
<i>Including former CEO</i>	—	2.1
– Share-based payments ^(a)	1.1	4.1

(a) The Group measures the amount of the benefit granted to employees receiving options according to IFRS 2. The fair value of such options is determined at the grant date. The amounts thus obtained are recognised in profit and loss over the vesting period of the rights.

20. EQUITY

a) **SHARE CAPITAL**

The share capital of Thales amounts to € 597,246,081 and is comprised of 199,082,027 shares with a par value of € 3 (compared with 199,023,932 shares with a par value of € 3 at 31 December 2009).

b) **DEBT SECURITIES ENTITLING HOLDERS TO EQUITY IN THE PARENT COMPANY AT A FUTURE DATE**

At 31 December 2010, there are no securities entitling holders to equity in the parent company at a future date.

c) **SHARE-BASED PAYMENTS**

• **1- Description of the different plans granted by the Group**

Thales regularly grants its employees and managers, purchase and subscription options, within the performance management policy. Since 2007, the Group also created plans of free options for its employees. These different plans are described below:

At 31 December 2010, the following options were outstanding:

- 250,125 share purchase options at a weighted average exercise price of € 42.30,
- 17,860,559 share subscription options at a weighted average exercise price of € 36.48.

■ PURCHASE OPTIONS

<i>Date of Board decision</i>	25/11/2008	04/07/2007	13/11/2001	02/04/2001	10/05/2000
<i>Discount</i>	None	None	None	None	None
<i>Exercise period ^(a)</i>	25 Nov. 2012 to 24 Nov. 2018	4 July 2011 to 3 July 2017	13 Nov. 2005 to 12 Nov. 2011	2 April 2005 to 1 April 2011 ^(b)	10 May 2004 to 9 May 2010 ^(b)
Exercise price	€ 38.50	€ 44.77	€ 42.18 ^(c)	€ 42.37 ^(c)	€ 37.72 ^(c)
Number of options exercised since grant date	None	None	8,183	None	103,696
Number of options outstanding at 31 Dec.2009	48,900	80,000 ^(e)	112,089	10,608	111,168
Options granted in 2010	—	—	—	—	—
Options exercised in 2010	—	—	—	—	—
Options cancelled in 2010	—	—	1,472	—	111,168
Number of options outstanding at 31 Dec. 2010, net of options cancelled (d) and exercised	48,900	80,000 ^(e)	110,617	10,608	—
of which exercisable options at 31 Dec. 2010	425	—	110,617	10,608	—
of which outstanding options at 31 Dec. 2010 held by:					
– Chairman Luc Vigneron	—	—	—	—	—
– the other members of the Executive Committee	None	None	None	None	None
Number of beneficiaries of outstanding options	12	1	307	2	—
Including members of the Executive Committee (except the Chairman) at 31 Dec. 2010	None	None	None	None	None
Total top ten beneficiaries (at plan date)	72,200	80,000	20,000	70,000	101,500

(a) In France. Details in “Conditions of exercise” below.

(b) At the Board Meeting of 12 July 2001, the starting date of the exercise period was brought forward from the fifth to the fourth anniversary of the grant date.

(c) Exercise price and numbers have been adjusted according to the conditions provided for in the applicable regulations (Articles D. 174-12 and 174-13), as a result of the distribution of dividends by charging reserves after the option grant date.

(d) Notably due to termination of the contract between the beneficiary and the Group since the grant date.

(e) Because the former Chairman’s options are maintained.

■ SUBSCRIPTION OPTIONS

Date of Board decision	23/09/2010	25/06/2009	01/07/2008	04/07/2007	09/11/2006	30/06/2005	01/07/2004	01/07/2003	02/07/2002	12/07/2001
Discount	None	None	None	None	None	None	None	None	None	None
Exercise period ^(a)	24 June 2014 to 23 June 2020	26 June 2013 to 25 June 2019	1 July 2012 to 30 June 2018	4 July 2011 to 3 July 2017	9 Nov. 2010 to 8 Nov. 2016	30 June 2009 to 29 June 2015	1 July 2008 to 30 June 2014	1 July 2007 to 30 June 2013	2 July 2006 to 1 July 2012	12 July 2005 to 11 July 2011
Exercise price	€26.34	€32.88	€38.50	€44.77	€36.47	€34.01	€29.50	€25.70	€40.97 ^(b)	€42.18 ^(b)
Number of options exercised since grant date	None	None	None	None	2,709	106,875	375,753	1,273,505	221,039	182,240
Number of options outstanding at 31/12/09	—	1,580,910	1,669,250	1,555,652	2,144,349	1,885,813	1,983,662	1,436,914	2,614,533	2,798,127
Options granted in 2010	471,850	—	—	—	—	—	—	—	—	—
Options exercised in 2010	—	—	—	—	—	—	36,910	21,185	—	—
Options cancelled in 2010	1,500	29,960	26,079	12,864	17,850	32,250	21,770	11,196	36,418	32,519
Number of options outstanding at 31/12/10, net of options cancelled ^(c) and exercised	470,350	1,550,950	1,643,171	1,542,788	2,126,499	1,853,563	1,924,982	1,404,533	2,578,115	2,765,608
of which exercisable options at 31/12/10	—	138,286	236,809	270,056	2,126,499	1,853,563	1,924,982	1,404,533	2,578,115	2,765,608
of which outstanding options at 31/12/10 held by:										
- Chairman	64,000	0 ^(d)	—	—	—	—	—	—	—	—
- the other members of the Executive Committee	198,000	166,850	155,550	150,050	108,500	94,413	66,775	36,200	75,159	72,213
Number of beneficiaries of outstanding options	120	1,339	1,266	1,252	1,891	1,691	2,607	2,251	4,330	4,277
Including members of the Executive Committee (except the Chairman) at 31/12/10	14	14	14	14	10	10	8	3	6	6
Total top ten beneficiaries (at plan date)	161,500	222,000	230,000	240,000	235,000	275,000	285,000	280,000	263,000	329,500

(a) In France for the plans granted until 2009 and for all the countries regarding the plan granted in 2010. Details in "Conditions of exercise" below.

(b) Exercise price and numbers have been adjusted according to the conditions provided for in the applicable regulations (Articles D. 174-12 and 174-13), as a result of the distribution of dividends by charging reserves after the option grant date.

(c) Notably due to termination of the contract between the beneficiary and the Group since the grant date.

(d) Because the new chairman, Mr Luc Vigneron, decided to waive the 80,000 options that were allocated to him.

• Conditions of exercise

All options are granted for a ten-year period, at no discount to the market price.

Stock purchase and subscription stock options granted between 2 April 2001 and 9 November 2006 can already be exercised in full.

Stock purchase and subscription stock options granted between 4 July 2007 and 25 June 2009 are progressively vested over four years and may be exercised as follows:

In all countries except France, up to 37.5% of the number granted eighteen months after the grant date, then up to 6.25% of the number granted at the end of each subsequent quarter, reaching a total of 100% four years after the grant date.

In France, in application of specific legislative requirements, employees benefiting from stock options who are French tax residents and/or subject to French social security cannot exercise any option before the 4th anniversary of the date of grant.

The options granted on 23 September 2010 are contingent upon the achievement of internal performance targets for the 2011, 2012 and 2013 financial years. The performance criteria are EBIT, operating cash flow and order intake, with a weighting of 60%, 25% and 15% respectively.

Options may be vested in three equal blocks, the first block in February 2012, the second block in February 2013 and the third block in February 2014. The number of options vested will not exceed the number of shares initially allotted. For all beneficiaries, the exercise of options will only be possible as from the fourth anniversary date of the grant.

■ OPTIONS GRANTED AND EXERCISED IN 2010

	Number of options granted/ of shares subscribed or purchased	Exercise price	Maturity date	Grant date
1 – Directors				
Options granted in 2010 – Luc Vigneron	64,000	€26.34	22/09/2020	23/09/2010
2 – Ten ^(a) largest grants to employees ^(b)				
Options granted in 2010	161,500	€26.34	22/09/2020	23/09/2010
3 – Ten largest exercises by employees ^(b)				
Options exercised in 2010	19,620	€29.50	—	01/07/2004
	5,000	€29.50	—	01/07/2004
	5,000	€29.50	—	01/07/2004
	4,000	€25.70	—	01/07/2003
	3,000	€29.50	—	01/07/2004
	3,000	€25.70	—	01/07/2003
	1,900	€25.70	—	01/07/2003
	1,000	€29.50	—	01/07/2004
	1,000	€29.50	—	01/07/2004
	1,000	€25.70	—	01/07/2003

(a) During 2010, the top ten individual grants of options to employees of the company or its subsidiaries were between 10,000 and 30,000 options each: one beneficiary received 30,000 options, three received 20,000 options, two received 15,000 options, one received 11,500 options and three received 10,000 options.

(b) Group companies taken altogether.

• **Free shares and/or performance share plan**

The Board of Directors, acting on authorisation of the Annual General Meeting, decided to launch a fourth free shares allotment plan. The company decided to exclude from the benefit of this plan: the Chairman (the only “mandataire social”, legally responsible as defined by the French Commercial Code), and 21 executives (including Executive Committee).

The free shares plan granted on 23 September 2010 is made up of two sub plans:

★ **FREE SHARES:**

- All designated beneficiaries of this programme will receive shares vested over a four-year period provided the conditions of presence have been satisfied as stipulated in the programme terms and conditions.
- Beneficiaries who are French tax residents or covered by the French social security system may not sell the shares for a period of two years. This condition does not apply to beneficiaries who are not French tax residents.

★ **PERFORMANCE-BASED ALLOCATION OF SHARES:**

- The allotment of shares under this programme is contingent upon the achievement of internal performance targets for the 2011, 2012 and 2013 financial years. The performance criteria are EBIT, operating cash flow and order intake, with a weighting of 60%, 25% and 15% respectively.
- Shares may be vested in three equal blocks, the first block in February 2012, the second block in February 2013 and the third block in February 2014.
- The number of shares vested will not exceed the number of shares initially allotted.
- All designated beneficiaries of this programme will receive vested shares over a four-year period provided the conditions of presence have been satisfied as stipulated in the programme terms and conditions.
- Beneficiaries who are French tax residents or covered by the French social security system may not sell the shares for a period of two years. This condition does not apply to beneficiaries who are not French tax residents.

Date of Board decision	23/09/2010		25/06/2009	01/07/2008	04/07/2007
	Free shares	Performance shares	Free shares	Free shares	Free shares
Number of beneficiaries at the grant date	5,355	327	3,848	3,624	3,545
Share price at grant date	€ 26.40		€ 31.93	€ 35.72	€ 45.13
Number of shares granted	487,680	144,050	334,980	317,705	312,435
Number of free shares at 31/12/09	—	—	333,380 ^(c)	309,975 ^(c)	298,370 ^(c)
Cancellation of allotments during the year ^(a)	3,880	1,200	3,435	4,225	5,150
Early allotments during the year ^(b)	100	—	195	140	70
Number of free shares, net of cancellations and early allotments, at 31/12/10	483,700	142,850	329,750	305,610	293,150
Number of beneficiaries remaining at 31/12/10	5,312	324	3,794	3,493	3,323
Vesting period	23/06/2010 to 23/06/2014		25/06/2009 to 25/06/2013	1/07/2008 to 1/07/2012	4/07/2007 to 4/07/2011
Share transfer date	24/06/2014		26/06/2013	2/07/2012	5/07/2011
Retention period for French tax residents	24/06/2014 to 24/06/2016		26/06/2013 to 26/06/2015	02/07/2012 to 2/07/2014	5/07/2011 to 5/07/2013

(a) Due to the departure of the beneficiary,

(b) Due to the death of the beneficiary during the vesting period,

(c) Data amended following adjustments identified after closing date.

• 2- Analysis of the expense related to share-based payments

The Group measures the amount of the benefit granted to employees receiving purchase and subscription stock options and free shares. The fair value of such instruments, measured using a binomial model, is determined at the grant date. The amounts thus obtained are taken to profit and loss over the vesting period of the rights and the corresponding expense is included in income from operations.

Internal performance conditions are taken into account by adjusting the expected number of equity instruments granted at the end of the vesting period. Internal performance conditions are consequently not taken into account when estimating the fair value of the share options at the measurement date.

■ Expenses related to share-based payments ¹

Grant date	Initial number of options	Fair value at grant date	Fair value at 31/12/10	2010 expense	2009 expense
01/07/03	3,034,200	(21.3)	—	—	—
01/07/04	2,638,750	(21.4)	—	—	—
30/06/05	2,201,500	(19.5)	—	—	0.2
09/11/06	2,223,950	(23.5)	—	0.7	2.8
04/07/07	1,654,530	(15.6)	(0.2)	1.1	3.3
01/07/08	1,688,076	(11.2)	(0.9)	1.9	6.1
25/11/08	71,700	(0.3)	—	0.1	0.2
25/06/09	1,600,340	(11.2)	(2.9)	5.1	3.3
23/09/10	471,850	(2.8)	(2.4)	0.3	—
Total options			(6.4)	9.2	15.9
04/07/07	312,435	(11.5)	(1.5)	3.0	3.1
01/07/08	317,705	(9.3)	(3.5)	2.4	2.4
25/06/09	334,980	(8.7)	(5.4)	2.2	1.1
23/09/10	631,730	(13.6)	(12.7)	0.9	—
Total free shares			(23.1)	8.5	6.6
Total			(29.5)	17.7	22.5

¹ Plans granted after 7 November 2002 (date of first application of IFRS 2).

■ ASSUMPTIONS USED

Grant date	Share price at grant date	Expected volatility ¹	Risk-free rate	Distribution rate on future income	Expected rate of cancellation of options pre-vesting	Expected rate of departure post-vesting	Early exercise multiple
Options:							
01/07/03	€ 25.85	34%	3.8%	3.5%	2%	3%	1.50
01/07/04	€ 30.07	32%	4.4%	3.5%	2%	3%	1.50
30/06/05	€ 33.59	30%	2.8%	2.5%	2%	3%	1.50
09/11/06	€ 37.32	30%	3.8%	2.5%	2%	3%	1.50
04/07/07	€ 45.13	20%	4.5%	2.5%	2%	3%	1.30
01/07/08	€ 35.72	20%	4.5%	2.5%	2%	3%	1.30
25/11/08	€ 31.96	20%	3.5%	2.5%	2%	3%	1.30
25/06/09	€ 31.93	25%	3.9%	2.5%	2%	3%	1.30
23/09/10	€ 26.40	25%	3.1%	2.5%	2%	3%	1.30
Free shares:							
04/07/07	€ 45.13	N/A	4.5%	2.5%	2%	N/A	N/A
01/07/08	€ 35.72	N/A	4.5%	2.5%	2%	N/A	N/A
25/06/09	€ 31.93	N/A	3.9%	2.5%	2%	N/A	N/A
23/09/10	€ 26.40	N/A	3.1%	2.5%	2%	N/A	N/A

¹ Measured on the basis of a mix between historical and implicit volatility.

d) CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS DIRECTLY RECOGNISED IN EQUITY

	2010	2009
Cash flow hedges:	(87.4)	70.8
– Changes in fair value	(71.7)	90.6
– Taken to profit and loss	(16.2)	(19.5)
– Change of scope of consolidation and exchange rate	0.5	(0.3)
Available-for-sale assets	(4.7)	1.5
– Changes in fair value	0.4	1.5
– Taken to profit and loss	–	–
– Change of scope of consolidation and exchange rate	(5.1)	–

e) CUMULATIVE TRANSLATION ADJUSTMENT

This line item reflects differences arising from the translation of the financial statements of foreign subsidiaries on the basis of closing and average exchange rates. The principal rates used are summarised in note 1-c.

	2010	2009
Translation of the financial statements of foreign subsidiaries:	163.9	119.7
– Changes in fair value	156.5	116.9
– Taken to profit and loss	7.4	2.8
Hedges of net investments in foreign subsidiaries:	(1.2)	(3.8)
– Changes in fair value	(1.2)	(0.6)
– Taken to profit and loss	–	(3.2)

f) TREASURY SHARES

Thales's parent company held 3,717,478 of its own shares at 31 December 2010 (3,556,693 at 31 December 2009). In the consolidated financial statements, treasury shares are deducted from consolidated equity for an amount of € -140.3 million at 31 December 2010 (€ -141.5 million at 31 December 2009).

g) CAPITAL MANAGEMENT

The Group manages its capital, based on authorizations given by General Meetings, with the following objectives: optimisation of profitability and risk of the capital invested by its shareholders, adequacy and control of the financial resources necessary for the Group's medium-term development.

Capital management also takes account of the structure of the Group's shareholder base, and particularly of the French Government

shareholding which is above the threshold of 15%, which implies that any dilution or reduction of this shareholding requires a specific authorisation regarding its financial conditions from the French "Commission des participations et des transferts" (*Commission for Government shareholdings and transfers*).

The main requirement of this management is to maintain a good level of credit quality, enabling the Group to undertake commercial commitments in competitive conditions, to have access to financial markets at an optimised cost and to have sufficient financial flexibility to maintain its development. In this respect, the Group pays particular attention to the credit ratios published by the main ratings agencies or retained by the banks that are used, or could be used, by the Group.

Moreover, the Group evaluates the appropriateness of its acquisition or investment projects not only on the basis of their strategic potential but also of their financial profile and organises their financing taking into account the factors referred to above and potential opportunities and threats on debt and equity markets.

On an indicative basis, the consolidated gearing ratio, as calculated below, is as follows:

	31/12/10	31/12/09
Attributable to equity	3,681.3	3,753.8
Net financial debt (note 24)	(191.0)	90.8
Net financial debt/(Equity + Net financial debt)	N/A	2%

21. PENSIONS AND OTHER EMPLOYEE BENEFITS

The Group grants its employees post-employment benefits (pensions, retirement awards, medical care, etc.) and other long-term benefits (long-service benefits, long-service awards on departure, etc.). Apart from state plans, the plans that are set up to cover these benefits are either defined contribution plans or defined benefit plans.

a) STATE PLANS

In certain countries, and particularly in France, the Group subscribes to state plans (Social Security State plans, compulsory additional plans such as ARRCO, AGIRC, etc.) for which the pension expense for the financial year is equal to the contributions called by, and thus payable to, such plans.

b) DEFINED CONTRIBUTION PLANS

These plans guarantee employees benefits that are directly related to aggregate contributions paid, as increased by the yield on investments made. The enterprise's pension expense is thus limited to contributions paid. In 2010, the corresponding pension expense was € 24.5 million (€ 19.2 million in 2009).

c) DEFINED BENEFIT PLANS

There are two categories of countries within the Group:

- Countries in which retirement and other benefits are mainly funded externally: the UK and the Netherlands.
- Countries in which the funding of retirement is mainly based on defined contribution plans and where certain other benefits (retirement awards, long-service awards) are of a defined benefit nature and for which external funding is not systematically put in place. France and Germany are notably included in this category.

■ PROVISIONS RECOGNISED IN THE BALANCE SHEET

	2010			2009		
	Externally funded countries	Internally funded countries	Total	Externally funded countries	Internally funded country	Total
Net provisions at 1 January	(113.8)	(676.9)	(790.7)	(130.5)	(673.0)	(803.5)
Current service cost	(23.1)	(39.6)	(62.7)	(19.8)	(37.7)	(57.5)
Interest cost	(167.8)	(48.6)	(216.4)	(158.1)	(46.5)	(204.6)
Expected return on plan assets	151.9	9.1	161.0	132.7	7.8	140.5
Scheme amendments, curtailments and settlements	(1.8)	—	(1.8)	(12.8)	0.8	(12.0)
Amortisation of scheme amendments	(10.8)	(8.8)	(19.6)	(3.4)	(13.6)	(17.0)
Amortisation of actuarial gains (losses)	(14.7)	(0.2)	(14.9)	(13.1)	1.1	(12.0)
Effect of a minimum funding requirement*	(12.9)	—	(12.9)	—	—	—
Other components of pension charge	(56.1)	(48.5)	(104.6)	(54.7)	(50.4)	(105.1)
Defined benefit plans: total cost	(79.2)	(88.1)	(167.3)	(74.5)	(88.1)	(162.6)
Benefits and contributions	108.8	54.4	163.2	90.4	65.8	156.2
- Deficit payment in the UK	57.0	—	57.0	57.6	—	57.6
- Future service cash	51.8	54.4	106.2	32.8	65.8	98.6
Exchange rate variation	0.6	(8.0)	(7.4)	1.1	(7.0)	(5.9)
Change in scope of consolidation and other	—	7.1	7.1	(0.3)	25.4	25.1
Net provisions at 31 December	(83.6)	(711.5)	(795.1)	(113.8)	(676.9)	(790.7)
Of which: Assets	72.8	6.8	79.6	60.9	5.1	66.0
Liabilities	(156.4)	(718.3)	(874.7)	(174.7)	(682.0)	(856.7)
Of which: Post-employment benefits	(81.4)	(594.6)	(676.0)	(111.6)	(564.0)	(675.6)
Other long-term benefits	(2.2)	(116.9)	(119.1)	(2.2)	(112.9)	(115.1)

* In compliance with IFRIC 14 (note 1-n)

■ BY CATEGORY OF COUNTRY, CHANGES IN DEFINED BENEFIT OBLIGATIONS AND PLAN ASSETS

Externally funded countries:	2010			2009		
	U.K.	Nether-lands	Total	U.K.	Nether-lands	Total
Obligations at 1 January	(2,191.8)	(669.0)	(2,860.8)	(1,801.2)	(618.8)	(2,420.0)
Current service cost	(17.5)	(5.6)	(23.1)	(14.8)	(5.0)	(19.8)
Interest cost	(130.4)	(37.4)	(167.8)	(122.1)	(36.0)	(158.1)
Plan participants' contributions	(10.5)	(8.2)	(18.7)	(10.6)	(7.5)	(18.1)
Scheme amendments	(7.4)	—	(7.4)	—	—	—
Curtailment/settlements	6.7	—	6.7	33.0	1.6	34.6
New actuarial gains/losses ^(a)	(68.8)	(63.4)	(132.2)	(224.3)	(26.2)	(250.5)
Benefits paid by plan assets	99.5	23.2	122.7	79.4	22.4	101.8
Benefits paid by employer ^(b)	—	0.2	0.2	—	0.3	0.3
Effect of a minimum funding requirement	(12.9)	—	(12.9)	—	—	—
Change in exchange rate and scope	(68.8)	—	(68.8)	(131.2)	0.2	(131.0)
Obligations at 31 December	(2,401.9)	(760.2)	(3,162.1)	(2,191.8)	(669.0)	(2,860.8)
Plan assets at 1 January	1,787.1	660.0	2,447.1	1,504.6	595.8	2,100.4
Expected return on plan assets	118.2	33.7	151.9	96.3	36.4	132.7
Employer's contribution ^(b)	92.7	15.9	108.6	79.9	10.2	90.1
Plan participants' contributions	10.5	8.2	18.7	10.6	7.5	18.1
Curtailment/settlements	(6.4)	—	(6.4)	(33.6)	—	(33.6)
Benefits paid by plan assets	(99.5)	(23.2)	(122.7)	(79.4)	(22.4)	(101.8)
New actuarial gains/losses	89.5	42.8	132.3	99.3	33.9	133.2
Change in exchange rate and scope	55.6	—	55.6	109.4	(1.4)	108.0
Plan assets at 31 December	2,047.7	737.4	2,785.1	1,787.1	660.0	2,447.1
Unfunded status at 31 December	(354.2)	(22.8)	(377.0)	(404.7)	(9.0)	(413.7)
Unrecognised actuarial (gain)/loss	392.4	(126.0)	266.4	424.3	(154.7)	269.6
Unrecognised past service cost	—	27.0	27.0	—	30.3	30.3
Net provisions at 31 December	38.2	(121.8)	(83.6)	19.6	(133.4)	(113.8)

(a) Net experience gains/losses created in 2010 on obligations amounts to € -15.7 million (€ +50.4 million in 2009, € -48.8 million in 2008, € +109.2 million in 2007 and € +61.0 million in 2006).

(b) Employer's contribution and benefits paid by employer should, in 2011, remain stable.

<i>Countries mainly internally funded</i>	2010			2009		
	France	Other	Total	France	Other	Total
Obligations at 1 January	(577.2)	(339.3)	(916.5)	(543.4)	(303.8)	(847.2)
Current service cost	(26.0)	(13.6)	(39.6)	(23.5)	(14.2)	(37.7)
Interest cost	(31.9)	(16.7)	(48.6)	(31.5)	(15.0)	(46.5)
Scheme amendments	(2.2)	0.6	(1.6)	(6.0)	(1.7)	(7.7)
Curtailment/settlements	0.7	—	0.7	5.8	—	5.8
New actuarial gains/losses (a)	(51.5)	(12.6)	(64.1)	(32.6)	1.2	(31.4)
Benefits paid by plan assets	2.2	2.9	5.1	1.4	2.0	3.4
Benefits paid by employer (b)	20.4	14.4	34.8	50.0	13.6	63.6
Change in exchange rate and scope	4.9	(8.7)	(3.8)	2.6	(21.4)	(18.8)
Obligations at 31 December	(660.6)	(373.0)	(1,033.6)	(577.2)	(339.3)	(916.5)
Plan assets at 1 January	91.0	92.1	183.1	87.1	49.3	136.4
Expected return on plan assets	4.2	4.9	9.1	4.2	3.6	7.8
Employer's contribution (b)	14.0	5.6	19.6	(0.7)	2.9	2.2
Benefits paid by plan assets	(2.2)	(2.9)	(5.1)	(1.4)	(2.0)	(3.4)
New actuarial gains/losses	1.2	2.7	3.9	2.0	4.4	6.4
Change in exchange rate and scope	0.3	3.0	3.3	(0.2)	33.9	33.7
Plan assets at 31 December	108.5	105.4	213.9	91.0	92.1	183.1
Unfunded status at 31 December.	(552.1)	(267.6)	(819.7)	(486.2)	(247.2)	(733.4)
Unrecognised actuarial (gain)/loss	(9.7)	5.4	(4.3)	(58.9)	(3.2)	(62.1)
Unrecognised past service cost	112.2	0.3	112.5	118.6	—	118.6
Net provisions at 31 December	(449.6)	(261.9)	(711.5)	(426.5)	(250.4)	(676.9)

(a) Net experience gains/losses created in 2010 on obligations amounts to € -15.7 million (€ +50.4 million in 2009, € -48.8 million in 2008, € +109.2 million in 2007 and € +61.0 million in 2006).

(b) Employer's contribution and benefits paid by employer should, in 2011, remain stable.

■ ACTUARIAL ASSUMPTIONS USED

The actuarial assumptions used are determined by actuaries according to the specific situation for each country and each plan

<i>2010</i>	United Kingdom	Netherlands	France	Rest of the world
Inflation rate	3.30%	2.00%	2.00%	2.00% to 3.00%
Revaluation rate of pensions	2.30%-3.30%	1.0-1.5%	—	—
Discount rate	5.52%	5.08%	4.68%	3.20% to 5.79%
Expected long-term return on plan assets	6.37%	4.90%	4.40%	3.39% to 8.25%
Future compensation increase	4.30%	3.00%	3.00%	2.50% to 3.75%
Expected average residual service life (years)	9	10.8	14.8	9 to 16 years

2009	United Kingdom	Netherlands	France	Rest of the world
Inflation rate	3.30%	2.00%	2.00%	2.00% to 3.50%
Revaluation rate of pensions	2.30%-3.10%	1.2-1.8%	—	—
Discount rate	5.85%	5.58%	5.18%	3.49% to 5.75%
Expected long-term return on plan assets	6.00%	5.30%	4.70%	3.39% to 8.25%
Future compensation increase	4.30%	3.00%	3.00%	3.00% to 4.00%
Expected average residual service life (years)	9	11.1	16.4	9 to 17

The discount rates are obtained by reference to market yields on high quality bonds in each country (Government bonds and high quality corporate bonds with maturity dates equivalent to those of the plans being measured). In this context, the Group refers to the Iboxx index.

At 31 December 2010, Thales Group retained:

- in the euro zone, the new Iboxx € Corporate AA + 10 year index adjusted in accordance with the duration of the commitments in the countries in question.

At 31 December 2010, the sensitivity of the unfunded liabilities to a change in the discount rate is as follows:

Sensitivity in basis points	+0.10%	-0.10%	+0.25%	-0.25%	+0.50%	-0.50%
Decrease (increase) in unfunded liabilities at 31 December 2010	63.8	(65.5)	157.5	(166.4)	305.1	(341.4)

The returns on plan assets are determined plan by plan and depend upon the asset allocation of the investment portfolio and expected future performance. At 31 December 2010, plan assets are invested as follows:

	2010	2009
Equities	42.9%	40.5%
Bonds	49.0%	51.1%
Alternative funds	3.5%	5.6%
Property	2.0%	1.9%
Other assets	2.6%	0.9%
Total	100%	100%

The actual return on plan assets in 2010 is estimated at € 297.2 million (€ 280.1 million in 2009).

★ Financing

Thales is subjected to financing obligations due to defined benefit pension commitments (mainly in the UK and in the Netherlands). In the UK, in accordance with the regulation in force, the financing level of pension commitments is measured every three years. Following this measurement, the opportunity of a new financing plan and/or the enforcement of guarantees in favour of the plan is decided, in coordination with the trustees.

- in the United Kingdom, the Iboxx £ AA + 15 year index. At 31 December 2009, in order to correct the market anomalies related to the on-going financial crisis, Thales Group retained the Iboxx £ A + 15 year index at 31/12/07 adjusted since then for the increase of the Iboxx £ AA + 15 year index of non-financial companies.

Discussions with the trustees were held on the basis of the 2008 valuation and were concluded in March 2010. This contribution is consequently maintained at £ 50 million per year.

In addition, Thales Holding UK granted a guarantee covering the future financing obligations for its subsidiaries in the UK. At 31 December 2010, this guarantee amounted to £ 514 million and is counter-guaranteed by Thales (parent company) for an amount of £103 million. These two guarantee amounts will be reduced by any amount paid under the financing plan.

This financing plan and the attached guarantees will be updated in 2012 and 2013 on the basis of the 2011 valuation.

22. RESERVES FOR CONTINGENCIES

31/12/10	Opening	Changes in scope, exchange rate and classification	Increase	Reversal	Closing
Restructuring	118.6	(0.5)	104.7	(82.7)	140.1
Provisions on contracts:	704.4	32.7	458.2	(246.7)	948.6
Guarantees	248.1	7.7	94.6	(75.8)	274.6
Litigation	210.8	0.5	125.1	(38.3)	298.1
Losses at completion	98.3	2.8	143.8 (a)	(64.6)	180.3
Other	147.2	21.7	94.7	(68.0)	195.6
Other reserves for contingencies	306.8	4.1	106.3	(47.6)	369.6
Total	1,129.8	36.3	669.2	(377.0)	1,458.3

31/12/09	Opening	Changes in scope, exchange rate and classification	Increase	Reversal	Closing
Restructuring	107.5	(1.0)	76.6	(64.5)	118.6
Provisions on contracts:	566.4	22.3	303.0	(187.3)	704.4
Guarantees	223.0	(0.5)	98.7	(73.1)	248.1
Litigation	189.1	0.3	47.7	(26.3)	210.8
Losses at completion	40.3	4.1	83.2 (a)	(29.3)	98.3
Other	114.0	18.4	73.4	(58.6)	147.2
Other reserves for contingencies	287.6	2.3	111.0	(94.1)	306.8
Total	961.5	23.6	490.6	(345.9)	1,129.8

(a) Mainly related to development programmes in Aerospace.

Restructuring costs can be analysed as follows:

	2010	2009
Increase in reserve during the period	(104.7)	(76.6)
Reversal in reserve during the period	82.7	64.5
Expenses during the period	(108.1)	(104.0)
Restructuring costs	(130.1)	(116.1)

23. LITIGATION AND ENVIRONMENT

a) LITIGATION

Due to the nature of its business activities, Thales is exposed to the risk of technical and commercial litigation.

To prevent disputes or limit their impact, Thales's policy is to systematically seek alternative methods of settlement. These recommendations are reviewed on a regular basis to take account of changes in the company's core areas of business and are backed by employee training programmes.

In addition, Thales implemented a procedure several years ago to centralise all civil and criminal litigation and claims. These are handled by the corporate legal affairs department, with the support of the Group companies concerned.

- Thales has been notified of the award handed down on 3 May, 2010, in the arbitration against the Republic of China. This award has been made as a result of an alleged breach of the terms pertaining to the use of intermediaries contained in a contract entered into in 1991.

The total amount of the award is set at US\$ 482 million and € 82 million, bearing interest as from August 2001; as well as around €15 million, bearing interest from 3 May 2010, i.e. a total of around € 630 million (including interest).

Thales disputes the very grounds of this decision. The company has filed petition for nullity before the Paris Court of Appeal.

Thales's share in this litigation represents 27.463% of the total, and corresponds to its industrial share in the supply contract. Taking into account the provisions previously booked, an additional provision of € 35 million (pre-tax) was booked in the company's accounts in 2010.

- Thales has also been informed by DCNI that the Republic of China Navy (Taiwan) initiated arbitration proceedings against DCNI during the second half of 2010 with respect to a contract related to the contract mentioned above. This arbitration is related to an alleged breach of the terms pertaining to the use of intermediaries

contained in the contract. In its 2010 financial statements, Thales has booked a provision of € 15 million, which corresponds to the company's industrial share in the related contract.

No other governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the company is aware) are liable to have or have had significant effects on the financial position or profitability of the company and/or Group in the last 12 months.

b) ENVIRONMENT

Due to the nature of Thales's activities, environmental risks are related to the potential adverse environmental and health effects of these activities, the impact of the environment on its operations and non-compliance with new regulations applicable to activities and products.

For many years, Thales has conducted regular analysis and update of environmental risks in accordance with its business activities, scientific and technical developments and the broader environmental challenges.

This analysis is aimed at:

- ensure that employees and surrounding residents are not exposed to health and environmental risks
- ensure the compliance of activities and products,
- analyse the impact of new regulations, including on product design,
- specify an appropriate organisation and associated action plans, either at Group level or locally, according to the risk mapping results.

In addition to this, an Environmental Management System has been deployed at all sites in order to ensure the control and limitation of the environmental impacts in accordance with Thales's commitments. By the end of 2010, over 110 sites had obtained ISO 14001 certification.

At 31 December 2010, the amount of reserves for environmental contingencies amounted to € 6.5 million.

24. NET FINANCIAL DEBT

	31/12/10	31/12/09
Long-term financial debt	1,434.1	1,651.6
Short-term financial debt	973.6	326.4
Current accounts payable with affiliated companies	256.1	196.9
Fair value of derivatives – debt management ^(a)	(7.6)	(24.8)
Total gross financial debt (I)	2,656.2	2,150.1
Current accounts receivable with affiliated companies	88.8	94.8
Marketable securities	7.9	4.4
Cash at bank and equivalents ^(b)	2,750.5	1,960.1
Cash and other short-term financial assets (II)	2,847.2	2,059.3
Net financial debt (I-II)	(191.0)	90.8

(a) Includes at 31 December 2010, € 12.7 million classified as non-current liabilities, € -8.7 million classified as non-current assets and € -11.6 million classified as current assets. At 31 December 2009, €-24.8 million were classified as non-current assets.

(b) Includes tradable debt securities and investment funds with maturities of less than 3 months of € 1,389.0 million in 2010 and € 1,299.0 million in 2009.

■ BREAKDOWN OF GROSS FINANCIAL DEBT

	31/12/10	31/12/09
Bond, maturity 2016	582.0	—
Bond, maturity 2013	605.4	601.9
Bond, maturity 2011	782.5	785.6
Commercial paper	49.8	149.9
Project financing debt	191.1	199.5
Borrowings from financial institutions	53.2	115.0
Other borrowings	47.3	49.1
Capital lease obligations	18.6	20.5
Current accounts with affiliated companies	256.1	196.9
Bank overdrafts	44.7	22.7
Accrued interest	33.1	33.8
Fair value of derivatives (a)	(7.6)	(24.8)
Gross financial debt	2,656.2	2,150.1

(a) In accordance with IAS 39, the value of borrowings takes into account changes in the fair value of hedged risk. This change in value of the debt is offset by changes in the value of swaps used as hedges, which are recognised on the “fair value of derivatives: financial debt management” line.

■ NATURE OF BORROWINGS:

	Nominal value	Maturity date	Nature	Rate Nominal/Effective (excluding effect of hedging)
Bond, maturity date 2016	€ 600m	October 2016	Fixed	Including € 400m swapped to floating rate 2.75% 2.912%
Bond, maturity date 2013	€ 600m	April 2013	Fixed	Including € 200m swapped to floating rate 4.375% 4.578%
Bond, maturity date 2011	€ 500m € 275m (cplt Jan 09)	July 2011	Fixed	Including € 575m swapped to floating rate 4.375% 4.478% 5.75%
Commercial paper	Fixed-rate loans swapped to floating rate using interest rate swaps. Because of their short-term maturity, these loans are considered equivalent to floating-rate loans.			
Project financing debt	Non-recourse, or limited recourse, debt whose interest costs and repayment is covered by the share of project revenues which is guaranteed contractually by customers. The debt comprises fixed-rate loans (or floating-rate loans swapped to fixed-rate loans) maturing in years up to 2020.			

■ BREAKDOWN OF GROSS FINANCIAL DEBT BY CURRENCY ¹

	31/12/10	31/12/09
Euro	2,404.6	1,912.3
Pound Sterling	151.4	139.3
US Dollar	25.4	22.2
Australian Dollar	65.0	62.2
Other	9.8	14.1
Total	2,656.2	2,150.1

■ BREAKDOWN OF GROSS FINANCIAL DEBT BY TYPE OF RATE ¹

	31/12/10	31/12/09
Fixed rate	1,072.0	896.1
Floating rate	1,584.2	1,254.0
Total	2,656.2	2,150.1

¹ After incidence of the corresponding derivative instruments.

■ BREAKDOWN OF GROSS FINANCIAL DEBT BY MATURITY ¹

	31/12/10	31/12/09
2010		523.3
2011 of which € -11.6m in 2010 and € -18.6m in 2009 of interest rate derivative instruments	1,218.1	807.9
2012	66.0	67.9
2013 of which € -8.7m in 2010 and € -6.2m in 2009 of interest rate derivative instruments	635.0	628.0
2014	43.3	37.2
2015	35.7	} 85.8
2016 and beyond of which € +12.7m in 2010 of interest rate derivative instruments	658.1	
Total at more than one year	1,438.1	1,626.8
Total	2,656.2	2,150.1

Maturity cash flows under 1 year mainly include commercial paper and current accounts payable with affiliated companies.

■ CONTRACTUAL CASH FLOWS OF FINANCIAL DEBT

	Interest payable	Total at 31/12/10	Contractual cash flows scheduled in:				
			2011	2012	2013	2014	2015 and beyond
<i>Gross financial debt at 31/12/10</i>							
2,656.2	195.3	2,851.5	1,247.6	109.5	681.6	62.2	750.6

At 31 December 2010, no financing of a material amount used by the Group is subject to clauses requiring accelerated repayment based on the Group's rating or on financial ratios. At 31 December 2010, undrawn confirmed credit facilities granted by banks amounted to € 1,500 million, maturing in 2015. These credit facilities are used to back commercial paper and as a financial reserve. Pursuant to the credit facility documents, in the event that the State no longer held its golden share and, simultaneously, the ratio of consolidated net financial debt to EBITDA ² were to exceed 3, clauses providing for accelerated repayment would apply.

■ FAIR VALUE OF DEBT ³

	31/12/10	31/12/09
Total	2,690.0	2,227.6

¹ After incidence of the corresponding derivative instruments.

² EBITDA, as defined in financing agreements, is the sum of the income from operating activities plus all depreciation, amortisation and impairment of tangible and intangible assets less the depreciation of goodwill. This item is determined by reference to French accounting standards.

³ The fair value of Thales's debt is determined for each loan by discounting the future cash flows using a discount rate Euribor corresponding to bond yields at the end of the year, adjusted by the Group's credit risk. The fair value of debt and bank overdrafts at floating interest rates approximates to their net carrying amounts.

25. SUMMARY OF FINANCIAL INSTRUMENTS

■ FINANCIAL INSTRUMENTS ASSETS

	At fair value					
	Financial assets			Derivatives		
	Loans and receivables	Through P&L	Available for sale	Hedge accounting	Not qualified for hedge accounting	Total
At 31 December 2010						
Non-current assets:						
Other investments	—	—	102.1	—	—	102.1
Loans and other financial assets	163.5	—	—	—	—	163.5
Fair value hedge derivatives	—	—	—	8.7	—	8.7
Current assets:						
Accounts, notes and other current receiv.	3,981.0	—	—	—	—	3,981.0
Cash flow hedge derivatives	—	—	—	174.1	10.5	184.6
Fair value hedge derivatives	—	—	—	11.6	—	11.6
Current accounts with affiliated companies	88.8	—	—	—	—	88.8
Marketable securities	—	—	7.9	—	—	7.9
Total assets	4,233.3	—	110.0	194.4	10.5	4,548.3
Methods used to measure fair value:						
Quoted prices in active markets (level 1)		—	7.9	—	—	7.9
Valuation techniques based on observable market data (level 2)		—	—	194.4	10.5	204.9
Valuation techniques not based on observable market data (level 3)		—	102.1	—	—	102.1

	At fair value					
At 31 December 2009:	Financial assets			Derivatives		
	Loans and receivables	Through P&L	Available for sale	Hedge accounting	Not qualified for hedge accounting	Total
Non-current assets:						
Other investments	—	—	101.9	—	—	101.9
Loans and other financial assets	171.9	—	—	—	—	171.9
Fair value hedge derivatives	—	—	—	24.8	—	24.8
Current assets:						
Accounts, notes and other current receiv.	3,934.8	—	—	—	—	3,934.8
Cash flow hedge derivatives	—	—	—	162.4	10.2	172.6
Current accounts with affiliated companies	94.8	—	—	—	—	94.8
Marketable securities	—	—	4.4	—	—	4.4
Total assets	4,201.5	—	106.3	187.2	10.2	4,505.2
<i>Methods used to measure fair value:</i>						
Quoted prices in active markets (level 1)		—	4.4	—	—	4.4
Valuation techniques based on observable market data (level 2)		—	—	187.2	10.2	197.4
Valuation techniques not based on observable market data (level 3)		—	101.9	—	—	101.9

Other investments are mainly valued at cost (note 1-g).

■ FINANCIAL INSTRUMENTS LIABILITIES

At 31 December 2010:	At fair value				
	At amortised cost	Financial liabilities	Derivatives		Total
			Hedge accounting	Not qualified for hedge accounting	
Non-current liabilities:					
Financial debt – long term	1,438.1	(4.0)	—	—	1,434.1
Fair value hedge derivatives	—	12.7	—	—	12.7
Current liabilities:					
Accounts, notes and other current payables	4,956.6	—	—	—	4,956.6
Cash flow hedge derivatives	—	—	143.1	9.8	152.9
Financial debt – short term	962.0	11.6	—	—	973.6
Current accounts with affiliated companies	256.1	—	—	—	256.1
Total liabilities	7,612.8	20.3	143.1	9.8	7,786.0
Methods used to measure fair value:					
Quoted prices in active markets (level 1)		—	—	—	—
Valuation techniques based on observable market data (level 2)		20.3	143.1	9.8	173.2
Valuation techniques not based on observable market data (level 3)		—	—	—	—

At 31 December 2009:

	At fair value				
	At amortised cost	Financial liabilities	Derivatives		Total
			Hedge accounting	Not qualified for hedge accounting	
Non-current liabilities:					
Financial debt – long term	1,626.8	24.8	—	—	1,651.6
Current liabilities:					
Accounts, notes and other current payables	4,736.0	—	—	—	4,736.0
Cash flow hedge derivatives	—	—	99.1	1.6	100.7
Financial debt – short term	326.4	—	—	—	326.4
Current accounts with affiliated companies	196.9	—	—	—	196.9
Total liabilities	6,886.1	24.8	99.1	1.6	7,011.6
Methods used to measure fair value:					
Quoted prices in active markets (level 1)		—	—	—	—
Valuation techniques based on observable market data (level 2)		24.8	99.1	1.6	125.5
Valuation techniques not based on observable market data (level 3)		—	—	—	—

26. STATEMENT OF CASH FLOWS

a) CAPITAL EXPENDITURE ON TANGIBLE AND INTANGIBLE ASSETS

Only purchases financed by a cash flow are presented in the statement of cash flows. Capitalisations of development costs are included for € 43.4 million in 2010 and € 113.2 million in 2009.

b) NET FINANCIAL INVESTMENT

■ ACQUISITIONS

	2010	2009
Advanced Acoustic Concepts, Inc (49%)	(14.1)	—
Additional purchase consideration/Alcatel Alenia Space (note 2)	—	(129.6)
CMT Medical technologies Ltd	(1.5)	(20.3)
Other	(7.1)	(5.5)
Acquisitions	(22.7)	(155.4)
- Cash position of companies acquired	2.7	7.4
Acquisitions, net	(20.0)	(148.0)

■ DISPOSALS

	2010	2009
Camelot Group Plc	87.7	—
Indra Espacio (50% of the sale price, remaining part will be paid in January 2011)	13.1	—
Faceo (Repayment of the credit set up in 2007 for the disposal to Apax Partners)	7.5	—
Other	2.9	5.3
Disposals	111.2	5.3
- Cash position of companies sold	(3.8)	(5.3)
Disposals, net	107.4	—

c) INCREASE (DECREASE) IN EQUITY AND MINORITY INTERESTS

	2010	2009
Increase in capital/exercise of stock options	5.7	4.6
Proceeds from sale of treasury shares	(4.5)	17.0
Total	1.2	21.6

27. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENCIES

a) BONDS AND WARRANTIES LINKED TO COMMERCIAL CONTRACTS

Within the context of its activity, the Group regularly responds to invitations to bid. When requested by the customer, bid bonds are delivered in order to demonstrate the definitive nature of the bid and to provide for indemnification to the customer if the Group fails to meet its commitments. At 31 December 2010, bid bonds issued amounted to € 44.4 million (€ 58.7 million at 31 December 2009).

From the signature of a contract up until its completion, the Group may deliver performance bonds to its customers, using a bank as an intermediary, in order to guarantee the due and proper completion of the contract (and if not, to provide for payment of damages to the customer). At 31 December 2010, performance bonds amounted to € 1,558.7 million (€ 1,405.7 million at 31 December 2009).

Technical, operational and financial costs incurred by the Group in order to meet its obligations are valued, on a contract-by-contract

The maturity dates of these commitments are:

	< 1 year	1 to 5 years	> 5 years	Total
Bid bonds	42.8	1.6	—	44.4
Performance bonds	793.2	651.8	113.7	1,558.7
Advance payment bonds	1,111.4	531.7	225.9	1,869.0
Warranty retention bonds	71.2	41.2	6.0	118.4
Other bank bonds	80.4	56.2	9.2	145.8
Total	2,099.0	1,282.5	354.8	3,736.3

basis, and are included in the cost to completion of the contract. Otherwise, any potential risk is estimated, on a contract-by-contract basis, and provided for in the Group financial statements if necessary.

In order to finance contract completion, the Group receives advances from its customers, based on contractual terms that are booked as a liability in the balance sheet. In order to guarantee reimbursement of these advance payments if the contractual obligations are not met, the Group may deliver, at the customer's request, an advance payment bond.

At 31 December 2010, advance payment bonds amounted to € 1,869.0 million (€ 1,973.2 million at 31 December 2009).

During the contractual warranty period, the Group evaluates and accrues for warranty costs in order to guarantee the conformity of goods sold to the customer. In most cases, the provisional retention of payment contractually applied during this period can be replaced by setting up, using a bank as intermediary, a warranty retention bond. At 31 December 2010, warranty retention bonds amounted to € 118.4 million (€ 244.1 million at 31 December 2009).

In addition, Thales may, on behalf of its subsidiaries, grant so-called "parent company guarantees" to third parties without using a bank as an intermediary. At 31 December 2010, these "corporate" guarantees amount to € 9,353.7 million and € 8,771.5 million at 31 December 2009.

b) OTHER COMMITMENTS

At the end of 2002, a group of French manufacturers, including Thales and one of its subsidiaries, collectively received a request for

arbitration relating to the execution of old contracts. In proportion to each industrial partner's involvement, Thales would have been liable for around 20% of the total claim of \$ 260 million. Under an agreement signed in 2003, the client withdrew its request for arbitration. In return Thales and the other groups agreed not to have recourse to statute of limitations provisions, which could have been invoked against the client.

c) LEASE COMMITMENTS AND FIRM COMMITMENTS TO PURCHASE TANGIBLE FIXED ASSETS

★ Lease contracts

Thales Group companies lease land, buildings, plant and equipment. The rents payable under these leases are subject to renegotiation at various intervals specified in the lease contracts. Binding lease and rental commitments at 31 December 2010 are analysed below:

	Rent payable			
	Total	< 1 year	1 to 5 years	> 5 years
Financial leases ^(a)	21.2	0.3	2.1	18.8
Operating leases	1,055.0	174.5	451.7	428.8

(a) Including interest (€ 2.6 million). The corresponding debt is recognised in the consolidated balance sheet for an amount excluding interest (note 24).

★ Purchase of tangible fixed assets

At 31 December 2010, firm commitments to purchase tangible fixed assets amounted to € 53.9 million (€ 68.6 million at 31 December 2009).

d) GUARANTEES GIVEN/RECEIVED RELATED TO DISPOSALS/ACQUISITIONS OF COMPANIES

The contracts governing acquisitions (disposals) of companies by Thales may contain clauses committing the seller to indemnify the buyer for liabilities in excess of those recorded in the books of the companies sold. These guarantees are generally limited in terms of value and duration. They notably cover environmental risks.

Certain contracts concerning the acquisition (disposal) of companies may include earn-out or price adjustment clauses, which are generally related to performance criteria for the entity in question. At the acquisition/disposal date, the Group records in payables or receivables its best estimate of the expected price adjustment.

e) SOCIAL COMMITMENTS

★ French statutory training entitlement

In accordance with the requirements of French legislation dated 4 May 2004 relating to professional training, French companies in the Group grant their employees a training entitlement of at least 20 hours per calendar year, capped at 120 hours.

Thales has signed an agreement regarding anticipation of changes in employment, professional development and training that is applicable to all its French subsidiaries. This agreement stipulates the manner in which the statutory training entitlement can be exercised within the enterprise. It recalls that this entitlement guarantees employees access to training for their maintenance in employment or changes therein or for the development of their skills. In this respect, training initiatives contributing to the professional development of employees envisaged in the training programme are counted as part of the statutory training entitlement. In consequence, as the costs incurred benefit the enterprise, no provision has been recognised.

28. MARKET RISKS

a) CURRENCY RISK MANAGEMENT

Thales hedges currency risks arising in connection with the negotiation of contracts denominated in currencies other than the main production currency, currency risks generated by normal commercial operations, and risks relating to its net investments in foreign currencies.

The change in value of financial instruments used as cash flow hedges is recognised in equity. A decrease (respectively, an increase) of 5% in the rate of the dollar against the main currencies (EUR, GBP and CAD) would positively (respectively, negatively) impact equity by approximately € 135 million at 31 December 2010, compared with € 70 million at 31 December 2009.

The change in value of the financial instruments, matched with portfolios of sales offers, which are not eligible for hedge accounting, is recognised in profit and loss. A decrease (respectively, an increase) of 5% in the rate of the dollar against the main currencies (EUR, GBP

and CAD) would positively (respectively, negatively) impact profit and loss by approximately € 2 million at 31 December 2010, the same as at 31 December 2009.

Operating receivables and payables denominated in foreign currencies are covered by exchange rate hedges and are not therefore exposed to foreign currency risk.

Foreign currency-denominated financial debt does not generate any exposure in profit and loss, as it is either denominated in the functional currency of the entity in which it is recognised, or is used as a net foreign investment hedge.

Thales mainly held forward foreign exchange contracts at 31 December 2010 and 31 December 2009. Nominal forward buy and sell contract amounts, converted into euros at closing rates, are detailed below by currency. Where options are concerned, the amounts indicated correspond to nominal values for underlying currency transactions and are mentioned in the "buy" or "sell" columns depending on the nature of the operation at maturity.

Purchases of foreign currencies:	2010					2009	
	USD	GBP	Other	Total	Market Value	Total	Market Value
Forward exchange contracts	1,112.6	310.6	899.8	2,323.0	(4.6)	1,457.6	1.0
Foreign exchange swaps:							
– to hedge investments	—	—	—	—	—	—	—
– to hedge commercial commitments	512.9	764.2	348.5	1,625.6	36.9	1,762.9	12.5
Foreign exchange options:							
– Purchase of options	0.5	34.3	63.8	98.6	0.6	82.2	0.5
– Sale of options	—	—	6.4	6.4	—	11.7	—

Sales of foreign currencies:	2010					2009	
	USD	GBP	Other	Total	Market Value	Total	Market Value
Forward exchange contracts	2,172.7	449.7	701.9	3,324.3	22.1	2,258.8	45.2
Foreign exchange swaps:							
– to hedge investments	—	38.2	—	38.2	1.0	37.0	(0.6)
– to hedge commercial commitments	2,515.1	204.0	657.1	3,376.2	(9.1)	2,352.8	25.1
Foreign exchange options:							
– Purchase of options	118.9	—	29.5	148.4	2.2	159.3	0.9
– Sale of options	5.9	—	—	5.9	—	1.4	—

Maturity dates are as follows:

Purchases of foreign currencies:	2010			
	< 1 year	1 to 5 years	> 5 years	Total
Forward exchange contracts	1,357.8	803.9	161.3	2,323.0
Foreign exchange swaps:				
– to hedge investments	—	—	—	—
– to hedge commercial commitments	1,509.5	95.8	20.3	1,625.6
Foreign exchange options:				
– Purchase of options	98.6	—	—	83.6
– Sale of options	6.4	—	—	6.4

Sales of foreign currencies:	2010			
	< 1 year	1 to 5 years	> 5 years	Total
Forward exchange contracts	2,020.1	1,135.9	168.3	3,324.3
Foreign exchange swaps:				
– to hedge investments	38.2	—	—	38.2
– to hedge commercial commitments	1,945.0	1,182.6	248.6	3,376.2
Foreign exchange options:				
– Purchase of options	148.4	—	—	148.4
– Sale of options	5.9	—	—	5.9

b) INTEREST RATE RISK MANAGEMENT

Thales is exposed to interest rate volatility and in particular its impact on the conditions associated with variable-rate financing. To limit this risk, Thales operates an active policy of interest rate hedging.

The Corporate Financing and Treasury department consolidates data on Thales's exposure to interest rate risk and uses appropriate financial instruments to hedge those risks.

Thales's policy is to control interest rate and counterparty risks and to optimise its funding and banking operations by consolidating and pooling the cash surpluses and requirements of all its units.

At 31 December 2009 and 31 December 2010, Thales only holds rate swap contracts. Current nominal values, by type of interest rate instrument, and corresponding to the fixed part of the swaps, are analysed below:

	2010					2009	
	< 1 year	1 to 5 years	> 5 years	Total	Market value	Total	Market value
Rate swap:							
– lend	1,268.8 *	200.0	400.0	1,868.8	8.1	1,884.9	24.8
– borrow	—	—	19.6	19.6	—	—	—

* Of which € 49.8 million hedging commercial papers (note 24) and € 644.0 million maturing in February 2011.

Based on the average debt for 2010, a 1% rise in interest rates would decrease financial expense by € 1.5 million (increase of € 3 million in 2009).

c) CREDIT RISK MANAGEMENT

Credit risk relates to the risk that a party to a contract will default on its commitments or fail to pay what it owes.

A. RISK RELATING TO FAILURE OF A PRIVATE-SECTOR CUSTOMER

Civil customers (business and industry, civil aerospace and private infrastructure operators) account for approximately 25% of Thales's revenues. These customers may encounter major and/or prolonged financial difficulties that could lead to payment defaults or order cancellations. Such occurrences could have a negative impact on Thales's revenues, profitability and financial position.

To mitigate these risks, Thales conducts regular analysis of the ability of customers to meet their obligations. When necessary, Thales may request bank guarantees or corporate guarantees, or may use credit insurers.

The Group's Finance Department consolidates all the information relating to the Group's exposure to credit risk, notably by identifying and analysing the ageing of overdue accounts and notes receivable that have not been written down as impaired. At 31 December 2010 and 2009, the ageing of these accounts and notes receivable is as follows:

31 December 2010	Total	Accounts and notes receivables overdue:		
		Less than 3 months	3 to 6 months	More than 6 months
Overdue accounts & notes receivable that have not been written down as impaired	527.6	276.0	85.6	166.0

31 December 2009	Total	Accounts and notes receivables overdue:		
		Less than 3 months	3 to 6 months	More than 6 months
Overdue accounts & notes receivable that have not been written down as impaired	492.5	331.9	61.1	99.5

d) LIQUIDITY RISK

Thales's liquidity risk corresponds to its level of exposure to changes in the main market indicators that could lead to an increase in the cost of credit or even to a temporary limitation of access to external sources of financing.

Thales manages this risk by anticipating its liquidity requirements and by maintaining committed, undrawn credit facilities granted by banks as backup for the commercial paper programme, thus representing a financing reserve.

This risk is hedged by Thales's short- and long-term financial resources:

- Equity (note 20),
- Gross debt (listed by date of maturity in note 24),
- Committed, undrawn credit facilities granted by banks as backup for the commercial paper programme and representing, as such, a financing reserve (note 24).

This principle of consolidating and centralising the short-term surpluses and requirements of units (cash pooling) is applied to units in the same currency zone – euro zone (with separate cash pooling for

B. CREDIT RISK RELATING TO PUBLIC-SECTOR CUSTOMERS

Government and institutional customers account for around 75% of Thales's revenues. Thales works with a large number of countries. Some of these could present a significant credit risk, particularly the emerging nations. A country could, for example, suspend an order in production, or be unable to make payment on delivery, as agreed under the terms of the contract. To limit its exposure to these risks, Thales takes out insurance with export credit agencies (such as Coface in France) or private insurers.

At 31 December 2010, only two customers accounted for annual revenues in excess of € 500 million: the French government (€ 2 billion) and the UK government (approx. € 1 billion). At that date, both countries were rated AAA by Standard & Poor's.

French units), sterling zone, dollar zone and Australian dollar zone, etc. – and, in some cases, in the same country.

Through the consolidation and centralisation of cash requirements and surpluses of its units, the Group is in a position to:

- Simplify cash management and match the cash positions of units to produce a single consolidated position that is easier to manage,
- Gain prime access to financial markets through the parent company's financing programmes, rated by Standard & Poor's and Moody's (see below).

At 31 December 2010, the cash recorded under consolidated assets was € 2,750.5 million (compared to € 1,960.1 million at end-2009), including:

- € 1,952.0 million held by the parent company and available for immediate use (€ 1,400.7 million in 2009),
- € 449.6 million in the bank credit balances of subsidiaries, most of them outside France. This figure includes payments received in the last few days of the financial year and subsequently transferred to the corporate treasury account (€ 357.8 million in 2009),
- € 348.9 million in cash invested directly by joint ventures (prorated by Thales's interest in each joint venture), since cash pooling is not applicable to joint ventures (€ 201.6 million in 2009).

Cash at bank and equivalents at year-end is solely invested in either bank deposits or in very short-term bank certificates of deposit with first-tier banks or money-market UCITS.

At the date of publication, Thales's credit risk ratings were as follows:

	Moody's	Standard & Poor's
Medium and long-term loans	A2	BBB+
Outlook	outlook stable	outlook stable
Commercial paper & short-term loans	Prime-1	A2

Thales's ratings were lowered in June 2010 from A1 to A2 by Moody's and from A- to BBB+ by Standard & Poor's.

A decrease of Thales's credit risk ratings would have an impact limited to the increase of the margin related to confirmed credit facilities of € 1.5 billion, but they would not trigger the financial covenants included in financing contracts.

Pursuant to the credit facility documents, clauses providing for accelerated repayment would only apply in the event that the French

State no longer held its golden share and, simultaneously, the ratio of consolidated net financial debt to EBITDA (earnings before interest, taxes, depreciation and amortisation) were to exceed 3.

By contrast, an increase of Thales's credit risk ratings would imply an improvement of the margin.

29. FEES PAID TO AUDITORS

Fees paid to auditors in 2010 and 2009 are presented below ^(a):

	Mazars				Ernst & Young			
	Amount (pre-tax)		%		Amount (pre-tax)		%	
	2010	2009	2010	2009	2010	2009	2010	2009
Audit								
Auditing, certification, examination of individual and consolidated accounts ^(b)								
– Issuer	747	740	13%	14%	789	804	15%	15%
– Fully-consolidated subsidiaries	4,485	4,287	78%	78%	3,630	3,751	67%	69%
Other work and services directly associated with the assignment of the auditor ^(c)								
– Issuer	20	50	1%	1%	20	62	1%	1%
– Fully-consolidated subsidiaries	350	331	6%	6%	547	457	10%	8%
Sub-total	5,602	5,408	98%	99%	4,986	5,074	93%	93%
Other services rendered by the networks subsidiaries fully consolidated ^(d)								
Legal, tax-related, social-security-related	121	63	2%	1%	418	388	7%	7%
Other (if > 10% of audit fees))	—	—	—	—	—	—	—	—
Sub-total	121	63	2%	1%	418	388	7%	7%
Total	5,723	5,471	100%	100%	5 404	5,462	100%	100%

(a) With regard to the period under consideration, these are services provided in respect of a financial year charged in the income statement.

(b) Including the services of independent experts or members of the auditors' network which the auditor uses in connection with certifying the financial statements.

(c) This heading includes due diligence and services directly associated that are rendered to the issuer or its subsidiaries:

- by the auditor in compliance with the provisions of Article 10 of the French Code of Conduct for Statutory Auditors,
- by a member of the network in compliance with the provisions of Articles 23 and 24 of the French Code of Conduct for Statutory Auditors.

(d) These are services not relating to certification rendered, in compliance with the provisions of Article 24 of the French Code of Conduct for Statutory Auditors, by a member of the network to the subsidiaries of the issuer whose financial statements are being certified.

30. OTHER DISCLOSURES

The German group companies Thales Rail Signalling Solutions GmbH, Thales Security Solutions & Services GmbH, Electronic Signalling Services (ESS) GmbH, Thales Immobilien Deutschland GmbH, all located at Lorenzstrasse 10, 70435 Stuttgart, as well as Thales Electron Devices GmbH, located at Söflinger Strasse 100, 89077 Ulm have claimed an exemption from their obligation to publish their respective German financial statements for the fiscal year 2010 by reference to section 264 paragraph 3 of the German Commercial Code.

LIST OF MAIN CONSOLIDATED COMPANIES (Not including Thales, the parent company)

	% Control		% Stake	
	31/12/10	31/12/09	31/12/10	31/12/09
1. CONSOLIDATED SUBSIDIARIES				
Thales Security Solutions & Services Company (Saudi Arabia)	100%	100%	100%	100%
Thales Defence Systems Pty Ltd (South Africa)	80%	80%	80%	80%
Thales Australia Ltd (Australia)	100%	100%	100%	100%
TDA Armements SAS (France)	100%	100%	100%	100%
Thales Air Systems SA (France)	100%	100%	100%	100%
Thales Air Systems GmbH (Germany)	100%	100%	100%	100%
Thales Avionics SA (France)	100%	100%	100%	100%
Thales Avionics Inc. (United States)	100%	100%	100%	100%
Thales Avionics Ltd (United Kingdom)	100%	100%	100%	100%
Thales Avionics Electrical Systems SAS (France)	100%	100%	100%	100%
Thales Canada Inc. (Canada)	100%	100%	100%	100%
Thales Communications SA (France)	100%	100%	100%	100%
Thales Communications Inc. (United States)	100%	100%	100%	100%
Thales Defence & Security Systems GmbH (Germany)	100%	100%	100%	100%
Thales Air Defence Ltd (United Kingdom)	100%	100%	100%	100%
Thales UK Ltd (United Kingdom)	100%	100%	100%	100%
Thales Electron Devices SA (France)	100%	100%	100%	100%
Thales Electron Devices GmbH (Germany)	100%	100%	100%	100%
Thales International Saudi Arabia (Saudi Arabia)	100%	100%	100%	100%
Thales Italia SpA (Italy)	100%	100%	100%	100%
Thales Naval Ltd (United Kingdom)	100%	100%	100%	100%
Thales Nederland B.V. (Netherlands)	99%	99%	99%	99%
Thales Optronique SA (France)	100%	100%	100%	100%
Thales Optronics Ltd (United Kingdom)	100%	100%	100%	100%
Thales Rail Signalling Solutions GmbH (Germany)	100%	100%	100%	100%
Thales Rail Signalling Solutions Inc (Canada)	100%	100%	100%	100%
Thales Rail Signalling Solutions Ltd (United Kingdom)	100%	100%	100%	100%
Thales Security Solutions & Services SAS (France)	100%	100%	100%	100%
Thales Services SAS (France)	100%	100%	100%	100%
Thales Suisse SA (Switzerland)	100%	100%	100%	100%

	% Control		% Stake	
	31/12/10	31/12/09	31/12/10	31/12/09
Thales Systèmes Aéroportés SA (France)	100%	100%	100%	100%
Thales Transport & Security Ltd (United Kingdom)	100%	100%	100%	100%
Thales Transport Signalling & Security Solutions, S.A.U. (Spain)	100%	100%	100%	100%
Thales Training & Simulation Ltd (United Kingdom)	100%	100%	100%	100%
Thales Underwater Systems Ltd (United Kingdom)	100%	100%	100%	100%
Thales Underwater Systems SAS (France)	100%	100%	100%	100%
Thales Components Corporation (United States)	100%	100%	100%	100%
2. ACCOUNTED FOR UNDER THE PROPORTIONATE METHOD				
Air Command Systems International SAS (ACSI) (France)	50%	50%	50%	50%
Amper Programas de Electronica Y Comunicaciones SA (Spain)	49%	49%	49%	49%
Citylink Telecommunications Holding Ltd (United Kingdom)	33%	33%	33%	33%
Diehl Aircabin GmbH (Germany)	49%	49%	49%	49%
Diehl Aerospace GmbH (Germany)	49%	49%	49%	49%
Ericsson Thales AEW Systems AB (Sweden)	50%	50%	50%	50%
Navigation Solutions LLC (United States)	35%	35%	35%	35%
Samsung Thales Co. Ltd (Corea)	50%	50%	50%	50%
Thales Alenia Space SAS (France)	67%	67%	67%	67%
Thales Alenia Space Italia SpA (Italy)	67%	67%	67%	67%
Telespazio holding SRL (Italy)	33%	33%	33%	33%
Thales-Raytheon Systems Company LLC (United States)	50%	50%	50%	50%
Thales-Raytheon Systems Company SAS (France)	50%	50%	50%	50%
Trixell (France)	50%	50%	51%	51%
3. ACCOUNTED FOR UNDER THE EQUITY METHOD				
Aviation Communications & Surveillance Systems (United States)	30%	30%	30%	30%
Camelot Group Plc (United Kingdom)	—	20%	—	20%
DCNS (France)	25%	25%	25%	25%
DpiX LLC (United States)	20%	20%	20%	20%
Elettronica SpA (Italy)	33%	33%	33%	33%
ESG GmbH (Germany)	30%	30%	30%	30%
Indra Espacio S.A. (Spain)	—	33%	—	33%

G. STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

This is a free translation into English of the statutory auditors' report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users.

The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.

This report also includes information relating to the specific verification of information given in the group's management report. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

Year ended December 31, 2010

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended December 31, 2010, on:

- the audit of the accompanying consolidated financial statements of Thales;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I – Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2010 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention to the matters set out in:

- the preliminary note "2010 background" to the consolidated financial statements, which describes the conditions in which additional charges and provisions amounting to EUR 721 million had been booked on certain contracts during the year ended December 31, 2010;
- note 16 "Construction contracts" to the consolidated financial statements, which details the situation of two difficult contracts of the Divisions "Avionics" and "Defence Mission System" and specifies the main associated risks and uncertainties;

- note 23 "Litigation and environment" to the consolidated financial statements, which details the provision relating to the arbitration request submitted by a client of the Group;
- note 1 "Accounting policies" to the consolidated financial statements, which details the new standards and interpretations adopted by Thales Group beginning after January 1, 2010;
- and notes 2.a) "Main events", 5 "Information by segment" and 11 "Goodwill", which detail the change in the presentation of the information by segment and the goodwill reallocation, following the new organization of the group at the beginning of 2010.

II – Justification of our assessments

In accordance with the requirements of article L. 823-9 of the French commercial code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

As stated in note 1.v "Main sources of estimates" to the financial statements, Thales' management is required to make estimates and assumptions that affect certain amounts included in the consolidated financial statements of the Group and the accompanying notes to these financial statements. These assumptions are by nature uncertain, especially in the specific context described in note 2.a, and the actual figures may vary from these estimates under the circumstances anticipated in note 1.v to the financial statements.

We considered that the items that have been subject to significant accounting estimates, and which are likely to require justification of our assessments, include construction contracts, impairment tests relating to acquisition goodwill and to research and development costs, deferred tax assets valuation, provisions for pension plans and related contingency, litigation and contingency provisions, and purchase price allocation in respect of business combination realized by the Group, as follows:

• Customers' contracts

Thales recognizes income on its contracts, and in particular on its construction contracts in accordance with the methods set out in note 1.i "Revenues" to the financial statements. Such income is based on estimates of income on completion made by the project managers, according to the Group's procedures and under the control of Group's management.

Based on the information provided to us at the time of our audit, our work consisted in assessing the data and assumptions used to estimate the income on completion for these contracts, reviewing the

calculations made by the company, comparing the amounts of income on completion from previous financial periods with the corresponding actual figures, and examining the procedures used by management to approve such estimates, especially the procedures applied for the difficult contracts as described in the preliminary note "2010 background".

- **Acquisition goodwill**

Acquisition goodwill, which appears in the balance sheet as at December 31, 2010 for a net amount of EUR 3,044.9 million, was subject to impairment tests in accordance with the methods set out in note 1.f "Impairment of non-current assets" to the financial statements. We reviewed the methods for carrying out these tests, based on discounted cash-flows of the business activities and divisions, and verified the consistency of the assumptions used with the forecasted data taken from the strategic plans drawn up for each of the business activities and divisions under the Group's control.

- **Development costs**

Internally funded development costs related to projects in progress are accounted for by Thales as intangible assets (net amount capitalized of EUR 236,7 million as at December 31, 2010) or are charged to the profit and loss account, as stated in note 1.j "Research and development expenses" to the financial statements. This note specifies that the criteria used for the capitalization of development costs of the projects of civil and Aerospace activities, affected by the recent crisis, were tightened in 2009. For the main development projects, we reviewed the analysis performed by the company to justify the accounting treatment of the associated development costs. In particular, our work consisted in reviewing the estimates at completion on those projects, the sales and profitability forecasts, and the assumptions used for the depreciation and for the impairments tests, if any, of the capitalized costs.

- **Deferred tax assets**

As stated in notes 1.l and 1.v to the financial statements, the recoverability of net deferred tax assets amounting in the balance sheet as at December 31, 2010 to EUR 954,7 million was assessed by Thales on the basis of forecast data taken from the strategic plans drawn up for each of the consolidated tax groups concerned, under the Group's control. We reviewed the recoverability tests performed by Thales on these deferred tax assets.

- **Provisions for pension plans and related commitments**

Certain headings in both the assets and liabilities sides of the balance sheet drawn up for consolidated financial statements, as well as

off-balance sheet commitments, are estimated on a statistical and actuarial basis, in particular, the provisions for pension plans and related commitments. The methods for calculating these headings are set out in notes 1.n and 21 to the financial statements. Our work consisted in assessing the data and assumptions used in the models for valuing these headings, as well as the overall consistency of these assumptions, with due regard, in particular, to Thales' experience, its regulatory and economic environment.

- **Litigation and contingency provisions**

As regards litigation and contingency provisions, we ensured that the procedures in force in your Group made it possible to identify, evaluate and recognize such provisions from an accounting standpoint in satisfactory conditions.

We also ensured that the disputes identified during the implementation of these procedures were described in appropriate terms in the notes to the financial statements, and, in particular, in notes 23 "Litigation and environment" and 27 "Commitments and contingencies".

- **Purchase price allocation in respect of business combinations**

As stated in notes 1.b and 1.v to the financial statements, in the framework of business combination realized by the Group, Thales is brought to measure the acquiree's identifiable assets, liabilities and contingent liabilities at their fair value, including intangible assets. These assessments, mainly entrusted to independent experts, are based on assumptions (forecast) and parameters characterizing the activities acquired.

Our work consisted in assessing the methodology used, the assumptions used in models of valuation for the concerned identifiable assets and liabilities as well as the reasonableness of the parameters used.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III – Specific verification

As required by law we have also verified, in accordance with professional standards applicable in France, the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Courbevoie and Paris-La Défense, March 11, 2011

The statutory auditors

French original signed by

ERNST & YOUNG Audit

MAZARS

MICHEL GAUTHIER

NOUR-EDDINE ZANOUDA

JEAN-LOUIS SIMON

► 3. PARENT COMPANY MANAGEMENT REPORT AND FINANCIAL STATEMENTS

A. PARENT COMPANY MANAGEMENT REPORT

No changes were made in 2010 to the presentation of the annual financial statements and the valuation methods applied.

1. BUSINESS AND RESULTS

Operating income amounted to €467m, compared with €495m in 2009. Revenues stood at €133m, compared with €139m in 2009.

Operations by sector are described in the notes.

Revenues mainly consisted of rents re-billed to operating subsidiaries and sales of research, mainly conducted by the central research and technology department of the Thales Group.

Other operating income amounted to €303m, compared with €335m the previous year. This was made up of fees paid by operating subsidiaries and rents re-billed to the same subsidiaries. In 2010, a fall of around €35m was recorded in this item. This income includes general and specific services rendered by the parent company to subsidiaries.

Net operating income was €-21m, compared with €-45m in 2009.

Net financial income was €268m, compared with a loss of €-44m in 2009. The improvement is due to the level of provisions for investments and risks on subsidiaries, which were lower in 2010 at €-113m, compared with €-539m in 2009. Reversals of provisions for investments represented €135m in 2010 and €103m in 2009.

Income from investments totalled €313m in 2010, compared with €461m in 2009.

Exceptional items represented a net charge of €-142m, compared with €-28m in 2009. Restructuring costs, at €-4m, were lower than the €-32m recognised in 2009. The capital losses of €-91m related to the sale of shares of subsidiaries prior to the merger organised as part of the rationalisation of the investment portfolio. A total of €-50m was set aside for the Taiwan contract €-35m and a related contract €-15m.

Corporate income tax represented a net gain of €87m (compared with a net gain of €88m in 2009), almost all of which is due to the tax consolidation applied by Thales and its subsidiaries. In 2010, expenditure excluded from tax-deductible expenses pursuant to articles 223 *quater* and 39.4 of the French General Tax Code amounted to €337,000, compared with €382,000 in 2009.

A net gain of €192m was recorded in 2010, compared with a net loss of €-29m in 2009.

2. BALANCE SHEET AT 31 DECEMBER 2010

The balance sheet total stood at €11,799m at the end of 2010, a rise of €597m from €11,202m at the end of 2009.

Non-current assets of €8,387m compared with €8,136m in 2009 consisted mainly of long-term investments. The change is due to the €350m capital increase of Thales Avionics and a decrease in other long-term investments due to loan repayments made by Thales Information Systems for €-30m, Thales Security Solutions & Services Company for €-41m, Thales Australia Holding Pty Ltd for €-27m and Thales Italia S.P.A. for €-23m.

Current assets rose by €347m to €3,412m at the end of 2010: Group company accounts decreased by €159m. The treasury accounts of Thales Avionics, Thales Services and Thales International returned to the black, offset by an increase in treasury accounts for Thales Security Solutions & Services and Thales Europe. Cash and cash equivalents stood at €1,952m at the end of 2010, compared with €1,401m at the end of 2009.

The balance of amounts due to and from Group companies represented a net debt of €2,835m at the end of 2010, compared with €2,656m at the end of 2009. The other financial debts item also includes debts in foreign currencies and euros to subsidiaries and investee companies of the Group in the amount of €193m, compared with €196m at the end of 2009. Net debt to Group companies stood at €3,028m at the end of 2010, compared with €2,852m at the end of 2009.

Other financial debts rose to €2,256m at the end of 2010, compared with €1,806m at the end of 2009. This mainly included:

- €500m for the bonds issued at a fixed rate of 4.375% in July 2004 and maturing in July 2011,
- €275m for the bonds issued at a fixed rate of 4.375% in January 2009 and maturing in July 2011,
- €600m for the bonds issued at a fixed rate of 4.375% in April 2009 and maturing in April 2013,
- €600m for the bonds issued at a fixed rate of 2.750% in October 2010 and maturing in October 2016.

At the end of 2010, Thales's net financial debt, excluding debts to Group companies, amounted to €111m, compared with €209m at the end of 2009.

At the end of 2010, the share capital stood at €597m, as in 2009.

At 31 December 2010, shareholders' equity totalled €4,872m, compared with €4,776m at the end of 2009.

■ INFORMATION ON SUPPLIER PAYMENT SCHEDULES (ARTICLE 441-6-1 OF THE FRENCH COMMERCIAL CODE)

Thales's payment terms are 60 days from invoice, in line with the maximum period allowed under the French "LME" law on the modernisation of the economy.

See presentation below on the ageing of trade payables in relation to the date of invoice.

(in € million)	Trade payables at 2010			Trade payables at 2009		
	Group	Non-group	Total	Group	Non-group	Total
France						
Due in less than two months	20.3	7.4	27.7	10.6	8.3	18.9
Due in two to four months	1.0	1.5	2.5	3.3	0.9	4.2
Due after four months	0.0	0.6	0.6	1.1	0.7	1.8
	21.4	9.4	30.8	15.0	9.9	24.9
Other countries						
Due in less than two months	0.6	0.2	0.7	0.9	0.6	1.6
Due in two to four months	0.3	0.1	0.4	0.0	0.0	0.0
Due after four months	0.0	0.3	0.4	2.3	0.7	3.0
	1.0	0.6	1.5	3.2	1.3	4.6
TOTAL	22.3	10.0	32.3	18.2	11.2	29.4

■ MAIN SHAREHOLDERS

	31/12/10	31/12/09	31/12/08
TSA	22.93%	22.39%	22.43%
Sofivision	4.07%	4.07%	4.08%
French State (including one golden share)	—	—	—
Sogepa	—	0.54%	0.54%
Public sector ^(a)	27.00%	27.00%	27.05%
Dassault Aviation	25.89%	25.90%	—
Alcatel-Lucent Participations	—	—	20.76%
GIMD	—	—	5.17%
Thales	1.87%	1.79%	1.88%
Employees	2.92%	3.00%	3.07%
Other shareholders	42.32%	42.31%	42.07%
Total	100%	100%	100%
Number of shares comprising share capital	199,082,027	199,023,932	198,724,809

(a) Under the terms of the shareholders' agreement (see AMF 27-11-08), the "Public Sector" includes TSA and its subsidiary Sofivision, excluding Sogepa and the French State directly.

3. SUMMARY OF COMPANY SHARE TRANSACTIONS CARRIED OUT IN 2010 BY DIRECTORS, NON-VOTING DIRECTORS AND RELATED PERSONS

In accordance with Article 223-26 of the General Regulations of the French Financial Markets Authority (AMF)

Under article L. 621-18-2 a) of the French Monetary and Financial Code, members of the Board of Directors are subject to this disclosure requirement.

Pursuant to article L. 621-18-2 b) of the French Monetary and Financial Code, the Company has declared to the AMF that all members of the Executive Committee come under the category of non-voting directors in respect of obligations to declare share transactions.

Under article L. 621-18-2 c) of the French Monetary and Financial Code, related persons are persons who have close personal ties, as defined in a decree of the French Council of State, to the persons referred to in the aforementioned articles L. 621-18-2 a) and b).

To the best of the Company's knowledge, the following disclosures have been made to the AMF for publication on its website (<http://www.amf-france.org>):

Name/Title	Purchases/subscriptions ^(a)		Divestments ^(a)	
	Number of shares	euros	Number of shares	euros
L. VIGNERON/Chairman and Chief Executive Officer	5,535.00	148,790.25		
Ph. LEPINAY/Director representing employee shareholders	306.04	8,000.00		
P-E. POMMELLET/Member of the Executive Committee	1,958.04	102,800.00	1,958.04	118,820.00

(a) Share transactions carried out in 2010 include transactions carried out by related parties, where applicable.

4. REVERSAL OF GENERAL EXPENSES FOLLOWING TAX AUDIT

N/A.

5. OUTLOOK FOR THE CURRENT YEAR

Results for 2011 should reflect the dividends paid by some subsidiaries in respect of the 2010 financial year and changes in provisions for impairment of investments and risks relating to

subsidiaries, as a consequence of trends in their business and performance in 2010.

6. PROPOSED APPROPRIATION OF EARNINGS ^(a)

The General Meeting notes that distributable earnings, made up of the net profit for the 2010 financial year	€192,320,044.15
Less allocation to the legal reserve	€-107,161.40
Plus the credit balance brought forward	€228,522,766.61
Amounts to a total of	€420,735,649.36

The General Meeting decided to allocate this profit as follows:

Payment of a single dividend of €0.50 on 199,082,027 shares vesting on 1 January 2010	€99,541,013.50
Balance carried forward	€ 321,194,635.86
Total equivalent to distributable earnings	€ 420,735,649.36

(a) Subject to the approval of the Annual General Meeting of 18 May 2011.

7. DIVIDEND POLICY

By law, dividends are paid to the holders of shares. The Company uses the Euroclear direct payment procedure.

If approved by shareholders on 18 May 2011, the ex-dividend day will be 26 May 2011. Shareholders will be able to opt for payment of this dividend either in cash or shares. Any dividend unclaimed after five years lapses by law and is paid to the French tax authority.

As required by law, the per-share dividend information for the last three financial years is given below. In accordance with the French General Tax Code, dividends paid in respect of 2007, 2008 and 2009 qualified for a possible tax credit of 40%.

Year	Dividend per share
2007	€ 1.00
2008	€ 1.05
2009	€ 0.50
2010	€ 0.50 ^(a)

(a) Subject to the approval of the Annual General Meeting of 18 May 2011, which will vote on the 2010 financial statements.

8. EVENTS SINCE YEAR-END

At the date of publication of this document, no event liable to modify Thales's financial position had occurred since year-end.

9. TREASURY SHARES

During 2010, the number of treasury shares increased due to the following transactions:

- 1,368,874 shares were purchased under a liquidity contract;
- 1,207,329 shares were sold under a liquidity contract;
- 760 shares were sold in respect of the delivery of free shares.

At 31 December 2010, treasury shares thus amounted to 1.87% of the capital, or 3,717,478 shares.

10. TRADING IN COMPANY SHARES DURING 2010

In 2010, Thales traded in company shares as part of its share repurchase programme drawn up in accordance with the AMF General Regulations (article 241-1 *et seq.*).

These transactions were carried out as part of the share repurchase programme authorised at the Annual General Meeting on 19 May 2009 for transactions performed between 1 January 2010 and 20 May 2010, and in accordance with the authorisation given by the Annual General Meeting on 20 May 2010 for transactions performed between 21 May 2010 and 31 December 2010.

At 1 January 2010, Thales held 3,556,693 treasury shares, or 1.78% of the capital, compared with 3,717,478 treasury shares at 31 December 2010.

The net balance of 2010 trading was the purchase of 160,785 shares, broken down by objective as follows:

a) Sale or allotment of shares to Group employees and senior executives in the manner stipulated by law, particularly when share purchase options are exercised or existing shares are granted free of charge	-760
b) Regulation of the market price by a liquidity contract drawn up in accordance with the AFEI code of conduct	+161,545

Breakdown of treasury shares by objective at 31 December 2010.

The total number of shares held at that date was 3,717,478, representing 1.87% of Thales's share capital. The breakdown by objective was as follows:

a) Sale or allotment of shares to Group employees and senior executives in the manner stipulated by law, particularly when share purchase options are exercised or existing shares are granted free of charge	1,805,185
b) Exchange of shares as part of external growth operations	1,396,011
c) Regulation of the market price by a liquidity contract drawn up in accordance with the AFEI code of conduct	516,282

Market value of the portfolio at 31 December 2010: €13,518,844.71, at the closing price on 31 December 2010, i.e. €26,185.

	Cumulative gross flows from 1 January 2010 to 31 December 2010		Positions open on the date of the program description					
	Purchases	Sales	Positions open to purchase			Positions open to sale		
			Calls bought	Puts sold	Futures purchases	Calls sold	Puts bought	Futures sales
Number of shares	1,368,874	1,207,329						
Average maximum maturity								
Average transaction price €	29.82	30.05						
Totals €	40,819,822.68	36,280,236.45						

Thales did not have recourse to derivatives (futures sales) as part of this redemption programme.

11. AUTHORISATION GRANTED AT GENERAL MEETINGS WITH DELEGATION OF POWERS TO THE BOARD OF DIRECTORS

General Meeting	Decision	Observation
General Meeting of 15 May 2008		
Allocation of options for the subscription of shares with no discount at the average price in the last 20 trading days – Limit: 5 million shares Validity of options: 10 years. Duration of the authorisation: 38 months (until 14 July 2011)	Board meeting on 1 July 2008 Allocation of 1,688,070 options – including 80,000 for Chairman D. Ranque. Exercise price: €38.50 Board meeting on 25 June 2009 Allocation of 1,680,340 options – including 80,000 for Chairman L. Vigneron. Exercise price: €32.88 Board meeting on 10 December 2009 Waiver by Chairman L. Vigneron of his 80,000 options Board meeting on 23 September 2010 Allocation of 471,850 options for the subscription of shares with performance conditions – including 64,000 for Chairman L. Vigneron Exercise price: €26.34	Balance: 1,631,590 options
General Meeting of 19 May 2009		
Cancellation of shares (representing up to 10% of the share capital at the date of cancellation) – Authorisation: 24 months (until 18 May 2011)		
General Meeting of 20 May 2010		
Share repurchase programme (up to 10% of the capital) – Maximum purchase price: €50 (the Board set the minimum selling price at €20 per share, except for transactions requiring the sale or allocation of free shares) – Authorisation valid for 18 months, until 19 November 2011	Board meeting on 23 March 2010: Delegation of powers to the Chairman and Chief Executive Officer	
Allocation of options for the purchase of shares with no discount against the average price of the last 20 trading days (although potential discount on cost price, subject to statutory limits). Limit: 2 million shares. Validity of options: 10 years. Duration of the authorisation: 38 months (until 19 July 2013)	—	
Free allotment of existing shares to employees (no more than 2 million shares and a minimum vesting period of two years). The compulsory holding period (two years) could be cancelled if the vesting period is four years or more. Duration of the authorisation: 38 months (until 19 July 2013)	Board meeting on 23 September 2010 allocation of 631,870 free shares – including 144,050 performance shares with performance conditions (identical to the conditions governing stock options granted on the same date)	
Issuance of securities giving access to equity capital	—	Overall ceiling limit with transactions under the following delegation of powers:
- Limits with preferred subscription rights: 30 million shares and €1.5 billion debt securities - Limits without preferred subscription rights (allowance for priority subscription period): as above. - Greenshoe option applicable in each case: max 15% of issuance, subject to the aforementioned limits.		50 million shares and €2 billion in debt securities
Authorisation valid for 26 months, i.e. until 19 July 2012		

General Meeting	Decision	Observation
Issuance of new shares (subject to a maximum of 19.9 million shares) in consideration of contributions of the securities of third companies Valid for 26 months, i.e. until 19 July 2012	—	Overall ceiling limit with transactions under the preceeding delegation of powers: 50 million shares and €2 billion in debt securities
Issuance of new shares reserved for members of the employee savings plan Limit: 6 million shares Maximum discount: 20% for a 5-year employee savings plan and 30% for a 10-year holding period Valid for 26 months, i.e. until 19 July 2012	—	

12. KEY FACTORS LIABLE TO AFFECT A PUBLIC OFFER (DISCLOSURES WITHIN THE SCOPE OF ARTICLE L. 225-100-3 OF THE FRENCH COMMERCIAL CODE)

The structure of share ownership and the distribution of voting rights mean that Thales is unlikely to be affected by any public offer. Furthermore:

A. The two main shareholders (Dassault Aviation and TSA) have declared that they are acting in concert within the framework of a shareholders' agreement, the key terms of which are described on page 164.

B. Thales and its two main shareholders have entered into a cooperation agreement valid until 31 December 2011 and renewable by tacit agreement for periods of five years.

C. Any crossing of the thresholds of one-tenth of the capital or voting rights, or any multiple thereof, requires the prior consent of the French Minister for the Economy.

13. EMPLOYEE SHAREHOLDINGS AT 31 DECEMBER 2010

Holding by country	Number of shares	% of employee share ownership L. 225-10	% of capital	Related voting rights as % of total voting rights
France and World (three dedicated funds ^(a))	5,582,658	96.06%	2.80%	4.39%
Netherlands (two dedicated funds ^(b))	130,747	2.25%	0.07%	0.10%
Italy (two dedicated funds ^(c))	14,187	0.24%	0.01%	0.00%
United Kingdom (SIP trust ^(d))	51,251	0.88%	0.03%	0.02%
Shares held directly in the employee savings plan (2002 and 2008 offers)	32,820	0.56%	0.02%	0.02%
Total subject to article L. 225-102 of the French Commercial Code	5,811,663	100.00%	2.92%	4.54%
Total number of shares held by employees	5,811,663	100.00%	2.92%	4.54%
Total share capital	199,082,027			

(a) Thales Actions, World Classic and Action Plus 2008 funds.

(b) Netherlands Classic and Netherlands Action Plus 2008 funds.

(c) Italy Classic and Italy Action Plus 2008 funds.

(d) Share Incentive Plan.

14. ELEMENTS COMPRISING THE PARENT COMPANY REPORT

In compliance with articles L. 225-100, L. 232-1, L. 247.1 and R. 225-102 of the French Commercial Code, the parent company management report contains the following information, which is available in the Company's 2010 Registration Document:

- appended hereto with the parent company financial statements for 2010 are statements illustrating:
 - acquisitions of interests and breaches of ownership thresholds in French companies,
 - lists of subsidiaries and affiliated companies,
 - options outstanding at 31 December 2010,
 - company results in the last five financial years,
- included in the 2010 annual report are:
 - the financial report, which contains:
 - > an analysis of changes in the Group's results and financial position,
 - > a description of the main risks and uncertainties for the Group, including financial risks, interest and foreign exchange risk, and equity exposure, together with indications as to their possible impact on the parent company. The parent company does not have any direct commercial operations exposing it to foreign exchange risk, but manages this risk on behalf of its subsidiaries. To this end, it sets up derivative instruments on financial markets in connection with business flows, these instruments being materialised by derivatives within the Group to which subsidiaries are party, and hedges commercial offers. The Thales parent company is covered by Group insurance schemes; the nature of its business does not require any particular additional cover,
 - > information concerning the use of financial instruments, particularly note 28 to the consolidated financial statements, supplementing

note 13b to the parent company financial statements and the above remarks regarding foreign exchange risk,

- > information concerning research and development activities,
 - a presentation of the business, with:
 - > segment reporting for subsidiaries and controlled subsidiaries,
 - > information concerning research and development activities,
 - a chapter on shareholder information, which includes:
 - > a description of the share repurchase programme to be submitted to the Annual General Meeting on 18 May 2011 for approval,
 - > information on executive directors and corporate officers (term of office, duties, compensation, company commitments, stock options granted, etc.),
 - > information about the market performance of Thales shares over the past two years,
 - > information on the allocation of free shares during the year.

In addition, in compliance with the French Financial Security Act of 1 August 2003, the Chairman of the Board of Directors has submitted a specific report on the conditions under which the work of the Board of Directors is prepared and organised, the Company's internal control procedures, and possible restrictions imposed by the board on the Chief Executive Officer's powers. The following information is presented in the annual report:

- conditions under which the work of the Board of Directors is prepared and organised,
- internal control procedures implemented by the Company.

B. PARENT COMPANY FINANCIAL STATEMENTS

■ INCOME STATEMENT BY NATURE

(in € million)		2010	2009
Operating income	(note 3)		
– Re-billing of rent		119.2	116.7
– Research		13.8	16.3
– Intragroup trading contracts		0.0	6.0
Total revenues		133.0	139.0
– Royalties		161.8	158.8
– Re-billing of expenses etc		141.3	176.1
Total other operating income		303.1	334.9
Reversal of provisions		16.4	14.2
Transfer of expenses		14.3	6.8
Total operating income		466.8	494.9
Operating expenses			
Purchases and changes in inventory and liabilities		(14.8)	(20.1)
Other external charges		(263.3)	(300.8)
Taxes other than on income or payroll-related		(12.0)	(12.2)
Staff expenses		(166.4)	(181.9)
Depreciation and amortisation		(16.4)	(14.3)
Provisions		(14.7)	(10.6)
Total operating expenses		(487.6)	(539.9)
Operating profit (loss)		(20.8)	(45.0)
Net financial income	(note 4)		
Net interest expense		(47.5)	(61.7)
Income from investments		313.2	461.4
Other financial income		154.9	122.3
Other financial expenses		(152.5)	(566.2)
Total net financial income		268.1	(44.2)
Income (loss) before exceptional items and income tax		247.3	(89.2)
Net extraordinary items	(note 5)		
Restructuring costs		(3.8)	(32.2)
Capital gains and losses on disposal and similar		(138.6)	4.4
Total net extraordinary items		(142.4)	(27.9)
Profit (loss) before tax		104.9	(117.1)
Income tax	(note 6)	87.4	87.9
Net income		192.3	(29.1)

The notes to the financial statements are an integral part of the parent company financial statements.

■ BALANCE SHEET

(in € million)		31/12/2010	31/12/2009
ASSETS			
Non-current assets:			
Intangible assets, gross	(note 7)	24.5	24.5
Less: depreciation & amortisation	(note 7)	(24.1)	(23.8)
Intangible assets, net		0.4	0.7
Property, plant and equipment, gross	(note 7)	175.5	171.9
Less: depreciation & amortisation	(note 7)	(102.7)	(90.8)
Property, plant and equipment, net		72.8	81.1
Long-term investments:			
Investments in non-consolidated subsidiaries	(note 7)	8,095.2	7,700.7
Other investment securities (treasury shares)	(notes 7 & 11)	59.1	89.4
Other long-term investments	(notes 7 & 8)	159.3	264.3
Total long-term investments		8,313.6	8,054.4
Total non-current assets		8,386.8	8,136.2
Current assets:			
Inventory and liabilities		8.9	2.2
Advances to suppliers	(notes 3 & 8)	—	2.3
Accounts & notes receivable	(notes 3 & 8)	174.0	235.1
Receivables from Group companies	(note 8)	928.2	1,087.3
Other receivables and prepayments	(notes 8 & 9)	291.0	301.4
Marketable securities		58.0	36.3
Cash and cash equivalents		1,951.9	1,400.7
Total current assets		3,412.0	3,065.3
Total assets		11,798.8	11,201.5

The notes to the financial statements are an integral part of the parent company financial statements.

		31/12/2010	31/12/2009
LIABILITIES			
Shareholders' equity	(note 10)		
Capital		597.2	597.1
Paid-in surplus and merger premiums		3,656.8	3,655.3
Reserves and retained earnings		425.6	552.4
Profit (loss) for the year		192.3	(29.1)
Total capital and reserves		4,871.9	4,775.7
Provisions for risks and charges	(note 12)	419.7	276.0
Financial debt:			
Debt to Group companies	(note 8)	3,763.5	3,743.5
Other financial debt	(note 8)	2,256.3	1,805.7
Total financial debt		6,019.8	5,549.2
Operating and other liabilities:			
Advances received on contracts in progress	(note 3)	13.5	27.5
Accounts and notes payable	(note 8)	56.5	68.8
Other payables and accruals	(notes 8 and 9)	417.4	504.3
Total operating and other liabilities		487.4	600.6
Total liabilities		11,798.8	11,201.5

Off-balance sheet commitments (note 13).

The notes to the financial statements are an integral part of the parent company financial statements.

■ STATEMENT OF CASH FLOWS

(in € million)	2010	2009
Cash flows from operating activities		
Net income (loss)	192.3	(29.1)
Depreciation and amortisation of property, plant & equipment and intangible assets	16.4	14.3
Net increases in provisions for impairment of non-current assets, provisions for pensions and regulated provisions	(120.3)	405.5
Loss (gain) on disposals of assets	(1.2)	(5.9)
Operating cash flow	87.2	384.8
Change in non-operating provisions	(16.3)	19.1
Change in working capital requirement	271.8	168.0
Total	342.7	571.9
Cash flows from investing activities		
Acquisitions of property, plant & equipment and intangible assets	(7.9)	(10.2)
Disposals of property, plant & equipment and intangible assets	0.2	2.8
Net operating investment	(7.7)	(7.4)
Disposal of other investments	13.8	0.7
Investment in subsidiaries and investee companies (Note 7)	(370.0)	(299.8)
Other net financial investment	257.6	218.2
Total	(106.3)	(88.3)
Cash flows from financing activities		
Increase (decrease) in shareholders' equity ^(a)	(92.0)	(200.1)
Disposal of treasury shares (Note 11)	(4.5)	(6.3)
Increase in financial debt	680.0	1,113.3
Repayment of financial debt	(218.8)	(1,338.9)
Increase (repayment) of debt to Group companies	(28.2)	370.8
Total	336.5	(61.2)
Increase (decrease) in cash and cash equivalents before transactions in marketable securities	572.9	422.4
Decrease (increase) in investment securities	(21.7)	(36.3)
Total increase (decrease) in cash and cash equivalents	551.2	386.1
Cash and cash equivalents at beginning of year	1,400.7	1,014.6
Cash and cash equivalents at end of year	1,951.9	1,400.7

(a) Mainly corresponds to dividend payments: €-97.7m for 2010 and €-204.7m for 2009.

The notes to the financial statements are an integral part of the parent company financial statements.

■ STATEMENT OF CHANGES IN EQUITY

	Number of shares in circulation (thousands)	Share capital	Share premiums	Retained earnings	Net income for the period	Revaluation reserve	Total equity
<i>(in € million)</i>							
At 1 January 2009	198,725	596.2	3,647.8	693.5	63.6	0.0	5,001.1
Allocation of 2008 earnings	—	—	—	63.6	(63.6)	—	0.0
Dividends paid	—	—	—	(204.7)	—	—	(204.7)
Capital increase	299	0.9	7.5	—	—	—	8.4
2009 earnings	—	—	—	—	(29.1)	—	(29.1)
At 31 December 2009	199,024	597.1	3,655.3	552.4	(29.1)	0.0	4,775.7
Allocation of 2009 earnings	—	—	—	(29.1)	29.1	—	0.0
Dividends paid	—	—	—	(97.7)	—	—	(97.7)
Capital increase (note 10a)	58	0.1	1.5	—	—	—	1.6
2010 earnings	—	—	—	—	192.3	—	192.3
At 31 December 2010	199,082	597.2	3,656.8	425.6	192.3	0.0	4,871.9

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

**All amounts included in these notes
are expressed in millions of euros (€m)
except for per share data.**

1. ACCOUNTING POLICIES

Thales's annual financial statements are prepared in accordance with the accounting standards defined by the French national chart of accounts (*Plan Comptable Général*) attached to the ministerial order dated 22 June 1999.

a) CONSOLIDATION

The consolidated financial statements of the Group composed of Thales and its subsidiaries are reported separately.

b) TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS

With the exception of transactions described in the next paragraph, foreign currency payables and receivables are translated into euros at closing exchange rates. The differences are reported in the balance sheet under "Other creditors" or "Other debtors", as applicable. Foreign exchange losses on currency transactions give rise to the recognition of a reserve for contingencies for the full amount of the loss in the year in which the difference has arisen. These provisions, together with realised foreign exchange gains and losses, are recognised in the income statement under "Other financial income and expenses".

Foreign currency transactions are processed by the Group treasury department. This allows operational units to have guaranteed exchange rates for each transaction. The receivables and payables of operational units are measured at the specific rates thus guaranteed.

Derivatives relating to subsidiaries and symmetrical positions taken out on the market are recognised at fair value.

Gains and losses on forward foreign currency transactions that do not form part of a hedge relationship are carried through profit and loss; this corresponds to the difference between the forward rate of the currencies in question at the balance sheet date and the contractual forward rate.

c) INTEREST RATE DERIVATIVES

The Group uses financial instruments to manage and reduce its exposure to the risk of changes in interest rates. Where these contracts are designated as hedging instruments, the gains and losses on such contracts are recognised in the same period as the hedged item; if not, and if the market value is lower than the value on inception, the potential loss is recognised in the accounts.

d) BOND ISSUE PREMIUMS AND EXPENSES

Bonds are recognised at their redemption amount. Any issue or redemption premiums are recognised in the corresponding balance sheet heading and amortised on a straight-line basis under financial results.

Bond issue expenses are recognised on a straight-line basis over the term of the bond.

e) INVESTMENT SECURITIES

Negotiable debt securities with an initial maturity of less than three months are included in "Cash and cash equivalents". The FIFO method is used for valuation purposes.

f) FIXED ASSETS

* Intangible assets:

Licences and patents are amortised on a straight-line basis. Amortisation periods correspond to the estimated useful lifetime. These are recorded in the balance sheet at cost.

* Property, plant and equipment:

Land, buildings and equipment are carried at historical cost.

Property, plant and equipment are depreciated either on a straight-line or declining-balance basis, enabling the obsolescence of assets to be recognised in accordance with the useful life specified in note 7.

Non-current assets held under finance leases or hire purchase agreements are not recognised. If necessary these are reported in off-balance sheet commitments.

g) EQUITY INVESTMENTS

This item includes the shares of subsidiaries that Thales intends to hold. These shares are measured at cost price or at their value in use, whichever is lower. Their valuation takes into account:

- the profitability outlook or intrinsic asset value for consolidated shares;
- the share of equity held, the profitability outlook and the market value (market price for listed securities) for non-consolidated shares;
- provisions recognised over and above the gross value of the shares are reported in balance sheet liabilities under "Subsidiary risks";
- impairment tests in 2010 were performed using an initial discount rate assumption of 8% (the Group's average cost of capital at the end of 2010). A 2% increase in the discount rate (to 10%) would not result in the company recognising material additional losses on the gross value of its investments.

h) INVENTORY AND WORK-IN-PROGRESS

Inventory and work-in-progress are carried at the lower of cost (determined using the FIFO or weighted average cost method) or net realisable value. Work-in-progress, semi-finished and finished goods are carried at the direct cost of raw materials, production labour and subcontracting costs incurred during production, plus an appropriate portion of production overhead costs and any other costs that can be directly allocated to contracts.

i) REVENUES

Revenues from the sale of goods and services, together with royalty and licence income, is recognised when the company has transferred the main risks and benefits to the buyer. Revenues from service contracts is recognised in proportion to progress on the contracts.

Costs incurred in respect of the service rendered are recognised at the same time as income.

Selling, administrative and interest charges are expensed directly during the period.

j) RESEARCH AND DEVELOPMENT EXPENSES

Customers and government agencies fund a significant portion of research and development expenses. Internally funded research and development costs are expensed during the period in which they are incurred and taken to profit and loss.

The research tax credit is deducted from corporate income tax.

k) DEFERRED TAXATION

Deferred taxes reflect the temporary differences between accounting profits and taxable profits. They are not recognised in the accounts but are presented in note 6.

l) PENSIONS AND OTHER EMPLOYEE BENEFITS

The company grants its employees post-employment benefits (pensions, severance pay, medical cover, etc.) and other long-term benefits (long-service awards, retirement bonuses, etc.).

The company measures and recognises pension and similar benefits for defined benefit schemes in accordance with the projected unit credit method based on estimated final salary.

For post-employment benefits, actuarial gains and losses are capitalised or expensed when cumulative unrecognised actuarial gains and losses for each scheme at the end of the previous financial year exceed 10% of the defined benefit obligation or of the fair value of plan assets at that date, whichever is greater. These gains and losses are recognised over the expected average residual working life of employees in the scheme ("corridor method").

The expense representing the change in net commitments is recognised in income from operations for the current service cost component and in other financial income and expenses for the other components.

m) STATEMENT OF CASH FLOWS

The "indirect method" (presenting the reconciliation between net income and cash flows from operating activities) has been retained.

Cash balances, changes in which are presented in this statement, include cash and all financial assets considered to be equivalent to cash. Changes in bank overdrafts are reported in cash flows from financing activities. Acquisitions (disposals) of marketable securities with initial maturities of more than three months are not part of the Company's investment policy, but are cash optimisation decisions. They are thus excluded from cash flow from investing activities and presented as a decrease (increase) in cash and cash equivalents when determining net cash flow.

n) TREASURY SHARES

Treasury shares are recognised at the balance sheet date based on their allocation. They are either valued at average share price in the last month before year-end, or amortised over the term of the plan (48 months).

o) RESTRUCTURING

Provisions for restructuring costs are made when a liability arises resulting in an obligation for the company towards third parties, following a decision taken by company management and announced before the balance sheet date, as long as the company does not expect any valuable consideration for these costs.

Such costs primarily relate to severance payments, redundancy pay, costs for notice periods not worked and other costs linked to the closure of facilities such as write-offs of fixed assets. These costs and the costs directly linked to restructuring measures (e.g. relocation costs, training costs of transferred employees, etc.) are recognised in "restructuring costs" in the income statement.

2. CHANGE IN THALES'S DIRECT INVESTMENTS

a) MAJOR OPERATIONS IN 2010

At 21 December 2010, Thales increased the share capital of Thales Avionics by €350m.

The shareholders' agreement dated 30 January 2007 between the French government and Thales allows Thales to increase its stake in DCNS from 25% to 35% by exercising a call option. This option may be exercised for a three-year period commencing on 29 March 2009.

At 31 December 2010, an estimate was made of the value of the option. This value is immaterial after the illiquidity discount is applied.

The agreement also contains contingent remuneration clauses related to certain contracts being obtained and to certain operational performance conditions. At 31 December 2010, as in the previous year, these conditions had not been met.

b) MAJOR OPERATIONS IN 2009

In February 2009, Thales made a takeover bid for and subsequently acquired a 94.6% stake in CMT Medical Technologies Ltd, an Israeli company specialising in medical imaging, for €20.3m.

The purchase price of Alcatel Alenia Space shares was reviewed in 2009 in a procedure involving all parties. This resulted in Thales having to pay an additional €129.6m to Alcatel-Lucent in May 2009 ¹.

3. OPERATING INCOME

a) REVENUES

Thales's total revenues breaks down as follows:

	2010	2009
France	131.7	134.4
Western and southern Europe	0.7	0.5
Middle East	0.6	4.1
Total	133.0	139.0

¹ This additional amount was determined based on a valuation of 67% of the shareholders' equity of Thales Alenia Space, valued at €724.5m, or an additional €124.5m on the €600m initial fixed price, plus €5.1m in interest.

b) INTRAGROUP TRADING CONTRACTS

When the new subsidiaries were established in 1995, and to enable the contribution agreements to be correctly executed, Thales was required to sign intragroup trading contracts for purchases and sales

with its new subsidiaries. These contracts expired in 2010, therefore no revenues was booked in 2010.

These intragroup trading contracts break down as follows in the balance sheet:

	31/12/2010	31/12/2009
RECEIVABLES		
Advances on orders	0.0	1.9
Trade receivables	0.1	7.9
Intragroup trading contracts - assets	0.1	9.8
LIABILITIES		
Advances on orders	0.0	9.1
Other debts	0.1	0.7
Intragroup trading contracts - liabilities	0.1	9.8

4. NET FINANCIAL INCOME

■ FINANCIAL INTEREST, INCOME AND EXPENSE

	2010	2009
Interest and financial income:		
- on financial receivables ^(a)	25.4	29.6
- on interest rate swaps	43.2	32.3
	68.6	61.9
Interest and financial expense:		
- on financial debt ^(b)	(88.5)	(100.1)
- on interest rate swaps	(27.6)	(23.5)
	(116.1)	(123.6)
Total	(47.5)	(61.7)

(a) Including associates for €12.4m in 2010, compared with €17.4m in 2009.

(b) Including associates for €17.4m in 2010, compared with €25.5m in 2009.

■ OTHER FINANCIAL INCOME AND EXPENSES:

	2010	2009
Income from investments	313.2	461.4
Other financial income:		
Foreign exchange gains	2.9	3.6
Reversals of financial provisions ^(a)	146.7	116.8
Amounts recovered on return of entities to financial health ^(b)	1.2	1.5
Other	4.1	0.4
Total	154.9	122.3
Other financial expenses:		
Foreign exchange loss	(0.6)	(17.1)
Increases in financial provisions ^(c)	(138.2)	(546.2)
Forgiveness of loans to subsidiaries ^(d)	(6.6)	—
Other	(7.1)	(2.9)
Total	(152.5)	(566.2)

(a) Including, in 2010, a reversal of provisions on investments (€135.2m), a reversal of provisions on treasury shares (€2.1m) and a reversal of provisions on the Thales loan GeoSolutions (€6.6m).

Including, in 2009, reversal of provisions on investments (€102.8m), a reversal of provisions for risks on subsidiaries (€0.5m) and a reversal of provisions on treasury shares (€13.4m).

(b) Including, in 2010, Thales Université (+€1.2m).

Including, in 2009, Thales Communications Belgium (+€1.0m).

(c) Including, in 2010, provisions on investments (€15.5m), provisions for risks on subsidiaries (€97.5m) and provisions on treasury shares (€13.3m).

Including, in 2009, provisions on investments (€535.3m) and provisions for risks on subsidiaries (€3.5m)

(d) Including, in 2010, loan to Thales GeoSolutions (€6.6m).

Income from investments is illustrated in the statement of subsidiaries and investee companies on pages 129 and 130.

5. NET EXTRAORDINARY ITEMS

	2010	2009
Restructuring costs	(3.8)	(32.2)
Capital gains and losses on disposal ^(a)	(91.2)	10.1
Other:		
Environmental risks ^(b)	—	(4.6)
Provision for litigation ^(c)	(50.0)	(1.0)
Other	2.6	(0.2)
Total	(142.4)	(27.9)

(a) In 2010, capital losses related to the disposal of Thales Services Industrie (€-79.3m), SEERI (€-4.1m), SAS Argentré (€-3.7m) and Aérothales Technology Co Ltd (€-1.7m).

(b) In 2009 environmental risks corresponded to the estimated cost of decontamination of a former Thales site at Puiseaux (see note 12b).

(c) A total of €50m was recognised in 2010 corresponding to:

- €35m in the additional provision linked to the judgment handed down against Thales on 3 May 2010 in the arbitration case against the Chinese government (Taiwan) (see note 12a),
- a €15m provision in the arbitration case brought by the Chinese government (Taiwan) over a contract linked to the delivery of six frigates (see note 12a).

6. INCOME TAX

Since 1 January 1992, Thales has included a large number of its French subsidiaries in its tax consolidation in the context of the regime provided for by article 223A of the French General Tax Code (*Code Général des Impôts*).

Companies included in the tax consolidation pay tax as if they had been taxed separately. The tax savings realised by the Group through use of the losses incurred are retained by the parent company and recognised in income. However, the parent company may incur a tax charge corresponding to the losses of loss-making subsidiaries if these subsidiaries should become profitable again and are able to deduct the losses as if they had not been part of the tax consolidation.

Income tax for 2010 and 2009 can be analysed as follows:

	2010	2009
– Income from tax consolidation	76.6	88.2
– Deferred taxes on the results of EIGs (La Pérouse, Hobart)	3.2	2.9
Other taxes ^(a)	7.6	(3.2)
Total	87.4	87.9

(a) Including, in 2010, +€0.4m of adjustments in respect of 2009 income tax and +€7.2m in research tax credit.

Including, in 2009, +€1.9m of adjustments in respect of 2008 income tax, €-11.5m of tax reversals and +€6.5m in research tax credit.

With the exception of deferred taxes related to the EIGs, deferred tax is not recognised. However, the main temporary differences are as follows:

	31/12/2010	31/12/2009
Net asset temporary differences:		
– Provisions for holiday pay	17.2	17.7
– Provisions for restructuring	4.2	10.5
– Translation adjustments	6.4	4.5
– Provisions for risks and charges	35.4	17.9
– Other	19.9	21.2
Net asset balance *	83.1	71.8

* If recognised, this would give rise to a net deferred tax asset of €28.6m at 31 December 2010.

The result of the tax consolidation at the standard rate for Thales SA, which will be finalised in April, will not give rise to a tax liability for 2010.

Expenditure excluded from tax-deductible expenses (pursuant to articles 223 quater and 39.4 of the French General Tax Code) amounted to €337,000 in 2010, compared with €382,000 in 2009.

7. FIXED ASSETS

a) FIXED ASSETS AT COST

	Amounts at 31/12/2009	Increases	Decreases	Account transfers	Amounts at 31/12/2010
Intangible assets	24.5	—	—	—	24.5
Property, plant & equipment					
Buildings	109.5	5.7	(2.4)	2.8	115.6
Industrial plant and equipment	41.3	1.1	(1.1)	0.6	41.9
Other property, plant and equipment	21.1	1.1	(0.8)	(3.4)	18.0
Total	171.9	7.9	(4.3)	0.0	175.5
Long-term investments					
Investments in non-consolidated subsidiaries	9,350.4	370.0	(95.3)	—	9,625.1
Other fixed investments (treasury shares)	105.1	41.6	(64.5)	—	82.2
Other long-term investments	272.6	55.5	(166.3)	—	161.8
Total	9,728.1	467.1	(326.1)	—	9,869.1

The increase in investments in non-consolidated subsidiaries concerns the increase in capital of Thales Avionics (+€350m) and Thales Microelectronics (+€14m). As part of the rationalisation of its investment portfolio, Thales sold Thales Services Industrie (€79.3m), SEERI (€10.2m) and SAS Argentré (€3.7m) to SIFELEC, which explains the decrease in investments in non-consolidated subsidiaries. These companies were merged with SIFELEC in 2010.

The decrease in other long-term investments concerns the loan repayment by Thales Information Systems S.A.U. (€-30.0m), STESA (€-40.9m), Thales Australia Holdings Pty Ltd (€-27.4m) and Thales Italia S.p.A. (€-23.4m).

b) AMORTISATION AND DEPRECIATION

	Amounts at 31/12/2009	Increases	Decreases	Amounts at 31/12/2010
Intangible assets	23.8	0.3	—	24.1
Property, plant & equipment ^(a)				
Buildings	47.2	11.6	(2.3)	56.5
Industrial plant and equipment	33.5	2.7	(1.1)	35.1
Other property, plant and equipment	10.1	1.8	(0.8)	11.1
Total	90.8	16.1	(4.2)	102.7
Long-term investments				
Investments in non-consolidated subsidiaries	1,649.7	15.5	(135.3) ^(b)	1,529.9
Other fixed investments (treasury shares)	15.8	13.3	(6.0)	23.1
Other long-term investments	8.3	0.7	(6.5)	2.5
Total	1,673.8	29.5	(147.8)	1,555.5

(a) To calculate depreciation, the useful life applied is 20 years for buildings and 3 to 10 years for other assets.

(b) Mainly corresponds to the reversal of the provision for Thales Services Industrie (€-79.3m) in relation to the sale to SIFELEC and the provision established for Thales Holding Norway AS (€-36.5m).

8. SCHEDULE OF RECEIVABLES AND PAYABLES

Headings and items	Gross amount	Payment dates		
		less than 1 year	1 to 5 years	more than 5 years
Receivables				
Receivables from affiliated companies	121.0	101.4	—	19.6
Economic interest group	23.9	16.1	7.8	—
Other long-term investments	14.4	5.3	—	9.1
Subtotal	159.3	122.8	7.8	28.7
Current debtors	—	—	—	—
Advances and payments on account in respect of orders	—	—	—	—
Inventory and liabilities	8.9	8.9	—	—
Trade and other accounts receivable	174.0	174.0	—	—
Receivables from Group companies	928.2	928.2	—	—
Other receivables	291.0	159.5	131.5	—
Cash and cash equivalents	1,951.9	1,951.9	—	—
Subtotal	3,354.0	3,222.5	131.5	0.0
Total receivables	3,513.3	3,345.3	139.3	28.7
Payables				
Other financial debt	2,256.3 ^(a)	1,055.7 ^(b)	600.6 ^(c)	600.0
Subtotal	2,256.3	1,055.7	600.6	600.0
Debt to Group companies	3,763.5	3,763.5	—	—
Advances and payments on account in respect of orders	13.5	4.5	9.0	—
Trade creditors and other accounts payable	56.5	56.5	—	—
Other debts	417.4	334.9	82.5	—
Subtotal	4,250.9	4,159.4	91.5	0.0
Total payables	6,507.2	5,215.1	692.1	600.0

(a) 4.375% fixed-rate bond with a nominal value of €500m and €275m maturing in July 2011.

(b) 4.375% fixed-rate bond with a nominal value of €600m maturing in April 2013.

(c) 2.75% fixed-rate bond with a nominal value of €600m maturing in October 2016.

At 31 December 2010, no material finance was used which was subject to clauses requiring accelerated repayment based on the Group's rating or financial ratios.

At 31 December 2010, committed and undrawn bank credit facilities totalled €1,500 million, expiring in 2015. These credit facilities are

used as a backup for commercial paper and as a financial reserve. The credit agreement states that, in the event that the State no longer holds its golden share and, simultaneously, the ratio of consolidated net financial debt to EBITDA* were to exceed 3, clauses providing for accelerated repayment would apply.

The breakdown by currency for long-term investments and other financial debt is as follows:

	Long-term investments	Other financial debt
Euro	98.4	2,183.4
Saudi riyal	36.5	—
South African rand	16.9	—
Swiss franc	—	42.8
Singapore dollar	—	30.1
Other currencies	7.5	—
Total	159.3	2,256.3

* EBITDA is the sum of income from operations, depreciation of movable and immovable property and amortisation of intangible assets, excluding goodwill impairment. This item is determined by reference to French accounting standards.

9. OTHER RECEIVABLES AND PAYABLES

	31/12/2010		31/12/2009	
	Asset	Liability	Asset	Liability
Tax and employee-related receivables and payables	6.5	64.7	14.7	78.4
Government, income tax	133.5	0.7	147.3	13.0
Deferred tax on results of EIGs	—	17.9	—	21.2
Receivables and payables on non-current assets	—	—	—	0.5
Accrued interest	20.0	8.3	18.2	7.1
Currency exchange difference	1.4	1.9	1.9	1.1
Premiums on foreign exchange option/swaptions	3.6	0.4	4.6	0.6
Revaluation of foreign exchange	99.2	183.6	90.8	217.6
Tax receivables and payables on tax consolidated companies	2.1	124.6	2.1	144.5
Other	24.7	15.3	21.7	20.4
Total	291.0	417.4	301.4	504.3

10. SHAREHOLDERS' EQUITY

a) SHARE CAPITAL

Thales's share capital, totalling €597,246,081 at 31 December 2010, is composed of 199,082,027 shares with a nominal value of €3 each.

The capital increase of €0.1m corresponds to the exercise of subscription options (58,095 options exercised in 2010) (see note 11 on subscription options).

b) SECURITIES OUTSTANDING GIVING ACCESS TO THE COMPANY'S SHARE CAPITAL

■ DISTRIBUTION OF CAPITAL

	31/12/10		31/12/09	
	In number of shares	%	In number of shares	%
Public ^(a)	90,070,841	45.24	90,173,531	45.31
French State ^(b)	53,754,184	27.00	53,754,184	27.00
Thales ^(c)	3,717,478	1.87	3,556,693	1.79
Dassault Aviation	51,539,524	25.89	51,539,524	25.90
Total	199,082,027	100.00	199,023,932	100.00

(a) Including shares held by employees, directly or through mutual funds.

(b) Indirectly, through companies wholly owned by the French State (TSA, SOFIVISION and SOGEPA) and directly (through a golden share).

(c) Treasury shares (note 11).

■ RESERVES AND RETAINED EARNINGS

	31/12/2009	Allocation of 2009 earnings	Dividends paid	31/12/2010
Legal reserve	59.6	—	—	59.6
Blocked reserve	8.3	—	—	8.3
Ordinary reserve	128.9	—	—	128.9
Other reserves	0.3	—	—	0.3
Retained earnings	355.3	(29.1)	(97.7)	228.5
TOTAL	552.4	(29.1)	(97.7)	425.6

11. TREASURY SHARES

At 31 December 2010, Thales held 2,162,418 transferable treasury shares (1.09% of the capital) and 1,555,060 treasury shares reserved for the employee free share grant plan.

The breakdown by plan is as follows:

- 4 July 2007 plan	293,150
- 1 July 2008 plan	305,610
- 25 June 2009 plan	329,750
- 23 September 2010 plan	626,550
	1,555,060

Changes in transferable shares were as follows:

	31.12.2009	Acquisition	Transfer	Allocation to plan	Depreciation at average price *	31.12.2010
Number of shares	2,610,508	1,368,874	(1,207,329)	(609,635)	—	2,162,418
Value	89.4	40.8	(36.1)	(21.7)	(13.3)	59.1

* The average price for the month of December 2010 was 27.34.

The average price for the month of December 2009 was 34.23.

SCHEDULE OF OUTSTANDING OPTIONS AT 31 DECEMBER 2010

Thales regularly grants its employees and directors options for the subscription or purchase of shares and/or free shares (since 2007), as part of its standard management policy on the performance of the Group's employees. These plans are described below:

• Options in existence at 31 December 2010

At 31 December 2010, the following were in existence:

- 250,125 share purchase options at a weighted average exercise price of €42.30;
- 17,860,559 share subscription options at a weighted average exercise price of €36.48.

- Share purchase options

Date of Board decision	25/11/2008	04/07/2007	13/11/2001	02/04/2001	10/05/2000
Grant discount	none	none	none	none	none
Exercise period ^(a)	25 Nov 2012 to 24 Nov 2018	4 July 2011 to 3 July 2017	13 Nov 2005 to 12 Nov 2011	2 April 2005 to 1 April 2011 ^(b)	10 May 2004 to 9 May 2010 ^(b)
Exercise price	€38.50	€44.77	€42.18 ^(c)	€42.37 ^(c)	€37.72 ^(c)
Number of options exercised since grant date	—	—	8,183	—	103,696
Number of options outstanding at 31/12/09	48,900	80,000 ^(e)	112,089	10,608	111,168
Options granted in 2010	—	—	—	—	—
Options exercised in 2010	—	—	—	—	—
Options cancelled in 2010	—	—	1,472	—	111,168
Number of options outstanding at 31/12/10, net of options cancelled ^(d) and exercised	48,900	80,000 ^(e)	110,617	10,608	—
of which exercisable options at 31/12/10	425	—	110,617	10,608	—
of which outstanding options at 31/12/10 held by:					
- Chairman Luc Vigneron	—	—	—	—	—
- other members of the Executive Committee	—	—	—	—	—
Number of beneficiaries of outstanding options	12	1	307	2	—
Including members of the Executive Committee (excluding chairman) at 31/12/10	—	—	—	—	—
Total granted to top 10 beneficiaries (at plan date)	72,200	80,000	20,000	70,000	101,500

(a) Applicable for France. See section on "Conditions of exercise" below for details.

(b) At the board meeting of 12 July 2001, the starting date of the exercise period was brought forward from the fifth to the fourth anniversary of the grant date.

(c) Exercise price and numbers have been adjusted according to the conditions provided for in the applicable regulations (articles D. 174-12 and D. 174-13), as a result of the distribution of dividends drawn from reserves after the option grant date.

(d) Notably due to termination of the employment contract between the grantee and the Group since the grant date.

(e) Because the former chairman-CEO's options have been maintained.

• Share subscription options

	23/09/2010	25/06/2009	01/07/2008	04/07/2007	09/11/2006	30/06/2005	01/07/2004	01/07/2003	02/07/2002	12/07/2001
<i>Date of Board decision</i>	none	none	none	none	none	none	none	none	none	none
<i>Grant discount</i>	24 June 2014 to 23 June 2020	26 June 2013 to 25 June 2019	1 July 2012 to 30 June 2018	4 July 2011 to 3 July 2017	09 Nov 2010 to 08 Nov 2016	30 June 2009 to 29 June 2015	1 July 2008 to 30 June 2014	1 July 2007 to 30 June 2013	2 July 2006 to 1 July 2012	12 July 2005 to 11 July 2011
<i>Exercise period (a)</i>	none	none	none	none	none	none	none	none	none	none
Exercise price	€26.34	€32.88	€38.50	€44.77	€36.47	€34.01	€29.50	€25.70	€40.97 (b)	€42.18 (b)
Number of options exercised since grant date	—	—	—	—	2,709	106,875	375,753	1,273,505	221,039	182,240
Number of options outstanding at 31/12/09	—	1,580,910	1,669,250	1,555,652	2,144,349	1,885,813	1,983,662	1,436,914	2,614,533	2,798,127
Options granted in 2010	471,850	—	—	—	—	—	—	—	—	—
Options exercised in 2010	—	—	—	—	—	—	36,910	21,185	—	—
Options cancelled in 2010	1,500	29,960	26,079	12,864	17,850	32,250	21,770	11,196	36,418	32,519
Number of options outstanding at 31/12/10, net of options cancelled (c)	470,350	1,550,950	1,643,171	1,542,788	2,126,499	1,853,563	1,924,982	1,404,533	2,578,115	2,765,608
of which exercisable options at 31/12/10	—	138,286	236,809	270,056	2,126,499	1,853,563	1,924,982	1,404,533	2,578,115	2,765,608
Of which current options held at 31/12/10 by:										
- the chairman	64,000	0 (d)	—	—	—	—	—	—	—	—
- other members of the Executive Committee	198,000	166,850	155,550	150,050	108,500	94,413	66,775	36,200	75,159	72,213
Number of beneficiaries of outstanding options	120	1,339	1,266	1,252	1,891	1,691	2,607	2,251	4,330	4,277
Including members of the Executive Committee (excluding chairman) at 31/12/10	14	14	14	14	10	10	8	3	6	6
Total granted to top 10 beneficiaries (at plan date)	161,500	222,000	230,000	240,000	235,000	275,000	285,000	280,000	263,000	329,500

(a) Applicable to France for plans allocated prior to 2009 and to all countries for 2010. See section on "Conditions of exercise" below for details.

(b) Exercise price and numbers have been adjusted according to the conditions provided for in the applicable regulations (articles D. 174-12 and D. 174-13), as a result of the distribution of dividends drawn from reserves after the option grant date.

(c) Notably due to termination of the employment contract between the grantee and the Group since the grant date.

(d) Because the new chairman-CEO, Mr Luc Vigneron, decided to waive the 80,000 options granted to him.

● Conditions of exercise of stock options

All Thales share purchase and subscription options are granted for a ten-year period, at no discount to the market price.

Options granted between 2 April 2001 and 9 November 2006 can already be exercised in full.

Share purchase or subscription options granted between 4 July 2007 and 25 June 2009 are progressively vested over four years and may be exercised as follows:

In all countries except France, up to 37.5% of the number granted 18 months after the grant date, then up to 6.25% of the number granted at the end of each subsequent quarter, reaching a total of 100% four years after the grant date.

In France, in application of specific legislative requirements, employees benefiting from stock options who are French tax residents and/or who pay national insurance in France may not exercise any option before the fourth anniversary of the grant date.

The options granted on 23 September 2010 are subject to the fulfilment of internal performance conditions for the 2011, 2012 and 2013 financial years. The three criteria used are income from operations after restructuring, operating cash flow and order intake, each of these criteria having a 60%, 25% and 15% weighting respectively.

One third of options will be validated in each tranche. The first tranche will be validated in February 2012, the second in February 2013 and the third in February 2014.

Validated options will not exceed the amounts originally granted. For all beneficiaries, options may be exercised only from the fourth anniversary of the grant date.

● Options granted and exercised in 2010

	Number of options granted/shares subscribed or purchased	Exercise price	Maturity date	Plan date
1 – Directors				
Options granted in 2010 - Luc Vigneron	64,000	€26.34	22/09/2020	23/09/2010
2 – Top 10 ^(a) employee options granted by size ^(b)				
Options granted in 2010	161,500	€26.34	22/09/2020	23/09/2010
3 – Top 10 employee options exercised by size ^(b)				
Options exercised in 2010	19,620	€29.50	—	01/07/2004
	5,000	€29.50	—	01/07/2004
	5,000	€29.50	—	01/07/2004
	4,000	€25.70	—	01/07/2003
	3,000	€29.50	—	01/07/2004
	3,000	€25.70	—	01/07/2003
	1,900	€25.70	—	01/07/2003
	1,000	€29.50	—	01/07/2004
	1,000	€29.50	—	01/07/2004
	1,000	€25.70	—	01/07/2003

(a) During the 2010 financial year, the top 10 individual grants of options to employees of the company or its subsidiaries who are not company representatives ("mandataire social") of Thales ranged from 10,000 to 30,000 options: one beneficiary received 30,000 options, three received 20,000 options, two received 15,000 options, one received 11,500 options and three received 10,000 options.

(b) For all Group companies combined.

• Allotment of free shares and/or performance shares

The Board of Directors, on the authorisation of the Annual General Meeting, has decided to implement a fourth free share allotment plan. The Chairman & Chief Executive Officer (the only “mandataire social” or company representative, legally responsible as defined by the French Commercial Code) and 21 executives, including members of the Executive Committee, were excluded from the plan.

The allotment on 23 September 2010 consists of two sub-plans:

FREE SHARES:

- All designated beneficiaries of the plan will be granted shares at the end of a four-year vesting period subject to compliance with the employment conditions stipulated under the plan's rules.
- Beneficiaries who are resident in France for tax purposes or who pay national insurance in France will then have to observe a two-year holding period during which shares may not be sold. This holding period does not apply to beneficiaries who are not resident in France for tax purposes.

SHARES SUBJECT TO PERFORMANCE CONDITIONS:

- The shares granted are subject to the fulfilment of internal performance conditions for the 2011, 2012 and 2013 financial years. The three criteria used are income from operations after restructuring, operating cash flow and order intake, each of these criteria having a 60%, 25% and 15% weighting respectively.
- One third of options will be validated in each tranche. The first tranche will be validated in February 2012, the second in February 2013 and the third in February 2014.
- Validated options will not exceed the amounts originally granted.
- All designated beneficiaries of this plan will be granted shares at the end of a four-year vesting period subject to compliance with the employment conditions stipulated under the plan's rules.
- Beneficiaries who are resident in France for tax purposes or who pay national insurance in France will then have to observe a two-year holding period during which shares may not be sold. This holding period does not apply to beneficiaries who are not French resident for tax purposes.

Date of Board decision	23/09/2010		25/06/2009	01/07/2008	04/07/2007
	Free shares	Performance shares	Free shares	Free shares	Free shares
Number of beneficiaries at the grant date	5,355	327	3,848	3,624	3,545
Share price at the grant date	€26.40		€31.93	€35.72	€45.13
Number of shares granted	487,680	144,050	334,980	317,705	312,435
Balance of free shares at 31/12/09	—	—	333.380 ^(c)	309.975 ^(c)	298.370 ^(c)
Cancellation of shares granted during the financial year ^(a)	3,880	1,200	3,435	4,225	5,150
Shares granted early during the financial year ^(b)	100	—	195	140	70
Balance of free shares net of shares cancelled and granted early at 31/12/10	483,700	142,850	329,750	305,610	293,150
Number of beneficiaries remaining at 31/12/10	5,312	324	3,794	3,493	3,323
Vesting period	23/06/2010 to 23/06/2014	25/06/2009 to 25/06/2013	01/07/2008 to 01/07/2012	04/07/2007 to 04/07/2011	
Share transfer date	24/06/2014	26/06/2013	02/07/2012	05/07/2011	
Holding period for French tax residents	24/06/2014 to 24/06/2016	26/06/2013 to 26/06/2015.	02/07/2012 to 02/07/2014.	05/07/2011 to 05/07/2013	

^(a) Due to the beneficiary's leave.

^(b) Due to the beneficiary's death during the vesting period.

^(c) Data modified following adjustments identified after the balance sheet date.

12. PROVISIONS FOR RISKS AND CHARGES

	Amounts at 31/12/09	Additions	Reversals	Amounts at 31/12/10
Restructuring	22.8	1.2	(17.4)	6.6
Subsidiary risks (note 4)	5.8	97.5	(1.4)	101.9
Retirement benefits and similar	55.7	9.2	(15.1)	49.8
Other	191.7	75.7	(6.0)	261.4
Total	276.0	183.6	(39.9)	419.7

Breakdown of post-employment benefits and similar:

	Retirement benefits	Other	TOTAL
Balance sheet position at end of 2009	53.0	2.7	55.7
Normal cost	2.8	0.1	2.9
Interest expense	4.8	0.1	5.0
Expected return on plan assets	(1.0)	0.0	(1.0)
Amortisation of actuarial gains and losses	0.4	(0.1)	0.3
Amortisation of plan amendments	1.3	0.0	1.3
Liquidations and curtailments	0.0	0.0	0.0
Total financial component	5.4	0.1	5.5
Impact on profit and loss	8.2	0.2	8.4
Other – Restructuring	0.0	0.0	0.0
Benefits paid by employer	(0.6)	(0.4)	(1.0)
Employer contributions	(14.0)	0.0	(14.0)
Transfers	0.7	(0.0)	0.7
Balance sheet position at end of 2010	47.3	2.7	49.8

Actuarial gains and losses still to be amortised are reported under off-balance sheet commitments (note 13a). These totalled €4.6m in 2010, compared with €4.8m in 2009.

A) LEGAL RISKS

Due to the nature of its business activities, Thales is exposed to the risk of technical and commercial litigation.

- Thales has been notified of the award handed down on 3 May, 2010, in the arbitration against the Republic of China. This award has been made as a result of an alleged breach of the terms pertaining to the use of intermediaries contained in a contract entered into in 1991.

The total amount of the award is set at US\$ 482 million and € 82 million, bearing interest as from August 2001; as well as around € 15 million, bearing interest from 3 May 2010, i.e. a total of around € 630 million (including interest).

Thales disputes the very grounds of this decision. The company has filed petition for nullity before the Paris Court of Appeal.

Thales's share in this litigation represents 27.463% of the total, and corresponds to its industrial share in the supply contract. Taking into account the provisions previously booked, an additional provision of € 35 million (pre-tax) was booked in the company's accounts in June 2010.

- Thales has also been informed by DCNI that the Republic of China Navy (Taiwan) initiated arbitration proceedings against DCNI during the second half of 2010 with respect to a contract related to the contract mentioned above. This arbitration is related to an alleged breach of the terms pertaining to the use of intermediaries contained in the contract. In its 2010 financial statements, Thales has booked a provision of € 15 million, which corresponds to the company's industrial share in the related contract.

No other governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the company is aware) are liable to have or have had significant effects on the financial position or profitability of the company and/or Group in the last 12 months.

B) ENVIRONMENT

Due to the nature of Thales's activities, environmental risks are related to the potential adverse environmental and health effects of its activities, the impact of the environment on its operations, and non-compliance with new regulations applicable to activities and products.

For many years, Thales has conducted regular analysis and update of environmental risks in accordance with its business activities, scientific and technical developments and the broader environmental challenges.

This analysis is used to map risks linked primarily to regulatory non-compliance, pollution, asbestos, chemicals (ROHS, REACH, WEEE, etc.) and radiation. The aim of this analysis is to:

- ensure that employees and surrounding residents are not exposed to health and environmental risks;
- ensure the compliance of activities and products;
- analyse the impact of new regulations, including on product design;
- specify an appropriate organisation and associated action plans, either at Group level or locally, according to the risk mapping results.

In addition to this, an Environmental Management System has been deployed at all sites in order to ensure the control and limitation of the environmental impacts in accordance with Thales's commitments. By the end of 2010, over 110 sites had obtained ISO 14001 certification.

At 31 December 2010, the amount of reserves for environmental contingencies amounted to € 6.5 million.

13. OFF-BALANCE SHEET COMMITMENTS

A) COMMITMENTS GIVEN AND RECEIVED

	Rent payable:			
	Total	In less than one year	In one to five years	In more than five years
<i>Rental commitments</i>				
Lease contracts	622.7	28.9	150.7	443.1

	31/12/2010	31/12/2009
Actuarial gains and losses still to be amortised (note 12)	4.6	4.8
Commitments given		
• Guarantees and pledges	9,353.7	8,771.5
Of which related parties ^(a)	9,040.6	8,659.8
(a) The main companies concerned, not directly held by Thales, are:		
Thales Alenia Space France	775.5	876.7
Thales Rail Signalling Solutions Inc	679.2	675.5
Thales Transport & Security, Inc	576.1	43.4
Thales International Saudi Arabia	542.1	373.6
Thales Avionics Inc Dep.IFE	527.2	461.1
ADI Thales Australia	460.6	377.9
Thales UK Ltd – Dep SAS	364.3	353.1
Thales Rail Signalling Solutions Ltd	362.2	266.8
Thales Rail Signalling Solutions AG	336.9	283.9
Thales Training & Simulation Ltd	232.1	225.7
Thales ATM Pty Ltd	216.9	178.0
Thales Underwater Systems UK Ltd	212.0	207.4
Thales Security Solutions & Services Company	196.2	721.6
Thales Rail Signalling Solutions GmbH	173.8	177.7
Thales Portugal S.A	170.5	161.8
Thales UK Ltd – Dep Corporate	153.9	196.4
Thales Missile Electronics Ltd – Dep. Missiles Electronics	116.2	147.5
Thales Transport Signalling et Security Solutions S.L.U.	114.8	119.0
Thales Transport & Security (Hong Kong) Ltd	40.4	161.2
DCNS	28.6	154.6
Commitments received:		
• Debt forgiveness granted to related companies with clauses enabling recovery if the entities return to financial health	258.0	259.1

At the end of 2002, a group of French manufacturers, including Thales and one of its subsidiaries, collectively received a request for arbitration relating to the performance of old contracts.

In proportion to the interest of each of the groups concerned in each contract, Thales would have been liable for 20% of the total claim of \$260m.

Under an agreement signed in 2003 with this manufacturing group, the client withdrew its request for arbitration. In return, Thales and the other manufacturers agreed not to invoke statute of limitations provisions, which could have been used against the client.

B) FINANCIAL INSTRUMENTS

Thales uses various financial instruments to reduce its interest rate and foreign exchange risks.

Gains and losses on market transactions carried out in the context of trading contracts are taken to profit and loss in accordance with the general principles set out in note 1.

Hedging of contracts signed by subsidiaries results in market transactions matched by symmetrical transactions entered into with the subsidiary.

- Management of interest rate risk

At 31 December 2010 and 2009, Thales mainly held interest rate swap contracts intended to reduce the Group's sensitivity to interest rate movements. Nominal values, by type of interest rate instrument, and corresponding to the fixed part of the swaps, are analysed below:

	2010		2009	
	Buyer/ lender	Seller/ borrower	Buyer/ lender	Seller/ borrower
Interest rate swaps	1,868.8	19.6	1,884.9	—

The corresponding market values are as follows:

	2010		2009	
	Buyer/ lender	Seller/ borrower	Buyer/ lender	Seller/ borrower
Interest rate swaps	8.1	—	24.8	—

The duration of these contracts is as follows:

	2010				2009			
	< 1 year		1 to 5 years		< 1 year		1 to 5 years	
	Lender	Borrower	Lender	Borrower	Lender	Borrower	Lender	Borrower
Interest rate swap	693.8	—	1,175.0	19.6	1,109.9	—	775.0	—

- Management of foreign exchange risk

Thales hedges foreign exchange risk arising in connection with the negotiation by its subsidiaries of contracts denominated in currencies other than the main production currency, foreign exchange risk generated by normal business transactions of its subsidiaries and risks relating to its net investments in foreign currencies.

At 31 December 2010 and 2009, Thales mainly held forward foreign exchange contracts.

Nominal forward buy and sell contract amounts, converted into euros at closing rates, are detailed below by currency. Where options are concerned, the amounts indicated correspond to nominal values for underlying currency transactions and are mentioned in the "buyer" or "seller" columns depending on the nature of the transaction at maturity.

	2010		2009	
	Buyer/ Lender	Seller/ Borrower	Buyer/ Lender	Seller/ Borrower
Futures				
US dollar	1,761.80	2,499.03	485.79	1,064.46
Pound sterling	310.58	449.66	347.22	378.29
Swiss franc	92.25	72.93	74.88	91.89
Other	816.59	644.02	586.18	770.04
	2,981.22	3,665.64	1,494.07	2,304.68
Foreign exchange swaps				
hedging investments				
Pound sterling	—	38.17	—	36.99
	0.00	38.17	0.00	36.99
hedging sales commitments				
US dollar	1,486.69	2,452.64	528.54	1,552.72
Pound sterling	764.24	204.00	621.40	322.25
Swiss franc	17.43	28.63	80.75	23.10
Other	331.02	628.45	532.20	454.77
	2,599.38	3,313.72	1,762.89	2,352.84
TOTAL	5,580.60	7,017.53	3,256.96	4,694.51
Currency options				
PUT				
Australian dollar	38.35	—	—	—
Canadian dollar	—	—	24.54	—
Pound sterling	34.35	—	50.86	—
Israeli shekel	6.36	6.36	1.37	1.37
US dollar	10.07	118.59	6.76	145.59
CALL				
Australian dollar	19.03	—	0.40	0.42
Chinese yuan	—	—	3.05	3.05
Pound sterling	—	—	10.21	10.21
Japanese yen	—	29.47	—	—
Israeli shekel	6.36	6.36	1.44	1.44
US dollar	6.76	6.76	6.79	6.75
	121.28	167.54	105.42	168.83

The corresponding market values are as follows:

	2010		2009	
	Buyer/lender	Seller/borrower	Buyer/lender	Seller/borrower
Futures	(25.14)	43.55	1.12	41.64
Foreign exchange swaps:				
- hedging investments	—	1.06	—	(0.64)
- hedging sales commitments	36.79	(47.56)	12.47	25.12
Currency options				
- PUT	(0.11)	2.14	1.45	0.38
- CALL	0.45	(0.14)	—	—

The maturity schedule is as follows:

	2010		2009	
	Minimum	Maximum	Minimum	Maximum
Futures	11 Jan	19 Mar	10 Jan	19 Mar
Foreign exchange swaps:				
- hedging investments	11 Jun	11 Jun	10 Jan	10 Jun
- hedging sales commitments	11 Jan	17 Nov	10 Jan	16 Sept
Currency options				
- CALL	11 Feb	11 Oct	10 Jan	10 Feb
- PUT	11 Jan	11 Oct	10 Jan	10 Dec

Foreign exchange transactions entered into with subsidiaries in order to hedge foreign exchange risks related to foreign currency contracts are as follows:

	31/12/2010		31/12/2009	
	Sales	Purchases	Sales	Purchases
US dollar	1,267.8	4,160.7	676.4	2,188.9
Canadian dollar	322.5	198.5	281.1	192.7
Sterling	445.8	500.4	472.6	510.4
Saudi riyal	73.0	173.6	73.5	225.3
Swiss franc	99.3	91.9	76.5	77.7
UAE dirham	50.9	91.9	39.7	102.7
Other currencies	272.9	364.1	207.9	290.1
Total	2,532.2	5,581.1	1,827.7	3,587.8

14. OTHER INFORMATION

● Headcount

Average headcount	2010	2009
- Engineers and managers	795	803
- Technical and supervisory staff	192	206
Total	987	1,009

● Executive compensation

Expenses recognised in respect of compensation, benefits and social security contributions paid to directors and members of the Executive Committee and included in net income are as follows:

Amount before rebilling to subsidiaries	2010	2009	2008
Short-term benefits:			
- Fixed compensation	5.4	6.6	6.2
- Variable compensation	2.7	3.7	4.1
- Employer's social security contribution	2.6	3.3	3.2
- Contractual severance pay	—	16.5	—
Including former chairman-CEO	—	3.0	—
- Employer's social security contributions/severance pay	—	3.8	—
- Exceptional compensation	—	—	—
- Compensation for attendance at Board meetings	0.5	0.6	0.4
Other benefits:			
- Post-employment benefits	1.5	3.3	0.6
Including former chairman-CEO	—	2.1	—
- Share-based payments (IFRS 2)	1.1	4.1	3.9

The Group measures the amount of the benefit granted to employees receiving stock options. The fair value of such options is determined at the grant date. The amounts thus obtained are taken to profit and loss over the vesting period of the rights.

15. RELATED PARTIES

A) AGREEMENTS SIGNED WITH THALES'S SHAREHOLDERS

On 19 May 2009, Dassault Aviation finalised the acquisition of 20.8% of Thales's capital previously held by Alcatel-Lucent for €1.57bn (€38 per share). On the same date, Dassault Aviation joined the shareholders' agreement signed on 28 December 2006 between Alcatel-Lucent and the public sector. Amendments have been made to this agreement to adapt the provisions concerning Alcatel-Lucent that were not relevant to Dassault Aviation (www.amf-france.org: decisions and information n° 209C0770 of 29 May 2009).

B) AGREEMENTS SIGNED AT THE END OF JANUARY 2007 WITH DCNS

At the end of January 2007, within the framework of the combination of the naval businesses of Thales and DCNS, the shareholders' agreement between the French State and Thales was amended: Thales became "the industrial partner shareholder" of DCNS, the governance arrangements entitling Thales to an active role on the Board of Directors of DCNS. Thales has also had the option, since 29 March 2009, and for a period of three years, to increase its stake to 35%.

Thales and DCNS have also signed an industrial and trade cooperation agreement, the aim of which is to optimise the organisation of the naval businesses of both groups (market access, research and development, purchasing).

■ FINANCIAL RESULTS OF THE COMPANY FOR THE LAST FIVE FINANCIAL YEARS

(in € million)	2006	2007	2008	2009	2010
1. Share capital at year-end					
Share capital	516.0	595.0	596.2	597.1	597.2
Number of ordinary shares in issue	172,006,808	198,333,666	198,724,809	199,023,932	199,082,027
Number of preference shares (without voting rights) in issue					
Maximum number of shares to be created in future:					
. By the conversion of bonds	10,260,937	—	—	—	—
. Equity warrants (not listed)	55,049	—	—	—	—
. By exercise of subscription options	15,777,283	15,684,698	16,838,349	17,669,210	17,860,559
2. Operations and results for the period					
Revenues excluding tax	180.9	148.1	147.9	139.0	133.0
Earnings before taxes, employee profit-sharing, depreciation, amortisation and provisions	173.2	537.2	56.1	123.1	152.6
Income tax expense	84.3	49.5	135.1	87.9	87.4
Employee profit-sharing during the period	—	—	—	—	—
Earnings after taxes, employee profit-sharing, depreciation, amortisation and provisions	313.3	529.4	63.6	(29.1)	192.3
Income distributed	169.1	195.4	204.7	97.7	—
3. Earnings per share					
Earnings after taxes and employee profit-sharing, but before depreciation, amortisation and provisions	1.5	2.96	0.96	1.06	1.21
Earnings after taxes, employee profit-sharing, depreciation, amortisation and provisions	1.82	2.67	0.32	(0.15)	0.97
Net dividend per share	0.87	1.00	1.05	0.50	—
4. Employee and social data					
Average employee headcount during the year	863	915	990	1,009	987
Total wage and salary costs for the period	102.4	114.1	115.0	132.4	120.8
Social charges and benefits paid in the year (social security, welfare, etc.)	40.1	42.6	44.7	51.8	45.6

2006: Capital increased from €515,729,589.0 to €516,020,424.0 following capital increase.

2007: Capital increased from €516,020,424.0 to €595,000,998.0 following capital increase.

2008: Capital increased from €595,000,998.0 to €596,174,427.0 following capital increase.

2009: Capital increased from €596,174,427.0 to €597,071,796.0 following capital increase.

2010: Capital increased from €597,071,796.0 to €597,246,081.0 following capital increase.

■ TABLE OF SUBSIDIARIES AND INVESTEE COMPANIES

31 DECEMBER 2010

	Share capital (local currency)	Shareholders' equity other than share capital (local currency)	% of share capital held	Carrying amount of investments held	Loans and advances made by Thales not yet repaid (EUR)	Amount of guarantees given by Thales (EUR)	Prior year revenues exc. VAT (local currency)	Prior year earnings (local currency)	Dividends received by Thales during the period (EUR)	Receivables	Payables		
												Gross (EUR)	Net (EUR)
A. Detailed disclosures concerning subsidiaries and investee companies where the gross value exceeds 1% of the company's share capital													
1. Subsidiaries													
THALES HOLDINGS UK PLC	GBP	726,848	868,288	100%	2,571,704	1,920,000		2,935			512,798		
THALES AVIONICS S.A.	EUR	175,000	365,351	100%	792,089	680,089		846,844	(215,600)		7,984		
THALES ALENIA SPACE S.A.S	EUR	1,530,035	2,633	67.00%	724,106	724,106	407,216		(26,120)				
THALES SYSTEMES AEROPORTES S.A.	EUR	184,445	(40,310)	100%	706,107	706,107	60,654	687,752	39,056		330,336		
THALES DEUTSCHLAND GmbH	EUR	27,124	714,792	99.58%	642,280	642,280			4,776	63,460	38,562		
THALES NORTH AMERICA INC.	USD	118,103	556,442	100%	603,196	603,196	22,527		25,827		42,958		
THALES INTERNATIONAL S.A.S.	EUR	313,000	20,043	100%	398,542	398,542	6,000		64,836	12,729	95,805		
THALES AIR SYSTEMS S.A.	EUR	126,348	206,706	88.88%	314,100	314,100	14,605	795,060	54,189	70,438	525,091		
THALES COMMUNICATIONS S.A.	EUR	153,750	42,650	100%	311,951	311,951	26,538	1,442,476	103,510	98,400	739,645		
AVIMO GROUP Ltd	SGD	22,104	26,769	100%	250,690	47,090			8,151	4,603			
THALES NEDERLAND B.V.	EUR	29,510	48,818	99.00%	235,174	235,174	734,798	802,841	38,903		199,428		
THALES SECURITY SOLUTIONS & SERVICES	EUR	22,719	(39,400)	53.30%	135,415	—	349,385	340,535	(139,397)	255,645			
THALES UNDERWATER SYSTEMS N.V.	EUR	4,538	3,947	100%	129,206	8,153			21				
THALES SERVICES S.A.S.	EUR	1,479	60,333	100%	126,368	96,768	110,000	501,043	(28,031)		2,977		
SIFLEC	EUR	38,304	1,181	100%	111,755	39,271			(693)	225	24,736		
THALES OPTRONIQUE S.A.	EUR	43,440	35,786	100%	106,287	84,787		263,841	(381)		24,202		
TH UNDERWATER SYSTEM S.A.S	EUR	15,253	(8,401)	100%	96,473	96,473	155,154	397,125	25,356	16,343	221,755		
THALES HOLDING NORWAY AS	NOK	419,845	(189,144)	100%	77,157	71,700			(10)				
THALES CORPORATE VENTURES S.A.	EUR	15,000	13,990	100%	73,347	17,675			85		688		
THALES MICROELECTRONICS S.A.	EUR	500	13,828	100%	65,633	17,500		52,105	(10,988)		9350		
THALES SUISSE S.A.	CHF	57,200	(4,234)	100%	56,092	56,092		121,127	8,460	1,609			
TDA ARMEMENT S.A.S.	EUR	306	17,041	100%	51,678	51,678		91,368	18,191	16,222	4,867		
THALES EUROPE S.A.S.	EUR	43,182	(36)	100%	43,182	43,182	174		3,348		149,568		
THALES ELECTRON DEVICES S.A.	EUR	30,999	27,745	100%	39,227	39,227		265,639	6,824		31,323		
THALES COMMUNICATIONS BELGIUM S.A.	EUR	8,701	(753)	100%	34,616	1,916	4,219	76,117	(4,760)		2,556		
UNITED MONOLITHIC SEMICONDUCTORS HOLDING	EUR	33,898	3,644	50.00%	24,268	24,268			6,523				
OMT MEDICAL TECHNOLOGIES Ltd	USD	1,103	33,189	100%	21,788	21,788		23,672	1,852				
THALES Canada Inc.	CAD	6,802	47,525	55.46%	19,670	19,670	51,013	226,003	(6,184)				
THALES AVIONICS ELECTRICAL SYSTEMS S.A.	EUR	6,851	(3,548)	100%	18,599	18,599		92,695	5,284		8,581		
THALES INFORMATION SYSTEMS S.A./N.V.	EUR	1,062	(614)	100%	14,000	0	6,521	5,942	(1,378)				
SAS CHATELLERAULT BRELANDIERE	EUR	2,000	(412)	100%	10,013	6,497		1,523	156		413		
THALES ANGENIEUX S.A.	EUR	2,717	4,799	100%	8,136	8,136		46,712	2,351		77		
THALES SAFARE S.A.	EUR	37	(209)	100%	7,913	7,913		14,954	1,140	999	4,802		
TH COMMUNICATIONS LTDA	BRL		912	100%	7,799		748	2,430	(261)				
Total subsidiaries					8,828,561	7,313,928			285,028	580,743	2,653,404		

		Share capital (local currency)	Shareholders' equity other than share capital (local currency)	% of share capital held	Carrying amount of investments held	Loans and advances made by Thales not yet repaid (EUR)	Amount of guarantees and pledges given by Thales (EUR)	Prior year revenues exc. VAT (local currency)	Prior year earnings (local currency)	Dividends received by Thales during the period (EUR)	Receivables	Payables
2. Investee companies												
DONS	EUR	563,000	103,394	25.00%	569,100	569,100	28,568	143,095	8,867			
TELESPAZIO HOLDING S.R.L.	EUR	11,759	249,631	33.00%	70,677	70,677	436,206	(4,179)	3,573			
Thales Systems Irlande Ltd	EUR	1	246,193	22.50%	56,330	56,330	(783)					
ELETTRONICA S.p.A.	EUR		38,994	33.33%	26,724	26,724	20,134	4,975				
AMPER PROGRAMAS S.A.DE ELECTRONICA Y COMUNICACIONES S.A.	EUR	3,005	14,297	49.00%	11,190	11,190	60,475	3,407	2,307			
Total investee companies					734,021	734,021			19,722	0	0	0
B. General disclosures concerning other subsidiaries and investee companies												
1. Subsidiaries not listed in section A.												
French subsidiaries			41,166	29,976	26,000		4,317	30,428	16,348			
Foreign subsidiaries			3,995	130								
Total			45,161	30,106			4,317	30,428	16,348			
2. Investee companies not listed in section A.												
in French companies			13,261	13,117	2,680		3,789	14,409	13,527			
in foreign companies			4,122	3,992	202,245		365	80,828	5,387			
Total			17,383	17,109			4,154	95,237	18,914			
Total			9,625,126	8,095,164			313,221	706,408	2,688,666			

* Figures taken from the accounts prepared in accordance with Thales Group standards, as included in the consolidation.

■ LIST OF EQUITY INVESTMENTS AND MARKETABLE SECURITIES HELD

31 DECEMBER 2010

1. Investments and marketable securities with a net asset value greater than or equal to €15,244

Number of Securities	Value	% interest	Net asset value
41,005,675	THALES ALENIA SPACE S.A.S	67.00%	724,106
11,527,814	THALES SYSTEMES AEROPORTES S.A.	100.00%	706,107
3,499,994	THALES AVIONICS S.A.	100.00%	680,089
14,075,000	DCNS	25.00%	569,100
20,866,670	THALES INTERNATIONAL S.A.S.	100.00%	398,542
10,208,359	THALES AIR SYSTEMS S.A.	88.88%	314,100
10,249,995	THALES COMMUNICATIONS S.A.	100.00%	311,951
147,889	THALES SERVICES S.A.S.	100.00%	96,768
1,089,516	THALES UNDERWATER SYSTEMS SAS (FRANCE)	100.00%	96,473
2,714,993	THALES OPTRONIQUE S.A.	100.00%	84,787
2,000	TDA ARMEMENT S.A.S.	100.00%	51,678
2,698,875	THALES EUROPE S.A.S.	100.00%	43,182
2,503,550	SIFELEC	100.00%	39,271
2,066,589	THALES ELECTRON DEVICES S.A.	100.00%	39,227
1,129,920	UNITED MONOLITHIC SEMICONDUCTORS HOLDING SAS	50.00%	24,268
449,400	THALES AVIONICS ELECTRICAL SYSTEMS S.A.	100.00%	18,599
937,500	THALES CORPORATE VENTURES S.A.	100.00%	17,675
33,334	THALES MICROELECTRONICS S.A.	100.00%	17,500
181,158	THALES ANGENIEUX SA	100.00%	8,136
2,177	THALES SAFARE S.A.	100.00%	7,913
21,625	EUROTRADIA INTL	16.53%	3,099
299,998	ODAS	10.00%	3,000
100,000	THALES CRYOGENIE S.A.	100.00%	2,516
160,000	SOFRADIR	40.00%	2,439
166,025	THALES GEODIS FREIGHT & LOGISTICS S.A.	50.00%	2,172
2,714	THALES CORPORATE SERVICES	8.97%	2,061
20,000	GIE ALCATEL	50.00%	2,000
35,250	THALES UNIVERSITE S.A.	100.00%	1,600
2,500	THALES ASSURANCES ET GESTION DES RISQUES	100.00%	1,567
11,017	SOFRESA	11.02%	1,338
99	THALES VP	99.00%	1,306
7,181	SOFEMA	9.57%	897
4,295	GERIS CONSULTANTS	100.00%	95
5,000	GERAC	100.00%	79
429	IRDI	0.21%	71
100,000	PARIS PUBLISHING	25.00%	62
1,300	VIGEO	0.74%	53
4,000	THALES GROUP S.A.S.	100.00%	35
3,700	186CENTELEC	100.00%	32
3,700	185CENTELEC	100.00%	32
3,700	184CENTELEC	100.00%	32
3,700	183CENTELEC	100.00%	32
3,700	182CENTELEC	100.00%	29
4,194	170CENTELEC	99.86%	24
3,994	176CENTELEC	99.85%	21
3,994	177CENTELEC	99.85%	21
3,994	175CENTELEC	99.85%	21
3,834	168CENTELEC	99.84%	20
3,834	167CENTELEC	99.84%	19
23	SCI ASSOMPTION	0.26%	18
2. Investments and marketable securities with a net asset value of less than €15,244			2
3. Investments in property companies			24,897
4. Investments in foreign companies			3,796,111
Total			8,095,173

■ INVESTMENTS MADE AND THRESHOLDS CROSSED IN FRENCH COMPANIES IN 2010

	Amount of the investment (thousands of euros)	PERCENTAGE OWNED									
		At 31/12/2009					At 31/12/2010				
		>5%	>20%	>33%	>50%	>66%	>5%	>20%	>33%	>50%	>66%
1. Increases											
		—	—	—	—	—	—	—	—	—	—
		—	—	—	—	—	—	—	—	—	—
		—	—	—	—	—	—	—	—	—	—
2. Decreases											
SAS ARGENTRE		—	—	—	—	100.00	—	—	—	—	—
SEERI		—	—	—	—	100.00	—	—	—	—	—
Thales Services Industrie		—	—	—	—	100.00	—	—	—	—	—
181Centelec		—	—	—	—	100.00	—	—	—	—	—
Sport et Hygiène		—	—	—	50.00	—	—	—	—	—	—

C. STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

This is a free translation into English of the statutory auditors' report on the financial statements issued in French and it is provided solely for the convenience of English-speaking users.

The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.

This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to the shareholders. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

Year ended December 31, 2010

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended December 31, 2010, on:

- the audit of the accompanying financial statements of Thales;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I – Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2010 and of the results of its operations for the year then ended in accordance with French accounting principles.

Without qualifying our opinion, we draw your attention to the matter set out in note 12 "Provisions for risks and charges" to the financial statements, which details the provision relating to the arbitration request submitted by a client.

II – Justification of our assessments

In accordance with the requirements of article L. 823-9 of the French commercial code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

• Investments

Investments which appear in the balance sheet as at December 31, 2010 for a net amount of EUR 8,095.2 millions are assessed at their cost price and subject to impairment tests in accordance with the methods set out in note 1.g to the financial statements.

Based on the information provided to us at the time of our audit, our work consisted in assessing the data used to estimate the net realizable value, in particular, we reviewed the update of forecasted profitability of the subsidiaries and investments, and verified the consistency of the assumptions used with the forecast data taken from the strategic plans drawn up for each of these subsidiaries or investments under management's control.

• Litigation and contingency provisions

As regards contingency provisions and litigation, we ensured that the procedures in force in your Company made it possible to identify, evaluate and recognize such provisions from an accounting standpoint in satisfactory conditions. We also ensured that the disputes identified during the implementation of these procedures were described in appropriate terms in notes to the financial statements, and, in particular, in notes 12 and 13.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III – Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of article L. 225-102-1 of the French commercial code (*Code de commerce*) relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from

companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders or holders of the voting rights and mutual shareholders has been properly disclosed in the management report.

Courbevoie and Paris-La Défense, March 11, 2011

The statutory auditors

French original signed by

ERNST & YOUNG Audit

MICHEL GAUTHIER

NOUR-EDDINE ZANOUDA

MAZARS

JEAN-LOUIS SIMON

► BUSINESS REVIEW

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► 1. KEY FIGURES

		Defence & Security	Aerospace & Transport	Other	Total
2010	Order book at 31 December	14,310	11,022	86	25,418
	Order intake	6,173	6,845	63	13,081
	Consolidated revenues	7,515	5,539	71	13,125
	EBIT	153	(221)	(24)	(92)
	Consolidated number of employees at 31 December	36,024	23,851	3,859	63,734
2009	Order book at 31 December	15,223	9,408	100	24,731
	Order intake	8,372	5,439	116	13,927
	Consolidated revenues	7,492	5,317	72	12,881
	EBIT	329	(105)	(73)	151
	Consolidated number of employees at 31 December	37,101	23,883	3,301	64,285

Consolidated number of employees includes the total number of employees of fully consolidated companies and the proportionate share of employees of companies consolidated under the proportionate method. It does not include the employees of companies accounted for under the equity method or of non-consolidated companies.

A total of 66,919 employees were under Group management at 31 December 2010. This figure includes all employees working for fully

consolidated and proportionately consolidated companies (with the exception of Diehl Aerospace GmbH, Diehl Air Cabin GmbH and Junghans Microtec GmbH in Germany, Telespazio in Italy and Thales Raytheon Systems in the United States, whose employees are not under Thales management). "Employees under Thales management" does not include staff working for companies carried under the equity method but does include employees of companies that are controlled but below consolidation thresholds.

The breakdown by area of employees under management was as follows at end-2008 to end-2010:

	Defence & Security	Aerospace & Transport	Other	Total
<i>Employees under management at 31 December</i>				
2010	37,640	24,902	4,377	66,919
2009	37,616	26,154	3,820	67,590
2008	36,942	28,685	3,536	69,163

The main programmes in order book at 31 December 2010 break down as follows:

Value	Programme
<i>More than €600m</i>	Iridium (United States) Rafale aircraft (France) Fremm Frigates (France/Italy)
<i>Between €400m and €600m</i>	London Underground signalling (UK) Watchkeeper UAV system (UK) CVF aircraft carrier (UK)
<i>Between €200m and €400m</i>	FSAF air defence systems (France/Italy) Sentinel 3 satellite (France) CSO satellite (France) FSTA air tanker (UK)

► 2. RESEARCH AND INNOVATION

Thales needs to acquire increasingly sophisticated technologies, particularly in detection, analysis and decision-making technology, in order to design and develop critical information systems. These innovative solutions serve customers in the fields of secure military communications, space systems, air traffic management, on-board electronics and government information networks.

Thales commits approximately 20% of its revenues to research and development (R&D). Thales's R&D strategy is based on the conviction that a successful high-tech company needs teams of high-level experts with the ability to understand and evaluate the findings of the world's best research centres. The award of the 2007 Nobel Prize in Physics to Albert Fert, scientific director of the Thales/CNRS Joint Physics Unit and Professor at the University of Paris-Sud 11, testifies to the quality and value of the research conducted by Thales laboratories.

The research is carried out in accordance with guidelines aimed at giving the company's operating units the competitive edge they need to ensure sustainable growth.

A. RESEARCH AND DEVELOPMENT: THE KEY TO COMPETITIVENESS AND GROWTH

Some 22,500 Thales employees, over 70% of them engineers, are involved in the Group's technical operations, ranging from research to engineering. In 2010, Thales spent almost €2,500m on R&D alone, an area which is vital for its competitiveness. In the same year, the portion of the R&D budget financed by Thales came to €655m, or around 25% of the total.

A significant proportion of this budget is dedicated to upstream research, conducted in part at Thales Research & Technology ("TRT") laboratories. These R&T programmes seek to develop:

- new technologies;
- new system and product concepts;
- new engineering tools and methods for critical information systems.

B. FOUR KEY TECHNOLOGY DOMAINS

It is important for Thales to own technology in four key domains, which determine the direction of the Group's technological research and development:

- hardware technology, including, inter alia, electronics, electromagnetism, optronics, acoustics, radiofrequency techniques and management of thermal constraints;

- software technology (signal and information processing computers, real-time on-board systems, distributed systems, service-oriented architectures, model-driven engineering, engineering tools, information systems safety and security);
- information and cognitive sciences (data fusion, data mining, autonomous/robot systems, synthetic environments, human factors).

Alongside these three technical domains, which are the technological building blocks, is the technical domain of "Systems": focusing on architectural system design, this area provides support in terms of methodology, processes and expertise.

FOCUS 1 – The "Systems" key technical domain

Thales is closely involved with the production of complex systems necessary for companies today to operate in the fields of transport, security, defence and aeronautics.

To be expert in complex systems requires an understanding of architecture and the integration of technological advances. It requires a multidisciplinary integration capability, a system based on mechanics, electronics, optics, radio and microwaves, software (with often complex algorithms), and numerous industrial processes for production and environmental protection. This expertise must guarantee operational safety and information systems security, while at the same time providing reliable systems and offering a high-quality service to operators and end users.

The successful integration of the system within its environment requires a solid understanding both of the activities of system operators and interaction with the end user, who might for example be a passenger on a public transport system.

Thales has set up a research and support organisation in order to continually adapt its resources and teams to the increasing complexity of systems. State-of-the-art processes, methods and tools help to model and simulate the solutions proposed. This ranges from initial concept studies, analysis of technical and technological constraints, consideration of human and environmental factors and system support capabilities in often challenging environments.

In a constantly changing world where systems must be simple to use and deploy, and their complexity hidden from end users wherever possible, Thales has found ways of updating its business and system architecture so that it is continually increasing its ability to manage complexity and help its customers meet the needs of end users.

C. CLOSE INTERACTION BETWEEN THALES R&D TEAMS AND THE ACADEMIC AND RESEARCH COMMUNITIES

To develop the technologies it needs, Thales relies heavily on cooperation between its research teams and the academic world. Thales Research & Technology (TRT), an international network of corporate research laboratories, is responsible for building relationships with academic partners.

The TRT laboratories are located in France, the UK, the Netherlands and Singapore, often on university campuses. The Palaiseau research laboratory in France, for example, is located on the campus of the École polytechnique, one of the country's most prestigious engineering schools. The laboratory is part of a unique environment of two world-class research networks in the Paris region, Digiteo (information science) and "Triangle de la Physique" (Physics Triangle). It is also strongly involved in the building up of the world-class science and technology cluster of Palaiseau-Orsay-Saclay. Thales's research centre in the Netherlands is located at Delft University, while the Singapore centre has ties with NTU (Nanyang Technological University), and with France's national research institute CNRS, as part of its only joint international research unit with an industrial partner. In the United Kingdom, the Reading site works closely with major British universities, including Cambridge and Bristol.

FOCUS 2 – In research, cooperation is the key to innovation

R&T (Research and Technology) partnerships are essential for developing the technological capabilities of a company operating in a wide range of technical areas.

Thales builds three types of partnerships:

- with academic partners, such as the CNRS, universities, laboratories, etc.;
- with institutes such as the French Atomic Energy Agency (CEA) and the Aerospace Research Agency (ONERA);
- with industrial partners facing the same technological issues as Thales.

Academic partnerships are a key aspect of the Thales innovation strategy, helping to identify new trends to differentiate the company in terms of applications, performance and competitiveness. In touch with major "ecosystems" in a variety of sectors, the world of academic research is immersed in new trends.

Academic partners are generally involved as the technology matures. Partnerships with manufacturers generally form part of a complete cycle, from the preliminary phase to demonstrators or even pre-production.

These partnerships are generally governed by a framework agreement between Thales and its partners. For instance, 2010 was a landmark year in terms of the agreements renewed with the CNRS and ONERA, and the new agreements signed with such prestigious partners as the Pierre and Marie Curie University in Paris, Troyes Institute of Technology and the French Armed Forces Biomedical Research Institute.

One of the key aspects of this partnership strategy is training, particularly at postgraduate level. The Group sponsors around 250 PhD students worldwide who are working on a topic directly related to a technical issue faced by Thales. This enables the Group to boost its appeal among young scientists.

FOCUS 3 – "Light in radars"

Thales adopts a global product policy wherever possible. The R&D effort is optimised through the use of modular, open architecture, based on generic hardware and software components. It is therefore possible to develop product families that satisfy the needs of different users. This approach has been adopted for radars used in air surveillance.

These systems have evolved radically in recent years to offer the flexibility necessary for operational requirements. With the digitisation of data collected and the increased use of electronic scanning antenna, which direct energy into space without using mechanical movements, they have become "digital radars", controlled by software.

This kind of architectural revolution requires the controlled distribution of digital and synchronised microwave signals between dozens or even hundreds of sub-assemblies over considerable distances (up to 20 m). With the possibilities afforded by traditional "electrical" solutions now exhausted due to their weight and sensitivity to electromagnetic interference, it is now via light waves, transmitted by fibre optics, that this information is carried and distributed. By adapting the mature technical solutions developed for other areas such as telecommunications, it is possible to directly modulate the light using microwave signals, taking advantage of the high speeds hitherto used to carry digital signals.

One example of this technological integration is the GM400 ground-to-air radar, where the "central nervous system" is irrigated by light.

D. THALES AT THE HEART OF INNOVATION ECOSYSTEMS

Wherever it has a major presence, Thales seeks to build partnerships within industrial and scientific ecosystems in order to optimise the three-way synergies between major industrial companies, smaller innovation-driven technology providers and training/research bodies.

Thales is a major player in numerous high-tech clusters in France (including System@tic Paris-Région and Cap Digital Paris-Région, Aerospace Valley in the southwest, the Maritime clusters in Brittany and Provence-Alpes-Côte d'Azur, and the Images et Réseaux (images and networks) telecommunications cluster in the Brittany region), as well as on various European technology platforms (Acare, Artemis, Eniac, Nessi, etc.), projects for the European RTD framework programme, and Eureka projects.

In the United Kingdom, the Group has an active collaboration policy with innovation ecosystems. For example, Thales is one of the founder members of the “Mobile Virtual Centre of Excellence” (MVCE) in mobile communications, while in data security, Thales is a member of the group set up at Queen’s University Belfast. In aeronautical engineering, Thales is a member of the “Integrated Vehicle Health Management” (IVHM) at Cranfield University, alongside manufacturers such as BAE Systems, Boeing and Rolls-Royce.

E. A DYNAMIC APPROACH TO INTELLECTUAL PROPERTY MANAGEMENT

Thales supports its R&D activities with a dynamic approach to intellectual property management.

In terms of the number of patents granted for its inventions (filing over 300 new applications in 2010), Thales is on a par with most of its competitors. The steady rise in recent years in the number of patent applications filed is an indication of the company’s commitment to innovation and its ability to translate research results into competitive advantage.

The Thales portfolio included more than 11,000 patents and patent applications at 31 December 2010 and is actively adapted as operational requirements evolve. It is specifically used to protect Thales’s market share.

FOCUS 4 – Communication-Based Train Control (CBTC): *harnessing technology for the safety, punctuality and capacity of public transport infrastructure.*

Thales pioneered the use of CBTC (Communication-Based Train Control) in the underground rail signalling market, and is today a leader in this field.

CBTC systems are critical safety systems which can help to increase line capacity compared with conventional signalling systems and ensure automated train management. The principle is based on an ongoing exchange between on-board and ground-based automated systems. Each train calculates its own position on the line and sends this to the automated ground systems. These perpetually assign each train a “to-be-protected point”, which corresponds either to the back of the train in front, or a switch which must not be passed. The automated on-board systems calculate the optimum speed to ensure that the train stops before it reaches this critical point. Additional constraints can also be taken into account, such as energy savings through optimised acceleration and deceleration and synchronisation of platform departures and arrivals.

CBTC technology helps to reduce the minimum interval between two trains to around 80 seconds, while improving transport safety, passenger comfort, and traffic frequency and flexibility.

CBTC technology requires ongoing R&D investment to satisfy the increasing demands of transport operators to prevent saturation of their rail network. The areas of research include the latest technological advances in radio communications, communications networks, the security architecture of ground and on-board systems and optimisation algorithms.

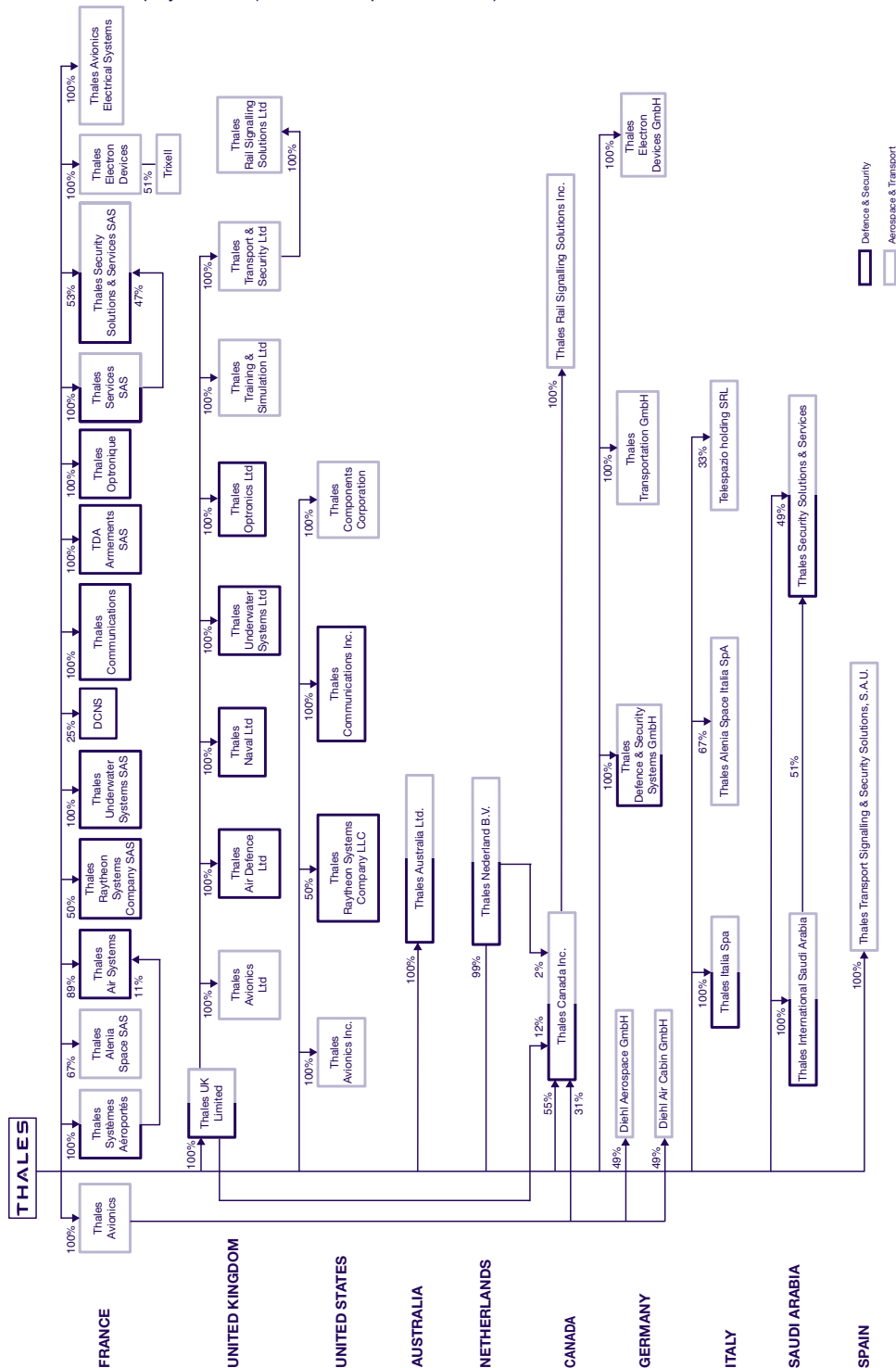
Thales’s CBTC technology has already been deployed in over 40 underground rail networks worldwide, both during the upgrade of existing lines and the construction of new lines. In 2010, for example, the Beijing, Guangzhou, Shanghai and Mecca lines went into operation and work began on the re-signalling project for the New York metro (Flushing line).

► 3. RELATIONS BETWEEN THALES AND ITS SUBSIDIARIES

A. SIMPLIFIED ORGANISATIONAL CHART OF THALES AT 31 DECEMBER 2010

This simplified organisational chart includes, in the countries accounting for more than 2% of consolidated revenues, fully consolidated and proportionately consolidated companies that account for more than 0,5% of consolidated revenues.

Companies consolidated under the equity method (with the exception of DCNS) are not included in this chart.



B. ROLE OF THE PARENT COMPANY WITHIN THE GROUP

The parent company acts as a holding company for the Group:

- it holds shares in the Group's major subsidiaries,
- it manages Group-level functions such as corporate strategy, trading policy, legal and financial policy, operational monitoring, human resources policy and communications,
- it provides subsidiaries with specialist assistance, including legal, fiscal and financial expertise, for which the subsidiaries pay a fee,
- it provides financing, cash pooling and, where necessary, guarantees.

In addition to these functions, the parent company conducts its own research, described on page 137 of this document.

A list of the main consolidated companies can be found below.

C. FINANCIAL FLOWS BETWEEN THE PARENT COMPANY AND ITS SUBSIDIARIES

The parent company receives dividends from its subsidiaries, as approved by their respective General Meetings of Shareholders, and in accordance with the applicable legislation and regulations in their countries of operation.

In addition to these dividends and the payment of fees for shared services, the main financial flows between Thales the parent company and its subsidiaries relate to cash pooling.

As a rule, the cash surpluses of subsidiaries are transferred to the parent company under a centralisation system known as cash pooling. In return, the parent company meets the cash flow requirements of the subsidiaries, operating in financial markets to arrange the necessary investments and loans to meet its own requirements and those of its subsidiaries. Except in special cases, this system applies to all subsidiaries in which Thales has majority control.

► 4. INFORMATION ABOUT MAJOR OPERATIONAL SUBSIDIARIES AND MANUFACTURING SITES

A. LIST OF THE MAIN CONSOLIDATED COMPANIES

The materiality criteria used to prepare these tables also apply to the list of the main consolidated companies on pages 89 and 90 of the consolidated financial statements.

1. FULLY CONSOLIDATED COMPANIES

The companies in this list each contributed over 0.5% to the 2010 consolidated revenues.

<i>Corporate name</i>	Registered office/City	Nationality	% of capital held by Thales	% of voting rights held
Thales Security Solutions & Services Company	Riyadh	Saudi Arabia	100%	100%
Thales Defence Systems Pty Ltd	Midrand	South Africa	80%	80%
Thales Australia Ltd	Potts Point	Australia	100%	100%
TDA Armements SAS	La Ferté Saint-Aubin	France	100%	100%
Thales Air Systems SA	Rungis	France	100%	100%
Thales Air Systems GmbH	Korntal-Münchingen	Germany	100%	100%
Thales Avionics SA	Neuilly-sur-Seine	France	100%	100%
Thales Avionics Inc	Edison	United States	100%	100%
Thales Avionics Ltd	Weybridge	United Kingdom	100%	100%
Thales Avionics Electrical Systems SA	Chatou	France	100%	100%
Thales Canada Inc	Saint-Laurent	Canada	100%	100%
Thales Communications SA	Colombes	France	100%	100%

<i>Corporate name</i>	Registered office/City	Nationality	% of capital held by Thales	% of voting rights held
Thales Communications Inc	Clarksburg	United States	100%	100%
Thales Defence & Security Systems GmbH	Stuttgart	Germany	100%	100%
Thales Air Defence Ltd	Belfast	United Kingdom	100%	100%
Thales UK Ltd	Weybridge	United Kingdom	100%	100%
Thales Electron Devices SA	Vélizy-Villacoublay	France	100%	100%
Thales Electron Devices GmbH	Ulm	Germany	100%	100%
Thales International Saudi Arabia	Riyadh	Saudi Arabia	100%	100%
Thales Italia SpA	Milan	Italy	100%	100%
Thales Naval Ltd	Weybridge	United Kingdom	100%	100%
Thales Nederland BV	Hengelo	Netherlands	99%	99%
Thales Optronique SA	Élancourt	France	100%	100%
Thales Optronics Ltd	Glasgow	United Kingdom	100%	100%
Thales Rail Signalling Solutions GmbH	Stuttgart	Germany	100%	100%
Thales Rail Signalling Solutions Inc	Toronto, Ontario	Canada	100%	100%
Thales Rail Signalling Solutions Ltd	Addlestone	United Kingdom	100%	100%
Thales Security Solutions & Services SAS	Vélizy-Villacoublay	France	100%	100%
Thales Services SAS	Vélizy-Villacoublay	France	100%	100%
Thales Suisse SA	Zurich	Switzerland	100%	100%
Thales Systèmes Aéroportés SA	Élancourt	France	100%	100%
Thales Transport & Security Ltd	Weybridge	United Kingdom	100%	100%
Thales Transport Signalling & Security Solutions. SAU	Madrid	Spain	100%	100%
Thales Training & Simulation Ltd	Weybridge	United Kingdom	100%	100%
Thales Underwater Systems Ltd	Weybridge	United Kingdom	100%	100%
Thales Underwater Systems SAS	Valbonne	France	100%	100%
Thales Components Corporation	Totowa	United States	100%	100%

2. COMPANIES CONSOLIDATED UNDER THE PROPORTIONATE METHOD

The companies in this list each contributed over 0.5% to the 2010 consolidated revenues, on a pro rata basis.

<i>Corporate name</i>	Registered office/City	Nationality	% of capital held by Thales	% of voting rights held
Air Command Systems International SAS (ACSI)	Massy	France	50%	50%
Amper Programas de Eletronica Y Comunicaciones SA	GetafeMadrid	Spain	49%	49%
Citylink Telecommunications Holding Ltd	London	United Kingdom	33%	33%
Diehl Aircabin GmbH	Laupheim	Germany	49%	49%
Diehl Aerospace GmbH	Überlingen	Germany	49%	49%
Ericsson Thales AEW Systems AB	Möln dal	Sweden	50%	50%
Navigation Solutions LLC	Plano	United States	35%	35%
Samsung Thales Co. Ltd	Gumi-City	South Korea	50%	50%
Thales Alenia Space SAS	Cannes-La-Bocca	France	67%	67%
Thales Alenia Space Italia SpA	Rome	Italy	67%	67%
Telespazio holding SRL	Rome	Italy	33%	33%
Thales-Raytheon Systems Company LLC	Fullerton	United States	50%	50%
Thales-Raytheon Systems Company SAS	Massy	France	50%	50%
Trixell	Moirans	France	50%	50%

3. EQUITY-ACCOUNTED COMPANIES

Complete list of companies accounted for under the equity method.

<i>Corporate name</i>	Registered office/City	Nationality	% of capital held by Thales	% of voting rights held
Aviation Communications & Surveillance Systems	Wilmington	United States	30%	30%
DCNS	Paris	France	25%	25%
DpiX LLC	Palo Alto	United States	20%	20%
Elettronica SpA	Rome	Italy	33%	33%
ESG GmbH	Fürstentfeldbruck	Germany	30%	30%

B. MAJOR MANUFACTURING SITES

At 31 December 2010, 13 sites with over 1,000 employees accounted for more than 42% of the global workforce under Thales management¹.

At 31 December 2010	Headcount	Ownership	Size (m ²)
In France			
Bordeaux (South-west)	2,094	Leased (Le Haillan) and Owned (Pessac)	59,000
Brest (Brittany)	1,487	Leased	56,000
Cannes (Provence)	1,914	Owned-Leased	86,000
Colombes (Île-de-France)	3,479	Leased	95,000
Élancourt (Île-de-France)	3,108	Leased	107,000
Massy (Île-de-France)	1,439	Leased	31,000
Meudon la Forêt/Vélizy (Île-de-France)	4,156	Leased	112,000
Rungis (Île-de-France)	1,186	Leased	32,000
Toulouse (South-west)	3,846	Owned-Leased	147,000
In the United Kingdom			
Crawley	2,255	Leased	34,000
In Australia			
Sydney	1,120	Leased	60,000
In the Netherlands			
Hengelo	1,538	Owned	100,000
In Spain			
Madrid	1,411	Leased	13,400

¹ See definition on page 136

► 5. BUSINESS SEGMENTS AND AREAS

In December 2009, Thales unveiled plans for a new structure to simplify its operations, foster cross-functional synergies, galvanise the business and improve performance.

Since 1 January 2010, the Group has had a **two-dimensional matrix structure** built around **divisions and geographic areas**.

The **divisions** are globally responsible for defining market strategy, R&D priorities, product policy and industrial policy, in accordance with the long-term earnings targets set by the Group. They are split into two market segments:

- **Defence and Security** (Defence and Security C4I systems, Defence Mission Systems, Land Defence, Air Operations),
- **Aerospace and Transport** (Avionics, Transportation Systems, Space).

The **geographic areas** are responsible for implementing these global strategies and policies in accordance with the Group's short-term earnings targets; they are managing the relationship with local customers and are responsible for orders, revenues and business performance. The countries are grouped in three areas:

- **Area A:** United States, Canada, United Kingdom, Netherlands, Norway, South Korea, Australia, Central and Northern Europe, North Asia;
- **Area B:** Germany, Austria, Switzerland, Italy, Spain, Singapore, Latin America, Southern Europe, Middle East & Africa, Western Asia, South Asia;
- **France.**

A. DEFENCE AND SECURITY

Thales is a long-standing partner to military and security forces around the world, providing support on the ground to increase operational effectiveness as well as ensure the highest levels of protection.

Thales designs and delivers systems for all four environments: air, land, sea and space. These systems detect and assess threats, manage information, support rapid command decisions and control engagements through to threat neutralisation, with maximum reliability. By facilitating the coordination of joint or coalition forces operations, they contribute to the decision-making superiority of the forces.

As new risks emerge, defence alone cannot protect against new threats such as trafficking, terrorism, organised crime and cyberattack.

This convergence of defence and security requires new solutions and technologies to be implemented to facilitate sharing of existing information systems and communication, as well as the protection of networks and infrastructure.

The Defence and Security segment, primarily with a government customer base, leverages Thales's expertise in these various fields.

1. AIR OPERATIONS

★ General overview

Thales systems and equipment help to make airspace safer and more secure. In civil air traffic control, Thales's portfolio ranges from conventional navigational aids to radars and air traffic control centres, surveillance systems, satellite navigation and airport management solutions.

Thales has a key role in the modernisation of this sector, as architect and integrator in the air traffic management of the future, mainly through the SESAR (Single European Sky ATM Research) programme in Europe and the NextGen programme in the United States. Thales is the leading industrial partner of the SESAR research project on the Single European Sky.

Thales supplies airspace surveillance systems, operational command and control centres and complete threat evaluation and response solutions to the military. Thales offers a local presence for its customers around the globe, providing innovative through-life support, repair and overhaul, training and technical support for all its products and activities.

Through ThalesRaytheonSystems (TRS), the Group has established itself as a major player in command and control systems and in 3D air defence, battlefield and counter-battery radars. In addition, Thales boasts one of the most extensive ranges of land and naval surface radars on the market, notably with the Ground Master 400 radar, Ground Smarter 100 mobile radar and the CoastWatcher 10 and 100 radars for coastal surveillance.

★ Competitive position

Thales's expertise in all aspects of air traffic control, automation, navigation, surveillance and satellite communication is widely recognised by the world's civil aviation authorities. With over 260 Eurocat control centres, totalling almost 4,000 air traffic controller positions worldwide, Thales is at the forefront of the air traffic control and civil radar systems market.

Other major players in the civil area are the US groups Lockheed Martin and Raytheon, Finmeccanica and Indra in Europe, as well as Sensis and ITT in certain niches.

In the military area, Thales's main competitors are the US groups Lockheed Martin, Northrop Grumman, and Raytheon, and in Europe, Finmeccanica, EADS, BAE Systems, Indra and Saab.

★ Significant events in 2010

Today Thales offers complete air surveillance solutions based on the complementarity of air surveillance radars, ADS-B (Automatic Dependant Surveillance-Broadcast) and WAM (Wide Area Multilateration). Thales has also unveiled the ECS (Engagement Control Station), its new surface-to-air fire coordination solution. The GM400 radar also successfully passed its first plant acceptance test. Site acceptance has been passed for radars in South Africa and Namibia and for air traffic management systems in Lithuania, Belgium, Austria and the United Arab Emirates.

In the field of C4I¹, TRS has successfully demonstrated the defence capability of the mobile component of the NATO Air Command and Control Level of Operational Capability 1 system and has improved the Battle Control System in the US. TRS has extended its portfolio with the Ground Master 200 multi-mission military radar. The RMI (Reliability, Maintainability, Improvement) programme for the upgrade of AN/TPQ-37 radars is in its final phase, with initial delivery of the new radars to the US Army.

2. LAND DEFENCE

★ General overview

Thales designs interoperable solutions for surveillance, mobility, protection, target acquisition and engagement of land forces, including missile and armaments systems, optronics sensors and protected vehicles.

In the field of missile and armaments systems, Thales offers a range of medium-range (SAMP-T), short-range (Crotale, ADES) and very short-range air defence systems and missiles (VT1, Starstreak and LMM). The Group is also one of Europe's leading suppliers of active, semi-active and passive seekers and proximity fuzes. It is also a major supplier of metric precision munitions, close vehicle protection systems, soldier systems and battlefield control systems.

Thales also designs and manufactures optronics components and systems for day and night surveillance, reconnaissance, protection and target acquisition on any type of land, sea or air platform.

Thales is also active in the field of protected vehicles, both as vehicle designer and manufacturer (through the Australian Bushmaster programme) and as integrator, regardless of the type of platform or mission (reconnaissance, troops transport, command post, combat, support/recovery, etc.).

★ Competitive position

Thales is one of Europe's leading suppliers of medium-range, short-range and very short-range missiles and armaments systems. Other major players in this field are Raytheon, Lockheed Martin and MBDA, the latter being Thales's key customer in missile electronics and a major partner in weapons systems (SAMP-T).

One of Europe's foremost optronics suppliers, Thales faces competition in this segment from Raytheon, BAE Systems and Flir Systems. There are complementarities with Safran.

In protected vehicles, the Group is mainly a supplier to the Australian government. This market segment is dominated, on an international level, by BAE Systems, General Dynamics, Rheinmetall and Nexter.

★ Significant events in 2010

In terms of anti-aircraft systems, the SAMP/T was declared operational in France and Italy in 2010. An anti-ballistic missile firing test was carried out successfully.

The optronics segment saw the commissioning of the Reco NG reconnaissance system in the French forces and delivery of the 10,000th Sophie night vision camera.

In terms of protected vehicles, the Australian Ministry of Defence has down-selected the single-cab Bushmaster, a flatbed logistics vehicle, as part of its LAND 121 Phase 3 programme, destined to replace the current fleet of over 2,000 logistics vehicles, and the Hawkei, as part of the LAND 121 Phase 4 programme, destined to replace the current vehicles by lightweight protected vehicles. Note also the delivery in the UK, in less than nine months, of Talisman, an urgent operational requirement programme for route proving and clearance.

3. DEFENCE MISSION SYSTEMS

★ General overview

Thales designs mission systems and equipment for aircraft, helicopters, UAV, surface vessels and submarines. It also offers a complete range of operational maintenance services.

★ Competitive position

- **Electronic warfare systems.** Thales manufactures radar systems and equipment for combat aircraft, particularly the Rafale and Mirage 2000, as well as radar electronic warfare systems, used in threat detection and for combat aircraft and naval platform protection. Alongside Finmeccanica Thales is one of Europe's leading operators in this sector, in a global market in which Raytheon, Northrop Grumman and BAE Systems also have a large footprint, taking into account the size of the US programmes.
- **Airborne surveillance and intelligence systems.** Thales designs maritime patrol and surveillance and ground and air surveillance solutions for electromagnetic-based intelligence-gathering. Installed onboard fixed-wing aircraft, UAV and helicopters, these systems offer different sensor combinations, including surveillance radars, acoustic subsystems, electromagnetic measuring instruments and data connectivity. With considerable experience in this field, Thales also designs complete Intelligence, Surveillance, Target Acquisition and Reconnaissance (ISTAR) systems for UAV. Thales works with manufacturers or platform modification centres (fixed- and rotary-wing) on mission systems integration. Competition in the equipment supply market comes from the same competitors that Thales faces in the combat aircraft segment, in addition to American, European and Israeli specialists such as General Atomics or Elbit in the UAV segment.

¹ Command, Control, Communications, Computer Intelligence.

- **Naval surface and underwater warfare systems.** In the field of surface and air warfare, Thales covers the entire naval operational requirement, from electronic sensors (radars, electronic warfare, infrared sensors, etc.) to the integration of complete weapons systems and all communications and command resources essential to fleet interoperability. Thales is involved in numerous major naval programmes (British aircraft carriers, European Fremm multi-mission frigates, corvettes and patrol vessels for the export market). For the underwater battlespace, Thales offers a full range of products, from special submarine sonars to hull-mounted and towed sonars for surface vessels, dipping sonars for aircraft and specific sonar for unmanned naval vehicles. A major European player in the naval market, Thales faces competition in this segment from Finmeccanica, BAE Systems and Atlas Elektronik (for sonars) in Europe, and US groups Lockheed Martin and Raytheon.

★ Significant events in 2010

- **Electronic warfare systems.** Thales has won a contract with the French air force for the Meteor missile integration project for Rafale aircraft. Thales is also continuing to manufacture the fourth tranche of systems and equipment for this aircraft, including the RBE2 radar with standard active antenna.
- **Airborne surveillance and intelligence systems.** Through the UK Watchkeeper programme, Thales is the prime contractor of the only major tactical UAV programme in Europe. In 2010, the Watchkeeper UAV, equipped with several payloads and systems connecting it to ground control stations, passed a major milestone in its development with its first test flight in UK airspace. Test flights are also continuing for Meltem, a major maritime surveillance programme for the Turkish Navy and Coastguard, with several aircraft equipped with the AMASCOS mission system. This has enabled Thales to develop a complete range of dedicated solutions offering high-added-value services through to the provision of global capability, for example in training, fighter and transport aircraft.
- **Surface and underwater warfare naval systems.** The Fremm programme continued in 2010 with the launch of the first frigate (the *Aquitaine*).

4. DEFENCE AND SECURITY C4I SYSTEMS

★ General overview

At the heart of the defence-security continuum, Thales's Defence and Security C4I Systems Division offers secure and interoperable

information and communication systems for armed and security forces, which make a powerful contribution to their safety and to national security. In these activities, the Group is present throughout the value chain, from equipment to systems and systems of systems, support and services.

★ Competitive position

- **Radiocommunication products.** Thales designs onboard and tactical radio and communication solutions for the three environments (land, air and sea), electronic warfare systems, identification systems (IFF¹), and logistical support and associated services. The main competitors in this segment are the American companies Harris and ITT.
- **IT security.** Thales is a trusted partner capable of providing solutions for cybercrime detection, analysis and response and guarantees the security, integrity and authentication of critical data (up to "top secret" level). Thales also runs an operational centre offering 24-hour supervision of information systems for major corporations. In this segment Thales competes with companies such as RSA or Safenet.
- **Infrastructure systems and networks.** Thales provides secure and resilient, deployable or mobile, infrastructure networks (including ground segments of satellite communication solutions), in addition to logistical support and associated services, through to the operation and management of secure networks on behalf of armed forces, even in the theatre of operations. In a fragmented market, the American companies General Dynamics and Raytheon are major competitors.
- **Protection systems.** Thales has developed command and intelligence information systems, ground-based tactical systems and border surveillance systems, in addition to urban security solutions, airport protection and critical infrastructure and identity management systems. Thales' competitors are in the aeronautics/defence sector (Boeing, Northrop, Honeywell, EADS, etc.) or information systems (IBM, Siemens, etc.)
- **Critical information systems.** For governments and major corporations, Thales operates in the fields of software and system engineering (real-time and/or onboard) and offers information management solutions for outsourcing infrastructure and applications. Thales has 23 service centres, including five data centres.

¹ IFF: Identification Friend or Foe.

★ Significant events in 2010

This year, Thales launched BlueGate, a new range of IFF solutions designed to operate in accordance with new secure international identification systems. BlueGate offers a complete and bespoke range of IFF solutions tailored to the needs of the armed forces.

In the field of telecommunications products, 2010 brought major breakthroughs in the field of software-defined radio. Software-defined radio is a new concept which aims both to deliver enhanced interoperability (between allied forces or between elements of the same country) and significantly increase communication flows and transmit images, video, data and voice simultaneously and in real time. Thales's expertise, including F@stnet Twin, the first dual-channel handheld software-defined radio to be developed in Europe, was recognised by the French defence procurement agency (DGA), which chose the Group to conduct the study of new-generation communications systems for the French military (DEPORT program).

In systems, Thales has launched Nexium, an innovative solution for resilient network optimisation to provide high-level, effective, permanent and secure end-to-end transmission.

Finally, in cybersecurity, Thales has unveiled CYBELS, an innovative product which actively and dynamically protects the most critical networks and communications systems from cyberattack.

Thales has also proven its ongoing commitment to quality this year by obtaining ISO 20 000 certification (for IT services) for its centres in Cholet and Valence, and retaining this certification for its Elancourt centre.

B. AEROSPACE AND TRANSPORT

With its expertise in cutting-edge technology and major software systems, Thales helps operators to improve their efficiency and reliability as well as ensuring the security of data exchange and transportation.

Based on its expertise in systems developed for government clients, Thales has implemented innovative technological solutions to improve the safety and security of passengers and modes of transport:

- in ground transportation, operational control centres for rail networks, ticketing systems, urban and mainline network signalling;
- in air transport, where Thales is a key supplier of avionics and cabin systems for leading manufacturers and is developing flight simulators for civil and military fixed-wing and rotary-wing aircraft;
- in navigation systems (Egnos and Galileo).

Finally, Thales is a leading operator in the space both in the telecommunications (civil, military or dual telecommunications programmes) and observation sectors.

The Aerospace and Transport segment, which has a predominantly non-governmental customer base, brings together Thales's expertise in these various fields.

1. SPACE

★ General overview

A joint venture between Thales (67%) and Finmeccanica (33%), Thales Alenia Space is a key supplier of satellite and orbital infrastructure solutions. Present in France, Italy, Spain, Germany and Belgium, it is a global market leader in telecommunications, navigation, space exploration and Earth observation.

★ Competitive position

In telecommunications, Thales Alenia Space supplies its Spacebus platform for geostationary satellites weighing up to 6 tonnes and their payloads. The company also has a key role in the low earth orbit constellation market (Globalstar, Iridium NEXT, O3b).

In defence and security, the company is active in the space and ground observation and telecoms segments (COSMO-SkyMed, Sicral, SAR-Lupe, ComSat-Bw, Helios, Syracuse, Pleiades, CSO), as well as in dual, civil and military systems (Athena-Fidus, Yahsat).

Thales Alenia Space is also a major player in Earth and scientific observation missions. For three decades, Thales Alenia Space has been prime contractor in Europe for the meteorology satellite programmes for the European Space Agency and Eumetsat. Renowned for its high-resolution optical and radar instruments for meteorology (Meteosat), environment (Sentinelle) or spatial altimetry (SIRAL on CryoSat, Poseidon on Jason), Thales has also developed, with the French space agency (CNES), Proteus, a mini multi-mission platform (500 to 700 kg) which has been successfully trialled in the SMOS, Jason, Corot and Calipso missions.

As prime contractor for Egnos, the precursor to Galileo, and the Galileo support system, Thales Alenia Space is driving forward satellite navigation in Europe and is also involved in work to build and launch the first four In-Orbit Validation (IOV) satellites of the constellation.

Thales Alenia Space is a major supplier of the International Space Station, supplying over 50% of its pressurised volume (Nodes 2 and 3, MPLM, Cupola, PMM), and is closely involved with ATV vehicles and the Columbus laboratory. Thales Alenia Space is also present on the Ariane rocket with its onboard electronics.

The satellite market is a highly competitive arena. In the commercial satellite segment, the main competitors of Thales Alenia Space are Space System/Loral, EADS Astrium, Orbital Sciences Corporation, Boeing Satellite Systems and Lockheed Martin Space Systems. Other international suppliers – in Russia, China, India and Canada – are now entering the commercial market with competitive solutions concerning small (entry-level) geostationary satellite solutions.

The leading competitors in the institutional market in Europe are EADS Astrium and OHB. In institutional export markets, the competition also includes companies based in North America, Russia, China, India, Korea and Israel.

* Significant events in 2010

The Arabsat 5A satellite was successfully launched in June 2010. Positioned at 30.5 °E, where it replaced Arabsat 2B, Arabsat 5A increases and optimises the capacity of the telecommunications provider for Arab League countries to offer live television, telephony, internet and data transmission to Africa and the Middle East.

The Italian Space Agency and Ministry of Defence have ratified the final acceptance of the COSMO-SkyMed constellation, a tri-satellite system representing the largest national investment in space technology and systems. This Earth observation system is the most complex ever designed and built in Europe and is capable of offering unrivalled observation capability.

The first six Globalstar 2 satellites were launched successfully in October from Baikonur in Kazakhstan. The second-generation Globalstar constellation consists of 48 low-orbit satellites, which provide satellite mobile telephony and data transfer services.

2. AVIONICS

* General overview

In avionics, Thales supplies flight avionics systems and equipment (for aircraft navigation and handling), passenger cabin systems and flight simulators both for civil and military aircraft. In addition Thales also offers microwave and imaging subsystems.

The portfolio of flight avionics systems and equipment includes onboard electronics systems for aircraft navigation and handling for civil and military fixed-wing and rotary-wing aircraft. Thales also supplies electrical generation and power conversion equipment.

In the cabin systems market, Thales's offering is largely confined to the in-flight entertainment segment. The new generation "i-series", designed for the new A380, B787 and A350 long-haul aircraft, has already been adopted by numerous airlines. In addition, the Group's cabin offering extends to interior trim, crew rest modules and cabin air flow systems for jetliners through its joint venture Diehl Aircraft and cabin lighting and service systems through Diehl Aerospace.

Thales manufactures flight simulators and has in particular developed a new generation of "RealitySeven" civil simulators, launched in 2009. Thales supplies simulators for several European defence programmes (Rafale, Eurofighter, Tiger, NH90, etc.) and provides pilot training, particularly for helicopters, through its joint venture Helisim.

Microwave subsystems (tubes and power amplifiers) are aimed at the space and defence market, as well as at some telecommunications or civil industrial applications, while imaging subsystems are aimed at the medical radiology market.

* Competitive position

European leader in flight avionics, Thales is one of the major suppliers of Airbus across the manufacturer's entire aircraft range, including the future A350 XWB. Thales is also present in the civil segment among regional or business aircraft manufacturers such as ATR, Bombardier, Gulfstream or Sukhoi. In the military market, Thales is the principal avionics supplier of the Mirage 2000 and Rafale combat aircraft, the A400M, the A330 tanker aircraft and the Tiger and NH90 helicopters. Other major players in this field are the US groups Honeywell and Rockwell Collins.

In the passenger cabin systems segment, Thales is now one of the world's top two players after Panasonic Avionics. Major competitors of the Thales/Diehl joint ventures are Goodrich, Zodiac Aerospace and B/E Aerospace.

The simulation solutions developed by Thales, Europe's leading player and world number two, are used by a large number of airlines (more than 370 flight simulators have been manufactured by Thales) and armed forces worldwide (1,000 simulators supplied to date). There is intense competition from niche operators such as the Canadian CAE (particularly in the civil sector), as well as major US defence companies such as Lockheed Martin and Raytheon.

Thales continues to be a global market leader in microwave and imaging subsystems.

* Significant events in 2010

In March 2010, the first flight took place of the ATR 42-600, for which Thales developed a new generation avionics suite, incorporating an integrated modular avionics (IMA) processing core, glass cockpit, flight management system (FMS), the latest precision communications, navigation and surveillance systems and a new automatic pilot. The ATR 600 series (42-600 and 72-600) are in the process of obtaining certification.

The first prototypes of the future Air Data and Inertial Reference Unit (ADIRU), the aim of which is to provide transport aircraft with secure position data, incorporating high-performance sensors for the new A350 XWB long-haul aircraft, were accepted by Airbus in July 2010. In December, the ADIRU completed its first flight during tests carried out by Thales following the First Delivery Review (FDR), which it passed successfully.

The French defence procurement agency (DGA) took delivery in April 2010 of the first NFH (NATO Frigate Helicopter) version of the NH90 helicopter destined for the Navy. Thales supplies many of the instruments onboard this aircraft, including the cockpit avionics, electrical generation and simulators.

Several milestones were passed in 2010 in the development of the flight management system for the A400M military transporter, with the delivery of a preliminary version of the Initial Operational Capability.

3. TRANSPORTATION SYSTEMS

★ General overview

In transportation, Thales offers operators systems and services to make optimum use of their transport infrastructure, allowing them, inter alia, to increase capacity while guaranteeing both operational safety and the safety of passengers and staff.

Thales is one of the world's foremost players in rail signalling and control and surveillance systems for urban and mainline transport networks. The Group is also present in the revenues collection segment (ticketing).

In rail signalling, Thales provides systems for mainline networks, whether conventional or high-speed, in addition to metro, tram and regional networks.

These systems guarantee the safety of rail travel while optimising network capacity and allowing operators to improve the efficiency and reliability of their operations.

In terms of monitoring and communications, Thales leverages its expertise in critical information systems to offer transport network operators integrated solutions. They can thus monitor and effectively control critical operations (from traffic to power and communications management) and implement efficient solutions to satisfy passengers by offering a higher quality of service while helping to improve both network and personal safety.

Finally, Thales has developed revenues collection solutions, particularly for public transport operators, as well as in the highways segment (tolls, car parks).

★ Competitive position

Thales covers the transport market with a structured range of systems and services dedicated to mainline and urban transport markets, which also extends to car park management and urban toll systems.

This specific positioning sets Thales apart from “generalist” suppliers offering predominantly rolling stock and operators specialising in only one area. Thales is a specialist and recognised leader in each of its key segments.

The competition varies considerably, depending on the market. The signalling business is mainly shared between seven major players who are, in addition to Thales, Alstom, Ansaldo STS, Bombardier, GE Transportation, Invensys Rail and Siemens.

The surveillance and ticketing markets are more fragmented, with local operators holding over half of the market. In terms of control and communications, the major generalist players are also present, as well as more specialist operators such as HollySys, Indra, STE and Telvent. In ticketing, Thales's competitors are ACS, Cubic, Parkeon and Vix ERG.

★ Significant events in 2010

Thales has delivered and brought into service two extensions for the Wuhan metro in China, following intensive testing carried out in a record three months. Today the complete line extends for 28.5 km across the city and transports over 300,000 passengers a day.

Thales, Shanghai Electric Corporation and Shanghai Automation Instrumentation Co have signed a joint venture agreement to set up a signalling systems company for urban rail transport in China.

Thales has delivered its automated ticketing systems using contactless technology and smartcards to equip the Circle Line in Singapore, the longest fully automated metro line in the world. Once the line is fully operational, the Circle Line will have 29 stations and will be 33.3 km long.

The city of Bergen in Norway has brought its tram service into operation, for which Thales supplied the rail signalling, telecommunications, video surveillance, passenger information, traffic regulation and command/control systems.

C. AREA A

Revenues in € million		United Kingdom	United States	Australia	Netherlands	Canada	Other	Total
2010	Revenues by destination	1,500	1,090	584	184	225	1,145	4,728
	Revenues by origin	1,652	984	618	518	272	326	4,370
	Consolidated headcount	7,746	2,241	3,303	2,071	1,356	1,524	18,241
2009	Revenues by destination	1,468	922	525	199	236	958	4,308
	Revenues by origin	1,670	845	600	456	295	269	4,135
	Consolidated headcount	8,205	2,308	3,406	1,949	1,411	1,471	18,750

Australia and New Zealand

Thales has 3,300 people in Australia and New Zealand. Thales Australia is a trusted partner of the Australian Defence Force (ADF) and also operates in commercial sectors, including air traffic management, transportation, security and services.

Thales delivers a range of key capabilities to the ADF, including naval platform services, underwater systems, communications, ordnance, small arms and vehicles. The Bushmaster protected vehicle manufactured by Thales Australia is in service in Afghanistan with Australian and NATO forces.

In 2010 the Hawkei light protected vehicle was down-selected for the development phase of an Australian Army programme and the company was awarded a five-year contract for hardware and software support for a range of critical command and Intelligence systems used by the ADF.

Thales Australia operates a global centre of excellence in air traffic management systems in Melbourne, exporting to more than 50 countries.

In New Zealand, Thales is working with the Auckland Regional Transport Authority to deliver an integrated ticketing system.

Canada

Thales has around 1,540 employees in Canada servicing the defence, security, aeronautics and transportation sectors. Thales Canada serves a range of customers, including rail service providers, civil aeronautics companies, military and security agencies.

Thales Canada, in collaboration with Thales Raytheon Systems, was selected this year to supply two GM 400 tactical ground radars to the

Canadian Air Force. The optronics business won a number of armoured vehicle Driver Vision Enhancement contracts, securing Thales' market position as the only provider of driving systems to the Canadian military since 1997. Thales Canada has also continued to deliver on its multi-year software support contract for command and control system to the Department of National Defence.

Canada-based urban rail signalling activities recorded several export successes, notably in New York City, South Korea and in several cities in China (Shanghai, Beijing, Daxing, Guangzhou and Wuhan), and significant project advancements in London, Mecca, Dubai, Busan and Bundang, Korea.

Netherlands

Thales has around 2,000 employees in the Netherlands, essentially serving the defence market both domestically and internationally, with particularly strong capabilities in the naval sector.

Thales Nederland is developing a family of integrated masts and in March won a contract to deliver and install an IM-400 integrated sensor and communication system for the Dutch Navy's Karel Doorman support ship.

The drive for Thales to diversify its Dutch activities towards civil was clearly illustrated with the company's major contract to supply all Dutch rail stations with electronic gates as part of the nation-wide e-ticketing program.

Successful export orders include a contract for the modernisation of two M-class frigates for the Belgian Navy, including the installation of Seastar and Gatekeeper sensors, plus a contract for the integration of Thales's missile control system for Japanese Maritime Self-Defence Force's 21DD destroyers.

Towards the end of the year Thales Nederland also won a contract with BAE Systems in the UK for all maintenance of the S1850M surveillance radar systems on board the Royal Navy's Daring-class destroyers.

United Kingdom

Thales has around 7,500 employees in the UK, working in aeronautics, defence, security and transportation systems and serving governmental and commercial customers.

In transportation Thales consortium received a contract extension for the design, build and maintenance of Manchester Metrolink.

In defence, Thales was awarded additional work on the Queen Elizabeth-class Carriers, a significant logistic support contract for the UK Tactical UAV programme Watchkeeper and an upgrade contract for sonar on the Royal Navy's T-Class submarines

Successful export orders include the sale to Canada of UHF satellite communication omni-directional antennas for four Halifax-class frigates and the sale of four radar electronic surveillance systems to the Dutch MoD for the Dutch and Belgian Navies.

United States

There are 10 Thales operations and 3 joint ventures in 10 states, with nearly 2,000 Thales employees and 1,000 JV employees. Thales operates 3 joint ventures in the US: Thales Raytheon Systems for radar systems, ACSS with L-3 for safety avionics systems and a sonar systems venture with DRS Technologies.

Thales's businesses in the United States include air traffic management which is supporting the Federal Aviation Administration's NextGen modernisation programme. The global headquarters of the Group's in-flight entertainment business, in California, exports to airlines worldwide and in 2010 secured a major contract for IFE

systems with Qatar Airways. In 2010, Thales transport business in the United States won a sizable contract to upgrade rail signalling for the New York City subway's Flushing Line.

Thales USA Defense & Security Inc, which operates under a special security agreement with the US Department of Defense, serves as the primary point of access for all the Group's subsidiaries worldwide seeking to enter the US defence and security markets. The communications businesses in Maryland are developing tactical communications products for all the US military, other federal agencies and local public safety customers.

Northern Asia

In South Korea, Thales and the Samsung Group joined forces in 2000 to create Samsung Thales Co. Ltd (STC), initially to meet the requirements of the country's armed forces. Today the joint company has more than 1,300 employees working on defence businesses, such as tactical communication systems, radar systems, naval combat systems, electro-optics and fire control systems.

In China, Thales currently employs over 300 people developing products or solutions as air traffic control, radar, avionics, security in transport, e-banking and medical imaging with operations in Beijing, Shanghai, Nanjing, Kunming and Hong Kong. In September 2010, Thales, Shanghai Electric Corporation (SEC) and Shanghai Automation Instrumentation Co (SAIC) have signed a Joint Venture agreement that will enable the creation of an urban rail signalling company for the Chinese market.

Northern and Central Europe

In Northern and Central Europe, Thales has been a major business partner in the aeronautics, space, defence, security and transport markets. Thales Norway, with 185 employees, is among the largest players for hi-tech development in Norway and developed and industrialized own products mainly in the defence market.

D. AREA B

Revenues in € million		Germany	Italy	Spain	Saudi Arabia	Other	Total
2010	Revenues by destination	779	375	357	487	2,893	4,891
	Revenues by origin	856	665	337	342	564	2,764
	Consolidated headcount	4,345	2,692	1,670	875	3,808	13,390
2009	Revenues by destination	860	382	378	569	2,864	5,053
	Revenues by origin	838	614	368	270	500	2,590
	Consolidated headcount	4,318	2,673	1,813	801	3,701	13,306

Germany

In Germany, Thales employs about 4,300 people in 24 locations. The revenues of Thales's German subsidiaries are primarily generated from civil activities, notably in the transportation sector, as the country is a Thales global centre of excellence for rail signalling and has been instrumental in building the Group's expertise in ETCS standards. Thales is also active in Germany in defence, particularly in the naval sector. Through its joint venture with the Diehl Group, Thales also has a strong position in cockpit and cabin equipment for civil aircraft.

In 2010, the Ministry of Internal Affairs of Northrhine-Westfalia signed a contract for the equipment of their command & control stations. This will allow all police stations to be interconnected by a single, highly efficient emergency call system.

In the defence sector, Thales's German subsidiary signed a contract with the HDW shipyard to equip type U-214 submarines of the Korean Navy with navigation radar technology.

In partnership with Thales Raytheon Systems, Thales Germany will supply six GM400 long range radars to the German Army.

In the aeronautics and space domain, Thales's German subsidiary has been awarded a contract by ASECNA (Agency for the Security of Air Navigation in Africa and Madagascar) for the supply of air navigation systems to be deployed in 16 African countries. In the same domain, the Afghan Ministry of Transport and Civil Aviation (MOTCA) has awarded Thales a contract for the delivery, installation, training and commissioning of the first operational Wide-Area-Multilateration system in Afghanistan.

In the Transportation business, Thales supported the high-speed line projects in Germany by upgrading the railway from Berlin via Halle to Leipzig with ETCS level 2.

Italy

With operations in Rome, Florence, Chieti, Milan and L'Aquila, Thales employs more than 2,600 people in Italy with activities all across Thales portfolio from defence & security to aeronautics, transport and space through its Thales Alenia Space joint venture with Finmeccanica.

On the Italian market, Thales Italia has been awarded a contract for mid-life upgrade of VBR NBC armoured reconnaissance vehicles to enhance the operational capability of the Italian NBC Army Regiment. The contract concerns the CBRN suite activities for the upgrade of

obsolete instruments and integration of new components and functionalities.

In telecommunications satellites, Thales Alenia Space has signed the Sicral-2 contract and extended the ExoMars contract to send a rover to Mars.

On export markets, Thales's Italian subsidiary has built on its contract signed in 2005 for the Dubai metro and was awarded another communications, information and security systems as part of the extension of the metro network in Dubai. In 2010, Thales Italia signed several e-ticketing and video-surveillance contracts and strengthened the international presence of ST@Rmille in the Middle East.

Spain

In Spain, Thales employs around 1,700 people in 10 locations. Thales's Spanish subsidiary is a worldwide centre of excellence for rail signalling, space and security systems.

In 2010, the Spanish railway infrastructure authority has awarded Thales several significant contracts, such as the signalling system for the Aranjuez-Alcazar de San Juan section, as well as for high speed lines for the Orense-Santiago section of Madrid-Galicia line and Utrera-Jerez section of Sevilla-Cádiz line.

In security systems, the Spanish airports and air navigation authority has awarded Thales with a contract for the CCTV and digital recording system for the terminals 1, 2 and 3 of the Madrid airport.

On the export markets, Thales's Spanish subsidiary has signed a contract for the second phase on Ankara-Istanbul rail line.

Middle East

Thales has been present in the Middle East for more than 30 years and employs more than 1800 people over 16 countries in the region. In 2010, Thales International Saudi Arabia consolidated its position in main fields: defence systems, navigation aids and civil security.

South East Asia

In Singapore, Thales employs about 400 people and is specialised in the aeronautics, transportation and defence & security domains. Thales has set up the Thales Technology Centre Singapore (TTCS). TTCS is a cross-disciplinary research and technology laboratory that converges expertise in a number of defence and security segments.

Western Asia

In India, Thales has operated for more than 50 years and employs about 300 people in Mumbai, Cochin, Vishakapathnam and Gwalior. Thales also opened a software development company in Chennai. Furthermore, Thales has set up an avionics joint venture with Samtel.

Latin America

In Brazil, Thales has been established for more than 30 years and employs about 300 people. Through its subsidiary Omnisys, Thales

offers a global centre of expertise in long-range air traffic control radars.

Africa

In Africa, Thales has been a major business partner in the aeronautics, defence, security and transport markets for more than 30 years. With 300 employees, Thales's South African subsidiary is a recognized industrial base for export markets in Africa

E. FRANCE

Revenues in €m

2010	Revenues by destination	2,931
	Revenues by origin	5,987
	Consolidated headcount	31,268
2009	Revenues by destination	3,019
	Revenues by origin	6,150
	Consolidated headcount	31,398

Sites

At 31 December 2010, Thales had 31,268 employees in France.

The Group's largest research centre is also located in France, at Palaiseau near Paris, with approximately 300 research staff.

The operations of Thales's French companies cover all markets in which the Group is present, in defence, security, aeronautics, space and transportation, both for government and commercial customers in France and in the export market. Thales's main subsidiaries in France are Thales Air Systems, Thales Alenia Space, Thales Avionics, Thales Communications, Thales Raytheon Systems, Thales Security Solutions & Services SAS, Thales Optronique, TDA Armements, Thales Systèmes Aéroportés, Thales Underwater Systems, Thales Electron Devices (TED) and Thales Services (see organisational chart on page 140).

Main commercial achievements in France

In defence and security, Thales's French subsidiaries have won numerous contracts, confirming its role as one of the leading suppliers of the French defence procurement agency (DGA).

Thales has successfully trialled new concepts for the use of combat identification systems and secure firing during ground tests carried out at the Mourmelon base in the Marne region of France, as part of the DGA's Phoenix 2 upstream study programme (PEA). In December it was awarded the first research contract for the development of the future tactical software-defined radio Contact (DEPORT program). Finally, Thales has been selected, alongside Nexter and Sagem, for the architecture phase of the Scorpion program for the modernisation of the French Army's joint tactical groups (GTIA).

Thales has also won the contract with the French Navy to supply radars, optronics surveillance systems, sonars and communications systems for three more Frémont frigates. 2010 also saw the entry into service of the RECO NG reconnaissance system in the French Air Force and Naval Air Service, and delivery of Damocles laser targeting pods to the French Air Force. The DGA has also asked Thales, MBDA and Dassault Aviation to conduct an integration study for the Meteor ramjet long-range missile on the Rafale.

Finally, Thales has been awarded a 10-year contract by Dassault Aviation to provide maintenance support for avionics equipment onboard the Rafale. This multi-year fixed-price maintenance contract includes a range of extended services.

In the field of national security, the French government has selected Thales for its BioNET project, involving the supply of a biometric data acquisition system for Schengen visa applicants and end-to-end security of biometric data (acquisition and transmission).

In civil aviation, Thales delivered its avionics equipment on 495 Airbus single-aisle and wide-bodied aircraft.

In space, Thales has signed a contract with the French national space agency (CNES) to build the Jason-3 oceanography satellite, following the TOPEX/Poseidon and Jason 1 and 2 satellites which are already in orbit. Thales has also won the Athena-Fidus contract for a civil and military telecommunications satellite destined for the French and Italian Ministries of Defence and for civil security agencies in these countries, as well as for the supply of very high-resolution optical instruments for the CSO (optical space component) military observation satellites (post-Helios). In civil telecommunications, Thales has signed two contracts with Eutelsat to supply W6A and W3D satellites.

In transportation, Thales has signed new contracts for the supply of signalling, passenger information and onboard video surveillance systems for the Paris transport authority RATP, French national rail operator SNCF and French network operator Réseau Ferré de France (RFF).

Main achievements in the export market

French companies are also the Group's primary export base: in 2010, 53% of revenues from French companies was generated outside France.

In defence and security, the Omani Navy has selected Thales to supply Vigile radar electronic support equipment for its naval platforms, while the Brazilian Navy has ordered electronic warfare systems for its Scorpène submarines.

Thales has also been selected by the German Ministry of Defence to supply six Ground Master 400 (GM 400) long-range air defence radars. Several contracts for air traffic control systems have been signed, in Europe (Austria, Croatia, Poland), Asia (China, Philippines), Latin America (Brazil, Mexico) and Africa (Senegal, Democratic Republic of Congo).

In addition, as part of the upgrade of the Indian Air Force's MiG-29 multirole fighter, Thales was selected to supply IFF (identification friend or foe) and encrypted communications systems. The year was also marked by commercial successes in the airport sector, with Thales being selected to supply security solutions at the future Doha International Airport.

At the end of the year, NATO and Thales renewed their service agreement for secure communications. For almost four years, Thales has provided communications services and information systems across the entire Afghan territory for over 7,000 ISAF¹ users at 70 points of presence, including NATO headquarters in Kabul.

In aerospace and transport, Thales has received an order for a second Dauphin simulator for Eurocopter Asia and has been chosen to upgrade Alphajet training aircraft in Morocco.

In addition, Thales has been selected by the Dubai metro operator to install the car park access control system and has won the contract to supply the toll system on the Pacifico Norte motorway in Mexico. Thales has also been chosen to supply control and supervision systems for the first metro line in Panama.

Finally, in 2010 the space business reported a number of achievements in the export market, with Thales being chosen by the US operator Iridium to supply 81 low-orbit satellites for the Iridium NEXT constellation. As prime contractor for the programme, Thales is in charge of the management, engineering, systems integration and supply of 66 operational satellites, 6 back-up satellites and 9 back-up satellites on the ground. The launch of the first satellites should take place in the first quarter of 2015. In Russia, Thales has been selected to deliver three payloads for a subsidiary of Gazprom. In addition, the company has signed a contract with the Turkish Ministry of Defence for a high-resolution optical observation satellite, Göktürk.

In telecommunications satellites, Thales has won contracts with telecoms operators APT (China) and Arsat (Argentina), as well as securing two observation contracts, namely with the supply of third-generation Meteosat satellites (MTG) for the European agency Eumetsat.

¹ ISAF: International Security Assistance Forces. ISAF is the military arm of the NATO coalition, operational in Afghanistan since 2001.

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► 1. COMPANY AND SHARE CAPITAL

A. GENERAL INFORMATION ABOUT THE COMPANY

COMPANY NAME:

Thales

LEGAL STRUCTURE

Thales is a *société anonyme* (public limited company) with a Board of Directors. It is governed by French law, particularly the French Commercial Code and certain provisions of the amended law on privatisation of 6 August 1986, since the French State owns more than 20% of the share capital.

REGISTERED OFFICE

45, rue de Villiers, 92200 Neuilly-sur-Seine – France
Telephone: +33 (1) 57 77 80 00

REGISTRATION

No. 552 059 024 in the Nanterre Register of Trade and Companies;
APE business identifier code: 7010 Z.

TERM

Thales was formed on 11 February 1918 for a period of 99 years. It will cease trading on 11 February 2017, unless this period is extended or the company is dissolved before then.

CORPORATE PURPOSE

The corporate purpose is, directly or indirectly, in all countries:

1. The design, construction, installation, maintenance, running, manufacture, purchase, sale, exchange, supply or hire of all equipment, tools, stations, appliances, finished or semi-finished products, materials, components, systems, devices, processes and, in general, all products relating to electronic applications in any field.

For this purpose, the registration, purchase, sale, exchange, supply, concession or use of all business and manufacturing patents, licences and trademarks.

2. Research, obtention, acquisition, disposal, exchange, supply, hire or use of all concessions or enterprises, whether private or public, and training of staff, and the provision of all services pertaining thereto.

3. The creation of any company or association, or investment in any form whatsoever in any company or enterprise, having a similar or related purpose to that of the company.

4. In general, all commercial, industrial, financial and movable or immovable property transactions which relate directly or indirectly to the aforementioned activities.

FINANCIAL YEAR

The company's financial year covers a period of 12 calendar months from 1 January to 31 December.

Corporate documents and information about Thales can be consulted at the registered office through the secretary to the Board of Directors.

DISTRIBUTION OF PROFITS AS PER THE ARTICLES OF ASSOCIATION

Profits are distributed in compliance with current legislation. Under the Articles of Association, the General Meeting called to approve the financial statements for the previous financial year is empowered to grant each shareholder the option to receive payment of all or part of the dividend distributed either in cash or in shares.

B. GENERAL MEETINGS

1. NOTICE OF MEETINGS AND CONDITIONS FOR ATTENDANCE

All shareholders, regardless of the number of shares they own, are entitled to take part in General Meetings. They are sent a notice of meeting and business is transacted according to the law; the date and place of the meeting, the agenda and the draft resolutions of the meeting are published in accordance with the regulatory conditions at least 35 days prior to the date of the meeting (49 days prior to the meeting of 18 May 2011), with the final notice of meeting being sent no later than 15 days prior to the meeting (21 days prior to the meeting of 18 May 2011). In accordance with the regulations, all information required under current legislation is published online no later than 21 days prior to the meeting, or on the date of the notice of meeting, in the case of the General Meeting of 18 May 2011.

Thales's Articles of Association do not allow voting at General Meetings by electronic means.

Participation in General Meetings, in any form whatsoever, is conditional upon registration of the shares in accordance with the conditions and within the time limits provided for under the current regulations.

Any shareholder who has already voted by post or by proxy, or requested an admittance card or share ownership certificate, may sell all or some of his shares at any time.

However, in accordance with the regulations, should the intermediary account-holder notify Thales of a sale occurring before midnight (Paris time) on the third trading day prior to the General Meeting, the company will invalidate or modify the vote, proxy, admittance card or share ownership certificate, as the case may be.

No sale or other operation carried out after midnight (Paris time) on the third trading day prior to the meeting, irrespective of the means used, is required to be notified by the approved intermediary or taken into consideration by the company, notwithstanding any agreement to the contrary.

The right to vote, and consequently the right to attend General Meetings, belongs to the beneficial owner at Ordinary General Meetings, and to the bare owner at Extraordinary General Meetings. Owners of pledged shares retain their voting rights. Co-owners of shares are represented at General Meetings by one of the co-owners or by a joint proxy who, in the event of disagreement, is appointed by the court at the request of the co-owner who acts first.

Each person present at the General Meeting has one vote for each share owned or represented, without limit, subject to the following provisions on the right to a double vote, and to the exceptions provided by law.

2. DOUBLE VOTING RIGHTS AND EXERCISE OF VOTING RIGHTS

Shareholders who can show proof of shares which have been registered in their name in the company's share register (kept by Société Générale, duly authorised for this purpose—see section C below) for at least two years without interruption are entitled to double voting rights at General Meetings for each share so held. Registered shares which have been granted to a shareholder as free shares in respect of shares they already hold with double voting rights attached are also entitled to double voting rights as soon as the shares have been granted.

Double voting rights will lapse automatically for any share converted into a bearer share or transferred (except as a result of inheritance, whether testate or intestate, division of property between spouses, or gifts *inter vivos* between spouses or in favour of a relative).

Double voting rights may be abolished by a decision of an Extraordinary General Meeting, following the approval of a special General Meeting of Shareholders entitled to double voting rights.

Under the Articles of Association, there is no limit on voting rights.

In accordance with the law, shares owned by Thales itself do not carry voting rights.

3. NOTIFICATION OF EXCEEDING STATUTORY THRESHOLDS

Any natural person or legal entity owning a number of shares equal to or higher than 1% of the share capital of the company (but no voting rights), or any multiple thereof, is required to inform the company of the total number of shares held within five trading days of the date on which this threshold is exceeded.

This obligation to inform the company applies, under the same conditions, when the number of shares held falls below one of the thresholds mentioned in the previous paragraph.

In the event of failure to comply with this obligation, the shareholder shall be deprived of the voting rights attached to any shares exceeding the first undeclared threshold, subject to the conditions and limitations defined by law.

C. INFORMATION ON ISSUED SHARE CAPITAL AND ITS DISTRIBUTION

At 31 December 2010, the share capital stood at €597,246,081, divided into 199,082,027 shares with a par value of €3 each.

Pursuant to the applicable regulations, each month the company publishes on its website (www.thalesgroup.com, under the heading "Regulatory Information"), information pertaining to the total number of voting rights (theoretical and exercisable) and the number of shares making up the share capital, and forwards this information to the news distribution service.

Changes in share capital and shareholders' rights are governed by the applicable laws.

Shares in the company may be held in either registered or bearer form, at the shareholder's discretion. The share register is kept on behalf of the company by Société Générale (Département Titres & Bourse - 32 Rue du Champ de Tir - BP 81 236 - 44312 Nantes cedex 3 - France).

The share capital is fully paid-up. It includes a golden share resulting from the conversion of an ordinary share belonging to the French State, as decided by decree no. 97-190 of 4 March 1997, in application of the law on privatisation of 6 August 1986 (see page 167).

1. CHANGES IN THE SHARE CAPITAL OVER THE LAST FIVE FINANCIAL YEARS

Date	Type of transaction	Acquisition, issue and merger premiums	Number of shares created	Nominal amount of the changes in capital	Amount of share capital	Aggregate number of shares making up the capital
31 Dec. 2005		2,674,037,324			515,729,589	171,909,863
Financial year 2006	Exercise of stock options or conversion of OCEANE bonds		96,945	290,835		
31 Dec. 2006		2,676,344,983			516,020,424	172,006,808
5 Jan. 2007	Capital increase reserved for Alcatel Participations	925,000,000	25,000,000	75,000,000		
5 Jan. 2007		3,601,344,983			591,020,424	197,006,808
Financial year 2007	Exercise of stock options	35,943,890	1,271,809	3,815,427		
	Exercise of stock warrants	1,275,173	55,049	165,147		
31 Dec. 2007		3,638,564,046			595,000,998	198,333,666
Financial year 2008	Exercise of stock options	9,586,050	391,143	1,173,429		
31 Dec. 2008		3,648,150,096			596,174,427	198,724,809
Financial year 2009	Exercise of stock options	7,486,024	299,123	897,369		
31 Dec. 2009		3,655,636,120			597,071,796	199,023,932
Financial year 2010	Exercise of stock options	1,459,014	58,095	174,285		
31 Dec. 2010		3,657,095,134			597,246,081	199,082,027

2. CHANGES IN THE DISTRIBUTION OF CAPITAL AND VOTING RIGHTS OVER THE LAST THREE FINANCIAL YEARS

At 31 December 2010, the total number of voting rights which could be exercised amounted to 254,274,819. This includes double voting rights associated with shares which have been registered for at least two years under the conditions set out in the Articles of Association (see p. 158 above).

As previously mentioned, the number of shares and voting rights (theoretical and exercisable) is published monthly on the company's website (www.thalesgroup.com, under the heading "Regulatory Information").

	31/12/2010			31/12/2009			31/12/2008		
	Number of shares	% of share capital	% of voting rights	Number of shares	% of share capital	% of voting rights	Number of shares	% of share capital	% of voting rights
TSA & Sofivision (a)	53,746,948	27.00%	41.86%	52,670,906	26.46%	41.60%	52,670,906	26.51%	38.64%
State (inc. 1 golden share)	2,022	—	—	2,022	—	—	2,022	—	—
Sogepa	5,214	—	—	1,081,256	0.54%	0.85%	1,081,256	0.54%	0.79%
Public sector (a)	53,754,184	27.00%	41.86%	53,754,184	27.00%	42.45%	53,754,184	27.05%	39.43%
Dassault Aviation	51,539,524	25.89%	20.27%	51,539,524	25.90%	20.35%	—	—	—
Alcatel-Lucent Participations	—	—	—	—	—	—	41,261,481	20.76%	21.10%
GMD	—	—	—	—	—	—	10,277,043	5.17%	5.12%
Thales	3,717,478 (b)	1.87%	—	3,556,693	1.79%	—	3,743,382	1.88%	—
Employees	5,811,663	2.92%	4.54%	5,965,354	3.00%	3.76%	6,094,287	3.07%	3.52%
Other shareholders	84,259,178	42.32%	33.33%	84,208,177	42.31%	33.44%	83,593,432	42.07%	30.83%
Total	199,082,027 (c)	100%	100%	199,023,932	100%	100%	198,724,809	100%	100%

(a) As per the terms of the shareholders' agreement (see AMF 27-11-08), the "Public Sector" includes TSA and its subsidiary Sofivision, excluding Sogepa and the French State directly.

(b) Including 516,282 bearer shares (under a liquidity contract) and 3,201,196 registered shares.

(c) During financial year 2010, 58,095 shares were created which vested on 1-01-10 with the exercise of stock options.

3. MAJOR CHANGES IN SHARE OWNERSHIP OVER THE LAST FIVE YEARS

In 2006, the number of treasury shares remained relatively stable, since the number of shares bought exceeded the number of shares sold only by about 29,000:

- around 457,000 shares were bought under a liquidity contract;
- around 388,000 shares were sold under a liquidity contract;
- around 98,000 shares were sold to employees as options vested.

Therefore, at 31 December 2006, the company held 1.82% of its share capital.

On 11 August 2006, Capital Group International Inc. disclosed that it had exceeded the legal threshold of 5% of the share capital and owned 8,813,389 bearer shares, representing an equal number of voting rights. At the disclosure date, these figures represented 5.13% of the capital and 3.52% of the voting rights, respectively.

At 31 December 2006, Capital Group International Inc. had not disclosed that its holding had fallen below the legal threshold.

On 1 January 2007, the "OCEANE" bonds (i.e. bonds convertible into or exchangeable for new or existing shares), issued in December 2001 for a nominal value of €500m matured. The majority were redeemed in cash. This redemption thus impacted almost exclusively on the potential capital.

On 5 January 2007, the Extraordinary General Meeting of Shareholders called to approve the transfer of Alcatel-Lucent's transport and security business voted for an increase in capital by 25 million shares (15% of the share capital at the end of 2006), reserved for the transferor, Alcatel-Lucent Participations.

Alcatel-Lucent Participations' equity interest in the Group thus increased from 9.46% at 31 December 2006 to 20.94% at 5 January 2007. In addition, public sector ownership fell from 31.25% to 26.74%. Finally, the capital owned by the company was also reduced to 1.56%, compared with 1.82% at 31 December 2006.

During 2007, the number of treasury shares was reduced due to the following transactions:

- 582,811 shares were sold to employees as they exercised share purchase options;
- 369,065 shares were purchased directly on the market in August, September and December;
- 11,274 shares were bought under a liquidity contract.

Therefore, at 31 December 2007 the company held 1.48% of its capital.

During 2008, the number of treasury shares increased due to the following transactions:

- 3,176,127 shares were purchased directly throughout the year;
- 2,519,280 shares were sold to employees under the employee shareholding scheme;
- 1,271,294 shares were purchased under a liquidity contract;
- 1,020,515 shares were sold under a liquidity contract;
- 96,473 shares were sold as purchase options vested.

Therefore, at 31 December 2008 the company held 1.88% of the capital.

During 2009, the number of treasury shares was reduced due to the following transactions:

- 916,054 shares were purchased under a liquidity contract;
- 911,370 shares were sold under a liquidity contract;
- 191,373 shares were sold when 90 share purchase options and free share options were exercised.

Treasury shares thus amounted to 1.79% of the capital, or 3,556,693 shares, at 31 December 2009.

During 2010, the number of treasury shares was reduced due to the following transactions:

- 1,368,874 shares were purchased under a liquidity contract;
- 1,207,329 shares were sold under a liquidity contract;
- 760 shares were sold as free shares were issued.

Treasury shares thus amounted to 1.87% of the capital, or 3,717,478 shares, at 31 December 2010.

4. NOTIFICATION OF LEGAL THRESHOLDS EXCEEDED IN 2010

In 2010, Thales was not informed of any legal thresholds being exceeded.

D. POTENTIAL CAPITAL

1. MAXIMUM POTENTIAL CAPITAL AT 31 DECEMBER 2010

	In number of shares with par value of €3
Share capital at 31/12/2010	199,082,027
Current stock option plans	17,860,559
12 July 2001 plan: 2,765,608 options at €42.18	
2 July 2002 plan: 2,578,115 options at €40.97	
1 July 2003 plan: 1,404,533 options at €25.70	
1 July 2004 plan: 1,924,982 options at €29.50	
30 June 2005 plan: 1,853,563 options at €34.01	
9 November 2006 plan: 2,126,499 at €36.47	
4 July 2007 plan: 1,542,788 options at €44.77	
1 July 2008 plan: 1,643,171 options at €38.50	
25 June 2009 plan: 1,550,950 options at €32.88	
23 September 2010 plan: 470,350 options at €26.34	
Maximum potential capital (+8.97%)	216,942,586

2. SECURITIES IN CIRCULATION THAT PROVIDE ACCESS TO CAPITAL (BONDS, WARRANTS AND OPTIONS)

At 31 December 2010, excluding the exercise of stock options, if any, there were no other securities in circulation providing immediate or future access to the share capital.

For convenience, although share purchase options have no impact on the potential capital since they concern existing shares, they are presented in this section, together with share subscription options, in the section on the parent company's accounts (see pages 117 and 118).

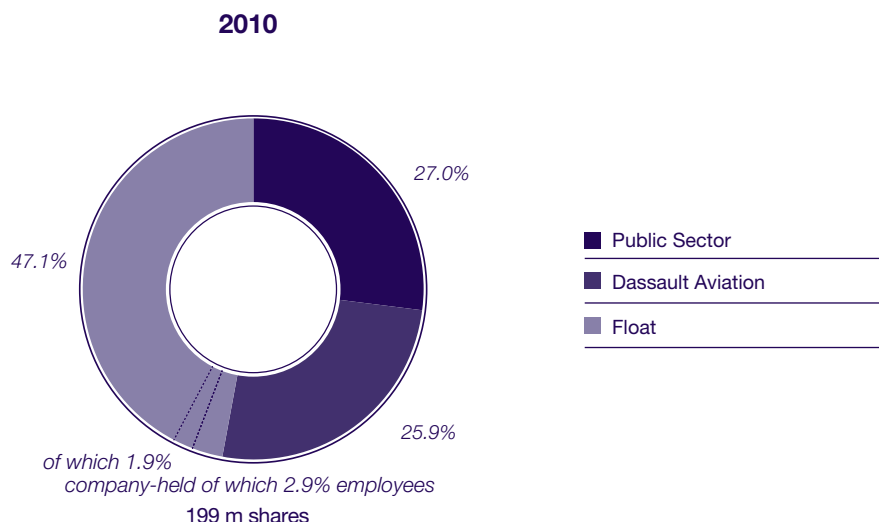
STOCK OPTIONS

At 31 December 2010, the following were in existence:

- 250,125 share purchase options at a weighted average exercise price of €42.30;
- 17,860,559 share subscription options at a weighted average exercise price of €36.48.

E. INFORMATION ON THE SHAREHOLDING STRUCTURE

1. BREAKDOWN OF SHAREHOLDERS AT 31 DECEMBER 2010



As far as Thales is aware, no shareholder – other than those mentioned in this chapter – holds 5% or more of the capital or of the voting rights (see page 160 for the distribution of capital and voting rights over the last three years).

2. SHAREHOLDERS ACTING IN CONCERT

2.1. “PUBLIC SECTOR” (TSA AND SOFIVISION)

TSA is a holding company wholly owned by the French State. It directly holds 45,638,665 Thales shares.

Its wholly-owned subsidiary, Sofivision, holds 8,108,283 Thales shares.

The French State directly holds 2,022 shares, including a golden share which gives it the rights¹ described on page 167.

The French State also owns 0.0026% of the share capital of Thales, i.e. 5,214 shares, through its wholly-owned subsidiary Sogepa. This holding is not included in the shareholders¹ agreement entered into between the Public Sector and Dassault-Aviation, which came into effect on 19 May 2009.

2.2. INDUSTRIAL PARTNER

Dassault Aviation, whose shares are listed on the NYSE Euronext Paris market, is a public limited company (*société anonyme*) which owns 25.9% of Thales's share capital, i.e. 51,539,524 Thales shares at 31 December 2010.

Dassault-Aviation is 50.55% owned by Groupe Industriel Marcel Dassault.

3. SHAREHOLDERS' AGREEMENT, AGREEMENT ON THE PROTECTION OF STRATEGIC NATIONAL INTERESTS AND SPECIFIC AGREEMENT

By signing an “adherence convention” with the French State and Alcatel-Lucent, Dassault Aviation assumed the rights and obligations of Alcatel-Lucent, subject to certain amendments, by endorsing the

agreements entered into on 28 December 2006 – namely the shareholders' agreement and the agreement on the protection of strategic national interests in Thales¹.

¹ Pursuant to Article 3 of Decree No. 97-190 of 4 March 1997.

¹ Decision no. 207C0013 of 2 January 2007, published in the French legal gazette (*Bulletin des annonces légales obligatoires*) on 5 January 2007.

3.1. SHAREHOLDERS' AGREEMENT BETWEEN THE "PUBLIC SECTOR" AND THE "INDUSTRIAL PARTNER"

On 28 December 2006, TSA and Alcatel-Lucent signed a shareholders' agreement which governs relations between the Public Sector and the Industrial Partner within Thales. This agreement came into effect on the date of transfer of assets from Alcatel-Lucent Participations (5 January 2007).

The agreement was signed pursuant to the cooperation agreement entered into on 1 December 2006 between Thales, Alcatel-Lucent and TSA, which replaced the earlier cooperation agreement signed on 18 November 1999 by Alcatel, Thales and GIMD². This agreement essentially reproduces the terms of the shareholders' agreement signed on 14 April 1998³, which it replaced.

On 19 May 2009, when Dassault Aviation acquired the Thales shares previously owned by Alcatel-Lucent, an agreement took effect under which Dassault Aviation endorsed the shareholders' agreement existing between Alcatel-Lucent and the Public Sector, subject to amendments. The agreement, under which TSA and Dassault Aviation act in concert with regard to Thales pursuant to article L. 233-10 of the French Commercial Code, TSA being the majority shareholder within this group, provides for the following:

Members of the executive bodies of Thales

Thales's Board of Directors has 16 members. They include:

- 5 members proposed by the Public Sector;
- 4 members proposed by Dassault Aviation;
- 2 employee representatives;
- 1 representative of employee-shareholders;
- 4 outside individuals, selected jointly by the Public Sector and Dassault Aviation.

The number of directors appointed upon the proposal of Dassault Aviation may not be higher than the number of directors appointed upon the proposal of the Public Sector. The number of directors for each party is at least equal to the highest of the following: (i) the number of directors other than employee representatives and external directors, multiplied by the percentage of Thales shares owned by Dassault Aviation relative to the total shareholding of the Public Sector and Dassault Aviation, and (ii) the number of directors representing employees.

Should Dassault Aviation's shareholding exceed that of the Public Sector, the parties to the agreement will increase the total number of Thales directors from 16 to 17, so as to be represented by five directors each.

The chairman and company representative will be chosen on the joint proposal of the parties.

Furthermore, the parties have agreed that, in the event of a change of chairman and chief executive officer in accordance with the terms of the shareholders' agreement, they do not intend to propose as candidate any employee, manager or senior executive belonging to the Dassault group or having recently left this group.

Finally, it is specified that at least one director representing each of the parties will sit on each of the committees formed within the Thales Board of Directors.

DECISIONS TO BE SUBMITTED TO THE THALES BOARD OF DIRECTORS

The parties undertake to submit for mandatory approval by the majority of the directors representing Dassault Aviation, decisions of the Thales Board of Directors relating in particular to the appointment and dismissal of the chairman and chief executive officer, the adoption of the annual budget and the multi-year strategic plan, and significant acquisitions and disposals of shareholdings or assets (in excess of €150 million) as well as strategic alliance agreements on technological and industrial cooperation.

However, Dassault Aviation has expressly undertaken to forego the exercise of the veto right which it has, by virtue of the agreement, over some strategic operations of Thales; this decision concerns a series of potential acquisitions or disposals; in return, the Public Sector has foregone its right to terminate the agreement in the event of persistent disagreement regarding a strategic operation likely to have an adverse impact on its strategic interests¹.

Should Dassault Aviation exercise its right of veto over the appointment of the chairman and chief executive officer, after a consultation period of three months, either of the parties may terminate the agreement.

SHAREHOLDER INTERESTS

Dassault Aviation shall hold at least 15% of the share capital and voting rights in Thales and remain the largest private shareholder in Thales. The Public Sector shall take all measures enabling Dassault Aviation to comply with this undertaking.

The Public Sector undertakes to restrict its shareholding to 49.9% of Thales' share capital and voting rights.

¹ Published in the Official Journal of the French Republic on 12 December 2006 (see website of Official Journal: <http://www.journal-officiel.gouv.fr>) in accordance with article 1(1) of decree no. 93-1041 of 3 September 1993 and pursuant to law no. 86-912 of 6 August 1986.

² This agreement is included in the appendix of the Thales Board of Director's report to the Extraordinary General Meeting of 5 January 2007, recorded by the AMF on 19 December 2006 under no. E.06-194 (www.thalesgroup.com).

³ Acquisitions or disposals identified by the French State as likely to be significant with regard to its strategic defence interests, the aim of which is to consolidate France's industrial and technological defence base.

TERM OF THE SHAREHOLDERS' AGREEMENT

The agreement will be effective until 31 December 2011. It is renewable by tacit agreement for five-year periods.

The agreement will be automatically terminated and the concerted action between TSA and Dassault Aviation will also automatically cease should one of the parties commit, with prior consultation with the other party, an action which creates an obligation to make a public offer for Thales.

OPTION OF UNILATERAL TERMINATION OF THE AGREEMENT AND AGREEMENT TO SELL TO THE PUBLIC SECTOR

The Public Sector has the option of terminating the agreement and of asking Dassault Aviation to suspend the exercise of the voting rights that it holds above a threshold of 10%, or to reduce its shareholding to less than 10% of Thales's share capital, in the event of:

- a serious breach by Dassault Aviation of its obligations so as to compromise substantially the protection of the strategic interests of the French State, given that said obligations are subject to an "agreement on the protection of strategic national interests in Thales" (see below);
- change in control of Dassault Aviation.

In this respect, Dassault Aviation gives, irrevocably and definitely, to the Public Sector, an undertaking to sell all shares that Dassault Aviation holds upon confirmation that Dassault Aviation's shareholding of Thales has remained above 10% of Thales' share capital for six months following the Public Sector's request to reduce its shareholding.

Furthermore, the Public Sector¹ has undertaken to maintain, after the agreement reaches its normal expiry date, a shareholding in Thales which gives it at least 10% of the voting rights, until the sooner of: (i) 31 December 2014; (ii) three years from the termination of the agreement; (iii) the date at which Dassault Aviation ceases to own at least 15% of Thales's share capital.

3.2. AGREEMENT ON THE PROTECTION OF STRATEGIC NATIONAL INTERESTS

Furthermore, on 19 May 2009 Dassault Aviation endorsed the "agreement on the protection of strategic national interests in Thales" signed on 28 December 2006 by Alcatel-Lucent and the French State in the presence of TSA. This endorsement gives rise to the following obligations for Dassault Aviation:

- keeping Dassault Aviation's registered office and operational headquarters in France;
- Thales's directors proposed by Dassault Aviation shall be nationals of the European Union;
- access to sensitive information concerning Thales shall be strictly controlled within Dassault Aviation;
- managers who are responsible for Dassault Aviation's holdings in Thales are French nationals;

- Dassault Aviation shall use its best efforts to prevent any action or influence in the governance and businesses of Thales by foreign national interests. In this respect, in the event of (i) a serious and unremedied breach by Dassault Aviation of its obligations under the agreement on the protection of strategic national interests or if it emerges that the application of a foreign law by Dassault Aviation creates constraints for Thales that substantially compromise the protection of the strategic interests of the French State, or (ii) a change in control within Dassault Aviation, contrary to the strategic interests of the Public Sector, the Public Sector may:

- terminate the rights that Dassault Aviation enjoys under the shareholders' agreement; and, if it sees fit,
- ask Dassault Aviation either to suspend the exercise of any voting rights it holds in excess of 10%; or
- ask it to reduce its shareholding to less than 10% of Thales's share capital through the divestment of shares on the market (under conditions which are consistent with its financial interests and market constraints). At the end of a six-month period from the date on which is asked to reduce its shareholding, if the shareholding of Dassault Aviation is still in excess of 10% of Thales's share capital, the French State may proceed with the aforementioned undertaking to sell.

3.3. EXCEEDING THRESHOLDS AND DECLARATION OF INTENT

Alcatel-Lucent Participations, a public limited company, has disclosed that on 19 May 2009 it fell below the thresholds of 25% of the voting rights and 20%, 15%, 10%, and 5% of the share capital and voting rights of Thales, and that it no longer holds any Thales shares.

Dassault Aviation has disclosed that it exceeded the thresholds of 5%, 10% and 15% of the share capital and voting rights and 20% of the share capital of Thales on 19 May 2009 and held 41,262,481 Thales shares at that date.

Groupe Industriel Marcel Dassault has disclosed that, on 20 May 2009, it fell below the threshold of 5% of the share capital and voting rights of Thales and that it no longer holds any Thales shares.

Dassault Aviation has disclosed that it exceeded the thresholds of 20% of the voting rights and 25% of the share capital of Thales on 20 May 2009, and owned 51,539,524 Thales shares representing the same number of voting rights. These thresholds were exceeded following the purchase of 10,277,043 Thales shares from Groupe Industriel Marcel Dassault.

Dassault Aviation has declared the following intentions for the 12 months after these thresholds were exceeded:

- "it acts in concert with TSA and Sofivision;
- the acquisition of Thales shares by Dassault Aviation is in line with the long-term industrial investment policy that the company has long been implementing. Dassault Aviation does not intend to purchase any more shares in Thales;

¹ TSA and Sofivision within the meaning of AMF decision no. 208C2115.

- Dassault Aviation does not intend to gain control of Thales on its own;
- in accordance with the Shareholders' Agreement dated 28 December 2006, endorsed by Dassault Aviation as described in AMF decision no. 208C2115 of 27 November 2008, four directors nominated by Dassault Aviation and four external directors nominated after consultation with the Public Sector were appointed to the Board of Directors of Thales on 19 May 2009. Dassault Aviation does not intend to seek an amendment to the allocation of directors as provided for in said agreement."

Following the substitution of Alcatel-Lucent Participations by Dassault Aviation, within the group formed with the Public Sector vis-à-vis Thales and the disposal of Thales shares owned by GIMD to Dassault Aviation, the latter exceeded, jointly with the Public Sector, on 19 May 2009, the thresholds of 25% of the voting rights, 33.3% of the share capital and voting rights and 50% of the voting rights of Thales and, on 20 May 2009, the threshold of 50% of the share capital of Thales.

On 20 May 2009, the Public Sector exceeded, together with Dassault Aviation, the threshold of 50% of the share capital of Thales.

These changes were granted dispensation from the obligation to submit a proposal for a public offer. This decision is reproduced in the "Décisions et Informations 208C2115" of 27 November 2008 and published in the French legal gazette, or *Bulletin officiel des annonces légales* (BALO), of 1 December 2008.

It is available for consultation on the AMF's website at <http://www.amf-france.org/inetbdif/viewdoc/affiche.aspx?id=43671&txtsch=> or on the BALO website at <http://balo.journal-officiel.gouv.fr/html/2008/1201/200812010814709.htm>.

3.4. SPECIFIC AGREEMENT

On 28 December 2006, the French State (Ministry of Defence and Ministry of the Economy) and Thales signed an agreement to give the French State control not only over the transfer of assets already mentioned in the annex to decree no. 97-190 of 4 March 1997, but also over shares in Thales Alenia Space SAS (hereinafter referred to as the "Strategic Assets"). This agreement, to which the Industrial Partner is not party, was therefore not amended by the substitution of Alcatel-Lucent by Dassault Aviation in May 2009 and thus continues to be effective.

- where the strategic asset is a company (the "Strategic Company"):
 - any proposed transfer of shares in the Strategic Company to a third party such that the third party exceeds the threshold of 33.3% of the share capital,
 - any proposed transfer of shares in the company that directly or indirectly controls the Strategic Company to a third party such that the third party exceeds the threshold of 33.3% of the share capital;

- where the Strategic Asset is an isolated asset, unincorporated division or branch of the business (the "Strategic Division"):
 - any proposed transfer of shares in the company which owns the Strategic Division to a third party such that the third party exceeds the threshold of 33.3% of the share capital,
 - any proposed transfer of shares in the company that directly or indirectly controls the Strategic Company to a third party such that the third party exceeds the threshold of 33.3% of the share capital;
- any proposed transfer of sensitive assets to a third party;
- and any proposal intended to confer or having the effect of conferring particular rights on a third party,

shall be disclosed to the French State, which undertakes to issue its acceptance or rejection decision within thirty (30) working days from the receipt of said notification. Failure by the French State to communicate its decision during said time is deemed as acceptance of the proposed operation.

3.5. GOLDEN SHARE HELD BY THE FRENCH STATE

The golden share held by the French State¹, entitles it to the following rights:

- "Any increase in the direct or indirect holding of securities, irrespective of the nature or legal form, beyond a threshold of one-tenth, or a multiple thereof, of the capital or voting rights of the company, by any natural person or legal entity, whether acting alone or in concert, must be approved in advance by the Minister for Economic Affairs (...);"
- "Upon the proposal of the Minister of Defence, a representative of the French State, appointed by decree, sits on the Board of Directors of the company as a non-voting director";
- "(...) decisions to dispose of or assign by way of guarantee the assets specified in the annex to this decree may be opposed".

These assets include majority interests in the capital of Thales's (direct) subsidiaries:

Thales Systèmes Aéroportés SA, Thales Optronique SA, Thales (Wigmore Street) Ltd, Thales Communications SA, Thales Air Systems SA, Thales Nederland BV, Thales Avionics SA, Thales Services SAS, Thales Underwater Systems NV.

4. TREASURY SHARES

At 31 December 2010, Thales held 3,717,478 treasury shares (1.87% of the capital), i.e. the balance after shares bought and sold on the market or elsewhere in compliance with the authorisations, described hereinafter, granted to the Board of Directors by the General Meeting. As at 28 February 2011, Thales owned 3,716,113 of its own shares.

Treasury shares are not subject to any restrictions and may be freely disposed of.

¹ Pursuant to article 3 of decree no. 97-190 of 4 March 1997.

4.1. AUTHORITY TO TRADE IN OWN SHARES

The Combined General Meeting of 10 March 1999, pursuant to the memorandum of 18 February 1999 (COB approval no. 99-142), authorised the Board of Directors to implement a share repurchase scheme if necessary. The General Meeting of 29 June 1999 authorised an extension to the objectives of this programme (memorandum of 18 May 1999, COB approval no. 99-621). The General Meetings of 23 May 2000 (memorandum of 7 May 2000, COB approval no. 00-703), 16 May 2001 (memorandum of 24 April 2001, COB approval no. 01-432), 16 May 2002 (memorandum of 24 April 2002, COB approval no. 02-440), 15 May 2003 (memorandum of 24 April 2003, COB approval no. 03-312), 11 May 2004 (memorandum of 20 April 2004, AMF approval no. 04-295) and 17 May 2005 (memorandum of 29 April 2005, AMF approval no. 05-330) authorised the continuation of this programme.

In accordance with the authorisations granted to the Board of Directors by the General Meeting, the company carried out the following transactions:

- **in 1999**, repurchase of 1.9 million shares;
- **in 2001**, when Thales sold its stake in Alcatel Space to Alcatel: the transaction amount of €795m was paid half in cash and half in Thales shares, equivalent to 8.8 million shares;
- **in 2002**, 1.1 million shares were sold on the market;
- **in 2004**, 1.2 million shares were sold on the market, directly and by proxy, 1.3 million shares were sold under a liquidity contract, and approximately 520,000 shares were transferred to employees as part of an employee stock offer;
- **in 2005**, 2 million shares were sold on the market, directly and by proxy, 1 million shares were sold under a liquidity contract, and approximately 300,000 shares were transferred to employees as options vested. 87,000 shares were transferred to Group employees in the United Kingdom who had subscribed to an employee shareholding scheme in December 2004;
- **in 2006**, approximately 457,000 shares were bought and 388,000 shares sold under a liquidity contract, and approximately 98,000 sold to employees as options vested;
- **in 2007**, 793,295 shares were bought and 782,021 shares sold under a liquidity contract. 582,811 shares were sold as options vested, and 369,065 shares were bought on the market to be allocated to employee shareholding schemes;
- **in 2008**, 1,271,294 shares were bought and 1,020,515 shares sold under a liquidity contract. A market purchase of 3,176,127 shares was made and 2,519,280 shares sold to Thales employees as part of the 2008 employee shareholding scheme. Finally, 96,473 shares were sold as call options vested;
- **in 2009**, 916,054 shares were bought and 911,370 shares sold under a liquidity contract. 191,373 shares were sold as options vested and free shares were issued;
- **in 2010**, 1,368,874 shares were bought and 1,207,329 shares sold under a liquidity contract. 760 shares were sold in the form of a free share issue.

The General Meeting of 18 May 2011 will be asked to extend this authorisation.

Detailed conditions will be given in the body of Resolutions.

At 31 December 2010, the company was not engaged in any trading of derivatives relating to its own shares.

4.2. AUTHORISATION TO CANCEL THE COMPANY'S SHARES

The 24-month authorisation granted to the Board of Directors by the General Meeting of 17 May 2005 to cancel – once or more than once – shares owned by the company, within the limit of 10% of the company's share capital, that were purchased under an authorisation to buy-back its own shares, expired on 16 May 2007 without having been utilised. This authorisation was renewed at the General Meeting held on the 16 May 2007 for a period of 24 months, under the same conditions. It expired on 15 May 2009 without having been utilised. The General Meeting of 19 May 2009 renewed this authorisation for a period of 24 months, under the same conditions. The General Meeting of 20 May 2011 will be asked to extend this authorisation. Detailed conditions will be given in the body of Resolutions.

4.3. FREE ALLOTMENT OF SHARES

The Board of Directors, on the authorisation of the Annual General Meeting, has decided to implement a fourth free share allotment plan. The chairman & chief executive officer (the only company representative) and 21 executives, including members of the Executive Committee, were excluded from the plan.

The allotment on 23 September 2010 consists of two sub-plans:

Free shares:

- All designated beneficiaries of the plan will be granted shares at the end of a four-year vesting period subject to compliance with the employment conditions stipulated under the plan's rules,
- Beneficiaries who are resident in France for tax purposes or who pay national insurance in France will then have to observe a two-year holding period during which shares may not be sold. This holding period does not apply to beneficiaries who are not resident in France for tax purposes.

Shares subject to performance conditions:

- The shares granted are subject to the fulfilment of internal performance conditions for the 2011, 2012 and 2013 financial years. The three criteria used are income from operations after restructuring, operating cash flow and order intake, each of these criteria having a 60%, 25% and 15% weighting respectively.
- One third of options will be validated in each tranche. The first tranche will be validated in February 2012, the second in February 2013 and the third in February 2014.
- Validated options will not exceed the amounts originally granted.
- All designated beneficiaries of this plan will be granted shares at the end of a four-year vesting period subject to compliance with the employment conditions stipulated under the plan's rules.

- Beneficiaries who are resident in France for tax purposes or who pay national insurance in France will then have to observe a two-year holding period during which shares may not be sold. This holding period does not apply to beneficiaries who are not resident in France for tax purposes.

Date of Board decision	23/09/2010	25/06/2009	01/07/2008	04/07/2007
	Free shares	Performance shares	Free shares	Free shares
Number of beneficiaries at the grant date	5,355	327	3,848	3,624
Share price at the grant date	€26.40	—	€31.93	€35.72
Number of shares granted	487,680	144,050	334,980	317,705
Balance of free shares at 31/12/09	—	—	333,380 ^(c)	309,975 ^(c)
Cancellation of allotments during the financial year ^(a)	3,880	1,200	3,435	4,255
Early allotments during the financial year ^(b)	100	—	195	140
Balance of free shares net of shares cancelled cancellations and early allotments at 31/12/10	483,700	142,850	329,750	305,610
Number of beneficiaries remaining at 31/12/10	5,312	324	3,794	3,493
Vesting period	23/06/10 to 23/06/14		25/06/09 to 25/06/13	01/07/08 to 01/07/12
Share transfer date	24/06/2014		26/06/2013	02/07/2013
Retention period for French tax residents	24/06/2014 to 24/06/16		26/06/13 to 26/06/15	02/07/2012 to 02/07/2014
				05/07/11 to 05/07/13

(a) Due to the departure of the beneficiary.

(b) Due to the death of the beneficiary during the vesting period.

(c) Data amended following adjustments identified after the closing date.

4.4. DESCRIPTION OF THE SHARE BUY-BACK PROGRAMME SUBJECT TO THE APPROVAL OF THE GENERAL MEETING OF 18 MAY 2011

- Maximum proportion of capital subject to repurchase: 10% at the buy-back date;
- Maximum number of shares that may be purchased: 19,908,202;
- Maximum amount of the programme: 995,410,100;
- Maximum purchase price: €50;
- Minimum selling price:** €20, except for operations previously approved by the Annual General Meeting, requiring the sale at a lower price or free grant of existing shares;
- Objectives of the programme in descending order of priority:**
 - sell or allocate shares to Group employees and senior executives in the manner stipulated by law, particularly when share purchase options are exercised, or existing shares are granted free of

charge, or when shares are supplemented by the company under an employee shareholding scheme by grant of existing shares;

- retain shares for later use in connection with an external growth plan;
- ensure trading in the share through a liquidity contract prepared in accordance with the conduct of a business charter approved by the AMF;
- cancel shares in accordance with a resolution passed by the General Meeting;
- Duration of the programme:** 18 months from approval of the resolution which is to be submitted at the Annual General Meeting of 18 May 2011, i.e. at latest on 16 November 2012;
- Liquidity contract:** in November 2004 Thales signed a liquidity contract with Exane BNP-Paribas, in accordance with the AFEI Code of Conduct, in order to regulate share trading. The contract was modified to comply with the AFEI Code of Conduct appended to the AMF decision of 22 March 2005.

5. SHARES OWNED BY THE PUBLIC

The company is entitled at all times, as provided by law, to ascertain the identity of, and the number of shares held by, holders of bearer shares which now or in the future represent a specific fraction of its share capital (the "TPI" Identifiable Bearer Security procedure).

Based on the most recent surveys on identifiable holders of bearer shares carried out by Euroclear France, and the company's information on employee shareholders, private ownership of company shares is estimated as follows.

<i>(in thousands of shares)</i>	01/01/2011	01/01/2010
French institutional investors and investment funds ^(a)	23,795	32,938
Non-resident institutional investors	51,938	44,202
Employee share ownership	5,812	5,965
Individual shareholders and associations ^(b)	6,210	5,489
Not identified	2,321	2,660
Entire public	90,076	91,255
Total number of shares	199,082	199,024

(a) Including shares held by Sogepa, which is not a party to the shareholders' agreement.

(b) Mainly French residents.

	As % of the total capital		As % of the floating capital (exc. company-held)	
	01/01/2011	01/01/2010	01/01/2011	01/01/2010
French institutional investors and investment funds	12.0%	16.5%	26.4%	36.1%
Non-resident institutional investors	26.1%	22.2%	57.7%	48.5%
Employee share ownership	2.9%	3.0%	6.5%	6.5%
Individual shareholders and associations	3.1%	2.8%	6.8%	6.0%
Not identified	1.2%	1.3%	2.6%	2.9%
Entire public	45.3%	45.8%	100%	100%

To the company's knowledge, and on the basis of the TPI (identifiable bearer security procedure) survey carried out on 31 December 2010 and the number of shares registered at that date, the number of shareholders of the company can be estimated at approximately 51,000 at the end of 2010. This figure represents 98.8% of the total capital identified, and includes 45,800 bearer shareholders and 5,200 registered shareholders.

Furthermore, an additional survey was carried out at the beginning of 2011 with leading French and foreign institutional investors operating on the Paris market. This information, more recent than the TPI survey and containing more details about the nationality of the institutional investors, is given in the table below.

	Number of shares owned (in thousands)	As % of the total capital	Number of investors
France	23,795	12.0%	79
North America	21,413	10.8%	74
United Kingdom & Ireland	17,154	8.6%	47
Continental Europe (exc. France)	11,600	5.8%	83
Rest of the world	1,771	0.9%	27
Total	75,733	38.1%	310

6. EMPLOYEE SHAREHOLDERS

At 31 December 2010, Group employees, as defined in article L. 225-102 of the French Commercial Code, held 5,811,663 Thales shares, representing 2.92% of the share capital (and 4.54% of voting rights), via the Group Savings Plan (PEG), either directly or via a company investment fund (FCPE) or its equivalent in the United Kingdom.

At 31 December 2010, almost 55% of Thales shares held by employees were transferable (compared with 52% at 31 December 2009 and 50% at 31 December 2008).

F. INFORMATION ON REGULATED AGREEMENTS

1. REGULATED AGREEMENTS AUTHORISED IN 2010

No regulated agreement was submitted, or authorised, by the Board during the 2010 financial year.

2. AGREEMENTS AUTHORISED DURING PREVIOUS FINANCIAL YEARS

The agreements approved by the General Meeting in previous financial years which continued to be performed in 2010 have been disclosed to the auditors in accordance with the applicable regulations. They are described in a special report presented to the General Meeting called to approve the 2010 financial statements.

BOARD OF DIRECTOR'S MEETING OF 29 SEPTEMBER 2009

Agreement regulated by article L. 225-38 of the French Commercial Code:

Amendment to the support agreement between Thales and TSA

The Boards of Directors of TSA and Thales, meeting on 13 May 2005 and on 30 June 2005 respectively, authorised, pursuant to the provisions of article L. 225-38 of the French Commercial Code, the two companies to sign a support agreement covering services of an administrative, legal and financial nature rendered by Thales to TSA, which no longer had the internal resources required for this.

The agreement was executed on 1 July 2005; the services invoiced by Thales to TSA totalled €350,000 per annum exc. tax. This amount has not changed since.

TSA wished to amend the terms of the agreement in respect of two points:

- addition of accounting services: TSA's bookkeeping is outsourced to Thales (posting of an accountant employed by Thales who

dedicates 25% of his/her time to this task) in replacement of the external firm to which TSA had previously outsourced this task; Invoicing of TSA: €31,000 per annum exc. tax,

- addition of an indexation clause (not provided for in the initial agreement): INSEE index of labour cost for financial activities. Increase in the annual remuneration provided for by Thales (June 2005 – July 2009) estimated at €53,000 (exc. taxes).

On 28 April 2009, pursuant to article L. 225-38 of the French Commercial Code, the Board of Directors of TSA authorised the execution of an amendment to the support agreement under the aforementioned conditions. The services invoiced by Thales to TSA would total approximately €434,000 (exc. taxes) for a full year.

The execution of the amendment to the support agreement was subject to the prior authorisation of the Board of Directors of Thales pursuant to article L. 225-38 of the French Commercial Code, with TSA not taking part in the vote.

After acknowledging the two amendments to the general support agreement of June 2005 between Thales and TSA (addition of accounting services for €31,000 exc. taxes per annum, and an indexation clause for the period 2005-2009, representing an annual amount of approximately €53,000 exc. taxes – i.e. a total of €434,000 exc. taxes per annum, compared to €350,000 exc. taxes before), the Board of Directors of Thales authorised, under the provisions of article L. 225-38 of the French Commercial Code, the conclusion of an amendment to the general support agreement between Thales and TSA – with Mr Bernard Rézat, permanent representative of TSA to the Board, not taking part in the vote.

BOARD OF DIRECTOR'S MEETING OF 24 JULY 2009

Compensation payments likely to be payable to Mr Luc Vigneron, chairman and chief executive officer, upon termination of his term of office as company representative and supplementary pension scheme

Regulated agreement, articles L. 225-42-1 and R. 225-34-1 of the French Commercial Code

On 24 July 2009, the Board of Directors authorised two regulated commitments governed by article L. 225-42-1 of the French Commercial Code, relating to:

1. Compensation payments likely to be payable to Mr Luc Vigneron, chairman and chief executive officer, upon termination of his term of office as company representative, under the conditions set forth in the AFEF-MEDEF code adopted by the company.

Subject to the fulfilment of the performance condition imposed by the Board of Directors and if so decided by the Board, compensation may be paid to Mr Luc Vigneron if his term of office should end, unless this is on grounds of serious misconduct or gross negligence.

The compensation would be equal *ab initio* to a gross amount of €757,000, with this figure increasing on a linear basis to reach, at the end of the first term of office (OGM 2014), a maximum compensation amount equal to two years' salary (basic + performance-related).

The performance condition would be deemed to have been fulfilled:

- in the interim period, i.e. if in office for three whole financial years, if at least 80% of the targeted operating margin in terms of monthly, quarterly or half-yearly average is reached,

- thereafter, if at least 80% of the targeted operating margin based on a three-year average is reached.

If not, no compensation payment will be due.

Moreover, the Board of Directors decided to take out a private unemployment insurance scheme in favour of Mr Luc Vigneron. This insurance will be capped in terms of its duration and amount, according to the same terms as the standard unemployment insurance scheme for employees. Entitlement to this insurance is subject to the same performance condition as the above-mentioned compensation for termination.

2. The “company representative” supplementary pension scheme applicable to Mr Luc Vigneron since his appointment as Chairman & CEO (19 May 2009)

The corresponding annuity is based on the point allocation method identical to that used for employees eligible for the supplementary pension scheme in effect within the Thales Group.

However, entitlement to the rights acquired by the company representative is not conditional on the presence in the company at the time of payment of the retirement benefits, but is subject to:

- firstly, having fully completed the current term of office (expiring at the 2014 OGM),
- secondly, fulfilling the following performance condition: achievement of at least 80% on average over the last three financial years of the targeted annual operating margin set by the Board for the company representative.

Regulated agreement between the Company and Mr Bernard Rétat, permanent representative of TSA, director (art. L. 225-38 of the French Commercial Code)

Since 18 May 2009, Bernard Rétat has represented TSA, a member of the Thales Board of Directors, the permanent representative being subject to the same conditions and obligations as if he were a director in his own right (art. L. 225-20 of the French Commercial Code).

A service agreement between the Client (Thales) and Bernard Rétat, which specifies:

- the nature of the duties entrusted by Thales to Bernard Rétat *intuitu personae*: to act on behalf of Thales as chairman of the Thales Group Ethics Committee, representing Thales on the Board of Directors of Elettronica SpA (Italy),
- the agreed price: €60,000 (exc. taxes) per annum to cover all of the aforementioned duties, plus a refund of expenses upon submission of documentary evidence,
- the term: two years renewable by tacit agreement,
- termination by either party: subject to 90 days’ notice.

was authorised by the Board of Directors on 24 July 2009 upon the recommendation of the Selection and Remuneration Committee. Mr Bernard Rétat did not take part in the vote.

BOARD OF DIRECTOR’S MEETING OF 6 MARCH 2008

FSTA: commitments to be taken by the parent company, authorised by the Board of Directors on 6 March 2008.

Having noted the characteristics of the FSTA public-private partnership, which is of significant importance and offers high visibility for the Group, thus consolidating its presence in the United Kingdom, the Board of Directors:

- has approved the operation to be carried out by Thales UK Ltd in its capacity as member of the consortium, and Thales Avionics Ltd, Thales Training & Simulation Ltd and Thales UK Ltd (Thales Air Operations) in their capacity as sub-contractors,
- has approved the issue of the three guarantees required (Resources and Materials Parent Company Guarantee, Opco Primary Subcontracts Parent Company Guarantee and Deed of Indemnity and Security) as per the terms submitted to it,
- has delegated to the Chairman, who may in turn sub-delegate them, all powers necessary for the fulfilment of these guarantees, for the signature of any deeds or documents, and in general to do whatever is necessary to carry out the operation.

In addition, the following agreement, authorised by the Board of Directors on 19 May 2009, and still in effect, could not be enforced in 2010 with respect to Luc Vigneron, Chairman & CEO, given his length of service as a member of the Executive Committee.

BOARD OF DIRECTOR’S MEETING OF 19 MAY 2009

Supplementary pension scheme for the Chairman & CEO and company representative

Regulated agreement, article L. 225-42-1 of the French Commercial Code

A supplementary pension scheme has been adopted in favour of the Chairman & CEO and company representative by virtue of a Board decision dated 24 March 2009.

This scheme aims to provide, subject to a performance condition, but not conditional on his presence within the company, a supplementary pension for the Chairman & CEO and company representative, the amount of which is determined through a point allocation method which is identical to that envisaged by the supplementary group pension scheme in effect at Thales at the date of the Board meeting on 24 March 2009.

On 19 May 2009, the Board decided to amend the supplementary pension scheme for the Chairman & CEO and company representative in order to align it with the group retirement scheme in effect at Thales, considering the amendments made to the latter scheme since 24 March 2009 concerning the methods of calculation of supplementary retirement benefits for beneficiaries with ten years of service on the Executive Committee.

This latter provision could not be applied to Luc Vigneron, chairman and chief executive officer in 2010, taking into account his tenure on the Executive Committee since 19 May 2009.

G. STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS

This is a free translation into English of the Statutory Auditors' special report on regulated agreements issued in French and it is provided solely for the convenience of English speaking users.

The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Year ended December 31, 2010

To the Shareholders,

As the Statutory Auditors of your Company, we hereby submit our report on regulated agreements and commitments.

Our responsibility is to report to you, based on the information provided, on the main terms and conditions of agreements that have been disclosed to us or that we would have discovered at the time of our work, without commenting on their relevance or substance or researching the existence of other agreements. Under the provisions of article R. 225-31 of the French commercial code (Code de Commerce), it is the responsibility of shareholders to determine whether the agreements are appropriate and should be approved.

Furthermore, it is our responsibility, as appropriate, to inform you of the information set forth in the provisions of article R. 225-31 of the French commercial code (Code de Commerce) pertaining to the signing during the past year of agreements already approved by the shareholders at the Shareholders Meeting.

We conducted our work in accordance with professional standards applicable in France. Those standards require that we perform the procedures deemed necessary so as to verify that the information provided to us is in agreement with the underlying documentation from which it was extracted.

Agreements submitted to the shareholders for approval at the shareholders meeting

We report to you that we were not notified of any agreements authorised during the past year to be submitted to the shareholders for approval at the Shareholders meeting pursuant to the provisions of Article L. 225-38 of the French commercial code (Code de Commerce).

Agreements and commitments approved in previous years and which continued to be performed during the year

In accordance with Article L. 225-30 of the French Commercial Code (Code de Commerce), we have been informed that the following agreements and commitments, approved in previous years, have continued to be performed during the year ended.

- **Commitment pertaining to compensation payments that may be due to the Chairman & Chief Executive Officer upon discontinuation of his term of office as company representative**

The meeting of the Board of Directors on July 24th, 2009, upon the proposal of the committee on selection of directors, authorised the commitment pertaining to the compensation payments likely to be

payable to Mr Luc Vigneron, Chairman & Chief Executive Officer, upon discontinuation of his duties as representative of the company ("mandataire social"), in accordance with the provisions of Article 17 of the TEPA law (law on labour, employment and purchasing power) dated August 21, 2007.

Subject to the fulfillment of the performance condition set out by the Board of Directors and upon the Board's decision, a compensation may be paid to Mr Luc Vigneron, if his term of office should be discontinued, in the following cases, except for serious misconduct or gross negligence. The compensation payment would be equal *ab nihilo* to a gross amount of 757 K€, with this figure increasing on a linear basis to reach at the end of the first term of mandatory (Shareholders Meeting 2014) a maximum compensation amount equal to two years of remuneration (fixed and variable) received. The performance condition would be deemed to have been fulfilled:

- in the intermediate period, i.e. until the term of office has covered three complete financial years, if at least 80% of the targeted operation margin in terms of monthly, quarterly or half-yearly average is reached,
- beyond that, at least 80% of the targeted operating margin on a 3-year average is reached.

If that is not the case, no compensation payment will be due.

This provision replaces the one that had been authorised by the Board in its March 11th, 2003 decision and approved by the General Meeting held on May 15th, 2003, and that is not in accordance with the provisions of the TEPA law of August 21, 2007.

Moreover, the Board of Directors decided to subscribe to a private unemployment insurance scheme in favour of Mr Luc Vigneron. This insurance will be capped in terms of its duration and amount, as per the same terms of the standard unemployment insurance scheme for employees. Entitlement to this insurance is subject to the same performance condition as the above-mentioned compensation for termination.

- **Additional retirement benefits for the senior executive and company representative**

The meeting of the Board of Directors on July 24th, 2009, upon the proposal of the committee on selection of directors, authorised the creation of an additional retirement benefit scheme for the Chairman & CEO, Mr Luc Vigneron.

The corresponding annuity amount is based on the point allocation method identical to that used for employee entitled to the additional group retirement scheme applicable within the Thales Group.

However, entitlement to the rights acquired by the Company Representative is not subject to the condition of presence in the Company at the time of payment of the retirement benefits, but it is subject to:

- firstly, the condition of having fully completed the current term of office (expiry at the 2014 Shareholders meeting),
- secondly, fulfilling the following performance condition: achievement of at least 80% on average over the last three financial years of the annual operating margin targets set by the Board to the Company Representative.

- **Regulated agreement between the Company and Mr Bernard RETAT, permanent representative of TSA, Director**

The meeting of the Board of Directors on July 24th, 2009, authorised the conclusion of an agreement for the provision of services between the Client (Thales) and Bernard Retat. Under this agreement, the amount invoiced in 2010 was about € 60,000 (excl. taxes).

- **FSTA: Commitments to be taken by the parent company authorised by the Board of Directors' meeting of 6 March 2008**

Having noted the characteristics of the "FSTA" private-public partnership, which has a significant importance and high visibility for the group, and which thus consolidates its presence in the United Kingdom, the Board of Directors:

- has approved the operations to be carried out by Thales UK Ltd, in its capacity as member of the consortium, and Thales Avionics Ltd,

Paris-La Défense and Courbevoie, March 11, 2011

The Statutory Auditors

French original signed by

ERNST & YOUNG AUDIT

MAZARS

Thales Training & Simulation Ltd and Thales UK Ltd (Thales Air Operations) in their capacity as sub-contractors,

- has approved the issue of the three required guarantees (Resources and Materials Parent Company Guarantee, Opco Primary Subcontracts Parent Company Guarantee and Shareholder Deed of Indemnity and Security) as per the terms submitted to it,
- has delegated to the Chairman, who may sub-delegate, all powers necessary for the fulfillment of these guarantees, for the signature of any deeds or documents, and in general to do what is necessary for carrying out these operations."

- **Rider to the agreement on assistance to TSA**

The meeting of the Board of Directors on September 29th, 2009, authorised the conclusion of a rider to the agreement on assistance between Thales and TSA.

Under this agreement, Thales provides TSA with assistance from the Group's specialist financial, legal and administrative services, since TSA no longer has the internal resources to operate alone. Royalties received by Thales under this agreement in 2010 amounted to €434,000 excluding taxes.

MICHEL GAUTHIER

NOUR-EDDINE ZANOUDA

JEAN-LOUIS SIMON

► 2. CORPORATE GOVERNANCE

A. MEMBERS OF THE BOARD OF DIRECTORS

1. DIRECTORS

Luc VIGNERON (56 years old)

Chairman & Chief Executive Officer of Thales

Career:

Born on 11 October 1954, a French citizen, Luc Vigneron is a former student of the École Polytechnique and an Engineer from the École Nationale des Ponts et Chaussées.

He began his career in 1978 at the Ministry of Infrastructure, in the maritime department of the ports of Boulogne-sur-Mer and Calais. In 1982, he became project officer at the budget department of the Ministry of the Economy, Finance and Budget.

In 1984, he joined Compagnie Générale d'Electricité (now Alcatel-Lucent) as project officer in the Finance Department. In 1986, he became director of operations at Alcatel Telspace, then, in 1988, director of the Alcatel CIT distribution product lines. As head of strategy and new business at Alcatel RSD in 1990 – 1991, he was appointed CEO of Alcatel Radiotéléphone at the end of 1991, then in 1994, Vice Chairman & chief executive officer of Alcatel Mobile Communication Group. The following year, he was made head of strategy at Alcatel Alsthom.

In 1998, Luc Vigneron joined Giat Industries as CEO, and was then appointed chairman and chief executive officer in 2001. He undertook an in-depth restructuring of the company, rebranded Nexter in 2006. Mr Vigneron was chairman of GICAT (French Land Defence Manufacturers Association) from 2002 to 2006, and of CIDEF (Advisory Council for French Defence Industries) from 2004 to 2006.

Luc Vigneron was appointed as chairman & chief executive officer of Thales on 19 May 2009.

First appointed: 19 May 2009

Current term expires: 2014 AGM

Number of shares held: 6,000 Thales shares (including 500 registered shares)

Appointments held:

In France: Vice Chairman of Gifas.

Other positions held by Mr Vigneron over the last five years:

In France: Chairman & chief executive officer of Nexter Systems and of Giat Industries, chairman of Nexter Munitions and of Sogepa, director of Nexter Electronics and of Nexter Mechanics, member of the Supervisory Board of Sogeade Gérance and of Sogeade SCA.

* Companies denoted with an asterisk are listed companies.

Olivier BOURGES (44 years old)

Career:

Born on 24 December 1966, a French citizen, Olivier Bourges is a graduate of the Institut d'Etudes Politiques in Paris and of the civil service graduate school ENA.

Olivier Bourges has held several positions of responsibility, first in the treasury department (June 1992 – April 2000) and later in the Finance Department of Renault (May 2000 – August 2009) and of Nissan.

Since September 2009, he has been deputy CEO of the Agence des Participations de l'Etat (the French government shareholding agency).

First appointed: 29 September 2009

Current term expires: 2016 AGM

Number of shares held: does not hold any shares in Thales (representative of the French State within the meaning of article 139 of the NRE law)

Appointments held:

In France: director of GDF Suez*, Dexia*, La Poste and Grand Port Maritime de Marseille.

Other positions held by Mr Bourges over the last five years:

- In France: Senior Vice President, group controller, Renault; director of Banque Populaire Caisse d'Epargne.
- Abroad: Vice President, corporate planning and program management officer, Nissan North America (USA).

Charles EDELSTENNE (73 years old)

Career:

Born on 9 January 1938, a French citizen, Charles Edelstenne is a qualified chartered accountant.

He spent his career at Dassault Aviation, where he started in 1960 as head of the financial studies department. He was made company secretary in 1975, then Vice Chairman in 1986, with responsibility for economic and financial affairs.

He was appointed chairman and chief executive officer in 2000.

He was the founder, managing director then chairman & chief executive officer, and is now chairman of the Board of Directors of Dassault Systèmes.

First appointed: 19 May 2009

Current term expires: 2014 AGM

Number of shares held: 500 Thales shares

Appointments held:

- In France: Chairman & chief executive officer of Dassault Aviation SA*, chairman of the Board of Directors of Dassault Systèmes SA*, member of the supervisory board of Groupe Industriel Marcel Dassault SAS, director of Carrefour SA* and of Sogitec Industries SA, honorary chairman of Gifas, managing director of the Arie and Arie 2, Nili and Nili 2 partnerships.
- Abroad: director of Sabca* (Belgium), chairman of Dassault Falcon Jet Corp. (United States), chairman of Dassault International Inc. (United States).

Other positions held by Mr Edelstenne over the last five years:

- In France: chairman of Gifas and of Cidef, director of Thales Systèmes Aéroportés SA¹.
- Abroad: chairman of ASD, director of Dassault Réassurance SA (Luxembourg).

Yannick d'ESCATHA (62 years old)

Independent director

Career:

Born on 18 March 1948, a French citizen, Yannick d'Escatha graduated from the École Polytechnique as an Engineer of the Corps des Mines.

In 1972, he was a lecturer at the École Polytechnique, at the École des Mines de Paris and at ENSTA, the French engineering and research institute.

In 1973, he took part in the drafting and subsequent implementation of the French technical regulations relating to nuclear-fired water boilers as a technical expert with the French Ministry of Industry.

In 1978, he was appointed head of the control office for nuclear construction, where he was responsible for state technical control of the application of this regulation in the French electronuclear programme.

In 1982, he was seconded to Technicatome, a subsidiary of CEA, whose main activity is industrial consultancy in the field of nuclear propulsion of French naval vessels. Having been director of the Cadarache and Aix en Provence sites, Yannick d'Escatha was appointed deputy CEO of Technicatome on 1 January 1987.

On 1 March 1990, he was asked by the managing director of the French Atomic Energy Commission (CEA) to accept the post of director of the newly created advanced technologies division, and became deputy managing director of the CEA on 14 September 1992.

He was appointed managing director of the CEA on 1 July 1995 and chairman of CEA-Industrie on 28 June 1999.

On 1 January 2000, he was appointed Executive Vice President industry at EDF*. As the head of EDF's industry cluster, he was responsible for the company's industrial policy.

* Companies denoted with an asterisk are listed companies.

¹ A company of the Thales Group.

In January 2002, he became co-chief executive officer at EDF.

In February 2003, the French Council of Ministers named Yannick d'Escatha chairman of the National Centre for Space Studies (CNES), renewing his appointment in February 2010.

First appointed: 19 May 2009

Current term expires: 2016 AGM

Number of shares held: 500 Thales shares

Appointments held:

In France: chairman of the Board of Directors of the Troyes University of Technology, member of the Board of Directors of EDF, member of the board of the Technology Academy, permanent representative of the CNES on the Board of Directors of Arianespace SA and permanent representative of the CNES on the Board of Directors of Arianespace Participation.

Other positions held by Mr d'Escatha over the last five years:

In France: chairman of the Board of Directors of the École Polytechnique, member of the Board of Directors of the Paris transport authority (RATP).

Dominique FLOCH (52 years old)

Director elected by employees

Career:

A French citizen, born on 10 August 1958, Dominique Floch began his career in 1978, in a Thales subsidiary in Brest (Thales Systèmes Aéroportés), where he occupied a variety of positions, including milling machine operator and then mechanical controller, before being promoted to buyer in the industrial segment in March 2004.

First appointed: 19 January 2008

Current term expires: 8 December 2016

Number of shares held: 542 Thales shares (including shares in the Thales employee shareholding investment fund)

Appointments and other positions held by Mr Floch over the last five years: none.

Roger FREEMAN (68 years old)**Career:**

Born on 27 May 1942, a British citizen, Roger Freeman studied politics, philosophy and economics at Balliol College, Oxford.

In 1968, he graduated as a chartered accountant in a London firm. Between 1969 and 1985, he was a manager at Lehman Brothers, and worked in the bank's New York office from 1969 to 1972.

He has given lectures and chaired courses at the Institute of Chartered Accountants. He was one of the founding members of the Hundred Group of UK Chartered Accountant Finance Directors.

In June 1983, he was elected Member of Parliament for Kettering, a seat he retained until 1997. He then held various government posts, including that of Under-Secretary of State for the Armed Forces at the Ministry of Defence, from 1986 to 1988, before being appointed Under-Secretary of State at the Ministry of Health.

He was then appointed Secretary of State for Public Transport from 1990 to 1994, where he was responsible in particular for the British railways, London transport and the Channel Tunnel.

He was then appointed Secretary of State for defence contracts, a position he held from 1994 to 1995.

In 1995 he became a member of the Cabinet as Minister for Public Services and Chancellor of the Duchy of Lancaster. He was tasked with the government's privatisation programme until 1997, at which date he was elected to the House of Lords. In 1993, he became a private advisor to the Queen.

In December 1997 he joined PriceWaterhouseCoopers as a partner, before becoming a consultant, a position he still holds today.

First appointed: 24 July 1998, effective 1 January 1999

Current term expires: 2012 AGM

Number of shares held: 784 Thales shares (including shares in the Thales employee shareholding investment fund)

Appointments held:

Abroad: chairman: Thales UK Pension Funds¹, Thales UK Ltd Advisory Board¹, Big DNA Ltd, Skill Force Development Ltd, PriceWaterhouseCoopers UK Advisory Board; director: Chemring Group Plc*, Savile Group Plc*, Parity Group Plc*, ITM Power Plc*; consultant: RP&C Ltd.

Other positions held by Mr Freeman over the last five years:

Abroad: chairman: National Army Museum, Metalysis Ltd, Cambridge Enterprise Ltd.

Stève GENTILI (61 years old)

Independent director

Career:

Born on 5 June 1949, a French citizen, Stève Gentili obtained a bachelor's degree in IT, management and economics before graduating from the Collège des Sciences sociales et économiques.

He began his career with the Ministry of Economy and Finance in 1974 following a brief spell in the Cabinet.

* Companies denoted with an asterisk are listed companies.

¹ A company of the Thales Group.

He then moved to the private sector, heading a major food company.

Since 1997, he has been chairman of Bred Banque Populaire.

He is also international chairman of the economic unit attached to the Summit of French-speaking heads of state and government.

First appointed: 19 May 2009

Current term expires: 2016 AGM

Number of shares held: 500 Thales shares

Appointments held:

- In France: chairman of the Board of Directors of BRED Banque Populaire, Banque Internationale de Commerce, Natixis Pramex International, Natixis Institutions Jour and SPIG, chairman of Cofibred, the financial company of the BRED, member of the supervisory board of BPCE and Prepar Vie, member of the Board of Directors of Natixis*, director of Coface, of Société Marseillaise de Crédit, of Bercy Gestion Finances +, of BRED Cofilease, of the insurance company Prepar IARD and of Promepar Gestion.
- Abroad: chairman of the Board of Directors of NRJ Invest Belgique, director of Natixis Algérie, Natixis Pramex Italia SRL, Banque Commerciale Internationale (BCI Congo) and Banque Internationale pour le Commerce, l'Epargne et le Crédit (BIBEC Cameroun).

Other positions held by Mr Gentili over the last five years:

In France: chairman of the Board of Directors of SPIG, Vice Chairman of Banque Fédérale des Banques Populaires, director of Natixis Banques Populaires, BRED Gestion and LFI, member of the supervisory board of Banque Internationale de Commerce – (BIC BRED), permanent representative of BRED Gestion on the Board of Directors of LFI 2 and Vialink.

Philippe LÉPINAY (57 years old)

Director representing employee shareholders

Career:

Born on 3 December 1953, a French citizen, Philippe Lépinay is a graduate engineer from the Institut de Marketing International, Université Paris VII.

Between 1977 and 1986, he held a variety of sales and marketing jobs for the groups Appalette & Tourtellier Systèmes, Radial and Sopema.

In 1986, he joined Thales Electron Devices as an export sales engineer, and then in 2000 he became head of development at Thales Engineering & Consulting.

He joined Thales International in 2003, and since 2010 has been head of international relations (Latin America).

First appointed: 8 March 2007, effective 1 April 2007, ratified by the Annual General Meeting on 16 May 2007

Current term expires: AGM on 18 May 2011

Number of shares held: 1,354 Thales shares (including shares in the Thales employee shareholding investment fund)

Appointments held:

In France: Vice President of the Federation of Associations of Employee Shareholders of Thales (FAST) and of the French Federation of Associations of Employee Shareholders (FAS), member of the supervisory committee of the Thales employee shareholding investment fund.

Other positions held by Mr Lépinay over the last five years:

In France: Chairman of the Thales employee shareholders association (APAT).

Didier LOMBARD (68 years old)

Career:

Born on 27 February 1942, a French citizen, Didier Lombard is a graduate of the École Polytechnique and École Nationale Supérieure des Télécommunications.

He began his career in 1967 with France Telecom CNET (now Orange Labs), where he was involved in developing numerous products for France Telecom in the fields of satellites, electronic components and mobile systems.

Between 1988 and 2003, he worked at the Ministry of Research and Technology, was director general of industrial strategies at the Ministry for the Economy, Finance and Industry (1991-1998), and then founding chairman of the French international investments agency.

In 2003, Didier Lombard joined France Telecom as Executive Vice President technologies, strategic partnerships & new applications.

From February 2005 until February 2010, Didier Lombard was chairman & chief executive officer of the France Telecom Group. After the separation of the functions of chairman and chief executive officer on 24 February 2010, he was appointed chairman of the Board of Directors from 1 March 2010 until 1 March 2011.

First appointed: 30 June 2005

Current term expires: 2014 AGM

Number of shares held: 500 Thales shares

Appointments held:

In France: director of Technicolor*, member of the supervisory board of Radiall* and ST Microelectronics*.

Other positions held by Mr Lombard over the last five years:

In France: chairman of the Board of Directors of France Telecom*, chairman & chief executive officer of France Telecom*, senior executive VP of France Telecom*, special representative for international investments, chairman of the Board of Directors of Orange, member of the supervisory board of A2I (Agency For Industrial Innovation).

Pierre MUTZ (68 years old)

Independent director

Career:

Pierre Mutz, a French citizen, was born on 15 November 1942.

A graduate of Saint-Cyr military school, he served as an officer from 1963 to 1980, when he joined the French Prefectural Corps.

Pierre Mutz has held the positions of prefect of Essonne, prefect of the Limousin region, director general of the national gendarmerie, prefect of the Paris police and prefect of the Ile-de-France region, and prefect of Paris.

Since December 2008, he has been advisor to the chairman of the Eiffage Group.

First appointed: 19 May 2009

Current term expires: 2012 AGM

Number of shares held: 500 Thales shares

Appointments held:

In France: director of Catering International & Services, of Axa France lard, of JCDcaux SA* and chairman of the supervisory board of the Logement Français Group.

Other positions held by Mr Mutz over the last five years:

In France: director of RATP and chairman of the Board of Directors of the Institut Gustave Roussy (as prefect of the Ile-de-France region).

Bruno PARENT (57 years old)

Career:

Born on 9 August 1953, a French citizen, Bruno Parent is an alumnus of the civil service graduate school ENA.

Since he left ENA in 1981, Bruno Parent has spent his career at the Directorate General for Taxes, where he was appointed director general in 2003.

In November 2007, Bruno Parent was appointed director general for competition, consumer affairs and fraud control, and since April 2009 he has been inspector general at the Ministry of Finance.

* Companies denoted with an asterisk are listed companies.

First appointed: 19 May 2009

Current term expires: 2016 AGM

Number of shares held: does not hold any shares in Thales (representative of the French State within the meaning of article 139 of the NRE law)

Appointments held:

In France: member of the Board of Directors of the French museums federation (RMN).

Other positions held by Mr Parent over the last five years: none.

TSA, whose permanent representative is:

Bernard RÉTAT (71 years old)

Career:

Born on 7 April 1939, a French citizen, Bernard Rétat is a graduate of the École Polytechnique and École Nationale Supérieure des Télécommunications.

As engineer general for armaments, Bernard Rétat spent a large part of his career working in the French armaments procurement department (Délégation Générale pour l'Armement).

From 1968 to 1973, he was deputy head of the systems and simulation evaluation department at the armaments electronics centre, before embarking on an international career with the armaments mission, first in Washington (1973-78), and then in Bonn, where he was head of mission (1978-81).

In 1982 he joined the international affairs division, where he was special representative for international relations from 1987 to 1990. He spent three years as Vice President international affairs at Dassault Aviation, before joining the Thales group (formerly Thomson-CSF) in 1993, first as chief executive officer, and then as Vice Chairman from 1998 to June 2005. Bernard Rétat is now chairman of the Thales Ethics & Corporate Responsibility Committee.

First appointment of TSA: 22 June 1998

Date of appointment of Bernard Rétat as permanent representative: 18 May 2009

Current term expires: 2012 AGM

Number of shares held:

TSA holds 45,638,665 Thales shares

Bernard Rétat holds 1,910 Thales shares (including shares in the Thales employee shareholding investment fund)

Appointments held by Mr Rétat:

- In France: director of DCNS.
- Abroad: director of Elettronica S.p.A. (Italy), treasurer of the defence commission of ASD (AeroSpace and Defence Industries Association of Europe).

Other positions held by Mr Rétat over the last five years:

- In France: director of Thales International SA¹ and of Solarforce, member of the supervisory board of Armaris.
- Abroad: director of Thales Italia S.p.A.¹ (Italy), Thales (Weybridge) Plc¹, Thales (Wigmore Street) Limited and Thales North America, Inc.¹; chairman of the defence commission of ASD (AeroSpace and Defence Industries Association of Europe), member of the supervisory board of Thales Defence Deutschland GmbH¹ (Germany).

Martine SAUNIER (53 years old)

Director elected by employees

Career:

Martine Saunier was born on 8 May 1957 and is a French citizen. After obtaining a diploma in physical measurements and after a year in a British secondary school working as a French assistant, Martine Saunier began her career in 1979 in a Thales subsidiary in Moirans (Thales Electron Devices) as screen development technician for electronic tubes and plasma screens, before moving to technical support and after-sales service for international customers for radiology products manufactured at the Moirans plant.

First appointed: 9 December 2010

Current term expires: 8 December 2016

Number of shares held: 500 Thales shares

Appointments and other positions held by Ms Saunier over the last five years: none.

Loïc SEGALEN (50 years old)

Career:

Born on 27 March 1960, a French citizen, Loïc Segalen graduated from the École Centrale of Lyon and ESSEC.

He started his career in 1986 in the Finance Department of Dassault International.

Financial advisor to Dassault Aviation's Vice President economic and financial affairs in 1990, he subsequently became deputy director (1998-1999), and then director.

¹ A company of the Thales Group.

Since 1 January 2009, Loïc Segalen has been Vice President economic and financial affairs at Dassault Aviation.

He is a member of the Dassault Aviation management committee.

First appointed: 19 May 2009

Current term expires: 2012 AGM

Number of shares held: 500 Thales shares

Appointments held:

- In France: chairman of Dassault Réassurance and of Dassault Assurances Courtage, director of SIAE, managing director of Dassault Aéroservice, member of the board of Gifas, permanent representative of Dassault Aviation* on the board of Corse Composites Aéronautiques.
- Abroad: director of Dassault Falcon Jet (USA), Midway (USA), Sabca* and Sabca Limburg (Belgium) and Dassault Belgique Aviation.

Other positions held by Mr Segalen over the last five years: none.

Amaury de SÈZE (64 years old)

Career:

Born on 7 May 1946, a French citizen, Amaury de Sèze started his career in 1968 at Bull General Electric.

In 1978, he joined the Volvo Group where in turn he held the posts of CEO, chairman & chief executive officer of Volvo France, chairman of Volvo Corporate Europe, member of the Executive Committee of the Volvo Group and member of the strategic committee of Renault Volvo.

He joined the Paribas Group in 1993 as member of the executive board of Compagnie Financière de Paribas and of Banque Paribas responsible for investments and industrial affairs, and later on as chairman of PAI Partners.

Amaury de Sèze is chairman of the Board of Directors of Carrefour and vice chairman of Power Corporation of Canada.

First appointed: 19 May 2009

Current term expires: 2014 AGM

Number of shares held: 500 Thales shares

Appointments held:

- In France: chairman of Carrefour SA*, director of Groupe Industriel Marcel Dassault SAS, of Imerys* and of Suez Environnement*, member of the supervisory board of Publicis Groupe*.
- Abroad: Vice Chairman of Power Corporation of Canada*, of BW Group, of the Bruxelles Lambert Group, of Erbe (B) and of Pargesa Holding SA (CH).

Other positions held by Mr de Sèze over the last five years:

- In France: chairman of the supervisory board of PAI Partners SAS, chairman of Financière PAI SAS, of Financière PAI Partners SAS, Vice Chairman of the supervisory board of Carrefour SA*, director of Eiffage*, of Novalis SAS, of Novasaur SAS, of Vivarte SA, member of the supervisory board of Gras Savoye SCA.
- Abroad: chairman of PAI Partners UK Ltd., director of PAI Europe III General Partner N.C. (GG), of PAI Europe IV General Partner N.C. (GG), of PAI Europe IV UK General Partner Ltd (GB), of PAI Europe V General Partner N.C. (GG), of PAI Partners Srl (I), of Gepeco SA (B), and of Saeco SpA (I).

Eric TRAPPIER (50 years old)

Career:

Born on 1 June 1960, a French citizen, Eric Trappier is a graduate from the Institut National Telecom.

He started his career in 1984 in the technical department of Dassault Aviation, where he was head of systems development for the ATL2 and Mirage 2000.

In 1991, he became head of sales for Asia and then the United Arab Emirates.

Head of Middle-East & Africa in 2000, head of military exports in 2001, he became deputy CEO (International) in 2002.

Since 2006, Eric Trappier has been the international CEO of Dassault Aviation.

He has been awarded the National Order of Merit and Legion of Honour.

First appointed: 19 May 2009

Current term expires: 2012 AGM

Number of shares held: 500 Thales shares

Appointments held:

- In France: Vice Chairman of Gifas and of the defence committee of the ASD, chairman of the European Commission of Cidef/Gifas, executive director of GIE Rafale International, executive director of Dassault International, director of Sofresa/Odas, of Sofema and of Eurotradia.

Other positions held by Mr Trappier over the last five years: none.

To the best of Thales's knowledge:

- there are no family ties between members of the Board of Directors,
- no Board member has been convicted of fraud in the past five years,

* Companies denoted with an asterisk are listed companies.

- no Board member has been involved in the past five years as a senior executive in a bankruptcy, receivership or liquidation, or has been charged and/or officially disciplined by a statutory or regulatory authority,
- no Board member has been barred in the past five years by a court from acting as a member of a body dedicated to the administration, management or supervision of an issuer, or from being involved in the management or running of such a company's affairs,
- no conflict of interests exists between Board members' private interests and their duties to Thales.

2. OTHER PERSONS ATTENDING BOARD MEETINGS (WITHOUT VOTING RIGHTS)

In addition to the secretary to the Board of Directors, Dominique Périer, and members of the general management who may be invited by the Chairman to attend Board meetings, depending on the agenda, the following persons are invited to attend Board meetings in an advisory capacity:

- **Representative of the French State's golden share**

Laurent Collet-Billon, aged 60, special armament engineer

Appointed by decree of the Minister of the Economy, Finance and Industry on 12 January 2011.

Representing the French State on the Thales Board of Directors in application of Decree no. 97-190 of 4 March 1997 concerning the French State's golden share (see page 167) and as provided for in article 10 of the Company's articles of association.

- **Government commissioner**

Marc Gatin, aged 61, General Army Inspector (*Contrôleur Général des Armées*).

Appointed government commissioner to Thales and its subsidiaries by decision of the Minister of Defence of 5 June 2009, under the statutory and regulatory provisions concerning defence contractors and companies engaged in the manufacture and sale of defence equipment.

- **Representative of the Central Works Council**

Alain Desvignes, aged 65, trade union representative

Appointed by the Central Works Council as its representative on the Board of Directors of Thales, pursuant to article L. 2323-65 of the French Labour Code.

- **Statutory auditors**

As laid down in the rules of procedure of the Board of Directors, the following are also invited to all Board meetings:

- **Ernst & Young Audit**, represented by Michel Gauthier, partner,
- **Mazars**, represented by Jean-Louis Simon, partner.

B. CHAIRMAN'S REPORT TO THE ANNUAL GENERAL MEETING TO BE HELD ON 18 MAY 2011 ON CORPORATE GOVERNANCE, INTERNAL CONTROL AND RISK MANAGEMENT

Based on the recommendation of the two committees concerned¹, the Board of Directors approved, at its meeting of 24 February 2011, this report on corporate governance, internal control and risk management, drawn up in accordance with the provisions of article L. 225-37 of the French Commercial Code, and asked Luc Vigneron, the Chairman & chief executive officer, to present it to shareholders at the Annual General Meeting.

1. CORPORATE GOVERNANCE

Pursuant to the law of 3 July 2008 transposing Directive 2006/46/EC, the Company decided in 2008 voluntarily to refer to the Code of Corporate Governance of Listed Companies published by the AFEP and MEDEF for the preparation of the Chairman's report. The consolidated version of the code, updated to include the recommendations of 19 April 2010 on the increase in the number of female board members, was published in April 2010. The code is available on the website www.medef.fr or from the Company's head office.

The Company complies with the recommendations contained in the AFEP-MEDEF code of April 2010, except for those concerning:

- the ratio of independent directors on the Board of Directors (one third is recommended for controlled companies) and on the various committees – in line with the provisions of the shareholders' agreement between the Public Sector and the Industrial Partner concerning members of the Board of Directors and with the stringent independence criteria adopted by the Company (see "independence" below, as well as the sections about each committee),
- the statutory term of office of directors (six years), which exceeds the maximum period recommended by the AFEP-MEDEF Code (four years), since the Company considers that too short a term is not advisable because of the length of the business cycle and that the replacement of one third of directors every two years is preferable to a provision reducing the term of office.

¹ The Appointment and Remuneration Committee, for the part relating to corporate governance, and the Audit and Accounts Committee, for the part relating to internal control and risk management.

1.1. MEMBERS AND PROCEDURES FOR THE ORGANISATION AND FUNCTIONING OF THE BOARD

Restatement of the rules of the shareholders' agreement and composition of the Board

The Company is a *société anonyme* (French public limited company) with a Board of Directors, and with no separation of the functions of chairman and chief executive officer, since the Board has deemed the administrative and supervisory bodies to be more effective this way, and that there is thus no need for separation.

Under the terms of the shareholders' agreement between the Public Sector and the Industrial Partner (Dassault Aviation), as published by the AMF, the Board is made up of 16 directors, of whom 14 are appointed at the Annual General Meeting and two are elected by the employees of the Group's French companies in accordance with the law (article L. 225-27 *et seq.* of the French Commercial Code) and the articles of association (article 10).

Of the 14 directors appointed by shareholders, four are "external directors" selected jointly by the Public Sector and Dassault Aviation, one represents employee shareholders (whose term of office expires at the Annual General Meeting on 18 May 2011), and the others are

recommended to shareholders by the Public Sector (5) and by Dassault Aviation (4).

The shareholders' agreement also requires the chairman and chief executive officer to be chosen based on the proposal of the Public Sector and Dassault Aviation and for at least one director representing each of the parties to sit on each of the Board committees.

Since the Annual General Meeting of 11 May 2004, directors have generally been replaced (except for employees) by one third every two years, since the term of office has remained at six years. This makes it unnecessary to replace the entire Board at once, which is deemed detrimental to its proper functioning. Following the appointment of the employee shareholders' representative at the Annual General Meeting on 18 May 2011 (on the proposal of shareholders or of the supervisory boards of the employee shareholding investment funds holding their Thales shares), the next appointments due to expire are at the Annual General Meetings in 2012 (five appointments), 2014 (four appointments) and 2016 (five appointments), as described in the table below.

In any case, employee directors are elected or appointed for a six-year term. Given the cumbersome nature of the appointment process, no reduction in the terms of office of employee directors is under consideration.

At 31 December 2010, the Board therefore had 16 members, as indicated below:

	Current term		
	1st appointment	Starts	Ends
<i>Directors</i>			
Public sector			
Luc Vigneron, chairman & chief executive officer	19/05/09	19/05/09	2014 AGM
Olivier Bourges	29/09/09	20/05/10	2016 AGM
Didier Lombard	30/06/05	15/05/08	2014 AGM
Bruno Parent	19/05/09	20/05/10	2016 AGM
TSA, represented by Bernard Rétat (since 18-05-09)	22/06/98	15/05/06	2012 AGM
Industrial partner			
Charles Edelstenne	19/05/09	19/05/09	2014 AGM
Loïc Segalen	19/05/09	19/05/09	2012 AGM
Amaury de Sèze	19/05/09	19/05/09	2014 AGM
Eric Trappier	19/05/09	19/05/09	2012 AGM
Representative of employee shareholders			
Philippe Lépinay	01/04/07	01/04/07	2011 AGM
Elected by employees			
Dominique Floch	19/01/08	9/12/10	8/12/16
Martine Saunier	9/12/10	9/12/10	8/12/16
External directors			
Yannick d'Escatha	19/05/09	20/05/10	2016 AGM
Roger Freeman	01/01/99	15/05/06	2012 AGM
Stève Gentili	19/05/09	20/05/10	2016 AGM
Pierre Mutz	19/05/09	19/05/09	2012 AGM

The other appointments held by members of the Board of Directors are listed in the biography for each director which can be found in the registration document, identifying, as recommended by the AMF, any appointments held in Group companies and in other listed companies.

The average age of directors was almost 60 at the end of 2010. In the absence of a specific provision contained in the articles of association, the age of directors is governed by common law:

- the number of directors above the age of 70 may not exceed one third of directors in office (article L. 225-29),
- the age limit for the Chairman is 65 (article L. 225-48).

The Company complies with both obligations.

Increase in the number of women on the Board of Directors

At 28 January 2011, the date of publication of law n° 2011-103 of 27 January 2011 relating to the balanced representation of men and women on boards of directors, Thales had one woman on its Board of Directors, which, by law does not require the representative of employee shareholders who will be appointed by the Annual General Meeting on 18 May 2011 to be a woman. In any event, the Board of Directors does not have the power to select candidates for the office of director representing employee shareholders, who are proposed by them and voted on by all shareholders at the General Meeting.

In terms of the number of female directors, the targets set by the AFEP-MEDEF code and by the law are identical, with a time lag of one year. Therefore, if a board has 16 members, the applicable legislation requires these targets to be as follows:

- three women (four in practice, with the elected employee representative) on the date of the Annual General Meeting in 2013 (AFEP-MEDEF code) or 2014 (law),
- six women (seven in practice, for the same reasons) at the Annual General Meeting in 2016 (AFEP-MEDEF code) or 2017 (law).

The term of office of each director expires as indicated above, which means that the number of women on the Board should gradually increase. Based on the recommendations of the Appointments and Remuneration Committee, where applicable, the Board will endeavour to meet the regulatory targets for 2011-2017.

Independence of directors

Based on the proposal of the Appointments and Remuneration Committee, the Board of Directors has decided to maintain the strict approach adopted in recent years, namely: directors appointed by the Annual General Meeting upon the proposal of a shareholder ("Public Sector" or "Industrial Partner") or a category of shareholders (employees) or elected by employees cannot be considered to be independent within the meaning of the AFEP-MEDEF code.

With regard to investment banks on the Board, in March 2008 the Board sought to clarify the code and to define the rules of conduct that apply to them within the Thales Board of Directors:

- no involvement by the persons concerned in the preparation or solicitation of bids for banking services with the Company,
- no participation by the same persons in banking activities involving the performance of a mandate,
- no participation in voting on any resolution concerning a project in which the bank concerned would be or could be involved as an advisor.

After making a detailed examination of the situation of the four "external directors" under the terms of the shareholders' agreement (25% of the Board), the only directors who can therefore be declared independent according to the criteria adopted, the Board has decided, based on the recommendation of the Appointments and Remuneration Committee, to declare as independent directors, as in the previous year, Messrs Yannick d'Escatha, Stève Gentili and Pierre Mutz, with Mr Roger Freeman still not deemed to be independent in view of the positions he holds in the Group in the United Kingdom and the compensation he receives there (see section on compensation below).

Overall, the Board of Directors therefore includes three independent directors, i.e. 19% of members, a proportion that is below the one third recommended by the AFEP-MEDEF code for controlled companies.

Rules of procedure

The Board's rules of procedure, adopted in July 2004 and regularly updated since then, do not supersede the legal provisions or those laid down in the company's articles of association applicable to the Board and its committees, or the provisions of the Code of Ethics or the Code on Insider Trading, certain provisions of which apply to directors, since together these rules represent a code of professional conduct for directors (in particular see the section on the prevention of insider trading below).

In addition to the specific provisions of the shareholders' agreement, the Board's rules of procedure indicate best practice in respect of corporate governance, particularly those contained in the aforementioned AFEP-MEDEF code.

The Board's rules of procedure are divided into five sections:

I- Members of the Board of Directors (Board membership, independence, availability, prime duty, transparency, confidentiality and compensation)

It is stipulated that members of the Board of Directors must notify the Chairman of any situation that presents – or may present – a conflict of interest with the company. In this regard, directors have unanimously adopted the following statement:

- "There are no family ties between members of the Board of Directors,
- no Board member has been convicted of fraud in the past five years,
- no Board member has been involved in the past five years as a senior executive in a bankruptcy, receivership or liquidation, or has been charged and/or officially disciplined by statutory or regulatory authorities,
- no Board member has been barred in the past five years by a court from acting as a member of a body dedicated to the administration, management or supervision of an issuer, or from being involved in the management or running of such a company's affairs,
- no conflict of interests exists between the Board members' private interests and their duties to Thales."

II- Responsibilities of the Board of Directors (Company representation and best interests, specific responsibilities, shareholders' agreement)

The annual budget, under the rolling three-year strategic plan, the appointment and dismissal of the Chairman & chief executive officer and any acquisitions or disposals of a value exceeding €150m, as well as strategic alliance agreements on technological and industrial cooperation, are automatically submitted to the Board for approval, it being understood that the shareholders' agreement stipulates that such decisions must also be made by the majority of directors representing the Industrial Partner.

Any transactions exceeding €50m are also submitted to the Board for approval if they involve a change in the Group's strategy as previously approved by the Board.

III- Board information (communication, training)

It is specifically envisaged that:

- Board papers shall be sent to participants with sufficient notice,
- the State representative responsible for the golden share, the government commissioner, the Central Works Council representative, any non-voting directors and the statutory auditors shall receive all documents sent to directors,
- new directors shall receive, upon their appointment, the appropriate documents for their office and shall attend a briefing about Thales, its organisation and business, given by the Group's corporate officers. Thereafter, each director may request additional training.

IV- Board committees (formation and responsibilities, organisation, information, Audit & Accounts Committee, Appointments and Remuneration Committee, Strategic Committee)

It is stipulated that in addition to the responsibilities of each committee (see relevant sections below), each committee is entitled to ask the senior management for any additional information that it deems necessary for the performance of its duties, and may ask the Board of Directors, in exceptional cases, to hire external consultants. This option was not exercised in 2010.

V- Functioning of the Board of Directors (meetings, attendance and representation, annual assessment, updating the rules of procedure). This chapter is covered in the annual report as required by law and can be found in section 1.2 below.

Prevention of insider trading

In order to take into account the recommendations contained in the AMF guide of 3 November 2010 relating to the prevention of insider trading, Thales, with effect from 2011, has increased its "blackout periods" or no-trading periods: in addition to the periods relating to the annual and half-yearly financial statements (at least 30 calendar days, in each case) which already existed, two new periods have been introduced for quarterly reporting (Q1 and Q3) of 15 days each. In each case, the period includes the day after the publication of the financial press release.

The financial calendar for the following year is published on the company's website after the third quarter financial press release.

Directors may, if they wish, consult the compliance officer (a position held by the Group's general counsel) prior to any share trading. This prior consultation is not compulsory.

In addition, at the end of 2010, directors were informed of the arrangements concerning the planned management mandate, without the Company making any specific recommendation at this stage. At the date of the Board meeting that approved this report (24 February 2011), Thales was not aware of any such mandates being in effect.

Notice of General Meetings

General meetings are convened by the Board in accordance with current legal and regulatory provisions. The Board of Directors will ensure, in the interests of all shareholders, that the period of notice for meetings is longer than the minimum requirements. All shareholders, regardless of the number of shares they own, are entitled to take part in General Meetings. The date of the General Meeting is published on the Company's website approximately six months in advance.

At least 21 days prior to the meeting, all documentation may be consulted on the website (in the Investors/annual general meeting section). The results of voting on resolutions is also published, usually within two days of the meeting.

Key factors likely to have an impact in the event of a public offering

As provided for by article L. 225-37, amended by law no. 2008-649 of 3 July 2008, it is noted, as part of the information mentioned in article L. 225-100-3 of the French Code of Commerce, that the two main shareholders, who together own more than half of the share capital and voting rights, have declared that they are acting in concert under a shareholders' agreement and that whenever the threshold of one tenth or a multiple thereof of the Company's capital or voting rights is exceeded, it must first be approved by the Minister for the Economy.

Remuneration and benefits of all types granted to directors

- Directors' fees

In 2008, the General Meeting set the total amount of attendance fees at €600,000 per year, to be divided among directors and non-voting members, if any, for services to the Board, including compensation payable to directors who are committee members in respect of their participation in these committees.

The Board decided that directors would receive:

- regarding the Board, fixed remuneration of €14,000 per annum (on a proportional basis in the event of appointment or dismissal during the year), subject to the maximum ceiling on variable remuneration, and variable remuneration in respect of attendance at meetings amounting to €2,500 per meeting.
- regarding committees, remuneration (entirely variable), contingent upon attendance, of €1,250 per meeting, with the chairman of each committee receiving an additional €2,000 per annum (allocated in proportion to the number of meetings chaired, if applicable).

If, on account of the high number of meetings (variable remuneration being paid first), the total amount of €600,000 in respect of a financial year is likely to be exceeded, the fixed component of directors' remuneration will be duly reduced in order to remain within the annual budget; this happened for the first time in 2009 (when the fixed component was reduced from €14,000 to €9,300). The same situation occurred in 2010 (€11,950).

Non-voting members, if any, receive €2,500 per Board meeting, i.e. the same variable remuneration as directors, but excluding any fixed remuneration. Since 18 May 2009, there have no longer been any non-voting members on Thales's Board of Directors.

For 2010, attendance fees payable amounted to €599,700 (gross amount) (compared with €599,800 in 2009); these were partly paid in July 2010 and the balance settled in January 2011.

As an indication, the amount (net of deduction at source) paid in the 2010 fiscal year amounted to €509,872 (compared with €595,491 in 2009). AMF tables relating to executive pay (table 1, for the chairman & chief executive officer, and table 3, for directors, see pages 198 and 200) contain details of this.

- Remuneration of the Chairman & chief executive officer

The remuneration of the Chairman & chief executive officer is decided each year by the Board of Directors at the meeting to approve the accounts for the year, based on the proposal of the Appointments and Remuneration Committee. As for directors, it is composed of a fixed and variable component. It is calculated taking into account performance over the previous financial year and salary surveys or market data, including the recommendations of the AFEP-MEDEF code on compensation (see AMF table 2):

- fixed remuneration remaining unchanged over a period of at least three years;
- permanence of the quantitative criteria for variable remuneration;

and by applying the following rules concerning stock options (see AMF table 4):

- internal performance criteria (identical to the quantitative criteria for variable remuneration) for the entire amount allocated and validation of third-party stock options over a three-year period;
- the Chairman & chief executive officer is prohibited from hedging options using derivatives;
- whenever stock options are exercised, 40% of the capital gain, net of tax, must be held in shares.

The 10 AMF recommendation tables, which can be found in the registration document, contain details of the remuneration of the Chairman & chief executive officer, which is consistent in every respect with the recommendations of the AFEP-MEDEF code.

Summary of trading by directors in the Company's shares in 2010

The summary (referred to in article 223-26 of the AMF General Regulations) of share trading in 2010 by directors, non-voting directors (members of the Executive Committee) and related persons can be found on page 25 of the registration document.

1.2. REPORT ON BOARD ACTIVITY IN 2010

Number/duration of meetings and attendance rate

The Board of Directors met eight times in 2010. Average attendance by directors was over 95%.

As stipulated in the Board's rules of procedure, the auditors were invited to all Board meetings and not just those relating purely to the audit or approval of the financial statements, as provided for by law. The auditors were provided with the same documents as the directors.

The chief financial officer attends all Board meetings. The strategy director, human resources director and operational directors are invited to meetings when the agenda so requires.

Key topics covered

In addition to recurrent topics within the remit of the Board of Directors (annual budget and update of forecasts, preparation of annual consolidated and corporate financial statements, examination of the consolidated half-yearly financial statements, calculation of the Chairman & chief executive officer's remuneration and indication of the quantitative and qualitative criteria for his variable remuneration, dividend proposal, notice of a meeting of the shareholders, announcement of blackout periods for trading in the Company's shares, approval of any regulated agreements, various delegations of powers to the Chairman & chief executive officer and reporting on the use of such powers, etc.), the agendas of these meetings included the following items in 2010, in some cases with reports from the relevant Board committee:

- strategic review by division/country,
- grant of stock options (with performance conditions) and (existing) free shares,
- Group research and innovation,
- proposals for major strategic operations and M&As,
- appraisal of the Board's performance,
- proposed employee shareholding operation.

1.3. PREPARATORY WORK FOR BOARD MEETINGS

Information for directors

Board papers

Directors generally receive the notice of meeting between 5 and 10 calendar days prior to the date of the meeting (10 calendar days being the notice period required by the shareholders' agreement for certain topics, such as the submission of the annual draft budget). A provisional timetable of meetings is adopted mid-year for the following financial year.

Since 29 September 2009, the Board's rules of procedure have set the minimum period for the notice of meeting and submission of documents at five working days, unless this is impossible or in an emergency.

Each notice includes the agenda and meeting documents (or at least the main points, if these cannot be completed at the time of dispatch) and the draft minutes of the previous meeting, usually sent out within a month of each meeting. In some cases, additional material is sent to directors after the notice of meeting, or handed out to them during the meeting, if the matter is urgent.

The directors are also sent a press review and a selection of financial analyses relating to the company. National press releases, other than those discussed at Board meetings, are also e-mailed to them as soon as they are published.

Additional information

In accordance with the rules of procedure, directors may ask to receive additional training. In 2010, one director attended a seminar on defence/aerospace operations.

Organisation and functioning of Board committees

- Audit & Accounts Committee

The order of 8 December 2008, implementing Directive 2006/43/EC, sets out the powers and duties of this committee, reproduced in full in the Board's rules of procedure (rule 16):

"The Audit & Accounts Committee is specifically responsible, without prejudice to the powers of the Board of Directors, for monitoring:

- a) the preparation of financial information,
- b) the efficiency of internal control and risk management systems,
- c) the statutory audit of the Company's financial statements and consolidated financial statements by the auditors,
- d) the independence of the statutory auditors.

It consults the statutory auditors on the following:

- a) their general work schedule as well as the various sample tests they have carried out,
- b) alterations that they believe should be made to the financial statements to be published or to other accounting documents, making any relevant comments on the assessment methods used in their preparation,
- c) any irregularities and inaccuracies that they may have identified,
- d) the conclusions following the aforementioned comments and adjustments to the profits for the period compared to those of the previous period.

It also examines, jointly with the statutory auditors, the risks to their independence and the safeguards applied to mitigate these risks. It consults the auditors on significant internal control weaknesses they may have identified, as regards procedures relating to the preparation and processing of accounting and financial information, and each year receives from them:

- a) a statement of independence,
- b) an update of the information provided for their appointment, detailing services provided by members of the network to which the auditors belong, as well as services rendered in respect of work relating directly to this assignment.

For this purpose, the committee relies in particular on the work of the Internal Audit Department and of the Finance Department. It approves the annual programme of the Internal Audit Department and examines the activity reports.

It supervises the selection procedure for the statutory auditors and issues a recommendation on the statutory auditors proposed for appointment by the General Meeting.

It analyses their operational plans with them, as well as their recommendations and the follow-up on these recommendations. It may interview statutory auditors without Company representatives being present. Each year the committee examines the budget for professional fees for the statutory auditors. It reviews and analyses the professional fees paid to the statutory auditors for the financial year ended.

It reports regularly on its work to the Board of Directors and informs it immediately of any problem encountered."

In addition, in 2010, the committee members decided, in accordance with the final report of the AMF on audit committees (22 July 2010), to allow, at each meeting, a discussion with statutory auditors without Company representatives being present, and not just at specific meetings for the review of the accounts, as had been the case previously.

On 31 December 2010, this committee was composed of:

- Roger Freeman, Chairman,
- Olivier Bourges,

- Stéphane Gentili, independent director,
- Martine Saunier
- Loïc Segalen.

The members of the Audit & Accounts Committee comply with the order of 8 December 2008: the committee only includes directors, while one director, as well as satisfying the criterion for independence, has the required accounting and financial expertise (see biography of Mr Stéphane Gentili on page 176).

However, the committee is not two-thirds composed of independent directors, as required by the AFEP-MEDEF code, for the reasons already mentioned pertaining to the provisions of the shareholders' agreement.

The committee met six times in 2010, with an average attendance rate of 97%.

The statutory auditors, invited to each committee meeting, are involved in all discussions, except where there is a conflict of interests (e.g. during a review of the appointment of statutory auditors or renewal of their term of office). Twice a year, they submit their report on the audit of the accounts (annual and half-yearly), and specify the accounting options used and the highlights of their audit of the financial statements.

The chief financial officer and the internal audit director, as well as the management controller, attend all meetings, while the director responsible for financing and treasury attends them on an occasional basis, depending on the agenda.

In addition to the annual and half-yearly accounts, in 2010 the committee also examined:

- the performance of difficult contracts and their accounting impact,
- the monitoring of major litigation cases,
- the external audit plan and auditors' fees,
- the organisation of internal control and risk mapping,
- the method of implementing the Probasis performance improvement plan,
- the impact of tightening the rules applicable to the capitalisation of R&D costs,
- changes in retirement obligations, particularly in the UK,
- in addition to the section of the chairman's report on internal control and risk management (see section 2 below).

During meetings especially dedicated to internal audit and control, the committee reviewed the reports of the internal audit department and laid out its recommendations for the follow-up on assignments.

The committee has also acknowledged the measures taken in terms of risk management, which are described in the second half of this report.

At the meeting devoted to the 2009 financial statements, the committee read the memorandum from the chief financial officer on the Group's exposure to risks and on the major off-balance sheet commitments, according to the AFEP-MEDEF recommendations.

At the same meeting, committee members had the opportunity to have a discussion with the statutory auditors, after the latter had submitted their audit report to them, in the absence of the chief financial officer. Since then, as mentioned earlier, this discussion has systematically taken place at each committee meeting, varying in duration depending on the business on the agenda.

The committee has also been involved in the preparation of announcements of results.

Following the meetings – which, in the case of the closing or examination of the financial statements, are held at least two (and wherever possible three) days prior to the Board meeting, unless this is impossible – a written report is produced and submitted at the next Board meeting. In addition, the committee proceedings are recorded in minutes, which may be more detailed.

• Appointments and Remuneration Committee

In compliance with rule 17 of the Board's rules of procedure, the Appointments and Remuneration Committee has the task of examining:

- the remuneration policy for the Company's senior executives,
- the remuneration of the chairman & chief executive officer and directors' remuneration (attendance fees) and, if applicable, that of other Company representatives,
- stock option or share purchase plans, or the grant of free shares, in addition to the related performance conditions,
- employee share ownership schemes,
- candidates for directorships belonging to the category of external directors regarding which there was consultation between the two major shareholders pursuant to the provisions of the aforementioned shareholders' agreement,
- at least once a year, the independence of directors.

The committee is also responsible for preparing the Board's assessment of its own performance (see section 1.4 below).

Furthermore, the chairman & chief executive officer provides additional information on his choices for the appointment of members of the senior management team through discussions with the committee.

On 31 December 2010, the members of the committee were:

- Yannick d'Escatha, Chairman, independent director,
- Olivier Bourges,
- Eric Trappier.

It met seven times in 2010 with an average attendance rate of 93%.

The ratio of independent directors recommended by the AFEP-MEDEF code (at least half) is not satisfied for the reasons mentioned earlier, linked to the shareholders' agreement.

The human resources director and chief financial officer attend all committee meetings. The chairman & chief executive officer is invited whenever his contribution might be of particular value to the discussion.

Among the various topics examined by the committee in 2010 were:

- the stock option policy, allotment of free shares and preparation of a plan submitted to the Board, including the performance conditions attached to the validation of stock options;
- the examination of the overall salary package of the chairman & chief executive officer, and particularly the qualitative criteria applicable to his performance-related pay;
- the principles of variable remuneration within the Group and their implementation by pay grade;
- the renewal of the terms of office for external directors;
- the independence of directors;
- preliminary discussions on the actions to be taken in terms of increasing the number of women, particularly among management teams;
- an assessment of the Board's performance;
- the employee shareholding policy and proposed scheme.

The committee presented its recommendations to the Board on all these topics: following each meeting, a written report is produced and submitted at the next Board meeting. In addition, the committee proceedings are recorded in minutes, which may potentially be more detailed.

• Strategic Committee

In compliance with rule 18 of the Board's rules of procedure, the Strategic Committee's main tasks are to assess the Group's strategy in its key business segments, and in particular:

- to examine the Group's strategic approach in each of its major fields of operation, before these are submitted to the Board of Directors;
- to analyse the framework for submission of the budget and the three-year rolling plan to the Board, and to examine the proposed annual budget in the context of this plan;
- to analyse major asset acquisition and disposal plans (> €150m) as well as proposed strategic agreements or partnerships.

On 31 December 2010, the members of the committee were:

- Luc Vigneron, Chairman
- Olivier Bourges
- Charles Edelstenne
- Dominique Floch
- Philippe Lépinay
- Pierre Mutz, independent director.

No independence criterion is imposed for directors on this type of committee by the law or the AFEP-MEDEF code.

The committee met four times in 2010, with 100% attendance of its members, notably to review the 2010 budget in relation to the three-year plan, the strategy by division/country, and a thorough overview of M&A operations under consideration or review and current plans for strategic operations or partnerships.

The chief financial officer attends all meetings of the Strategic Committee. The head of strategy is also invited whenever the agenda so requires.

A report on each meeting is submitted to the next meeting of the Board of Directors by the committee chairman, the chairman & chief executive officer.

Minutes are taken during Strategic Committee meetings.

1.4. ASSESSMENT OF THE BOARD'S PERFORMANCE

As recommended by the aforementioned AFEP-MEDEF code and pursuant to the Board's rules of procedure, one item on the agenda of the Board meeting each year is dedicated to a discussion about its performance.

In 2010, the Board decided to conduct a year-end self-assessment based on a questionnaire validated by the Appointments and Remuneration Committee, which supervised the process.

It emerges from this assessment that directors consider the performance of the Thales Board to be satisfactory on the whole, even though, concerning corporate governance, the terms of the shareholders' agreement on Board membership do not allow a sufficient number of independent directors.

After deliberating on this, the Board has decided to implement the suggestions made by the Appointments and Remuneration Committee, namely:

- to draw up, in a manner to be defined, a director performance chart, incorporating the follow-up to the Board's decisions,
- to improve directors' knowledge about the Group and about members of the Executive Committee (Comex) through site visits, presentations by Comex members on operations, challenges, strategic developments, technology, etc.)

On the latter point, the first site visit took place in December 2010, to the satisfaction of the directors and operational staff concerned. Other visits have therefore been planned for 2011.

The calendar of Board and committee meetings in 2011 has been rearranged accordingly and other meetings added where necessary (the number of meetings of the Strategic Committee has in particular increased). This will be included in a report during the next assessment of the Board's performance.

1.5. RESTRICTIONS, IF ANY, TO THE CHIEF EXECUTIVE OFFICER'S POWERS

In accordance with the provisions of the French law on corporate governance (NRE), the possibility of separating the functions of the Chairman of the Board of Directors from those of the Chief Executive Officer was introduced into the company's articles of association at the Annual General Meeting held on 16 May 2002.

Since then, the Thales Board of Directors has decided that the previous system was the most effective and that there was thus no need to proceed with the separation, since Mr Luc Vigneron acts as Chairman and Chief Executive Officer without any other limitation of powers than those stipulated in the applicable legislation, with respect to the specific powers of the Board of Directors or the general shareholders' meeting.

As stipulated above in section 1.1 on the rules of procedure, any acquisitions or disposals exceeding €150m are automatically submitted for Board approval, as are any operations exceeding €50m if they involve a change in the Group's strategy. This practice effectively constitutes a limitation on the Chief Executive Officer's powers.

2. INTERNAL CONTROL AND RISK MANAGEMENT

This section was submitted to the Audit & Accounts Committee at its meeting on 21 February 2011, attended by the statutory auditors. It was prepared on the basis of the main conclusions from the internal audit and risk management work carried out by the Group in 2010. The results of this work have been reviewed at the various meetings of the Risks & Internal Control Committee during the year, and also at meetings of the Audit & Accounts Committee held in 2010.

This section is based on the AMF document on risk management and internal control systems, updated on 22 July 2010. It covers all the suggested items, albeit in a different order.

2.1. DEFINITION AND SCOPE OF INTERNAL CONTROL AT THALES

The Group applies the principles of the COSO (Committee of Sponsoring Organizations of the Treadway Commission) model and of the IFACI (Institut Français de l'Audit et du Contrôle Interne) model.

According to the definition used by Thales, internal control is a process that the organisation implements with the intention of providing reasonable assurance as to the achievement of the Group's objectives, through:

- the effectiveness and efficiency of internal processes,
- accounting and financial internal control, which aims to ensure the reliability of the information distributed and used internally for management and monitoring purposes, insofar as they contribute to the preparation of the published accounting and financial information, and
- legal compliance, which aims to comply with regulatory requirements.

The internal control system contributes to the achievement of the Group's objectives without providing an absolute guarantee, due to the limitations inherent in any internal control system, such as the need to take into account the cost/benefit ratio leading to a certain level of risk being accepted, and due to the uncertainties of the outside world.

Thales applies this internal control model in all its controlled companies.

2.2. AUDIT ENVIRONMENT

In most of its businesses, the Group is subject to an audit environment imposed by its customers and by the regulatory authorities (Ministries of Defence and Industry, the national authorities of customer countries, civil aviation authorities, etc.), which require stringent certification and financial control.

These specific constraints are in addition to its statutory obligations and are an integral part of the Group's audit environment.

2.2.1. THE MAIN PARTIES RESPONSIBLE FOR INTERNAL CONTROL

Thales has a two-dimensional matrix structure based on Countries and Divisions.

Countries are in charge of short-term operations: customer relations and satisfaction, marketing Thales products and services, making optimal use of local resources, liaising with local partners and, in countries where the Group has an industrial presence, taking orders and generating revenues.

Divisions are in charge of long-term operations, primarily product and industrial policy. Organised into business lines, they are responsible for corporate strategy, research & development, product and services strategy and industrial and technological investment.

The Group defines common processes, provides units with the corresponding tools and sets up umbrella departments to implement these.

The rules on delegation reflect this sharing of responsibility and are implemented in legal entities coordinated at national level.

a. The Group's managing bodies

These consist of divisions, countries and functional departments and are ultimately responsible for the Group's entire internal control system, relying in particular on the Risks & Internal Control Committee.

b. Company representatives (mandataires sociaux)

In 2010, the Group reaffirmed its principle of accountability of the chief executives of Thales companies, who are in charge of implementing and maintaining the risk management and internal control system within their legal entities.

c. Accounting and financial function

The Group's Finance Department is the entity that drives the company's accounting and financial operations. Its central organisation comprises:

- an accounting and consolidation function, responsible for preparing and presenting the Group's consolidated financial statements,
- a management and budget control function, which analyses the Group's financial data and produces monthly reports on any variances with respect to the budget and comparable periods of the previous year. These analyses are performed monthly, when financial forecasts for the current half-year and financial year are reviewed so as to steer the business in order to achieve the objectives set,
- a tax function, which provides support to operational entities on legislation and during tax audits. It also monitors tax consolidation within the Group and ensures their overall coherence,
- a corporate treasury and financing function, which coordinates and optimises the management of financial resources and exchange rate risk at Group level.

The Group's Finance Department is represented in each entity and in each of the main countries by a finance director who is functionally assigned to it. The implementation of the accounting and financial internal control is carried out by these finance directors, who have local or decentralised teams in the operational units within their scope of responsibility to ensure that the financial information is prepared in compliance with the rules on internal control.

At the annual closing, the chief executives and their finance directors issue an attestation letter to the Group's Senior Vice President Finance & Legal, certifying the truthfulness and completeness of the financial data submitted for consolidation.

d. Legal affairs function

The Group's Legal Affairs Department, as well as "country structures", provides support to units with regard to local and international laws, in order to manage any potential legal risks that may be incurred in the various fields of the law.

The Human Resources Department also has a network of legal advisors who specialise in employment law and who provide support to the Group's units, either in-house or in collaboration with law firms.

e. Quality assurance function

The Group's Quality Assurance Department defines the quality assurance policy and objectives, and drives the improvement of customer satisfaction. It is in charge of the process management system applicable to all Group entities. Each process is entrusted to a manager who is responsible for defining rules and setting targets, as well as for their implementation and effectiveness, ensuring that process targets are achieved through risk reduction.

Quality assurance procedures for projects and products are delegated to operational units. Quality assurance is thus an integral part of each business, which ensures that systems, equipment and services meet customers' requirements and response times are minimised.

2.2.2. THALES'S OPERATING PRINCIPLES AND PROCEDURES

Thales's operating principles and procedures underpin the Group's internal control. This set of organisational rules, policies and procedures, which includes rules on ethical conduct and corporate responsibility, is available on the Group intranet and is provided to all new employees in their welcome pack.

a. The Board's rules of procedure

Section 1.1 of the corporate governance report provides more details on the Board of Directors, its rules of procedure and its operation.

b. The reference system

Thales has created a reference system based on each process, which defines the organisation, rules, practices and methods to be implemented.

Thanks to its modular design, it can be adapted to the business context and can be augmented, within each entity or country, by local rules and practices.

c. Codes and guides on good conduct

The Code of Ethics, available in eight languages, describes the behavioural rules and the values that the Group wishes to uphold. It covers relationships with customers and suppliers, co-workers, shareholders and financial markets, as well as protection of the environment. The Code of Ethics is supplemented by a special section on ethical business practices.

The reference guide on export control sets out the issues and implications arising from the Group's export activities and outlines current international regulations on controlling exports of military and dual-use equipment. It defines the responsibilities and the monitoring and control processes necessary to ensure that Thales's operations comply with all these requirements.

As part of its commitment to preventing insider trading, the Group has adopted a code on insider information and share trading for senior executives, and regularly updates the list of insiders.

There is now an e-learning platform to raise employee awareness in a targeted manner about the prevention of insider trading, competition law, risks of infringement of intellectual property rights and export control, as well as business ethics and corporate responsibility.

d. Internal audit charter

The Group's internal audit charter, approved by the Board of Directors, sets out the basic principles for internal control, the purposes of the internal audit, the scope and limits of its responsibilities and how this is implemented within the business units.

Under the terms of this charter, the internal audit can assess the quality of risk management and internal control of any of the Company's processes, and may independently decide on the need for intervention if necessary.

2.2.3. INTERNAL COMMUNICATION

Internal communication, as a tool for coordinating and ensuring the consistency of the Group's overall internal control system, aims to foster a sense of ownership and motivation among employees by providing them with necessary information on the Group's strategy and events. It relies on different channels that uphold Thales's values:

- information resources provide a means of communicating with all Group employees, such as the Group's intranet (updated every day), "Login to Thales" publications (in-house magazine) and newsflashes circulated by e-mail,
- welcome seminars held by the management team for new executives in order to communicate the Group's vision, strategy, corporate culture and values.

Shared knowledge bases that are freely accessible online, or protected depending on their content, and designed to facilitate dissemination of the principles adopted and the implementation of good practices in respect of internal control.

2.3. IDENTIFICATION AND ANALYSIS OF MAJOR RISKS

Since 2007, the Internal Audit Department has incorporated a risk management function. This is the responsibility of a dedicated team, separate from the audit team, which provides support to all operational

and functional managers to help them identify and assess the risks to which their activities are exposed and to institute the means to manage or reduce these risks. It is also responsible for the development of internal control assessment tools provided to the entities.

In 2008, the Group mapped its main risks based on a risk model that distinguishes between exogenous risks (arising from the Group's external business environment) and endogenous risks (arising from internal processes).

These risks had been ranked on the basis of three analysis criteria: financial impact, the probability of occurrence and the perception of the level of risk controlled by existing procedures.

In 2010, the Risks & Internal Control Committee revised this list in order to:

- bring it into line with the COSO model by identifying four risk categories: operational, legal infringement, financial and strategic;
- pinpoint the main factors behind each risk.

The Group has assigned each of these risks to a risk owner in charge of overseeing the risk management strategy at Group level under the coordination of the Risks & Internal Control Committee: definition of risk management mechanisms, monitoring the implementation of the strategy, monitoring major incidents, and ongoing system improvements.

The Group submitted a progress report to the Audit & Accounts Committee at its mid-year meeting.

A detailed list of these risks can be found in Section B, "Risk factors", in the management report.

Internal control self-assessment and improvement system

Since 2008, the entities have used an internal control questionnaire based on internal control objectives linked to the Group's processes and accounting cycles (receivables/payables/fixed assets, etc.) to identify their areas of weakness and assess whether these are due to control objectives not being properly achieved, insufficient control or procedures that need to be improved.

The questionnaire focuses on the reliability of the financial processes and was largely developed and based on the AMF recommendation document entitled "Internal control: reference framework".

Each year, the Group's consolidated entities update their replies and add to the attestation letter signed by their company representative at the end of the year by including a summary of the self-assessment and the resulting progress plans.

Since the questionnaire was created, Internal Audit has conducted audits on Group entities to facilitate an understanding of the system and improve the reliability of the results. At 31 December 2010, it had audited 75% of units, representing around 94% of revenues. The Group intends to pursue its reliability reviews in 2011, alongside its verification of the implementation of action plans.

The Group, via its Risks & Internal Control Committee, has analysed the results of the self-assessments carried out by the entities in order to identify any areas for cross-functional improvement. The analysis did not highlight any areas that might compromise the published consolidated financial statements.

The Group presented the summary of self-assessments and the conclusions of its analysis to the Audit & Accounts Committee at its meeting in November 2010.

Compliance procedure

The Group has operated a compliance procedure since 2007, with the appointment of a compliance officer in each subsidiary, the use of self-assessment questionnaires, and the end of year submission of an attestation letter from all chief executives concerning their subsidiary's situation with regard to different legal aspects and internal control within their financial processes. The attestation letter includes an improvement plan for each area that the company deems to be under-developed.

These attestation letters are collected and reviewed by the country managers and by the division heads for France. In their turn, they send a summary to the Group Chairman.

In 2010, these attestation letters covered:

- professional ethics,
- reliability of the financial processes,
- legal compliance.

The Countries have reviewed the assessments carried out in 2009 by their entities on the maturity of the means employed to comply with laws and prevent infringements. The Audit Department has carried out a mid-year review with them to ensure that they are correctly monitoring the effective implementation of the progress plans.

The legal compliance areas used by the Group are:

- company law,
- delegation of powers,
- competition law,
- employment law,
- health and safety,
- environment,
- anti-corruption,
- export control,
- national secret,
- prevention of infringement of intellectual property rights by Thales.

As in previous financial years, an analysis of each area and geographical region will enable cross-functional improvements to be introduced with closer monitoring of entities that reported under-development.

The Group presented the summary of assessments and the related progress plans to the Audit & Accounts Committee at its meeting in November 2010.

2.4. MAJOR RISK MANAGEMENT AND INTERNAL CONTROL ACTIVITIES

The section on "Risk factors" in the management report describes the measures taken by the Group to address the financial, legal and environmental risks, and the risks relating to acquisitions and strategic investments or to the business.

2.4.1. CONTINUOUS IMPROVEMENT OF OPERATIONAL PROCESSES

Thales has introduced internal and external assessments, based on international standards, enabling the Group to identify any areas requiring continuous improvement, to prioritise these and to monitor the associated action plans.

a. Development activities

Thales has chosen the international CMMI® model (Capability Maturity Model Integrated), which is suited to its business and recognised by many clients, as a tool for improving and assessing the maturity of operational processes: management of bids and programmes, systems engineering, hardware and software, supplier control and support activities. For developments in the field of information systems, Thales relies on the dedicated model maintained by the Information Technology Infrastructure Library (ITIL).

b. Production activities

Thales has adopted the international Supply Chain Operations Reference (SCOR) model to measure the efficiency of its services in terms of delivery of the finished product. This measure relates to all supply chain activities, including the construction of industrial plans, the production master plan, the procurement, production and delivery phases, as well as the related support services for integrating and processing customer feedback.

c. Process management

To make better use of ISO 9001 certification, Thales – in association with certification bodies – has introduced a scoring system known as the "Process Management Indicator" (PMI). This is a quantified assessment of the management system's maturity via the quality of the entities, established when certification audits are done. The PMI ensures increased visibility of the progress actions to be implemented and quantification of the improvements made.

2.4.2. CENTRALISED ACTIVITIES

Some complex or risky operations are carried out solely by central departments, which ensure the consistency and coordination of the Group's practices. A specific internal control framework has been put in place to manage the risks associated with these operations.

a. Investment and disinvestment

Total or partial corporate takeovers and disposals come under the exclusive remit of the Group's general management. The divisions propose projects at periodic meetings of the Mergers & Acquisitions Committee, made up of the main central departments.

b. Financing, treasury management and foreign exchange risk

The Group's financial resources are managed centrally by the Group Treasury and Financing Department. The Group's subsidiaries are not authorised to undertake financing operations themselves, apart from any exceptions due to tax or other regulatory constraints and authorising any overdrafts required for efficient account management.

Every day, the bank accounts of the local entities in the main countries are balanced by transfers to or from the corporate treasury account (cash pooling – zero balancing system). Financial agreements have been arranged with all Group companies which manage these relations in compliance with the relevant local regulations.

The Group Treasury and Financing Department also manages the overall foreign exchange risk, while in-depth monitoring of this risk is carried out by the operational units. Foreign currency transactions are analysed prior to any financial commitment and are hedged at Group level against foreign exchange risk as soon as the probability of being awarded the sales contract and/or signing a purchase order becomes significant, excluding special cases.

c. Financing of export operations

Export finance operations (guarantees, buyer credit, documentary credit, as well as more complex operations) are prepared by local specialists reporting to local Finance Departments. These specialists also report to the international financial affairs department. Transactions involving amounts in excess of €10m or of a certain complexity are handled solely by this department at Group level.

d. Real estate management

All real estate transactions come under the exclusive remit of the Group's Real Estate Department. It may delegate certain operations, especially outside France, to a national organisation, or to a local company, while ensuring proper supervision.

e. Disputes, litigation and legal compliance

With the exception of disputes concerning relationships with employees and trade unions, which are handled by HR, other disputes are monitored by the Group's Legal Affairs Department.

f. Insurance and claims

All insurance policies of Group companies are handled by Thales Insurance and Risk Management, a specialist subsidiary that optimises the cost of insurance for the Group and sees to it that the subsidiaries are properly insured against all the insurable risks to which they are exposed. This entity also oversees large claims.

g. Contract intermediation

The commercial environment for the Group's international operations is managed by a specialist company, Thales International. This company possesses the expertise and appropriate procedures to drive these operations in compliance with the applicable laws and regulations. Thus, only Thales International or its subsidiaries are authorised to sign commercial intermediation contracts with business advisers for export operations. For domestic operations, in countries where the Group has a significant manufacturing and commercial presence, procedures are in place to improve customer relations while increasing the security and legality of commercial operations.

2.4.3. DEVELOPMENT AND PROCESSING OF PUBLISHED FINANCIAL AND ACCOUNTING INFORMATION*a. Accounting and financial procedures*

The Group has produced several procedures manuals that are mandatory for all Group units. The finance directors of each unit are accountable to the Group Finance Department for compliance with these procedures.

- Accounting standards manual

This manual provides a detailed description of the accounting standards and policies to be applied during the preparation of the consolidated financial statements in accordance with IFRS.

- Budgetary control procedures manual

This manual describes the hierarchy and reporting levels required by the Group, the financial cycles, the responsibilities of the Finance Department in operational processes and the rules to be followed by all Group entities.

- Reporting manual

This manual describes the content and format of periodic reports and contains a glossary to help standardise financial aggregates.

- Cash management manual

This manual describes the respective roles of the central teams and teams within each unit in respect of cash flow and financing operations.

It also details the procedures for short-term cash flow management, operation of the exchange risk hedging system and the related reporting rules.

- Guide to financial structuring

This document defines the respective roles of central teams and teams within each unit, as well as the procedures for the preparation and monitoring of the financial set-up proposed for commercial bids. The objective is to optimise the cost of the financial structure and ensure the best possible hedging against financial risks.

The internal control questionnaire and the accompanying instructions are an additional reference. These elements, which have gradually been incorporated into the process management system applied to the entire Group, are effectively equivalent to an internal financial control manual.

b. Budgetary process

There are three stages in setting the annual budgetary targets:

- the Group's divisions draw up a strategic plan over a minimum period of four years, depending on their business models, which is presented to and approved by Group corporate management,
- each country and major French entity then submits a more detailed four-year budget plan to Group corporate management. This plan is based on the commercial forecasts and assumptions previously set by the marketing and sales departments, in accordance with the strategic plans prepared by the divisions,
- finally, Group management sets targets for each country and major French entity and ensures overall consistency. Monthly budget reporting takes place during the first year of the plan, which is then used as a reference for monitoring the accounting situation.

c. Financial reporting

The system includes some of the key factors described earlier in this report, such as accounting and financial procedures and a centralised consolidation process supported by a single tool.

Monthly results are analysed in order to identify any budget deviation and to update annual forecasts concerning orders, revenues, profits and cash flow. This procedure is carried out by each unit and provides a consolidated view at division and Group level. It also makes it possible to identify any action plans necessary to achieve the objectives set.

d. Consolidation of the financial statements

Thales uses the same consolidation software throughout the Group, selected from those available on the market, which enables it to upload the accounting information of the Group's various units with consistency checks carried out at source. Transfers of accounting entries to head office are authorised only after validation. Training sessions and personalised support on the tool within the Group's consolidation teams ensure that users operate the software effectively.

2.5. OVERSIGHT OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

2.5.1. Monitoring and control bodies

The Board of Directors exercises control over the management of the Group, either directly or through its committees. Detailed information on the organisation of the Board's work and, more generally, the functioning of the Board and its committees, is given in section 1 of the corporate governance report.

a. Audit & Accounts Committee

At the annual closing of the accounts, the Senior Vice President Finance & Legal of the Group submits a memorandum to the Audit & Accounts Committee on the procedures used to identify and control major risks and off-balance sheet commitments.

Each year, the Internal Audit Department submits an audit plan to the Audit & Accounts Committee covering different aspects relating to the Group in respect of compliance with legislation and regulations, assessment of internal control and risk identification and management.

At the meetings of this committee, the resources employed, actions taken to improve internal control and risk identification and monitoring are reviewed.

b. Risks & Internal Control Committee

This committee, chaired by the Senior Vice President Finance & Legal, brings together representatives from functional and operational departments as well as the Internal Audit Department, which is also responsible for the secretarial function.

In 2010, this committee supervised the analysis of the Group's main risks and definition of management strategies. It is also responsible for monitoring the action plans resulting from the 2009 self-assessments on internal control and legal compliance.

c. Ethics & Corporate Responsibility Committee

Thales has an Ethics & Corporate Responsibility Committee, which is made up of members of the Executive Committee, functional departments and the main countries in which the Group is based. It is responsible for guaranteeing compliance with the Code of Ethics and contributes to the definition and implementation of the Thales ethics and corporate responsibility policy. In 2010, this committee met three times.

d. Internal Audit Department

Reporting to the chairman & chief executive officer, the Internal Audit Department works with the Audit & Accounts Committee, the Risks & Internal Control Committee, Group management and the statutory auditors.

It takes particular care to ensure proper risk management and the maintenance of adequate internal control within the Group by carrying out audits and project management reviews.

The Internal Audit Department works in accordance with international internal audit standards, as indicated by the IFACI certification obtained in 2006 and confirmed each year by an external professional audit to which it voluntarily submits.

2.5.2. AUDIT OF FINANCIAL INFORMATION

Each year, the Internal Audit Department reviews the financial audit manual with the statutory auditors. This manual describes the audit stages for the statutory auditors and identifies the areas to be audited.

Consolidated companies are placed in one of three categories, according to their size and the risks to which they may be exposed. They may be subject to an in-depth review, a limited review or a flash review.

In the first two types of review, as well as assessing the financial statements, the statutory auditors recommend improvements in terms of internal control. These recommendations are contained in a section of the annual interim summary report issued to the unit and to Group management in November each year.

C. STATUTORY AUDITORS' REPORT PREPARED IN ACCORDANCE WITH ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL CODE (CODE DE COMMERCE) AND DEALING WITH THE REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS OF THALES

This is a free translation into English of a report issued in French and it is provided solely for the convenience of English-speaking users. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

Year ended December 31, 2010

To the Shareholders,

In our capacity as Statutory Auditors of Thales and in accordance with article L. 225-235 of the French commercial code (Code de Commerce), we hereby present our report dealing with the report prepared by the Chairman of your company in accordance with article L. 225-37 of the French commercial code (Code de Commerce) for the financial year ending December 31, 2010.

The Chairman is responsible for preparing and submitting for the approval of the Board of Directors, a report describing the internal control and risk management procedures implemented by the company and disclosing other information as required by article L. 225-37 of the French commercial code (Code de Commerce) dealing in particular with corporate governance.

Our role is to:

- Report on any matters as the information contained in the Chairman's report and relating to the company's internal control and risk management procedures in the area of the preparation and processing of financial and accounting information; and
- Confirm that the report also includes the other disclosures required by article L. 225-37 of the French commercial code (Code de Commerce). It should be noted that we are not responsible for verifying the fair presentation of those other disclosures.

We have performed our work in accordance with the professional standards applicable in France.

Information relating to the company's internal control and risk management procedures relating to the preparation and processing of financial and accounting information

The professional standards require the application of procedures designed to assess the fair presentation of the information contained

in the Chairman's report and relating to the company's internal control and risk management procedures in the area of the preparation and processing of financial and accounting information. Those procedures involve in particular:

- Obtaining an understanding of the underlying internal control and risk management procedures in the area of the preparation and processing of financial and accounting information presented in the Chairman's report, and of the related documentation;
- Obtaining an understanding of the work performed as a basis for preparing that information and the existing documentation;
- Determining if any major internal control weaknesses in the area of the preparation and processing of financial and accounting information identified by us during the course of our engagement have been appropriately disclosed in the Chairman's report.

On the basis of the procedures performed, we have nothing to report on the information relating to the company's internal control and risk management procedures relating to the preparation and processing of the accounting and financial information contained in the report prepared by the Chairman of the Board of Directors in accordance with article L. 225-37 of the French commercial code (Code de Commerce).

Other disclosures

We hereby confirm that the report of the Chairman of the Board of Directors includes the other disclosures required by article L. 225-37 of the French commercial code (Code de Commerce).

Paris-La Défense and Courbevoie, March 11, 2011

The Statutory Auditors

French original signed by

ERNST & YOUNG

MAZARS

MICHEL GAUTHIER

NOUR-EDDINE ZANOUDA

JEAN-LOUIS SIMON

D. GENERAL MANAGEMENT

1. MEMBERS OF THE EXECUTIVE COMMITTEE AT 1 MARCH 2011

The general management of the company and the Group is represented by a collegiate body chaired by the chairman & chief executive officer, comprising 14 members in charge of the main operational and corporate functions.

At 1 March 2011, the members of the Executive Committee were as follows:

Alex Dorrian, EVP¹, International, Chairman of Thales UK
Blaise Jaeger, SVP², International
Patrice Durand, SVP, Finance & Legal
Marko Erman, SVP, Research & Technology
Patrick Fournié, SVP, Operations
Loïc Mahé³, SVP, Human Resources & Communications
Hervé Multon⁴, SVP, Strategy
Alex Cresswell, SVP, Land Defence

Jean-Pierre Forestier, SVP, Transportation Systems
Jean-Loïc Galle, SVP, Air Operations
Michel Mathieu, SVP, Avionics
Pierre-Eric Pommellet, SVP, Defence Mission Systems
Reynald Seznec, SVP, Space
Pascale Sourisse, SVP, Defence & Security C4I Systems

2. EXECUTIVE COMPENSATION

a) REMUNERATION OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The chairman and chief executive officer's compensation consists of a fixed and a variable part, in the same way as that adopted by Thales for its executives. The Board of Directors of Thales decided on the components of the chairman's compensation package after taking into account salary surveys and market information.

Decisions concerning Mr Vigneron were taken at the Board of Directors' meeting on 18 February 2010.

■ TABLE 1: REMUNERATION, OPTIONS AND SHARES GRANTED TO THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

<i>In € thousand</i>	2010	2009 (*)
Denis Ranque – Chairman & CEO from 1 January to 19 May 2009		
Remuneration due for the year (detailed in table 2)		3 314.7
Value of stock options granted during the year (detailed in table 4)		—
Value of performance shares granted the financial year (detailed in table 6)		—
Luc Vigneron – Chairman & CEO since 19 May 2009		
Remuneration due for the year (detailed in table 2)	1,157.1	741.2
Value of stock options granted during the year (detailed in table 4)	393.6	600.8 (**)
Value of performance shares granted the financial year (detailed in table 6)	—	—
Total before options waiver	1,550.7	4,656.7
Total after options waiver (**)	1,550.7	4,055.9

(*) *Luc Vigneron took office on 19 May 2009.*

(**) *At the Board of Directors' meeting of 10 December 2009, Mr Vigneron announced that he would be waiving the 80,000 options granted to him by the Board of Directors on 25 June 2009.*

¹ *EVP: Executive Vice President.*

² *SVP: Senior Vice President.*

³ *Replacing Yves Barou from 1 May 2010.*

⁴ *Replacing Jean-Loup Picard from 23 April 2010.*

■ TABLE 2: REMUNERATION TO THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

	2010		2009	
	Due for the period	Paid during the period	Due for the period	Paid during the period
<i>In € thousand</i>				
Denis Ranque Chairman & CEO from 1 January to 19 May 2009				
Fixed salary			351.4	409.8
Bonuses			—	578.5 (*)
Exceptional compensation			2,961.5	2,961.5
Attendance fees			Waiver	Waiver
Benefits in kind			1.78	2.16
Luc Vigneron Chairman & CEO			—	—
Fixed salary	700.0	703.4	432.5	374.2
Bonuses (a)	415.1	284.1 (*)	284.1	—
Exceptional compensation			—	—
Attendance fees	38.9	32.3	23.5	6.2
Benefits in kind (b)	3.1	3.1	1.1	1.1
Total	1,157.1	1,022.9	4,056.2	4,333.4

* paid for the previous period.

- (a) The Board of Directors' meeting of 18 February 2010 decided that the target variable remuneration would be 100% of the fixed remuneration, with a maximum of 137.50% if performance targets were exceeded. The criteria for calculating bonuses, based on a weighting decided by the Board of Directors, are quantitative and equivalent to a total of 75% (in descending order: 45% EBIT, 20% operating cash flow and 10% orders taken in 2010). The targets were set by the Board during the budgetary process but were not made public. For the balance, i.e. 25% of the variable remuneration, the Board decided to maintain qualitative criteria for 2010. These include, but are not limited to, the following: management of change (including continued development of employee competence and employability¹, and internal communication), delivery of major programmes, deployment of the Probasis performance programme and the quality of governance.

On 24 February 2011, the Board reviewed the results achieved, based on some of the quantitative criteria set previously, i.e.

EBIT for 2010

operating cash flow for 2010

orders taken in 2010

and also assessed the performance of the various responsibilities assigned to the chairman.

This review led the Board of Directors to decide, upon the proposal of the Remuneration Committee, that the variable remuneration payable in 2011 to the chairman and chief executive officer for the 2010 financial year would be €415,077 (gross), which is 59% of the target annual fixed remuneration.

- (b) The chairman and chief executive officer is entitled to a company car: the amount shown in the table represents the value subject to taxes and social security contributions during the year.

The chairman and chief executive officer is also entitled to the services of a driver.

¹ Strategic Workforce Planning.

■ **TABLE 3: ATTENDANCE FEES AND OTHER EMOLUMENTS RECEIVED BY NON-EXECUTIVE CORPORATE OFFICERS IN 2010/2009**

<i>(in euros)</i> Beneficiary	Paid in 2010	Paid in 2009	Notes
J-P BARTH	3,516	35,250	
R. BRUNCK	4,516	38,500	
F. BUJON de l'ESTANG	3,516	39,000	
J. CORNU (net of deduction at source)	2,637	22,537	
O. COSTA de BEAUREGARD	—	5,202	
Ch. de CROISSET (net of deduction at source)	3,137	31,688	
R. FREEMAN (net of deduction at source)	109,910	105,098	(a)
P. LEPINAY	31,800	37,750	(b)
D. LOMBARD	26,800	34,000	
K. NAUMANN (net of deduction at source)	2,637	25,501	
M. ROULET (delegated by TSA, Director)	3,491	40,250	
S. TCHURUK	3,516	31,500	
Alcatel-Lucent Participations	3,516	24,000	
Inter CFDT (M-P DELPIERRE + D. FLOCH)	71,100	85,500	
State treasurer – Art. 139 NRE (B. BEZARD + O. BOURGES + B PARENT)	77,584	46,500	
C. EDELSTENNE	30,784	6,250	
S. GENTILI	32,034	5,000	
P. MUTZ	30,784	6,250	
L. SEGALLEN	33,617	6,250	
A. de SEZE	23,284	5,000	
E. TRAPPIER	32,034	6,250	
TSA	23,309	7,500	
B. RETAT (Non-voting member until 17 May 2009 inclusive)	—	17,500	
TOTAL PAID (net of deduction at source)	553,522	662,276	
including attendance fees (excl. Chairman & CEO *)	477,588	589,241	

(a) Including £65,000 for function performed in the Group in the United Kingdom (which represents, at the average exchange rate for the period: €75,934 in 2010 and €73,035 in 2009), the remainder consisting of Thales attendance fees paid in France, net of the deduction at source of 25% applicable to non-residents;

(b) Philippe Lépinay has indicated that he repaid to the Thales employees association (APAT) the sum of €6,000 in 2009 and €5,300 in 2010, representing approximately half of the attendance fees he received during the period, after taxes and expenses inherent in his role.

* The attendance fees paid to Luc VIGNERON, chairman and chief executive officer since 19 May 2009, are shown in table AMF No. 2 (Remuneration to the chairman and chief executive officer).

■ **TABLE 4: STOCK OPTIONS GRANTED DURING THE PERIOD TO THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER BY THE ISSUER OR BY ANY OTHER GROUP COMPANY**

	Date of Plan	Type of option	Option value based on method used for consolidated accounts	Number of performance options granted during the period	Option value based on method used for consolidated accounts	Exercise price	Exercise period
<i>Name of Director</i>							
Luc Vigneron	23 September 2010	Share subscription options	€6.15	64,000	€393,600	€26.34	From 23 September 2014 to 22 September 2020

This represents 1.28% of total options (share purchase and subscription options) authorised by the Annual General Meeting and 13.5% of the number of options granted in the September 2010 plan.

The Board of Directors decided, on 23 September 2010:

- to make the options granted subject to internal performance conditions;
- that one third of the options would be validated in each tranche, the first tranche being validated in February 2012, the second in February 2013 and the third in February 2014;
- that the performance criteria would be 60% EBIT, 25% operating cash flow and 15% orders taken;
- that in any case, regardless of the results, the authorised grant would not exceed the initial amount granted;

- that the calculation formula for each tranche would be:

$$W\% = [60\% * x\% + 25\% * y\% + 15\% * z\%]$$

x%, y% and z% representing the results of the calculation of target bonuses based on a scale of 0 to 150% for each criterion for the 2011, 2012 and 2013 financial years, for which the accounts will be prepared in February 2012, February 2013 and February 2014, respectively, by the Board of Directors.

Furthermore, in accordance with Article L. 225-185 of the French Commercial Code, that the chairman and chief executive officer should hold, in the form of securities, at each exercise of options granted in 2010 and for the entire duration of his term of office, 40% of the acquisition gain, net of tax.

At 31 December 2010, Mr Vigneron held 64,000 options granted in 2010 (waiving the 80,000 options granted to him in June 2009).

Mr Vigneron has formally agreed with the Board not to use hedging instruments for the options that have been or will be granted to him.

■ **TABLE 5: STOCK OPTIONS EXERCISED DURING THE PERIOD BY THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

	Date of plan	Number of options exercised during the period as Chairman & CEO	Exercise price
<i>Name of Chairman & CEO</i>			
Luc Vigneron		None	

■ **TABLE 6: PERFORMANCE SHARES GRANTED DURING THE PERIOD TO THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

Director's name	Date of plan	Number of shares granted	Value of shares based on method used for consolidated accounts	Acquisition date	Transfer date	Performance condition
Luc Vigneron						None

The company decided, when it first started making such grants (in 2007), to exclude the chairman and chief executive officer (the sole executive director), as well as the 20 most senior executives from free share plans.

■ **TABLE 7: PERFORMANCE SHARES VESTING DURING THE PERIOD FOR THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

Director's name	Date of Plan	Number of shares vested	Vesting conditions
Luc Vigneron			None

■ **TABLE 8: TIMELINE OF STOCK OPTIONS GRANTED TO THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

Date of authorisation by AGM	15/05/2008	15/05/2008
Date of Board decision	23/09/2010	25/06/2009
Grant discount	None	None
Nature of options	Subscription	Subscription
Performance conditions	Yes ^(a)	
Exercise period ⁽¹⁾	23 September 2014 to 23 September 2020	
Exercise price	€26.34	
Total number of options in current plan at 31/12/2010	470,350	
Of which current options held at 31/12/2010 by: Chairman & CEO Luc Vigneron	64,000	Waiver (b) and (c)
Of which options exercisable by the Chairman & CEO at 31/12/2010	0	

(a) Details and comments on table 4 (page 200).

(b) At the Board meeting of 10 December 2009 Luc Vigneron waived 80,000 options that he had been granted by the Board of Directors on 25 June 2009.

(c) The details of the plan are presented on page 119.

■ **TABLE 9: SHARE PURCHASE OR SUBSCRIPTION OPTIONS GRANTED TO THE TOP TEN EMPLOYEES WHO ARE NOT CORPORATE OFFICERS, AND OPTIONS EXERCISED BY THE TEN EMPLOYEES WITH THE HIGHEST NUMBER OF OPTIONS PURCHASED OR SUBSCRIBED DURING THE YEAR**

	Total number of options	Weighted average price
Options granted during the year by the issuer and any company within the scope of the grant of options, to the ten employees of the issuer and any company within that scope, having the highest number of options thus granted	161,500	€26.34
Options held on the issuer and the companies referred to above and exercised during the financial year by the ten employees of the issuer and of these companies, having the highest number of options thus purchased or subscribed	44,520	€28.65

■ **TABLE 10: GENERAL INFORMATION ABOUT THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

	Employment contract		Supplementary pension scheme		Compensation or benefits owed or likely to be owed as a result of termination or change of office		Compensation for restrictive covenant	
	Yes	No	Yes	No	Yes	No	Yes	No
<i>Chairman & CEO</i>								
Luc Vigneron Chairman & CEO Start of appointment: 19 May 2009 End of appointment: 2014 AGM		X	X		X			X

Supplementary pension:

Following a decision of the Board of Directors dated 24 March 2009, Thales's chairman and chief executive officer is entitled to receive a supplementary pension, the amount of which is determined based on a scoring method which is identical to that provided by the Thales group supplementary pension scheme applicable at the date of the Board meeting for Group executives whose compensation exceeds the contribution ceiling set by the AGIRC (French association of executive pension funds).

The chairman and chief executive officer's rights, calculated in the same way as the AGIRC scheme, are not subject to employment with the company at the time of payment of the retirement benefit, but are subject first to the condition of having completed a term of office, and second to the fulfilment of the following performance condition: achievement of at least 80% on average over the last three financial years of the targeted annual operating margin set by the Board for the chairman and chief executive officer.

At 31 December 2010, the rights established on the basis of capped remuneration paid since taking office in May 2009 would represent an annual potential income for Mr Vigneron of 2.2% of the basic salary paid in 2010.

Mr Vigneron will have fulfilled the condition of completing a term of office after the AGM in 2014.

This provision was published on its implementation in 2009 on the company's website, in accordance with the applicable regulations.

Benefits and rights upon the termination of office of the chairman and chief executive officer

Subject to the fulfilment of the performance condition set by the Board of Directors, compensation may be paid, subject to a decision of the Board and under the conditions set forth in the AFEP-MEDEF code, to Mr Vigneron on account of the termination of his office as chairman and chief executive officer, unless for serious or gross misconduct.

This compensation would be equal *ab initio* to a gross amount of €757,000, with this figure increasing on a straight-line basis to reach at the end of the first term of office (2014 AGM) a maximum compensation amount equal to two years' pay (basic + performance-related).

A decision has also been taken to arrange private unemployment insurance based on the same performance criterion as for severance pay.

This decision has been published on the company's website, in accordance with the applicable regulations.

These regulated commitments (pension and benefits) were approved by the Annual General Meeting on 20 May 2010.

Year 2011:

On 24 February 2011, the Board of Directors also decided the following for the 2011 financial year, based on the recommendation of the Appointments and Remuneration Committee:

- to maintain the gross basic salary of Mr Vigneron, chairman and chief executive officer, at €700,000,
- to maintain the target bonuses at 100% of basic salary, rising to a maximum of 137.50% if targets are exceeded,

that the criteria for calculating the variable remuneration for 2011, based on a weighting set by the Board of Directors, would be quantitative and equivalent to a total of 75% (in descending order: 45% EBIT, 20% operating cash flow and 10% orders taken). The targets are set by the Board of Directors during the budgetary process but are not made public. For the balance, i.e. 25% of the variable remuneration, the Board decided to maintain qualitative criteria for 2011. These include, but are not limited to, the following: change management, deployment of the Probasis performance plan and

delivery of major programmes, quality of governance and implementation of the “Skills Development” project.

2) EXECUTIVE COMPENSATION**b) REMUNERATION OF OTHER GROUP EXECUTIVES**

The Group Executive Committee had 14 members at the end of 2010, excluding the chairman and chief executive officer.

Total remuneration paid during 2010, excluding the chairman and chief executive officer, amounted to €7,726,000, including bonuses of 20.8% for 2009*, or bonuses for 2010 for those who have left the Group, as well as 19.4% of non-recurring exceptional remuneration. As is the case for the chairman and chief executive officer, the variable component is based on quantitative and qualitative performance criteria.

Details of compensation paid to the Executive Committee (excluding the chairman and chief executive officer) in 2009 and 2010

	2010 Paid during the period (14 members)	2009 Paid during the period (17 members)
<i>In € thousand</i>		
Executive Committee (excl. Chairman & CEO)		
Fixed salary	4,563	5,768
Bonuses	1,610	3,283
Exceptional compensation	1,503	3,468
Benefits in kind	50	66
Total before contributions	7,726	12,585
Employer contributions	2,244	3,893
Total expense	9,970	16,478

* Variable remuneration for 2010 is paid in 2011.

In addition, members of the Executive Committee other than the chairman together have a total of 1,123,710 stock options. The breakdown by grant date and the detailed features, as well as any options exercised, are shown in the tables on pages 117 and 118 of the summary of operations carried out by directors, non-voting directors and related persons.

E. INCENTIVES AND PROFIT-SHARING

PROFIT-SHARING

The French Group agreement on pooled profit-sharing for employees of Thales Group companies, signed on 23 December 2004 by all representative trade unions at Group level, gave rise in 2010, in respect of 2009, to payment of a share of the profits totalling €39.15m. This agreement illustrates the solidarity among Group companies, since all employees benefit from the same agreement and from a single profit-sharing fund distributed on the basis of common criteria.

INCENTIVES SCHEME

Each company in France may also negotiate an incentive agreement ("accord d'interressement") on the basis of indicators which represent its key objectives. Under the terms of the Group profit-sharing agreement, it is mandatory to comply with the rule which sets an upper limit on the amount of the premium (total incentives + profit share) in relation to payroll.

Accordingly, 18 Group companies were paid incentives in 2010 in respect of the 2009 financial year totalling €15.13m.

GROSS AMOUNTS PAID OUT IN INCENTIVES AND PROFIT-SHARING IN RECENT YEARS

(in € million)	2010	2009	2008	2007	2006
In the Group (a) in France					
Profit share paid	39.15	51.30	35.86	31.68	32.51
Incentives paid	15.13	16.92	15.30	15.54	19.15
By Thales (parent company)					
Incentives paid	0	2.77	3.18	2.67	2.57

(a) Scope of consolidation in France, including all 100% joint ventures.

F. STATUTORY AUDITORS

For the period covered by historical financial data, the Thales Group's statutory auditors were as follows:

REGULAR STATUTORY AUDITORS

MAZARS

61 rue Henri Regnault, Tour Exaltis
92400 Courbevoie
represented by Mr Jean-Louis Simon

Current term approved by the Annual General Meeting held on 16 May 2007 and expiring with the audit of the 2012 accounts.

ERNST & YOUNG AUDIT

41, rue Ybry
92576 Neuilly-sur-Seine cedex
represented by Mr Michel Gauthier and Mr Nour-Eddine Zanouda

Current term approved by the Annual General Meeting held on 19 May 2009 and expiring with the audit of the 2014 accounts.

ALTERNATE STATUTORY AUDITORS

PATRICK DE CAMBOURG

61 rue Henri Regnault, Tour Exaltis
92400 Courbevoie

Current term approved by the Annual General Meeting held on 16 May 2007 and expiring with the audit of the 2012 accounts.

AUDITEX

11 allée de l'Arche
92400 Courbevoie

Current term approved by the Annual General Meeting held on 19 May 2009 and expiring with the audit of the 2014 accounts.

STATUTORY AUDITORS' FEES

Fees paid to the statutory auditors in 2010 and 2009 are presented below (a):

	Mazars				Ernst & Young			
	Amount (exc. tax)		%		Amount (exc. tax)		%	
	2010	2009	2010	2009	2010	2009	2010	2009
Audit								
Auditing, certification, examination of individual and consolidated accounts ^(b)								
- Issuer	747	740	13%	14%	789	804	15%	15%
- Fully consolidated subsidiaries	4,485	4,287	78%	78%	3,630	3,751	67%	69%
Other work and services directly associated with the assignment of the auditor ^(c)								
- Issuer	20	50	1%	1%	20	62	1%	1%
- Fully consolidated subsidiaries	350	331	6%	6%	547	457	10%	8%
Subtotal	5,602	5,408	98%	99%	4,986	5,074	93%	93%
Other services provided by the networks to fully consolidated subsidiaries ^(d)								
Legal, tax-related, social-security-related	121	63	2%	1%	418	388	7%	7%
Others (if > 10% of audit fees)	—	—	—	—	—	—	—	—
Subtotal	121	63	2%	1%	418	388	7%	7%
Total	5,723	5,471	100%	100%	5,404	5,462	100%	100%

(a) With regard to the period under consideration, these are services provided in respect of the financial year which are charged in the income statement.

(b) Including the services of independent experts or members of the auditors' network which the auditor uses in connection with certifying the financial statements.

(c) This heading includes due diligence and services directly associated that are rendered to the issuer or its subsidiaries:
- by the auditor in compliance with the provisions of Article 10 of the French Code of Conduct for Statutory Auditors,
- by a member of the network in compliance with the provisions of Articles 23 and 24 of the French Code of Conduct for Statutory Auditors.

(d) These are services not relating to certification rendered, in compliance with the provisions of Article 24 of the French Code of Conduct for Statutory Auditors, by a member of the network to the subsidiaries of the issuer whose financial statements are being certified.

► 3. STOCK MARKET INFORMATION AND FINANCIAL COMMUNICATION

A. THALES STOCK

1. LISTING MARKETS

Thales stock is listed on the NYSE-Euronext Euronext Paris regulated market (Compartment A). It is eligible for the SRD deferred settlement system.

ISIN¹ code: FR0000121329

Reuters: TCFP.PA

Bloomberg: HO FP

2. INDEX LISTING

Thales stock is included in the following main indices:

- NYSE Euronext Paris: CAC Next20 (since 1 August 2006), SBF120 (since 31 December 1990), SBF250 and CAC AllShares.

The market capitalisation used to select stocks in the NYSE Euronext Paris indices is calculated on the basis of the free float² and not on the total number of shares outstanding.

For information, based on the 2010 closing price, Thales's total market capitalisation was €5,213m, which is 3.80% of the CAC Next20 market capitalisation. Thales's free float market capitalisation, as defined by the Expert Indices Committee, was €2,459m.

- International indices: *DJ Eurostoxx*, *FTSEurofirst 300*.

¹ International Securities Identification Number.

² According to the definition used by the Euronext Paris Indices Steering Committee, free float is taken to mean total share capital after deduction of treasury shares and shares held directly or indirectly by the founders and/or the State, controlling interests, shares within the scope of a shareholders' agreement not already covered, and interests considered stable.

3. SHARE PRICE AND TRADING VOLUMES ON NYSE EURONEXT PARIS

a. MONTHLY FIGURES FROM JANUARY 2009 TO DECEMBER 2010 (*share prices in euros*)

	No. of trading days	Volume traded	Total value traded (€m)	Average daily volume	Weighted average price	High price	Low price	Closing price
Year 2010								
January	20	9,844,174	331.75	492,209	33.700	35.845	32.200	32.835
February	20	17,623,110	535.56	881,156	30.390	34.050	27.800	29.345
March	23	14,372,287	424.67	624,882	29.548	30.290	28.735	29.720
Q1 2010	63	41,839,571	1,291.98	664,120	30.879	35.845	27.800	29.720
April	20	11,952,013	347.51	597,601	29.08	29.890	27.755	28.060
May	21	18,661,048	512.42	888,621	27.46	29.260	26.275	27.925
June	22	10,015,135	278.78	455,233	27.84	28.950	26.470	26.540
Q2 2010	63	40,628,196	1,138.72	644,892	28.03	29.890	26.275	26.540
July	22	10,065,009	264.58	457,500	26.29	27.445	25.420	25.895
August	22	7,054,473	182.31	320,658	25.84	26.670	24.990	25.230
September	22	8,623,731	230.00	391,988	26.67	27.645	25.080	26.810
Q3 2010	66	25,743,213	676.89	390,049	26.29	27.645	24.990	26.810
October	21	7,303,406	209.34	347,781	28.66	29.900	26.325	29.295
November	22	7,512,419	210.68	341,474	28.04	30.100	26.205	27.010
December	23	6,525,119	178.39	283,701	27.34	28.570	26.160	26.185
Q4 2010	65	21,340,944	598.41	323,347	28.04	30.100	24.990	26.185
Year-to-date 2010	258	129,551,924	3,706.00	502,139	28.61	35.845	24.990	26.185
Year 2009								
January	21	13,970,776	453.78	665,275	32.481	34.980	30.230	34.755
February	20	12,115,945	394.11	605,797	32.528	34.705	29.825	32.055
March	22	11,928,587	351.40	542,209	29.458	31.925	27.220	28.540
Q1 2009	63	38,015,308	1,199.29	603,417	31.547	34.980	27.220	28.540
April	20	12,453,876	371.26	622,694	29.81	31.870	27.840	31.550
May	20	17,046,314	541.50	852,316	31.77	34.145	30.725	33.160
June	22	13,215,389	432.70	600,700	32.74	34.370	31.410	31.875
Q2 2009	62	42,715,579	1,345.46	688,961	31.50	34.370	27.840	31.875
July	23	14,821,853	441.07	644,428	29.76	31.875	27.390	29.660
August	21	10,623,575	320.17	505,885	30.14	32.315	28.865	32.000
September	22	11,977,919	398.45	544,451	33.27	34.500	31.360	33.900
Q3 2009	66	37,423,347	1,159.69	567,020	30.99	34.500	27.390	33.900
October	22	8,968,589	308.53	407,663	34.40	36.000	32.380	33.020
November	21	10,441,746	342.26	497,226	32.78	33.845	31.430	32.660
December	22	11,229,097	384.42	510,413	34.23	35.945	32.550	35.945
Q4 2009	65	30,639,432	1,035.21	471,376	33.79	36.000	31.430	35.945
Year-to-date 2009	256	148,793,666	4,739.65	581,225	31.85	36.000	27.220	35.945

b. ANNUAL FIGURES FROM 2009 TO 2010 (*share prices in euros*)

• Price and performance

	2010	2009
Closing price	26.185	35.945
Day high	35.845	36.000
Day low	24.990	27.220
Weighted average price	28.61	31.85
Net dividend in respect of the previous year (€)	0.50	1.05
Total shareholder return (TSR) ^(a)	-25.76%	+24.02%
Change in closing price from previous year (%)	-27.15%	+20.50%
CAC 40 performance over the period (%)	-3.34%	+22.32%
CAC Next20 performance over the period (%) ^(b)	+28.25%	+25.36%

(a) "Total shareholder return": differential between annual closing prices, plus dividend before tax credit paid during year in respect of previous year, relative to opening price.

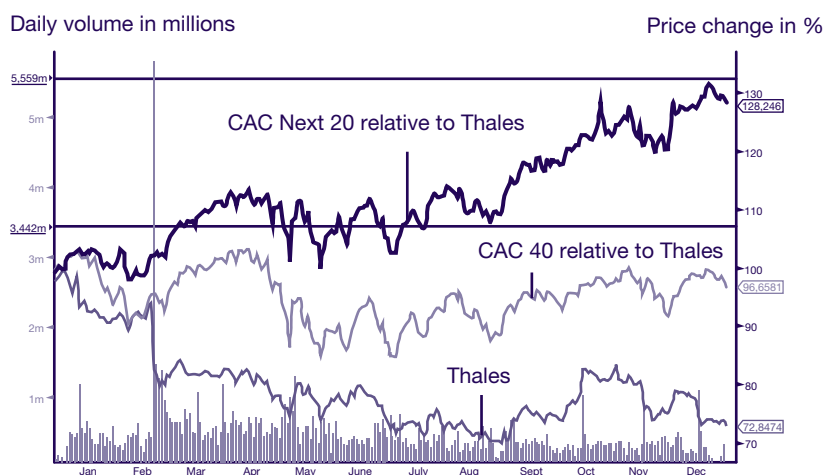
(b) The CAC Next20 has been Thales's reference index since 1 August 2006.

	2010	2009
Average daily number of shares traded (thousands)	502	581
Number of shares traded over the period (millions)	130	149
Total value traded over the period (€m)	3,706	4,740
Average number of shares traded per month (thousands)	10,796	12,399
Average value traded per month (€m)	308.83	394.97
Total number of shares in capital (period-end)	199.0	199.0
Total number of shares in free float (period-end) ^(a)	93.7	93.7

(a) At the end of the period and in accordance with the definition of free float used by the Euronext Paris Indices Steering Committee to calculate the CAC 40 index.

C. GRAPHS AND COMMENTARY ON SHARE PRICE AND TRADED VOLUME DATA FROM 1 JANUARY 2010 TO 31 DECEMBER 2010

Share price and traded volume data from 1 January 2010 to 31 December 2010



Closing price of Thales shares:
4 January 2010: €35.520
31 December 2010: €26.185

2010 high: €35.845
2010 low: €24.990

• Comments on share price in 2009 and 2010

- In 2009, Thales shares rose by 20.5%. This increase closely compares with the CAC 40 and CAC Next20, which gained 22% and 25% respectively, after the significant falls recorded in 2008.
- In 2010, a transitional year for Thales, the share price fell by 27.15%, while the CAC 40 and CAC Next20 indices recorded a performance of -3.34% and 28.25% respectively.

• Comments on traded volumes in 2009 and 2010

- In 2009, daily traded volumes reached 581,225 shares on average, an increase compared with 2008. Volumes were highest in the second quarter and peaked at a daily trading average of 852,316 shares in May, when Dassault Aviation became a major shareholder in Thales and replaced Alcatel-Lucent as the industrial partner.

- In 2010, average daily trading volumes reached 502,139, lower than in 2009. Volumes were highest in the first two quarters, peaking at the end of February 2010.

4. DIVIDEND POLICY

By law, dividends are paid to the holders of shares. The Company uses the Euroclear direct payment procedure.

This year, the dividend recommended by the Board of Directors to shareholders at the Annual General Meeting on 18 May 2011 will be paid in either cash or shares. This option applies to the entire dividend, i.e. €0.50 per share. Any dividend not claimed within a period of five years will be time-barred by law and paid to the Treasury.

As required by law, the per-share dividend information for the last three financial years is given below. In accordance with the French General Tax Code, dividends paid in respect of 2006, 2007, 2008 and 2009 qualified for a possible tax reduction of 40%.

Dividends paid in respect of the last five years

(in euros)	2010 (a)	2009	2008	2007	2006
Dividend before tax credit	0.50	0.50	1.05	1.00	0.87

(a) Subject to the approval of the Annual General Meeting of 18 May 2011, which will vote on the 2010 financial statements. The dividend will be paid on 31 May 2011 (ex-dividend date: 26 May 2011).

B. FINANCIAL COMMUNICATION POLICY

1. GENERAL

Thales's policy is to provide its shareholders with regular, clear and transparent information, in compliance with the financial reporting rules and practices applicable to listed companies.

In addition to this registration document, submitted to the French financial markets authority (AMF), which includes details of all consolidated accounts and associated analysis, business activities and results by segment and the main statutory information about the company, Thales also publishes an interim report and letter to shareholders as well as regular financial press releases and statements. Other publications include an illustrated corporate brochure with key information about Thales and a corporate social responsibility report, outlining its commitments and achievements in this area.

All Thales information documents, presentations and financial press releases are available on the corporate website at www.thalesgroup.com.

Thales holds briefings for the financial community, by teleconference where appropriate, particularly when announcing results (full-year accounts, interim accounts, quarterly information) or important strategic or financial operations.

Regular meetings between Thales executives and institutional investors are held in Europe and North America, typically as part of roadshows or investor days. These include more detailed information about the company's business activities and performance as well as guided tours of operational sites.

Furthermore, at the end of 2010, a day was set aside when the Group presented to members of the socially responsible investor community its policy on environmental, social and governance matters, as well as on the prevention of corruption and export control.

Generally, Thales also maintains a permanent dialogue with international financial analysts and institutional investors to provide them with information about the company's business activities and strategy.

2. PROVISIONAL FINANCIAL REPORTING CALENDAR FOR 2011

24 February	2010 consolidated results
11 May	Q1 2011 financial information
18 May	Ordinary and Extraordinary General Meeting of Shareholders
26 May	2010 ex-dividend date
27 July	2011 interim consolidated results
08 November	Q3 2011 financial information

3. CONTACTS

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4. ANNUAL INFORMATION DOCUMENT: KEY INFORMATION MADE AVAILABLE TO SHAREHOLDERS

This section lists all information published in the 12 months preceding the filing of this registration document, pursuant to the provisions of Article 221-1-1 of the AMF general regulations.

The public can obtain Thales's articles of association and financial information about the Group from its website (www.thalesgroup.com).

★ 2009 annual results

In the "Investors" section, under the heading "Releases and publications":

- Press release of 18 February 2010

- Presentation – 18 February 2010
- 2009 consolidated annual results

★ **Q1 2010 earnings**

In the “Investors” section, under the heading “Releases and publications”:

- Press release of 10 May 2010
- Presentation – 10 May 2010

★ **2010 Annual General Meeting of the Shareholders**

In the “Investors” section, under the heading “Annual General Meetings”:

- AGM of 20 May 2010 – Draft resolution
- Brochure R. 225-83 – AGM of 20 May 2010
- Notice to attend AGM of 20 May 2010
- Notice of AGM on 20 May 2010
- Presentation of AGM of 20 May 2010
- AGM press release of 20 May 2010
- Quorum & results of AGM votes on 20 May 2010
- AGM brochure of 20 May 2010

★ **2010 interim results and earnings**

In the “Investors” section, under the heading “Releases and publications”:

- Press release of 28 July 2010
- Presentation – 28 July 2010
- Consolidated financial statements

★ **Quarterly information at 30 September 2010**

In the “Investors” section, under the heading “Releases and publications”:

- Press release of 9 November 2010
- Presentation – 10 November 2010

★ **2010 annual results**

In the “Investors” section, under the heading “Releases and publications”:

- Press release of 24 February 2011
- Presentation – 24 February 2011
- 2010 consolidated annual results

C. OTHER THALES LISTED SECURITIES

1. BOND DUE IN 2011

In July 2004, Thales issued a €500m bond listed on the Luxembourg stock exchange at a fixed rate of 4.375% (including €300m swapped to variable rate) and due in July 2011.

On 9 January 2009, the Group also issued a new fungible tranche of this loan to the value of €275m. This €275m tranche has been swapped in its entirety to variable rate.

2. BOND DUE IN 2013

In April 2009, Thales issued another bond to the value of €600m, at a fixed rate of 4.375% (including €200m swapped to variable rate). The bond matures in April 2013.

3. BOND DUE IN 2016

In October 2010, Thales issued a €600m bond at a fixed rate of 2.75% (including €400m swapped to variable rate). This bond is listed on the Paris stock exchange and is due in October 2016.

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