

Registration document 2011

ANNUAL FINANCIAL REPORT



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2011 Registration Document

THALES



The registration document was filed with the *Autorité des Marchés Financiers* (AMF) on 10 April 2012, 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 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 consolidated financial statements and corresponding audit reports found on pages 26 to 92 of the 2010 registration document filed with the AMF on 5 April 2011;
- the Group's financial information, key figures and management report, found respectively on pages 4 and 6 to 25 of the 2010 registration document filed with the AMF on 5 April 2011.

The omitted sections of these documents are either irrelevant to the investor, or addressed elsewhere in this registration document.

» PERSON RESPONSIBLE

DECLARATION FROM THE PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

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

I certify that, to the best of my knowledge, 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 8 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 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 historical financial information presented in this document has been audited by independent auditors who have issued reports. These reports, on the consolidated financial statements for 2011 appearing on pages 81 to 82 of the document, the consolidated financial statements for 2009 and 2010 included by reference, and the annual parent company financial statements for 2011 appearing on pages 116 and 117 of the document, have been issued without reservation and contain certain observations.

Neuilly-sur-Seine, 10 April 2012

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 and acceleration in mobility for people, capital, goods, services and data. Yet this more open world is also more vulnerable. Increasingly interlinked, societies 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.

In order to meet the growing demand for security from governments and citizens, operators must have reliable and organised information in order to decipher a more complex environment and select the best option. In order to assist its customers to fulfil their missions, Thales mobilises recognised expertise in information systems and electronics. This recognised expertise is based on control of the “critical decision chain”: detection (radar, sonar, optics) and supervision (civilian and military command and control systems, secure communications and transactions, large software systems, on-board electronics, satellites, integrated systems). These technologies cut across all the Group's businesses and ensure that Thales is able to operate over the entire value chain based on the needs of its customers: project management, systems integration, the supply of high added value equipment or service provision.

The **dual civil/military nature of these technologies and applications** is central to the Thales strategy. It is reflected in its **balanced business portfolio** which gives it control of key technologies for the 21st century based on two business sectors:

- the Defence and Security sector, with a primarily governmental customer base, leverages Thales's expertise in these various fields: a comprehensive offer of equipments, systems and services designed for armed forces based on any type of platform (air, naval and land); military or civil control and command systems, secure communications systems, protection of complex infrastructures (airports, ports, borders) and sensitive data (cryptology, network security management);
- the Aerospace and Transport sector, with a primarily non-governmental customer base, develops its business in three primary markets: aeronautics (avionics and cabin systems for the major aircraft manufacturers), ground transport (rail traffic management and ticketing systems), and space (telecommunication, earth observation, navigation satellites...).

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 maintain core competencies. The **Group's technology base**, which spans all Thales divisions, is continually enhanced by the work of the Group's 22,500 engineers and technical staff.

Supported by 67,000⁽¹⁾ employees, the Group develops long-term, close relations with its customers, building the trust required for complex, long-term projects.

Finally, the Group benefits from a balanced customer base between Europe (approximately 60% of its revenues) and the rest of the world (about 40%), and has sales and industrial sites in all five continents, enabling it to maintain strong relations with its domestic customers in all countries in which the Group is present.

⁽¹⁾ Employees under management, see definition on page 120.

» 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** 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 its 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.
- 2011** Thales increases its DCNS interest to 35%.

» KEY FIGURES

<i>in € million</i>	2011	2010	2009
Order book at year-end ⁽¹⁾	30,697	25,418	24,731
Order intake	13,214	13,081	13,927
Revenues ⁽²⁾	13,028	13,125	12,881
France	3,407	2,931	3,019
United Kingdom	1,492	1,500	1,467
Other European countries	3,457	3,419	3,464
Outside Europe	4,672	5,275	4,931
EBIT ⁽³⁾	749	(92)	151
Net income, Group share ⁽⁴⁾	566	(45)	(128)
Operating cash flow	1,242	389	485
Net operating investments ⁽⁵⁾	(256)	(309)	(413)
Net financial investments	(181)	91	(152)
Self-funded R&D ⁽⁵⁾	(629)	(655)	(664)
Net cash position (net debt) ⁽¹⁾	906	191	(91)
Equity, Group share	4,120	3,672	3,744
Consolidated workforce at year-end ⁽¹⁾	68,325	63,734	64,285

(1) After impact of the consolidation of DCNS under the proportionate method at 35% at 31 December 2011.

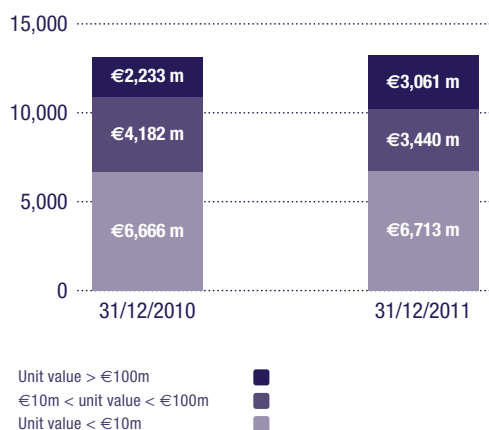
(2) Revenues by destination.

(3) After restructuring and before impact of Purchase Price Allocation (PPA), see box page 8.

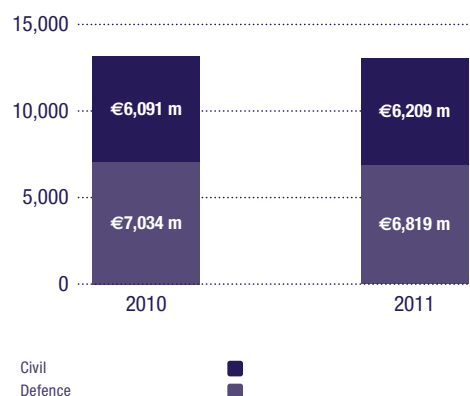
(4) Before impact of Purchase Price Allocation (PPA), see box page 8.

(5) Including capitalised R&D.

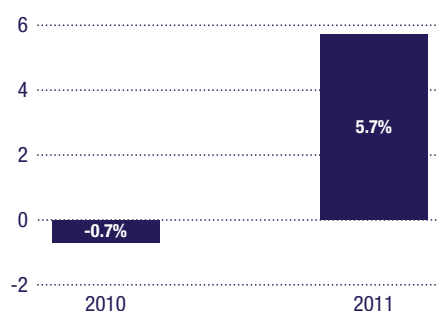
A ROBUST ORDER BOOK



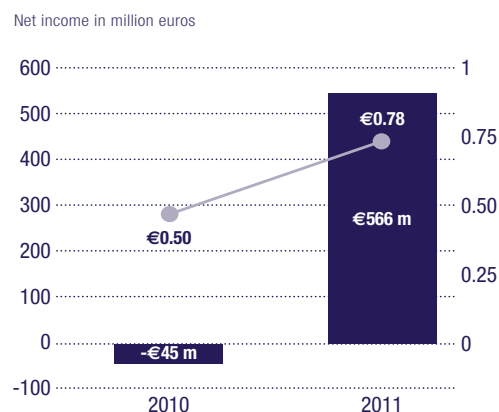
REVENUES HELD FIRM, BACKED BY THE CIVIL/MILITARY BALANCE



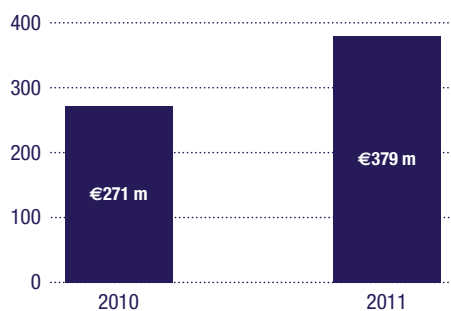
RECOVERY OF EBIT⁽¹⁾



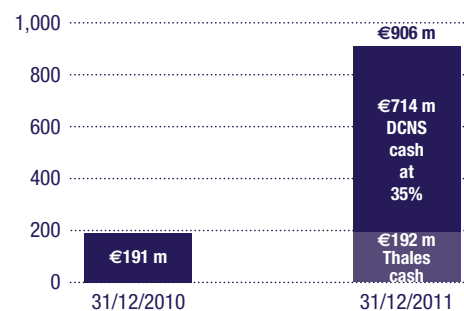
NET INCOME⁽²⁾ AND DIVIDEND UP SHARPLY



GROWTH IN FREE OPERATING CASH FLOW



PRESERVING A POSITIVE NET CASH POSITION



(1) After restructuring and before impact of Purchase Price Allocation (PPA)

(2) Before impact of Purchase Price Allocation (PPA)

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1.1 GROUP MANAGEMENT REPORT

ACCOUNTING INFORMATION: APPLICABLE NEW STANDARDS AND INTERPRETATIONS

The accounting standards used to prepare the Group's consolidated financial statements comply with IFRS (International Financial Reporting Standards) as adopted by the European Union on 31 December 2011. These accounting principles are consistent with those used to prepare the consolidated annual financial statements for the year ended 31 December 2010, except for the adoption of new standards and interpretations, namely: the amendment to IAS 32 (classification of rights issues); amendment to IFRIC 14 (the limit on a defined asset, minimum

funding requirements and their interaction); IFRIC 19 (extinguishing financial liabilities with equity instruments); amendment to IFRS 7 (disclosures related to transfer of financial assets); and amendment to IAS 1 (presentation of other items of comprehensive income).

Standard IAS 24 revised (information on related parties) was adopted early at 31 December 2010. The impact of these new standards and interpretations is provided in Notes 1 and 11b to the "accounting principles" in the notes to the consolidated financial statements.

1.1.1 Report on operations and consolidated results

Although the economic environment worsened more markedly than expected, particularly in defence, order intake has increased, driven by the upgrade contract for the Mirage 2000 aircraft in India and the good performance of civil aeronautics, mitigating the impact of reduced Space orders following the exceptional level of 2010. The Group successfully

maintained a global stability in revenues, thanks to the strong resilience of its defence activities and the growth in civil activities. Results show a marked upturn, thanks to a better project execution, the momentum of the Probasis plan and a stronger footprint in growth regions.

KEY FIGURES

<i>(in millions of euros)</i>	2011	2010	Reported change	Organic change
Order intake	13,214	13,081	+1%	+1%
Order book⁽¹⁾	25,841	25,418	+2%	+1%
Revenues	13,028	13,125	-1%	-0%
EBIT⁽²⁾	749	(92)		
as % of revenues	5.7%	-0.7%		
Net income, Group share⁽³⁾	566	(45)		
Earnings per share (in euros)⁽³⁾	2.88	(0.23)		
Net cash⁽¹⁾	192	191		

(1) Excluding the impact of the proportionate consolidation of DCNS at 35% at 31 December 2011.

(2) After restructuring and before impact of Purchase Price Allocation of ("PPA"), see box below.

(3) Before impact of Purchase Price Allocation (PPA), see box below.

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 primarily represent the 2007 acquisition of the space, transportation and security businesses of Alcatel-Lucent and the equity interest in DCNS.

Unless otherwise indicated, all figures in this report are before adjustment for PPA. In 2011, this had an impact of -€71m on income from operations (after restructuring) and a -€55m impact on net income. Including these items, reported income from operations (after restructuring) was €678m, compared with -€173m in 2010, while net income, Group share totalled €512m at the end of 2011, compared with -€108m at the end of 2010.

ORDER INTAKE

New orders booked in 2011 amounted to **€13,214m**, up **+1%**. Over the year, the **book-to-bill** ratio came to **1.01**, in line with the full-year target set by the Group for 2011.

As budget pressures in Europe are confirmed, this favourable change reflects the continuing positive trend throughout the year in the civil aeronautics business, while the signature of the Mirage 2000 upgrade contract in India, worth more than €1bn, made up for the reduction in space orders after the exceptional level achieved in 2010 (which saw the booking of 81 satellites for the Iridium NEXT constellation in the amount of €1.1bn for Thales's share).

The impact of foreign exchange rate fluctuations on orders booked was negative for -€52m, primarily as a result of the conversion into euros of the orders of subsidiaries based outside the euro zone. These fluctuations were primarily driven by the decline of the US dollar (-€62m) and the pound sterling (-€23m) against the euro, partially offset by a stronger Australian dollar (+€38m). Changes in the scope of consolidation⁽¹⁾ impacted revenues by +€23m.

Several major orders (over €100m unit value) were notified during the year in all the Group's major areas of business. These contracts included the Indian Mirage 2000 upgrade already mentioned, the secure communications network for the future headquarters of the French Ministry of Defence, the maintenance in operational condition for the Rafale aircraft, in-flight entertainment for Qatar Airways, the ground segment of the European Galileo space programme, and the heavy goods vehicle eco-tax collection and control system in France ("Eco-tax" project).

Orders with a unit value of less than €10m rose slightly compared with 2010 and continue to represent more than half the orders received in terms of value.

The **total order book**, taking into account the consolidation of DCNS under the proportionate method at 35% at 31 December 2011, amounted to €30,697m. Restated to exclude this impact, the order book increased by **+2%** and stood at **€25,841m** at the end of December 2011, representing nearly 2 years of revenues.

Order intake by business sector⁽²⁾

Order intake (in millions of euros)	2011	2010	Reported change	Organic change	Book-to-bill
Defence & Security	7,210	6,173	+17%	+17%	0.99
Aerospace & Transport	5,953	6,845	-13%	-13%	1.05
<i>Other & unallocated</i>	<i>51</i>	<i>63</i>	<i>-18%</i>	<i>-17%</i>	<i>n/a</i>
Order intake	13,214	13,081	+1%	+1%	1.01

Defence & Security order intake amounted to **€7,210m**, an increase of **+17%** compared with 2010. The Defence Mission Systems activities, which booked the contract to upgrade the Mirage 2000 aircraft in India, logically show a significant increase in orders booked. Land Defence order intake also increased sharply, with the signature of several contracts in Australia (order for 101 Bushmaster vehicles), the Middle East (air defence) and France. C4I Systems orders were stable compared with the previous year, with several contracts for secure communications networks, including the project for the new headquarters of the Ministry of Defence in France. In contrast, Air Operations orders were down significantly, despite several successes in air traffic management in Europe (particularly the 4-Flight contract to upgrade the French en-route control systems).

Orders in the **Aerospace & Transport** sector reached **€5,953m**, down **-13%** from 31 December 2010. This decrease reflects the reduction in orders in the Space segment, despite a major contract for the Galileo programme and several payload orders in Russia, after an historically exceptional year in 2010 (with the order for the Iridium NEXT satellite constellation). In contrast, orders booked for Transport Systems were significantly higher, driven by several export successes in rail signalling for main lines (Poland, Hungary) and urban lines (Brazil, Malaysia, South Korea, Hong Kong) and the award of the Eco-tax contract in France. The Avionics segment also recorded a significant increase in orders throughout the year, driven by Airbus and by growth in support services and in-flight entertainment, particularly for airlines in emerging countries.

(1) In particular, the consolidation since 31 December 2010 of AAC (Advanced Acoustic Concepts, Inc) in the United States and the sale, retroactive to 1 January 2011, of the IT services businesses in Switzerland.

(2) See section 2.5 Business sectors and geographic areas.

Order intake by geographic area of origin⁽¹⁾

Order intake (in millions of euros)	2011	2010	Reported change	Organic change	Book-to-bill
Area A	3,694	3,637	+2%	+2%	0.87
Area B	2,353	2,561	-8%	-8%	0.89
France	7,167	6,880	+4%	+4%	1.16
<i>Other & unallocated</i>		3	n/a	n/a	n/a
Order intake	13,214	13,081	+1%	+1%	1.01

Orders from affiliates located in **Area A** totalled **€3,694m**, up **+2%** compared with 2010. Good performances were recorded in Australia (Bushmaster vehicles, armaments, naval support) and Canada (with several domestic and export successes in Transport). New orders remained stable in the United Kingdom as several urban transport contracts were booked, which mitigated the impact of budget pressures on military orders. In contrast, orders from the Netherlands dipped sharply after the major export naval contracts won in 2010.

Affiliates based in **Area B** registered lower orders, at **€2,353m**, down **-8%** compared to the previous year. Italy in particular, which benefited last year from major contracts in the Space segment (Galileo), and

Spain, which won a number of domestic and export bids in rail signalling, posted the sharpest reductions. Order intake remained broadly stable in Germany, but rose significantly in Saudi Arabia, in both civil and defence activities.

Order intake of Group companies based in **France** rose **+4%** over the year. The increase in defence mission system business (upgrade of the Indian Mirage 2000 aircraft, sonar) and C4I systems, in particular, offset the decline in air operations. Order intake for companies active in avionics, tubes and imaging sub-systems, and critical information systems all increased. On the other hand, the space business, as projected, recorded a very strong decrease in new orders.

REVENUES

Revenues amounted to **€13,028m** at 31 December 2011, a level almost unchanged from 2010 (€13,125m), taking into account a negative foreign exchange impact (-€52m) primarily reflecting the conversion into euros of the revenues from the subsidiaries located outside the euro zone.

This negative exchange variation was due primarily to the depreciation of the American dollar (-€61m) and the pound sterling (-€30m) against the euro, partially offset by the increase in the Australian dollar (+€44m). Changes in the scope of consolidation⁽²⁾ impacted revenues by +€21m.

Revenues by business sector

Revenues (in millions of euros)	2011	2010	Reported change	Organic change
Defence & Security	7,253	7,515	-3%	-3%
Aerospace & Transport	5,682	5,539	+3%	+3%
<i>Other and unallocated</i>	93	71	n/a	n/a
Revenues	13,028	13,125	-1%	-0%

Revenues of the **Defence & Security** sector dipped only moderately to **€7,253m** compared with €7,515m at 31 December 2010 (**-3%**). Revenues generated by Defence Mission Systems decreased slightly, as lower activity on several export naval programmes was only partially offset by an increase in sonar activities. The reduction in C4I Systems revenues was sharper, particularly in radio-communications and security systems. The Land Defence activities, in contrast, posted stable revenues (armaments contracts for France and Australia), as did Air Operations (a slight increase in military systems making up for a less favourable trend in air traffic control).

In the **Aerospace & Transport** sector, revenues reached **€5,682m**, an increase of **+3%** over 2010. Revenues from Avionics rose sharply, driven by the increase in the Airbus business (cockpit and cabin equipment, support) and by the first deliveries for the regional aircraft certified during the year (ATR 600, SSJ). Revenues for tubes and imaging sub-systems were almost stable during the year. Revenues from Space improved, particularly in the observation segment (CSO, Meteosat), but also driven by the ramp-up of the Iridium NEXT project. In contrast, Transport Systems revenues were down versus 2010, mainly due to less revenue from main lines activities in Saudi Arabia and Europe, as well as from the London Underground.

(1) See section 2.5 Business sectors and geographic areas.

(2) In particular, the consolidation since 31 December 2010 of AAC (Advanced Acoustic Concepts, Inc) in the United States and the sale of IT services business in Switzerland, retroactive to 1 January 2011.

Revenues by geographic area of origin

Revenues (in millions of euros)	2011	2010	Reported change	Organic change
Area A	4,230	4,370	-3%	-3%
Area B	2,633	2,764	-5%	-4%
France	6,163	5,987	+3%	+3%
<i>Other and unallocated</i>	2	4	n/a	n/a
Revenues	13,028	13,125	-1%	-0%

Revenues recorded by the group companies based in **Area A** amounted to **€4,230m**, **-3%** less than in the previous year. The decline was particularly sharp in the Netherlands, with a decrease in revenues from naval contracts, and in the United States, which recorded lower revenues in defence. This reduction was partially offset by higher revenues in Australia, mainly due to armaments contracts for the Australian army and for air traffic control in Asia. Revenues for the Canadian entities remained stable, as did revenues for the UK entities, where higher revenues in defence made up for a contraction in rail transport.

Affiliates based in **Area B** posted revenues of **€2,633m**, a decline of **-4%** in organic terms from the previous year (-5% in reported data). Revenues rose in Italy, driven by space contracts, while transport

revenues fell. The Group's German companies posted higher revenues, mainly in avionics and air traffic control. Conversely, group companies in Switzerland and Saudi Arabia recorded lower revenues than in 2010, particularly in transport and civil security.

The companies based in **France** recorded **+3%** growth in revenues, which rose to **€6,163m**. This improvement primarily reflects the performance of Avionics, driven by an increase in sales to Airbus and a marked upturn in support activities. Revenues also improved in the space, sonar (FREMM, Barracuda), tubes and armaments segments. In contrast, air defence, air traffic control and military communications recorded a reduction in revenues.

RESULTS

1. EBIT

EBIT⁽¹⁾ improved strongly and totalled **€749m**, or **5.7%** of revenues (vs. a loss of -€92m in 2010). This improvement in EBIT⁽¹⁾ reflects the positive impact of the Probasis performance plan, led by improved project execution.

During the year, the Group signed several amendments on complex projects that were the source of substantial charges recorded in 2009 and 2010. Thus, on the Meltem marine patrol programme in Turkey, the amendment signed with the client rebased the entire contract on the technical and schedule level. Thales and Airbus also signed an agreement concerning the technical, operational and commercial aspects of the flight management system (FMS) project for the A400M, which redefines the functional content, the schedule, and the related contractual and financial conditions, reinforcing the bases for long-term cooperation with Airbus. This agreement, the terms and conditions of which are confidential, is positive for Thales.

All these elements, as well as the more general reduction in the non-quality costs following the measures undertaken as part of the Probasis plan, generated a marked improvement in the gross margin, which reached 22.7% in 2011, up from 16% in 2010.

Self-funded R&D costs amounted to €619m (versus €612m in 2010), including a capitalised amount of €10m (versus €43m in 2010). In addition, the amount of the research tax credit declined by €33m from last year, primarily as a result of the reform that became effective in 2011 in France.

Finally, **restructuring costs** increased substantially to €161m, representing 1.2% of revenues, compared with €130m (1% of revenues) in 2010.

After taking into account the impact of Purchase Price Allocation (PPA), the amount of which was €71m, compared with €82m in 2010, reported EBIT (after restructuring) was €678m, compared with -€173m in 2010.

(1) After restructuring and before impact of Purchase Price Allocation (PPA).

EBIT⁽¹⁾ by business sector

EBIT ⁽¹⁾ (in millions of euros)	2011	2010	Reported change	Organic change
Defence & Security	504	152	x3.3	x3.2
as % of revenues	6.9%	2.0%		
Aerospace & Transport	294	(221)	ns	ns
as % of revenues	5.2%	-4.0%		
Other & unallocated	(49)	(23)		
EBIT⁽¹⁾	749	(92)	ns	ns
in % of revenues	5.7%	-0.7%		

(1) After restructuring and before impact of Purchase Price Allocation (PPA).

The **Defence & Security** sector significantly improved its EBIT⁽¹⁾, which amounted to **€504m** and represented **6.9%** of revenues, despite higher restructuring costs (€97m versus €71m). This strong improvement can be seen in all divisions making up this sector. C4I Systems recorded strong growth in their results, thanks to improved project execution and a reduction in general and sales expenses, which offset an unfavourable volume effect. Results for Defence Mission Systems also improved, based on the savings generated by the Probasis plan and the absence of negative variances on the Meltem contract, which had severely weighed on results in 2010. The growth in results from the Land Defence activities was driven primarily by the increase in the armaments business and lower development costs. Finally, and despite the development costs remaining high because of the renewal of the radar product range, results from Air Operations also improved, thanks

to better results from the air traffic control business, the profitability of which had been affected by the difficulties of the Lorads III project in 2010.

EBIT⁽¹⁾ for the **Aerospace & Transport** sector amounted to **€294m** (5.2% of revenues), compared with a loss of -€221m in 2010. This favourable change was essentially driven by the improvement in results of the Avionics business. This activity benefited both from the very sharp reduction in negative variances, which had impacted the 2010 results (A400M, developments), the positive impact of higher volumes in civil aviation, and the positive effect of the agreement signed with Airbus for the A400M project. Despite lower revenues, the Transportation Systems business also posted a significant increase in results because of lower variances on projects (ticketing). Finally, the Space activities recorded almost stable results.

EBIT⁽¹⁾ by area of origin

EBIT ⁽¹⁾ (in millions of euros)	2011	2010	Reported change	Organic change
Area A	215	92	x2.3	x2.3
in % of revenues	5.1%	2.1%		
Area B	115	111	+4%	+2%
in % of revenues	4.3%	4.0%		
France	457	(291)	ns	ns
in % of revenues	7.4%	-4.9%		
Other & unallocated	(38)	(4)		
EBIT⁽¹⁾	749	(92)	ns	ns
in % of revenues	5.7%	-0.7%		

(1) After restructuring and before impact of Purchase Price Allocation (PPA).

Despite a generally negative volume effect, the Group companies based in **Area A** improved their EBIT to **€215m** (5.1% of revenues), primarily because of the positive change in results from Australia and the United Kingdom. In Australia, the increase in revenues and the absence of new negative variances on the Lorads III contract had a beneficial impact on results. The change in results in the United Kingdom primarily reflects a more favourable contract mix and a decrease in general expenses. In contrast, the Netherlands recorded a deterioration in results related to lower revenues.

EBIT⁽¹⁾ for the affiliates in **Area B** rose +4% (+2% organic) over 2010 to total **€115m**, or **4.3%** of revenues. This change is the result of the net increase in results in Germany (driven by avionics and air traffic management) and, to a lesser extent, in Spain, which offset the deterioration in performance in Italy because of a less favourable situation in Space.

EBIT⁽¹⁾ for the affiliates based in **France** improved substantially to **€457m** (7.4% of revenues), compared with -€291m in 2010. Despite restructuring costs that almost doubled compared with 2010

(1) After restructuring and before impact of Purchase Price Allocation (PPA).

(€95m versus €56m), France benefited from the strong improvement in results for Thales Avionics (reduction in variances on contracts, higher volumes, A400M agreement) and the companies whose accounts had

been affected in 2010 by the large charges on the Meltem, ticketing and security contracts.

2. Other results

Operating income⁽¹⁾ amounted to €797m (compared with -€124m in 2010) and included income of €37m for the revaluation of the interests previously held in DCNS (from 25% to 35%)⁽²⁾ as well as an income of €10m related to the sale of the 35% stake held in Navigation Solutions LLC in the United States.

The net financial expense, at **-€58m**, declined substantially from the 2010 amount (-€73m), primarily because of the improved foreign exchange results in a market environment that remained volatile.

The **other components of the pension expense** declined to **-€63m** compared with -€105m the previous year.

Income from the equity-accounted companies⁽¹⁾ remained stable at **€62m** versus €63m in 2010, as the improved results of DCNS offset the sales of stakes in Camelot and Indra Espacio in 2010.

3. Net income

Financial year 2011 closed with a **net profit, Group share⁽¹⁾** of **€566m** (compared with a net loss of -€45m in 2010), after a tax expense⁽¹⁾ of €172m compared with a tax income of €193m in 2010.

FINANCIAL POSITION AT 31 DECEMBER 2011

With the improved results, **“operating free cash flow”⁽³⁾** rose 40% to total **€379m** compared with €271m over the previous year.

NET CASH FLOW – 2011

<i>(in millions of euros)</i>	2011	2010
Operating cash flow	1,242	389
Change in working capital requirements and in reserves for contingencies	(390)	471
Payment of contributions/pension benefits	(104)	(106)
Financial interest paid	(53)	(67)
Income tax paid	(60)	(107)
Net operating cash flow	635	580
Net operating investments	(256)	(309)
o/w capitalized R&D	(10)	(43)
Free operating cash flow	379	271
Net (acquisitions)/disposals	(289)	87
Deficit payments on pensions in the UK	(59)	(57)
Dividends	(64)	(98)
FX and others	34	79
Net cash flow	1	282

Operating cash flow posted an increase at €1,242, up from €389m in 2010. The decrease in investments, mainly due to a lower capitalisation of research and development costs, compensates a negative change in working capital requirement and reserves for contingencies. Including the investment made in late 2011 to increase the stake in DCNS to 35% for €265m, **net cash flow** amounted to **€1m** versus €282m in 2010.

Overall, the Group closed the year with a positive **net cash position of €192m⁽⁴⁾**, a level unchanged from the previous year (€191m) and **shareholders' equity, Group share** totalled **€4,120m** versus €3,672m at year end 2010.

(1) After restructuring and before the impact of Purchase Price Allocation (PPA).

(2) Pursuant to IFRS 3R.

(3) Operating cash flow + change in working capital requirement and reserves for contingencies – payments of pension benefits (excluding payments for the reduction of deficits in the UK) – taxes paid – net operating investments.

(4) Amount adjusted in order to exclude the positive impact of the proportionate consolidation of DCNS at 35% at 31 December 2011. Taking this impact into account, net cash amounted to €906m at the end of 2011.

PROPOSED DIVIDEND

The Board of Directors has decided to recommend to the shareholders at the Annual Meeting on 15 May 2012 the distribution of a dividend of €0.78 per share. If approved, the ex-dividend date will be 28 May 2012.

The dividend will be entirely paid in cash and will total €0.53 per share, taking account of the interim dividend of €0.25 per share already paid in December 2011.

VIEWS FOR 2012⁽¹⁾

The budgetary situation of the Group's main customers leads Thales to expect a decrease in defence orders in 2012 (excluding any exceptional export contract), which is likely to be only partially offset by the increase in commercial orders, primarily in aeronautics and ground transport. Under these conditions, the Group is assuming a book-to-bill⁽²⁾ ratio for

this year slightly below 1, also because of revenues which should be higher, in line with the execution of the order book.

On the basis of the improved results recorded in 2011 and the continued roll-out of the Probasis performance plan, the Group is confirming a target EBIT margin⁽³⁾ of 6% in 2012.

1.1.2 Risk factors

Thales is exposed to a number of risks and uncertainties which could materially affect its business, financial position, results or ability to achieve its objectives. The risks described below are not the only ones that Thales faces. Other risks, unknown to Thales on this date, or which presently appear to be non-significant, could also have an unfavourable

impact on the business, profitability and financial position of the Group or its ability to achieve its objectives.

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

1.1.2.1 FINANCIAL RISKS

1.1.2.1.1 Liquidity

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 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;
- 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.

The 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 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 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 2011, available cash recorded under consolidated assets amounted to €1,923.1m (compared with €2,750.5m at end-2010), including:

- €1,119m held by the parent company and available for immediate use;
- €382.9m 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;
- €421.2m in cash held directly by the companies in joint ventures (prorated by Thales's interest in each joint venture), including €178.7m for DCNS, for which Group cash pooling cannot be used.

(1) Excluding impact of the consolidation of DCNS under the proportionate method at 35%.

(2) Ratio of order intake/revenues.

(3) After restructuring and before the impact of Purchase Price Allocation (PPA).

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 credit risk ratings were as follows:

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

The decrease of Thales's credit risk rating does not lead to the activation of covenants contained in financing agreements. 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, if, simultaneously, the ratio of consolidated net financial debt to EBITDA (earnings before interest, taxes, depreciation and amortisation) were to exceed 3.

A lower rating would result in an increase (capped) in the margins applicable to the committed credit facility of €1.5bn (described in Note 24 to the consolidated financial statements); at the same time, these margins would be improved in our behalf (with a minimum threshold) in the event of a rating upgrade.

1.1.2.1.2 Interest rates

Thales is exposed to interest rate volatility and in particular its impact on the conditions associated with 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 funding 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 €5.9m.

(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	(69.2)	(367.9)	(1,338.8)	(90.9)	(31.7)	(26.8)	(1,439.7)	(485.6)
Financial assets		2,614.1					0.0	2,614.1
Net position before management	(69.2)	2,246.2	(1,338.8)	(90.9)	(31.7)	(26.8)	(1,439.7)	2,128.5
Management operations	(14.1)	14.1	348.2	(348.2)	(13.1)	13.1	321.0	(321.0)
Net position after management	(83.3)	2,260.3	(990.6)	(439.1)	(44.8)	(13.7)	(1,118.7)	1,807.5

1.1.2.1.3 Foreign exchange

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

a) 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 financial statements. 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 certain businesses of the Group (civil avionics and tubes, civil space), the US dollar ("USD") is the reference 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 3% of the Group's total revenues for 2011.
- 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 4% of the Group's total revenues for 2011.

- Over and above this direct dollar risk, which concerned around 7% in total of consolidated revenues at end-2011, 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 line and geographic area shows that approximately 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:

- USD 3,563m, the amount of the financial instruments hedging net firm commitments (USD against EUR, CAD and GBP risk) at 31 December 2011, compared with USD 3,837m at 31 December 2010;
- USD 201m, the amount of the financial instruments hedging USD offers against EUR, CAD and GBP at 31 December 2011 versus USD 192m at 31 December 2010.

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 discount/premium component is not eligible for hedge accounting and is recognised in profit and loss. In 2011, the change in market value of the contango/backwardation was €23m. A decrease (increase) of 5% in the USD against the EUR, GBP and CAD would have increased (decreased) shareholders' equity by approximately €139m at 31 December 2011 compared with €135m at 31 December 2010.

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 decrease (increase) of 5% in the USD against the EUR, GBP and CAD would have increased (decreased) the result by approximately €1m at 31 December 2011 versus €2m at 31 December 2010.

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.

b) Management of risks relating to foreign currency-denominated assets

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 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 ASSET RISKS AT 31 DECEMBER 2011

<i>(in millions of euros)</i>	GBP	USD	AUD
Assets	2,180.9	1,148.2	782.9
Liabilities	1,230.1	472.6	452.2
Net position before management	950.8	675.6	330.7
Off-balance-sheet position	(39.4)		
Net position after management	911.4	675.6	330.7

1.1.2.1.4 Equities

Thales was not exposed to any significant equity risk at end-2011, excluding risk on treasury shares.

1.1.2.1.5 Off-balance-sheet commitments and contingencies

a) 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 2011, 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 €3,665m for both countries, hedged by €3,002m in investments, representing an unfunded status of €663m. At 31 December 2011, these investments consisted of:

- 32% in equities;
- 45% in fixed-rate bonds;
- 10% in inflation linked bonds;
- 8% in alternative investments;
- 3% in long-term investments (e.g. real estate and infrastructure);
- 2% in cash;

Changing market parameters could affect the amount of the shortfall and the annual costs of defined-benefit plans. At 31 December 2011, 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 taking into account 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.

b) 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 issued out of an envelope of €3bn dedicated 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 Group's Treasury and Funding Department reports to the Board of Directors on the level of use of this envelope, based on the monitoring carried out by the Group Corporate Financing & Treasury Department.

At 31 December 2011, the stock of guarantees issued by the parent company in support of its subsidiaries stood at €9,586m. 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 its guarantee to commitments made by wholly owned subsidiaries and by consortia or joint ventures only in proportion to Thales's interests in such consortia or joint ventures;
- to enable its subsidiaries to benefit, when appropriate, from the credit rating of the parent company by controlling the financial conditions of the transactions guaranteed.

1.1.2.1.6 Client credit

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

a) Risk of default by a private client

Private-sector customers (aircraft manufacturers, airlines, civil infrastructure operators, industrials) 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.

b) Credit risk of a public client

About three-quarters of Thales's revenues are generated with public, governmental or institutional customers. 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 takes out insurance with export credit agencies (such as Coface in France) or private insurers.

At 31 December 2011, only two customers represented over €500m in revenues for Thales: the French government (around €2bn) and the UK government (around €1bn).

1.1.2.2 LEGAL RISKS

1.1.2.2.1 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 participates in the preparation and monitors the conclusions of the regular controls conducted by the Internal Audit department in these compliance areas.

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

a) Management of commercial activities

Because of its presence in more than 50 countries and the diversity of its markets and business sectors, Thales is subject to national laws, particularly those resulting from the transposition of international conventions (OECD convention, UN convention to fight corruption, etc.) and to international norms and standards that aim to fight corruption.

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. This programme is regularly evaluated and readjusted on the basis of changes in external risks (new laws, for example, as was the case in 2011 when the Bribery Act took effect in the United Kingdom), in internal risks (areas of improvement identified by the internal audit, the risk committee, etc.) and the Group's commercial strategy.

It is implemented on the basis of a coherent set of directives that is included in the Group's reference system (Chorus 2.0), dedicated units and independent control resources.

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 strictly governs the use of advisers through a very detailed procedure, which requires in-depth preliminary verifications (*due diligence*) – reinforced through the analysis of red flags or risk factors, as well as the appropriate representations and warranties from these business advisers. This procedure, designed by the Group Ethics and Corporate Responsibility Department, has again been strengthened since 2010 with regard to the use of advisors who are paid with success fees.

Moreover, in order to enhance its strategy to expand its international presence and its footprint in target countries, in 2010 Thales established a procedure for the qualification and selection of its local industrial partners. This procedure is designed to cement long-lasting partnerships with domestic industrial operators that meet the same standards of integrity as those followed by Thales and reinforce its competitiveness in these markets. This procedure is also part of its effort to strengthen control processes and the prevention of corruption in purchasing.

An international, dedicated unit, independent of the operational commercial structures, conducts the verifications required, enhanced by outside studies and diagnostics performed by companies that specialise in business intelligence – during the phases to select the business advisers and industrial partners of Thales.

In addition, by relying on risk mapping and rigorous internal control procedures, Thales's Internal Audit department regularly conducts compliance and integrity audit missions which cover all processes to manage commercial risks.

Thales is particularly keen to make its employees aware of business ethics as soon as they join the Group. Ownership and accountability are key to the information and training model designed by the Ethics and Corporate Responsibility Department. A broad array of tools (code of ethics, best practice guidelines, etc.) and training sessions

(e-learning and face-to-face training) are available to staff throughout their professional lives. Special attention is paid to employees involved in the sales processes, project management and purchasing. The training plan for "Business Ethics and Preventing Corruption", which is world-wide in scope, is in priority intended to this group of employees.

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 Social Responsibility Charter. This initiative has been recognised by the UN Global Compact, which Thales signed in 2003.

Finally, Thales actively participates in the national professional organisations (MEDEF, GIFAS, ADS⁽¹⁾, etc.) and international organisations (ASD⁽²⁾, ICC⁽³⁾, B20⁽⁴⁾ etc.), and within the working groups of intergovernmental organisations (OECD, United Nations, etc.). The Group is actively participating in various initiatives to fight corruption, both at the European level (*ASD Business Ethics Committee*) and in the international sector initiative of the Aeronautics and Defence industries (IFBEC⁽⁵⁾) which has established common principles of good conduct in business ethics (*Global Principles of Business Ethics*) presented at a conference organised by the G20 and the OECD in April 2011. Finally, Thales was one of the leaders of the anti-corruption working group of the B20, which was organised during the G20 summit chaired by France in Cannes in November 2011, which submitted to the Heads of State attending, in the name of international employers, 22 proposals or action plans to prevent international corruption.

b) Export control

Exports account for a significant proportion of Thales's business. Many of the Group'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 controls, and (iii) geopolitical factors will not make it impossible for Thales or its suppliers 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.

c) 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.

d) 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 12,000 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.

(1) *Advancing UK AeroSpace, Defence & Security Industries.*

(2) *AeroSpace and Defence Industries Association of Europe.*

(3) *International Chamber of Commerce.*

(4) *International Business Community, representing 22 employer organisations.*

(5) *International Forum on Business Ethical Conduct.*

1.1.2.2.2 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 policy is to systematically seek alternative methods of settlement. This policy is reviewed on a regular basis to take account of changes in the company's core areas of business and is 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.

The litigation against the Republic of China (Taiwan), as mentioned for many years in the public documents of the company, has now ended. The award, leading the parties to disburse an amount of €630 million (i.e. €166 million for Thales part), was executed in July 2011.

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 for the provision of six Lafayette-class frigates. 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.

1.1.2.3 RISKS RELATED TO THALES'S BUSINESSES

1.1.2.3.1 Competition and positioning

The markets in which Thales operates are highly competitive, both because of international groups and local companies or niche companies in certain market segments. This competitive pressure could negatively impact Thales's commercial position, revenues and profits.

There is also nothing to guarantee that competition will not intensify, particularly in an unfavourable environment, or that Thales will be able to successfully fight its current or future competitors.

In order to limit the impact of this risk, Thales first continues its research and development efforts in order to provide competitive and differentiating elements to the Group's operational units and, second, works to upgrade its product offer in order to meet the needs of its customers, in both defence and civil markets.

1.1.2.3.2 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 signs of recovery in the market, the economic environment could remain disturbed, particularly in North America and in Europe. In order to remain profitable in a difficult market, airlines could cancel or

postpone orders and aircraft manufacturers might have to downshift production. This environment could also lead the airlines to reduce or delay their maintenance expenditure or their investments 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 15% of Group revenues).

1.1.2.3.3 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 defence budgets, particularly in Europe as part of a

more restrictive budget policy, could affect the Group's business and profitability. In effect, a reduction in the budget resources of government customers could generate delays in order booking, in contract execution, in payments, or a decrease in financing for research and development programmes.

Thales has based 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.

1.1.2.3.4 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. The occurrence of such events could have a material impact on Thales's results and financial position.

Bid and project management is therefore subject to a detailed risk management and assessment process. Thales ranks the various levels of criticality. Critical bids and projects are specifically monitored at the management level of the operational entities and, as needed, by the Group Executive Management.

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 progress.

In addition, in 2011, the Group continued to pay particular attention to analyses and action plans for "non-quality costs", with annual targets set for each entity and systematic measurement of negative variances by project and analysis of their root causes.

The Group also continued action plans to improve the management of bids and projects, engineering and the 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);
- identify the centres of expertise (R&D, integration, production, services) within Thales in order to increase synergies and expertise and provide the best responses to the solution;
- improve the development of product lines in order to streamline new developments and thus reduce risks;
- implement tried-and-tested project management solutions which include the supply chain in project management processes. Measures include more systematic implementation of alert reviews at launch, assessment of appropriate 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.

Finally, with respect to the complex projects that were the source of very significant charges over 2009 and 2010, Thales signed several amendments with the customers in question between December 2010 and July 2011. Thus, the discussions initiated early in 2010 between Thales and the Turkish Ministry of Defence on the Meltem maritime patrol programme, following delays and technical difficulties, resulted in the signature of an amendment on 3 March 2011, which rescopes the engineering and schedule aspects of the contract and includes some financial compensation to be paid by Thales. Thales and Airbus also signed an agreement on 11 July 2011 concerning the technical, operational and commercial aspects of the flight management system (FMS) project for the A400M, which redefines the functional specifications, schedule and related contractual and financial conditions, strengthens the basis for long-term cooperation with Airbus. This agreement, which terms are confidential, is positive for Thales.

1.1.2.3.5 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 Group'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 client country, preventing it from honouring its financial commitments towards Thales;
- impairment of assets because of devaluations of the local currency or other measures taken by public authorities that significantly affect the value of operations;
- expropriation (by confiscation, nationalisation, requisition, etc.) or the forced sale of Thales's interest in a local company or, more broadly, discriminatory measures that compromise Thales's operations in a country;

- a security situation entailing a risk of attack on the physical safety of its employees and/or its facilities, which strongly limit or prevent Thales from assuming its performance obligations under a contract, or reduce or prohibit the use of its local industrial assets;
- an unexpected breach of a contract or commitment;
- an unfair call of a bond or a guarantee;
- the non-certification of documents eligible for payment, or non-payment on the due dates stipulated in a contract, which prevent the anticipated progress of that contract.

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 receivables without recourse to financial institutions.

In addition, the Group has deployed a global procedure for employee security, protection and monitoring to ensure they have an appropriate level of security in the countries in which they perform their work.

1.1.2.3.6 Violations of data confidentiality

Thales is exposed to the risk of attacks on the security of its industrial infrastructures or its information technology systems (hacking attempts to access confidential information, threats to the physical security of facilities, etc.).

In its defence businesses, the Group is subject to different national regulations requiring it to implement measures to protect its personnel

and industrial assets. The Group is therefore subject to a large number of audits and inspections by the national supervisory authorities.

The Group has also established an internal policy to protect its sensitive sites and information systems and increase employee awareness. This policy, which is adapted in all the subsidiaries, is relayed by the network of information system safety and security officers in the countries and the divisions.

1.1.2.3.7 Management of supplier risk

Purchases constitute a very significant proportion of Thales's business, representing nearly half its revenues in manufacturing, services, equipment and sub-systems. 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 default 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, natural disaster, 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 from those of 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 customer 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 departments aimed at identifying, from among its critical suppliers, those that would be particularly exposed financially and implementing an appropriate action plan to ensure continuity of supply. Apart from individual monitoring, analysis is carried out by 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 internal 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.

1.1.2.3.8 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 1.1.2.6 below).

1.1.2.3.9 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.

1.1.2.3.10 Risk related to lesser implementation of the Probasis performance plan

At the end of 2009, Thales announced the launch of a major performance plan known as Probasis, which was implemented in the first quarter of 2010. This comprehensive performance plan is intended to increase the Group's operating profitability by significantly improving project execution and industrial efficiency and by substantially reducing general expenses. Thanks to the Probasis performance plan, Thales has set a target of €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 departments; the actual results may differ significantly from the targets. In particular, the cost-cutting measures planned by the Group are based on economic and commercial assumptions defined during the preparation of the Group's multi-year budget and do not take into consideration any potential changes that could affect Thales's operations or its markets, such as the development of new activities, increased competition in its domestic and export markets 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.

1.1.2.3.11 Human resources risk

a) Health and safety at work

Ensuring a healthy and safe working environment for its employees pursuant the laws in force, monitoring procedures, preventing health and professional risks and employee training are key priorities for Thales.

These principles are reflected in a structure designed to prevent risks related to health and safety in the workplace. Concrete measures are implemented to anticipate and manage health risks that might occur at the international level. The creation of a health monitoring cell and the implementation of a procedure for missions in countries presenting major health risks ensure better control of risks in this area. Finally, regular and specific monitoring of the risks (discriminatory practices, moral and sexual harassment, injuries to health such as professional or psycho-social risks, etc.) that could affect the Group's employees is conducted every year on the basis of specialised indicators.

Thales is also committed to increase quality of life in the workplace. In France, the agreement on "Quality of Life at Work" signed in 2009 with most of the Group-level trade unions defines not only a general framework for prevention, but makes a commitment to pay particular attention to the detection and prevention of psycho-social risks through the implementation of preventive plans for employees and by collective prevention measures. Special training sessions are also organised to raise awareness of these risks among managers.

Proof of the Group's continuing commitment to certification, 83 Thales entities (representing 57% of the workforce) had obtained OHSAS 18 001 certification by the end of 2011.

b) Attractiveness

If Thales is not attractive enough to timely recruit the qualified staff it needs and retain and motivate its employees to develop and conduct its business, revenues and operational profitability could be negatively affected.

Thales has established a skills management system based on the identification of skills in 15 professional families. A steering committee composed of operating managers and HR managers monitors the requirements for each category. This process verifies that skills match the needs of the group and allows for corrective measures in recruitment, mobility and training to be implemented if necessary. Within this framework, a list of key skills has been defined by professional family so that the engineers and managers concerned can self-declare their major skills. Due to the success of this tool with employees, Thales can continue to improve its skills management. To complement this tool, each year the Group's internal University updates the key programmes in response to changing needs.

The Group is also expanding its search for new talent by deploying a voluntary policy of diversity, hiring employees with varied backgrounds in terms of training, experience and culture.

Thales's appeal also stems from its employment policy, which encourages functional and geographical mobility.

1.1.2.4 ENVIRONMENTAL RISKS

Due to the nature of Thales's activities, environmental risks are related to potential adverse environmental and health effects of these activities, impact of the environment on its operations and non-compliance with new regulations applicable to activities and to 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 being used to map risks related to regulatory non-compliance, pollution, asbestos, substances (ROHS, REACH, WEEE, etc.) and radiations. It aims at:

- ensuring that employees and surrounding residents are not exposed to health and environmental risks

- ensuring the compliance of activities and products,
- analyzing the impact of new regulations, including on product design,
- specifying 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 2011, 118 sites had obtained ISO 14001 certification.

At 31 December 2011, the amount of reserves for environmental contingencies amounted to €7.7 million.

1.1.2.5 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.

1.1.2.6 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 consequent operating losses;
- 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.

The Group had no major loss in 2011.

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 coverage limit of €1.3bn in 2011 for damage to property and consequent business interruptions represents an estimate of the maximum loss caused to an industrial site which the Group could incur for direct damages and business interruptions.

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. The insurance coverage for aeronautical civil liability commitments, which is covered by a specific programme, amounts to USD 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 consequent business interruptions, transport, general third-party liability, testing and development and space risks;
- transfer to insurers of payment for catastrophic losses.

An active Prevention and Protection policy for industrial sites is designed to reduce the magnitude and frequency of the accidental risks of fire or explosion and to detect other vulnerabilities, such as exposure to natural disasters. In 2011, more than 80% of the assets insured were the subject of a "multi-peril" audit by the insurers during their visits to the principal operating sites and fire safety inspections by an outside organisation.

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.

1.1.3 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 OF COMPANY SHARE TRANSACTIONS CARRIED OUT IN 2011 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

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 Position	Purchases/Subscriptions ⁽¹⁾		Sales ⁽¹⁾	
	Number of shares	euros	Number of shares	euros
TSA	878,443	22,821,949.14		

The securities transaction declared by TSA represents the payment of the 2010 dividend in cash or shares; TSA opted for the second option. Other officers and directors also opted for payment of the 2010 dividend in shares. However, these latest transactions are not indicated in the summary statement since the total amount is less than €5,000 – the

executive committee come under the category of non-voting directors with respect to the obligation 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 (Conseil d'Etat), with persons referred to in the above-mentioned Article L.621-18-2 a) and b).

obligation to declare securities transactions executed by directors, non-voting directors and related persons does not apply when the total amount of the transactions executed during the calendar year is less than €5,000 (Article 223-23 of the AMF General Regulations).

(1) Share transactions executed in 2011 include transactions carried out by related parties, where applicable.

1.2 CONSOLIDATED FINANCIAL STATEMENTS

1.2.1 Consolidated profit and loss account

(€ Million)	Notes	2011	2010
Revenues	note 5	13,028.4	13,124.8
Cost of sales		(10,067.1)	(11,028.6)
Research and development expenses		(619.2)	(612.3)
Marketing and selling expenses		(889.3)	(915.7)
General and administrative expenses		(543.2)	(529.7)
Restructuring costs	note 22	(160.5)	(130.1)
Amortisation of intangible assets recognised at fair value on business combination	note 3	(70.6)	(81.7)
Income from operations (EBIT)	note 5	678.5	(173.3)
Impairment of non-current operating assets	note 6	(7.1)	(9.8)
Disposal of assets, changes in scope of consolidation and other	note 7	54.6	(22.3)
Income of operating activities		726.0	(205.4)
<i>Financial interest on gross debt</i>		<i>(83.3)</i>	<i>(81.3)</i>
<i>Financial income from cash at bank and equivalents</i>		<i>35.8</i>	<i>24.0</i>
Cost of net financial debt	note 8	(47.5)	(57.3)
Other financial income (expense)	note 8	(10.3)	(15.3)
Other components of pension charge	note 21	(62.8)	(104.6)
Income tax	note 9	(147.3)	220.5
Share in net income (loss) of equity affiliates	note 13	53.4	54.5
Net income (loss)		511.5	(107.6)
Attributable to :			
Owners of the parent company		511.8	(107.6)
Non-controlling interests		(0.3)	–
Basic earnings per share (<i>in euros</i>)	note 10	2.60	(0.55)
Diluted earnings per share (<i>in euros</i>)	note 10	2.60	(0.55)

1.2.2 Consolidated statement of comprehensive income

(€ Million)	Notes	2011		2010	
		Total attributable to:		Total attributable to:	
		Owners of the parent company	Non-controlling interests	Owners of the parent company	Non-controlling interests
Net income (loss)		511.8	(0.3)	(107.6)	–
Cumulated translation adjustments	note 20-d	61.0	(0.6)	163.4	0.5
Net foreign investments' hedge	note 20-d	(1.2)	–	(1.2)	–
Deferred tax		0.4	–	0.4	–
		60.2	(0.6)	162.6	0.5
Cash flow hedge	note 20-c	(114.2)	–	(87.4)	–
Deferred tax		39.8	–	31.3	–
		(74.4)	–	(56.1)	–
Financial assets available for sale	note 20-c	0.3	–	(4.7)	–
Deferred tax		–	–	–	–
		0.3	–	(4.7)	–
Total other comprehensive income (loss), net of tax	(a)	(13.9)	(0.6)	101.8	0.5
Total comprehensive income (loss) for the period		497.9	(0.9)	(5.8)	0.5

(a) All these items are subject to reclassification in P&L in a subsequent period.

1.2.3 Consolidated balance sheet

ASSETS

(€ Million)	Notes	31/12/2011	31/12/2010
Goodwill, net	note 11	3,786.6	3,044.9
Other intangible assets, net	note 12	743.5	832.9
Tangible assets, net	note 12	1,493.9	1,347.2
Total non-current operating assets		6,024.0	5,225.0
Share in net assets of equity affiliates	note 13	157.5	681.9
Available-for-sale investments	note 14	117.8	102.1
Loans and other non-current financial assets	note 14	138.6	135.1
Fair value of interest rate derivatives	note 25	6.5	8.7
Other non-current financial assets	note 14	244.5	28.4
Total non-current financial assets		664.9	956.2
Pensions and other employee benefits	note 21	117.0	79.6
Deferred tax assets	note 9	955.0	954.7
Non-current assets		7,760.9	7,215.5
Inventories and work in progress	note 15	2,426.9	2,301.9
Construction contracts: assets	notes 15 & 16	2,305.3	2,057.7
Advances to suppliers	note 15	1,086.6	366.5
Accounts, notes and other current receivables	notes 15 & 17	4,709.5	3,981.0
Fair value of foreign currency derivatives	note 25	122.5	184.6
Total current operating assets		10,650.8	8,891.7
Current tax receivables		50.1	54.4
Fair value of interest rate derivatives	note 25	–	11.6
Loans and other current financial assets	note 14	260.4	88.8
Other current financial assets	note 14	430.2	7.9
Cash at bank and equivalents	note 24	1,923.1	2,750.5
Total current financial assets		2,613.7	2,858.8
Current assets		13,314.6	11,804.9
TOTAL ASSETS		21,075.5	19,020.4

EQUITY AND LIABILITIES

(€ Million)	Notes	31/12/2011	31/12/2010
Capital, paid-in surplus and other reserves		4,295.8	3,932.7
Cumulative translation adjustment		(60.4)	(120.6)
Treasury shares		(115.2)	(140.3)
Total attributable to owners of the parent company	note 20	4,120.2	3,671.8
Non-controlling interests		9.7	9.5
Total equity		4,129.9	3,681.3
Financial debt: long-term	note 24	1,494.6	1,434.1
Fair value of interest rate derivatives	note 25	–	12.7
Pensions and other employee benefits	note 21	883.4	874.7
Deferred tax liabilities	note 9	184.3	194.9
Non-current liabilities		2,562.3	2,516.4
Advances received from customers on contracts		4,810.3	3,448.7
Refundable grants		181.9	173.3
Construction contracts: liabilities	note 16	1,355.6	1,365.7
Reserves for contingencies	note 22	1,230.5	1,458.3
Accounts, notes and other current payables	note 17	6,130.6	4,956.6
Fair value of foreign currency derivatives	note 25	178.8	152.9
Total current operating liabilities		13,887.7	11,555.5
Current tax payables		58.5	37.5
Financial debt: short-term	note 24	437.1	1,229.7
Current liabilities		14,383.3	12,822.7
Total equity and liabilities		21,075.5	19,020.4

1.2.4 Consolidated statement of cash flows

(€ Million)	Notes	2011	2010
Net income (loss)		511.5	(107.6)
Add (deduct):			
Income tax expense (gain)		147.3	(220.5)
Cost of net financial debt		47.5	57.3
Share in net (income) loss of equity affiliates (net of dividends received)	note 13-b	(24.6)	(28.9)
Depreciation and amortisation of tangible and intangible assets	note 12-b	415.1	444.6
Provisions for pensions and other employee benefits	note 21	131.4	167.3
Impairment of non-current operating assets	note 6	7.1	9.8
Loss (gain) on disposals of assets and other	note 7	(54.6)	22.3
Net allowances to restructuring provisions	note 22	53.3	22.0
Other items		8.0	22.4
Operating cash flows before working capital changes, interests and tax		1,242.0	388.7
Change in working capital requirements and in reserves for contingencies ^(a)	note 15	(389.5)	471.1
Payment of contributions / pensions benefits (defined benefit plans):	note 21	(162.8)	(163.2)
- deficit payment in the UK		(59.0)	(57.0)
- future service cash		(103.8)	(106.2)
Financial interests (paid) received ^(b)		(52.5)	(67.1)
Income tax (paid) received		(60.0)	(106.7)
Net cash flows from operating activities	- I -	577.2	522.8
Capital expenditure on tangible and intangible assets	note 26-a	(264.1)	(315.2)
Proceeds from disposal of tangible and intangible assets		8.6	6.4
Net operating investments		(255.5)	(308.8)
Acquisitions	note 26-b	(124.0)	(20.0)
Disposals	note 26-b	24.8	107.4
Decrease (increase) in loans and other non-current financial assets		(9.5)	(5.0)
Decrease (increase) in loans and other current financial assets		(72.6)	8.3
Net financial investment		(181.3)	90.7
Net cash flows from investing activities	- II -	(436.8)	(218.1)
Dividends paid		(64.0)	(97.7)
Increase in equity (exercise of subscription options)		0.9	5.7
Purchase/sale of treasury shares		(7.9)	(4.5)
Acquisitions/disposals of interests in controlled entities		(3.2)	-
Increase in debt		111.9	778.6
Repayment of debt		(925.4)	(267.6)
Net cash flows from financing activities^(c)	- III -	(887.7)	414.5
Effect of exchange rate variations and other	- IV -	(80.1)	71.2
Total increase (decrease) in cash at bank and equivalents	- I+II+III+IV -	(827.4)	790.4
Cash at bank and equivalents at beginning of period		2,750.5	1,960.1
Cash at bank and equivalents at end of period^(d)		1,923.1	2,750.5

(a) Including changes in proceeds from sale of government non-recourse receivables (€-45.3 million in 2011 and €46.2 million in 2010). The amount of transferred receivables, including mainly mature receivables bearing interest on overdue payments, amounted to €156.8 million at 31 December 2011 (€202.1 million at 31 December 2010 – see note 1-u).

In 2011, this variation includes a payment of €-166.0 million relating to the arbitration against the Republic of China (Taiwan), as detailed in note 23.

(b) In 2011 financial interest paid was €87.0 million and financial interest received €34.5 million (respectively €89.3 million and 22.2 million in 2010).

(c) Bank overdrafts are presented in the cash flow from financing activities as they represent a financing resource for the involved units.

(d) The Group net cash position and its change on both periods are presented in note 26-c.

1.2.5 Consolidated statement of changes in equity

(€ Million)	Number of shares outstanding (thousands)	Share capital	Paid-in surplus	Retained earnings	Cash flow hedge	AFS investments	Cumulative translation adjustment	Treasury shares	Total attrib. to owners of the parent company	Non controlling interests	Total
At 1 January 2010	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)
Employee share issue	58	0.1	1.5	–	–	–	–	–	1.6	–	1.6
2010 dividends paid in cash	–	–	–	(97.7)	–	–	–	–	(97.7)	–	(97.7)
Share-based payments (note 20-b)	–	–	–	17.7	–	–	–	–	17.7	–	17.7
Acquisitions/disposals of treasury shares (note 20-b)	(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
Net income (loss)	–	–	–	511.8	–	–	–	–	511.8	(0.3)	511.5
Other comprehensive income	–	–	–	–	(74.4)	0.3	60.2	–	(13.9)	(0.6)	(14.5)
Total comprehensive income (loss) for 2011	–	–	–	511.8	(74.4)	0.3	60.2	–	497.9	(0.9)	497.0
Employee share issue	35	0.2	0.8	–	–	–	–	–	1.0	–	1.0
Dividends paid in shares	3,211	9.6	73.8	(83.4)	–	–	–	–	–	–	–
2011 dividends paid in cash	–	–	–	(14.3)	–	–	–	–	(14.3)	–	(14.3)
2012 interim dividends	–	–	–	(49.7)	–	–	–	–	(49.7)	–	(49.7)
Share-based payments (note 20-b)	–	–	–	14.6	–	–	–	–	14.6	–	14.6
Acquisitions/disposals of treasury shares (note 20-b)	175	–	–	(31.8)	–	–	–	25.1	(6.7)	–	(6.7)
Other	–	–	–	8.7	–	–	–	–	8.7	0.3	9.0
Changes in scope of consolidation	–	–	–	(3.1)	–	–	–	–	(3.1)	0.8	(2.3)
At 31 December 2011	198,786	607.0	3,731.4	(20.9)	(22.8)	1.1	(60.4)	(115.2)	4,120.2	9.7	4,129.9

Dividends per share amounted to €0.50 in 2011 and 2010. 2010 dividend was paid fully in cash. 2011 dividend was paid either fully in cash or fully in new Thales shares, at the option of the shareholders. The exercise of the option to receive 2010 dividend in shares led to the issue of 3,210,810 new shares, carrying dividend rights as from 1 January 2011.

On 15 December 2011, the Board of Directors decided to pay an interim dividend for 2011 of €0.25 per share. This dividend was paid in cash on 23 December 2011, for an amount of €49.7 million.

On 6 March 2012, the Board of Directors elected to propose to the General Meeting of Shareholders of 15 May 2012 the payment of a total dividend of €0.78 per share. Given the payment of the interim dividend of €0.25 per share on 23 December 2011, if this payment is approved, the outstanding balance of €0.53 per share will be detached on 28 May 2012 and paid on 31 May 2012.

1.2.6 Notes to the consolidated financial statements

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All amounts included in these notes are expressed in € million, unless stated otherwise, for example per share data or auditors' fees.

On 6 March 2012, the Board of Directors approved, and authorised for issue, Thales's consolidated financial statements for the year ended 31 December 2011. In accordance with French legislation, the financial

statements will be finally approved by the shareholders of Thales S.A. at the Annual General Meeting convened for 15 May 2012.

Thales Parent Company is a listed French *société anonyme*, registered with the Nanterre commercial registry (*Registre du Commerce et des Sociétés de Nanterre*) under the number 552 059 024.

NOTE 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 intranet address: http://ec.europa.eu/internal_market/accounting/ias/index_fr.htm) at 31 December 2011.

These principles do not differ from the standards and interpretations required at 31 December 2011, as published by the IASB (International Accounting Standards Board). 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.

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 2010, except for the adoption of the new following standards and interpretations, the impact of which is not material for the Group:

- 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.
- Amendment to IFRS 7 (Disclosures related to Transfer of Financial Assets), published in October 2010.
- Amendment to IAS 1 (presentation of other items of comprehensive income)⁽¹⁾, published in June 2011.

Revised IAS 24 standard (Related Party Disclosures) was early adopted by Thales at 31 December 2010. This standard improves the definition of a related party and partly exempts Thales from disclosing information about all transactions with other entities controlled, jointly controlled or significantly influenced by the French State (note 19).

The following new standards, revised standards, amendments and interpretations, have been published by the IASB but are not yet applicable at 31 December 2011⁽¹⁾:

- Consolidated Financial Statements (IFRS10): This new standard replaces IAS 27 now only dealing with the separate financial statements, and SIC 12 (Consolidation—Special Purpose Entities). IFRS 10 defines control as power to direct the activities of another entity in order to generate returns for itself.
- Joint Arrangements (IFRS 11): This new standard replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities—Non Monetary Contributions by Venturers".

IFRS 11 classifies joint arrangements into two types: joint operations and joint ventures. The proportionate consolidation will no more be possible for joint ventures as defined in IFRS 11 (method used by Thales up to now), and only accounting under the equity method will be allowed. At transition date, the Group will have to identify jointly controlled entities which are joint-ventures or joint operations, the last ones being accounted for under a method close to proportionate consolidation.

At this stage, the Group has not identified significant joint operations activity. For information, the contribution of joint-ventures to the Group consolidated statements is presented in note 18.

- Disclosure of Interests in other Entities (IFRS 12): IFRS 12 incorporates into a single standard the disclosures relating to investments in subsidiaries, joint arrangements, associates and in unconsolidated structured entities.
- Fair Value Measurement (IFRS 13): This new standard provides guidelines on how to measure fair value. However, this standard does not change the scope of fair value measurement.
- Deferred Tax: Recovery of Underlying Assets (IAS 12 revised): mainly addresses the evaluation of deferred tax related to investment properties
- Employee Benefits (IAS 19 revised): The main changes to the current standard concern mainly:
 - » Options for accounting for actuarial gains and losses: the amended standard requires that actuarial gains and losses must be fully recognised in other comprehensive income. The "corridor" method, used by the Group up to now, will no more be permitted.
 - » Recognition of past service cost: the amended standard provides that past service cost is recognised immediately in P&L at the date the plan amendment occurs, whether the rights would be acquired or not;
 - » Disclosures on defined benefit plans, their characteristics and risks associated with them.

For information, the balances (before tax) of actuarial gains and losses and past service costs which were not booked at 31 December 2011 are presented in note 21, in accordance with the "corridor" method.

- Financial Instruments: classification and measurement of financial assets and liabilities (Phase I of IFRS 9): this standard should gradually replace IAS 39 (date of mandatory application postponed to 1 January 2015).

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

(1) These texts haven't been adopted by the European Union yet.

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 different 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 acquiree'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 the goodwill) if the contingent consideration is a financial liability.

Goodwill

- The goodwill is measured as the difference between:
 - » the fair value of the consideration transferred, plus the amount of any non-controlling interests in the acquiree, 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 paragraph.
- 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 the "intangible assets" caption. Goodwill related to companies accounted for under the equity method is recognised under the "share in net assets of equity affiliates" caption.
- Goodwill is not amortised but is subject, each year, to impairment. Goodwill impairment is booked as an expense in the line "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.

Changes in a parent's ownership interest in a subsidiary

- An acquirer must remeasure any equity interest it holds in the acquiree 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'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 acquiree'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 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 acquiree'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 the "income tax" caption.

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.

MAIN CLOSING AND AVERAGE EXCHANGE RATES USED FOR TRANSLATION PURPOSES:

Euros	31/12/2011		31/12/2010	
	Closing rate	Average rate	Closing rate	Average rate
Australian Dollar	1.2723	1.3438	1.3136	1.4390
Sterling Pound	0.8353	0.8718	0.8608	0.8560
U.S. Dollar	1.2939	1.4013	1.3362	1.3207

In addition, the group owns foreign currency-denominated financial instruments in order to hedge its net investment foreign subsidiaries. The corresponding translation differences are recognised through equity under the "cumulative translation adjustment" caption until the date of disposal. At this date, they will be recognised in profit and loss.

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 as 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, as 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.

These assets (mainly goodwill and intangible assets relating to business combination) 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 to sell 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 the growth is 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) Financial assets

Financial assets are initially recorded at fair value. They are later estimated at either fair value or amortised cost, depending on the category they fall into, as defined by IAS 39.

- Investments 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.
- Other financial assets are estimated at fair value, with variations recognised in the P&L account. They include:
 - » Money market funds and other mutual funds, estimated according to their latest available net market value;

- » Interest rates products: the fair value is estimated by discounting cash flows from interests and nominal, for the time remaining between the annual closing and the maturity of the product. The discount rate is a market rate matching the maturity and features of the product.

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 the "Construction contracts: assets" caption or the "Construction contracts: liabilities" caption (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

Revenue 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 revenue can be measured reliably. The following specific criteria must also be satisfied in order for revenue 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 clearly demonstrated;
- adequate resources are available to complete the project successfully;
- a potential market for the products exists or their usefulness, in case of internal use, is demonstrated;
- 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.

The impact of the crisis, in particular with Aerospace activities, led the Group since 2009 to sensibly raise its criteria for a first capitalisation of development costs:

- strengthening of the experience curve required to evaluate project feasibility,
- 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),
- prudent commercial assumptions in order to reflect contingencies inherent to the long cycles of the Group's activities, in particular the aeronautical industry.

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 the work-in-progress caption.

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 their obtaining does not depend on the realisation of a taxable income. Should the opposite occur, they are recorded in deduction of the income tax expense.

k) Income from operations

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

- gains and losses on disposal of intangible or tangible assets, businesses or investments,
- impact of changes in scope on the consolidated net income:
 - » costs related to acquisitions of controlling interests;
 - » in the event of a business combination achieved in stages, impacts of the remeasurement of previously held equity interest in the acquiree at its acquisition-date fair value;
 - » subsequent changes in the fair value of contingent consideration;
 - » gains or losses from disposals of investments which result in a change in consolidation method, as well as any impact of the remeasurement of retained interests.
- 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 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 on a generally 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 obligating event of the Group to the third parties in question, as long as the Group does not expect 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 the "restructuring costs" caption in the profit and loss account.

n) Pensions 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 pensions 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 (being 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 the "other components of pensions charge" caption 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 IAS19, 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 or/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.

Internal performance conditions are taken into account only by means of an adjustment in the projected number of instruments acquired by employees at the end of the vesting period. Therefore, they are not taken into account in the fair value estimate of the instruments granted, which is determined at grant date.

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 subjected to a legal 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 is 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 two following 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 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 risk hedged. Changes in value of hedged item are recognised in profit and loss of 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 characterized by high volatility and a lack of visibility, 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 (note 16)

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 performed by project managers, under the supervision of General Management, in accordance with Group procedures.

Goodwill (notes 6 and 12)

Goodwill is subject to impairment tests (see note 1f). 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 (note 12)

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 revenue and profitability of the corresponding projects.

Pensions and other employee benefits (note 21)

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 (note 9)

Deferred tax assets result from the existence of tax loss carry forwards and of 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 acquiree'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.

NOTE 2 Main events

a) Change in scope of consolidation

In 2011

- In January 2011, Telespazio acquired for €53.3 million (corresponding to €17.6 million at 33% for Thales) the English group Vega Space, as well as Space activities from Eltag Datamat.
- In September 2011, Thales paid €16.4 million to increase its stake from 40% to 100% in Yaltes, a company active in a large number of Turkish naval programmes. In accordance with IFRS 3 R, the Group remeasured its previous-held interests by €7.1 million and recorded a €19.7 million goodwill.
- In December 2011, Thales sold for 38M\$ its 35% stake in the joint venture Navigation Solutions LLC to its joint shareholder Hertz Corp. The proceeds from the disposal were received in January 2012.

- At the end of December 2011, Thales exercised its option to increase its participation in the capital of DCNS to 35%. Thales has had this option since it acquired a 25% stake in DCNS in 2007. The price paid for the further 10% stake was €264.6 million. This company, which was previously accounted for under the equity method, is accounted for under the proportionate method as of 31 December 2011, as the 35% stake confers a joint-control of DCNS to Thales.

Pursuant to IAS 28:

- » Thales' share in the 2011 net income of DCNS remained accounted under the equity method at 25%. After accounting restatements, this share of net income amounted to €33.4 million (note 13).
- » Previously-held interests were remeasured at fair value at 31 December 2011, which led to a €37.0 million gain:

Share in DCNS (25%) net assets at end of 2010		538.9
Share in 2011 net income (25%)		33.4
Dividends paid		(14.3)
Share in DCNS (25%) net assets at the end of 2011	(I)	558.0
Fair value of previous-held interests (25%) at the end of 2011	(II)	595.0
Fair value adjustment	(II - I)	37.0

Given the transaction date, Thales will allocate the purchase price early in 2012. The 35% share in balance sheet acquired, before Purchase Price Allocation ("PPA"), is presented below:

DCNS: provisional acquired balance sheet at 31 December 2011	31/12/2011 (35%)
Tangible assets	178.4
Intangible assets	7.1
Share in net assets of equity affiliates	6.4
Available-for-sale investments	9.6
Current and deferred tax	13.6
Pensions and other employee benefits	(12.6)
Current operating assets (note 15)	1,573.8
Current operating liabilities (note 15)	(2,343.3)
Net cash (note 24)	713.6
Net assets acquired at 31 december 2011	(I) 146.6
Provisional goodwill	(II) 713.0
Cost of acquisition*	(I + II) 859.6

* Fair value of the 25% previously held, to which is added the price paid for the 10% newly acquired.

For information, the 2011 results of DCNS (before Thales restatements) are presented below:

	2011 (100%)
Order backlog	14,791.0
Order intake	3,167.7
Revenues	2,623.7
Gross margin	543.3
Research & development tax credits	17.7
Operational income (loss) before PPA	217.9
Financial income (loss)	69.9
Income tax	(90.0)
Net income (loss) before PPA	197.8

In 2010

- At the end of June, 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. In July, Thales received, for its share, an amount of cash of £75.1 million and accounted for a €33.5 million gain on disposal in its financial consolidated statements.
- 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 December, DRS Sonar Systems LLC, a DRS/Thales joint venture, acquired, for an amount of \$38 million (€14.1 million for the Group stake), 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 was consolidated under the proportionate method as from 31 December 2010.

b) On-going events at closing date:

In December 2011, Nexter and Thales announced their entering into discussions to bring together their ammunition businesses. The project would bring together within Nexter the ammunition affiliates of both companies, Nexter Munitions and TDA Armements. In conjunction, Thales would take up a minority stake in the capital of Nexter Systems and a technological and commercial cooperation agreement would be implemented between the two groups.

In December 2011, Thales and Safran signed a Memorandum of Understanding to create an equally-owned joint venture covering technical, commercial and program aspects for optronics (electrooptical) systems and equipment.

NOTE 3 Adjusted consolidated profit and loss account

In order to monitor and compare the Group's economic performances, the consolidated profit and loss accounts 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 the 2007 transactions: acquisition of the space, transportation and security activities of Alcatel-Lucent, and acquisition of a 25% stake in DCNS. The further 10% acquisition of DCNS at the end of 2011 will lead to a new allocation of the purchase price early in 2012.

	2011	2010
Amortisation of intangible assets acquired	(70.6)	(81.7)
Income from operations (EBIT)	(70.6)	(81.7)
Deferred tax	24.2	27.8
Share in net income (loss) of equity affiliates	(8.2)	(8.2)
Net income (loss)	(54.6)	(62.1)

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

	2011 adjusted	2010 adjusted
Revenues	13,028.4	13,124.8
Cost of sales	(10,067.1)	(11,028.6)
Research and development expenses	(619.2)	(612.3)
Marketing and selling expenses	(889.3)	(915.7)
General and administrative expenses	(543.2)	(529.7)
Restructuring costs	(160.5)	(130.1)
Income from operations (EBIT)	749.1	(91.6)
Impairment of non-current operating assets	(7.1)	(9.8)
Disposal of assets, changes in scope of consolidation and other	54.6	(22.3)
Income from operating activities	796.6	(123.7)
<i>Financial interest on gross debt</i>	<i>(83.3)</i>	<i>(81.3)</i>
<i>Financial income from cash at bank and equivalents</i>	<i>35.8</i>	<i>24.0</i>
Cost of net financial debt	(47.5)	(57.3)
Other financial income (expense)	(10.3)	(15.3)
Other components of pension charge	(62.8)	(104.6)
Income tax	(171.5)	192.7
Share in net income (loss) of equity affiliates	61.6	62.7
Net income (loss)	566.1	(45.5)
Attributable to:		
Owners of the parent company	566.4	(45.5)
Non-controlling interests	(0.3)	-

NOTE 4 Information on like-for-like basis with constant exchange rates

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

	2010 adjusted	Change in consolidation scope ^(a)	Exchange rate change ^(b)	Organic growth	2011 adjusted
Revenues	13,124.8	21.3	(52.3)	(65.4)	13,028.4
Cost of sales	(11,028.6)	(16.2)	38.9	938.8	(10,067.1)
Research and development expenses	(612.3)	(0.2)	1.6	(8.3)	(619.2)
Marketing and selling expenses	(915.7)	(0.4)	3.6	23.2	(889.3)
General and administrative expenses	(529.7)	(1.6)	1.8	(13.7)	(543.2)
Restructuring costs	(130.1)	–	–	(30.4)	(160.5)
Income from operations (EBIT)	(91.6)	2.9	(6.4)	844.2	749.1

(a) Companies acquired in 2011 are excluded from the restated 2011 profit and loss account, and the accounts of companies acquired during 2010 have been restated in order to affect 2011 profit or loss over an identical period to that over which such companies were consolidated in 2010.

Companies sold in 2010 are excluded from 2010 restated results. The accounts of companies sold during 2011 have been restated in order to impact profit and loss for an identical period in 2011 and in 2010.

(b) The exchange rate change is determined as follows: 2010 results of foreign subsidiaries are translated at 2011 average exchange rates.

NOTE 5 Information by segment

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

2011	Aerospace and Transport	Defence and Security	Other, elim. and non alloc. ^(a)	Total before PPA	PPA	Thales
Consolidated order backlog	11,371.8	19,252.1	72.6	30,696.5	–	30,696.5
Of which, DCNS contribution (35%)	–	5,173.2	–	5,173.2	–	5,173.2
Consolidated new orders	5,952.7	7,209.6	51.4	13,213.7	–	13,213.7
Consolidated revenues	5,682.3	7,253.2	92.9	13,028.4	–	13,028.4
Inter-segment revenues	62.1	336.9	(399.0)	–	–	–
Total revenues	5,744.4	7,590.1	(306.1)	13,028.4	–	13,028.4
Income from operations (EBIT) ^(b)	293.9	503.8	(48.6)	749.1	(70.6)	678.5
Capital expenditure	96.7	102.5	64.9	264.1	–	264.1
Dep. and amortisation of tangible and intang. assets	162.4	123.1	59.0	344.5	70.6	415.1
Consolidated number of employees end of period ^(c)	23,889	40,419	4,017	68,325	–	68,325

2010	Aerospace and Transport	Defence and Security	Other, elim. and non alloc. ^(a)	Total before PPA	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)	152.0	(22.8)	(91.6)	(81.7)	(173.3)
Capital expenditure	152.1	101.1	62.0	315.2	–	315.2
Dep. and amortisation of tangible and intang. assets	158.9	148.8	55.2	362.9	81.7	444.6
Consolidated number of employees end of period ^(c)	23,851	36,208	3,675	63,734	–	63,734

(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 and corporate functions). The income from operations includes the corporate income from operations which is not charged back to segments, and the cost of vacant premises.

(b) Group income from operations includes tax credits related to research expenses amounting to €120.5 million in 2011 and €153.3 million in 2010.

(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 (of which, 4,865 relating to the 35% stake in DCNS – employees on secondment included). It does not include the employees of companies accounted for under the equity method or of unconsolidated affiliates. Personnel expenses amount to €5,170.3 million in 2011 and €5,059.2 million in 2010.

b) Information by geographic area

2011	Area A ^(a)	Area B ^(b)	France	Other, elim. and non allocated ^(c)	Total before PPA	PPA	Thales
Consolidated order backlog	7,956.6	3,988.9	18,750.3	0.7	30,696.5	–	30,696.5
Of which, DCNS contribution (35%)	–	–	5,173.2	–	5,173.2	–	5,173.2
Consolidated new orders	3,693.5	2,352.8	7,167.4	–	13,213.7	–	13,213.7
Consolidated revenues	4,229.6	2,633.2	6,163.1	2.5	13,028.4	–	13,028.4
Inter-segment revenues	200.6	341.7	799.8	(1,342.1)	–	–	–
Total revenues	4,430.2	2,974.9	6,962.9	(1,339.6)	13,028.4	–	13,028.4
Income from operations (EBIT)	215.4	114.7	456.5	(37.5)	749.1	(70.6)	678.5
Capital expenditure	72.7	46.6	144.5	0.3	264.1	–	264.1
Dep. and amortisation of tangible and intangible assets	116.6	47.6	178.2	2.1	344.5	70.6	415.1
Consolidated number of employees end of period	17,766	13,692	36,197	670	68,325	–	68,325

2010 restated	Area A ^(a)	Area B ^(b)	France	Other, elim. and non allocated ^(c)	Total before PPA	PPA	Thales
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	18,241	13,390	31,268	835	63,734	–	63,734

(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.

c) Revenues (direct and indirect) by country/region of destination:

	2011	2010
France ^(a)	3,406.9	2,931.3
United Kingdom	1,492.2	1,499.7
Rest of Europe	3,456.6	3,419.4
North America	1,269.1	1,315.0
Middle East	947.1	1,257.4
Asia and Pacific	1,849.2	1,887.4
Africa and Latin America	607.3	814.6
Total	13,028.4	13,124.8

(a) Of which, French Ministry of Defence (main customer): €2,192 million in 2011 and €2,015 million in 2010.

d) Information by type of contracts

	2011	2010
Construction contracts	6,811.8	7,023.9
Sales of goods and equipment	3,406.5	3,414.1
Services	2,737.0	2,618.8
Other	73.1	68.0
Total	13,028.4	13,124.8

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.

NOTE 6 Impairment of non-current operating assets

	2011	2010
Goodwill	(5.7)	(8.2)
Other tangible and intangible assets	(1.4)	(1.6)
Total	(7.1)	(9.8)

Goodwill are allocated to CGU (Cash Generating Unit), which correspond to operational divisions of the Group, with certain exceptions such as joint ventures (note 11).

In 2011, so as in 2010, impairment losses relate mainly to the goodwill of the Navsol. The interest in Navsol was sold in 2011.

At the end of 2011, impairment tests were performed with the initial assumption of a 8.5% discount rate (8% in 2010) 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 growth 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.

Terminal values are determined by the normative operational incomes of the Group strategic plans. A 1% decrease in the operational profitability of the CGU would not lead the Group to book significant additional impairments.

NOTE 7 Disposal of assets, changes in scope of consolidation and other

	2011	2010
Fair value adjustments^(a)	50.4	-
DCNS (from 25% to 35%)	37.0	-
Yaltes (from 40% to 100%)	7.1	-
Thales Alenia Space Deutschland GmbH (from 100% to 67%)	6.3	-
Disposal of investments:	4.6	40.8
Navigation Solutions LLC (35%)	10.0	-
Camelot Group Plc (20%)	-	33.5
Indra Espacio (33%)	-	9.2
Other	(5.4)	(1.9)
Disposal of other assets:	0.5	(9.3)
Real estate assets	3.3	(8.3)
Equipment	(2.8)	(1.0)
Provision on litigation and other^(b)	(0.9)	(53.8)
Total	54.6	(22.3)

(a) In the case of a step acquisition, the previously-held equity interests are remeasured at fair value through profit and loss. It also applies to companies previously under significant influence and for which the Group gains joint-control. And it also applies to retained interests following partial disposals with loss of control (note 1-b).

(b) This amount includes, in 2010:

- €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.

NOTE 8 Financial income (expense)

a) Cost of net financial debt

	2011	2010
Interest expense:		
- on gross debt	(96.1)	(104.4)
- on interest rate swaps	12.8	23.1
	(83.3)	(81.3)
Interest income/cash and equivalents	35.8	24.0
Total	(47.5)	(57.3)

b) Other financial income (expense)

	2011	2010
Foreign exchange gains (losses)	(1.6)	(5.4)
Change in fair value derivative exchange instruments	6.2	3.8
Cash flow hedge inefficiency/foreign exchange instruments	(5.8)	(4.6)
Net foreign exchange gain (loss)	(1.2)	(6.2)
Net interest income (expense) on non-financial receivables and payables	4.6	9.2
Dividends received	4.9	5.0
Impairment of investments	(0.3)	(4.1)
Depreciation of loans and other financial debtors	(6.5)	(9.1)
Other	(11.8)	(10.1)
Total	(10.3)	(15.3)

NOTE 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

	2011	2010
Current tax	(94.4)	(62.7)
Deferred tax	(52.9)	283.2
Total	(147.3)	220.5

b) Effective tax rate

	2011	2010
Net income (loss)	511.5	(107.6)
Less: income tax	147.3	(220.5)
Less: share in net income (loss) of equity affiliates	(53.4)	(54.5)
Profit before tax	605.4	(382.6)
Average tax rate*	31.3%	36.1%
Theoretical tax profit (expense)	(189.6)	138.0
Reconciliation:		
- Non taxable items or items taxable at reduced rates	55.8	50.0
- Change in deferred tax not recorded as an asset	16.0	1.0
- Adjustments on prior years	(19.1)	27.2
- Effect of enacted future tax rate changes	(8.0)	(2.8)
- Other	(2.4)	7.1
Actual net tax charge	(147.3)	220.5

* This rate varies based on the weight of each country in the Group's income. In 2010, this high rate was due to a tax rate of 34.4% applied to losses in the area France, only partly offset by an average tax rate of 29.5% applied to profits in areas A and B.

c) Deferred tax assets and liabilities

	31/12/2011	31/12/2010
- Deferred tax assets	955.0	954.7
- Deferred tax liabilities	(184.3)	(194.9)
Deferred tax assets, net	770.7	759.8

d) Changes in net deferred tax assets:

Changes by nature

	01/01/2011	(Expense) income of the period	Recognised through equity	Changes in exchange rate, scope and other	31/12/2011
Temporary differences:	462.4	(17.8)	46.7	15.8	507.1
- Pensions and other employee benefits	163.5	(6.7)	–	2.2	159.0
- Intangible assets	(199.7)	27.2	–	(19.6)	(192.1)
- Reserve for losses at completion	325.6	(47.1)	–	3.7	282.2
- Other	173.0	8.8	46.7	29.5	258.0
Tax loss carry-forwards	504.8	(51.1)	–	11.6	465.3
Total	967.2	(68.9)	46.7	27.4	972.4
Part not recognised in the balance sheet	(207.4)	16.0	1.7	(12.0)	(201.7)
Total net deferred tax assets	759.8	(52.9)	48.4	15.4	770.7

	01/01/2010	(Expense) income of the period	Recognised through equity	Changes in exchange rate, scope and other	31/12/2010
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
Part not 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

Deferred tax allocated to equity

	2011	2010
Cash flow hedge	39.8	31.3
Net foreign investments' hedge	0.4	0.4
Total deferred tax on other comprehensive income	40.2	31.7
Deferred tax/payment in shares	8.2	2.5
Others	–	0.4
Total deferred tax allocated to equity	48.4	34.6

Expiration of tax loss carry-forwards

Total tax loss carry-forwards represent a potential tax saving of €465.3 million at 31 December 2011 (€504.8 million at 31 December 2010). Corresponding expiry dates are:

	31/12/2011
2012	2.7
2013-2016	0.7
Beyond 2016	42.1
Without any time limit	419.8
Total	465.3
Of which, not recognized on the balance sheet	(172.4)
Net deferred tax asset	292.9

	31/12/2010
2011	1.2
2012-2015	4.7
Beyond 2015	52.5
Without any time limit	446.4
Total	504.8
Of which, not recognized on the balance sheet	(191.4)
Net deferred tax asset	313.4

Only deferred tax assets related to tax losses which the Group expects to recover (note 1-l) are recognised in the balance sheet. In particular, the Group takes into account loss carry-forward limitation rules (as in France as part of the amended 2011 tax law).

NOTE 10 Earnings per share

		2011	2010
Numerator (in millions of euros):			
Income (loss), attributable to owners of the parent company	(a)	511.8	(107.6)
Denominator (in thousands):			
Average number of shares outstanding	(b)	196,736	195,915
Share options*		47	129
Diluted average number of shares outstanding	(c)	196,783	196,044
Earnings per share (in euros)	(a)/(b)	2.60	(0.55)
Diluted earnings per share (in euros)	(a)/(c)	2.60	(0.55)

* Average share price amounted to €26.63 in 2011 (€28.29 in 2010). Except for the July 2003 plan, share purchase and subscription options plans have been excluded from diluted earnings per share calculation. Detailed information relating to those plans are presented in note 20-b.

NOTE 11 Goodwill

a) Goodwill by business segment

	31/12/2011			31/12/2010
	Gross	Impairment	Net	Net
Avionics	343.1	(24.7)	318.4	317.5
Transportation Systems	927.8	(52.4)	875.4	875.4
Space	487.1	–	487.1	467.2
Aerospace and Transport	1,758.0	(77.1)	1,680.9	1,660.1
DCNS	713.0	–	713.0	–
Defence & Security C4I Systems	593.7	(17.6)	576.1	585.0
Defence Mission Systems	491.3	–	491.3	475.3
Land Defence	282.8	(7.4)	275.4	274.3
Air Operations	41.8	–	41.8	41.8
Defence and Security	2,122.6	(25.0)	2,097.6	1,376.4
Other	8.1	–	8.1	8.4
Total	3,888.7	(102.1)	3,786.6	3,044.9

b) Changes in net goodwill

	2011	2010
Net book value at 1 January	3,044.9	2,986.9
Acquisitions:	746.8	18.0
- DCNS	713.0	–
- Yaltes	19.7	–
- Vega Space and Space activities of Eltag Datamat	15.9	–
- Advanced Acoustic Concepts, Inc	(5.7)	13.8
- Other	3.9	4.2
Disposals:	(7.7)	–
- Navsol (35%)	(7.7)	–
Impairment (note 6)	(5.7)	(8.2)
Exchange rate variations and other	8.3	48.2
Net book value at 31 December	3,786.6	3,044.9

NOTE 12 Tangible and intangible assets

a) Details of balance sheet items

	31/12/2011			31/12/2010
	Gross	Depreciation and impairment	Net	Net
Customer relationships: long-term	397.8	(128.6)	269.2	294.9
Customer relationships: backlog	212.3	(198.0)	14.3	28.2
Acquired technologies	249.9	(145.0)	104.9	134.2
Other	16.2	(5.1)	11.1	12.3
Intangible assets acquired in the context of business combination	876.2	(476.7)	399.5	469.6
Development costs	915.2	(711.9)	203.3	236.7
Other	615.9	(475.2)	140.7	126.6
Intangible assets (excluding goodwill)	2,407.3	(1,663.8)	743.5	832.9
Lands	74.9	—	74.9	62.6
Buildings	1,214.6	(683.2)	531.4	507.4
Plant and equipment	2,305.8	(1,738.1)	567.7	525.7
Other	867.5	(547.6)	319.9	251.5
Tangible assets	4,462.8	(2,968.9)	1,493.9	1,347.2
Total	6,870.1	(4,632.7)	2,237.4	2,180.1
Of which:				
Fixed assets held under lease agreements	69.0	(41.8)	27.2	33.8

b) Changes in net tangible and intangible assets

	Intangible assets acquired	Development costs	Other intangible assets	Tangible assets	Total
Net value at 1 January 10	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 2010	469.6	236.7	126.6	1,347.2	2,180.1
Acquisitions/capitalisations	—	10.0	21.5	232.6	264.1
Disposals	—	—	—	(8.6)	(8.6)
Depreciation and amortisation	(70.6)	(42.7)	(36.5)	(265.3)	(415.1)
Impairment (note 6)	—	—	—	(1.4)	(1.4)
Scope, foreign exchange rates and other	0.5	(0.7)	29.1	189.4	218.3
Net value at 31 December 2011	399.5	203.3	140.7	1,493.9	2,237.4

NOTE 13 Equity affiliates

a) Group share in net assets and net income of equity affiliates

	Ownership %		Share in net assets		Share in income (loss)	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010	2011	2010
Aviation Com.& Surveillance Syst.	30	30	58.2	58.0	4.8	4.7
Camelot Plc (disposed of in June 2010)	–	–	–	–	–	3.4
DCNS ^(a)	–	25	–	538.9	33.4	27.6
DpiX	20	20	18.9	18.2	0.1	0.5
Elettronica	33	33	32.5	32.1	5.4	6.7
ESG Elektroniksystem & Logistik GmbH	30	30	21.3	19.9	3.8	4.7
Indra Espacio (disposed of in October 2010)	–	–	–	–	–	0.7
Other	–	–	26.6	14.8	5.9	6.2
Total			157.5	681.9	53.4	54.5

(a) The net income accounted for under the equity method corresponds to the Group share (25%) in the net income of DCNS, to which is adjusted the amortization of intangible assets evaluated as a result of the 2007 acquisition. From 31 December 2011, the balance sheet of DCNS is consolidated under the proportionate method at 35% in the Group consolidated statements (note 2).

b) Changes in “Net assets of equity affiliates”

	2011	2010
Share in net assets of equity affiliates at 1 January	681.9	711.0
Share in income (loss) of equity affiliates	53.4	54.5
Dividends paid	(28.8)	(25.6)
Disposals (Camelot Plc and Indra Espacio in 2010)	–	(67.4)
Proportionate consolidation of DCNS at 31 December 2011	(558.0)	–
Exchange rate variations and other	9.0	9.4
Share in net assets of equity affiliates at 31 December	157.5	681.9

NOTE 14 Financial assets

a) Available-for-sale investments

Fair value of investments at 31 December

	31/12/2011	31/12/2010
Investments held by Thales Corporate Ventures ^(a)	12.8	17.2
Investments held by Thales International Offsets ^(b)	33.6	33.6
Other	71.4	51.3
Total	117.8	102.1

(a) The Group's venture capital vehicle.

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

Changes over the period

	2011	2010
Investments in shares at 1 January	102.1	101.9
Acquisitions (disposals) of non-consolidated investments	16.7	(1.3)
Impairment of investments (note 8-b)	(0.3)	(4.1)
Exchange rate variations and other	(0.7)	5.6
Investments in shares at 31 December	117.8	102.1

b) Loans and financial assets

	31/12/2011	31/12/2010
Loans to related parties	72.7	57.8
Current accounts with related parties	260.4	88.8
Receivables relating to companies disposed of	8.5	36.2
Other	68.1	54.6
Total	409.7	237.4
Depreciation	(10.7)	(13.5)
Loans and financial assets at amortised cost	399.0	223.9
Of which:		
Non-current (maturity < 1 year)	138.6	135.1
Current (maturity > 1 year)	260.4	88.8

c) Other financial assets

This category includes mainly interest rate products as well as money-market funds and other mutual funds. These assets are recognised at fair value through profit and loss account.

	31/12/2011	31/12/2010
DCNS investments, maturity > 1 year	217.3	–
DCNS investments, maturity < 1 year	400.8	–
Receivable related to the disposal of Navsol	29.4	–
Other	27.2	36.3
Financial assets at fair value through profit and loss account	674.7	36.3
Of which:		
Non-current	244.5	28.4
Current	430.2	7.9

NOTE 15 Current operating assets and liabilities

	01/01/2011	Change in WCR and provisions	DCNS impact	Ex. rate var. changes in scope and reclassifications	31/12/2011
Inventories and work-in-progress (excluding construction contracts)	2,301.9	11.3	96.1	17.6	2,426.9
Construction contracts: assets	2,057.7	150.5	83.4	13.7	2,305.3
Advances to suppliers	366.5	(0.2)	717.6	2.7	1,086.6
Accounts, notes and other current receivables	3,981.0	18.6	676.7	33.2	4,709.5
Fair value of foreign currency derivatives	184.6	52.1	–	(114.2)	122.5
Current operating assets	8,891.7	232.3	1,573.8	(47.0)	10,650.8
Advances received from customers on contracts	(3,448.7)	45.5	(1,178.0)	(229.1)	(4,810.3)
Refundable grants	(173.3)	(8.4)	–	(0.2)	(181.9)
Construction contracts: liabilities	(1,365.7)	37.0	(104.2)	77.3	(1,355.6)
Reserves for contingencies	(1,458.3)	169.9	(48.9)	106.8	(1,230.5)
Accounts, notes and other current payables	(4,956.6)	(114.6)	(1,012.3)	(47.1)	(6,130.6)
Fair value of foreign currency derivatives	(152.9)	(25.5)	0.1	(0.5)	(178.8)
Current operating liabilities	(11,555.5)	103.9	(2,343.3)	(92.8)	(13,887.7)
Net	(2,663.8)	336.2	(769.5)	(139.8)	(3,236.9)
Of which, decrease (increase) in WCR and reserves for contingencies		(389.5)			
Of which, net allowances to restructuring provisions		53.3			

NOTE 16 Construction contracts

This note is related to contracts accounted for under IAS11.

	31/12/2011	31/12/2010
Construction contracts: assets	2,305.3	2,057.7
Construction contracts: liabilities	(1,355.6)	(1,365.7)
Total	949.7	692.0

This balance is analyzed as follows:

	31/12/2011	31/12/2010
Work in progress on construction contracts	1,287.2	1,097.5
Unbilled receivable on construction contracts	1,369.7	1,033.5
Reserves for losses at completion on construction contracts	(884.6)	(944.7)
Other reserves on construction contracts	(822.6)	(494.3)
Total	949.7	692.0
Advances received from customers on construction contracts	3,341.9	2,282.8

In 2010, Thales booked significant charges on some complex contracts. This situation and its impact on the 2010 consolidated accounts, are described in the Notes to the 2010 consolidated accounts.

In 2011, these contracts had the following developments:

A400 M

As part of their discussions on the A400M programme, Thales and Airbus signed on 11 July 2011 an agreement relating to the technical, operational, and commercial aspects of the A400M flight management system project (FMS). This agreement redefines the functional specifications, schedule and related contractual and financial terms, and strengthens the basis for long-term cooperation with Airbus. This agreement, which terms are confidential, is positive for Thales. During 2011, the technical milestones have been reached in accordance with the new agreement. The programme completion schedule runs until 2017.

Meltem

Following delays and technical difficulties on the programme, Thales and the Turkish ministry of Defence initiated discussions in early 2010 on the

Meltem maritime patrol aircraft programme and signed an agreement on 3 March 2011. As expected at the end of 2010, this agreement 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). In 2011, the implementation of the programme went according to the new schedule. The next major milestones are planned in 2012 and 2013. Consequently, the financial assumptions taken into account in the 2010 financial statements were maintained at 31 December 2011.

Other contracts

Periodic reviews of other contracts did not lead to significant changes in the financial assumptions used at the end of 2010. Consequently, new estimates at completion of these contracts did not have any significant impact, positive or negative, on the 2011 consolidated income statement.

NOTE 17 Current receivables and payables

	31/12/2011			31/12/2010
	Total	< 1 year	> 1 year	
Accounts and unbilled receivable, gross	3,598.8	3,418.5	180.3	3,107.7
Provisions on accounts & notes receivable ^(a)	(118.6)	(69.1)	(49.5)	(110.2)
Accounts and unbilled receivable, net	3,480.2	3,349.4	130.8	2,997.5
Other tax receivables (excluding income tax)	806.0	545.5	260.5	607.2
Other debtors and prepaid expenses, gross	465.1	401.5	63.6	433.2
Related provisions ^(a)	(41.8)	(41.8)	–	(56.9)
Net	1,229.3	905.2	324.1	983.5
Accounts, notes and other current receivables	4,709.5	4,254.6	454.9	3,981.0
Accounts and notes payable	3,027.7	2,986.0	41.7	2,168.5
Accrued holiday pay and social	1,252.0	1,250.4	1.6	1,130.1
Other tax payables (excluding income tax)	886.9	882.9	4.0	681.1
Other creditors and accrued liabilities	964.0	894.2	69.8	976.9
Accounts, notes and other current payables	6,130.6	6,013.5	117.1	4,956.6

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

	Opening	Net depreciation (reversal)	Scope, exch. rates and other	Closing
Depreciation on accounts & notes receivable	110.2	12.6	(4.2)	118.6
Depreciation on other receivable	56.9	(0.6)	(14.5)	41.8

NOTE 18 Companies under joint control

Contribution to Thales consolidated financial statements of companies accounted under the proportionate consolidation method:

PROFIT AND LOSS ACCOUNT

	2011	2010
Revenues	2,675.4	2,640.0
Income of operating activities	192.1	201.2
Net income	123.4	186.1

BALANCE SHEET

	31/12/2011*	31/12/2010
Non-current assets	2,385.6	1,264.6
Current assets	4,275.1	1,957.6
Total assets	6,660.7	3,222.2
Equity	2,458.9	1,552.9
Non-current liabilities	446.5	366.9
Current liabilities	3,755.3	1,302.4
Total liabilities and equity	6,660.7	3,222.2

* Including 35% of DCNS's balance sheet.

CHANGE IN NET CASH

	2011	2010
Net cash at 1 January	530.3	305.5
Cash-flow from operating activities	242.2	318.4
Cash-flow from investing activities	(83.1)	(100.1)
Net cash DCNS (35%)	713.6	–
Exchange rate variation and other	9.5	6.5
Net cash at 31 December**	1,412.5	530.3
** Of which, deposit with the Group Treasury department	455.1	369.2

NOTE 19 Related party transactions

The Group has identified the following related parties: shareholders of Thales Parent Company (notably the French State and Dassault Aviation), companies controlled by these same shareholders, companies under joint control, companies under significant influence, directors and senior corporate officers.

Since 2010 the Group applies the Revised IAS 24 standard *Related Party Disclosures* in its financial consolidated statements, which partly exempts Thales from disclosing information about all transactions, if

these transactions are individually non-material, with 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 €2,192 million in 2011 (€2,015 million in 2010) 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 in the Thales's revenues, with mainly DCNS and EADS (which respectively for 2% and 4% of the Group's revenues).

a) Transactions

The volume of transactions with joint-ventures (attributable to non-Thales shareholders), companies under significant influence and other related party amounts to:

	2011	2010
Revenues	253.2	254.4
Purchases	325.1	313.2
Net current operating assets/liabilities	53.5	35.0
Loans and financial assets	333.1	146.6
Financial debts	307.7	256.1

b) Agreements signed with Thales's shareholders

The main provisions concerning the shareholders' agreement (governing relations between the public sector and the industrial partner within Thales), the convention on the protection of national strategic interests and the specific convention are described in part 3 of this registration document.

c) Agreements signed at the end of January 2007 with DCNS

At the end of January 2007, within the framework of the combination of DCNS and the French naval activities of Thales, 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%.

In December 2011, Thales exercised its purchase option and raised its interest in DCNS to 35%. The additional rights attached to the acquired 10% interest enable Thales to participate at the governance of the company jointly with the French State.

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

Expenses recognised in respect of compensation, benefits and social security contributions attributable to Directors and members of the Executive Committee are as follows:

Expenses

	2011	2010
Short-term benefits:		
- Fixed compensation	4.9	5.4
- Variable compensation	3.0	2.7
- Employer's social security contribution	2.7	2.6
- Contract termination benefits resulting from contract commitments	1.3	–
- Employer's social security contribution/contract termination benefits	0.3	–
- Compensation for attendance at Board meetings	0.6	0.5
Other benefits:		
- Post employment benefits	1.0	1.5
- Share-based payments	1.1	1.1

NOTE 20 Equity

a) Share capital

The share capital of Thales amounts to €606,985,371 and is comprised of 202,328,457 shares with a par value of €3 (compared with 199,082,027 shares with a par value of €3 at 31 December 2010).

b) Share-based payments

Expenses related to share-based payments

Grant date	Initial number of options or shares granted	Fair value at grant date	Fair value at 31/12/2011	2011 Expense	2010 Expense
04/07/07	80,000	0.8	–	–	–
25/11/08	71,700	0.3	–	–	(0.1)
Share purchase options			–	–	(0.1)
09/11/06	2,223,950	23.5	–	–	(0.7)
04/07/07	1,574,530	14.8	–	(0.2)	(1.1)
01/07/08	1,688,076	11.2	0.1	(0.8)	(1.9)
25/06/09	1,600,340	11.2	1.0	(2.0)	(5.1)
23/09/10	471,850	2.8	1.2	(1.3)	(0.3)
15/09/11	435,300	2.3	2.0	(0.3)	–
Share subscription options			4.3	(4.6)	(9.1)
04/07/07	312,435	11.5	–	(0.7)	(3.0)
01/07/08	317,705	9.3	1.2	(2.1)	(2.4)
25/06/09	334,980	8.7	3.3	(2.2)	(2.2)
23/09/10	631,730	13.6	9.3	(3.3)	(0.9)
15/09/11	630,990	13.0	12.0	(1.0)	–
Free shares			25.8	(9.3)	(8.5)
Company savings scheme			–	(0.7)	–
Total			30.1	(14.6)	(17.7)

Assumptions used to evaluate the plans' fair value at grant date

Grant date	Share price at grant date	Expected volatility*	Risk-free rate	Distribution rate on future income
Share purchase options:				
04/07/07	€45.13	20%	4.5%	2.5%
25/11/08	€31.96	20%	3.5%	2.5%
Share subscription options:				
09/11/06	€37.32	30%	3.8%	2.5%
04/07/07	€45.13	20%	4.5%	2.5%
01/07/08	€35.72	20%	4.5%	2.5%
25/06/09	€31.93	25%	3.9%	2.5%
23/09/10	€26.40	25%	3.1%	2.5%
15/09/11	€25.20	25%	3.5%	2.5%
Free shares:				
04/07/07	€45.13	N/A	4.5%	2.5%
01/07/08	€35.72	N/A	4.5%	2.5%
25/06/09	€31.93	N/A	3.9%	2.5%
23/09/10	€26.40	N/A	3.1%	2.5%
15/09/11	€25.20	N/A	3.5%	2.5%

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

Description of the different plans granted by the Group

Thales regularly grants its employees and managers, purchase and subscription options, as well as free shares and/or performance-based shares within the performance management policy. These different plans are described below. At 31 December 2011, the following options and shares were outstanding:

- 127,800 share purchase options at a weighted average exercise price of €42.42;
- 15,056,223 share subscription options at a weighted average exercise price of €34.51, of which 872,250 performance-based shares;
- 1,842,925 free shares, of which 280,770 performance-based shares.

1- Outstanding purchase options plans:

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31 Dec. 2010	Options granted in 2011	Options exercised in 2011	Options cancelled in 2011	Number of options outstanding at 31 Dec. 2011
25/11/2008	From 25 Nov. 2012 to 24 Nov. 2018	€38.50	48,900	–	–	(1,100)	47,800
04/07/2007	From 4 July 2011 to 3 July 2017	€44.77	80,000	–	–	–	80,000
13/11/2001	From 13 Nov 2005 to 12 Nov 2011	€42.18	110,617	–	–	(110,617)	–
02/04/2001	From 2 April 2005 to 1 st April 2011	€42.37	10,608	–	–	(10,608)	–

2- Outstanding subscription options plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31 Dec. 2010	Options granted in 2011	Options exercised in 2011	Options cancelled in 2011 ^(b)	Number of options outstanding at 31 Dec. 2011
15/09/2011 ^(a)	From 15 Sep. 2015 to 14 Sep. 2021	€26.34	–	435,300	–	(32,300)	403,000
23/09/2010 ^(a)	From 23 Sept 2014 to 22 Sept 2020	€26.34	469,250 ^(c)	–	–	–	469,250
25/06/2009	From 25 June 2013 to 24 June 2019	€32.88	1,550,950	–	–	(42,950)	1,508,000
01/07/2008	From 1 st July 2012 to 30 June 2018	€38.50	1,643,171	–	–	(11,884)	1,631,287
04/07/2007	From 4 July 2011 to 3 July 2017	€44.77	1,542,788	–	–	(26,480)	1,516,308
09/11/2006	From 09 Nov. 2010 to 08 Nov. 2016	€36.47	2,126,499	–	–	(128,274)	1,998,225
30/06/2005	From 30 June 2009 to 29 June 2015	€34.01	1,853,563	–	–	(53,720)	1,799,843
01/07/2004	From 1 st July 2008 to 30 June 2014	€29.50	1,924,982	–	–	(56,911)	1,868,071
01/07/2003	From 1 st July 2007 to 30 June 2013	€25.70	1,404,533	–	(35,620)	(29,999)	1,338,914
02/07/2002	From 2 July 2006 to 1 st July 2012	€40.97	2,578,115	–	–	(54,790)	2,523,325
12/07/2001	From 12 July 2005 to 11 July 2011	€42.18	2,765,608	–	–	(2,765,608)	–

(a) Performance-based plans.

(b) Including, for the involved plans, written-off options when performance targets are not, partially or totally, achieved.

(c) Figures for the plans have been amended due to an adjustment which was identified after the annual closing.

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 4 July 2007 can already be exercised in full.

Stock purchase and subscription stock options granted between 1 July 2008 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 and 15 September 2011 are contingent upon the achievement of internal performance targets over the next three 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 once the Board of Directors has approved the Group consolidated accounts of the related periods. 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.

3-Plan of free shares and/or performance-based shares

Plans of free shares and/or performance-based shares have been implemented since 2007. The Chairman (the only "mandataire social": legally responsible as defined by the French Commercial Code), and 21 executives (including Executive Committee) cannot benefit from these plans. The free shares plan granted on 15 September 2011 is made up of two sub plans:

Free shares

Beneficiaries of this programme will receive vested shares over a four-year period, provided that the conditions of presence have been met as stipulated in the programme terms and conditions.

Performance-based allocation of shares

The allotment of shares under this programme is contingent upon the achievement of internal performance targets over the three following 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, once the Board of Directors has approved the Group consolidated accounts of the related periods. The number of shares vested will not exceed the number of shares initially allotted.

Beneficiaries of this programme will receive vested shares over a four-year period, provided that the conditions of presence have been met 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	Vesting period	Share price at grant date	Number of free shares at 31/12/2010	Adjustments posterior to closing	Shares granted in 2011	Shares cancelled in 2011 ^(b)	Shares delivered in 2011	Number of free shares at 31/12/2011
15/09/2011	From 15/09/2011 to 15/09/2015	€25.20	–	–	485,690	(3,200)	(200)	482,290
			–	–	145,300 ^(a)	(1,810)	–	143,490
23/09/2010	From 23/09/2010 to 23/09/2014	€26.40	483,700	(2,970)	–	(12,140)	(400)	468,190
			142,850 ^(a)	(350)	–	(5,220)	(450)	136,830
25/06/2009	From 25/06/2009 to 25/06/2013	€31.93	329,750	(6,135)	–	(6,605)	(255)	316,755
01/07/2008	From 01/07/2008 to 01/07/2012	€35.72	305,610	(3,660)	–	(6,540)	(190)	295,220
04/07/2007	From 04/07/2007 to 04/07/2011	€45.13	293,150	(70)	–	(10,575)	(282,355)	150

(a) Performance-based shares.

(b) Including, for the concerned plans, written-off options when performance targets are not partially or totally achieved.

c) Changes in fair value of financial instruments directly recognised in equity

Analysis of the change in value of financial instruments used to hedge currency risk and available-for-sale assets:

	2011	2010
Cash flow hedges:	(114.2)	(87.4)
- Changes in fair value	(66.4)	(71.7)
- Taken to profit and loss	(47.6)	(16.2)
- Change into scope of consolidation and exchange rate	(0.2)	0.5
Available-for-sale assets	0.3	(4.7)
- Changes in fair value	0.3	0.4
- Taken to profit and loss	–	–
- Change into scope of consolidation and exchange rate	–	(5.1)

d) Cumulative translation adjustment

Evolution of the differences arising from the translation of the financial statements of foreign subsidiaries:

	2011	2010
Translation of the financial statements of foreign subsidiaries:	61.0	163.4
- Changes in fair value	60.8	156.0
- Taken to profit and loss	0.2	7.4
Hedges of net investments in foreign subsidiaries:	(1.2)	(1.2)
- Changes in fair value	(1.2)	(1.2)
- Taken to profit and loss	–	–

e) Treasury shares

Thales Parent Company held 3,542,173 of its own shares at 31 December 2011 (3,717,478 at 31 December 2010). In accordance with the authorizations given to the Board of Directors at the Annual General Meeting, the company did the following operations:

- in 2011, purchase of 1,322,476 shares and sale of 1,242,309 shares as part of the liquidity contract. Purchase of 740,650 shares in the market and transfer of 712,272 shares to Thales employees as part of the 2011 employee share purchase offering. Finally, delivery of 283,850 free shares;
- in 2010, purchase of 1,368,874 shares and sale of 1,207,329 shares as part of the liquidity contract. Transfer of 760 shares owing to the exercise of purchase options and the delivery of free shares.

At 31 December 2011, relating to the liquidity contract between Thales and Exane-BNP Paribas, the liquidity account had the following means:

- 596,449 Thales shares (516,282 shares at 31 December 2010);
- €5.1 million (€6.6 million at 31 December 2010).

f) 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.

NOTE 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 2011, the corresponding pension expense was €25.3 million (€24.5 million in 2010).

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

	2011			2010		
	Externally funded countries	Internally funded countries	Total	Externally funded countries	Internally funded country	Total
Net provisions at 1 January	(83.6)	(711.5)	(795.1)	(113.8)	(676.9)	(790.7)
Current service cost	(26.8)	(41.8)	(68.6)	(23.1)	(39.6)	(62.7)
Interest cost	(166.7)	(48.7)	(215.4)	(167.8)	(48.6)	(216.4)
Expected return on plan assets	158.3	10.3	168.6	151.9	9.1	161.0
Schemes amendments, curtailments and settlements	–	–	–	(1.8)	–	(1.8)
Amortisation of scheme amendments	(3.3)	(13.7)	(17.0)	(10.8)	(8.8)	(19.6)
Amortisation of actuarial gains (losses)	(12.1)	0.3	(11.8)	(14.7)	(0.2)	(14.9)
Effect of a minimum funding requirement*	12.8	–	12.8	(12.9)	–	(12.9)
Other component of pension charge	(11.0)	(51.8)	(62.8)	(56.1)	(48.5)	(104.6)
Defined benefit plans: total cost	(37.8)	(93.6)	(131.4)	(79.2)	(88.1)	(167.3)
Benefits and contributions	102.2	60.6	162.8	108.8	54.4	163.2
- Deficit payment in the UK	59.0	–	59.0	57.0	–	57.0
- Future service cash	43.2	60.6	103.8	51.8	54.4	106.2
Exchange rate variation	3.6	(1.4)	2.2	0.6	(8.0)	(7.4)
Change in scope of consolidation and other	0.6	(5.5)	(4.9)	–	7.1	7.1
Net provisions at 31 December	(15.0)	(751.4)	(766.4)	(83.6)	(711.5)	(795.1)
Of which:						
Assets	107.7	9.3	117.0	72.8	6.8	79.6
Liabilities	(122.7)	(760.7)	(883.4)	(156.4)	(718.3)	(874.7)
Of which:						
Post-employment benefits	(13.0)	(628.5)	(641.5)	(81.4)	(594.6)	(676.0)
Other long-term benefits	(2.0)	(122.9)	(124.9)	(2.2)	(116.9)	(119.1)

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

By category of country, changes in defined benefit obligations and plan assets

	2011			2010		
	U.K.	Netherlands	Total	U.K.	Netherlands	Total
Externally funded countries:						
Obligations at 1 January	(2,401.9)	(760.2)	(3,162.1)	(2,191.8)	(669.0)	(2,860.8)
Current service cost	(19.2)	(7.6)	(26.8)	(17.5)	(5.6)	(23.1)
Interest cost	(127.9)	(38.8)	(166.7)	(130.4)	(37.4)	(167.8)
Plan participants' contributions	(9.9)	(8.7)	(18.6)	(10.5)	(8.2)	(18.7)
Scheme amendments	–	–	–	(7.4)	–	(7.4)
Curtailment/settlements	–	–	–	6.7	–	6.7
New actuarial gains/losses ^(a)	(357.8)	31.8	(326.0)	(68.8)	(63.4)	(132.2)
Benefits paid by plan assets	89.9	24.2	114.1	99.5	23.2	122.7
Benefits paid by employer ^(b)	–	–	–	–	0.2	0.2
Effect of a minimum funding requirement	12.8	–	12.8	(12.9)	–	(12.9)
Scope, exchange rate var. and other	(91.2)	–	(91.2)	(68.8)	–	(68.8)
Obligations at 31 December	(2,905.2)	(759.3)	(3,664.5)	(2,401.9)	(760.2)	(3,162.1)
Plan assets at 1 January	2,047.7	737.4	2,785.1	1,787.1	660.0	2,447.1
Expected return on plan assets	123.3	35.0	158.3	118.2	33.7	151.9
Employer's contribution ^(b)	83.6	18.6	102.2	92.7	15.9	108.6
Plan participants' contributions	9.9	8.7	18.6	10.5	8.2	18.7
Curtailment/settlements	–	–	–	(6.4)	–	(6.4)
Benefits paid by plan assets	(89.9)	(24.2)	(114.1)	(99.5)	(23.2)	(122.7)
New actuarial gains/losses	(39.2)	24.2	(15.0)	89.5	42.8	132.3
Scope, exchange rate var. and other	66.6	–	66.6	55.6	–	55.6
Plan assets at 31 December	2,202.0	799.7	3,001.7	2,047.7	737.4	2,785.1
Net obligations at 31 December	(703.2)	40.4	(662.8)	(354.2)	(22.8)	(377.0)
Unrecognised actuarial (gain)/loss	801.4	(177.3)	624.1	392.4	(126.0)	266.4
Unrecognised past service cost	–	23.7	23.7	–	27.0	27.0
Net provisions at 31 December	98.2	(113.2)	(15.0)	38.2	(121.8)	(83.6)

(a) Net experience gains (losses) created in 2011 on obligations amounts to €11.2 million (€-15.7 million in 2010, €+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 2012, remain stable.

Countries mainly internally funded	2011			2010		
	France	Other	Total	France	Other	Total
Obligations at 1 January	(660.6)	(373.0)	(1,033.6)	(577.2)	(339.3)	(916.5)
Current service cost	(27.0)	(14.8)	(41.8)	(26.0)	(13.6)	(39.6)
Interest cost	(31.1)	(17.6)	(48.7)	(31.9)	(16.7)	(48.6)
Scheme amendments	(74.7)	–	(74.7)	(2.2)	0.6	(1.6)
Curtailment/settlements	–	–	–	0.7	–	0.7
New actuarial gains/losses ^(a)	53.0	(13.3)	39.7	(51.5)	(12.6)	(64.1)
Benefits paid by plan assets	2.0	5.3	7.3	2.2	2.9	5.1
Benefits paid by employer ^(b)	33.8	14.9	48.7	20.4	14.4	34.8
Scope, exchange rate var. and other	(3.6)	(15.6)	(19.2)	4.9	(8.7)	(3.8)
Obligations at 31 December	(708.2)	(414.1)	(1,122.3)	(660.6)	(373.0)	(1,033.6)
Plan assets at 1 January	108.5	105.4	213.9	91.0	92.1	183.1
Expected return on plan assets	4.9	5.4	10.3	4.2	4.9	9.1
Employer's contribution ^(b)	1.1	10.8	11.9	14.0	5.6	19.6
Benefits paid by plan assets	(2.0)	(5.3)	(7.3)	(2.2)	(2.9)	(5.1)
New actuarial gains/losses	(7.4)	(5.2)	(12.6)	1.2	2.7	3.9
Scope, exchange rate var. and other	8.2	0.9	9.1	0.3	3.0	3.3
Plan assets at 31 December	113.3	112.0	225.3	108.5	105.4	213.9
Net obligations at 31 December	(594.9)	(302.1)	(897.0)	(552.1)	(267.6)	(819.7)
Unrecognised actuarial (gain)/loss	(56.7)	27.8	(28.9)	(9.7)	5.4	(4.3)
Unrecognised past service cost	174.3	0.2	174.5	112.2	0.3	112.5
Net provisions at 31 December	(477.3)	(274.1)	(751.4)	(449.6)	(261.9)	(711.5)

(a) Net experience gains (losses) created in 2011 on obligations amounts to €11.2 million (€-15.7 million in 2010, €+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 2012, remain stable.

Net obligations at 31 December 2011:

	United Kingdom	Netherlands	France	Other	Total
Net obligations at 31 December 2011	(703.2)	40.4	(594.9)	(302.1)	(1,559.8)
Unrecognised actuarial (gain)/loss	801.4	(177.3)	(56.7)	27.8	595.2
Unrecognised past service cost	–	23.7	174.3	0.2	198.2
Net provisions at 31 December 2011	98.2	(113.2)	(477.3)	(274.1)	(766.4)

Actuarial assumptions used:

2011	United Kingdom	Netherlands	France	Rest of the world
Inflation rate	2.79%	2.00%	2.00%	2.00% to 3.60%
Revaluation rate of pensions	2.10% – 2.50%	0.70% – 1.00%	–	–
Discount rate	4.76%	4.93%	4.63%	2.92% to 5.25%
Expected long-term return on plan assets*	6.10%	4.90%	4.70%	2.00% to 8.25%
Future compensation increase	3.79%	3.00%	2.00%	3.00% to 3.75%
Expected average residual service life (years)	9 years	10.9 years	14.9 years	8 to 15 years

2010	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%	1.00% – 1.50%	–	–
Discount rate	5.52%	5.08%	4.68%	3.20% to 5.79%
Expected long-term return on plan assets*	6.37%	5.30%	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 years	10.8 years	14.8 years	9 to 16 years

* used to calculate expected long-term return booked in the P&L of the corresponding financial year.

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, Group refers to the Iboxx index. It retains:

- in the euro zone, the Iboxx€ Corporate AA + 10 year index, adjusted in accordance with the duration of the commitments in the countries in question;
- in the United Kingdom, the Iboxx£ AA + 15 year index.

At 31 December 2011, the sensitivity of the net obligation 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 net obligation at 31 December 2011	63.9	(56.2)	148.5	(146.3)	295.8	(299.4)

The returns on plan assets are determined plan by plan and depend upon the asset allocation of the investment portfolio expected future performance. At 31 December 2011, plan assets are invested as follows:

	2011	2010
Equities	32.4%	42.9%
Bonds	54.9%	49.0%
Alternative funds	7.6%	3.5%
Property	1.3%	2.0%
Other assets	3.8%	2.6%
Total	100%	100%

The actual return on plan assets in 2011 is estimated at €141.0 million (€297.2 million in 2010).

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. Discussions with the trustees have been held on the basis of the 2008 valuation and have been concluded

in March 2010. This contribution is consequently maintained at £ 50 million per year.

In addition, Thales Holding UK granted a guarantee covering future financing obligations of its subsidiaries in the UK. At 31 December 2011, this guarantee amounted to £472 million and is underwritten by Thales (parent company) for an amount of £62 million. These two guarantees amount will be reduced by any amount paid accordingly to the financing plan.

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

NOTE 22 Reserves for contingencies

Reserve for contingencies relating to construction contracts accounted for under IAS11 are classified within "construction contracts" balance sheet items (note 16).

Reserves for contingencies presented below include provisions on other activities (sale of goods and services) that are accounted for under IAS18.

	31/12/2010	Reclassification**	Increase	Utilization	Reversal	Changes in scope and exchange rate	31/12/2011
Restructuring	140.1	3.0	143.6	(82.3)	(8.0)	13.9	210.3
Litigation	298.1	13.4	48.8	(201.9)	(15.4)	14.9	157.9
Guarantees	274.6	14.3	110.8	(87.6)	(21.5)	7.4	298.0
Losses at completion	180.3	(8.6)	27.8	(90.5)	(2.0)	5.1	112.1
Provisions on contracts	195.6	(51.4)	45.8	(30.6)	(22.5)	5.5	142.4
Other*	369.6	(84.3)	105.4	(76.4)	(13.4)	8.9	309.8
Total	1,458.3	(113.6)	482.2	(569.3)	(82.8)	55.7	1,230.5

* Includes technical provisions of insurance companies, provisions for tax and social risks, liability guarantees, environment and others.

** Reclassifications within the provisions or to construction contracts balance sheet items.

	31/12/2009	Reclassification	Increase	Utilization	Reversal	Changes in scope and exchange rate	31/12/2010
Restructuring	118.6	(1.1)	104.7	(78.3)	(4.4)	0.6	140.1
Litigation	210.8	(0.4)	125.1	(32.6)	(5.7)	0.9	298.1
Guarantees	248.1	(1.5)	94.6	(58.5)	(17.3)	9.2	274.6
Losses at completion	98.3	0.3	143.8*	(61.7)	(2.9)	2.5	180.3
Provisions on contracts	147.2	17.8	94.7	(65.4)	(2.6)	3.9	195.6
Other	306.8	(2.0)	106.3	(31.2)	(16.4)	6.1	369.6
Total	1,129.8	13.1	669.2	(327.7)	(49.3)	23.2	1,458.3

* Mainly related to some development programmes in Aerospace.

The net restructuring cost can be analysed as follows:

	2011	2010
Increase in reserve during the period	(143.6)	(104.7)
Reversal in reserve during the period	90.3	82.7
Expenses during the period	(107.2)	(108.1)
Restructuring costs	(160.5)	(130.1)

NOTE 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 policy is to systematically seek alternative methods of settlement. This policy is reviewed on a regular basis to take account of changes in the company's core areas of business and is 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.

- The litigation against the Republic of China (Taiwan), as mentioned for many years in the public documents of the company, has now ended. The award, leading the parties to disburse an amount of €630 million (i.e. €166 million for Thales part), was executed in July 2011.
- 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 for the provision of six Lafayette-class frigates. 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 potential adverse environmental and health effects of these activities, impact of the environment on its operations and non-compliance with new regulations applicable to activities and to 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 being used to map risks related to regulatory non-compliance, pollution, asbestos, substances (ROHS, REACH, WEEE etc.) and radiations. It aims at:

- ensuring that employees and surrounding residents are not exposed to health and environmental risks;
- ensuring the compliance of activities and products;
- analyzing the impact of new regulations, including on product design;
- specifying 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 2011, 118 sites had obtained ISO 14001 certification.

At 31 December 2011, the amount of reserves for environmental contingencies amounted to €7.7 million.

NOTE 24 Net financial debt

	31/12/2011	31/12/2010
Long-term financial debt	1,494.6	1,434.1
Short-term financial debt	437.1	1,229.7
Fair value of interest rate derivatives ^(a)	(6.5)	(7.6)
Total gross financial debt (I)	1,925.2	2,656.2
Current loans and financial receivables	260.4	88.8
DCNS investments, with maturity >1 year (note 14-c)	217.3	–
Other current financial assets	430.2	7.9
Cash at bank and equivalents (note 28-d)	1,923.1	2,750.5
Cash and other short-term financial assets (II)	2,831.0	2,847.2
Net cash/(financial debt) (II-I)	905.8	191.0
Of which, DCNS contribution:		
Cash at bank and equivalents	178.7	–
Investments: maturity < 1 year	400.8	–
Investments: maturity > 1 year	217.3	–
Financial debt ^(b)	(83.2)	–
Stake in DCNS net cash (35%)	713.6	–

(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.

(b) In its consolidated financial statements, Thales excludes the share of DCNS's cash owed to the French State (€70 million at the end of 2011 for the Group share). This right is exercised through the payment of preference dividends; the French State owns 300 preference shares in DCNS's capital.

Breakdown of gross financial debt

	31/12/2011	31/12/2010
Bond, maturity 2016	602.0	582.0
Bond, maturity 2013	597.7	605.4
Bond, maturity 2011	–	782.5
Commercial paper	–	49.8
Project financing debt	168.1	191.1
Borrowings from financial institutions	48.2	53.2
Other borrowings	140.7	47.3
Capital lease obligations	16.2	18.6
Current accounts with affiliated companies	307.7	256.1
Bank overdrafts	22.5	44.7
Accrued interest	28.6	33.1
Fair value of interest rate derivatives	(6.5)	(7.6)
Gross financial debt	1,925.2	2,656.2

NATURE OF BORROWINGS AT 31 DECEMBER 2011

	Nominal value	Maturity date	Nature	Rate	
				Nominal/Effective (excluding effect of hedging)	
Bond, maturity date 2016	€600 M	October 2016	Fixed	Including €400 M swapped to floating rate	2.75% 2.912%
Bond, maturity date 2013	€600 M	April 2013	Fixed	–	4.375% 4.578%
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⁾

	31/12/2011	31/12/2010
Euro	1,277.4	2,404.6
Pound Sterling	511.7	151.4
US Dollar	67.7	25.4
Australian Dollar	54.9	65.0
Other	13.5	9.8
Total	1,925.2	2,656.2

Breakdown of gross financial debt by type of rate⁽¹⁾

	31/12/2011	31/12/2010
Fixed rate	1,118.8	1,072.0
Floating rate	806.4	1,584.2
Total	1,925.2	2,656.2

(1) After incidence of the corresponding derivative instruments.

Breakdown of gross financial debt by maturity⁽¹⁾

	31/12/2011	31/12/2010
2011		1,218.1
2012	437.1	66.0
2013	674.3	635.0
2014	82.1	43.3
2015	50.3	35.7
2016 and beyond	681.4	658.1
Total at more than one year	1,488.1	1,438.1
Total	1,925.2	2,656.2

These amounts include the revaluation of bonds swapped at variable rate (€ -6.5M related to the bond with maturity 2016, for a nominal of €400M at 31 December 2011).

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

Contractual cash-flows of financial debt

Gross financial debt at 31/12/2011	Interests payable	Total at 31/12/2011	Contractual cash flows scheduled in:				
			2012	2013	2014	2015	2016 and beyond
1,925.2	143.8	2,069.0	475.5	719.2	99.7	66.6	708.0

At 31 December 2011, no financing of 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 2011, 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⁾

	31/12/2011	31/12/2010
Total	1,952.1	2,690.0

(1) After incidence of the corresponding derivative instruments.

(2) EBITDA, as defined in financing agreements, is the sum of the income of 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 their net carrying amounts.

NOTE 25 Summary of financial instruments

Financial instruments assets

	Loans and receivables	At fair value				Total
		Financial assets		Derivatives		
		Through P&L	AFS ⁽¹⁾	Through P&L	Not qualified for hedge accounting	
At 31 December 2011						
Non-current financial assets:						
Available-for-sale investments	–	–	117.8	–	–	117.8
Loans and other non-current financial assets	138.6	–	–	–	–	138.6
Fair value of interest rate derivatives	–	–	–	6.5	–	6.5
Other non-current financial assets	–	244.5	–	–	–	244.5
Current financial assets:						
Accounts, notes and other current receivables	4,709.5	–	–	–	–	4,709.5
Fair value of foreign currency derivatives	–	–	–	100.5	22.0	122.5
Fair value of interest rate derivatives	–	–	–	–	–	–
Loans and other current financial assets	260.4	–	–	–	–	260.4
Other current financial assets	–	430.2	–	–	–	430.2
Total financial assets	5,108.5	674.7	117.8	107.0	22.0	6,030.0
Methods used to measure fair value						
Valuation at cost		–	117.8	–	–	117.8
Quoted prices in active markets (level 1)		–	–	–	–	–
Valuation techniques based on observable market data (level 2)		–	–	107.0	22.0	129.0
Valuation techniques not based on observable market data (level 3)		674.7	–	–	–	674.7

(1) Assets available for sale.

At 31 December 2010	Loans and receivables	At fair value				Total
		Financial assets		Derivatives		
		Through P&L	AFS ⁽¹⁾	Through P&L	Not qualified for hedge accounting	
Non-current financial assets:						
Available-for-sale investments	–	–	102.1	–	–	102.1
Loans and other non-current financial assets	135.1	–	–	–	–	135.1
Fair value of interest rate derivatives	–	–	–	8.7	–	8.7
Other non-current financial assets	–	28.4	–	–	–	28.4
Current financial assets:						
Accounts, notes and other current receivables	3,981.0	–	–	–	–	3,981.0
Fair value of foreign currency derivatives	–	–	–	174.1	10.5	184.6
Fair value of interest rate derivatives	–	–	–	11.6	–	11.6
Loans and other current financial assets	88.8	–	–	–	–	88.8
Other current financial assets	–	7.9	–	–	–	7.9
Total financial assets	4,204.9	36.3	102.1	194.4	10.5	4,548.2

(1) Assets available for sale.

At 31 December 2010	Loans and receivables	At fair value				Total
		Financial assets		Derivatives		
		Through P&L	AFS ⁽¹⁾	Through P&L	Not qualified for hedge accounting	
<i>Methods used to measure fair value</i>						
Valuation at cost		–	102.1	–	–	102.1
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)		28.4	–	–	–	28.4

(1) Assets available for sale.

Financial instruments liabilities

		At fair value			
	At amortised cost	Financial liabilities	Derivatives		
			Hedge accounting	Not qualified for hedge accounting	Total
At 31 December 2011					
Non-current liabilities:					
Financial debt – long term	1,488.1	6.5	–	–	1,494.6
Fair value of interest rate derivatives	–	–	–	–	–
Current liabilities:					
Accounts, notes and other current payables	6,130.6	–	–	–	6,130.6
Fair value of foreign currency derivatives	–	–	172.9	5.9	178.8
Financial debt – short term	437.1	–	–	–	437.1
Total liabilities	8,055.8	6.5	172.9	5.9	8,241.1
Methods used to measure fair value					
Quoted prices in active markets (level 1)		–	–	–	–
Valuation techniques based on observable market data (level 2)		6.5	172.9	5.9	185.3
Valuation techniques not based on observable market data (level 3)		–	–	–	–

At 31 December 2010	At amortised cost	At fair value			Total
		Financial liabilities	Derivatives		
			Hedge accounting	Not qualified for hedge accounting	
Non-current liabilities:					
Financial debt – long term	1,438.1	(4.0)	–	–	1,434.1
Fair value of interest rate derivatives	–	12.7	–	–	12.7
Current liabilities:					
Accounts, notes and other current payables	4,956.6	–	–	–	4,956.6
Fair value of foreign currency derivatives	–	–	143.1	9.8	152.9
Financial debt – short term	1,218.1	11.6	–	–	1,229.7
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)		–	–	–	–

NOTE 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 €10.0 million in 2011 and €43.4 million in 2010.

b) Net financial investment

Acquisitions

	2011	2010
DCNS (additional 10% interest)	(264.6)	–
Yaltes (additional 60% interest)	(16.4)	–
Vega Space Ltd & Elsa Datamat activities (via Telespazio 33%)	(17.5)	–
Société Européenne de Systèmes Optiques	(14.6)	–
Advanced Acoustic Concepts, Inc (49%)	–	(14.1)
Other	(4.1)	(8.6)
Acquisitions	(317.2)	(22.7)
- Cash and cash equivalents of DCNS (35%)*	178.7	–
- Cash position of other companies acquired	14.5	2.7
Acquisitions, net	(124.0)	(20.0)

* Due to the consolidation under the proportionate method.

Disposals

	2011	2010
Camelot Group Plc	–	87.7
Indra Espacio (50% paid in 2010, remaining part in January 2011)	13.1	13.1
Interests of Thales Ventures	9.4	0.4
Faceo (Repayment of credit set up in 2007 when disposed to Apax Partners)	–	7.5
Other	5.1	2.5
Disposals	27.6	111.2
- Cash position of companies sold	(2.8)	(3.8)
Disposals, net	24.8	107.4

c) Change in net cash (debt)

	2011	2010
Net cash (debt) at 1 January	191.1	(90.8)
Net cash flows from operating activities	577.2	522.8
Capital expenditure	(255.5)	(308.8)
Acquisitions*	(317.2)	(22.7)
Disposals*	27.6	111.2
Dividends paid	(64.0)	(97.7)
Net cash of DCNS (35%)	713.6	–
Other changes in scope	13.0	7.4
Exchange rate var.	(3.3)	44.7
Other	23.3	25.0
Net cash (debt) at 31 December	905.8	191.1

* Before addition/deduction of cash from companies acquired or sold.

NOTE 27 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 2011, bid bonds issued amounted to €47.1 million (€44.4 million at 31 December 2010).

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 2011, performance bonds amounted to €1,952.9 million (€1,558.7 million at 31 December 2010).

Technical, operational and financial costs incurred by the Group in order to meet its obligations are valued, on a contract-by-contract 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 2011, advance payment bonds amounted to €2,122.0 million (€1,869.0 million at 31 December 2010).

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 2011, warranty retention bonds amounted to €96.2 million (€118.4 million at 31 December 2010).

The maturity dates of these commitments are:

	< 1 year	1 to 5 years	> 5 years	Total
Bid bonds	30.3	14.1	2.7	47.1
Performance bonds	585.5	937.3	430.1	1,952.9
Advance payment bonds	988.3	791.8	341.9	2,122.0
Warranty retention bonds	50.3	45.6	0.3	96.2
Other bank bonds	97.4	87.5	23.2	208.1
Total	1,751.8	1,876.3	798.2	4,426.3

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 2011, these "corporate" guarantees amount to €9,585.7 million and €9,353.7 million at 31 December 2010.

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 2011 are analysed below:

31 December 2011	Rent payable			
	Total	< 1 year	1 to 5 years	> 5 years
Financial leases ^(a)	18.5	1.1	0.9	16.5
Operating leases	1,058.8	178.4	483.4	396.9

31 December 2010	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 (€2.3 and €2.6 million respectively). The corresponding debt is recognised in the consolidated balance sheet for an amount excluding interest (note 24).

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.

NOTE 28 Financial 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, for the spot rate component. The premium/discount component is not eligible to cash flow hedge accounting and is recognised through 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 have positively (respectively, negatively) impacted equity by approximately €139 million at 31 December 2011, compared with €135 million at 31 December 2010.

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

have positively (respectively, negatively) impacted profit and loss by approximately €1 million at 31 December 2011, compared to €2 million at 31 December 2010.

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 2011 and 31 December 2010. 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 / lend" or "sell / borrow" columns depending on the nature of the operation at maturity.

PURCHASES OF FOREIGN CURRENCIES

	2011					2010	
	USD	GBP	Other	Total	Market Value	Total	Market Value
Forward exchange contracts	946.9	296.3	714.8	1,958.0	16.5	2,323.0	(4.6)
Foreign exchange swaps:							
- to hedge investments	–	–	–	–	–	–	–
- to hedge commercial commitments	686.5	741.3	533.2	1,961.0	25.6	1,625.6	36.9
Foreign exchange options:							
- Purchase of options	–	40.7	47.5	88.2	0.9	98.6	0.6
- Sale of options	77.3	–	6.5	83.8	(0.2)	6.4	–

SALES OF FOREIGN CURRENCIES

	2011					2010	
	USD	GBP	Other	Total	Market Value	Total	Market Value
Forward exchange contracts	2,832.2	338.6	595.4	3,766.2	(30.0)	3,324.3	22.1
Foreign exchange swaps:							
- to hedge investments	–	39.3	–	39.3	(0.7)	38.2	1.0
- to hedge commercial commitments	1,691.9	207.2	630.4	2,529.5	(61.7)	3,376.2	(9.1)
Foreign exchange options:							
- Purchase of options	274.9	–	11.5	286.4	2.7	148.4	2.2
- Sale of options	4.2	–	3.1	7.3	(0.2)	5.9	–

Maturity dates are as follows:

PURCHASES OF FOREIGN CURRENCIES

	2011			Total
	< 1 year	1 to 5 years	> 5 years	
Forward exchange contracts	1,130.4	757.1	70.5	1,958.0
Foreign exchange swaps:				
- to hedge investments	–	–	–	–
- to hedge commercial commitments	1,799.3	161.7	–	1,961.0
Foreign exchange options:				
- Purchase of options	88.2	–	–	88.2
- Sale of options	83.8	–	–	83.8

SALES OF FOREIGN CURRENCIES

	2011			Total
	< 1 year	1 to 5 years	> 5 years	
Forward exchange contracts	1,750.4	1,808.0	207.8	3,766.2
Foreign exchange swaps:				
- to hedge investments	39.3	–	–	39.3
- to hedge commercial commitments	1,915.5	614.0	–	2,529.5
Foreign exchange options:				
- Purchase of options	286.4	–	–	286.4
- Sale of options	7.3	–	–	7.3

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 the appropriate financial instruments to hedge those risks.

Thales 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 2011 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:

	2011					2010	
	< 1 year	1 to 5 years	> 5 years	Total	Market value	Total	Market value
Interest Rate swap:							
- lend	–	400.0*	–	400.0	6.5	1,868.8	8.1
- borrow	100.0**	–	17.6	117.6	(0.4)	19.6	–

* Related to the bond with maturity 2016.

** Maturity March 2012.

Based on the average debt for 2011 (taking into account hedging instruments), a 1% rise in interest rates would decrease financial expense by €5.9 million (decrease of €1.5 million in 2010).

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.

Risk relating to failure of a private-sector customer

Non-governmental customers (aircraft manufacturers, airlines, private infrastructure operators and 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 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.

Credit risk relating to public-sector customers

Public, 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 which could, for example, lead them to suspend an order in production, or make them be unable to pay 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 2011, only two customers accounted for annual revenues in excess of €500 million: the French government (approx. €2 billion) and the UK Government (approx. €1 billion).

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 2011 and 2010, the ageing of these accounts and notes receivable is as follows:

31 December 2011	Accounts and notes receivables overdue:			
	Total	Less than 3 months	From 3 to 6 months	More than 6 months
Overdue accounts & notes receivable that have not been written down as impaired	390.6	212.8	49.2	128.6

31 December 2010	Accounts and notes receivables overdue:			
	Total	Less than 3 months	From 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

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, 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 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 2011, the cash recorded under consolidated assets (€1,923.1 million compared to €2,750.5 million at end-2010), includes:

- €1,119.0 million held by the parent company and available for immediate use (€1,952.0 million in 2010). These amounts include respectively €981.0 and €1,389 million in negotiable debt securities, money-market funds with maturities of less than 3 months and other very short-term investments;

- €389.2 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 (€449.6 million in 2010);
- €421.2 million in cash invested directly by joint ventures (prorated by Thales's interest in each joint venture), of which €178.7 million related to DCNS since cash pooling is not applicable to joint ventures (€348.9 million in 2010).

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

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	negative outlook	outlook stable
Commercial paper & short-term loans	Prime-1	A2

The decrease of Thales's credit risk rating doesn't place at risk financial covenants included in financing contracts. The entry into force of the unique clauses providing for accelerated repayment would only apply in the event that the 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.

A decrease of Thales's credit risk ratings would lead to a (capped) increase in the margin related to the confirmed €1.5 billion credit facilities presented in note 24; by contrast, an increase of Thales's credit risk ratings would lead to an improvement of the margin (with a minimum threshold).

NOTE 29 Fees paid to auditors

Fees paid to auditors in 2011 and 2010 are presented below^(a) (in thousands of euros):

	Mazars				Ernst & Young			
	Amount (pre-tax)		%		Amount (pre-tax)		%	
	2011	2010	2011	2010	2011	2010	2011	2010
Audit								
Auditing, certification, examination of individual and consolidated accounts ^(b)								
- Issuer	709	747	12%	13%	796	789	14%	15%
- Subsidiaries fully consolidated	4,104	4,485	69%	78%	3,207	3,630	56%	67%
Other efforts and services directly associated with the assignment of the auditor ^(c)								
- Issuer	232	20	4%	1%	770	20	13%	1%
- Subsidiaries fully consolidated	923	350	15%	6%	557	547	10%	10%
Sub-total	5,968	5,602	100%	98%	5,330	4,986	93%	93%
Other services rendered by the networks subsidiaries fully consolidated^(d)								
Legal, tax-related, social-security-related	–	121	–	2%	388	418	7%	7%
Other (if > 10% of audit fees))	–	–	–	–	–	–	–	–
Sub-total	–	121	–	2%	388	418	7%	7%
Total	5,968	5,723	100%	100%	5,718	5,404	100%	100%

(a) With regard to the period under consideration, these are services performed in respect of a financial year charged to 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 diligences 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 statement are being certified.

NOTE 30 Other disclosures

The German group companies Thales Transportation Systems GmbH, Thales Security Solutions & Services GmbH, Electronic Signalling Services (ESS) GmbH and Thales Immobilien Deutschland GmbH, all located at Lorenzstrasse 10, 70435 Stuttgart have claimed an

exemption from their obligation to publish their respective German financial statements for the fiscal year 2011 by reference to section 264 paragraph 3 German Commercial Code.

LIST OF MAIN CONSOLIDATED COMPANIES

(Not including Thales, the parent company)

	% Control		% Stake	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
1. Consolidated subsidiaries				
Thales Security Solutions & Services Company (Saudi Arabia)	100%	100%	100%	100%
Thales Defence Systems Pty Ltd (South Africa)	74%	80%	74%	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 & Security 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 Transportation Systems 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 S.A.S (France)*	—	100%	—	100%
Thales Services SAS (France)	100%	100%	100%	100%
Thales Suisse SA (Switzerland)	100%	100%	100%	100%
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 Training & Simulation SAS (France) ex Thales Services activities	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%

* Merged with Thales Communications SA which has been renamed Thales Communications & Security SA on 1 July 2011.

	% Control		% Stake	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
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%
DCNS (France)**	35%	–	35%	–
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%
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%
Trixiell (France)	50%	50%	51%	51%

** Accounted for under the proportionate method from 31 December 2011.

	% Control		% Stake	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
3. Accounted for under the equity method				
Aviation Communications & Surveillance Systems (United-States)	30%	30%	30%	30%
DCNS (France)**	–	25%	–	25%
DpiX LLC (United-States)	20%	20%	20%	20%
Eletronica SpA (Italy)	33%	33%	33%	33%
ESG GmbH (Germany)	30%	30%	30%	30%

** Accounted for under the proportionate method from 31 December 2011.

1.2.7 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 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 31 December 2011

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Shareholders' Meetings, we hereby report to you, for the year ended 31 December 2011, 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 31 December 2011 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 expressed above, we draw your attention to the matters set out in:

- note 12-b « Tangible and intangible assets » to the consolidated financial statements which details the situation of capitalized development costs as at 31 December 2011 and note 1-j « Accounting policies - Research and development expenses » to

the consolidated financial statements which details the criteria for an initial capitalization of development costs, and their tightening since late 2009 as a consequence of the impact of the crisis on aeronautics and civil activities;

- note 16 "Construction contracts", which details in particular the evolution of discussions between Thales and his clients about contracts Meltem and A400M;
- note 23 "Litigation and environment", which details the provision relating to the arbitration request submitted by a client of the Group.

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 "Accounting Policies - Main sources of estimates", Thales' management is required to make estimates and formulate assumptions that affect certain amounts included in the consolidated financial statements and the accompanying notes. These assumptions are by nature uncertain, and the actual figures may vary from these estimates under the circumstances anticipated in note 1.v to the consolidated 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 "Accounting policies - Revenues" to the consolidated financial statements. Such income is based on estimates of income on completion made by 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.

Acquisition goodwill

Acquisition goodwill, which appears in the balance sheet as at 31 December 2011 for a net amount of MEUR 3,786.6, was subject to impairment tests in accordance with the methods set out in note 1.f "Accounting policies - Impairment of non-current assets" to the consolidated 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 MEUR 203,3 as at 31 December 2011) or are charged to the profit and loss account, as stated in note 1.j "Accounting policies - Research and development expenses". This note specifies that the criteria used for the capitalization of development costs of the projects of civil and aeronautics activities, affected by the recent crisis, were tightened since 2009. For 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.I "Accounting policies - Deferred taxation" and 1.v "Accounting policies - Main sources of estimation", the recoverability of net deferred tax assets amounting in the balance sheet as at 31 December 2011 to MEUR 955 was assessed by Thales on the basis of forecasted 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 of calculation are set out in notes 1.n "Accounting policies - Pensions and related benefits" and 21 "Provision for pensions and related benefits" to the consolidated 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

Concerning 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 checked that main litigation and contingency identified during the implementation of these procedures were described in appropriate terms in the notes to the consolidated financial statements, and, in particular, in notes 23 "Litigation and environment" and 27 "Commitments and contingencies".

Purchase Price Allocation of business combinations

As stated in notes 1.b "Accounting policies - Business combinations" and 1.v "Accounting policies - Main sources of estimation" as part 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 notably based on assumptions (forecast) and parameters characterizing the acquired activities.

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, 7 March 2012

The statutory auditors

French original signed by

ERNST & YOUNG Audit

Michel Gauthier

Nour-Eddine Zanouda

MAZARS

Jean-Louis Simon

1.3 PARENT COMPANY MANAGEMENT REPORT AND FINANCIAL STATEMENTS

1.3.1 Parent company management report

No changes were made in 2011 to the presentation of the annual financial statements and the valuation methods applied.

1.3.1.1 BUSINESS AND RESULTS

Operating income amounted to €505m, compared with €467m in 2010. Revenues totalled €144m, compared with €133m in 2010.

Operations by sector are described in the notes.

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

Other operating income amounted to €329m, compared with €303m the previous year and represents fees paid by direct operating subsidiaries and fees reinvoiced to those subsidiaries. In 2011, the increase in reinvoiced amounts came to €17m. This income includes general and specific services rendered by the parent company to subsidiaries.

The net operating loss was -€77m, compared with -€21m in 2010.

Net financial income amounted to €198m, compared with €268m in 2010. Provisions for investments and risks on subsidiaries totalled -€181m in 2011 compared with -€113m in 2010. Reversals on provisions for investments represented €96m in 2011, and totalled €135m in 2010.

Income from investments totalled €366m in 2011 and €313m in 2010.

An extraordinary loss of -€25m was recorded, compared with a loss of -€142m in 2010. Restructuring costs of -€14m, primarily driven by the implementation of the Thales's "*Plan Actif de l'Emploi*" were higher than in 2010 when they were limited to -€4m. Capital losses in the amount of -€10m represent the sale of treasury shares under the employee shareholding plan.

Corporate income tax represented a net gain of €79m (compared with a net gain of €87m in 2010), almost all of which is due to the tax consolidation applied by Thales and its subsidiaries. In 2011, expenditure excluded from tax-deductible expenses pursuant to Articles 223 *quater* and 39.4 of the French General Tax Code amounted to €300,000, compared with €377,000 in 2010.

The year 2011 closed with a net profit of €175m, compared with €192m in 2010.

1.3.1.2 BALANCE SHEET AT 31 DECEMBER 2011

The balance sheet total stood at €11,502 at the end of 2011, down €297m from the balance sheet total of €11,799m at the end 2010.

Non-current assets of €8,947m compared with €8,387m in 2010 mainly reflected long-term financial assets. The change is due primarily to the Thales Avionics capital increase for €100m, the capital increase of Thales Communications & Security for €279m and the purchase of DCNS shares from the French State for €265m net of the increase in the provision on Thales UK securities of €120m. Other financial assets declined as a result of loan repayments by Thales International Saudi Arabia for -€23m and Thales Information Systems for -€10m.

Current assets fell by €857m to total €2,555m at the end of December 2011. The "Group company accounts" item decreased by €102m. The cash current accounts of Thales Rail Signalling Solutions and Thales Services became credit balances, offset by an increase in the cash current accounts on Thales Security Systems and Thales International. Cash and cash equivalents amounted to €1,119m at the end of 2011, down from €1,952m at year-end 2010; this change reflects the July 2011 repayment of the mandatory tranche of €775m at maturity, which had been refinanced early in October 2010 for €600m.

The balance of amounts due to and from Group companies represented a net debt of €3,716 at the end of 2011, compared with €2,835m at

the end of 2010. The "other financial debt" item also includes debts in foreign currencies and euros to subsidiaries and Group equity associates in the amount of €92m, compared with €193m at the end of 2010. The balance of loans and debts to Group companies stood at €3,808m at year-end 2011, versus €3,028m at the end of 2010.

"Other financial debt" declined to €1,316m at the end of 2011 compared with €2,256m at the end of 2010. They primarily represent:

- €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 31 December 2011, Thales's net financial debt, excluding debts to Group companies, amounted to €105m, versus €111m at the end of 2010.

At 31 December 2011, share capital stood at €607m.

At 31 December 2011, shareholders' equity totalled €4,984m compared with €4,872m at the end of 2010.

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 millions of euros)	Trade payables at 31 December 2011			Trade payables at 31 December 2010		
	Group	Non-group	Total	Group	Non-group	Total
France						
Due in less than 2 months (not due)	16.8	5.6	22.4	20.3	7.4	27.7
Due in 2 to 4 months	1.2	1.1	2.3	1.0	1.5	2.5
Due after 4 months	0.1	0.6	0.6	0.0	0.6	0.6
	18.0	7.3	25.3	21.4	9.4	30.8
Other countries						
Due in less than 2 months (not due)	2.4	–	2.4	0.6	0.2	0.7
Due in 2 to 4 months	–	0.1	0.1	0.3	0.1	0.4
Due after 4 months	0.2	0.1	0.3	0.0	0.3	0.4
	2.6	0.2	2.8	1.0	0.6	1.5
Subtotal	20.6	7.5	28.1	22.3	10.0	32.3
Charges payable, not due			24.8			24.2
Total trade payables			52.9			56.5

Main Shareholders

	31/12/2011	31/12/2010	31/12/2009
TSA	23.00%	22.93%	22.39%
Sofivision	4.08%	4.07%	4.07%
French State (including one golden share)	–	–	–
Sogepa	–	–	0.54%
Public sector ^(a)	27.08%	27.00%	27.00%
Dassault Aviation	25.96%	25.89%	25.90%
Thales	1.75%	1.87%	1.79%
Employees	3.14%	2.92%	3.00%
Other shareholders	42.07%	42.32%	42.31%
Total	100%	100%	100%
Number of shares comprising share capital	202,328,457	199,082,027	199,023,932

(a) Under the terms of the shareholders' agreement (see AMF 27 Nov. 2008), the "Public Sector" includes TSA and its subsidiary Sofivision, excluding the French State directly.

1.3.1.3 SUMMARY OF COMPANY SHARE TRANSACTIONS CARRIED OUT IN 2011 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 ⁽¹⁾		Divestments ⁽¹⁾	
	Number of shares	euros	Number of shares	euros
TSA	878,443	22,821,949.14		

(1) Shares transactions executed in 2011 include transactions carried out by related persons, where applicable.

The securities transaction declared by TSA represents the payment of the 2010 dividend in cash or shares; TSA opted for the second option. Other officers and directors also opted for payment of the 2010 dividend in shares. However, these latest transactions are not indicated in the summary statement since the total amount is less than €5,000 – the

obligation to declare securities transactions executed by directors, non-voting directors and related persons does not apply when the total amount of the transactions executed during the calendar year is less than €5,000 (Article 223-23 of the AMF General Regulations).

1.3.1.4 REVERSAL OF GENERAL EXPENSES FOLLOWING TAX AUDIT

N/A.

1.3.1.5 OUTLOOK FOR THE CURRENT YEAR

Results for 2012 should reflect the dividends paid by some subsidiaries in respect of the 2011 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 2011.

1.3.1.6 PROPOSED APPROPRIATION OF EARNINGS^(a)

The General Meeting notes that distributable earnings, made up of the net profit for the 2011 financial year	€175,437,372.53
Less allocation to the legal reserve	-€973,933.00
Plus the increase in the amount of the interim dividend of €0.25 paid 23 December 2011 and drawn from credit balance brought forward	€49,696,568.50
Plus credit balance brought forward at 31 December 2011	€273,510,533.09
Amounts to a total of	€497,670,541.12

The General Meeting resolves to allocate this profit as follows:

Payment of a single dividend of €0.78 on 202,328,457 shares bearing interest as of 1 January 2011	€157,816,196.46
Balance carried forward	€339,854,344.66
Total equivalent to distributable earnings	€497,670,541.12

(a) Subject to the approval of the Annual General Meeting of 15 May 2012.

1.3.1.7 DIVIDEND POLICY

Dividends are paid to the holders of shares in accordance with the law. The Company uses the Euroclear direct payment procedure.

If the 2011 dividend is approved by the Annual Meeting on 15 May 2012, it will be detached on 28 May 2012 and paid out on 31 May 2012. 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 2008, 2009 and 2010 qualified for a possible tax credit of 40%.

Year	Dividend per share
2008	€1.05
2009	€0.50
2010	€0.50
2011	€0.78 ^(a)

(a) Subject to the approval of the Annual General Meeting of 15 May 2012, which will vote on the 2011 financial statements.

1.3.1.8 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.

1.3.1.9 TREASURY SHARES

In 2011, the number of treasury shares decreased due to the following transactions:

- 1,322,476 shares were purchased under a liquidity contract;
- 1,242,309 shares were sold under a liquidity contract;
- 740,650 shares were acquired over the year;
- 996,122 shares were transferred under the employee shareholding and free share plan:

- » 712,272 shares were acquired by employees under the 2011 employee shareholding plan,
- » 283,850 free shares were delivered (including 282,215 at the end of the vesting period of the 2007 free share allotment plan).

Treasury shares thus amounted to 1.75% of the capital, or 3,542,173 shares, at 31 December 2011.

1.3.1.10 TRADING IN COMPANY SHARES DURING 2011

In 2011, 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 20 May 2010 for transactions performed between 1 January 2011 and 18 May 2011, and in accordance with the authorisation given by the Annual General

Meeting on 18 May 2011 for transactions performed between 19 May 2011 and 31 December 2011.

At 1 January 2011, Thales held 3,717,478 treasury shares, or 1.87% of the capital, compared with 3,542,173 treasury shares at 31 December 2011.

The balance of 2011 transactions was the net sale of 175,305 shares, with the following breakdown by objective:

a) Net sale or allotment of shares to Group employees and senior executives in accordance with legal provisions, particularly when share purchase options are exercised or existing shares are granted free of charge, and the employee shareholding plan	- 255,472
b) Regulation of the market price by a liquidity contract drawn up in accordance with the AFEI Code of Conduct	+80,167

Breakdown of treasury shares by objective at 31 December 2011.

The total number of shares held at that date was 3,542,173, representing 1.75% of Thales's share capital. The breakdown by objective was as follows:

a) Sale or allotment of shares to group employees and senior executives as stipulated by law, particularly when share purchase options are exercised or existing shares are granted free of charge	1,970,725
b) Exchange of shares under external growth operations	596,449
c) Regulation of the market price by a liquidity contract drawn up in accordance with the AFEI Code of Conduct	974,999

Market value of the portfolio at 31 December 2011: €86,429,021, at the closing price of €24.4 on 31 December 2011.

	Cumulative gross flows from 1 January 2011 to 31 December 2011		Positions open on the date of the programme 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	2,063,126	2,238,431						
Average maximum maturity								
Average transaction price (€)	27.92	22.70						
Average exercise price								
Totals (€)	57,602,477.92	50,812,383.70						

Thales did not have recourse to derivatives (futures sales) as part of this redemption programme.

1.3.1.11 AUTHORISATIONS GRANTED AT GENERAL MEETINGS WITH DELEGATION OF POWERS TO THE BOARD OF DIRECTORS

General Meeting	Decision	Observation
General Meeting of 20 May 2010		
Allocation of options for the purchase of shares (24 th resolution) with no discount on the average price of the last 20 trading days (although potential discount on cost price, subject to legal limits). Limit: 2 million shares. Validity of options: 10 years. Validity of the authorisation: 38 months (<u>until 19 July 2013</u>).	No utilisation.	In France, discounts in excess of 5% are taxable; discounts apply to the average price of the last 20 trading days or the selling price.
Free allotment of existing shares (25 th resolution) up to a maximum of 2 million shares. Minimum vesting period for the rights: 2 years; commitment to retain the shares (2 years) may be eliminated if the vesting period is equal to or greater than 4 years. Validity of the authorisation: 38 months (<u>until 19 July 2013</u>).	Board meeting on 23 Sept. 2010: allotment of 631,730 free existing shares, including 144,050 performance shares <u>with performance conditions</u> . Board meeting on 15 Sept. 2011: allotment of 630,990 free existing shares, including 145,300 performance shares <u>with performance conditions</u> .	Balance: 737,280 shares.
Issue of securities giving access to equity capital Limits with preemptive subscription rights (26 th resolution): 30 million shares and €1.5 billion debt securities. Limits without preemptive subscription rights (27 th resolutions with possibility of for priority subscription period): as above. Greenshoe option applicable in each case (28 th resolution): max 15% of issues up to the aforementioned limits. Valid for 26 months, i.e. <u>until 19 July 2012</u>	No utilisation.	Overall ceiling (30th resolution) for operations under resolutions 26 to 29: 50 million shares and €2 billion in debt securities.
Issuance of new shares (29 th resolution) up to a maximum of 19.9 million shares) in consideration for contributions of the securities of third-party companies Valid for 26 months (<u>until 19 July 2012</u>).	No utilisation.	Overall ceiling (30th resolution) for operations under resolutions 26 to 29: 50 million shares and €2 billion in debt securities.
General Meeting of 18 May 2011		
Share repurchase programme (5 th resolution) up to maximum of 10% of capital. Maximum purchase price: €50 (the Board set the minimum sale price at €20 per share, except for operations requiring the sale or allotment of free shares). Valid for 18 months (<u>until 17 Nov. 2012</u>).	Board meeting on 22 March 2011: Delegation to Chairman and Chief Executive Officer (non-public information). Sub-delegation possible.	
Allotment of share subscription options (6 th resolution) with no discount from the average price in the last 20 trading days. Limit: 2 million shares. Validity of options: 10 years. Validity of the authorisation: 38 months (<u>until 17 July 2014</u>).	Board meeting on 15 Sept. 2011: allotment of 435,300 share subscription options at €26.34 <u>with performance conditions</u> (inc. 64,000 for Chairman and Chief Executive Officer, the only company representative).	Balance: 1,564,700 options.

General Meeting	Decision	Observation
Cancellation of shares (7 th resolution) up to limit of 10% of the capital on the operation date. Validity of the authorisation: 24 months (until 17 May 2013).	No utilisation.	
Issue of new shares reserved for members of the employee savings plan (8 th resolution) 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 (until 17 July 2013)	No utilisation.	

1.3.1.12 KEY FACTORS 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 under a shareholders' agreement, the key terms of which are described on pages 147 *et seq.*

B. In the absence of termination at the cooperation agreement expiration on 31 December 2011, the agreement was tacitly renewed for a period of 5 years, expiring on 31 December 2016. It may be tacitly renewed for 5-year periods.

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.

1.3.1.13 EMPLOYEE SHAREHOLDINGS AT 31 DECEMBER 2011

Holding by country	In number of shares	% of employee share ownership L.225-10	% of capital	Related voting rights as % of total voting rights
France and World (4 dedicated funds ^(a))	6,071,042	95.41%	3.00%	4.46%
Netherlands (3 dedicated funds ^(b))	149,760	2.35%	0.07%	0.11%
Italy (2 dedicated funds ^(c))	14,017	0.22%	0.01%	0.00%
United Kingdom (SIP trust ^(d))	96,052	1.51%	0.05%	0.04%
Shares held directly in the employee savings plan (2002 and 2008 offers)	32,127	0.50%	0.02%	0.02%
Total subject to Article L.225-102 of the French Commercial Code	6,362,998	100.00%	3.14%	4.64%
Total number of shares held by employees	6,362,998	100.00%	3.14%	4.64%
Total share capital	202,328,457			

(a) *Thales Actions, World Classic, Action Plus 2008 funds and Action Protect 2011.*

(b) *Netherlands Classic, Netherlands Action Plus 2008, Netherlands Action Protect 2011 funds.*

(c) *Italy Classic and Italy Action Plus 2008 funds.*

(d) *Share Incentive Plan.*

1.3.1.14 ELEMENTS COMPRISING THE PARENT COMPANY MANAGEMENT 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 2011 Registration Document:

- included below with the parent company financial statements for 2011 are:
 - » table of acquisitions of interests and crossing of thresholds in French companies,
 - » table of subsidiaries and affiliated companies,
 - » table of options outstanding at 31 December 2011,
 - » table of company results in the last five financial years;
- included in the 2011 annual report are:
 - » the financial report, which contains:
 - an analysis of the Group's results and financial position,
 - a description of the main risks and uncertainties facing the Group (including financial risks, interest and foreign exchange risk, and equity exposure) together with indications as to their possible impact on the Thales parent company. The Thales 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 comments related to the foreign exchange risks indicated above;
 - information concerning research and development activities;
 - » a presentation of the businesses, with:
 - segment reporting for subsidiaries and controlled companies;
 - 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 15 May 2012 for approval;
 - information on executive directors and corporate officers (offices, positions, compensation, commitments made by the Company, stock options granted, etc.);
 - information about the market performance of Thales shares over the past two years;
 - information on the allotment of free shares during the year.
- » The corporate responsibility chapter, which includes:
 - employment information, including the employment policy within the Group, labour relations and a report on collective agreements, training, compensation, health and safety at work, policies to promote diversity and prevent discrimination;
 - environmental information, including the environmental policy implemented within the Group, the fight against pollution and waste management, sustainable use of resources, contribution to the fight against and adaptation to global warming, protection of biodiversity, and processes to evaluate the environmental performance of businesses;
 - relations with stakeholders, including the territorial, economic and social impact of the business, employment and integration of disabled workers, dialogue with professional, international and non-governmental organisations, initiatives with charitable organisations, relations with suppliers and subcontractors, and fair practices through the prevention of corruption and actions taken to ensure respect for human rights.

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 any 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.

1.3.2 Parent company financial statements

1.3.2.1 INCOME STATEMENT BY NATURE

<i>(in millions of euros)</i>	Notes	2011	2010
Operating income	(note 3)		
- Re-billing of rent		129.6	119.2
- Research		14.3	13.8
Total revenues		143.9	133.0
- Royalties		179.1	161.8
- Re-billing of expenses		149.5	141.3
Total other operating income		328.6	303.1
Reversal of provisions		25.7	16.4
Transfer of expenses		6.6	14.3
Total operating income		504.8	466.8
Operating expenses			
Purchases and changes in inventories and work-in-progress		(13.1)	(14.8)
Other external charges		(331.5)	(263.3)
Taxes other than on income or payroll-related		(10.3)	(12.0)
Staff expenses		(188.9)	(166.4)
Depreciation and amortisation		(16.4)	(16.4)
Provisions		(21.1)	(14.7)
Total operating expenses		(581.3)	(487.6)
Operating profit (loss)		(76.5)	(20.8)
Net financial income	(note 4)		
Net interest expense		(64.5)	(47.5)
Income from investments		365.9	313.2
Other financial income		117.7	154.9
Other financial expenses		(221.3)	(152.5)
Total net financial income		197.8	268.1
Income (loss) before income tax		121.3	247.3
Net extraordinary items	(note 5)		
Restructuring costs		(13.9)	(3.8)
Capital gains and losses on disposal and similar		(10.9)	(138.6)
Total net extraordinary items		(24.8)	(142.4)
Profit (loss) before tax		96.5	104.9
Income tax	(note 6)	78.9	87.4
Net income		175.4	192.3

The notes to the financial statements are an integral part of the parent company financial statements.

1.3.2.2 BALANCE SHEET

<i>(in millions of euros)</i>	Notes	31/12/2011	31/12/2010
ASSETS			
Non-current assets:			
Intangible assets, gross	(note 7)	23.2	24.5
Less: depreciation & amortisation	(note 7)	(23.0)	(24.1)
Intangible assets, net		0.2	0.4
Property, plant and equipment, gross	(note 7)	183.0	175.5
Less: depreciation & amortisation	(note 7)	(116.8)	(102.7)
Property, plant and equipment, net		66.2	72.8
Long-term investments:			
Investments in non-consolidated subsidiaries	(note 7)	8,718.3	8,095.2
Other investment securities (treasury shares)	(notes 7 and 11)	38.5	59.1
Other long-term investments	(notes 7 and 8)	123.9	159.3
Total long-term investments		8,880.7	8,313.6
Total non-current assets		8,947.1	8,386.8
Current assets:			
Inventories and work-in-progress		15.4	8.9
Trade receivables	(note 8)	166.3	174.0
Group companies accounts	(note 8)	825.7	928.2
Other receivables and prepayments	(notes 8 and 9)	364.4	291.0
Marketable securities		64.4	58.0
Cash and cash equivalents		1,119.0	1,951.9
Total current assets		2,555.2	3,412.0
Total assets		11,502.3	11,798.8

<i>(in millions of euros)</i>	Notes	31/12/2011	31/12/2010
LIABILITIES			
Shareholders' Equity	(note 10)		
Capital		607.0	597.2
Additional paid-in capital		3,731.4	3,656.8
Reserves and retained earnings		470.6	425.6
Net income for the period		175.4	192.3
Total capital and reserves		4,984.4	4,871.9
Reserves for contingencies	(note 12)	183.9	419.7
Financial debt:			
Debt to Group companies	(note 8)	4,541.5	3,763.5
Other financial debt	(note 8)	1,315.9	2,256.3
Total financial debt		5,857.4	6,019.8
Operating and other liabilities:			
Advances received on contracts in progress		14.7	13.5
Trade payables	(note 8)	52.9	56.5
Other payables and accruals	(notes 8 & 9)	409.0	417.4
Total operating and other liabilities		476.6	487.4
Total liabilities		11,502.3	11,798.8

The notes to the financial statements are an integral part of the parent company financial statements.

1.3.2.3 STATEMENT OF CASH FLOWS

<i>(in millions of euros)</i>	Notes	31/12/2011	31/12/2010
Net income		175.4	192.3
Depreciation and amortisation of property, plant & equipment and intangible assets		16.4	16.4
Net increases in provisions for impairment of non-current assets, provisions for pensions and regulated provisions		58.1	(120.3)
Loss (gain) on disposals of assets		6.5	(1.2)
Operating cash flow		256.4	87.2
Change in non-operating provisions		0.2	(16.3)
Change in working capital requirement ^(a)		(212.0)	271.8
Cash flows from operating activities		44.6	342.7
Acquisitions of property, plant & equipment and intangible assets		(8.8)	(7.9)
Disposals of property, plant & equipment and intangible assets		0.1	0.2
Net operating investment		(8.7)	(7.7)
Disposals of other investments	(note 7)	0.2	13.8
Investments in subsidiaries and investee companies	(note 7)	(772.6)	(370.0)
Other net financial investment		139.0	257.6
Cash flows from investing activities		(642.1)	(106.3)
Increase (decrease) in shareholders' equity ^(b)		(63.1)	(92.0)
Disposal of treasury shares	(note 7)	(2.6)	(4.5)
Increase in financial debt		22.6	680.0
Repayment of financial debt		(935.8)	(218.8)
Increase (decrease) in debt with Group companies		740.0	(28.2)
Cash flows from financing activities		(238.9)	336.5
Increase (decrease) in cash and cash equivalents before transactions in marketable securities		(836.4)	572.9
Decrease (increase) in investment securities		3.5	(21.7)
Total increase (decrease) in cash and cash equivalents		(832.9)	551.2
Cash and cash equivalents at beginning of year		1,951.9	1,400.7
Cash and cash equivalents at end of year		1,119.0	1,951.9

(a) In 2011, this change includes -€166m to settle the arbitration proceeding between Thales and the Republic of China (Taiwan) described in note 12.

(b) Primarily represents dividend payments: for 2011 (-€14.3 in 2010 dividends and -€49.6m in interim 2011 dividends) and for 2010 (-€97.7).

The notes to the financial statements are an integral part of the parent company financial statements.

1.3.2.4 STATEMENT OF CHANGES IN EQUITY

<i>(in millions of euros)</i>	Number of shares in circulation (thousands)	Share capital	Share premiums	Retained earnings	Net income for the period	Revaluation reserve	Total equity
At 1 January 2010	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	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
Allocation of 2010 earnings	–	–	–	192.3	(192.3)	–	0.0
Distribution of dividends in shares	–	–	–	(83.4)	–	–	(83.4)
Distribution of dividends in cash	–	–	–	(14.3)	–	–	(14.3)
Distribution of 2011 interim dividends	–	–	–	(49.6)	–	–	(49.6)
Capital increase (note 10a)	3,246	9.8	74.6	–	–	–	84.4
2011 earnings	–	–	–	–	175.4	–	175.4
At 31 December 2011	202,328	607.0	3,731.4	470.6	175.4	0.0	4,984.4

1.3.2.5 NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

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All amounts included in these notes are expressed in millions of euros (€m) except for per-share data.

NOTE 1 Accounting principles

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 valued 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 value. 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) Marketable 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 acquisition 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 valued 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 2011 were performed using an initial discount rate assumption of 8.5% (the Group's average cost of capital at the end of 2011). A 1% increase in the discount rate would not result in the company recognising material additional losses on the gross value of its investments.

h) Inventories and work-in-progress

Inventories 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 are recognised when the company has transferred the main risks and benefits to the buyer. Revenues from service contracts are 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. Research and development expenses financed by the company are recognised as an expense during the year in which they are incurred.

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 detailed in note 6.

l) Pensions and other employee benefits

The company grants its employees post-employment benefits (pensions, severance pay, etc.) and other long-term benefits (long-service awards, retirement awards, etc.).

The company measures and recognises pensions and similar benefits for defined benefit schemes in accordance with the projected unit credit method based on final salary.

For post-employment benefits, actuarial gains and losses are booked as income or expense when the 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" (showing the reconciliation between net income and cash flows from operating activities) has been used.

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.

NOTE 2 Change in Thales's direct investments

a) Major operations in 2011

Thales subscribed to the stock issue of its subsidiary Thales Security Solutions & Services in the amount of €368.8m in May 2011. This company was merged and absorbed by Thales Communications, which became Thales Communications & Security on 30 June 2011.

On 8 December 2011, Thales subscribed to the capital increase of its subsidiary Thales Avionics for €100m.

At the end of December 2011, Thales exercised its option to purchase shares, as stipulated in the shareholders' agreement of 30 January 2007,

and raised its stake in DCNS from 25% to 35%, for a price of €264.6m. This company, which was previously accounted for using the equity method in the Group's accounts, is consolidated under the proportionate method as of 31 December 2011, as the 35% holding gives Thales joint control over DCNS.

b) Major operations in 2010

At 21 December 2010, Thales subscribed to the capital increase of Thales Avionics in the amount of €350m.

NOTE 3 Operating income

REVENUES BY GEOGRAPHIC DISTRIBUTION

Total revenues recorded by Thales can be analysed as follows:

	2011	2010
France	143.6	131.7
Europe	0.3	0.7
Middle East	—	0.6
Total	143.9	133.0

NOTE 4 Net financial income

FINANCIAL INTEREST, INCOME AND EXPENSE

	2011	2010
Interest and financial income:		
- on financial receivables ^(a)	31.1	25.4
- on interest rate swaps	33.9	43.2
	65.0	68.6
Interest and financial expense:		
- on financial debt ^(b)	(104.5)	(88.5)
- on interest rate swaps	(25.0)	(27.6)
	(129.5)	(116.1)
Total	(64.5)	(47.5)

(a) Including associates for €12.5m in 2011, versus €12.4m in 2010.

(b) Including associates for €32.1m in 2011 compared with €17.4m in 2010.

OTHER FINANCIAL INCOME AND EXPENSES

	2011	2010
Income from investments	365.9	313.2
Other financial income:		
Foreign exchange gains	0.1	2.9
Reversals of financial provisions ^(a)	109.4	146.7
Amounts recovered on clawback provisions ^(b)	1.8	1.2
Other	6.4	4.1
Total	117.7	154.9
Other financial expenses:		
Foreign exchange loss	(9.7)	(0.6)
Increases in financial provisions ^(c)	(195.4)	(138.2)
Write-offs of receivables granted to subsidiaries ^(d)	(8.3)	(6.6)
Other	(7.9)	(7.1)
Total	(221.3)	(152.5)

(a) Including a reversal of provisions on securities for €95.9m in 2011: Thales Avionics €37m, Thales Optronics €21.5m, Thales Services €29.6, reversal of provisions on treasury shares (€13.1m).

Including in 2010, reversal provisions on securities (€135.2, including Thales Services Industrie €79.3m and Thales Norway €36.5m), reversal of provisions on treasury shares (€2.1m) and reversal of provisions on Thales GeoSolutions loan (€6.6m).

(b) Including, in 2011, Thales Université (€1.8m).

Including, in 2010, Thales Université (€1.2m).

(c) Including, in 2011, provisions on investments (€155.2, including Thales UK €120m), provisions for subsidiary risks (€25.6), and provisions on treasury shares (€8.9m).

Including, in 2010, provisions on investments (€15.5m), provisions for subsidiary risks (€97.5m, including T3S for €87m), and provisions on treasury shares (€13.3m).

(d) Including in 2011, Thales Belgium (€8.0m) and GIE La Pérouse (€0.3m).

Including, in 2010, write-off of loan to Thales GeoSolutions (€6.6m).

Income from investments is detailed in the table of subsidiaries and equity associates on pages 112 and 113.

NOTE 5 Net extraordinary items

	2011	2010
Restructuring costs	(13.9)	(3.8)
Capital gains and losses on disposal ^(a)	(10.1)	(91.2)
Other:		
Provision for litigation ^(b)	—	(50.0)
Other	(0.8)	2.6
Total	(24.8)	(142.4)

(a) In 2011, the losses are on the sale of treasury shares under the employee shareholding plan (€10.0m).

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) A total of €50m was recognised in 2010 corresponding to:

- €35m in the additional provision related to the judgment against Thales on 3 May 2010 in the arbitration case against the Chinese government (Taiwan) (see note 12a),
- €15m provision in the arbitration case brought by the Chinese government (Taiwan) over a contract for the delivery of six frigates (see note 12a).

NOTE 6 Income tax

Since 1 January 1992, Thales has consolidated a large number of its French subsidiaries pursuant to the tax rules provided for by Article 223A of the French General Tax Code.

Companies included in the tax consolidation pay tax as if they had been taxed separately. The tax savings realised by the Group through the 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.

The income tax for 2011 was determined on the basis of:

- the standard tax rate of 33.33%;
- the 3.30% social security contribution provided for in Article 235 *ter* ZC of the French General Tax Code, based on the amount of tax determined at the standard tax rate of 33.33% on the portion of taxable profits exceeding €2.3m.

The impact of this contribution was taken into account in the calculation of the current tax liability for 2011 and 2010 and of deferred taxes.

As an exception, an increase in the amount of the corporate tax owed by companies that record revenues greater than €250m has been established. This measure is applicable to fiscal years 2011 and 2012, and is conditional after that.

Income tax for 2011 and 2010 can be analysed as follows:

	2011	2010
Income from tax consolidation	61.2	76.6
Deferred tax on results of EIGs	9.2	3.2
Other taxes ^(a)	8.5	7.6
Total	78.9	87.4

(a) Including, in 2011, +€0.4m in adjustments in respect of 2010 income tax and (+€8.4m) in research tax credit.

Including, in 2010, +€0.4m of adjustments in respect of 2009 income tax and (+€7.2m) 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:

	31/12/2011	31/12/2010
Net asset temporary differences:		
- Provisions for holiday pay	16.6	17.2
- Provisions for restructuring	0.7	4.2
- Currency exchange difference	6.6	6.4
- Provisions for risks and charges	37.2	35.4
- Other	31.4	19.9
Net asset balance	92.5	83.1

Expenses excluded from tax-deductible expenses (pursuant to Articles 223 *quater* and 39.4 of the French General Tax Code) amounted to €300,000 in 2011, versus €337,000 in 2010.

NOTE 7 Fixed assets

a) Fixed assets at cost

	31/12/2010	Increases	Decreases	Account transfers	31/12/2011
Intangible assets	24.5		(1.3)	–	23.2
Property, plant & equipment					
Buildings	115.6	6.8	(0.1)	–	122.3
Industrial plant and equipment	41.9	1.4	(1.0)	–	42.3
Other property, plant and equipment	18.0	0.6	(0.2)	–	18.4
Total	175.5	8.8	(1.3)	–	183.0
Long-term investments					
Investments in non-consolidated subsidiaries	9,625.1	682.6 ^(a)	(0.3)	–	10,307.4
Other fixed investments (treasury shares)	82.2	59.8	(91.2)	–	50.8
Other long-term investments	161.8	49.3	(84.8)	–	126.3
Total	9,869.1	791.7	(176.3)	–	10,484.5

(a) The increase in equity interests corresponds to the capital increase of Thales Communications & Security (€278.8m), the purchase of DCNS shares from the State (€264.6m), and the capital increase of Thales Avionics (€100.0m).

b) Amortisation and depreciation

	31/12/2010	Increases	Decreases	31/12/2011
Intangible assets	24.1	0.3	(1.4)	23.0
Property, plant & equipment*				
Buildings	56.5	12.0	(0.9)	67.6
Industrial plant and equipment	35.1	2.3	(1.0)	36.4
Other property, plant and equipment	11.1	1.8	(0.1)	12.8
Total	102.7	16.1	(2.0)	116.8
Long-term investments				
Investments in non-consolidated subsidiaries	1,529.9	(a) 155.2	(96.0)	1,589.1
Other fixed investments (treasury shares)	23.1	8.9	(19.7)	12.3
Other long-term investments	2.5	–	(0.1)	2.4
Total	1,555.5	164.1	(147.8)	1,603.8

* To calculate depreciation, the useful life applied is 20 years for buildings and 3 to 10 years for other assets.

(a) Including €120m in impairment on shares of Thales UK Plc.

NOTE 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	88.2	45.3	23.7	19.2
Economic interest group	17.0	17.0	–	–
Other long-term investments	18.7	8.7	–	10.0
Subtotal	123.9	71.0	23.7	29.2
Current receivables	–	–	–	–
Inventories and work-in-progress	15.4	15.4	–	–
Trade and other accounts receivable	166.3	166.3	–	–
Receivables from Group companies	825.7	825.7	–	–
Other receivables	364.4	134.5	229.9	–
Cash and cash equivalents	1,119.0	1,119.0	–	–
Subtotal	2,490.8	2,260.9	229.9	0.0
Total receivables	2,614.7	2,331.9	253.6	29.2
Payables				
Other financial debt	1,315.9	115.4	1,200.5 ^(a)	–
Subtotal	1,315.9	115.4	1,200.5	0.0
Debt to Group companies	4,541.5	4,541.5	–	–
Advances on orders	14.7	14.7	–	–
Trade creditors and other accounts payable	52.9	52.9	–	–
Other debts	409.0	276.2	132.8	–
Subtotal	5,018.1	4,885.3	132.8	0.0
Total payables	6,334.0	5,000.7	1,333.3	0.0

(a) Bond with nominal value of €600m maturing April 2013, issued at a fixed rate of 4.375% and a bond with nominal value of €600m maturing in October 2016, issued at a fixed rate of 2.75% (swapped for variable rate for €400m).

At 31 December 2011, no material financial amount was used which was subject to redemption or accelerated repayment clauses based on the Group's rating or financial ratios.

At 31 December 2011, confirmed 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 French 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	91.6	1,237.0
Saudi riyal	12.4	–
South African rand	15.9	–
Swiss franc	–	48.1
Singapore dollar	–	30.8
Other currencies	4.0	–
Total	123.9	1,315.9

* 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.

NOTE 9 Other receivables and other payables

	31/12/2011		31/12/2010	
	Asset	Liability	Asset	Liability
Tax and employee-related receivables and payables	7.3	77.3	6.5	64.7
Government, income tax	232.4	–	133.5	0.7
Deferred tax on results of EIGs	–	8.7	–	17.9
Accrued interest	–	1.5	20.0	8.3
Currency exchange difference	–	–	1.4	1.9
Premiums on foreign exchange option/swaptions	8.2	4.6	3.6	0.4
Foreign exchange revaluation	67.5	124.4	99.2	183.6
Tax receivables and payables on tax consolidated companies	8.9	171.9	2.1	124.6
Other	40.1	20.6	24.7	15.3
Total	364.4	409.0	291.0	417.4

NOTE 10 Shareholders' equity

a) Share capital

Thales's share capital, totalling €606,985,371 at 31 December 2011, is composed of 202,328,457 shares with a par value of €3 each.

The capital increase of €9.7m corresponds to the distribution of dividends in shares with a par value of €3 per share, representing €9.6m, coupled with an increase in the premium of €22.98 per share, which is €73.81m and the exercise of stock options for €0.1m, representing 35,620 options exercised in 2011 (see note 11 on share subscription options).

b) Securities outstanding giving access to the company's share capital

DISTRIBUTION OF CAPITAL

	31/12/2011		31/12/2010	
	In number of shares	In %	In number of shares	In %
Public ^(a)	91,466,139	45.21	90,070,841	45.24
French State ^(b)	54,788,714	27.08	53,754,184	27.00
Dassault Aviation	52,531,431	25.96	51,539,524	25.89
Thales ^(c)	3,542,173	1.75	3,717,478	1.87
Total	202,328,457	100.00	199,082,027	100.00

(a) Including shares held by employees, directly or through collective investment funds (3.14% or 6,362,998 shares).

(b) Indirectly, through companies wholly owned by the French State (TSA, SOFIVISION and directly through a golden share).

(c) Treasury shares (note 11).

RESERVES AND RETAINED EARNINGS

	31/12/2010	Allocation of 2010 earnings	Dividends paid	31/12/2011
Legal reserve	59.6	0.1	–	59.7
Blocked reserve	8.3	–	–	8.3
Ordinary reserve	128.9	–	–	128.9
Other reserves	0.3	–	–	0.3
Retained earnings	228.5	192.2	(a) (147.3)	273.4
Total	425.6	192.3	(147.3)	470.6

(a) Distribution of 2010 dividends in shares	(83.4)
Distribution of 2010 dividends in cash	(14.3)
Distribution of 2011 interim dividend	(49.6)
	(147.3)

NOTE 11 Treasury shares

At 31 December 2011, Thales held 1,699,248 freely transferable treasury shares (0.83% of the capital) and 1,842,925 treasury shares reserved for employee free share allotments (0.92% of the capital).

The distribution by plan is as follows:

- 4 July 2007 plan	150
- 1 July 2008 plan	295,220
- 25 June 2009 plan	316,755
- 23 September 2010 plan	605,020
- 15 September 2011 plan	625,780
	1,842,925

Changes in transferable shares were as follows:

	31/12/2010	Acquisition	Transfer	Allocation to plan	Depreciation at average price*	31/12/2011
Number of shares	2,162,418	2,063,126	(1,954,581)	(571,715)	–	1,699,248
Value (in M€)	59.1	57.7	(50.8)	(18.5)	(9.0)	38.5

* The weighted average price for the month of December 2011 was €22.65.

The weighted average price for the month of December 2010 was €27.34.

Table of valid outstanding options at 31 December 2011

Thales regularly grants its employees and managers share purchase and subscription options, as well as free and/or performance-based shares under the Group's usual employee performance management policy. These different plans are described below.

Outstanding options at 31 December 2011

At 31 December 2011, the following options and shares were outstanding:

- 127,800 share purchase options at a weighted average exercise price of €42.42;

- 15,056,223 share subscription options at a weighted average exercise price of €34.51, of which 872,250 performance-based shares;
- 1,842,925 free shares, of which 280,770 performance-based shares.

1- Outstanding purchase options plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31/12/2010	Options granted in 2011	Options exercised in 2011	Options cancelled in 2011	Number of options outstanding at 31/12/2011
25/11/2008	From 25 Nov. 2012 to 24 Nov. 2018	€38.50	48,900	–	–	(1,100)	47,800
04/07/2007	From 4 July 2011 to 3 July 2017	€44.77	80,000	–	–	–	80,000
13/11/2001	From 13 Nov 2005 to 12 Nov 2011	€42.18	110,617	–	–	(110,617)	–
02/04/2001	From 2 April 2005 to 1 st April 2011	€42.37	10,608	–	–	(10,608)	–

2- Outstanding subscription options plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31/12/2010	Options granted in 2011	Options exercised in 2011	Options cancelled in 2011 ^(b)	Number of options outstanding at 31/12/2011
15/09/2011 ^(a)	From 15 Sep. 2015 to 14 Sep. 2021	€26.34	–	435,300	–	(32,300)	403,000
23/09/2010 ^(a)	From 23 Sept 2014 to 22 Sept 2020	€26.34	469,250 ^(c)	–	–	–	469,250
25/06/2009	From 25 June 2013 to 24 June 2019	€32.88	1,550,950	–	–	(42,950)	1,508,000
01/07/2008	From 1 st July 2012 to 30 June 2018	€38.50	1,643,171	–	–	(11,884)	1,631,287
04/07/2007	From 4 July 2011 to 3 July 2017	€44.77	1,542,788	–	–	(26,480)	1,516,308
09/11/2006	From 09 Nov. 2010 to 08 Nov. 2016	€36.47	2,126,499	–	–	(128,274)	1,998,225
30/06/2005	From 30 June 2009 to 29 June 2015	€34.01	1,853,563	–	–	(53,720)	1,799,843
01/07/2004	From 1 st July 2008 to 30 June 2014	€29.50	1,924,982	–	–	(56,911)	1,868,071
01/07/2003	From 1 st July 2007 to 30 June 2013	€25.70	1,404,533	–	(35,620)	(29,999)	1,338,914
02/07/2002	From 2 July 2006 to 1 st July 2012	€40.97	2,578,115	–	–	(54,790)	2,523,325
12/07/2001	From 12 July 2005 to 11 July 2011	€42.18	2,765,608	–	–	(2,765,608)	–

(a) Performance-based plans.

(b) Including, for the involved plans, written-off options when performance targets are not, partially or totally, achieved.

(c) Figures for the plans have been amended due to an adjustment which was identified after the annual closing.

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 4 July 2007 can already be exercised in full.

Stock purchase and subscription stock options granted between 1 July 2008 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 and 15 September 2011 are contingent upon the achievement of internal performance targets over the next three 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 once the Board of Directors has approved the Group consolidated accounts of the related periods. 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.

3- Plan of free shares and/or performance-based shares

Plans of free shares and/or performance-based shares have been implemented since 2007. The Chairman (the only "mandataire social": company representative as defined by the French Commercial Code), and 21 executives (including Executive Committee) cannot benefit from these plans. The free shares plan granted on 15 September 2011 is made up of two sub plans:

- Free shares:

Beneficiaries of this programme will receive vested shares over a four-year period, provided that the conditions of presence have been met as stipulated in the programme terms and conditions.

- Performance-based allocation of shares:

The allotment of shares under this programme is contingent upon the achievement of internal performance targets over the three following 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, once the Board of Directors has approved the Group consolidated accounts of the related periods. The number of shares vested will not exceed the number of shares initially allotted.

Beneficiaries of this programme will receive vested shares over a four-year period, provided that the conditions of presence have been met 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	Vesting period	Share price at grant date	Number of free shares at 31/12/2010	Adjustments posterior to closing	Shares granted in 2011	Shares cancelled in 2011 ^(b)	Shares delivered in 2011	Number of free shares at 31/12/2011
15/09/2011	From 15/09/2011 to 15/09/2015	€25.20	–	–	485,690	(3,200)	(200)	482,290
			–	–	145,300 ^(a)	(1,810)	–	143,490
23/09/2010	From 23/09/2010 to 23/09/2014	€26.40	483,700	(2,970)	–	(12,140)	(400)	468,190
			142,850 ^(a)	(350)	–	(5,220)	(450)	136,830
25/06/2009	From 25/06/2009 to 25/06/2013	€31.93	329,750	(6,135)	–	(6,605)	(255)	316,755
01/07/2008	From 01/07/2008 to 01/07/2012	€35.72	305,610	(3,660)	–	(6,540)	(190)	295,220
04/07/2007	From 04/07/2007 to 04/07/2011	€45.13	293,150	(70)	–	(10,575)	(282,355)	150

(a) Performance-based shares.

(b) Including, for the concerned plans, written-off options when performance targets are not partially or totally achieved.

Options granted and exercised in 2011

	Number of options granted/shares subscribed or purchased	Exercise price	Maturity date	Plan date
1 – Directors				
Options granted in 2011 - Luc Vigneron	64,000	€26.34	14/09/2021	15/09/2011
2 – Top 10^(a) employee options granted by size^(b)				
Options granted in 2011	124,000	€26.34	14/09/2021	15/09/2011
3 – Top ten employee options exercised by size^(b)				
Options exercised in 2011	10,000	€25.70	–	01/07/2003
	8,400	€25.70	–	01/07/2003
	7,000	€25.70	–	01/07/2003
	2,000	€25.70	–	01/07/2003
	1,070	€25.70	–	01/07/2003
	1,000	€25.70	–	01/07/2003
	1,000	€25.70	–	01/07/2003
	1,000	€25.70	–	01/07/2003
	770	€25.70	–	01/07/2003
	750	€25.70	–	01/07/2003

(a) During the 2011 financial year, the biggest 10 individual grants of options to employees of the company or its subsidiaries who are not company representatives ("mandataires sociaux") of Thales ranged from 10,000 to 16,000 options: four beneficiaries were awarded 16,000 options, and six were awarded 10,000 options.

(b) For all Group companies combined.

Company Savings Plan

On 11 May 2011, the Group implemented a Thales share plan for its employees. The shares acquired were delivered to the FCPE on 28 July 2011 and will be kept for five years. This plan includes:

- a traditional plan, which gives employees a discount of 20% on the reference price (€28.88) and an employer's contribution corresponding to one extra free share for ten shares acquired, up to a limit of a contribution of five shares;
- a structured "protected" plan, in which the employee receives a guarantee on his/her initial investments as well as 1.61 times any

"protected average increase" in the Thales shares. In return, the employee waives the dividends over the lock-in period and the discount (15% of the reference price on the shares acquired by the FCPE) and a portion of the performance.

In addition, a specific offering was opened to British employees through a "Share Incentive Plan" in which the employee received an employer's contribution of one free share for five shares acquired. The shares, which will be kept for 3 years, were delivered on 3 November 2011, at an average price of £22.63 (corresponding to the lowest opening price between 22 June 2011 and 31 October 2011).

Features of the 11 May 2011 plan	Traditional plan		"Protected plan"	Share Incentive Plan	
	Discounted shares	Employer's contribution		Discounted shares	Employer's contribution
Plan maturity	5 years	5 years	5 years	3 years	3 years
Reference price	€28.877	€28.877	€28.877		
Number of shares subscribed	530,822	22,319	107,587	43,234	8,310
Discount on face value	20%	100%	15%	–	100%
Subscription price	€23.11	–	€24.55	€28.47	28.47%

NOTE 12 Provisions for risks and charges

	Amounts at 31/12/2010	Increase	Reversal	Amounts at 31/12/2011
Restructuring	6.6	3.9	(3.8)	6.7
Subsidiary risks (note 4)	101.9	25.6	(90.1)	37.4
Retirement benefits and similar	49.8	8.2	(5.1)	52.9
Other ^(a)	261.4	19.0	(193.5)	86.9
Total	419.7	56.7	(292.5)	183.9

(a) Following the settlement of the dispute with the Republic of China (Taiwan), a reversal of €166.2m was observed.

BREAKDOWN OF POST-EMPLOYMENT AND OTHER BENEFITS

	Post-employment benefits	Other	Total
Balance sheet position at end of 2010	47.1	2.7	49.8
Normal cost	2.7	0.1	2.8
Interest expense	4.7	0.1	4.8
Expected return on plan assets	(1.5)	–	(1.5)
Amortisation of actuarial gains and losses	–	0.1	0.1
Amortisation of plan amendments	1.7	–	1.7
Plan reduction and liquidation	–	–	–
Total financial component	4.9	0.2	5.1
Impact on profit and loss	7.5	0.4	7.9
Other restructuring	–	–	–
Benefits paid by employer	(2.3)	(0.3)	(2.6)
Employer contributions	(1.0)	–	(1.0)
Transfers	(1.0)	(0.2)	(1.2)
Balance sheet position at end of 2011	50.4	2.5	52.9

Actuarial gains and losses still to be amortised are reported under off-balance sheet commitments (note 13a). These totalled €1.9m in 2011 compared with €4.6m in 2010.

a) Legal risks

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 policy is to systematically seek alternative methods of settlement. This policy is reviewed on a regular basis to take account of changes in the company's core areas of business and is 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.

- The litigation against the Republic of China (Taiwan), as mentioned for many years in the public documents of the company, has now ended. The award, leading the parties to disburse an amount of €630 million (i.e. €166 million for Thales part), was executed in July 2011.
- 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 potential adverse environmental and health effects of these activities, impact of the environment on its operations and non-compliance with new regulations applicable to activities and to 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, represented by risk mapping, is intended to:

- ensuring that employees and surrounding residents are not exposed to health and environmental risks;
- ensuring the compliance of activities and products;

- analyzing the impact of new regulations, including on product design;
- specifying 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.

At 31 December 2011, the amount of reserves for environmental contingencies amounted to €4.6 million.

NOTE 13 Off-balance sheet commitments

a) Commitments given and received

	Rental commitments			
	Total	In less than 1 year	In 1 to 5 years	In more than 5 years
Commitments to lease and purchase property, plant and equipment				
Lease contracts	605.7	106.9	282.5	216.3
Purchase of property, plant and equipment	27.5		27.5	

	31/12/2011	31/12/2010
Actuarial gains and losses still to be amortised (note 12)	1.9	4.6
Commitments given		
- Guarantees and pledges	9,585.7	9,353.7
of which related companies ^(a)	9,268.6	9,040.6
(a) The main companies concerned, not directly held by Thales, are:		
Thales Rail Signalling Solutions Inc	1,149.7	1,041.4
Thales Alenia Space France S.A.S.	801.0	775.5
Thales Communications & Security S.A.	688.0	374.6
Thales Transport & Security, Inc	643.5	576.1
Thales Nederland BV	634.3	734.8
ADI Thales Australia Pty Ltd	596.7	511.1
Thales Avionics Inc	544.4	527.2
Thales UK Ltd	474.2	518.3
Thales Alenia Space S.A.S	420.7	407.2
Thalisa LLC	377.1	542.1
Thales Rail Signalling Solutions Ag	346.5	336.9
Thales ATM Pty Ltd	227.0	220.0
Thales Underwater Systems UK Ltd	218.5	212.0
Thales Security Solutions & Services Company	198.5	196.2
Thales Underwater Systems SAS	174.4	155.2
Thales Portugal S.A	171.3	170.5
Thales Rail Signalling Solutions GmbH	154.1	173.8
Thales Training & Simulation Ltd	115.2	232.1
Thales Missile Electronics Ltd	111.2	116.2
Thales Rail Signalling Solutions SLU	110.6	—
ACSI (Air Command Systems International) SAS	99.8	99.3
Thales Raytheon Systems Company SAS	97.5	97.5
Thales Norway A.S.	97.0	70.0
Thales Transport & Security Ltd	88.6	89.5
DCNS S.A.	28.6	28.6
Thales Transport Signalling & Security Solutions S.L.U.	10.0	124.8
Commitments received:		
- Debt write-offs granted to related companies with return to better fortune clauses	256.2	258.0

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.

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 2011, 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:

	2011		2010	
	Buyer/lender	Seller/borrower	Buyer/lender	Seller/borrower
Interest rate swaps	400.0	117.6	1,868.8	19.6

The corresponding market values are as follows:

	2011		2010	
	Buyer/lender	Seller/borrower	Buyer/lender	Seller/borrower
Interest rate swap	6.5	(0.4)	8.1	–

The duration of these contracts is as follows:

	2011				2010			
	< 1 year		1 to 5 years		< 1 year		1 to 5 years	
	Lender	Borrower	Lender	Borrower	Lender	Borrower	Lender	Borrower
Rate swaps	–	100.0	400.0	–	693.8	–	1,175.0	19.6

Management of foreign exchange risk

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

At 31 December 2011 and 2010, Thales mainly held forward foreign exchange contracts.

Nominal forward buy and sell contracts 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 indicated in the "buyer" or "seller" columns depending on the nature of the transaction at maturity.

	2011		2010	
	Buyer/ lender	Seller/ borrower	Buyer/ lender	Seller/ borrower
Futures				
US dollar	2,376.17	3,190.84	1,761.80	2,499.03
Pound sterling	296.28	338.64	310.58	449.66
Swiss franc	76.99	80.38	92.25	72.93
Other	647.07	506.78	816.59	644.02
	3,396.51	4,116.64	2,981.22	3,665.64
Foreign exchange swaps				
hedging investments				
Pound sterling	–	39.33	–	38.17
	0.00	39.33	0.00	38.17
hedging sales commitments				
US dollar	750.34	1,703.27	1,486.69	2,452.64
Pound sterling	741.34	207.24	764.24	204.00
Swiss franc	58.83	26.61	17.43	28.63
Other	474.40	567.48	331.02	628.45
	2,024.91	2,501.60	2,599.38	3,313.72
Total	5,421.42	6,657.57	5,580.60	7,017.53
Currency options				
PUT				
Australian dollar	–	–	38.35	–
Canadian dollar	30.87	–	–	–
Pound sterling	40.69	–	34.35	–
Israeli shekel	4.04	4.04	6.36	6.36
Turkish lira	4.91	4.91	–	–
US dollar	189.66	328.78	10.07	118.59
CALL				
Australian dollar	9.43	–	19.03	–
Saudi riyal	6.31	6.31	–	–
Japanese yen	–	9.08	–	29.47
Israeli shekel	4.04	4.04	6.36	6.36
US dollar	4.35	4.35	6.76	6.76
	294.30	361.51	121.28	167.54

The corresponding market values are as follows:

	2011		2010	
	Buyer/ lender	Seller/ borrower	Buyer/ lender	Seller/ borrower
Futures	(5.70)	(18.03)	(25.14)	43.55
Foreign exchange swaps				
- hedging investments	–	(0.74)	–	1.06
- hedging sales commitments	28.38	(60.37)	36.79	(47.56)
Currency options				
- PUT	(1.62)	3.20	(0.11)	2.14
- CALL	0.72	(0.33)	0.45	(0.14)

The expiration schedule is as follows:

	2011		2010	
	Minimum	Maximum	Minimum	Maximum
Forward contracts	January 2012	March 2019	January 2011	March 2019
Foreign exchange swaps				
- hedging investments	June 2012	June 2012	June 2011	June 2011
- hedging sales commitments	January 2012	September 2016	January 2011	November 2017
Currency options				
- PUT	January 2012	October 2012	January 2011	October 2011
- CALL	January 2012	October 2012	February 2011	October 2011

Foreign exchange transactions entered into with subsidiaries in order to hedge foreign exchange risks related to foreign currency contracts are as follows:

	31/12/2011		31/12/2010	
	Sales	Purchases	Sales	Purchases
US dollar	1,194.2	4,028.2	1,267.8	4,160.7
Pound sterling	433.3	459.2	445.8	500.4
Canadian dollar	249.7	100.9	322.5	198.5
Australian dollar	105.3	60.8	27.9	46.8
Swiss franc	73.1	86.8	99.3	91.9
Saudi riyal	61.3	78.1	73.0	173.6
UAE dirham	48.9	90.1	50.9	91.9
Other currencies	230.1	425.5	245.0	317.8
Total	2,395.9	5,329.6	2,532.2	5,581.1

NOTE 14 Headcount

Average number of employees	2011	2010
Engineers and managers	808	795
Technical and supervisory staff	177	192
Total	985	987

NOTE 15 Related party transactions

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

a) Agreements signed with Thales's shareholders

The principal provisions of the shareholders' agreement (governing the relations between the Public Sector and the Industrial Partner within Thales), of the convention to protect national strategic interests, and of the special convention are described in the Group's Registration Document (Shareholder information – Information on the shareholding structure).

b) Agreements signed with DCNS

At the end of January 2007, within the framework of the combination of DCNS and the French naval activities of Thales, 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%.

In December 2011, Thales exercised its purchase option and raised its interest in DCNS to 35%. The additional rights attached to the acquired 10% interest enable Thales to participate at the governance of the company jointly with the French State.

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).

c) Compensation of directors and senior corporate officers

The compensation, benefits and social charges awarded to the directors and the members of the Executive Committee can be analysed as follows:

	2011	2010
Short-term benefits:		
- Fixed compensation	4.9	5.4
- Variable compensation	3.0	2.7
- Employer's social security contribution	2.7	2.6
- Contract termination benefits resulting from contract commitment	1.3	–
- Employer's social security contributions/contract termination benefits	0.3	–
- Directors' fees	0.6	0.5
Other benefits:		
- Post-employment benefits	1.0	1.5
- Share-based payments (IFRS 2)	1.1	1.1

The Group measures the amount of the benefit granted to employees receiving stock options. The fair value of such options is determined on the respective award dates. The amounts thus obtained are taken to profit and loss over the vesting period of the rights.

1.3.2.6 RESULTS OF THE COMPANY OVER THE LAST FIVE FISCAL YEARS

(in millions of euros)	2007	2008	2009	2010	2011
1. Share capital at year-end					
Share capital	595.0	596.2	597.1	597.2	607.0
Number of existing common shares	198,333,666	198,724,809	199,023,932	199,082,027	202,328,457
Number of existing preferred shares (non voting)					
Maximum number of shares to be created in future:					
- Through exercise of subscription options	15,684,698	16,838,349	17,669,210	17,860,559	15,056,223
2. Operations and results for the period					
Revenues excluding tax	148.1	147.9	139.0	133.0	143.9
Earnings before taxes, employee profit-sharing, depreciation, amortisation and provisions	537.2	56.1	123.1	152.6	(224.2)
Income tax	49.5	135.1	87.9	87.4	78.9
Employee profit-sharing due for the period	—	—	—	—	—
Earnings after taxes, employee profit-sharing, depreciation, amortisation and provisions	529.4	63.6	(29.1)	192.3	175.4
Income distributed	195.4	204.7	97.7	97.7	157.8*
3. Earnings per share					
Earnings after taxes and employee profit-sharing, but before depreciation, amortisation and provisions	2.96	0.96	1.06	1.21	(0.72)
Earnings after taxes, employee profit-sharing, depreciation, amortisation and provisions	2.67	0.32	(0.15)	0.97	0.87
Net dividend per share	1.00	1.05	0.50	0.50	0.78*
4. Employee and social data					
Average number of employees during the year	915	990	1,009	987	985
Total wage and salary costs for the period	114.1	115.0	132.4	120.8	138.4
Social charges and benefits paid in the year (social security, initiatives with charitable organisations, etc.)	42.6	44.7	51.8	45.6	50.5

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.

2011: Capital increased from €597,246,081.0 to €606,985,371.0 following capital increase.

* Subject to the approval of the Annual General Meeting of 15 May 2012.

1.3.2.7 TABLE OF SUBSIDIARIES AND EQUITY ASSOCIATES

31 December 2011

		Share capital (local currency)	Sh. equity other than capital (local currency)	Percen- tage part of share capital held	Carrying amount of investments held	Loans and advances made by Thales not yet repaid (EUR)	Amounts % of securities and guarantees given by Thales (EUR)	Revenues before taxes for last year ended (local currency)	Share in income (loss) for last year ended (local currency)	Dividends received by Thales for the year (EUR)	Receiv- ables	Payables
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	871,223	100%	2,571,704	1,800,000			3,478			560,286
THALES AVIONICS S.A.	EUR	175,000	224,545	100%	892,089	817,089		1,027,323	75,903			147,229
THALES ALENIA SPACE S.A.S.	EUR	1,530,035	1,891	67.00%	724,106	724,106	420,661		4,951			
THALES SYSTEMES AEROPORTES S.A.	EUR	184,445	(68,698)	100%	706,107	706,107	60,007	665,143	53,182			464,731
THALES DEUTSCHLAND GmbH	EUR	27,124	719,568	100%	644,958	644,958			(297,112)		28,829	
THALES USA INC.	USD	118,103	562,448	100%	603,196	603,196	23,186		45,935			146,638
THALES COMMUNICATIONS S.A.	EUR	163,950	148,453	100%	590,751	590,751	687,965	1,724,558	(52,203)	177,735		792,547
THALES INTERNATIONAL S.A.S.	EUR	313,000	20,944	100%	398,542	398,542	6,000		14,070	61,557	144,639	
THALES AIR SYSTEMS S.A.	EUR	126,348	211,639	88.88%	314,100	314,100	14,605	697,170	23,063	40,833		439,766
AVIMO GROUP PTE Ltd	SGD	22,104	34,920	100%	250,690	38,490			191			
THALES NEDERLAND B.V.	EUR	29,510	87,878	99.00%	235,174	235,174	634,344	519,963	30,311			220,710
THALES UNDERWATER SYSTEMS N.V.	EUR	4,538	3,968	100%	129,206	8,503			79			4,661
THALES SERVICES S.A.S.	EUR	1,479	(24,741)	100%	126,368	126,368		403,138	87,440			27,553
SIFELEC S.A.S	EUR	38,304	439	100%	111,755	38,671			237			
THALES OPTRONIQUE S.A.	EUR	56,244	109,942	77.24%	106,287	106,287		252,025	4,582			27,702
TH UNDERWATER SYSTEM S.A.S.	EUR	15,253	(8,011)	100%	96,473	96,473	174,413	404,715	29,977	21,246		203,463
THALES HOLDING NORWAY A.S.	NOK	419,845	(186,577)	100%	77,157	77,157			(10)			
THALES CORPORATE VENTURES S.A.S.	EUR	15,000	12,734	100%	73,347	17,675			3,571	1,341		7,350
THALES MICROELECTRONICS S.A.S.	EUR	500	16,357	100%	65,633	10,600		48,181	(5,792)		14,005	
THALES SUISSE S.A.	CHF	57,200	3,501	100%	56,092	56,092		62,628	3,197	940		
TDA ARMEMENT S.A.S.	EUR	306	17,792	100%	51,678	51,678		130,691	28,202	17,510		31,936
THALES EUROPE S.A.S.	EUR	43,182	559	100%	43,182	43,182			3,492	2,753	165,364	
THALES BELGIUM S.A./N.V.	EUR	15,501	(5,560)	100%	41,416	3,516	3,230	30,254	(2,207)		62	11,701
THALES ELECTRON DEVICES S.A.	EUR	30,999	32,627	100%	39,227	39,227	642	293,650	20,211		20,597	0
UNITED MONOLITHIC SEMICONDUCTORS HOLDING	EUR	33,898	3,161	50.00%	24,268	19,268			1,667	3,503		
CMT MEDICAL TECHNOLOGIES Ltd	USD	1,103	34,363	100%	21,788	21,788		20,157	543			10,094
THALES Canada Inc.	CAD	6,802	41,248	55.46%	19,670	19,670	50,639	231,723	4,038			
THALES AVIONICS ELECTRICAL SYSTEMS S.A.	EUR	6,851	7,340	100%	18,599	18,599		94,229	3,965	1,798	8,876	536
THALES INFORMATION SYSTEMS S.A./N.V.	EUR	5,112	(2,369)	100%	18,050	0		2,957	(2,733)			
FINANCIERE SESO S.A.	EUR			99.98%	14,606	14,606				407		
SAS CHATELLERAULT BRELANDIERE	EUR	2,000	1,348	100%	10,013	7,361		1,477	15			529
THALES ANGENIEUX S.A.S.	EUR	2,717	5,894	100%	8,136	8,136	97	55,827	3,430	996	4	4,372
THALES SAFARE S.A.S.	EUR	37	(70)	100%	7,913	7,913		13,874	1,197	1,001		6,602
TH COMMUNICATIONS LTDA	BRL		912	100%	7,799	0	2,509					
Total subsidiaries					9,100,080	7,665,283				331,620	382,376	3,108,406

	Share capital (local currency)	Sh. equity other than Capital (local currency)	Percentage part of share capital held	Gross (EUR)	Net (EUR)	Loans and advances made by Thales not yet repaid (EUR)	Amounts % of securities and guarantees given by Thales (EUR)	Revenues before taxes for last year ended (local currency)	Share in income (loss) for last year ended (local currency)	Dividends received by Thales for the year (EUR)	Receiv- ables	Payables
2. Equity associates												
DCNS S.A.	EUR 563,000	471,278	35.00%	833,688	833,688		28,568			14,357		
TELESPAZIO HOLDING S.R.L.	EUR 44,961	245,077	33.00%	81,634	81,634			485,855	(39,094)			
THALES SYSTEMS Irlande Ltd	EUR 1	245,410	22.50%	56,330	56,330				5,820	450		
ELETTRONICA S.p.A.	EUR	44,226	33.33%	26,724	26,724				16,180	4,967		
AMPER PROGRAMAS S.A.	EUR 3,005	6,079	49.00%	11,190	11,190			69,177	4,990	5,773		
Total investee companies				1,009,566	1,009,566					25,547	0	0
B. General disclosures concerning other subsidiaries and investee companies												
1. Subsidiaries not listed in section A.												
French subsidiaries				39,014	28,680		26,000			2,815	27,533	15,875
Foreign subsidiaries				3,995	130							
Total				43,009	28,810					2,815	27,533	15,875
2. Associates not listed in section A.												
in French companies				13,167	12,523		2,680			5,740	15,749	9,595
in foreign companies				4,132	79		203,080			137	103,779	
Total				17,299	12,602					5,877	119,528	9,595
Total				10,169,954	8,716,261					363,859	529,437	3,133,876

* Figures taken from the accounts prepared in accordance with Thales group standards, as included in the consolidation.

1.3.2.8 INVENTORY OF EQUITY INVESTMENTS AND SECURITIES HELD, POSITION AT 31 DECEMBER 2011

1. Investments and marketable securities with a net asset value greater than or equal to €15,244

<i>Number of Securities</i>	Companies	% interest	Net inventory value (in thousands of euros)
19,705,000	DCNS S.A.	35.00%	833,688
3,499,994	THALES AVIONICS S.A.	100.00%	817,089
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
10,929,981	THALES COMMUNICATIONS & SECURITY S.A.	100.00%	590,751
20,866,670	THALES INTERNATIONAL S.A.S.	100.00%	398,542
10,208,359	THALES AIR SYSTEMS S.A.	88.88%	314,100
147,889	THALES SERVICES S.A.S.	100.00%	126,368
2,714,996	THALES OPTRONIQUE S.A.	77.24%	106,287
1,089,516	THALES UNDERWATER SYSTEMS S.A.S.	100.00%	96,473
2,000	TDA ARMEMENT S.A.S.	100.00%	51,678
2,698,875	THALES EUROPE S.A.S.	100.00%	43,182
2,066,589	THALES ELECTRON DEVICES S.A.	100.00%	39,227
2,503,550	SIFELEC S.A.S.	100.00%	38,671
1,129,920	UNITED MONOLITHIC SEMICONDUCTORS HOLDING	50.00%	19,268
449,400	THALES AVIONICS ELECTRICAL SYSTEMS S.A.S.	100.00%	18,599
937,500	THALES CORPORATE VENTURES S.A.S.	100.00%	17,675
28,058	FINANCIERE SESO S.A.	99.98%	14,606
33,334	THALES MICROELECTRONICS S.A.S.	100.00%	10,600
181,158	THALES ANGENIEUX S.A.S.	100.00%	8,136
2,177	THALES SAFARE S.A.S.	100.00%	7,913
21,625	EUROTRADIA INTERNATIONAL S.A.	16.53%	3,099
299,998	ODAS S.A.	10.00%	3,000
35,250	THALES UNIVERSITÉ S.A.S	100.00%	2,578
160,000	SOFRADIR S.A.S.	40.00%	2,439
166,026	THALES GEODIS FREIGHT & LOGISTICS S.A.	50.00%	2,172
100,000	THALES CRYOGENIE S.A.S.	100.00%	2,116
2,500	THALES ASSURANCES ET GESTION DES RISQUES S.A.S.	100.00%	1,567
2,714	THALES SERVICES S.A.S.	8.97%	1,561
11,017	SOFRESA S.A.	11.02%	1,338
99	THALES VP SNC	99.00%	1,306
7,181	SOFEMA S.A.	9.57%	897
4,295	GERIS CONSULTANTS S.A.S.	100.00%	215
5,000	GERAC S.A.S.	100.00%	79
429	IRDI MIDI PYRENNÉE S.A.	0.21%	71
100,000	PARIS PUBLISHING S.A.S.	25.00%	62
1,300	VIGEO S.A.S.	0.75%	53
3,700	188CENTELEC S.A.S.	100.00%	37
3,700	187CENTELEC S.A.S.	100.00%	37
4,000	THALES GROUP S.A.S.	100.00%	35
3,700	SYRACUSE SERVICES S.A.S.	100.00%	32
3,700	184CENTELEC S.A.S.	100.00%	32
3,700	183CENTELEC S.A.S.	100.00%	32
3,700	182CENTELEC S.A.S.	100.00%	29
3,994	176CENTELEC S.A.S.	99.85%	21
3,994	177CENTELEC S.A.S.	99.85%	21
3,994	175CENTELEC S.A.S.	99.85%	21
2. Investments and marketable securities with a net asset value of less than €15,244			2
3. Investments in real estate companies			25,713
4. Investments in foreign companies			3,684,631
Total			8,716,261

1.3.2.9 INVESTMENTS MADE AND THRESHOLDS CROSSED IN FRENCH COMPANIES IN 2011

	Investment amount <i>(in thousands of euros)</i>	Percentage ownership									
		At 31/12/2010					At 31/12/2011				
		> 5%	> 20%	> 33%	> 50%	> 66%	> 5%	> 20%	> 33%	> 50%	> 66%
1. Increases											
DCNS	264,588	—	25.00	—	—	—	—	—	35.00	—	—
Financière S.E.S.O.	14,609	—	—	—	—	—	—	—	—	—	99.99
BoostAeroSpace	10	—	—	—	—	—	20.00	—	—	—	—
187Centelec	37	—	—	—	—	—	—	—	—	—	100
188Centelec	37	—	—	—	—	—	—	—	—	—	100
2. Decreases											
167Centelec		—	—	—	—	99.84	—	—	—	—	—
168Centelec		—	—	—	—	99.84	—	—	—	—	—
170Centelec		—	—	—	—	99.86	—	—	—	—	—
185Centelec		—	—	—	—	100.00	—	—	—	—	—
Thales Security Solutions & Services		—	—	—	53.30	—	—	—	—	—	—

1.3.3 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, 2011

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Shareholders' Meetings we hereby report to you, for the year ended December 31, 2011, on:

- the audit of the accompanying annual 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, 2011 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, 2011, for a net amount of MEUR 8,718.3, 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 concerned, 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 and litigation provision, 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 the 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 favor, 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 and holders of the voting rights and mutual shareholders has been properly disclosed in the management report.

Courbevoie and Paris-La Défense, March 7, 2012

The statutory auditors

French original signed by

ERNST & YOUNG Audit

Michel Gauthier

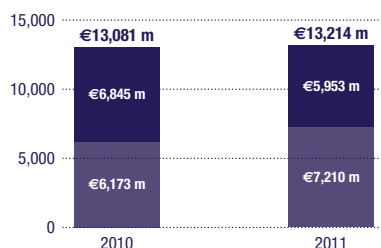
Nour-Eddine Zanouda

MAZARS

Jean-Louis Simon

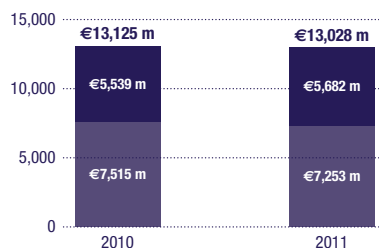
A business portfolio balanced between civil and defence segments, sharing common technologies

ORDER INTAKE



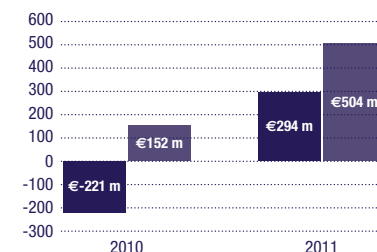
Aerospace & Transport
Defence & Security

REVENUES



Aerospace & Transport
Defence & Security

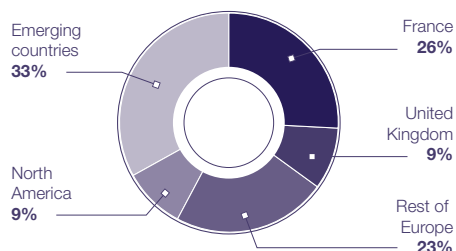
EBIT(*)



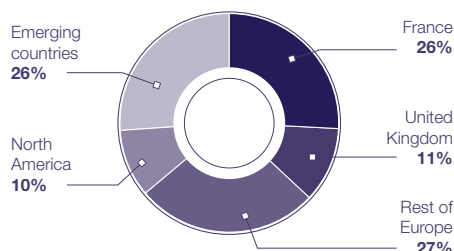
Aerospace & Transport
Defence & Security

A strong international presence

ORDER INTAKE BY DESTINATION – 2011



REVENUES BY DESTINATION – 2011

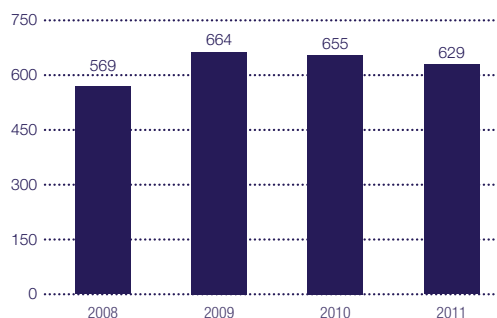


Innovation at the heart of the strategy

- Total R&D represents nearly 20% of revenues
- A 10% increase in self-funded R&D between 2008 and 2011
- A portfolio of 12,000 patents, 350 new applications filed in 2011
- A policy of innovation open to the academic world, research centres and industrial partners: 4 laboratories collaborating with universities and over 30 cooperative partnerships with universities and research centres
- Thales, a major player in the competitive clusters in France and the United Kingdom

TOTAL SELF-FUNDED R&D

(in million euros)



(*) EBIT after restructuring and before impact of Purchase Price Acquisition (PPA).

2 BUSINESS REVIEW

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2.1 KEY DATA

		Defence & Security	Aerospace & Transport	Other	Total
2011	Order book at 31 December ^(a)	19,252	11,372	73	30,697
	Order intake	7,210	5,953	51	13,214
	Consolidated revenues	7,253	5,682	93	13,028
	EBIT ^(b)	504	294	(49)	749
	Consolidated number of employees at 31 December	40,419 ^(a)	23,889	4,017	68,325^(a)
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 ^(b)	152	(221)	(24)	(92)
	Consolidated number of employees at 31 December	36,024	23,851	3,859	63,734

(a) Taking into account the consolidation of DCNS under the proportionate method at 35% at 31 December 2011, i.e. 4,865 people – employees on secondment included.

(b) After restructuring and before impact of Purchase Price Allocation (PPA).

Consolidated number of employees include the total number of employees of the fully consolidated companies and the proportionate share of employees of companies consolidated under the proportionate method (including 4,865 for the 35% stake in DCNS at the end of 2011, employees on secondment included). It does not include the employees of companies accounted for under the equity method or of non-consolidated companies.

A total of 66,979 **employees** were **under Group management** at 31 December 2011. This figure includes all employees working for

fully consolidated and proportionately consolidated companies, with the exception of DCNS in France, 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 below consolidation thresholds.

Employees under management, by business sector, were as follows at end-2010 and end-2011:

	Defence & Security	Aerospace & Transport	Other	Total
<i>Employees under management at 31 December</i>				
2011	38,176	24,753	4,050	66,979
2010	37,640	24,902	4,377	66,919

The main programmes in the order book at 31 December 2011 break down as follows:

Value	Programme
More than €600m	Mirage 2000 (India) Rafale (France) Iridium (United States) Fremm Frigates (France/Italy)
Between €400m and €600m	London Underground signalling (UK)
Between €200m and €400m	Queen Elizabeth class aircraft-carriers (UK) Watchkeeper UAV system (UK) Balard – Ministry of Defence (France) Eco-taxi (France) CSO observation satellite (France) In-flight entertainment systems Maintenance in operational condition – Rafale (France)

2.2 RESEARCH AND INNOVATION

Thales needs to acquire increasingly sophisticated technologies, particularly in detection, analysis and decision-making technology, in order to design 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 devotes 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 durability of the alliances which the Thales group maintains with its strategic partners guarantees the construction of a solid technological foundation.

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.

2.2.1 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 2012 Thales spent almost €2.500m on R&D alone, an area which is vital for its competitiveness, including €629m⁽¹⁾ self-funded by the Group, or around 25% of the total.

A significant proportion of this budget is dedicated to upstream research, conducted both at Thales Research & Technology

("TRT") laboratories and the Group's centres of expertise, in order to develop:

- new technologies;
- new system and product concepts;
- new engineering tools and methods for critical information systems.

2.2.2 Four Key Technical Domains

Technologies which are key to Thales belong to four key domains, which determine the direction of the Group's technological research and development:

- hardware technology, including, inter alia, electronics, electromagnetism, optonics, 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 "Systems" technical domain. Focused on architectural system design, this area provides support methodology, processes and expertise.

Focus 1: The "Hardware" key technical domain

The extreme performances required by Thales customers demand an alliance of innovation and reliability, two concepts that may often seem contradictory. In order to reconcile them, Thales expertise is based on in-depth knowledge and simultaneous analysis of all the hardware components of an offer. As a result, an innovative architecture can be designed using basic elements that have been duly tested and validated in the field.

Thales maintains a network of top-flight interdisciplinary expertise in electronics, optics and acoustics and in several areas of mechanical, thermal and chemical engineering: that is a total of thirty segments with a thousand experts.

The expert network draws on the research activities, primarily conducted within a permanent partnership between the academic and industrial worlds. This activity is conducted both in the operating units because of their proximity to the area of application, and in the Corporate research centre in Palaiseau on the Saclay campus, which is home to over 100 non-Thales researchers within its shared laboratories.

The Group also has a large set of test resources in the space, aeronautics, naval, land and rail segments. It maintains a strong relationship with its many suppliers, and each supply is analysed in terms of the end application and upgrades are recorded in shared databases.

Thanks to this data shared by all units, Thales also provides solutions to the growing challenges of environmental concerns and the related new regulations (particularly REACH), and the energy performance needs requested by its customers.

(1) Of which €10m of capitalised R&D.

2.2.3 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, mostly 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 technologies) and the "Triangle de la Physique" (Physics Triangle). It is also heavily involved in the programme to build the world-class science and technology complex in Saclay. In the same way, Thales's research centre in the Netherlands is located at Delft University, while the Singapore centre has partnered with Nanyang Technological University and with France's national research institute CNRS, in the 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.

In 2011 in France, Thales signed a framework agreement with Paul Sabatier University in Toulouse, which strengthens the partnerships that already exist with the CNRS, ONERA, *École Polytechnique*, Université Pierre et Marie Curie (Paris VI), Université de Technologie de Troyes, and Institut de Recherche Biomédicale des Armées, etc.

One of the key aspects of this partnership strategy is training, particularly at doctorate 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.

In 2011, the Complex Engineering Chair, created in 2003 at the joint initiative of the *École Polytechnique* and Thales, was expanded. The new partners are Dassault Aviation and DCNS, and two engineering schools: ENSTA Paris Tech and Telecom Paris Tech.

Focus 2: Thales Research and Technology UK

Thales Research and Technology UK (TRT-UK), a member of the Thales Corporate lab network, is organised into three principal components:

1. the "core" R&T to support the vision of the future: the goal is to deliver new technologies and be a hothouse for skills focused on emerging technologies with real breakthrough potential;
2. the common teams from the operating units composed of researchers and engineers who bring the technologies to maturity. This is the most effective way to guarantee the controlled transfer of the technologies coming from TRT research to the product offer, within an optimum period;
3. the technical and technological watch conducted by TRT-UK both by its own analytic capacities and via its network of academic partners and innovative companies.

TRT-UK's technical strategy is part of the Group's R&T governance process via its key technical domains, and its research activities are conducted across the entire spectrum of the technological maturation process, from initial concepts to the transfer of the technologies in product development.

With a strong focus on the security segment, the TRT-UK teams conduct research in the following fields: information security, secure radios, video analysis, signal processing, Ultra Wide Band radar and satellite-based navigation.

Guaranteeing the relevance of its research areas through ongoing dialogue with the operating entities, TRT-UK offers the Group the excellence of its teams and contributes to the expansion of the Thales technological portfolio.

Focus 3: From passive optics to the smart lens

Thales markets its optical sub-assemblies for both the defence and security markets (night vision goggles) and for civilian markets (professional zoom lenses for television and film industries).

Recognised for the quality of its zoom lenses, which have earned Oscars in Hollywood, the primary strength of Thales has been to promote an "all-in-one" alternative: a single lens, the zoom, replaces several fixed focal-length lenses with comparable quality over the entire range of focal lengths.

The quality of a cinematographic zoom includes a highly sophisticated lens, composed of dozens of optical elements assembled with a high degree of precision.

Maintaining image quality while optimizing the design of these exceptional lenses is currently an area of investigation for Thales. This investigation includes complete control of the image chain, from optics to detector and processing. Now, overall optimisation will simultaneously combine optical design and image processing.

Building on this novel concept, the Thales research teams have developed highly innovative components over the last three years.

2.2.4 Thales at the heart of innovation ecosystems

Wherever it has an industrial presence, Thales seeks to build partnerships within industrial and scientific ecosystems in order to optimise the synergies generated by the trio formed by major industrial groups, innovation-driven companies, and training and research institutions.

Thales is positioned as a major player in numerous innovation clusters in France (including System@tic Paris-Région, Cap Digital Paris-Région, Aerospace Valley, the Maritime clusters in Brittany and Provence-Alpes-Côte d'Azur, Images et Réseaux, etc.), also in European technology platforms, in projects for the European framework research programme, etc.

In the United Kingdom, the Group has an active collaboration policy with innovation ecosystems. For example, in the field of mobile communications, Thales is one of the founding members of the "Mobile Virtual Centre of Excellence" (MVCE), while in data security, Thales is a member of the group at Queen's University of Belfast. In aeronautics, like other manufacturers in the sector, Thales is a member of the *Integrated Vehicle Health Management* (IVHM) centre at the University of Cranfield.

2.2.5 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 350 new applications in 2011), Thales is on a par with most of its competitors. The continued large number of patent applications in recent years reflects the company's commitment

to innovation and its ability to translate research results into competitive advantages.

The Thales portfolio included more than 12,000 patents and patent applications at 31 December 2011 and is regularly adapted as operational requirements evolve, particularly to protect Thales's market share.

Focus 4: In-flight entertainment: Thales innovates

More than 130,000 passengers per day are already using the Thales in-flight entertainment systems during their flights.

In order to offer greater viewing comfort and a large choice of programming, the airlines have progressively replaced the single screen for an entire cabin with individual screens. In the short term, two screens instead of one today, will be available for a passenger, thanks to the *Touch Passenger Media Unit* (TouchPMU) from Thales.

Designed to be both an independent station that can run a variety of applications and a control interface for all the functions offered, TouchPMU offers high upgrade capacity by taking advantage of a number of applications available on different platforms in the multimedia world.

In a single object with an ergonomic design, the TouchPMU combines all the traditional passenger seat control functions, a multimedia system, numerous interactive games, and email or SMS communications capacities. Embedding a powerful processor, it has the power of a PC with the electric consumption of a smartphone.

Introduced in 2010, the TouchPMU has already been extremely successful with airlines, who have already selected it to equip several aircraft models. The TouchPMU has also been recognised and praised by the industry, earning several prizes, including the "2010 Aircraft Award" from the prestigious *Airline Passenger Experience Association* and the "Crystal Cabin Award" in 2011 in Hamburg at the "Aircraft Interiors 2011" trade show.

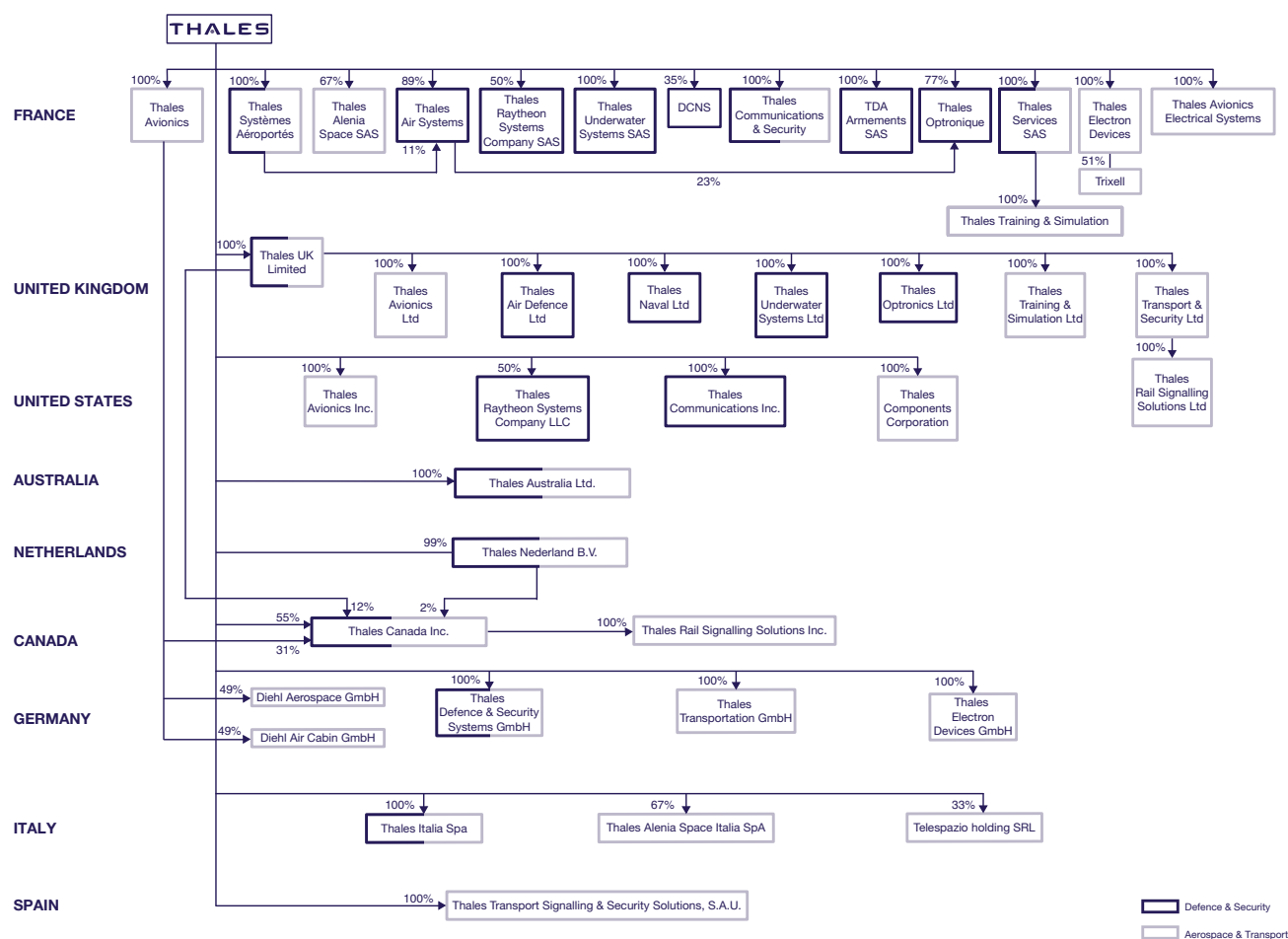
Thus, the TouchPMU offers passengers greater comfort and interactivity in flight, and allows the airlines to stand out from their competitors by giving customers the latest in multimedia technologies during flight.

2.3 RELATIONS BETWEEN THALES AND ITS SUBSIDIARIES

2.3.1 Simplified organisational chart of Thales at 31 December 2011

This simplified organisational chart includes, in the countries accounting for more than 2% of consolidated revenues by origin, fully consolidated and proportionately consolidated companies that account for more than 0.5% of consolidated revenues.

The companies consolidated under the equity method are not included in this chart.



2.3.2 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 121 of this document.

A list of the main consolidated companies can be found below.

2.3.3 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.

2.4. INFORMATION ABOUT MAJOR OPERATIONAL SUBSIDIARIES AND MANUFACTURING SITES

2.4.1 List of the main consolidated companies

The materiality criteria used to prepare these tables have also been applied to the list of the main consolidated companies on pages 79 and 80 of the consolidated financial statements.

2.4.1.1 FULLY CONSOLIDATED COMPANIES

The companies in this list each contributed over 0.5% to the 2011 consolidated revenues.

<i>Company 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	74%	74%
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	Kornthal-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 & Security SA	Colombes	France	100%	100%
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 Transportation Systems GmbH	Stuttgart	Germany	100%	100%

BUSINESS REVIEW

Information about major operational subsidiaries and manufacturing sites

<i>Company Name</i>	Registered office/city	Nationality	% of capital held by Thales	% of voting rights held
Thales Rail Signalling Solutions Inc	Toronto, Ontario	Canada	100%	100%
Thales Rail Signalling Solutions Ltd	Addlestone	United Kingdom	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 Training & Simulation SAS	Osny	France	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%

2.4.1.2 COMPANIES CONSOLIDATED UNDER THE PROPORTIONATE METHOD

The companies in this list each contributed over 0.5% to the 2011 consolidated revenues, on a pro rata basis.

<i>Company 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	Madrid	Spain	49%	49%
Citylink Telecommunications Holding Ltd	London	United Kingdom	33%	33%
DCNS (at 31 December 2011)	Paris	France	35%	35%
Diehl Aircabin GmbH	Laupheim	Germany	49%	49%
Diehl Aerospace GmbH	Überlingen	Germany	49%	49%
Ericsson Thales AEW Systems AB	Mölndal	Sweden	50%	50%
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%	51%

2.4.1.3 EQUITY-ACCOUNTED COMPANIES

Complete list of companies accounted for under the equity method.

<i>Company Name</i>	Registered office/city	Nationality	% of capital held by Thales	% of voting rights held
Aviation Communications & Surveillance Systems	Wilmington	United States	30%	30%
DpiX LLC	Palo Alto	United States	20%	20%
Eletronica SpA	Rome	Italy	33%	33%
ESG Elektroniksystem & Logistik GmbH	Fürstenfeldbruck	Germany	30%	30%

2.4.2 Major manufacturing sites

At the end of 2011, 13 sites with over 1,000 employees accounted for more than 43% of total employees under Thales management⁽¹⁾.

At 31 December 2011	Headcount	Ownership	Size (m ²)
In France			
Bordeaux (South-west)	2,083	Leased (Le Haillan), and Owned (Pessac)	59,000
Brest (Brittany)	1,470	Leased	56,000
Cannes (Provence)	1,950	Owned-Leased	86,000
Colombes (Île-de-France)	3,406	Leased	95,000
Élancourt (Île-de-France)	2,874	Leased	107,000
Massy (Île-de-France)	1,408	Leased	31,000
Meudon-la-Forêt/Vélizy (Île-de-France)	4,082	Leased	112,000
Rungis (Île-de-France)	1,173	Leased	32,000
Toulouse (South-west)	3,907	Owned-Leased	147,000
In the United Kingdom			
Crawley	2,246	Leased	34,000
In Australia			
Sydney	1,096	Leased	60,000
In the Netherlands			
Hengelo	1,475	Owned	100,000
In Spain			
Madrid	1,382	Leased	13,400

2.5 BUSINESS SECTORS AND GEOGRAPHIC AREAS

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

The divisions are globally responsible for defining market strategy, R&D priorities, product policy and industrial strategy, in accordance with the long-term earnings targets set by the Group. They are split into two business sectors:

- the **Defence and Security sector**, with a primarily governmental customer base (Air Operations, Land Defence, Defence Mission Systems, Defence and Security C4I Systems);
- the **Aerospace and Transport sector**, with a primarily non-governmental customer base (Space, Avionics, Transportation Systems).

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.**

⁽¹⁾ See definition on page 120.

2.5.1 Defence and Security sector

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 domains: air, space, naval, land and cyberspace. 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 cyber-attack.

This convergence of defence and security requires new solutions and technologies to be implemented to facilitate the sharing of existing information systems and communication, as well as the protection of networks and infrastructure.

The Defence and Security segment, with a primarily government customer base, leverages Thales's expertise in these various fields.

2.5.1.1 AIR OPERATIONS

2.5.1.1.1 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 for 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.

In the military segment, in 2011 Thales celebrated the 10th anniversary of the first trans-Atlantic joint venture in the defence sector, ThalesRaytheonSystems (TRS), a top-tier international player in air defence. Over the last decade, TRS has signed partnerships

with defence companies around the world in order to ensure the protection and security of forces and equipment deployed in more than 60 countries.

Thales, primarily through TRS, supplies airspace surveillance systems, operational command and control centres and complete threat evaluation and response solutions. Thales also relies on its international footprint to offer a local presence for its customers around the globe, providing innovative through-life support, repair and overhaul, and training and technical support.

Moreover, Thales offers one of the broadest lines of ground and sea surface radar in the market, particularly with the ground radar Ground Master 60, 200 et 400, the mobile radar Ground Smarter 100, the mortar detection radar Ground Alerter 10 and the coastal radar CoastWatcher 10 and 100.

2.5.1.1.2 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 installed, which control 40% of international air space, Thales is at the forefront of the air traffic control and civil radar systems market.

Other major players in the civil sector 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 segment, Thales's main competitors are the US groups Lockheed Martin, Northrop Grumman, and Raytheon, and Finmeccanica, EADS, BAE Systems, Indra and Saab in Europe.

2.5.1.1.3 Significant events in 2011

A large number of air traffic management systems from Thales were declared operational last year, in Serbia, Ireland, Georgia, Croatia, Cyprus, the United Arab Emirates, Afghanistan, Namibia and Brazil.

Croatia Control became the fifth air navigation services provider (ANSP) to become an official member of COOPANS (*COOPeration of Air Navigation Service Providers*), an innovative partnership between Thales and the Danish, Irish, Swedish and Austrian ANSPs.

In the Afghan theatre of operations, Thales delivered its first Ground Alerter 10, a radar system to detect mortar fires.

A leading European player leader in ground radar, Thales successfully integrated its first Ground Master 200 and Ground Smarter 100. Thales crossed important milestones in the radar programme with the first deliveries of the Ground Master 400 in Slovenia and in Malaysia.

In the C4I segment, NACMA⁽¹⁾ approved the factory acceptance test of the system of the ACCS LOC1 programme developed by Thales.

(1) NATO Air Command and Control System Management Agency.

2.5.1.2 LAND DEFENCE

2.5.1.2.1 General overview

Thales designs, develops, manufactures, integrates and supports interoperable solutions for surveillance, mobility, protection, target acquisition and engagement of land forces, including missile and weapons systems, optronics sensors and protected vehicles.

Thales offers a wide range of advanced weapons systems. In air defence, Thales offers a line of systems in the medium-range (SAMP/T), short-range (Crotale with VT1 and ADES) and very short-range markets (Starstreak). The Group also specializes in lightweight multi-role weapon systems based around the new Lightweight Multi-role Missile (LMM) and is one of Europe's leading suppliers of active, semi-active and passive missile seekers, safety arming units and proximity fuses. Thales is a major supplier of munitions including ammunition mortar rocket systems, metric precision munitions, close vehicle protection systems, soldier systems and battlefield protection systems.

Thales is the primary European optronics supplier, designing and manufacturing optronics components and systems for day and night surveillance, reconnaissance, protection and target acquisition on all types of land, sea (surface and subsurface) or air platform for defence and security customers worldwide.

Thales designs, manufactures and supports world-class military protected vehicles including the Hawkei and Bushmaster. Thales provides integrated capability solutions at all levels of the value chain from subsystem supplier, to system integrator, mission systems design authority and prime contractor. Our vehicle architecture systems provide highly standardised "plug and play" capability for on-board sub-systems and products, increasing vehicle capability and performance whilst reducing size, weight and operator workload and whole life system costs.

2.5.1.2.2 Competitive position

Thales is one of Europe's leading suppliers of medium-range, short-range and very short-range missiles and weapons systems. Other principal players in this field in Europe (MBDA) and the US (Raytheon and Lockheed Martin) are also major customers of Thales's missile electronics and key partners in weapons systems.

Thales is Europe's foremost optronics supplier facing competition in this segment from US suppliers who enjoy a strong domestic market (Raytheon, Flir Systems). There are complementary capabilities with Safran, with which a memorandum of understanding was signed in

December 2011 to create an equally-owned joint venture for optronics systems and equipment. Thales's optronics equipment and capabilities continue to be heavily integrated onto equipment and systems for soldiers (e.g. in France, UK, Germany and Norway) and to weapons systems on many armoured fighting vehicle programmes worldwide.

In protected vehicles systems, the Group is a supplier to the Australian, UK and Netherlands governments. This market segment is dominated, on an international level, by BAE Systems, General Dynamics, Rheinmetall, Krauss-Maffei Wegmann (KMW) and Nexter.

2.5.1.2.3 Significant events in 2011

In terms of air defence systems, the SAMP/T was declared operational in France in 2011 and in September anti-ballistic missile firing tests were successfully carried out. In April Thales announced the first production contract for its Lightweight Multi-role Missile (LMM) for the UK Ministry of Defence. A live firing demonstration organised in May of the new cannon system met with success. Thales has been developing this system using Nexter's CT40.

The Optronics segment saw continuing deliveries of the Damocles targeting pod, the Rafale Optronics systems, the commissioning of the Reco NG reconnaissance system for the French forces, and the selection of night vision goggles for the German land forces. A new range of digital sighting systems for gunners and commanders has been selected for the demonstration phase of the UK Scout SV armoured vehicle. 2011 has also seen the qualification phases of the Artemis, naval infrared surveillance system, on board the first French FREMM Multi-mission Frigate, the Aquitaine.

For protected vehicle systems, two prototypes of the Hawkei vehicle, delivered to the Australian Defence Force, performed well during trials. In the UK, the development and production of a new Electrical and Electronic Architecture for the UK MoD's new Foxhound Light Protected Patrol Vehicle is the first implementation of an Ethernet based Generic Vehicle Architecture (GVA) in a British military vehicle.

In terms of Weapon and Soldier systems, key elements of the Future Integrated Soldier Technology (FIST) and Surveillance and Target Acquisition (STA) system have been received into the UK inventory, whilst Thales's Australian ordnance business signed two long term strategic partnership agreements with Nammo and General Dynamics Ordnance and Tactical Systems (GD OTS).

2.5.1.3 DEFENCE MISSION SYSTEMS

2.5.1.3.1 General overview

Thales designs mission systems and equipment for aircraft, helicopters, UAV, surface vessels and submarines. It also offers a complete line of operational maintenance services.

2.5.1.3.2 Competitive position

- **Electronic combat 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 airborne and naval platform protection. Thales is one of the European leaders in these areas, competing with Finmeccanica, BAE Systems, Lockheed Martin, Raytheon and Northrop Grumman.
- **Airborne surveillance and intelligence systems.** Thales designs maritime patrol and surveillance, ground and air surveillance solutions including a range of electromagnetic-based intelligence-gathering sensors. These systems, installed on airborne platforms, integrate surveillance radar, acoustical sub-systems, electronic support measure equipment, and data links. With considerable experience in this field, Thales also designs complete Intelligence, Surveillance, Target Acquisition and Reconnaissance (ISTAR) systems for UAV. In the equipment segment, Thales competes with the operators cited above, plus EADS, General Atomics and Elbit.
- **Abovewater and underwater systems.** For the abovewater warfare, the Thales offer covers all combat systems with the integration of equipment (radar, electronic warfare, infrared sensors, etc.), weapons systems, communication and command equipment. Thales participates in the major European naval programmes (British aircraft carriers, European FREMM multi-mission frigates) and in many of export programmes. For the underwater battlespace, the Group offers a broad line of products, from dedicated submarine sonar systems to hull-mounted and towed sonar for surface ships, dipping sonars for aircrafts as well as specific sonar systems for unmanned naval vehicles. In these two segments, Thales competes with Saab, Finmeccanica, BAE Systems, Atlas Elektronik, Lockheed Martin and L3 Com.

2.5.1.3.3 Significant events in 2011

- **Electronic combat systems.** Validation of the performance of the active antenna RBE2 radar intended for the Rafale opened the series radar equipment production stage for Thales. The Rafale will then be the only European combat aircraft to benefit from this major technological advance, which offers a number of advantages: increased range that gives compatibility for new weapons and acquisition of targets with reduced signature, increased reliability, better resolution and increased radar resistance to scrambling.
- **Airborne surveillance and intelligence systems.** The first Watchkeeper tactical drone systems were delivered to the British Army in late 2011, after the HERMES 450 platforms, under a partnership with Elbit, completed over 50,000 hours of operational flight in Afghanistan.
- **Abovewater and underwater systems.** The FREMM multi-mission frigate programme continued in 2011 with the delivery and sea trials of the Thales equipment, along with the Queen Elizabeth class aircraft carrier programme in the United Kingdom. Acceptance of the new combat system and the new sensors for the modernization programme of the Colombian frigates was completed in December. In the United States, Thales delivered a towed sonar demonstrator and continued its local expansion by acquiring the Advanced Acoustic Concept company.

2.5.1.4 DEFENCE AND SECURITY C4I SYSTEMS

2.5.1.4.1 General overview

At the heart of the defence-security continuum, the Defence and Security C4I Systems offer interoperable and secure information and communications systems for military and security forces. In these activities, the Group covers the whole the value chain, from equipment to systems and systems of systems, support and services.

These businesses represent five major segments:

- **Radiocommunication products.** Thales designs on-board and tactical radio and communication solutions for the three environments (land, air and sea), identification systems (IFF⁽¹⁾), and logistical support and related services. Thales solutions equip the armies of more than 50 countries around the world and the Group is conducting the ESSOR European programme in France, which is intended to develop Software Defined Radio (SDR) solutions with higher security and performance.
- **Infrastructure systems and networks.** Ensuring the security, integrity and resilience of deployable or mobile infrastructure networks are major challenges for a country's security and military forces. The solutions designed by Thales, including logistical support and the related services, meet the most demanding needs. Thales offers services ranging up to the operation and management of secure networks for the armed forces, even in theatres of operations. Since 2007, Thales has operated the information and communication systems of the ISAF⁽²⁾ in Afghanistan.

(1) Identification Friend or Foe.

(2) International Security Assistance Force (ISAF). ISAF is the military body of the NATO coalition under a UN mandate, operating in Afghanistan since 2001.

- **Information Technology 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). This expertise led to Thales being selected to design and develop Teorem, the «encrypted» telephone of the French government, which gives users the highest level of security possible.
 - » Thales also runs an operational centre offering 24-hour supervision of information systems for major corporations. Today a number of banks are using Thales solutions to secure their banking transactions.
- **Protection systems.** Thales has developed C4I systems, land tactical systems and border surveillance systems, in addition to

urban security solutions, airport protection and critical infrastructure and identity management systems. These solutions facilitate rapid decision-making by offering users relevant, clear and immediate information about their environment. Thus Thales developed the largest urban security system for Mexico City (more than 8,000 cameras).

- **Critical information systems.** For governments or major corporations, Thales designs, develops and integrates software solutions and systems (real time and/or on-board) designed to be used in the most critical and most demanding environments (industry, transport, aeronautics, finance, etc.). Thanks to its 23 service centres, including 5 datacentres, Thales offers complete solutions for facilities management and infrastructure and applications outsourcing with an extremely high level of reliability and availability.

2.5.1.4.2 Competitive position

Thales has a variety of competitors, both at the sector and geographic levels, depending on the business. In defence applications – radiocommunications and strategic networks, the main competitors are American: Harris, ITT, General Dynamics and Raytheon. In protection systems, Thales's competitors are primarily in the aeronautics/defence

sector (Boeing, Northrop, Honeywell, EADS, etc.) or information systems (IBM, Siemens, etc.), who are also competitors in critical information systems. Finally, in the information security sector, Thales competes with companies like RSA or Safenet.

2.5.1.4.3 Significant events in 2011

On 1 July 2011, Thales announced the formation in France of Thales Communications & Security, consolidating Thales Communications and Thales Security Solutions & Services. This merger is in line with the growing convergence of information control challenges in the military and civilian sectors.

Thales's international operations were expanded, with the announced acquisition in the United States of 51% of the capital of Tampa Microwave, which specialises in satellite communication tactical terminals, and the creation in Kazakhstan of a joint venture with Kazakhstan Engineering which will produce tactical radios for the country's armed forces.

In July, the European inter-governmental defence agency OCCAR⁽¹⁾ selected the software radio Flexnet One developed jointly by Thales and Rockwell Collins as the experimentation model for the development of the ESSOR programme in France. The goal of the ESSOR programme is to equip the European countries with a new-generation military radiocommunications system.

In 2011, Thales launched on the market the Aquilon product range, which offers naval forces a secure and integrated communications system that is both modular and upgradeable. The Aquilon solution allows all the vessels in a fleet, whatever their size, to share the same operational situation and act together. Aquilon also enhances the interoperability capacities between armies and between countries, a major advantage as multinational naval operations increase.

In the United States, Thales obtained JITC (*Joint Interoperability Test Command*) certification for the Ultra High Frequency satellite waveform integrated in the AN/PRC-148 radio produced in the United States. With this innovation, troops equipped with this portable radio no longer need to deploy special systems to communicate via satellite; they now can make a simple software modification.

In security, the central command centre (C4) of the Ciudad Segura project, produced by Thales for Mexico City, was inaugurated in October. This project, unequalled in magnitude – consisting of 8,080 cameras connected to five fixed-control centres, two mobile centres and one central control and command centre – will not only increase the security of the 13 million citizens in this metropolitan area, but ensure greater coordination of public service operations (police, firemen, ambulances, transport, etc.). In addition, Thales announced the launch of TEOPAD, an innovative security solution compatible with smartphones and tablets operating under Android. TEOPAD offers the possibility of creating a truly secure space to hold and use corporate applications with complete security.

Finally, the NATO Communication and Information Systems Services Agency granted «NATO Top-Secret» certification to Echinops, the cyber security solution for IP networks. This certification means that French armed forces within the NATO integrated command benefit from a high level of control of the systems and sensitive information exchanged.

(1) Organisation for Joint Armament Cooperation.

2.5.2 Aerospace and Transport sector

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, etc.;

- in navigation systems (Egnos and Galileo).

Finally, Thales is a leading operator in the space sector, both in the telecommunications (civil, military and dual telecommunications programmes) and observation sectors.

The Aerospace and Transport sector, with a primarily non-governmental customer base, brings together Thales's expertise in these various fields.

2.5.2.1 SPACE

2.5.2.1.1 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, Belgium and Germany, it

is a global market leader in telecommunications, navigation, space exploration and Earth observation.

2.5.2.1.2 Competitive position

In telecommunications, Thales Alenia Space is present in the commercial satellite market, producing its own satellites from its Spacebus platform dedicated to geostationary satellites, but also by supplying payloads for all the major contractors in the sector. The company also provides satellites for the low-orbit civilian constellation market (Globalstar, Iridium NEXT, O3b).

In the defence and security segment, the company operates in the design and production of extremely secure telecommunications systems and high-resolution radar and optical payloads. It offers space segments and ground telecommunications systems (Syracuse, Sicral, COMSAT-BW) or military observation systems (Helios, Pleiades, CSO – rest of Helios, SAR-LUPE) as well as dual civilian and military systems (COSMO-SkyMed, Athena-Fidus, Yahsat).

Thales Alenia Space is also a major player in Earth and scientific observation missions.

For three decades, the European Space Agency and Eumetsat have selected Thales Alenia Space as the general contractor for weather satellite programmes in Europe (Meteosat) and for environmental missions in the context of GMES (Sentinel programmes) or space altimetry.

For scientific missions, the company has developed Proteus, a multi-mission platform (class 500-700 kg), which has proved itself in the SMOS, Jason, COROT and Calipso missions. It was also the general contractor for the Herschel-Planck mission for the European Space Agency (ESA), while on the ground, it deployed the radio astronomy antennae on the Atacama plateau in Chile as part of the ALMA programme for the European Southern Observatory.

Building on this expertise, the company is today positioned in the problems of greenhouse gas measurements by developing atmospheric probe technologies.

Thales Alenia Space is also at the origin of satellite navigation in Europe and plays a major role in the Galileo programme, with system support and participation in the In-Orbit Validation (IOV) phase, which consists of manufacturing the first four satellites of the constellation, as well as the completion of the Mission Ground Segment for the full constellation.

In manned space flight, Thales Alenia Space is a major contributor to the International Space Station (ISS), supplying more than 50% of its pressurised volume (Nodes 2 and 3, MPLM, Cupola, PMM) and significantly involved in the ATV⁽¹⁾ vehicles for the ESA and CygnusTM for NASA, which will resupply the ISS in the coming years. In addition, the company is developing the IXV atmospheric re-entry demonstrator for the ESA.

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 (Russia, China, India and Canada) are now entering the commercial market with competitive solutions for small geostationary satellites.

The leading competitors in the institutional market in Europe are EADS Astrium and OHB.

(1) Automated Transfer Vehicle.

2.5.2.1.3 Significant events in 2011

In the satellite telecommunications segment, the Yahsat 1A satellite was successfully launched in April 2011. It provides a secure telecommunications infrastructure for military forces in the United Arab Emirates and also offers innovative solutions to commercial operators for broadcasting, satellite Internet backbones, digital business networks and other high-tech technology services.

In observation and navigation, the first Galileo-IOV satellites, integrated at the Rome site of Thales Alenia Space, were launched with the first Soyuz launch vehicle since Guyana. At the same time, the «*Safety of life*» service of the Egnos system was declared officially available, allowing it to be used in civil aviation for landing phases in order to perform precision

approaches to European airports. Finally, the launch of the Pleiades satellite in cooperation with Astrium on behalf of the CNES and the DGA, confirmed the excellence of Thales Alenia Space in very high resolution instruments.

In the space transport segment, Thales Alenia Space delivered to Orbital Sciences Corporation the first pressurised cargo module developed to carry freight to the International Space Station.

Thales Alenia Space and the Russian company ISS Reshetnev, which have been partners since 1993, announced an expansion of their partnership with the creation of a joint venture that could assemble, integrate and test payloads and telecommunication satellites.

2.5.2.2 AVIONICS

2.5.2.2.1 General overview

Thales manufactures flight avionics systems and equipment, passenger cabin systems and flight simulators, for both civilian and military aircraft. In addition, the Group offers microwave and imaging subsystems.

The portfolio of flight avionics systems and equipment comprises on-board electronics systems, including display helmets, 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 offer is focused on the in-flight entertainment segment. In addition, the Group offers interior trim,

crew rest modules and cabin air flow systems through its joint venture Diehl Aircabin, and cabin lighting and service systems through Diehl Aerospace.

In the simulation and training segment, Thales produces flight simulators and, in particular, has developed "RealitySeven", a new generation of civil simulators. Thales supplies the simulators for several European defence programmes (Rafale, Eurofighter, Tigre, NH90) and provides training for helicopter pilots through the joint venture Helisim.

Microwave subsystems (tubes and power amplifiers) are aimed at the space and defence market, as well as at some telecommunications and civil industrial applications, while imaging subsystems are aimed at the medical radiology market.

2.5.2.2.2 Competitive position

European leader in flight avionics, Thales is the supplier for the civilian and military aircraft companies Airbus, Airbus Military, ATR, Boeing, Bombardier, Eurocopter, Gulfstream, NHIndustries and Sukhoi. The other major players in this field are Honeywell and Rockwell Collins.

In the passenger cabin systems segment, Thales is one of the world's top two players with Panasonic Avionics. The simulation solutions developed by Thales, Europe's leading player, are used by a very 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.

The TopOwl helicopter display helmet is now present around the world on multiple platforms. It equips the Tigre, NH90, COBRA AH-1Z, Huey UH-1Y, T129, and Rooivalk helicopters. It is operational and has been deployed in combat in foreign theatres by French and American forces in Afghanistan and Libya.

Thales continues to be a global market leader in microwave and imaging subsystems.

2.5.2.2.3 Significant events in 2011

The year 2011 was marked by the certifications and commissioning of the Sukhoi Superjet 100 and the ATR 72-600, both equipped with avionics systems designed by Thales.

Significant progress was made on the A350 XWB project, particularly on the pre-integration of cockpit displays and the ADIRU navigation control system (Air Data & Inertial Reference Unit).

The first Full Flight Simulator (FFS) for the Sukhoi Superjet 100, provided by Thales, was accepted by Sukhoi at its training centre near Moscow.

In the cabin systems segment, Thales unveiled TopSeries AVANT, which includes the tactile remote control TouchPMU (Passenger Media

Unit) and the SVDU Gen4 (Smart Video Display Unit), the winner of the "Avion Award Best In Technology" from APEX (Airline Passenger Experience Association). This system has already been selected by an airline for its fleet of A350 XWB.

Also in 2011, Thales presented for the first time the cockpit demonstrator ODICIS (*One Display for a Cockpit Interactive Solution*), which is a system concept for display on a single tactile screen. Adaptable to both civilian and military aircraft and helicopters, ODICIS is designed to improve the pilot/system interface, particularly by offering greater freedom to fully use the display space, with very flexible configurations, a simplified presentation of the system procedures, a decision-making tool and new interactive resources.

2.5.2.3 TRANSPORTATION SYSTEMS

2.5.2.3.1 General overview

In ground transportation, Thales offers systems and services for improved operation of transport infrastructures. These make it possible to operate trains at a high level of safety and security and to optimise network capacity while reinforcing the security of operation and the safety of passengers and personnel.

The Group 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 fare collection and toll segment.

In rail signalling, Thales provides systems for mainline networks, both conventional and high-speed, in addition to metro, tram and suburban networks.

In terms of supervision and communications, Thales leverages its expertise in critical information systems to offer integrated solutions to transport network operators, enabling them to 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.

Thales is also an international player in revenue collection solutions, particularly for public transport operators, as well as in the highway segment (tolls, car parks).

2.5.2.3.2 Competitive position

Thales covers the ground transportation network with an offer structured around systems and services dedicated to the operation, security and safety of rail and highway infrastructures. With its positioning, Thales stands out from its «generalist» competitors which offer a complete line but one dominated by rolling stock, and from the «specialists» which cover only one segment. Its key capacities make Thales a specialist and recognised leading player with strong positions in these markets.

The competitive landscape varies significantly depending on the land transport market segment targeted by Thales. In the signalling business,

the major players are Thales, Alstom, Ansaldo STS, Bombardier, GE Transportation, Invensys Rail and Siemens.

In terms of supervision and communications, the major generalist players are also present, as well as more specialist operators such as HollySys, Indra, STE and Telvent. In ticketing, the Group's competitors are ACS, Cubic, Parkeon and Vix ERG.

2.5.2.3.3 Significant events in 2011

The year 2011 was punctuated by a number of commissionings around the world. In South Korea, Thales delivered signalling systems for the Busan-Gimhae suburban lines and the Sin Bundang line. In the UK, the capacity of the London underground Jubilee Line has been increased by 5,000 passengers per hour with the modernization of its signalling system by Thales, lowering the interval between trains to two minutes. Also in London, Thales delivered the signalling systems for the extension

of the Docklands (DLR) light railway to Stratford International, the station serving the future Olympic Park for the 2012 Games.

In the Middle East, the Dubai metro, controlled by Thales transport systems, is now the world's largest fully automated metro system (70 km). Mecca in Saudi Arabia is now equipped with an automated metro line that carries more than 2 million pilgrims safely during the annual pilgrimage period, at a rate of 72,000 passengers an hour.

In China, Thales delivered the final phases of the projects for lines 6, 8 and 9 of the Shanghai metro, where automatic pilot operation is completely operational. These three lines are used by over 1.3 million passengers per day.

Finally, Thales, Shanghai Electric Corporation and Shanghai Automation Instrumentation officially formed a joint venture that will supply urban transport systems for the Chinese market.

In Europe, Thales delivered or modernised more than 130 electronic interlocking systems, notably in Switzerland for the operator SBB, in Latvia for LDZ, in Germany for Deutsche Bahn, in Austria for OBB, in Spain for ADIF and in France for RFF and the RATP.

2.5.3 Area A

<i>Revenues in €m</i>		United Kingdom	United States	Australia	Netherlands	Canada	Other	Total
2011	Revenues by destination	1,492	1,050	643	193	219	1,001	4,598
	Revenues by origin	1,627	896	716	402	272	317	4,230
	Consolidated headcount	7,569	2,228	3,144	2,007	1,287	1,531	17,766
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

2.5.3.1 AUSTRALIA & NEW ZEALAND

Thales has around 3,200⁽¹⁾ employees in Australia and New Zealand. Thales Australia is a trusted partner of the Australian Defence Force, and also operates in the national security and commercial sectors, including air traffic management (ATM), transport and services.

Thales delivers a range of key capabilities, including naval upgrades and maintenance services, underwater systems, communications, ICT systems, vehicles, munitions and small-caliber weapons.

In 2011 the Australian Department of Defence ordered 101 new Bushmaster protected vehicles, with the 800th Bushmaster vehicle presented to the Australian Defence Minister in August. The new Hawkei Light Protected Vehicle was down-selected as Australia's preferred

choice to replace up to 1,300 Land Rover, after two Hawkei prototypes outperformed competitors in vehicle trials. The company also secured orders for nine Australian Light Armoured Vehicle crew trainers and was selected to provide Next Generation Desktop secure IT services of the Australian Department of Defence.

Thales opened the Centre for Advanced Studies in ATM, a new research and development centre in Melbourne.

In New Zealand Thales launched the pilot project for a new integrated ticketing system in Auckland in time for the Rugby World Cup during August / September 2011.

2.5.3.2 CANADA

Thales has around 1,300⁽¹⁾ employees in Canada serving the defence, security, aerospace and transportation sectors. Customers include rail service providers, aircraft manufactures, military and security agencies.

Thales Canada broadened its domestic urban rail signalling activities with the addition of the Edmonton Transit System and a rail transit communications project in Montreal. Signalling export successes included a breakthrough project in Sao Paulo to provide signalling and train control systems for Line 17, with additional projects in Hong Kong, Kuala Lumpur and Seoul.

Thales won the Government of Canada's Interdepartmental Maritime Integrated Command, Control and Communications project that will provide a national maritime situational awareness network consisting of 56 navy and coast guard vessel systems, 7 shore-based operations

centre systems and 7 portable systems. Partnering as electronic systems integrator with Seaspan, a shipbuilder, Thales won a contract to provide non-combat vessels to the Royal Canadian Navy and the Canadian Coast Guard. Thales also received notification from the Canadian Army to supply more than 1,200 units of the advanced thermal imaging module (TIM) and driving assistance vision systems (VE) and to equip 200 vehicles with optronic viewing equipment (CVE).

Thales Canada's avionics business provided Avionics and Flight Control Systems for Bombardier, Gulfstream and Embraer as part of its regional aviation activities. Thales also received the 2011 Bombardier Achieving Supplier Excellence (BASE) award in recognition of high quality, delivery and competitiveness standards.

(1) Employees under Group management, see page 200 et seq. on the Group's employment policy.

2.5.3.3 NETHERLANDS

Thales has around 2,000⁽¹⁾ highly skilled employees (70% engineers) in the Netherlands, essentially serving the defence market both domestically and internationally, with particularly strong capabilities in the naval sector.

Over the past few years, Thales Nederland developed a line of integrated sensor masts for military ships, offering increased performance combined with lower life-cycle costs and easier maintenance. In 2011

the first of these 'I-Masts' was completed for integration with the first Royal Netherlands Navy's new patrol boat.

In 2011 progress was made in the transport market with the roll-out of the nationwide e-ticketing equipment, paving the way for the expected abolishment of paper tickets in 2012.

2.5.3.4 UNITED KINGDOM

Thales has around 7,600⁽¹⁾ employees in the UK, working in aerospace, defence, security and transportation systems and serving governmental and commercial customers.

In transportation, Thales and joint venture partner Mouchel received a seven-year contract to provide the National Traffic Information Service (NTIS) for the Highways Agency, which will provide up-to-the minute traffic information for people using motorways and major A roads in England.

In defence, Thales was selected by General Dynamics UK to provide the primary and secondary sights for Scout, the reconnaissance variant

of a specialist armoured vehicle for the British army. The first tranche is expected to deliver around 600 vehicles to the front line, with the possibility of further purchases in the future.

Successful export orders include thermal sights for a Malaysian armoured vehicle programme, sonar sales of the 2087 variable depth sonar for surface ships and simulation equipment, including a full flight simulator for the French Air Force, for the A400M military transport aircraft.

2.5.3.5 UNITED STATES

There are 10 Thales operations and three joint ventures in 13 states, with nearly 2,000⁽¹⁾ Thales employees and 1,000 JV employees. Thales operates three joint ventures in the US: Thales Raytheon Systems for radar systems; ACSS with L-3 for safety avionics systems; and Advanced Acoustic Concepts, 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 (IFE) business, in California, exports to airlines worldwide and in 2011 secured a major contract for IFE systems

with Qatar Airways. Thales's transport business in the United States is upgrading the 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 business in Maryland is developing tactical communications products for all the US military and other federal and local agencies responsible for public safety.

2.5.3.6 NORTHERN ASIA

In South Korea, Samsung Thales Co. Ltd (STC), the joint company of Thales and the Samsung Group, has more than 1,800⁽¹⁾ 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 600⁽¹⁾ people developing products or solutions as air traffic control, radar, avionics, security in

transport, e-banking and medical imaging with operations in Beijing, Shanghai, Tianjin, Nanjing, Kunming and Hong Kong. In November 2011, a new urban rail signalling joint-venture called Thales SAIC Transport System Limited Company, was created between Thales, Shanghai Electric Corporation (SEC) and Shanghai Automation Instrumentation Co (SAIC). This new company based in Shanghai is dedicated to the Chinese market.

2.5.3.7 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.

With 200⁽¹⁾ employees, Thales Norway is developing its own products for the defence market. It also operates the transport ticketing system for

the city of Oslo. Thales Norway was selected in 2011 by the Norwegian Ministry of Defence to deliver a troop system for the future NORMANS, a programme to modernize and digitize ground armed forces. As general contractor, Thales Norway will be responsible for the NORMANS programme information systems for a period of 5 years.

(1) Employees under Group management, see page 200 et seq. on the Group's employment policy.

2.5.4 Area B

Revenues in €m		Germany	Italy	Spain	Other	Total
2011	Revenues by destination	777	387	347	2,859	4,370
	Revenues by origin	885	691	318	739	2,633
	Consolidated headcount	4,314	2,949	1,592	4,837	13,692
2010	Revenues by destination	779	375	357	3,380	4,891
	Revenues by origin	856	665	337	906	2,764
	Consolidated headcount	4,345	2,692	1,670	4,683	13,390

2.5.4.1 GERMANY

In Germany, Thales employs about 3,000⁽¹⁾ people in 10 locations. The revenues of Thales's German subsidiaries are primarily generated from civil activities, notably in the transportation sector. Thales Germany hosts a global centre of excellence for Thales's rail signalling activity and has been instrumental in building the Group's expertise in ETCS standards. Thales Germany is also active in defence, particularly in the Land and Naval sectors. Furthermore, Thales's German operations have a strong position in avionics for civil aircraft, through joint ventures with the Diehl Group.

In 2011, Thales signed a contract with the Germany Army for night vision goggles. Furthermore, Thales recognized capability in tactical communication products allowed it to secure a contract to equip the new infantry fighting vehicle PUMA with radio technology.

In its Transportation business, Thales obtained key rail signalling orders in Poland and various contracts were signed with Deutsche Bahn in Germany for electronic switching stations.

2.5.4.2 ITALY

With operations in Rome, Florence, Chieti, Milan and L'Aquila, Thales employs 2,900⁽¹⁾ people in Italy with activities spanning the entire Thales portfolio, including Space through Thales Alenia Space.

In the Defence and Security domain, Thales has been awarded an order for the upgrade of 21 Multiple Launch Rocket systems (MLRs). Thales also won maintenance contracts from the Ministry of Defence for the RIFON communications network.

In the Aeronautics domain, Thales confirmed its position and supplied navigational aids to Bologna's airport (Instrument Landing Systems and Distance Measuring Equipment) and Turkey (Instrument Landing Systems). In the Space sector, the construction on a new 16,000 square meter production plant started in L'Aquila, after the previous building was condemned because of serious damage suffered during the earthquake on 6 April 2009.

2.5.4.3 SPAIN

In Spain, Thales employs around 1,800⁽¹⁾ people in 10 locations. The Spanish subsidiaries of Thales house centres of excellence in the areas of rail signalling.

In 2011, the Spanish railway infrastructure authority has awarded Thales several contracts, such as the signalling and communication systems for the extension of Seville's suburban lines, the adaptation of

the signalling system of the high speed lines to Madrid, and a contract for the security and communication systems for the new High Speed Control Centre in Leon.

On the export markets, Thales signed a contract for signalling and communication systems for a section of the Ankara-Istanbul high speed line. Thales Spain also has won a contract with Moroccan Railways.

2.5.4.4 MIDDLE EAST

Thales has been present in the Middle East for more than 30 years and employs more than 1,800 people in a number of countries in the region. In 2011, Thales's subsidiaries in Saudi Arabia consolidated their

position in the Defence market (especially in the field of air defence systems), as well as in the provision of protection systems for sensitive site infrastructures.

(1) Employees under Group management, see page 200 et seq. on the Group's employment policy.

2.5.4.5 SOUTH-EAST ASIA

Thales employs slightly over 600⁽¹⁾ people in Singapore, addressing the Aeronautics, Transportation, Defence & Security markets. In the avionics domain, Singapore is the sole centre of production for specific on-board

equipment and is the MRO (maintenance, repairs and operations) hub for Asia-Pacific.

2.5.4.6 WESTERN ASIA

Thales has operated in India for more than 50 years and employs about 230⁽¹⁾ people, including New Delhi's Headquarters, Mumbai, Bangalore, Kochi, Gwalior, and Vishakhapatnam. Thales also opened a software

development company in Chennai. Furthermore, Thales has set up an avionics joint venture with Samtel.

2.5.4.7 LATIN AMERICA

In Brazil, Thales has been established for more than 30 years and employs about 300⁽¹⁾ people. Through its subsidiary Omnisys, Thales offers a global centre of expertise in long-range air traffic control radars.

In 2011, Thales acquired 100% of Omnisys by purchasing the interests of the Brazilian minority shareholders.

2.5.4.8 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⁽¹⁾ employees, Thales's South African subsidiary is an important

supplier to the South African Ministry of defence and a recognized industrial base for export markets in Africa.

2.5.5 France

Revenues in €m

2011	Revenues by destination	3,407
	Revenues by origin	6,163
	Consolidated headcount	36,197
2010	Revenues by destination	2,931
	Revenues by origin	5,987
	Consolidated headcount	31,268

2.5.5.1 SITES

At 31 December 2011, Thales had 34,718⁽¹⁾ 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 the export market. Thales's main subsidiaries in France are Thales Air Systems, Thales Alenia Space, Thales Avionics, Thales Communications & Security, Thales Raytheon Systems, Thales Optronique, TDA Armements, Thales Systèmes Aéroportés, Thales Underwater Systems, Thales Electron Devices (TED) and Thales Services (see organisational chart on page 124).

2.5.5.2 MAIN COMMERCIAL ACHIEVEMENTS IN FRANCE

In defence and security, the French subsidiaries won a number of contracts, strengthening the major role of Thales as one of the leading suppliers of the French Procurement Agency (DGA – *Direction Générale de l'Armement*) and the French Ministry of Defence.

For example, Thales won a contract from the DGA for an additional Ground Master 400 air defence radar system to replace a radar station in southern France. In addition, TRS signed a contract for initial operating capacity for a theatre of operation anti-missile air defence control and command system.

(1) Employees under Group management, see page 200 et seq. on the Group's employment policy.

In air traffic management, DSNA, the French air navigation service supplier, awarded Thales the contract for its new 4-Flight system, the future innovative system to manage French air traffic. This framework agreement, renewable for a ten-year period, defines the long-term collaboration between the DSNA and Thales for the development of 4-Flight, deployment of the system at all en route control centres and major approaches by 2020, and future technological upgrades.

In the defence mission systems segment, several contracts for preliminary studies were received from the DGA and prepare for upgrades of the airborne mission systems of the Rafale (active antenna, electronic combat, etc.). The DGA has also notified Thales of a new multi-year contract to support the Rafale equipment, along with extended services.

For the C4I systems, Thales was selected, within a 30-year public-private partnership, to build, operate and maintain the secure information and communication systems at the future headquarters of the Ministry of Defence in Paris (Balard) as well as the site-security systems.

In avionics, Thales delivered more than 400 avionic systems to Airbus, for single-aisle and wide-bodied aircrafts. The FADEC-D, a system that regulates the operation and optimisation of helicopter engine consumption, was selected by Turbomeca for the new-generation ARDIDEN 3 engines.

In the highway transport sector, Autostrade per l'Italia S.p.A won the "Ecotaxe" contract to develop, operate, install and maintain the collection and control system for the heavy vehicle eco-tax. Thales has joined the company Ecomouv' in charge of this project and is providing the control system for the taxable vehicles concerned. Thales is also contributing to the design of the satellite positioning system and the overall security of the "Ecotaxe" programme. This project, which complies with the Grenelle Environment Forum is in the form of a public-private partnership for a period of 14 years.

In the rail segment, Thales will deploy its on-board video and passenger information systems on the RER C and D trains in the Transilien (Paris regional) network of the SNCF. In the context of the project to renovate the major French rail network, RFF placed an order for several new electronic interlocking systems.

2.5.5.3 MAIN ACHIEVEMENTS IN THE EXPORT MARKET

The French companies were also the Group's leading export base: in 2011, approximately 45% of the revenues of the French companies were generated outside France.

In the air operations sector, several contracts for civil air control and radar systems were signed in Europe (Belarus, Slovenia, Belgium), the Middle East (United Arab Emirates, Qatar), Asia (Philippines, Vietnam), Africa (ASECNA⁽¹⁾, Mauritius, Tunisia) and Latin America (Ecuador, Brazil).

In the defence and security C4I systems segment, Thales won a major contract to integrate an innovative electronic open architecture system designed for the new 8x8 armoured vehicles of the Malaysian army. This contract strengthens Thales's position as a leading player in the integration of advanced systems for vehicles.

In February, NATO confirmed Thales as operator of the highly secure information and communications system for the nations of the ISAF (International Security Assistance Force) for an additional two years. For nearly four years, Thales has successfully provided innovative services in secure communications and information systems for over 7,000 NATO users through multiple points of presence distributed throughout Afghanistan.

In June 2011, Thales signed a contract with the Ministry of State for Immigration in the Republic of Kenya to supply 2 million secure national identity cards and upgrade the identity system.

In defence mission systems, Thales and Dassault Aviation were notified of the contract to modernize the Mirage 2000 aircraft for the Indian Air Force. This modernization includes the integration of latest-generation systems and equipment that will optimise the technical-operational

capacities of these aircrafts. In addition, through DCNS, Thales was awarded the contract for the equipment intended for the projection and command ship (BPC⁽²⁾) for the Russian Navy, which becomes a new Thales customer, and the dipping sonar ALFS program in the United States was expanded with a large additional order received in 2011.

In the space segment, Thales won several payload contracts, particularly in Russia. The Group also signed a contract for an additional four satellites for the low-orbit constellation O3b. Thales also won a number of contracts with the European Space Agency, including the contracts to expand the EGNOS programme and the Galileo ground segment.

In avionics, Thales and Brussels Airlines signed an agreement to integrate the TopWings Electronic Flight Bag solution (a digital alternative to the paper documents traditionally carried on board by pilots) on board the airline's fleet.

The Russian Aircraft Corporation MiG (RAC MiG) and Thales signed an agreement to supply 37 TopSight-E display helmets for an additional 29 MiG 29K aircrafts of the Indian Navy. This represents a total of more than 60 helmets ordered by RAC MiG from Thales.

In ground transport, Thales was selected to supply the centralised control, telecommunications and ticketing systems for line 2 of the Los Teques metro in Venezuela. The Group won two other contracts in Latin America – in Panama and the Dominican Republic. Thales will supply the supervision and telecommunications systems for the first metro line in Panama City. In the Dominican Republic, Thales will deliver a complete solution of transport systems for Line 2 of the metro, including supervision, telecommunications, ticketing and depot signalling.

(1) Agency for Air Security and Navigation in Africa and Madagascar.

(2) Bâtiment de Projection et de Commandement.

General information

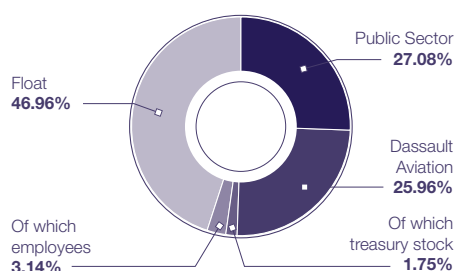
Thales is a French *société anonyme* with a Board of Directors, governed by French law, and registered in the Nanterre Trade and Companies Register under No. 552 059 024

Its registered office is at 45, rue de Villers, 92 200 Neuilly-sur-Seine – France

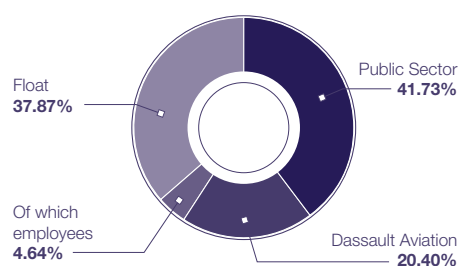
Capital and voting rights

At 31 December 2011, the share capital stood at €606,985,371, divided into 202,328,457 shares with a par value of €3 each

DISTRIBUTION OF CAPITAL



DISTRIBUTION OF VOTING RIGHTS



Shareholding in concert by the “Public Sector” and the “Industrial Partner”

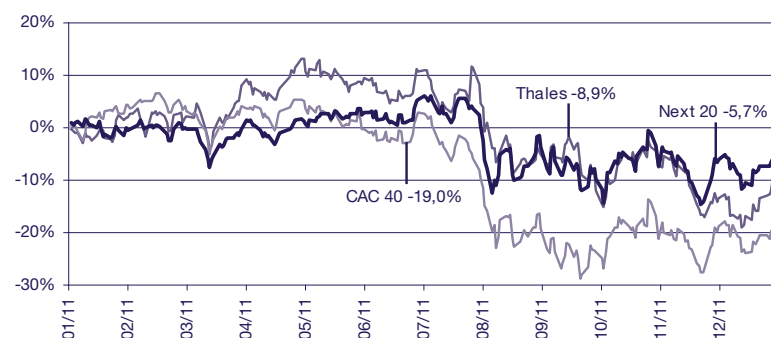
- Three agreements: The shareholders’ agreement, the agreement on the protection of strategic national interests and the specific agreement
- Principal provisions:
 - » Definition of corporate governance and members of Thales corporate governing bodies
 - » Veto right and commitments of the “Industrial Partner” to the “Public Sector”
 - » Restrictions concerning the transfer or sale of “strategic interests”
 - » A shareholders’ agreement valid until December 2016, tacitly renewable for periods of 5 years

Board of Directors

- 16 members, including 14 elected by the General Shareholders’ Meeting, 1 representative of employee shareholders, and 2 employee representatives
- The Board met 10 times in 2011, with an attendance rate of 90%
- 3 Committees:
 - » Strategic Committee (9 meetings in 2011 with an attendance rate of 98%)
 - » Audit and Accounts Committee (6 meetings in 2011 with an attendance rate of 90%)
 - » Selection and Remuneration Committee (6 meetings in 2011 with an attendance rate of 100%)

Market information

SHARE PRICE COMPARISON: THALES, CAC 40 AND NEXT 20⁽¹⁾



The Thales share (HO FP) is listed on the regulated market Euronext Paris (Compartment A) of NYSE-Euronext

(1) Indexes relative to Thales.

3 SHAREHOLDER INFORMATION

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3.1 COMPANY AND SHARE CAPITAL

3.1.1 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 Trade and Companies Register; 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 secretariat 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.

3.1.2 General Meetings

3.1.2.1 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 (46 days prior to the meeting of 15 May 2012), with the final notice of meeting being sent no later than 15 days prior to the meeting. At least 21 days before the meeting, the documents stipulated by the regulations in force are placed online on the Company's website and made available to shareholders at the registered office.

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.

3.1.2.2 DOUBLE VOTING RIGHTS AND EXERCISE OF VOTING RIGHTS

Shareholders who can prove ownership of shares, because these are registered in their name in the company's share register (kept by Société Générale, duly authorised for this purpose – see section 3.1.3 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 automatically end for any share that is converted to bearer form or is transferred (except in the case of inheritance, either

intestate or by will, spousal community property, or gifts *inter vivos* to a spouse or relative who may inherit, or in the case of a transfer as a result of a merger or demerger of a shareholding company).

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.

3.1.2.3 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 not 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.

3.1.3 Information on the distribution of capital issued

At 31 December 2011, the share capital was €606,985,371, divided into 202,328,457 shares with a par value of €3.

Pursuant to the applicable regulations, each month the company publishes on its website (www.thalesgroup.com, under Investors/

Regulated 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 97-190 of 4 March 1997, implementing the law on privatisation of 6 August 1986 (see page 150).

3.1.3.1 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. 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
Financial year 2011	Exercise of stock options or payment of dividend in shares		3,246,430	9,739,290		
31 Dec. 2011		3,731,400,000			606,985,371	202,328,457

3.1.3.2 CHANGES IN THE DISTRIBUTION OF CAPITAL AND VOTING RIGHTS OVER THE LAST THREE FINANCIAL YEARS

At 31 December 2011, the total number of exercisable voting rights was 257,521,994. This includes double voting rights attached to shares which have been registered for at least two years under the conditions set out in the Articles of Association (see page 143).

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 "Investors/Regulated information").

	31 Dec. 2011			31 Dec. 2010			31 Dec. 2009		
	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)	54,786,654	27.08%	41.73%	53,746,948	27.00%	41.86%	52,670,906	26.46%	41.60%
Govt (inc. 1 golden share)	2,060	–	–	2,022	–	–	2,022	–	–
Sogepa	–	–	–	5,214	–	–	1,081,256	0.54%	0.85%
Public sector^(a)	54,788,714	27.08%	41.73%	53,754,184	27.00%	41.86%	53,754,184	27.00%	42.45%
Dassault Aviation	52,531,431	25.96%	20.40%	51,539,524	25.89%	20.27%	51,539,524	25.90%	20.35%
Thales ^(b)	3,542,173	1.75%	–	3,717,478	1.87%	–	3,556,693	1.79%	–
Employees	6,362,998	3.14%	4.64%	5,811,663	2.92%	4.54%	5,965,354	3.00%	3.76%
Other shareholders	85,103,141	42.07%	33.23%	84,259,178	42.32%	33.33%	84,208,177	42.31%	33.44%
Total	202,328,457^(c)	100%	100%	199,023,932	100%	100%	199,023,932	100%	100%

(a) Under the terms of the shareholders' agreement with Dassault Aviation (the "Industrial Partner", cf. AMF 27 November 2008), the "Public Sector" includes TSA and its subsidiary Sofivision, excluding Sogepa and the State directly.

(b) Treasury shares totalled 596,449 bearer shares under a liquidity contract, and 2,945,724 direct registered shares.

(c) In financial year 2011, 3,246,430 shares were created, bearing dividends as of 1 January 2011, including 3,210,810 for payment of the 2010 dividend and 35,620 through the exercise of stock options.

3.1.3.3 MAJOR CHANGES IN SHARE OWNERSHIP OVER THE LAST FIVE YEARS

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.

The company therefore held 1.48% of the capital at 31 December 2007.

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 to employees as they exercised share purchase options.

The company therefore held 1.88% of the capital at 31 December 2008.

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 due to purchase options exercises and free shares delivery (90 free shares).

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 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 due to free shares delivery.

Treasury shares thus amounted to 1.87% of the capital, or 3,717,478 shares, at 31 December 2010.

During 2011, the number of treasury shares was reduced due to the following transactions:

- 1,322,476 shares were purchased under a liquidity contract;
- 1,242,309 shares were sold under a liquidity contract;

- 283,850 shares were sold to employees due to free shares delivery.
- 740,650 shares were purchased directly throughout the year;

- 712,272 shares were sold to employees under the 2011 employee shareholding scheme.

Treasury shares thus amounted to 1.75% of the capital, or 3,542,173 shares, at 31 December 2011.

3.1.3.4 NOTIFICATION OF LEGAL THRESHOLDS EXCEEDED IN 2011

The Company was informed of several breaches of the legal thresholds in 2011 by Tradewinds Global Investors, LLC (Los Angeles, United States), acting on behalf of customers and funds which it manages, declared to have:

- exceeded the 5% threshold of Company's capital on 7 October 2011 and therefore held 10,123,814 shares, representing an equal number of voting rights, i.e. 5.004% of the capital and 3.88% of voting rights;
- exceeded the 5% threshold of the Company's capital on 23 December and therefore held 10,132,571 shares, representing an equal number of voting rights, i.e. 5.01% of the capital and 3.88% of voting rights.

3.1.4 Potential capital

3.1.4.1 MAXIMUM POTENTIAL CAPITAL AT 31 DECEMBER 2011

	In number of shares with par value of €3
Share capital at 31 December 2011	202,328,457
Current stock option plans	15,056,223
2 July 2002 plan: 2,523,325 options at €40.97	
1 July 2003 plan: 1,338,914 options at €25.70	
1 July 2004 plan: 1,868,071 options at €29.50	
30 June 2005 plan: 1,799,843 options at €34.01	
9 November 2006 plan: 1,998,225 at €36.47	
4 July 2007 plan: 1,516,308 options at €44.77	
1 July 2008 plan: 1,631,287 options at €38.50	
25 June 2009 plan: 1,508,000 options at €32.88	
23 September 2010 plan: 469,250 options at €26.34	
15 September 2011 plan: 403,000 options at €26.34	
Maximum potential capital (+7.44%)	217,384,680

3.1.4.2 SECURITIES IN CIRCULATION THAT PROVIDE ACCESS TO CAPITAL (BONDS, WARRANTS AND OPTIONS)

At 31 December 2011, excluding the exercise of stock options, if any, there were no other securities in circulation providing immediate or future access to the share capital.

As a convenience, even though they have no impact on the potential capital since they involve existing shares, share purchase options have been presented with subscription shares options in the section on the financial statements of the parent company (see pages 101 *et seq.*).

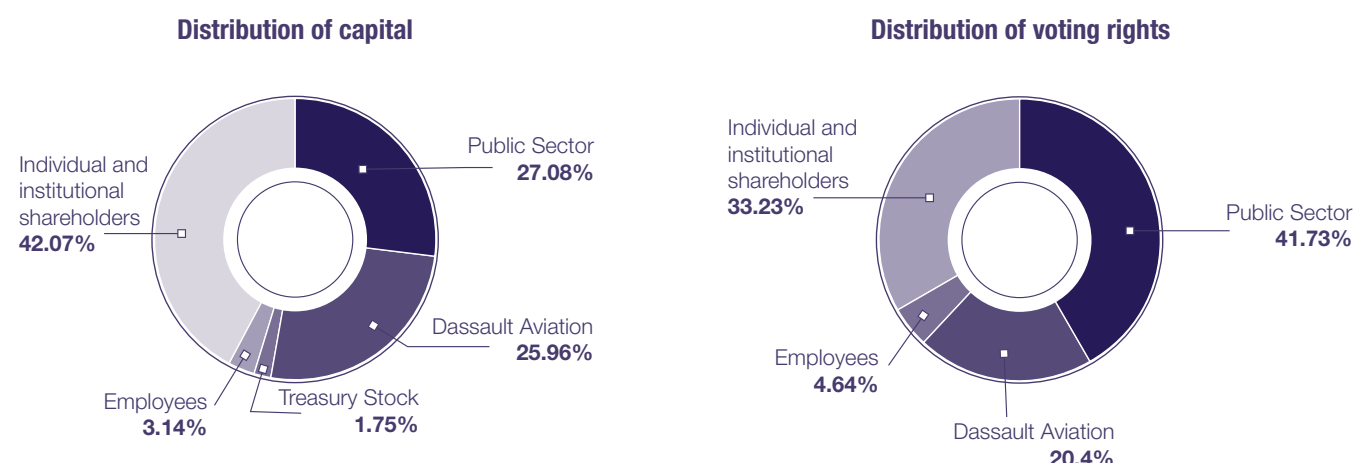
Stock options

At 31 december 2011, the following were in existence:

- 127,800 share purchase options at a weighted average exercise price of €42.42;
- 15,056,223 subscription share options at a weighted average exercise price of €34.51.

3.1.5 Shareholders

3.1.5.1 BREAKDOWN OF SHAREHOLDERS AT 31 DECEMBER 2011



To the Company's knowledge, only one shareholder other than those cited in this chapter holds 5% or more of the capital or voting rights (see page 146 for the distribution of capital and voting rights for the last three years), i.e. Tradewinds Global Investors (United States) on behalf of its clients (5.01% of the capital of Thales and 3.88% of the theoretical voting rights⁽¹⁾ - see section 3.1.3.4 on "Notification of Legal Thresholds Exceeded in 2011" for further information).

3.1.5.2 SHAREHOLDERS ACTING IN CONCERT

3.1.5.2.1 Public Sector (TSA and Sofivision)

TSA is a holding company wholly owned by the French State. It directly holds 46,522,322 Thales shares.

Its wholly-owned subsidiary, Sofivision, holds 8,264,332 Thales shares.

The French State directly holds 2,060 shares, including a golden share which gives it the principal rights⁽²⁾ described on page 150.

3.1.5.2.2 Industrial partner

Dassault Aviation, whose shares are listed on the NYSE Euronext Paris market, is a public limited company (*société anonyme*) which owns 25.96% of Thales's share capital, i.e. 52,531,431 Thales shares at 31 December 2011.

Dassault-Aviation is 50.55% owned by Groupe Industriel Marcel Dassault.

3.1.5.3 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 Thales⁽³⁾.

(1) Pursuant to article 223-11 of the AMF General Regulations, the base (denominator) of the changes in legal thresholds (articles L.233-7 and L.233-9 of the Commercial Code) is equal to the total number of theoretical voting rights i.e. 261,064,167 at 31 December 2011.

(2) Pursuant to article 3 of Decree No. 97-190 of 4 March 1997.

(3) See Decision No. 207C0013 of 2 January 2007, published in the French legal gazette (*Bulletin des annonces légales obligatoires*) on 5 January 2007.

3.1.5.3.1 Shareholders' agreement between the Public Sector and the Industrial Partner

On 28 December 2006, TSA and Alcatel-Lucent signed a shareholders' agreement⁽¹⁾ 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).

This agreement was signed pursuant to the cooperation agreement signed on 1 December 2006 by Thales, Alcatel-Lucent and TSA which replaced a previous cooperation agreement signed on 18 November 1999 by Alcatel, Thales and GIMD⁽²⁾. This agreement essentially reproduces the terms of the shareholders' agreement signed on 14 April 1998⁽³⁾, 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, which has 16 members, has to be divided as follows:

- 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 Chief Executive Officer 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 interests⁽¹⁾.

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.

Term of the shareholders' agreement

In the absence of termination at the contract expiration on 31 December 2011, the agreement was tacitly renewed for a period of 5 years, expiring on 31 December 2016. It may be tacitly renewed for 5-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, without 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

(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 93-1041 of 3 September 1993 and pursuant to Law 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.

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 Sector⁽¹⁾ 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.

3.1.5.3.2 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 it 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.

3.1.5.3.3 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;
- 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.

(1) TSA and Sofivision within the meaning of AMF decision no. 208C2115.

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>.

3.1.5.3.4 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.

- a) 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;

b) 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;

c) any proposed transfer of sensitive assets to a third party;

d) 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.

3.1.5.3.5 Golden share held by the French State

The golden share held by the French State⁽¹⁾ entitles it to the following principal 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 & Security SA, Thales Air Systems SA, Thales Nederland BV, Thales Avionics SA, Thales Training & Simulation SAS and Thales Underwater Systems NV.

3.1.5.4 TREASURY SHARES

At 31 December 2011, Thales held 3,542,173 treasury shares (1.75% 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. At 29 February 2012, it held 3,361,336 treasury shares.

Treasury shares are not subject to any restrictions and may be freely disposed of.

3.1.5.4.1 Authority to trade in its 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,

(1) Pursuant to article 3 of Decree 97-190 of 4 March 1997.

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**, 1.9 million shares were repurchased;
- **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 for the exercise of share plan options. 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 for the exercise of options;
- **in 2007**, 793,295 shares were bought and 782,021 shares sold under a liquidity contract. 582,811 shares were sold for the exercise of options, and 369,065 shares were purchased 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. 3,176,127 shares were bought on the market and 2,519,280 shares were sold to Thales employees under the 2008 employee shareholding scheme. Finally, 96,473 shares were sold for the exercise of options;
- **in 2009**, 916,054 shares were bought and 911,370 shares sold under a liquidity contract. 191,373 shares were sold for the exercise of options and as part of a free share delivery;
- **in 2010**, 1,368,874 shares were bought and 1,207,329 shares sold under a liquidity contract. 760 shares were sold as part of a free share delivery;
- **in 2011**, 1,322,476 shares were bought and 1,242,309 shares sold under a liquidity contract. 740,650 shares were bought on the market and 712,272 shares sold to Thales employees under the 2011 employee shareholding scheme. Finally, 283,850 shares were sold as part of a free share delivery.

3.1.5.4.2 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 – on one or more occasions – shares owned by the Company, up to a limit of 10% of the share capital, as part of 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. This authorisation was renewed by the General Meeting of 18 May 2011 for a period of 24 months under the same conditions.

3.1.5.4.3 Allocation of free shares

Allocation of free shares and/or performance shares

The Board of Directors, on the authorisation of the General Meeting, has decided to implement a fifth free share allocation 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 allocation on 15 September 2011 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 during the three financial years following the allocation date. 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.
- The rights are validated in segments of one-third at the meetings of the Board to close the financial statements for the three years in question.
- Validated options will not exceed the amounts originally granted.
- All designated beneficiaries of this sub-plan will be granted validated 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 lock-in period during which shares may not be sold. This lock-in period does not apply to beneficiaries who are not resident in France for tax purposes.

	15 Sep. 2011		23 Sep. 2010		25 Jun 2009	1 Jul 2008	4 Jul 2007
Date of Board decision	Free shares	Performance shares	Free shares	Performance shares	Free shares	Free shares	Free shares
Number of beneficiaries at the grant date	5,178	314	5,355	327	3,848	3,624	3,545
Share price at the grant date	€25.16		€26.40		€31.93	€35.72	€45.13
Number of shares granted	485,690	145,300	487,680	144,050	334,980	317,705	312,435
Balance of free shares at 31 Dec. 2010	–	–	480,730 ^(c)	142,500 ^(c)	323,615 ^(c)	301,950 ^(c)	293,080 ^(c)
Cancellation of grants during the financial year ^(a)	3,200	1,810	12,140	5,220	6,605	6,540	10,575
Early grants during the financial year ^(b)	200	0	400	450	255	190	140
Number of shares delivered at expiration of the plan	N/A	N/A	N/A	N/A	N/A	N/A	282,215
Number of beneficiaries of delivery at expiration	N/A	N/A	N/A	N/A	N/A	N/A	3,201
Balance of free shares net of cancellations and early grants at 31 Dec. 2011	482,290	143,490	468,190	136,830	316,755	292,220	150
Number of beneficiaries remaining at 31 Dec. 2011	5,123	309	5,122	311	3,636	3,368	1
Vesting period	from 15 Sep. 2011 to 15 Sep. 2015		from 23 Sep. 2010 to 23 Sep. 2014		from 25 Jun. 2009 to 25 Jun. 2013	from 1 Jul. 2008 to 1 Jul. 2012	from 4 Jul. 2007 to 4 Jul. 2011
Share transfer date	16 Sep. 2015		24 Sep. 2014		26 Jun. 2013	2 Jul. 2012	5 Jul. 2011
Retention period for French tax residents	from 16 Sep. 2015 to 16 Sep. 2017		from 24 Sep. 2014 to 24 Sep. 2016		from 26 Jun. 2013 to 26 Jun. 2015	from 2 Jul. 2012 to 2 Jul. 2014	from 5 Jul. 2011 to 5 Jul. 2013

(a) Due to the departure of the beneficiary or, for the relevant plans, eliminations related to the partial or complete non-achievement of the performance conditions.

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

(c) Data amended following adjustments identified after the closing date, see page 103 of the Notes to the Parent Company Financial Statements.

Validation of the performance conditions for financial year 2011

Option and share plans subject to performance conditions	Validation of the first third of the grant		Validation of second third of the grant		Validation of final third of the grant	
	reference year	% achievement of performance conditions	reference year	% achievement of performance conditions	reference year	% achievement of performance conditions
23 Sep. 2010	2011	100%	2012	–	2013	–
15 Sep. 2011	2012	–	2013	–	2014	–

Share allocation in financial year 2011

Ten (a) largest allocation of shares to employees during the year	Number of shares granted	Share price at grant date	Plan date
Free shares	6,500	€25.16	15 Sep. 2011
Shares subject to performance conditions:	2,500		

During the 2011 exercise, shares granted subject to performance conditions to employees of the company or its subsidiaries, excluding Executive Directors, were between 300 and 650 shares.

The free shares granted to employees of the company or its subsidiaries, excluding Executive Directors, were between 50 and 250 shares.

3.1.5.4.4 Description of the share buy-back programme subject to the approval of the General Meeting on 15 May 2012

- Maximum proportion of capital subject to repurchase: 10% at the repurchase date.
 - Maximum number of shares that may be purchased: 20,232,845.
 - Maximum amount of the programme: 1,011,642,250.
 - Maximum unit purchase price: €50.
- Objectives of the programme in descending order of priority:**
- » to sell or allot shares to Group employees and senior executives in the manner stipulated by law, particularly when share plan options are exercised or existing free shares allotted, or when shares are sold and/or supplemented under an employee shareholding scheme transaction on existing shares;
 - » to retain shares for later use in connection with external growth transactions;
 - » to ensure trading in the share through a liquidity contract prepared in accordance with a code of conduct approved by the AMF;
 - » to cancel shares in accordance with a General Meeting resolution in force.
- **Duration of the programme:** eighteen months from the date of approval of the resolution that will be submitted to the General Meeting of 15 May 2012, i.e. no later than 15 November 2013;
 - **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.

3.1.5.5 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>	1 Jan 2012	1 Jan 2011
French institutional investors and investment funds ^(a)	25,225	23,795
Non-resident institutional investors	54,024	51,938
Employee shareholders	6,363	5,812
Individual shareholders and associations ^(b)	4,864	6,210
Not identified	990	2,321
Entire public	91,466	90,076
Total number of shares	202,328	199,082

(b) Mainly French residents.

	As % of the total capital		% of floating capital (exc. treasury shares)	
	1 Jan 2012	1 Jan 2011	1 Jan 2012	1 Jan 2011
French institutional investors and investment funds	12.5%	12.0%	27.6%	26.4%
Non-resident institutional investors	26.7%	26.1%	59.0%	57.7%
Employee shareholders	3.1%	2.9%	7.0%	6.5%
Individual shareholders and associations	2.4%	3.1%	5.3%	6.8%
Not identified	0.5%	1.2%	1.1%	2.6%
Entire public	45.2%	45.3%	100%	100%

To the Company's knowledge, and on the basis of the TPI survey carried out on 31 December 2011 and the number of shares registered at that date, the number of shareholders of the company can be estimated at approximately 47,000 at the end of 2011. This figure represents 98.4% of the total capital identified, and includes 39,100 bearer shareholders and 7,900 registered shareholders.

Furthermore, an additional survey was carried out at the beginning of 2012 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 held (thousands)	As % of the total capital	Number of investors
France	25,225	12.5%	82
North America	24,210	12.0%	78
Continental Europe (exc. France)	16,493	8.1%	96
United Kingdom & Ireland	11,323	5.6%	42
Rest of the world	1,998	1.0%	28
Total	79,249	39.2%	326

3.1.5.6 EMPLOYEE SHAREHOLDERS

At 31 December 2011, Group employees, as defined in article L.225-102 of the French Commercial Code, held 6,362,998 Thales shares, representing 3.14% of the share capital (and 4.64% 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 2011, nearly 60% of the Thales shares held by employees were freely transferable (compared with 55% at 31 December 2010 and 52% at 31 December 2009).

3.1.6 Information on regulated agreements

3.1.6.1 REGULATED AGREEMENTS AUTHORISED IN 2011

Board of Directors' meeting of 24 February 2011

Agreement regulated by Article L.225-38 of the French Commercial Code:

When the accounts for fiscal year 2010 were closed, the two principal shareholders (the Public Sector, the Industrial Partner) agreed to opt for payment of their 2010 dividend in shares, after approval by the Annual General Meeting of 18 May 2011.

The directors elected on the recommendation of the Public Sector (Olivier Bourges, Bruno Parent, Bernard R  tat, Didier Lombard) and of

the Industrial Partner (Charles Edelstenne, Lo  k Segalen, Eric Trappier, Amaury de S  ze) did not participate in the vote on the respective commitments of the two shareholders.

At the end of an option period, and after centralising the documentation, the dividend was paid on 21 June 2011 in shares (at an issue price of   25.98) or in cash based on the choice of the shareholders (payment was in cash for shareholders who expressed no preference).

Board of Directors' meeting of 15 December 2011

The Board approved Thales's exercise of the purchase option granted by the State to raise its stake in DCNS from 25% to 35%. The updated price of the option at 15 December 2011 was   264.3m and the additional interest will be calculated on the date of completion of the transfer of the securities pursuant to the provisions of the official order of 23 March 2007 defining the conditions for the transfer to the private sector of a minority stake held by the State in DCNS. The governance arrangements attached to the exercise of this option, under the

conditions defined in 2007, will be set forth in an amendment of the Shareholders' Agreement between Thales and the State, which will take effect when the investment is completed.

Under the provisions of Article L.225-38 of the French Commercial Code, Olivier Bourges and Bruno Parent, as representatives of the State, and Bernard R  tat, as permanent representative of TSA and a director of DCNS did not participate in the vote.

3.1.6.2 AGREEMENTS AUTHORISED DURING PREVIOUS FINANCIAL YEARS

The agreements approved by the General Meeting in previous financial years which continued to be performed in 2011 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 2011 financial statements.

Board of Directors' 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 on 13 May 2005 and Thales on 30 June 2005 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 excluding 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) replacing the external firm to which TSA had previously outsourced this task; Invoicing of TSA: €31,000 per annum excluding 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 (excluding taxes).

On 28 April 2009, pursuant to Article L.225-38 of the French Commercial Code, the Board of Directors of TSA authorised the signing of an amendment to the support agreement under the aforementioned conditions. The services invoiced by Thales to TSA would total approximately €434,000 (excl. taxes) for a full year.

The signing 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 excl. taxes per annum, and an indexation clause for the period 2005-2009, representing an annual amount of approximately €53,000 excl. taxes – i.e. a total of €434,000 excl. taxes per annum, compared to €350,000 excl. taxes previously), 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.

For 2011, the services invoiced to TSA by Thales amounted to €447,777 excluding tax.

Board of Directors' meeting of 24 July 2009

Compensation payments likely to be payable to Mr Luc Vigneron, Chairman & 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 & Chief Executive Officer, upon termination of his term of office as company representative, under the conditions set forth in the AFEP-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 intermediate period, i.e. until the term of office has covered three complete 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 that is not the case, 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, 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.

2. The "company representative" supplementary pension scheme applicable to Mr Luc Vigneron since his appointment as Chairman & Chief Executive Officer (19 May 2009)

The corresponding annuity amount is based on the point allocation method identical to that used for employees entitled to the supplementary Group pension 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, 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).

Board of Directors' meeting of 6 March 2008

FSTA: commitments to be undertaken 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 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 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;

Board of Directors' meeting of 19 May 2009

Supplementary pension scheme for the Chairman & Chief Executive Officer 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 & Chief Executive Officer 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 & Chief Executive Officer and company representative, the amount of which is determined through a point allocation method which is identical to that envisaged by the

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 and Corporate Responsibility Committee, representing Thales on the Board of Directors of Elettronica SpA (Italy);
- the agreed price: €60,000 (excl. 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.

For 2011, the services invoiced to Thales by Bernard Rétat for these services totalled €60,000 excluding tax, and excluding actual expenses reimbursed with supporting documentation.

- has approved the issue of the three required guarantees (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 sub-delegate, all powers necessary for the fulfilment of these guarantees, for the signature of any deeds or documents, and in general to do what is necessary for carrying out these operations.

In addition, the following agreement, authorised by the Board of Directors on 19 May 2009, and still in effect, could not be enforced in 2011 with respect to Luc Vigneron, Chairman & Chief Executive Officer, given his length of service as a member of the Executive Committee.

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 & Chief Executive Officer and company representative in order to align it with the Group pension 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 & Chief Executive Officer in 2011, given his tenure on the Executive Committee since 19 May 2009.

3.1.7 Statutory Auditors' report on regulated agreements and commitments

This is a free translation into English of a report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

Year ended 31 December 2011

To the Shareholders,

As the Statutory Auditors of your Company, we hereby submit our report on regulated agreements and commitments with related parties.

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 annual general Shareholders' Meetings.

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

Pursuant to Article L. 225-40 of the French Commercial Code, the following agreements and commitments, authorised beforehand by the Board of Directors of your Company, have been brought to our attention.

Decision to exercise the purchase option to raise Thales's stake to 35% in DCNS

The Board of Directors of 15 December 2011 authorised the exercise by Thales of the purchase option granted by the State to raise its stake in DCNS from 25% to 35%.

The Board of Directors mandated its President to carry out this operation, to make all declarations, to sign the amendment to the Shareholders' Agreement and, in general, to take all requisite action to complete this investment.

The option was exercised on 16 December 2011 for an amount of € 264 588 285.

The concerned directors are Mr. Olivier Bourges and Bruno Parent, as representatives of the State, on the one hand, and Mr Bernard Rétat as permanent representative of TSA and a director of DCNS, on the other hand.

Commitments related to the applications for payment in shares of the 2010 dividend, on the part of the State and TSA

The State and TSA took an irrevocable undertaking to vote for the resolution presented to the annual general Shareholders' meeting of

18 May 2011 on the payment of the dividend in shares, and to exercise this option for all of their rights.

The meeting of the Board of Directors of 24 February 2011, authorised the conclusion of this agreement.

The concerned directors are Mr. Olivier Bourges, Bruno Parent, Bernard Rétat, Didier Lombard and Luc Vigneron.

Commitments related to the applications for payment in shares of the 2010 dividend, on the part of Dassault Aviation

Dassault Aviation took an irrevocable undertaking to vote for the resolution presented to the General Assembly of 18 May 2011 on the payment of the dividend in shares, and to exercise this option for all of its rights.

The meeting of the Board of Directors of 24 February 2011, authorised the conclusion of this agreement.

The concerned directors are Mr. Charles Edelstenne, Loïk Segalen, Eric Trappier and Amaury de Sèze.

Agreements and commitments approved in previous years

a) 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.

- Regulated agreement between the Company and Mr Bernard RETAT, permanent representative of TSA, Director

The meeting of the Board of Directors on 24 July 2009, authorised the conclusion of an agreement for the provision of services between the Client (Thales) and Bernard Rétat.

Under this agreement, the amount invoiced in 2011 was about € 60,000 (excl. taxes).

- FSTA: Commitments to be taken by the parent company authorized 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, Thales Training & Simulation Ltd and Thales UK Ltd (Thales Air Operations) in their capacity a 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 fulfilment 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 29 September 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 2011 amounted to €447,777 excluding taxes.

b) Which did not have effect during the year

Furthermore, we have been informed of the continuation of the following commitments and conventions already approved by the General Assembly in previous years, which did not have effect during the year.

- 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 24 July 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 21 August 2007.

Subject to the fulfilment 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 €757,000, 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.

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 24 July 2009, upon the proposal of the committee on selection of directors, authorised the creation of an additional retirement benefit scheme for the Chairman & Chief Executive Officer, 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.

Paris-La Défense and Courbevoie, 7 March 2012

The Statutory Auditors

French original signed by

ERNST & YOUNG Audit

Michel Gauthier

Nour-Eddine Zanoûda

MAZARS

Jean-Louis Simon

3.2 CORPORATE GOVERNANCE

3.2.1 Members of the Board of Directors

3.2.1.1 DIRECTORS

Luc VIGNERON (57)

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, at 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 the Director for Strategy and New Activities at Alcatel RSD in 1990-1991, he was appointed Chief Executive of Alcatel Radiotéléphone at the end of 1991, then in 1994, Vice Chairman & Chief Executive of Alcatel Mobile Communication Group. The following year, he was appointed Director of Strategy at Alcatel Alsthom.

In 1998, Luc Vigneron joined Giat Industries as the CEO, and was then appointed Chairman and Chief Executive Officer in 2001. He led an in-depth restructuring of the company, which was rebranded Nexter in 2006. Luc Vigneron chaired GICAT (French Land Defense Manufacturers' Association) from 2002 to 2006, and CIDEF (Council of French Defense 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: 6,008 Thales shares (including 508 registered shares).

Appointments held:

In France: Vice Chairman of Gifas, director of DCNS.

Abroad: none.

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 Sogeadé Gérance and of Sogeadé SCA.

Abroad: none.

Olivier BOURGES (45)

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 Director 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 of Thales (representative of the French State as defined by Article 139 of the New Economic Regulations Law (NRE)).

Appointments held:

In France: director of GDF Suez*, Dexia*, La Poste and Grand Port Maritime de Marseille.

Abroad: none.

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)

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 became Corporate Secretary in 1975, then Vice President for Economic and Financial Affairs in 1986.

He was appointed Chairman and Chief Executive Officer in 2000.

* Companies denoted with an asterisk are listed companies.

He was the founder, served as Managing Director and Chairman and Chief Executive Officer, and is now Chairman of the Board of Dassault Systèmes.

First appointed: 19 May 2009.

Current term expires: 2014 AGM.

Number of shares held: 509 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, Manager 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 in other companies over the last five years:

In France: Chairman of Gifas and Cidef, director of Thales Systèmes Aéroportés SA⁽¹⁾.

Abroad: Chairman of ASD, Director of Dassault Réassurance SA (Luxembourg).

Yannick d'ESCATHA (63)

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 government technical control of the application of this regulation to the French electronuclear programme.

In 1982, he was seconded to Technicatome, a subsidiary of CEA, whose main activity is industrial general contracting in the field of nuclear propulsion for 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 Executive Director of the French Atomic Energy Commission (CEA) to accept the post of director of the newly created advanced technologies division, and became Deputy Executive Director of the CEA on 14 September 1992.

He was appointed Executive Director of the CEA on 1 July 1995 and Chairman of CEA-Industrie on 28 June 1999.

* Companies denoted with an asterisk are listed companies.

(1) A company of the Thales group.

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.

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), and renewed 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 CNES representative 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 (53)

Director appointed 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 held various 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: 560 Thales shares (including units of the Thales employee shareholding FCPE/investment fund).

No offices or positions in other companies.

Roger FREEMAN (69)

Career:

Born on 27 May 1942, a British citizen, Roger Freeman studied politics, philosophy and economics at Balliol College, Oxford.

In 1968, he earned accreditation as a chartered accountant in a London firm. Between 1969 and 1985, he was a manager at Lehman Brothers. He 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: AGM of 15 May 2012.

Number of shares held: 826 Thales shares (including shares in the Thales employee shareholding FCPE/investment fund).

Appointments held:

Abroad:

- Chairman: Thales UK Pension Funds⁽¹⁾, Thales UK Ltd Advisory Board⁽¹⁾, 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 (62)

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.

He then moved to the private sector to 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, member of the Board of Directors of Natixis*, director of Coface, Société Marseillaise de Crédit, Bercy Gestion Finances +, BRED Cofilease, the insurance company Prepar IARD and 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 LEPINAY (58)

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, Radiall 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 has served as Director of International Relations since 2010.

First appointed: 8 March 2007, effective 1 April 2007, ratified by the Annual General Meeting of 16 May 2007.

Current term expires: 2017 AGM.

Number of shares held: 1,929 Thales shares (including shares in the Thales employee shareholding FCPE/investment fund).

* Companies denoted with an asterisk are listed companies.

(1) A company of the Thales group.

Appointments held:

In France: President of the French Federation of Associations of Employee Shareholders (FAS), Vice President of the Federation of Associations Employee Shareholders of Thales (FAST), and member of the Supervisory Committee of the Thales employee shareholding FCPE/investment fund.

Other positions held by Mr Lépinay over the last five years:

In France: President of the Thales employee shareholders association (APAT)

Didier LOMBARD (69)

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 for Technologies, Strategic Partnerships & New Applications.

From 27 February 2005 until February 2010, Didier Lombard was Chairman & Chief Executive Officer of the France Telecom Group. After the separation of the positions of Chairman and Chief Executive Officer on 24 February 2010, he was appointed Chairman of the Board of Directors of France Telecom from 1 March 2010 until 1 March 2011.

In May 2011, he was appointed Chairman of the Supervisory Board of STMicroelectronics.

First appointed: 30 June 2005.

Current term expires: 2014 AGM.

Number of shares held: 500 Thales shares.

Appointments held:

In France: Chairman of the Supervisory Board of ST Microelectronics*, director of Technicolor*, member of the Supervisory Board of Radiall*.

Abroad: Chairman of Europeanissuers (Belgium).

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*, Chairman of the Board of Directors of Orange, and member of the Supervisory Board of A2I (Agency For Industrial Innovation).

Pierre MUTZ (69)

Independent director

Career:

Pierre Mutz, a French citizen, was born on 15 November 1942.

A graduate of the Saint-Cyr military school, he served as an officer from 1963 to 1980, when he became a prefect.

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: AGM on 15 May 2012.

Number of shares held: 500 Thales shares.

Appointments held:

In France: director of Axa France lard, JCDecaux SA*, École Nationale Supérieure, France Habitat and Chairman of the Supervisory Board of the Logement Français group.

Abroad: none.

Other positions held by Mr Mutz over the last five years:

In France: director of RATP and Catering International & Services, and Chairman of the Board of Directors of the Institut Gustave Roussy (as prefect of the Ile-de-France region).

Abroad: none.

Bruno PARENT (58)

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.

First appointed: 19 May 2009.

Current term expires: 2016 OGM.

He does not hold any shares of Thales stock (representative of the French State as defined by Article 139 of the New Economic Regulations Law (NRE)).

* Companies denoted with an asterisk are listed companies.

Offices held:

In France: a member of the Board of Directors of Palais de Tokyo SAS.

Abroad: none.

Other positions held by Bruno Parent over the last five years

In France: none.

Abroad: none.

**TSA, represented by
Bernard RETAT (72)**

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 technical 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.

Date of first appointment by TSA: 22 June 1998.

Date of appointment of Bernard Rétat as permanent representative: 18 May 2009.

Current term expires: AGM on 15 May 2012.

Number of shares held:

TSA holds 46,522,322 Thales shares.

Bernard Rétat holds 1,945 Thales shares (including shares in the Thales employee shareholding FCPE/investment fund).

Appointments held:

In France: director of DCNS.

Abroad: director of Elettronica S.p.A. (Italy), treasurer of the defence committee 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 SA⁽¹⁾ and Solarforce, member of the Armaris Supervisory Board.

Abroad: director of Thales Italia S.p.A. (Italy)⁽¹⁾, Thales (Weybridge) Plc⁽¹⁾, Thales (Wigmore Street) Limited⁽¹⁾ and Thales North America, Inc.⁽¹⁾; Chairman of the defence committee of ASD (AeroSpace and Defence Industries Association of Europe), member of the Supervisory Board of Thales Defence Deutschland GmbH⁽¹⁾ (Germany).

Martine SAUNIER (54)

Director appointed by the employees

Career:

Martine Saunier was born on 8 May 1957 and is a French citizen. After earning a degree in physical measurements and spending 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.

No offices or positions in other companies.

Loïk SEGALEN (51)

Career:

Born on 27 March 1960, a French citizen, Loïk 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 for Economic and Financial affairs in 1990, he subsequently became Deputy Director (1998-1999), then Director.

In January 2009, Loïk Segalen was appointed Vice President for Economic and Financial Affairs at Dassault Aviation.

Loïk Segalen has served in this position at Dassault Aviation since September 2011.

He is a member of the Dassault Aviation management committee.

First appointed: 19 May 2009.

Current term expires: AGM on 15 May 2012.

Number of shares held: 509 Thales shares.

Appointments held:

In France: director of Sogitec, member of the Board of Gifas.

Abroad: director of Dassault Falcon Jet (USA), Dassault Procurement Services (USD), Midway (USA), Sabca* and Sabca Limburg (Belgium) and Dassault Belgique Aviation.

* Companies denoted with an asterisk are listed companies.

(1) A company of the Thales Group.

Other positions held by Mr Segalen over the last five years:

In France: Chairman of Dassault Réassurance and Dassault Assurances Courtage, director of SIAE, manager of Dassault Aéroservice, permanent representative of Dassault Aviation* on the Board of Corse Composites Aéronautiques

Abroad: none.

Amaury de SEZE (65)

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 Seze is also Vice Chairman of Power Financial of Canada.

First appointed: 19 May 2009.

Current term expires: 2014 AGM.

Number of shares held: 500 Thales shares.

Appointments held:

In France: director of Groupe Industriel Marcel Dassault SAS, Imerys* and Suez Environnement*, member of the Supervisory Board of Publicis Groupe*, and lead independent director of Carrefour SA*.

Abroad: Vice Chairman of Power Corporation of Canada, BW Group, of the Bruxelles Lambert Group, Erbe (B) and Pargesa Holding SA (CH).

Other positions held by Mr de Sèze over the last five years:

In France: Chairman of Carrefour SA*, Chairman of the Supervisory Board of PAI Partners SAS, Chairman of Financière PAI SAS and Financière PAI Partners SAS, Vice Chairman of the Supervisory Board of Carrefour SA*, director of Eiffage*, Novalis SAS, Novasaur SAS, 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), PAI Partners Srl (I), Gepeco SA (B), and Saeco SpA (I).

Eric TRAPPIER (51)

Career:

Born on 1 June 1960, a French citizen, Eric Trappier is a graduate of the Institut National Telecom.

He started his career in 1984 in the technical department of Dassault Aviation (Head of Systems Development for the ATL2 and Mirage 2000).

In 1991, he became director of sales in India, Asia, and then the United Arab Emirates in 1996.

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 Vice President of Dassault Aviation.

He has been awarded the National Order of Merit and Legion of Honour.

First appointed: 19 May 2009.

Current term expires: AGM of 15 May 2012.

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 Defence Commission of Cidef/Gifas, Executive Director of the GIE Rafale International, Executive Director of Dassault International, director of Sofresa/Odas, Sofema and Eurotradia.

Abroad: none.

Other positions held by Mr Trappier over the last five years:

In France: none.

Abroad: none.

To the knowledge of Thales:

- 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.

* Companies denoted with an asterisk are listed companies.

3.2.1.2 OTHER PERSONS ATTENDING BOARD MEETINGS (WITHOUT VOTING RIGHTS)

In addition to the secretary of the Board of Directors, Dominique Périer, and members of 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, 61, Special Armaments 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 97-190 of 4 March 1997 concerning the French State's Golden share (see page 150 and pursuant to Article 10 of the Company's Articles of Association).

Government commissioner

Marc Gatin, 62, 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

Gilles Bracon, 59, 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 Employment Code.

The Statutory auditors

As stipulated 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.

3.2.2 Chairman's Report to the General Meeting of 15 May 2012 on corporate governance, internal control and risk management

Based on the recommendation of the two committees concerned⁽¹⁾, the Board of Directors approved, at its meeting of 6 March 2012, 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 and Chief Executive Officer, to present it to the General Meeting.

3.2.2.1 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 increasing the number of female Board members, was published in April 2010.

The Company complies with the recommendations contained in the AFEP-MEDEF Code, with the exception of 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 the composition of the Board of Directors and with the stringent independence criteria adopted by the Company (see "independence" below, as well as the sections on the committees);
- **the term of office of directors** (six years) according to the Articles of Association, which exceeds the maximum period recommended by

⁽¹⁾ The Appointments 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.

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.

3.2.2.1.1 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 that the administrative and supervisory bodies were more effective this way, and that there was 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 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 the General Meeting, four are "external directors" selected jointly by the Public Sector and Dassault Aviation, one is selected by the employee shareholders' representative, and the

others are recommended to the General Meeting 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 at least one director representing each of the parties to sit on each of the Board committees.

Since the General Meeting of 11 May 2004, directors have generally been replaced (except for employee directors) by one third every two years, since the term of office according to the Articles of Association has remained at six years. This makes it unnecessary to replace the entire Board at once, which is deemed detrimental to its proper functioning. At the date of this report, the next terms to expire are at the meetings of 2012 (5 seats), 2014 (4 seats), 2016 (4 seats) and 2017 (1 seat) as detailed 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 2011, the Board therefore had 16 members, as indicated below:

Directors	Current term		
	1 st Appointment	Starts	Ends
Public sector			
Luc Vigneron, Chairman & Chief Executive Officer	19 May 2009	19 May 2009	2014 AGM
Olivier Bourges	29 September 2009	20 May 2010	2016 AGM
Didier Lombard	30 June 2005	15 May 2008	2014 AGM
Bruno Parent	19 May 2009	20 May 2010	2016 AGM
TSA, represented by Bernard Rézat (since 18 May 2009)	22 June 1998	15 May 2006	2012 AGM
Industrial Partner			
Charles Edelstenne	19 May 2009	19 May 2009	2014 AGM
Loïk Segalen	19 May 2009	19 May 2009	2012 AGM
Amaury de Sèze	19 May 2009	19 May 2009	2014 AGM
Eric Trappier	19 May 2009	19 May 2009	2012 AGM
Representative of employee shareholders			
Philippe Lépinay	1 April 2007	18 May 2011	2017 AGM
Elected by employees			
Dominique Floch	19 January 2008	9 December 2010	8 December 2016
Martine Saunier	9 December 2010	9 December 2010	8 December 2016
External directors			
Yannick d'Escatha	19 May 2009	20 May 2010	2016 AGM
Roger Freeman	1 January 1999	15 May 2006	2012 AGM
Stève Gentili	19 May 2009	20 May 2010	2016 AGM
Pierre Mutz	19 May 2009	19 May 2009	2012 AGM

The other positions of the 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 positions held in Group companies and in other publicly traded companies⁽¹⁾.

The average age of directors was almost 61 at the end of 2011. 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 no. 2011-103 of 27 January 2011 concerning the balanced representation of men and women on boards of directors, the Thales Board had one female member.

In terms of the eventual mandatory number of female directors on the Board of Directors, the targets set by the AFEP-MEDEF code and by law are identical, but 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 2013 General Meeting (AFEP-MEDEF code) or 2014 General Meeting (law);
- six women (seven in practice, for the same reasons) at the 2016 General Meeting (AFEP-MEDEF code) or 2017 General Meeting (law).

The expiration dates of the terms of the directors are provided above; these allow for the progressive addition of women to the company's Board, on the recommendation, if applicable, of the Appointments and Remuneration Committee. The directors whom the Board has planned to recommend to the General Meeting of 15 May 2012 will enable the target of 20% women to be reached a year ahead of the AFEP-MEDEF deadline and two years ahead of the legal deadline.

Independence of directors

Based on the proposal of the Appointment 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 bankers 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 the vote on any resolution concerning a project in which the bank concerned would 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 (4/16, i.e. 25% of the Board), the only directors who can 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 previous years, 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 remuneration he receives there (see the section on Remuneration below).

Overall, the Board of Directors therefore includes three independent directors, i.e. 19% of the 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 provisions of the law or of 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 (see in particular 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 (composition of the Board, independence, availability, primary duty, transparency, confidentiality and compensation)

It is expressly specified that members of the Board of Directors must notify the Chairman of any situation that presents, or could present, a conflict of interest with the Company. In this regard, the 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."

(1) See pages 159-164 of this document.

II- Powers of the Board of Directors (representation and corporate interests, specific powers, shareholders' agreement)

The annual budget, under the rolling three-year strategic plan, the appointment and dismissal of the Chairman and Chief Executive Officer and any acquisitions or disposals of investments or assets with a value exceeding €150m, as well as strategic alliance and 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 documents shall be sent to participants in a timely manner;
- the State representative responsible for the golden share, the government commissioner, the representative of the Central Works Council, 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 powers, organisation, information, Audit & Accounts Committee, Appointments and Remuneration Committee, Strategic Committee)

It is stipulated that in addition to the powers of each committee (see relevant sections below), each committee is entitled to ask general 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 2011, with the exception of what is mentioned below with regard to the assessment of the operation of the Board.

V- Functioning of the Board of Directors (meetings, attendance and representation, annual assessment, updating rules of procedure)

This chapter is covered in the annual report as required by law and can be found in section 3.2.2.1.2 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 extended its system of "blackout periods" (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 legal director) prior to any share trading. This prior consultation is not compulsory.

In addition, at the end of 2010, the directors were informed of the provisions concerning the planned management mandate, but the Company made no specific recommendation at this stage. At the date of the Board meeting that approved this report (6 March 2012), the Company was not aware of any such mandates.

Notice of General Meetings

General meetings are convened by the Board in accordance with current legal and regulatory provisions. The Board of Directors ensures, in the interests of all shareholders, that the notice period for meetings is longer than the minimum legal 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 is provided on the website (www.thalesgroup.com, Investors/Annual General Meeting). The results of voting on resolutions are also published 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 Commercial Code, 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 Economic Affairs.

Remuneration and benefits of all types granted to directors

Directors' fees

In 2008, the General Meeting set the total amount of directors' fees at €600,000 per year, to be divided among directors and non-voting directors for services to the Board, including remuneration payable to directors who are committee members in respect of their participation in these committees. This total allocation has not been changed since that date.

The Board decided that directors would receive:

- for services to the Board, fixed remuneration of €14,000 per annum (prorated in the event of appointment or resignation during the year), subject to the maximum ceiling on variable remuneration, and variable remuneration tied to attendance at meetings amounting to €2,500 per meeting;
- for services to the committees, remuneration (entirely variable), tied to attendance, of €1,250 per meeting, with the chairman of each committee receiving an additional €2,000 per annum (prorated on the basis of the number of meetings chaired, if any).

If, on account of the high number of meetings (variable remuneration being paid first), the total amount of €600,000 per 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) and for 2011 (€6,950, which was a reduction of more than 50% because of the large number of meetings in 2011: 10 Board meetings and a total of 21 committee meetings).

Any non-voting directors, 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 directors on Thales's Board of Directors.

For 2011, directors' fees payable totalled €599,700 (gross) (compared with €599,700 in 2010); these were partially paid in July 2011, with the balance paid in January 2012.

For information purposes, the amount (net of withholding at source) paid in financial year 2011 amounted to €631,325 (compared with €509,872 in 2010). AMF tables relating to Company representatives (table 1, for the Chairman and Chief Executive Officer (€48,950), and table 3, for directors (€582,375), see pages 180 and 182) for details by name.

Remuneration of the Chairman & Chief Executive Officer

The remuneration of the Chairman and 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, also integrating the recommendations of the AFEP-MEDEF code on remuneration (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 and 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 and Chief Executive Officer, which is consistent in every respect with the recommendations of the AFEP-MEDEF code.

Summary of transactions on the Company's securities by directors in 2011

The summary statement (stipulated in Article 223-26 of the AMF General Regulations) of securities transactions executed 2011 by persons required to file a declaration (directors, non-voting directors and related persons can be found on page 26 of the registration document). In 2011, this affected only the directors and non-voting directors who opted for payment of the 2010 dividend in shares.

3.2.2.1.2 Report on Board activity in 2011

Number/duration of meetings and attendance rate

The Board of Directors met ten times in 2011. The average attendance by directors was over 90%.

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 SVP^(*), Finance and Legal is invited to all Board meetings. The SVP^(*), Strategy and the SVP^(*), Human Resources and Communications are invited when the agenda requires it, in the same way as the operational managers.

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 and Chief Executive Officer's remuneration and indication of the quantitative and qualitative criteria for his variable remuneration,

dividend proposal, notice of a General Meeting, announcement of blackout periods for trading in the Company's shares, approval of any regulated agreements, various delegations of powers to the Chairman and Chief Executive Officer and reporting on the use of such powers, etc.), the agendas of these meetings included the following items in 2011, in some cases with reports from the relevant Board committee:

- a strategic review by division/country, and in particular a review of the business in Areas "A" and "B";
- allotment of stock options (with performance conditions) and (existing) free shares;
- Group research and innovation;
- major strategic transactions (including the exercise of the DCNS option) and merger & acquisition transactions;
- assessment of the operation of the Board by an outside consultant;
- the payment of an interim dividend for 2011.

(*) SVP: Senior Vice President.

3.2.2.1.3 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 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.

Organisation and operation 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 responsibilities of the Board of Directors, for monitoring the following:

- 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 programme as well as the various sample tests they have performed;
- b) changes 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 resulting from 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 statutory 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 Finance Department and the Internal Audit 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 in writing 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 a discussion with the statutory auditors without Company representatives being present at each meeting and not only at specific meetings to review the financial statements, as was the case previously.

On 31 December 2011, the members of the committee were:

- 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 criteria for independence, has the required accounting and financial expertise (see biography of Stéphane Gentili on page 161).

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 2011, with an average attendance rate of 90%.

The statutory auditors, invited to each committee meeting, are involved in all discussions, except when there is a conflict of interests (e.g. during a review of the appointment of statutory auditors or renewal of their terms 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 SVP^(*), Finance and Legal and the director of Audit and Internal Control are invited to meetings, as well as the Group director of financial control and, periodically and based on the agenda, the director of treasury and financing.

In addition to the annual and half-yearly accounts, in 2011 the committee also examined:

- the execution of difficult contracts, the accounting consequences, and monitoring of contract provisions;
- monitoring of main disputes;
- the external audit plan and statutory auditors' fees;
- the organisation of internal control, risk mapping and assessment of the implementation of the 2010 and 2011 audit plan;
- the internal audit plan for 2012 adopted at the end of 2011;
- streamlining the Group's legal structures;
- the methodology for implementing the Probasis plan and monitoring the key indicators for progress on the plan;
- changes in pension obligations, particularly in the UK;
- the currency hedging systems in force in the Group;
- the proposed interim dividend for 2011;
- changes in the IFRS;
- in addition to the section of the Chairman's report on internal control and risk management (see section 3.2.2.2 below).

During meetings more specifically devoted to audit and internal control, the committee reviewed the reports of the Audit and Internal Control Department. It 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 2010 financial statements, the committee read the memorandum from the SVP^(*), Finance and Legal on the Group's exposure to risks and on the major off-balance sheet commitments, pursuant to the AFEP-MEDEF recommendations. This memorandum was distributed to all directors.

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 cited above, this discussion has systematically taken place at each committee meeting, varying in duration depending on the items 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. Pursuant to the AMF recommendation in its report on audit committees dated 22 July 2010, this report is systematically attached to the minutes of the next Board meeting and is approved in this context. 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 and 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 3.2.2.1.4) and reporting to the Board in order to facilitate debate.

Furthermore, the Chairman and Chief Executive Officer provides additional information on his choices for the appointment of members of general management through discussions with the committee.

On 31 December 2011, the members of the committee were:

- Yannick d'Escatha, Chairman, independent director;
- Olivier Bourges;
- Eric Trappier.

It met six times in 2011 with an attendance rate of 100%.

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 SVP^(*), Human Resources and Communications and the SVP^(*), Finance and Legal are invited to all committee meetings. The Chairman and Chief Executive Officer is invited whenever his contribution might be of particular value to the discussion.

(*) SVP: Senior Vice President.

The items reviewed by the committee in 2011 included:

- the stock option policy, allocation of free shares and preparation of a plan submitted to the Board, including the performance conditions attached to the validation of the stock options and free shares for certain beneficiaries;
- the examination of the global remuneration package of the Chairman and Chief Executive Officer, and particularly the qualitative criteria applicable to his variable remuneration;
- the principles of remuneration within the Group and their implementation by level of responsibility;
- the management of critical expertise within the Group;
- follow-up of the employee shareholding scheme approved in 2010 and completed in 2011;
- the independence of directors;
- the bid process to select the outside consultant charged with conducting in 2011 the assessment of the operations of the Board and a review of this report before the consultant's presentation to the Board;
- as well as this portion of the Chairman's report on corporate governance.

The committee presented its recommendations to the Board on all these topics: following each meeting, a written report is produced and distributed to all members at the next Board meeting. In addition, the committee proceedings are recorded in minutes, which may 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 acquisitions and disposal plans (larger than €150m) for assets, as well as proposed strategic agreements or partnerships.

On 31 December 2011, 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.

This committee met nine times in 2011, with an average attendance rate of more than 98%, specifically to review the 2011 Budget in the context of the three-year rolling plan, strategy by division/country (particularly Areas A and B) and various mergers and acquisitions possible or under consideration as well as current projects or strategic partnerships, specifically various operational scenarios with Safran and the exercise of the DCNS option.

The SVP^(*), Finance and Legal is invited to all meetings of the Strategic Committee. The SVP^(*), Strategy is also invited. A report on each meeting is submitted to the next meeting of the Board of Directors by the Chairman and Chief Executive Officer, who chairs the committee.

Minutes are taken during Strategic Committee meetings.

3.2.2.1.4 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 conducted a year-end self-assessment based on a questionnaire approved by the Appointments and Remuneration Committee, which supervised the process. During the review of the results in December 2010, and on the recommendation of the Appointments and Remuneration Committee, the Board approved the principle of an assessment conducted with the assistance of an outside consultant in 2011.

After the bidding process conducted on the committee's instructions, in September 2011 the Board approved the consultant recommended by the committee and the assessment method used (questionnaire followed by individual interviews).

This assessment shows that the directors consider that the performance of the Thales Board is generally satisfactory and has improved in the

last two years even if, in terms of corporate governance, the terms of the shareholders' agreement on Board membership do not allow a substantial number of independent directors.

After discussion, the Board decided to implement the suggestions made by the report and approved by the Appointments and Remuneration Committee, specifically:

- to plan an annual seminar devoted to strategy, at the site of one of the more specifically studied divisions; the aim is to cover all Group operations in two or three years;
- to establish indicators to track the implementation and results of the strategic options decided by the Board;
- to keep Board members informed between Board meetings about the activity and life of the Group, by all appropriate means, possibly via a dedicated intranet site;

(*) SVP: Senior Vice President.

- to continue to improve knowledge about the Group and its executives for Board members through site visits (possibly extended outside France), presentations by members of the Executive Committee on the businesses, challenges, strategic developments, technologies, etc.). Thus, between December 2010 and December 2011, the seven Thales divisions hosted informally, outside any Board meeting, for the directors who requested it, a presentation of their operations made by their key operational managers.

The assessment also showed that the order of meetings could be improved, particularly by giving a dominant place to dialogue and expanding the time devoted to outlook, by comparison with simple "reporting", which is still necessary, of course, on a number of subjects.

The assessment that will be conducted in 2012 will update the implementation of these various recommendations and report on it in the next report from the Chairman on corporate governance.

3.2.2.1.5 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 General Meeting held on 16 May 2002.

Since then, the Thales Board of Directors has decided that the system in force was the most effective and that there was thus no need to proceed with the separation, since 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 Meeting.

As stipulated above in section 3.2.2.1.1 on the rules of procedures, the practice leads to automatic submission for Board approval of any acquisitions or disposals exceeding €150m, as are any non-strategic transactions that exceed €50m. This practice effectively limits the powers of the Chief Executive Officer.

3.2.2.2 INTERNAL CONTROL AND RISK MANAGEMENT

This section was submitted to the Audit & Accounts Committee at its meeting on 28 February 2012, 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 2011. 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 2011.

This section is based on the AMF reference framework on risk management and internal control systems, updated on 22 July 2010. It covers all the suggested items, albeit sometimes in a different order.

In 2011, Thales received two distinctions for its general risk management and internal control process. During its annual study, the French Institute for Audit and Internal Control (IFACI) recognised the consistency and appropriation of the process deployed by the Group and awarded the Group:

- the trophy for the best risk-mapping process;
- third prize for the best internal control process.

3.2.2.2.1 Objectives and definitions

a) Objectives of risk management

Thales adheres to the risk management objectives formalised by the AMF in its reference framework:

"Risk management is a vector for management of the company which helps to:

- Create and preserve the value, assets and reputation of the company.*

Risk management identifies and analyses the main threats and potential opportunities of the company. It is intended to anticipate risks instead of undergoing them, and thus preserve the value, assets and reputation of the company.

- Secure the company's decision-making and processes to help it achieve its objectives*

Risk management is designed to identify the principal events and situations which could significantly impact the achievement of the company's objectives. Controlling such risks helps to achieve those objectives.

Risk management is integral to the company's decision-making and operational processes. It is one of the tools for steering and assisting in decision-making.

Risk management gives executives an objective and comprehensive vision of potential threats and opportunities for the company and enables them to take measured and considered risks, helping them reach decisions on the allocation of human and financial resources.

- Promote the consistency of actions with the values of the company*

Many risks reflect a lack of consistency between the values of the company and daily decisions and actions. These risks primarily affect the company's credibility.

- Mobilise the company's employees around a shared vision of the main risks and make them aware of the risks inherent in their work."*

b) Definition of internal control at Thales

The Group relies on the US standards known as COSO (Committee of Sponsoring Organisations of the Treadway Commission) and the IFACI.

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 is intended to ensure compliance with regulatory requirements.

3.2.2.2.2 Control 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.

a) The main parties in risk management and internal control

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

The **divisions** are globally responsible for defining market strategy, R&D priorities, product policy and industrial strategy, in accordance with the long-term earnings targets set by the Group. They are split into two business sectors:

- the **Defence and Security sector**, with a primarily governmental customer base (Air Operations, Land Defence, Defence Mission Systems, Defence and Security C4I Systems);
- the **Aerospace and Transport sector**, with a primarily non-governmental customer base (Space, Avionics, Transportation Systems).

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.**

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.

c) Scope of application and limits

Thales implements its corporate risk management and internal control approach in the companies it controls.

These internal control and risk management processes contribute to the achievement of the Group's objectives without providing an absolute guarantee because of the limitations inherent in any system, such as the need to take into account the cost/benefit ratio leading to acceptance of a certain level of risk, and due to the uncertainties of the outside world.

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.

Company representatives (mandataires sociaux)

The Group's governance is founded on the key principle of the responsibility of the chief executives of Group companies, who are charged with establishing and maintaining the risk management and internal control system within their legal entities.

The corporate risk management function

Since 2007, the Internal Audit Department has included 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.

The 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 the operational entities on legislation and during tax audits. It also monitors tax consolidation within the Group and ensures their overall coherence;
- an insurance and risk management function, which manages all insurance policies for Group companies, optimises insurance costs, verifies that the subsidiaries are correctly covered against all insurable risks that they incur and monitors any significant losses;

- a 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 closing of the annual financial statements, the chief executives and their finance directors issue an attestation letter to the Group's Finance Department, certifying the fair presentation and completeness of the financial data submitted for consolidation.

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.

Quality assurance function

The Group's Quality Assurance Department defines the quality assurance policy and objectives, and drives the improvement of customer satisfaction. It steers the process management framework 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.

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 ensure communications with all Group employees, such as the Group's intranet (updated daily), the "Login to Thales" publications (an in-house newsletter) and newswatches circulated by e-mail;
- welcome seminars bring together new executives and the management team to share the Group's vision, strategy, 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.

b) 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.

Rules of procedure of the Board of Directors

Section 3.2.2.1 of the corporate governance report provides more details on the Board of Directors, its rules of procedure and its operation.

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.

Codes and guides for conduct

The code of ethics, available in eight languages, describes the rules of conduct and the values that the Group wishes to promote. 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 with a special section on ethical business practices. The Group distributes and provides to its employees tools and guides for best practices that reflect international regulations, professional standards, and behaviours promoted by Thales to fight corruption, in business ethics, sales promotion, and gifts and other tokens of hospitality.

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 policy of preventing insider trading, the Group has adopted a code on Insider Trading for executives, and regularly updates the list of insiders (see section 3.2.2.1).

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.

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 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.

c) Group risk mapping

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 Risk & Internal Control Committee updated this list in order to:

- bring it into line with the COSO model by identifying four risk categories: operational, legal violations, financial and strategic;
- clearly define the main scenarios leading to each risk.

The Group has assigned each of these risks to a manager at Group level responsible for steering the management process for the risk under the coordination of the Risk & Internal Control Committee: definition of risk management mechanisms, monitoring the implementation of the strategy, monitoring major incidents, and ongoing system improvements.

This list of risks was unchanged in 2011. The risks are described in section 1.1.2 (Risk Factors), in the Group management report and are used to support the corporate risk management process deployed in the Group.

3.2.2.2.3 Principal corporate risks and their management

The section on risk factors in the Group management report describes the measures taken by the Group to address financial and legal risks, risks related to the Group's operations, environmental risks, risks related to acquisitions and strategic investments and risks related to insurance.

a) 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.

Investments and divestments

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.

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 established 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.

Financing of export operations

Export financing operations (guarantees, buyer credits, documentary credits or more complex transactions) are prepared by local specialists which report to the 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.

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.

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.

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 ensures that the subsidiaries are properly insured against all the insurable risks to which they are exposed. This entity also monitors any significant claims.

Commercial 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. Thales International and its subsidiaries are therefore exclusively authorised to sign – or to delegate the signature and management on a case-by-case basis as part of a specific procedure – commercial intermediation contracts with business advisers in 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.

b) Development and processing of published financial and accounting information

Accounting and financial procedures

The Group has produced several procedural manuals that are mandatory for all subsidiaries. The finance directors of each unit are accountable to the Group Finance Department for compliance with these procedures.

- Manual of accounting standards and policies

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 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 framework. These elements, which have gradually been incorporated within the framework for process management and distributed to the entire Group, are effectively equivalent to an internal financial control manual.

Budget 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, which can be adjusted depending on their business models, which is presented to and approved by Group general management;
- in the second phase, each country and each of the major French entities then submit 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. The first year of the plan is then analysed monthly and is used as a reference for steering the group.

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 deviations and to update annual forecasts for 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.

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.

3.2.2.2.4 Ongoing improvement process

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) Ongoing improvement of operational processes

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).

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.

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 maturity of the management system via the quality of the entities, established during certification audits. The PMI ensures increased visibility of the progress actions to be implemented and quantification of the improvements made.

b) Self-assessment and ongoing improvement of corporate risk management

The Group has required a corporate risk management process since 2007, with the appointment of a risk manager in each of the subsidiaries, the use of self-assessment questionnaires and the issue at year-end of a specific report on the management of corporate risks by the chief executives. The report describes the situation of the subsidiary with regard to various risks and internal control within their financial processes. These reports include an improvement plan for each area which the chief executive believes is not sufficiently mature.

These reports 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 2011, they covered professional ethics and the business risks identified by the Group during mapping, which are relevant for the subsidiaries.

As in previous years, an analysis of each field and geographical area will allow the initiation of group-wide improvement measures and closer monitoring of the entities that have identified themselves as being below the reasonable level of maturity expected by the Group.

In 2011, the countries and divisions reviewed the assessments performed in 2010 by their entities of the maturity of the resources implemented to comply with laws and prevent violations. 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.

c) Self-assessment and ongoing improvement of internal financial control

Since 2008, the entities have used an internal control questionnaire based on internal control objectives linked to the Group's processes and

accounting cycles (customers/suppliers/assets, etc.) to identify their areas of improvement, whether these are due to control objectives that have not yet been completely achieved, insufficient control in practice, or procedures that need to be improved.

The questionnaire focuses on the reliability of the financial processes and was largely developed based on the "internal control process" recommended by the AMF 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 2011, it audited 90% of the units (75% at the end of 2010), thus covering approximately 98% of the 2011 projected revenues. More generally, the Group pursued its programmes to improve reliability, as well as 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 reveal 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 2011.

3.2.2.2.5 Oversight of the internal control and risk management system

a) 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 performance of the Board and its committees, is given in section 3.2.2.1 of the corporate governance report.

Audit & Accounts Committee

At the annual closing of the financial statements, the Group SVP^(*), Finance and Legal 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 various 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. In 2011, this committee met six times.

Risk & Internal Control Committee

This committee, chaired by the Group SVP^(*), Finance and Legal, is composed of representatives from functional and operational departments as well as the Internal Audit Department, which is also responsible for the secretarial function.

In 2011, this committee supervised the analysis of the Group's main risks and the definition of strategies to manage operational risks. It also monitored the action plans resulting from the 2010 self-assessments on internal control and legal compliance. In 2011, this committee met four times.

Ethics & Corporate Responsibility Committee

Thales has an Ethics & Corporate Responsibility Committee, this committee 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 2011, this committee met three times.

(*) SVP: Senior Vice President.

Internal Audit Department

Reporting to the Chairman and Chief Executive Officer, the Internal Audit Department works with the Audit & Accounts Committee, the Risks & Internal Control Committee, Group general management and the statutory auditors.

It ensures proper risk management and the maintenance of adequate internal control by conducting audits and project management reviews throughout the Group.

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.

b) Audit of financial information

Each year, the Internal Audit Department reviews the financial audit manual with the statutory auditors. This manual describes the phases for the use of external auditors.

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 review for statutory requirements.

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 reported by exception as part of the closing of the accounts every year at 31 December, and are reported in detail to Group management in March of each year.

3.2.3 Statutory Auditors' report prepared in accordance with article L. 225-235 of the French commercial code (Code de commerce) on the report of the Chairman of the Board of Directors of Thales SA

This is a free translation into English of a report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

Year ended 31 December 2011

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 year ending 31 December 2011.

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 own responsibility is to:

- Report to you any observations we may have as to 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;
- Attest that the report includes the other disclosures required by article L. 225 37 of the French commercial code. 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 in the area of the preparation and processing of financial and accounting information

Our 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 in the area of the preparation and processing of financial and accounting information contained in the report of the Chairman of the Board of Directors prepared in accordance with article L. 225-37 of the French commercial code (*Code de commerce*).

Other disclosures

We hereby attest 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, 7 March 2012

The Statutory Auditors

French original signed by

ERNST & YOUNG Audit

Michel Gauthier

Nour-Eddine Zanouda

MAZARS

Jean Louis Simon

3.2.4 General management

3.2.4.1 MEMBERS OF THE EXECUTIVE COMMITTEE AT 10 APRIL 2012

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 10 April 2012, the members of the Executive Committee were as follows:

- Alex Dorrian, EVP⁽¹⁾, International, Chairman of Thales UK;
- Blaise Jaeger, SVP⁽²⁾, International;
- Pascal Bouchiat, SVP, Finance⁽³⁾;
- Marko Erman, SVP, Research & Technology;
- Patrick Fournié, SVP, Operations;
- Loïc Mahé, SVP, Human Resources & Communications;
- Hervé Multon, 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.

3.2.4.2 EXECUTIVE COMPENSATION

3.2.4.2.1 Remuneration of the Chairman and Chief Executive Officer

The company representative'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 Luc Vigneron were taken at the Board of Directors' meeting on 24 February 2011.

TABLE 1: REMUNERATION, OPTIONS AND SHARES GRANTED TO THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

<i>(in thousands of euros)</i>	2011	2010
Luc Vigneron, Chairman & Chief Executive Officer		
Remuneration due for the year (detailed in table 2)	1,538.7	1,157.1
Value of options granted during the year (detailed in table 4)	373.0	393.6
Value of performance shares granted during the year (detailed in table 6)	—	—
Total	1,911.7	1,550.7

(1) EVP: Executive Vice President.

(2) SVP: Senior Vice President.

(3) Position held by Patrice Durand from 1 January to 31 August 2011 as SVP, Finance and Legal, then held temporarily by Luc Vigneron from 1 September 2011 to 9 April 2012, and by Pascal Bouchiat as from 10 April 2012.

TABLE 2: REMUNERATION TO THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

	2011		2010	
	Due for the period	Paid during the financial year	Due for the period	Paid during the financial year
<i>(in thousands of euros)</i>				
Luc Vigneron, Chairman & Chief Executive Officer			–	–
Fixed compensation	700.0	702.7	700.0	703.4
Variable compensation ^(a)	790.4	415.1*	415.1	284.1*
Exceptional compensation				
Attendance fees	45.2	48.9	38.9	32.3
Benefits in kind ^(b)	3.1	3.1	3.1	3.1
Total	1,538.7	1,169.8	1,157.1	1,022.9

* Paid for the previous period.

(a) The Board of Directors' meeting of 24 February 2011 decided that the target variable compensation would be 100% of the fixed remuneration, with a maximum of 137.50% if performance targets were exceeded. The criteria for calculating variable compensation, 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 compensation, the Board decided to use as the qualitative criteria for 2011 change management, the deployment of Probasis and the execution of the major programmes, the quality of governance, and the launch of the "Skills Development" project, without necessarily being limited to this list.

On 6 March 2012, the Board reviewed the results achieved, based on some of the quantitative criteria set previously, i.e.

- EBIT for 2011;
- operating cash flow for 2011;
- order intake for 2011 and also considered the completion of the various missions assigned to the Chairman.

This review led the Board of Directors to decide, based on the proposal of the Appointments and Remuneration Committee, that the variable compensation to be paid in 2012 to the Chairman & Chief Executive Officer for fiscal 2011 will be €790,370 (gross), or 112.9% of the target fixed annual compensation.

(b) The company representative 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 company representative is also entitled to the services of a driver.

TABLE 3: ATTENDANCE FEES AND OTHER COMPENSATION RECEIVED BY NON-EXECUTIVE CORPORATE OFFICERS 2011/2010

Beneficiary (in euros)	Notes	Paid in 2011	Paid in 2010
J.-P. BARTH		–	3,516
R. BRUNCK		–	4,516
F. BUJON de l'ESTANG		–	3,516
J. CORNU (net of deduction at source)		–	2,637
C. de CROISSET (net of deduction at source)		–	3,137
R. FREEMAN (net of deduction at source)	(a)	106,586	109,910
Ph. LEPINAY	(b)	44,450	31,800
D. LOMBARD		36,950	26,800
K. NAUMANN (net of deduction at source)		–	2,637
M. ROULET (delegated by TSA, Director)		–	3,491
S. TCHURUK		–	3,516
Alcatel-Lucent Participations		–	3,516
Inter CFDT (M-P DELPIERRE + D. FLOCH + M. SAUNIER)		90,150	71,100
State treasurer – Art. 139 NRE (O. BOURGES + B. PARENT)		92,650	77,584
C. EDELSTENNE		46,950	30,784
Y. d'ESCATHA	(c)	–	–
S. GENTILI		39,450	32,034
P. MUTZ		44,450	30,784
L. SEGALIN		43,200	33,617
A. de SEZE		31,950	23,284
E. TRAPPIER		45,700	32,034
TSA		34,450	23,309
Total paid (net of deduction at source)		656,936	553,522
including attendance fees (excl. corporate officer*)		582,375	477,588

Notes

(a) Including £65,000 for the duties performed by Mr Roger FREEMAN in the Group in the United Kingdom (which represents, at the average exchange rate for the period: €74,561 in 2011 and €75,934 in 2010), the remainder consisting of Thales directors' fees paid in France, net of the 25% withholding applicable to non-residents.

(b) Philippe LEPINAY has informed the company that he paid €5,300 in 2010 and €6,250 in 2011 to the Thales employee shareholder association (APAT), indicating that these sums represented about half of his directors' fees for the period after taxes and expenses.

(c) Yannick d'ESCATHA decided not to collect his director's fees.

* The director's fees paid to Luc Vigneron, Chairman & Chief Executive Officer are shown in AMF table No. 2 (Summary of compensation paid to the company representative).

TABLE 4: STOCK OPTIONS GRANTED DURING THE YEAR TO THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER BY THE ISSUER OR BY ANY OTHER GROUP COMPANY

Director's name	Date of Plan	Nature of options	Option value based on method used for consolidated accounts	Number of performance options granted during the period	Value of total options granted to the company representative based on method used for consolidated accounts	Exercise price	Exercise period
Luc Vigneron	15 Sep. 2011	Share subscription options	€5.83	64,000	€373,000	€26.34	From 15 Sep. 2015 to 15 Sep. 2021

This represents 1.6% of total options (share purchase for existing shares and subscription for new shares) authorised by the Annual General Meeting and 14.7% of the number of options granted in the September 2011 plan.

The Board of Directors decided, on 15 September 2011:

- to make the options granted subject to internal performance conditions;
- that these rights would be validated in segments of 1/3, and each segment would be validated at the Board meeting to close the accounts for 2012, 2013 and 2014 respectively;
- that the performance criteria would be 60% EBIT, 25% operating cash flow and 15% orders intake;
- 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% represent the result of the calculation of the target variable compensation, with a scale of 0% to 150% for each criterion for the years 2012, 2013 et 2014, the accounts of which will be closed 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 2011 and for the entire duration of his term of office, 40% of the acquisition gain, net of tax.

At 31 December 2011, Luc Vigneron held a total of 128,000 options subject to the performance condition, granted during the years 2010 and 2011 (he waived 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 YEAR BY THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Name of company representative	Plan date	Number of options exercised during the year as company representative	Exercise price
Luc Vigneron			None

TABLE 6: PERFORMANCE SHARES GRANTED DURING THE YEAR TO THE COMPANY REPRESENTATIVE

Director's name	Date of Plan	Number of shares granted	Value of shares based on method used for consolidated accounts	Acquisition date	Vesting 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 21 senior executives from free share plans.

TABLE 7: PERFORMANCE SHARES VESTING DURING THE YEAR FOR THE COMPANY REPRESENTATIVE

Director's name	Date of Plan	Number of shares vested	Vesting conditions
Luc Vigneron			None

TABLE 8: HISTORICAL RECORD OF STOCK OPTIONS GRANTED TO THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Date of authorisation by AGM	18 May 2011	15 May 2008	15 May 2008
Date of Board decision	15 Sep. 2011	23 Sep. 2010	25 Jun. 2009
Grant discount	None	None	None
Nature of options	Subscription	Subscription	Subscription
Performance conditions	Yes ^(a)	Yes ^(a)	
Exercise period ⁽¹⁾	15 Sep. 2015 to 15 Sep. 2021	23 Sep. 2014 to 23 Sep. 2020	
Exercise price	€26.34	€26.34	Waiver ^(c) and (d)
Allotment to the company representative on the plan date	64,000	64,000	
Total number of options in current plan at 31 Dec. 2011	403,000	469,250	
Incl. effective options held at 31 Dec. 2011 by the company representative Luc Vigneron ^(b)	64,000	64,000	
Of which options exercisable by the company representative at 31 Dec. 2011	0	0	

(a) Details and comments in table 4 (pages 182 and 183).

(b) Data net of eliminations related to partial or complete failure to achieve the performance conditions (cf. page 188 table tracking performance conditions).

(c) 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.

(d) The key features of the plan are described on page 102.

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	124,000	€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	32,990	€25.70

TABLE 10

Company representative	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
Luc Vigneron Chairman & Chief Executive Officer								
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 company representative 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 company representative'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 company representative.

At 31 December 2011, 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 4.20% of the basic salary paid in 2011.

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 company representative

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, except in the case of 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 made to take out 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.

Financial year 2012

On 27 March 2012, the Board of Directors also decided the following for the 2012 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 variable compensation at 100% of the fixed salary, rising to a maximum of 137.50% if targets are exceeded;
- that the criteria for calculating the variable remuneration for 2012, 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 intake). 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 2012: change management and strategy, progress and results of Probasis plan, organisation and management of the major programmes and skills development, without necessarily being limited to this list.

3.2.4.2.2 Compensation of other Group Executives

The Group Executive Committee had thirteen members at the end of 2011, not including the Chairman and Chief Executive Officer.

Total compensation paid in 2011, excluding the Chairman and Chief Executive Officer, was €7,404,000, including 25.53% representing

the variable portion for 2010⁽¹⁾ and 17% in exceptional non-recurring compensation. As is the case for the Chairman and Chief Executive Officer, the variable component is based on quantitative and qualitative performance criteria.

DETAILS OF REMUNERATION PAID TO THE EXECUTIVE COMMITTEE (EXCLUDING THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER) IN 2010 AND 2011

	2011	2010
(in thousands of euros)	Paid during the financial year (14 members)	Paid during the financial year (14 members)
Executive Committee (excl. Chairman and Chief Executive Officer)		
Fixed compensation	4,205	4,563
Variable compensation	1,890	1,610
Exceptional compensation	1,268	1,503
Benefits in kind	41	50
Total before contributions	7,404	7,726
Employer contributions	2,327	2,244
Total expense	9,731	9,970

(1) Variable remuneration for 2011 is paid in 2012.

In addition, members of the Executive Committee other than the Chairman together have a total of 1,077,497 stock options. The breakdown by grant date and the detailed features, as well as any

options exercised, are shown in the tables on pages 186 and 187 of the summary of operations carried out by directors, non-voting directors and related persons.

3.2.4.2.3 Share-based payments

1. Description of the different plans granted by the Group

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:

Outstanding options at 31 December 2011

At 31 December 2011, the following were outstanding:

127,800 share purchase options at a weighted average exercise price of €42.42

15,056,223 share subscription options at a weighted average exercise price of €34.51

OUTSTANDING PURCHASE OPTIONS PLANS

Date of Board decision	25 Nov. 2008	4 Jul. 2007	13 Nov. 2001	2 Apr. 2001
Grant discount	None	None	None	None
Performance conditions	No	No	No	No
Exercise period ^(a)	25 Nov. 2012 to 24 Nov. 2018	from 4 Jul. 2011 to 3 Jul. 2017	13 Nov. 2005 to 12 Nov. 2011	from 2 April 2005 to 1 April 2011 ^(b)
Exercise price	€38.50	€44.77	€42.18 ^(c)	€42.37 ^(c)
Number of options outstanding at 31 Dec. 2011, net of options cancelled^(d) and exercised	47,800	80,000^(e)	0	0
of which exercisable options at 31 Dec. 2011	637	80 000	–	–
of which outstanding options at 31 Dec. 2011 held by:	–	–	–	–
- Chairman Luc Vigneron	–	–	–	–
- other members of the Executive Committee	–	–	–	–
Number of beneficiaries of outstanding options	12	1		
Including members of the Executive Committee (excluding Chairman) at 31 Dec. 2010	–	–	–	–
Total granted to top 10 beneficiaries (at plan date)	72,200	80,000	20,000	70,000

(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 company representative's options have been maintained.

OUTSTANDING SUBSCRIPTION OPTIONS PLANS

Date of Board decision	15 Sep. 2011	23 Sep. 2010	25 Jun. 2009	1 Jul. 2008	4 Jul. 2007	9 Nov. 2006	30 Jun. 2005	1 Jul. 2004	1 Jul. 2003	2 Jul. 2002	12 Jul. 2001
Grant discount	None	None	None	None	None	None	None	None	None	None	None
Performance conditions	yes	yes	No	No	No	No	No	No	No	No	No
	From 15 Sep. 2015 to 14 Sep. 2021	From 23 Sep. 2014 to 22 Sep. 2020	From 25 Jun. 2013 to Jun. 24, 2019	From 1 Jul. 2012 to 30 Jun. 2018	From 4 Jul. 2011 to 3 Jul. 2017	From 9 Nov. 2010 to 8 Nov. 2016	From 30 Jun. 2009 to 29 Jun. 2015	From 1 Jul. 2008 to 30 Jun. 2014	From 1 Jul. 2007 to 30 Jun. 2013	From 2 Jul. 2006 to 1 Jul. 2012	From 12 Jul. 2005 to 11 Jul. 2011
Exercise period ^(a)											
Exercise price	€26.34	€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 outstanding at Dec., 2011, net of options cancelled^(d) and exercised	403,000	469,250	1,508,000	1,631,287	1,516,308	1,998,225	1,799,843	1,868,071	1,338,914	2,523,325	-
of which exercisable options at 31 Dec. 2011	-	-	217,992	330,504	1,516,308	1,998,225	1,799,843	1,868,071	1,338,914	2,523,325	-
of which outstanding options at 31 Dec. 2011 held by:											
- the Chairman	64,000	64,000	0 ^(e)	-	-	-	-	-	-	-	-
- other members of the Executive Committee	141,000	188,000	141,850	130,550	125,050	93,500	79,413	66,775	36,200	75,159	-
Number of beneficiaries of outstanding options	109	119	1,314	1,265	1,237	1,737	1,613	2,502	2,138	4,217	-
Including members of the Executive Committee (excluding Chairman) at 31 Dec. 2011	12	13	13	13	13	9	9	8	3	6	-
Total granted to top 10 beneficiaries (at plan date)	124,000	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 awarded prior to 2009 and to all countries since 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) Data modified following adjustments identified after the balance sheet date.

(d) Primarily because of the termination of the employment contract between the beneficiary and the Group since the allotment date or because of the elimination related to partial or complete failure to achieve the performance conditions.

(e) Because the new company representative, Mr Luc Vigneron, decided to waive the 80,000 options granted to him.

Conditions of exercise

All Thales stock 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 4 July 2007 can already be exercised in full.

Stock purchase and subscription stock options granted between 1 July 2008 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, pursuant to 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 and 15 September 2011 are contingent upon the achievement of internal performance targets over the next three 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 once the Board of Directors has approved the Group consolidated accounts of the related periods. 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.

VALIDATION OF THE PERFORMANCE CONDITIONS FOR FINANCIAL YEAR 2011

Option and share plans subject to performance conditions	Validation of the first third of the allotment		Validation of second third of the allotment		Validation of final third of the allotment	
	reference year	% achievement of performance conditions	reference year	% achievement of performance conditions	reference year	% achievement of performance conditions
23 Sep. 2010	2011	100%	2012	–	2013	–
15 Sep. 2011	2012	–	2013	–	2014	–

OPTIONS GRANTED AND EXERCISED IN 2011

	Number of options granted/shares subscribed or purchased	Exercise price	Maturity date	Plan date
1 – Directors				
Options granted in 2011 - Luc Vigneron	64,000	€26.34	14 Sep. 2021	15 Sep. 2011
2 – The 10^(a) biggest awards of options granted to employees^(b)				
Options granted in 2011	124,000	€26.34	14 Sep. 2021	15 Sep. 2011
3 – The 10 biggest exercises of options by employees and by size^(b)				
Options exercised in 2011	10,000	€25.70	–	1 Jul. 2003
	8,400	€25.70	–	1 Jul. 2003
	7,000	€25.70	–	1 Jul. 2003
	2,000	€25.70	–	1 Jul. 2003
	1,070	€25.70	–	1 Jul. 2003
	1,000	€25.70	–	1 Jul. 2003
	1,000	€25.70	–	1 Jul. 2003
	1,000	€25.70	–	1 Jul. 2003
	770	€25.70	–	1 Jul. 2003
	750	€25.70	–	1 Jul. 2003

(a) During the 2011 financial year, the biggest 10 individual grants of options to employees of the company or its subsidiaries who are not company representatives ("mandataires sociaux") of Thales ranged from 10,000 to 16,000 options: four beneficiaries were awarded 16,000 options, and six were awarded 10,000 options.

(b) For all Group companies combined.

3.2.5 Incentives and profit sharing

3.2.5.1 PROFIT-SHARING

The Group agreement on pooled profit-sharing for the employees of Thales Group companies, signed on 23 December 2004 by all trade unions represented at Group level, resulted in 2011, for financial year 2010, in the payment of profit-sharing rights totalling €36.5m.

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.

3.2.5.2 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.

Twenty Group companies paid incentives in 2011 for fiscal 2010 for a total of €23.98m.

GROSS AMOUNTS PAID OUT IN INCENTIVES AND PROFIT-SHARING IN RECENT YEARS

(in millions of euros)	2011	2010	2009	2008	2007
In the Group^(a) in France					
Profit share paid	36.5	39.15	51.30	35.86	31.68
Incentives paid	23.98	15.13	16.92	15.30	15.54
By Thales (parent company)					
Incentives paid	0	0	2.77	3.18	2.67

(a) Scope of consolidation in France, including all 100% joint ventures.

3.2.6 Statutory Auditors

For the period covered by the historical financial data, the Thales Group's statutory auditors were as follows:

3.2.6.1 PRINCIPAL STATUTORY AUDITORS

MAZARS

61 rue Henri Regnault, Tour Exaltis
92400 Courbevoie
represented by Jean-Louis Simon

Current term approved by the General Meeting of 16 May 2007 and expiring with the audit of the 2012 financial statements.

ERNST & YOUNG AUDIT

1/2, place des Saisons
92400 Courbevoie – Paris-La Défense 1
represented by Michel Gauthier and Nour-Eddine Zanoluda

Current term approved by the General Meeting of 19 May 2009 and expiring with the audit of the 2014 financial statements.

3.2.6.2 ALTERNATE STATUTORY AUDITORS

PATRICK DE CAMBOURG

61 rue Henri Regnault, Tour Exaltis
92400 Courbevoie

Current term approved by the General Meeting of 16 May 2007 and expiring with the audit of the 2012 financial statements.

AUDITEX

1/2, place des Saisons
92400 Courbevoie – Paris-La Défense 1

Current term approved by the General Meeting of 19 May 2009 and expiring with the audit of the 2014 financial statements.

3.2.6.3 STATUTORY AUDITORS' FEES

Fees paid to the statutory auditors in 2011 and 2010 are presented below^(a) (in thousands of euros):

	Mazars				Ernst & Young			
	Amount (pre-tax)		%		Amount (pre-tax)		%	
	2011	2010	2011	2010	2011	2010	2011	2010
Audit								
Auditing, certification, examination of individual and consolidated accounts ^(b)								
- Issuer	709	747	12%	13%	796	789	14%	15%
- Subsidiaries fully consolidated	4,104	4,485	69%	78%	3,207	3,630	56%	67%
Other efforts and services directly associated with the assignment of the auditor ^(c)								
- Issuer	232	20	4%	1%	770	20	13%	1%
- Subsidiaries fully consolidated	923	350	15%	6%	557	547	10%	10%
Sub-total	5,968	5,602	100%	98%	5,330	4,986	93%	93%
Other services rendered by the networks subsidiaries fully consolidated^(d)								
Legal, tax-related, social-security-related	–	121	–	2%	388	418	7%	7%
Other (if > 10% of audit fees)	–	–	–	–	–	–	–	–
Sub-total	–	121	–	2%	388	418	7%	7%
Total	5,968	5,723	100%	100%	5,718	5,404	100%	100%

(a) With regard to the period under consideration, these are services performed in respect of a financial year charged to 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 diligences 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 statement are being certified.

3.3 STOCK MARKET INFORMATION AND FINANCIAL COMMUNICATION

3.3.1 Thales share

3.3.1.1 LISTING MARKETS

The Thales share is listed on the NYSE-Euronext Paris regulated market (Compartment A). It is eligible for the SRD deferred settlement system.

ISIN code ⁽¹⁾ :	FR0000121329
Reuters:	TCFP.PA
Bloomberg:	HO FP

3.3.1.2 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, CAC Large 60 and CAC AllShares.

The market capitalisation used to select stocks in the NYSE Euronext Paris indices is calculated on the basis of the free float⁽²⁾ and not on the total number of shares outstanding.

For information, based on the 2011 closing price, Thales's total market capitalisation was €4,937m, which is 3.87% of the CAC Next20 market capitalisation. Thales's free float market capitalisation, as defined by the Expert Indices Committee, was €2,232m.

- 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 means total share capital after deduction of treasury shares and shares held directly or indirectly by the founders and/or the State, controlling interests, shares covered by a shareholders' agreement not included in the aforementioned categories, and interests considered stable.

3.3.1.3 SHARE PRICE AND TRADING VOLUMES ON NYSE EURONEXT PARIS

3.3.1.3.1 Monthly data from January 2010 to December 2011 (share prices in euros)

	No. of trading days	No of shares traded	Total value traded (in €m)	Aver. daily volume	Weighted average price	High	Low	Closing price
2011								
January	21	7,332,619	194.73	349,172	26.560	27.450	25.780	27.145
February	20	10,641,174	288.27	532,059	27.090	28.000	25.150	27.450
March	23	11,737,753	317.67	510,337	27.064	28.270	25.250	28.145
Q1 2011	64	29,711,546	800.67	464,243	26.950	28.270	25.150	28.145
April	19	5,854,411	168.86	308,127	28.840	30.150	28.100	29.825
May	22	13,388,271	391.11	608,558	29.213	30.500	28.560	29.090
June	22	7,287,878	213.20	331,267	29.250	29.780	27.610	29.735
Q2 2011	63	26,530,560	773.17	421,120	29.140	30.500	27.610	29.735
July	21	7,631,807	218.62	363,419	28.650	29.990	27.280	29.805
August	23	10,761,366	280.01	467,885	26.020	29.900	23.790	25.795
September	22	9,193,696	232.61	417,895	25.300	26.550	23.410	23.550
Q3 2011	66	27,586,869	731.24	417,983	26.510	29.990	23.410	23.550
October	21	7,359,816	180.29	350,467	24.500	26.225	22.110	25.575
November	22	5,296,744	128.18	240,761	24.200	25.730	21.995	23.435
December	21	4,741,260	107.41	225,774	22.655	24.400	21.610	24.400
Q4 2011	64	17,397,820	415.88	271,841	23.900	26.225	21.610	24.400
Total 2011	257	101,226,795	2,720.96	393,879	26.880	30.500	21.610	24.400
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
Total 2010	258	129,551,924	3,706.00	502,139	28.61	35.845	24.990	26.185

3.3.1.3.2 Annual data from 2010 to 2011 (share prices in euros)

PRICE AND PERFORMANCE

	2011	2010
Closing price	24.400	26.185
Session high	30.500	35.845
Session low	21.610	24.990
Weighted average price	26.88	28.61
Net dividend in respect of the previous year	0.50	0.50
Total shareholder return (TSR) ^(a)	- 4.91%	- 25.76%
Change in Thales share over the period (%)	- 8.90%	- 27.15%
CAC 40 performance over the period (%)	- 19.00%	- 3.34%
Change in CAC Next20 performance over the period (%) ^(b)	- 5.65%	+ 28.25%

(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.

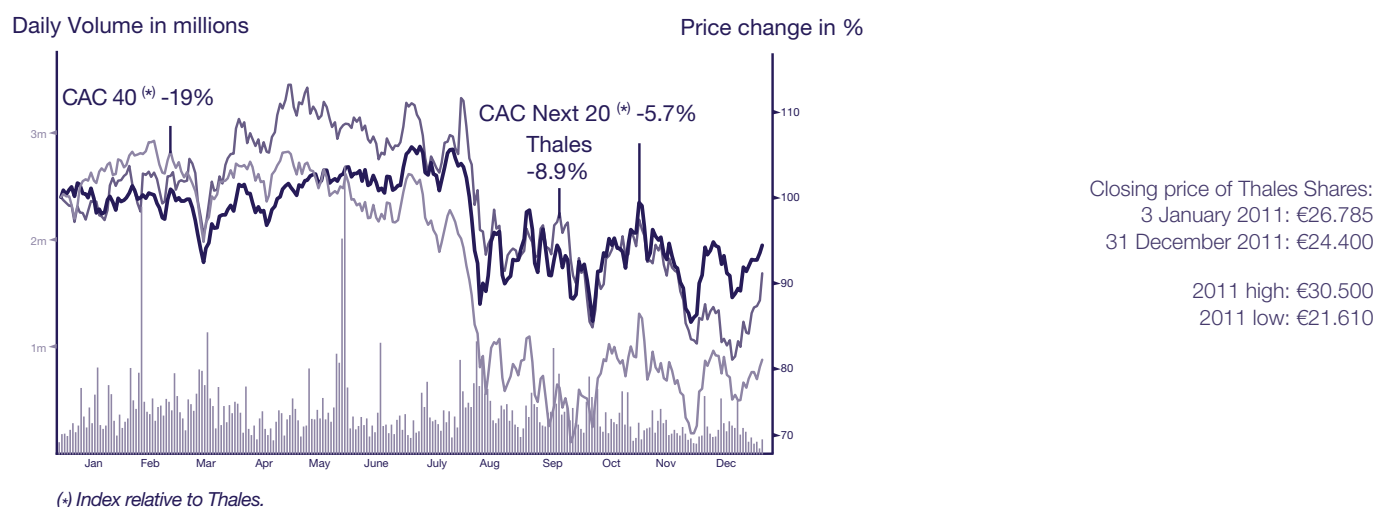
(b) The CAC Next20 has been the Thales reference index since 1 August 2006.

	2011	2010
Average number of shares traded daily (thousands)	394	502
Total number of shares traded over the period (millions)	101	130
Total value traded over the period (€m)	2,721	3,706
Average number of shares traded per month (thousands)	8,436	10,796
Average value traded per month (€m)	226.75	308.83
Total number of shares in capital (period-end)	202.3	199.0
Total number of shares in free float (period-end) ^(a)	91.5	93.7

(a) At the end of the period and in accordance with the definition of free float used by the NYSE Euronext Paris Indices Steering Committee.

3.3.1.3.3 Graph and notes on the change in price and volumes traded from 1 January 2011 to 31 December 2011

SHARE PRICE AND TRADED VOLUME FROM 1 JANUARY 2011 TO 31 DECEMBER 2011



a) Comments on share price in 2010 and 2011

- **In 2011**, after growth in the first half, the Thales share price fell -8.9%; this compares with the CAC 40 and CAC Next20 indices which lost -19% and -5.7% respectively, in a general downward environment on all European markets.
- **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.

b) Comments on traded volumes in 2010 and 2011

- **In 2011**, daily volumes traded reached an average of 393,879 shares, down from 2010. Volumes traded recorded two significant peaks during the year: the first in the context of the publication of the annual earnings in February, and the second at the 2010 ex-dividend date end of May.
- **In 2010**, daily traded volumes averaged 502,139 shares, down from 2009. Traded volumes were higher in the first two quarters, with a peak in shares traded at the end of February 2010.

3.3.1.4 DIVIDEND POLICY

Dividends are paid to the holders of shares in accordance with the law. The Company uses the Euroclear direct payment procedure.

For information, the Thales Annual General Meeting on 18 May 2011 decided that each shareholder may opt for payment of the dividend proposed for 2010, in the amount of €0.50, either in cash or in new shares of Thales stock. The price of the new shares issued to shareholders electing to receive their dividend in shares was set at 25.98 euros, representing 90% of the average opening prices listed on NYSE Euronext Paris over the twenty trading days preceding the date of the Annual General Meeting, less the amount of the dividend and rounded up to the next euro cent. The option for payment in new Thales shares for the 2010 dividend was selected by most of the shareholders, resulting in the creation of 3,210,810 new shares.

On 15 December 2011, the Board of Directors of the Company approved the payment of an interim dividend of €0.25 per share for 2011. This

interim dividend, equal to 50% of the dividend paid in June 2011 for 2010, was paid on 23 December 2011.

In 2012, the dividend recommended by the Board of Directors to shareholders at the Annual General Meeting on 15 May 2012 will be paid entirely in cash. Given the payment on 23 December 2011 of an interim dividend of €0.25, this payment will be added to the dividend balance to be paid for the year 2011, i.e. €0.53 per share, subject to the approval by the shareholders at the Annual General Meeting on 15 May 2012 of the dividend recommended by the Board of Directors of €0.78 per share for the year 2011. 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 2008, 2009 and 2010 qualified for a possible tax reduction of 40%.

DIVIDENDS PAID FOR THE LAST FIVE YEARS

(in euros)	2011 ^(a)	2010	2009	2008	2007
Dividend before tax credit	0.78	0.50	0.50	1.05	1.00

(a) Subject to the approval of the Annual General Meeting of 15 May 2012, which will vote on the 2011 financial statements. Dividend detached on 28 May 2012 and paid 31 May 2012.

3.3.2 Financial communication policy

3.3.2.1 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 the consolidated financial statements and associated analysis, business activities and results by segment, the main statutory information about the company, and its corporate responsibility policy, Thales also publishes an interim report and two letters to shareholders besides regular financial press releases and statements. Other publications include an illustrated corporate brochure with key information about the Group, a corporate social responsibility report, a social report and an environmental report providing a detailed description of 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 also 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 also held in Europe and North America, typically as part of periodic roadshows or investor days in order to present more detailed information on the Group's businesses and performance, as well as guided tours of operational sites.

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.

3.3.2.2 PROVISIONAL FINANCIAL REPORTING CALENDAR FOR 2012

7 February	publication of 2011 revenues and orders
6 March	2011 consolidated results
10 May	Q1 2012 financial information
15 May	Annual General Meeting of Shareholders
28 May	2011 ex-dividend date
25 July	2012 interim consolidated results
7 November	Q3 2012 financial information

3.3.2.3 CONTACTS

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3.3.2.4 ANNUAL INFORMATION DOCUMENT: KEY INFORMATION FOR SHAREHOLDERS

This section lists 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).

2010 annual results

In the "Investors" section, under the heading "Releases and publications":

- 2010 preliminary financial information – 14 February 2011
- Presentation – 14 February 2011
- Press release – 24 February 2011
- Presentation – 24 February 2011
- 2010 consolidated annual results

Quarterly information at 31 March 2011

In the "Investors" section, under the heading "Releases and publications":

- Press release – 11 May 2011
- Presentation – 11 May 2011

2011 Annual General Meeting of the Shareholders

In the "Investors" section, under the heading "Annual General Meetings":

- AGM of 18 May 2011 – Draft resolution
- Brochure R. 225-83 – AGM of 18 May 2011
- Notice to attend AGM on 18 May 2011

- Notice of AGM on 18 May 2011
- AGM presentation – 18 May 2011
- AGM press release – 18 May 2011
- Quorum & voting results of AGM – 18 May 2011
- AGM Brochure – 18 May 2011

2011 interim results and earnings

In the "Investors" section, under the heading "Releases and publications":

- Press release – 27 July 2011
- Presentation – 27 July 2011
- Interim consolidated financial statements

Quarterly information at 30 September 2011

In the "Investors" section, under the heading "Releases and publications":

- Press release – 8 November 2011
- Presentation – 8 November 2011

2011 annual results

In the "Investors" section, under the heading "Releases and publications":

- Press release – 7 February 2012
- Press release – 06 March 2012
- Presentation – 06 March 2012
- 2011 consolidated annual results

3.3.3 Other market securities

3.3.3.1 BOND MATURING IN 2013

In April 2009, Thales issued a bond for €600m, at a fixed rate of 4.375%. The bond matures in April 2013.

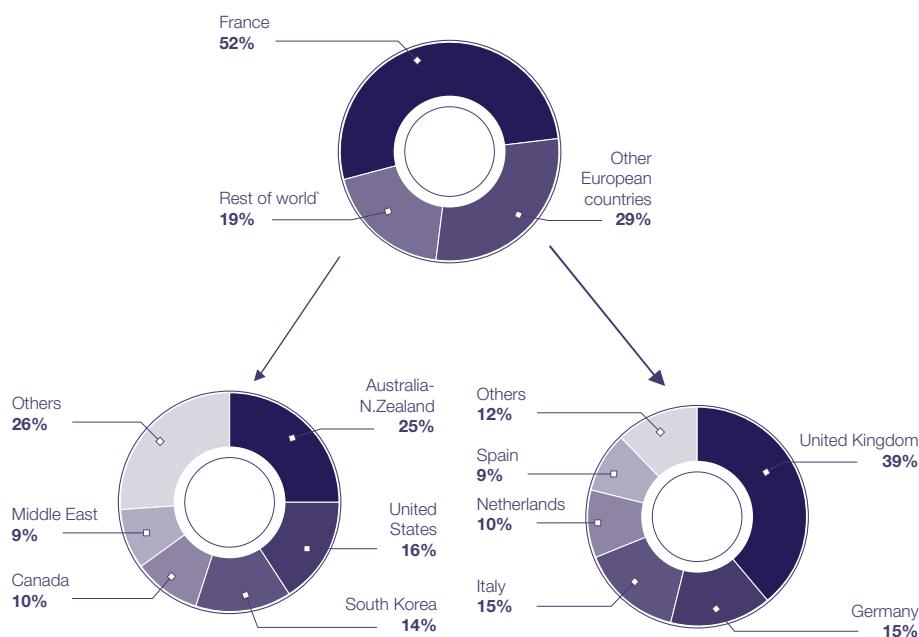
3.3.3.2 BOND MATURING IN 2016

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.

Thales, a responsible employer

- Quality social dialogue: 88% of the Group's employees in the world are covered by collective conventions or agreements
- Anticipation to support professional development: 82% of the employees benefited from a professional development interview with their manager in 2011
- Continuing training programme: 73% of the Group's employees received training in 2011
- A salary policy that enables employees to share in the Group's results, primarily through employee savings and employee shareholding plans
- A concrete and committed social policy for gender equality (women being 22% of the Group's workforce and 26% of new hires in 2011)
- An active policy to support diversity and to fight against discrimination, particularly age- or disability-related

DISTRIBUTION OF EMPLOYEES BY GEOGRAPHIC REGION



Longstanding commitment to the environment

- First Environment Master Plan launched in 1997
- A structured and dedicated organisation, adapted at the area, country and site level and enhanced with the "Environment-Product" managers
- Programmes that encourage the management and reduction of water and energy consumption, promote recycling and the elimination of waste, limit atmospheric discharge and industrial wastewater and fight nuisance (noise and odour)
- A key player in the fight against climate change, whether in transport, in innovation in green technologies or in the Group's participation in the dissemination of good environmental practices
- An ambitious environmental policy (Group 2012 environmental objectives⁽¹⁾)

Eco-design

50%

of products with ISO 14 001 certification include the environment (offers, projects, design, development)

Eco-Purchasing

Assessment of the environmental maturity of

50%

of the Group's top 1,000 suppliers with the aim of providing support for continuous improvement

Waste

-10%

reduction per capita in the quantity of non-dangerous waste and eliminated substances

Energy

-5%

reduction in energy consumption

Air

-10%

reduction in CO₂ emissions from buildings, processes and substances

-10%

reduction per capita in CO₂ emissions from business trips

An extended vision of corporate responsibility

- A long-standing policy of fair practices, particularly to prevent corruption, as part of a process of continuous improvement
- Thales, a reference player in international cooperation to promote good practices with professional associations in the Aeronautics and Defence sector, international organisations and non-governmental agencies. Thales has been a member of the United Nations Global Compact since 2003
- A responsible approach with suppliers: nearly 50% of the target suppliers have signed the "Purchasing and Corporate Social Responsibility" charter
- An active local contribution to economic and social life in the countries and regions
- Thales conducts local actions with charitable organisations in a number of countries in which the Group is developing its operations



(1) Objectives defined in relation to 2010

4 CORPORATE RESPONSIBILITY

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CORPORATE RESPONSIBILITY: A CORPORATE STRATEGY

Because of the very nature of its businesses, Thales is a stakeholder in the social, environmental and economic challenges of our time.

The technological excellence and technical expertise cultivated by the Group for more than a century, primarily in the military sector, today play a crucial role in the security of nations and the safety of civilian populations.

This unique position in the new security-defence continuum gives Thales a special responsibility to its stakeholders and society in general.

For decades, Thales has conducted its business within a strict national framework, under the close control of the State. Today, because of its

international dimension, Thales no longer conducts its operations within a limited, national framework, but within a new globalised strategic space.

It has to manage its businesses in an increasingly complex environment, as much in terms of human resources as international trade.

Fully embracing the values of ethical conduct, integrity and responsibilities, our employees and subcontractors are committed to continuous improvement, supported by a large number of informational campaigns and training programmes.

4.1 SOCIAL INFORMATION

4.1.1 Responsible employment policy

4.1.1.1 EMPLOYMENT IN THE GROUP

The breakdown of the Thales group's 66,979 employees⁽¹⁾ worldwide by geographic area and by level of responsibility reflects the Group's key features, which also shape its social policy:

- its international expansion: at the end of 2011, 32,261 employees worked outside France, representing almost 48% of the global workforce;

- its highly-skilled workforce; on a par with engineers, specialists and managers (73%);
- the presence of women (22%);
- the high proportion of permanent jobs (98%) and full-time jobs (94%) in the Group.

4.1.1.1.1 Breakdown of employees worldwide

The international footprint of the Group is one of the pillars of Thales's strategy and seen as the company's long-term development model. The diversity of geographical locations illustrates the international character

of the Group, bearing in mind that most of the Group's workforce continues to be based in Europe, though, which represents 81% of active employees, i.e. 54,094 employees (54,418 in 2010).

		Headcount
Area A	Australia - New Zealand	3,157
	Canada	1,287
	China	352
	United States	2,013
	Hong Kong	211
	Norway	178
	Japan	43
	Netherlands	1,995
	United Kingdom	7,553
	Taiwan	25
	Latvia	32
	South Korea	1,802
	Other ⁽²⁾	24

(1) By "employees", Thales means all male and female employees under management. See definition of employees under management on page 212.

(2) Other countries and permanent establishments: Sweden, Hungary, Denmark.

	Headcount
Algeria ⁽²⁾	45
Spain	1,812
Germany	2,974
Brazil	290
India ⁽²⁾	230
Italy	2,882
South Africa	271
Austria	334
Belgium	760
Middle East ⁽³⁾	1,195
Greece	48
Poland	129
Portugal	214
Romania	197
Singapore	551
Switzerland	175
Argentina	312
Malaysia	95
Mexico	265
Turkey	148
Israel	95
Other ⁽¹⁾	567
France	34,718
World (2011)	66,979

(1) Other countries and permanent establishments: Thailand, Indonesia, Kazakhstan, Russia, Venezuela, Chile, Cameroon, San Domingo.

(2) This work force also includes the staff at permanent establishments owned by the French company Thales Communications & Security.

(3) The Middle East includes Saudi Arabia, United Arab Emirates, Egypt, Kuwait, Jordan, Lebanon, Oman, Qatar. This work force also includes the staff of a permanent establishment of Thales Communications & Security.

(4) Including the employees of the Helisim (47), Sofradir (396) and Ullis (122) companies.

In France, most of the 34,718 employees are based in the Île-de-France region (51% of the workforce), with a strong presence in the South-West (18%), PACA (9%) and Rhône-Alpes (7%) regions. The Centre, Pays de

la Loire and Brittany regions represent, respectively, 6%, 5% and 4% of active employees.

4.1.1.1.2 Breakdown of active employees by operational sector

The breakdown of employees in Thales's two operational sectors remains generally stable, though with a slight increase in employee numbers in the Defence & Security business.

	Defence & Security	Aerospace & Transport	Other	Total
2011	38,176	24,753	4,050	66,979
2010	37,640	24,902	4,377	66,919
2009	37,616	26,154	3,820	67,590

4.1.1.1.3 Breakdown of employees by type of contract

Most jobs in the Group are permanent ones (open-ended contracts). This is a major feature of employment in the Group, visible in all of the countries in which it operates. Worldwide, 98% of staff members have a permanent job.

In addition, the great majority of Group employees (94%) have a full-time job.

Lastly, temporary work is relatively limited, as the Group called in only 2,866 temporary workers worldwide. In France, this figure has also remained relatively stable, where only 938 temporary workers were employed in 2011 (889 in 2010).

4.1.1.1.4 Breakdown of employees by level of responsibility

Thales classifies all of its jobs throughout the world according to 12 levels of responsibility (LR), calculated on the skills and experience required, the complexity and demands of the objectives and the difficulties associated with the working environment. Levels 1 to 6 of the classification correspond to positions for operators, administrative staff,

supervisors and technicians. Levels 7 to 12 correspond to positions for engineers, specialists or managers.

Levels 7 to 12 employees represent 73% of the Group workforce, whereas the other employees represent 27% of the workforce.

4.1.1.1.5 Breakdown of employees by age bracket

Like other groups in the industry, Thales reports figures for job seniority and average age which are relatively high, though stable when compared to 2010. Thales is a Group in which many employees make a career, and which encourages the employment of both over-fifties (32% of the workforce) and young people (36% of the global workforce is under the age of 40).

In France, employees' average age was still 44 on 31 December 2011, whereas the average seniority of Thales employees was 17 years (stable figures compared to the previous year).

4.1.1.2 RECRUITMENTS

Thanks to an employment policy in line with its requirements, and despite the slow-down on some job markets, the Group recruited 5,342 employees in 2011. The majority of the new hires went into a permanent

job (open-ended contract). Between 1 January and 31 December 2011, the Group recruited 853⁽¹⁾ apprentices, mainly in France but also in Germany, Canada, China, Norway and South Africa.

4.1.1.3 DEPARTURES

In the course of 2011, 4,719 employees left the Group. Most of the departures were resignations or retirements (67% of the departures). In some countries (Canada, United States and Australia), resignations were roughly on a par with those for 2010, which can be explained by the relatively dynamic job markets in these countries.

The number of departures in France – excluding expiry of fixed-term contracts – amounts to 1,574, mainly due to resignations (620) and retirements (594).

4.1.1.4 ATTRACTIVENESS POLICY

4.1.1.4.1 An attractive recruitment website

To support its recruitment procedures, the Group has developed its online foothold where the candidates can also find out more about the Group's news or apply for job offers online.

In 2010, Thales signed a number of framework contracts with LinkedIn, Viadeo and Weavlink to publish its job vacancies and these contracts are still current. Today a significant proportion of recruitment – around 20% of all new hires – is carried out through social networks.

⁽¹⁾ The apprenticeship figures concern new hires only and do not include ongoing apprenticeships, internships, international business volunteering and CIFRE industrial agreements for training through research.

4.1.1.4.2 Educational partners and links with schools and students

The Group makes a special effort to get young people (girls and boys alike) interested in scientific and technological occupations and encourage them to make it a career choice. To this end, the Group encourages its employees to take part in events organised by their children's schools to raise awareness of the Group's occupational fields.

In addition to partnerships, Thales hopes to establish close links with students and emphasise the importance of creating experience and knowledge sharing between students and the company. Thales maintains close and longstanding links with schools.

4.1.1.4.3 Thales and integrating young people into the world of work

As part of its Human Resources policy, Thales has set up a policy for the integration of young people, which incorporates their needs but also reflects Thales's drive to help young people integrate into the world of work.

Thales sees work and study programs as a prime means of integrating young people. Accordingly, it recruited 853 new apprentices throughout the Group in 2011. In many countries and more particularly in France,

Thales received internships from schools and universities, international business volunteering and CIFRE industrial agreements for training through research.

Drawing on a best practice developed in the United Kingdom, the European IDEA agreement set out to extend a new programme to the whole of Europe entitled "from school to the workplace", which aims at easing the transition from student to employee.

4.1.2 High-quality social dialogue

The Thales Group supports and encourages high-quality social dialogue based on trust and transparency.

4.1.2.1 COLLECTIVE NEGOTIATIONS

By involving employee representatives at transnational level, Thales set out in 2009 to take social dialogue to the European level and play a pioneering role in building social Europe.

4.1.2.1.1 Collective bargaining at European level

In June 2009, Thales signed with the European Metalworkers' Federation (EMF) its first European-wide agreement on "Improving professional Development through Effective Anticipation" (IDEA). IDEA is a European agreement that concerns over 54,000 employees and is applied in the main European countries in which Thales operates. It is based on sharing existing best practices in the countries within its scope and as such it is considered to be a particularly innovative kind of agreement. In addition to setting out broad principles, it also defines specific objectives aimed at improving the professional development of employees, which are broken down into around thirty measures.

The dynamic created at European level by the IDEA agreement led to a second European agreement being signed with the EMF in April 2010, namely the TALK agreement (Transparent annual Activity discussion for mutual Listening and developing professional Knowledge).

This new European agreement lays down a clear framework and pointers for the conduct of annual activity discussions in order to ensure that they are held within a socially-responsible climate of mutual respect and listening. It defines basic principles designed to ensure that discussions are held in optimal conditions and that the rights and responsibilities of all parties are respected.

4.1.2.1.2 Collective bargaining around the world

In 2011, 88% of Thales Group employees worldwide (i.e. over 55,000 people) were covered by collective agreements. The European agreements have been taken into account. Each country can add locally-negotiated agreements to this framework.

In 2011, the main subjects for negotiation in the countries revolved around the conditions for employee pay rises (Brazil, South Africa, Belgium, etc.), but as in previous years, collective negotiations covered in some countries, and particularly in Europe, many other subjects, such as specially-adapted working hours and work organisation, health and safety.

4.1.2.1.3 Collective bargaining at Group level in France

For many years, social dialogue has paved the way for ground-breaking agreements and active negotiations have successfully concluded many major Group agreements to all employees in France, such as the agreement on trade union rights and on social dialogue, the agreement on the social measures applicable to Group employees, the agreement on senior employment, the framework agreement on gender equality

(a new amendment is currently under negotiation), the agreement on employees with disabilities, etc.

To give Group and company agreements added legitimacy, in 2010 the Group made permanent its 2006 commitment to conclude only majority agreements, barring exceptional cases.

4.1.2.1.4 Collecting bargaining in subsidiaries in France

Apart from the compulsory annual negotiations, the Group's French subsidiaries concluded a large number of agreements in 2011.

The main subjects of negotiation in the Group's subsidiaries in France are as follows:

- a locally-negotiated adaptation of the Group agreement on senior employment,

- agreements on gender equality,
- optional profit-sharing agreement.

4.1.2.2 APPROPRIATE SOCIAL DIALOGUE BODIES

4.1.2.2.1 European Works Council

Created by an anticipation agreement in 1993, the European Works Council is comprised of representatives from Thales's 11 main European countries.

Its operations revolve around the following principles:

- two ordinary annual meetings and further meetings convened in exceptional circumstances, where justified.

- a Select Committee that meets in order to guarantee regular information;

- information and discussion meetings on strategic outlooks;

In 2011, the European Works Council convened for two ordinary meetings and three extraordinary meetings; the Select Committee had five meetings.

4.1.2.2.2 European Anticipation Commission/National Anticipation Commissions

When social dialogue was taken to European level, the Group set up a European Anticipation Commission, which meets every year to consider the prospective analyses of job families and discuss Thales University's annual training priorities.

In July 2011, the European Anticipation Commission met, in extended fashion, at a major European Convention to share new best practices

concerning the IDEA agreement and carry out an initial review of the TALK agreement's application.

National Anticipation Commissions have also been set up since 2009 in each of the eleven European countries covered by the IDEA agreement. These equal-representation bodies play a vital role in anticipating changes in the various job families and enhance social dialogue in the countries.

4.1.2.2.3 Group consultation/negotiation body and trade union coordination structure at Group level in France

Alongside the traditional negotiation structures, the Group has for many years had a "consultation/negotiation" body comprising all of the representative Group-level trade union organisations in France. Thales recognises the existence of Intercentres, dedicated structures set up to liaise with the management of representative union organisations on a Group level, the role of which is primarily to identify issues of common

concern and proactively prevent industrial disputes. These structures have one permanent representative per union organisation, their own budget and resources that have been increased since 2006.

This is the framework in which all Group agreements implemented in Group companies in France were concluded.

4.1.2.2.4 Group Works Council in France

The Thales Group Works Council was created as the result of an agreement signed by all the trade union organisations concerned in 2000 and revised in 2011. The thirty member Group Works Council is an information, deliberation and discussion body aimed at

developing dialogue between Corporate Management and employee representatives on the situation and main strategic orientations of the Group's core businesses.

4.1.3 Anticipating to support professional development

In a constantly changing economic and technological environment, anticipation depends on a company's capacity to identify in advance key changes or innovations and draw up action plans to go with them

and to train and support each employee with a view to broadening their experience, giving them more opportunities and thereby define improved career paths.

4.1.3.1 TRANSPARENCY IN MONITORING TRENDS IN JOB FAMILIES

This forward-looking approach, backed by negotiations held with trade unions, is now the benchmark for Thales's social policy in Europe, focused on mobilising three main players:

- the employer chooses to share job-related information and actions, in an effort to improve transparency,
- Employee representatives, who are increasingly aware and part of future developments within job families, are now well versed in these

analysis methods and will voice their opinion on short, medium and long-term action plans,

- Employees also become integral players as part of a new, significant involvement in their own career development which could, by making use of job-specific information, provide a constant detailed vision of development within their job family in the Group.

4.1.3.2 MANAGING JOB FAMILIES, SPECIALISTS AND SKILLS

Developing Human Resources is one of Thales's key values. Its aims are twofold:

- Firstly to ensure a fulfilling professional life for all employees and to broaden their experience according to the opportunities available, as well as their desires and abilities;
- Secondly, to increase their employability in a rapidly-changing working environment.

Thales is a high-tech group whose community of specialists and experts is a source of innovation. The Group recognises their contribution at all levels of responsibility and in each job family, thanks to a two-ladder career development plan set up on an international level.

At similar levels of responsibility, specialists/experts and managers are managed in exactly the same way. Within this two-ladder system, sideways mobility is encouraged.

The job-specific technical skills of its employees are a major asset for Thales. This has prompted the Group to introduce a system of "Key Skills Management", focused on identifying and sharing the available technical skills, for all of its job families.

By strengthening skills management based on an identification of expertise in fifteen professional categories, the Group ensures that the skills of its employees match its needs. This approach provides concrete responses to technical problems identified in programmes or helps to form new teams that will secure offers and projects. It also provides support to an employee in his or her daily activity, in the context of his or her professional project or in the development of his or her skills. To date, 20,000 employees have already declared their skills in the first step in the implementation of this process worldwide.

4.1.3.3 PROSPECTIVE EMPLOYMENT MANAGEMENT: A SHARED, TRANSPARENT APPROACH

The Group recognises the fundamental role of employee representation bodies in setting up a policy for anticipating changes within the various job families.

The Group agreement signed in France on 23 November 2006 sets out the conditions, process and associated measures for the implementation of active employment management at Group companies in France facing economic difficulties connected with new skills requirements, or the risk of technological breakthrough likely to have an impact on employment in certain occupational categories.

This active employment management, based on both the Company and the employees' will, was implemented in the company after the employee representatives had been informed and consulted about the economic forecasts, their effects on employment, and the timeliness of the initiative in many subsidiaries of the Group.

A new draft Group agreement currently under negotiation follows on from the earlier 2006 agreement and proposes new measures for active and prospective employment management.

4.1.3.4 SUPPORTING PROFESSIONAL DEVELOPMENT

Thales believes that each employee should be in control of their career. To do so, the Group is developing the necessary tools and resources for the employee to make an informed decision as regards defining career paths.

Promoted by the IDEA agreement, the annual Professional Development Discussion marks a key stage in the professional development process

and for employees it is an opportunity to meet with their manager and review how they can develop in their current job and define their future career path.

In 2011, 82% of Thales employees worldwide had a Professional Development Discussion with their manager. In the European countries covered by the IDEA agreement, 83% of employees had one.

4.1.3.5 MOBILITY AND CAREER PATHS

Faced with increasingly competitive markets, employee mobility and professional development increase the Group's capacity to adapt to future changes and allow them to offer employees rich and varied career paths.

Career path management is encouraged by:

- Identifying and informing employees of job mobility pathways to a new job family or a new job in the same family, and by providing information on geographic mobility and job openings abroad;

- Supporting employees who have chosen the mobility option, after examining how suitable the employee is for the job. In particular, this support involves the option of training whenever necessary, giving employees personalised support in their new job and any other measures which are considered valuable and appropriate depending on each individual case;
- Under the IDEA agreement, employees have the possibility of withdrawal if they find it too difficult to adapt to the new position.

In France, 1,152 employees opted for geographic mobility in 2011.

4.1.3.6 CAREER MANAGEMENT TOOLS DEPLOYED THROUGHOUT THE GROUP

A high-technology group, Thales offers its employees a number of IT tools, via Web applications, so that they can identify and update their experience, skills and goals for professional development (e-HR service), consult job offers on the internal job market and post

their resumes on line in their candidate space (e-staffing), view the training that has been approved and register for the sessions that are offered (e-training).

4.1.4. Training

Thales's training commitment stems from the view that building a successful career means constantly maintaining each employee's expertise as a guarantee of employability.

The Group's training policy addresses a twofold aim:

- meeting the needs of the Group's companies by implementing performance improvement and change support projects;
- taking into account employees' individual aspirations in terms of skills development as part of their job or professional mobility.

4.1.4.1 THALES UNIVERSITY: "SHARING KNOWLEDGE AND TRANSFORMING THALES"

Present in nine countries - France, Germany, Italy, the United States, the Netherlands, the United Kingdom, the UAE, Australia and Singapore - Thales University is tasked with assisting the professional development of the Group's employees in the various countries and giving them a common culture that reinforces cohesion within the framework of its core values.

The number of employees trained at Thales University in 2011 (10,254) was 4.5% higher than in 2010 (9,817).

The number of training hours delivered by Thales University (235,389 hours) increased by 17.5% over the same period (from 200,419 hours in 2010).

4.1.4.2 TRAINING PROGRAMMES TO MEET THE NEEDS OF THE GROUP AND ITS EMPLOYEES

Training in France is organised to meet the following needs:

- Create a pooled organisation to support Group companies, by deploying a joint team and coherent administrative processes, putting in place shared management tools and optimising external training and financing costs;
- Help Thales companies to focus their efforts on the key areas such as preparing training guidelines, training plans and priority actions;

- Develop expertise in training consultancy to support the Group's entities with the implementation of training plans, and to support employees and their professional development by creating an integrated network of training specialists.

In France, training is the responsibility of a Shared Services Centre for Training, an economic interest group (EIG) acting on behalf of the Group's French member companies.

4.1.4.3 KEY TRAINING FIGURES FOR 2011

The data on the number and percentage of employees trained reveal very similar figures for men and women, since 74% of women and 73% of men undertook at least one training course in 2011.

The data on the number of training hours per country bear witness to the Group's resolve to invest in staff training, as staff members received an average of 23 hours' training in 2011.

By comparison with 2010, the average number of training hours has climbed steeply in Spain, the United Kingdom and Germany. The total number of training hours is also on the rise in India, Italy, Austria, Poland, Argentina, Mexico, Canada and China.

The average number of training hours for employees working in France (20.6 hours) is slightly up on the figure for 2010 (19.7 hours).

On the whole, the average number of training hours delivered to men and women in the Group is on a par.

Compared with the payroll figure, the amount spent on training is rising in many countries and especially in countries where Thales has a large workforce.

Note also that in France also the cost of training as a percentage of payroll increased in 2011 (from 3.6% in 2010 to 3.76% in 2011).

4.1.5 Group profit-sharing policy

The Group's wage policy is an inherent part of its social policy, based on a combination of collective results and individual performances, and guided by a desire for transparency, fair treatment and dialogue.

An annual activity discussion is held at the beginning of the year between managers and each member of their team. An ideal time to

define the year's individual objectives and situate them in relation to the team's collective objectives, the annual activity discussion is also an opportunity to discuss the appraisal of the results achieved over the past year and the level of proficiency in the job.

4.1.5.1 REMUNERATION AND SALARY PROGRESSION

In 2011, salaries rose by over 2% in France. This increase includes both individual pay rises and, for the employees concerned, the collective pay rises negotiated with the trade union organisations.

Individual pay rises are calculated mainly on the "market position", the level of proficiency in the job and the budget allocated.

Since 2000, the compensation and benefits policy applied within the Group has also included a global variable pay plan for engineers and managers, which defines a target rate of variable pay for each level of responsibility.

This variable pay plan aims to recognise the individual results of the employees concerned (50% of the amount of variable pay depends on the level of achievement of the annual individual objectives and the permanent objectives of the position), to encourage teamwork (20% of the variable pay depends on the level of achievement of a team objective) and to involve team members in the business results of the Group and the company to which they belong, as assessed on economic indicators.

4.1.5.2 EMPLOYEE PROFIT-SHARING SCHEMES IN FRANCE

To reinforce employee cohesion beyond the entity to which they belong, and solidarity among the Group's French companies, the latter concluded in 2004 a single, pooled compulsory profit-sharing agreement. The value of the total profit-sharing reserve distributed in 2011 for the 2010 financial year amounted to €36.5 million (the value of the profit-sharing reserve paid in 2010 came to €39.15 million).

Independently of their membership of the pooled profit-sharing agreement, the majority of the Group's French companies have signed

a three-year optional profit-sharing agreement designed to involve employees in the company's results and performance.

The parent company Thales did not pay out any optional profit-sharing amounts in 2011, but 20 of the Group's French companies paid out optional profit-sharing entitlements totalling €23.98 million in 2011 for the 2010 financial year (the amount paid in 2010 for the 2009 financial year amounted to €15.13 million).

4.1.5.3 GROUP SAVINGS SCHEME

The Group savings schemes are made up of a Thales Group savings plan (PEG) set up in France in 1998 and, since 2007, a collective retirement savings plan (PERCO).

As at 31 December 2011, the savings generated by Group schemes amounted to €465.2 million, held by around 50,000 Group employees (or former employees).

4.1.5.3.1 Group savings scheme and employee shareholdings

At the end of 2011, assets handled as part of the Group's savings plan amounted to around €374 million, 256 million of which were in diversified assets.

Within the Group savings scheme, the employee shareholder fund is the framework under which Group employees hold company shares.

Set up for the shares offer reserved for employees in 1998, the fund has received the shares acquired during the offers made in 2000, 2002, 2004, 2008 and more recently in 2011.

As at 31 December 2011, assets managed in Thales company within the Thales Group savings plan, on behalf of around 25,000 shareholders, amounted to approximately €118.5 million.

Employee profit-sharing in Thales capital equates to 3.14% of company capital, irrespective of the type of holding, as against 2.92% in 2010.

4.1.5.3.2 Collective retirement savings plan in France (PERCO)

Set up in 2007, the PERCO collective retirement savings plan gives employees the opportunity to set aside savings for their retirement with the company's help.

By amendment dated 29 March 2011, the parties to the agreement that set up the PERCO made two important changes. Firstly, in accordance with changes in the legislation, employees can now assign unused

days of leave to the PERCO, up to five days per year. Secondly, where employees make a voluntary payment, the amount of help from the company is significantly increased.

As at 31 December 2011, the assets handled as part of the PERCO scheme amounted to €90.7 million, on behalf of 21,268 holders.

4.1.5.4 STOCK OPTIONS AND FREE SHARES DISTRIBUTIONS

On 15 September 2011, Thales's Board of Directors approved the introduction of the following:

- A performance-related stock option plan. The plan's beneficiaries included 112 senior executives;
- A free shares distribution plan involving 5,178 beneficiaries, managers, experts, technicians in addition to other key employees from 33 Group countries;

- A performance-related shares distribution plan for 314 senior executives.

The scheme adopted in 2011 therefore concerned roughly the same number of beneficiaries as that implemented in 2010.

4.1.6 Promoting social responsibility

4.1.6.1 A SAFE, HEALTHY WORKING ENVIRONMENT: WORKPLACE HEALTH AND SAFETY

One of Thales's core concerns is to give its employees a safe, healthy working environment, comply with current legislative requirements,

follow procedures, prevent health and psychosocial risks, and train its staff.

4.1.6.1.1 A dedicated organisation

Within the Group, the Human Resources and Operations-Environment Departments share responsibility for the vast sphere of health and safety (H&S). To help prevent these risks, a dedicated organisation that applies to all countries around the world was defined and deployed two years ago.

The Operations-Environment Department monitors the environmental health and safety at the sites and facilities.

The Department of Human Resources works to prevent the H&S risks related to the health and safety of the employees in the work place.

It defines the principles of the H&S policy which are also related to employee health and safety at work and which are implemented in the countries in accordance with national laws and requirements.

A risk sponsor, who is responsible for preventing "Human Resources" risks conducts regular monitoring of the risks that could affect employees around the world (discriminatory practices, sexual and moral harassment, damage to health, accidents in the work place, professional risks and psycho-social risks).

4.1.6.1.2 Concrete procedures and measures

Concrete procedures are implemented to anticipate and manage the major health risks that could occur at international and/or national level.

A "health monitoring unit" was set up during 2011 to identify these risks at global or national level. Thanks to the monitoring carried out by the Thales medical advisor or Thales medical coordinator, the Group HR Manager can, if necessary, decide to set up a crisis unit or deploy a procedure to control missions to the countries concerned, based on the analysis of the situation. A procedure has also been drawn up for managing missions in countries with major health risks. If necessary, it allows the Group to prevent a mission, or control an employee's travel by means of a prior statement, and health instructions and recommendations. Since the earthquake that occurred in March 2011, this procedure applies to any mission to Japan.

In France, the "Quality of life at work" agreement signed on 2 July 2009 defines a general framework for Thales's health and safety policy and establishes a system for identifying and preventing occupational risks.

The agreement is based on a preventive approach involving all of the stakeholders in occupational health and aims to prevent the emergence of psychosocial risks by taking collective actions and keeping a close eye on every employee. A Central Quality of Life at Work Committee monitors and supports all of these initiatives.

On 23 September 2011, a Quality of Life at Work Convention drew a large part of the occupational health stakeholders, social partners and Group HR Managers.

A large number of measures have also been initiated in the countries and are designed to improve the health and safety of Group employees, particularly in the United Kingdom, Australia and Spain.

A growing number of OHSAS 18001 certificates have been granted to Group companies around the world, attesting to their ability to assess and manage risks to health, safety and the environment (80 certificates issued, representing 52% of the global workforce) and marking a significant increase since 2010 (45%).

4.1.6.1.3 Data on accidents at work and absenteeism

Around the world, the overall absenteeism rate (including any form of absence, including non work-related absences) and the rates of accidents at work and occupational illness are calculated by dividing the number of lost-time days by the number of days worked in the country. The rates recorded in each of the countries vary widely. They mainly depend on the type of activities exercised there. Even so, we can see that many countries have a relatively low absenteeism rate.

In France, the overall absenteeism rate (3.10%) has remained stable over the last three years (3.04% in 2010 and 3.11% in 2009). The proportion of accidents at work and commuting accidents is relatively stable by comparison with the previous year and remains consistently low.

4.1.6.1.4 Solid welfare cover

Giving employees solid welfare cover helps protect their health. Some countries have brought in special measures in this regard.

In France, since the conclusion of the Group agreement on welfare provisions on 23 November 2006, employees have the same collective

status across all of the French companies and identical welfare cover, whatever the legal entity concerned.

In Germany, various sites also offer employees additional cover for medical costs, especially for preventive medical care.

4.1.6.1.5 Working time

Thales considers that working time has to respect a sound balance between work life and family life. Throughout the world, 97% of employees are covered by regulations on working time in their country. In many countries (France, Spain, Germany, Austria, etc.), working hours are regulated by collective agreements.

Within the Group, employees in many countries work on the basis of 40 hours per week. Spain, China, Italy, Hong Kong, Norway, Austria, the Netherlands, Greece and Poland, for example, have a 40-hour working week and most have an eight-hour working day.

In some countries, working time is lower because of the law or because of agreements (e.g. France and Germany). The companies have also been able to bring in special arrangements at company level.

Most Group companies in France concluded agreements adapting the framework agreement signed in 2000, which in any case forms a common basis, with the following provisions:

- For engineers or specialists as managers, a flat-rate system of hours or days per year applies, on the basis of 210 working days per year;
- For other employees, working hours are organised on the basis of 35 hours per week on average over the year, with accumulated hours taken as days off.

4.1.6.2 GENDER EQUALITY

The Group is pursuing its action to ensure that women play an even greater role in its development, based on a committed, concrete policy and supported by constructive social dialogue.

On 31 December 2011 women make up 22% of the global and European active workforce and 23% of the French employees.

4.1.6.2.1 Commitments

In France, a Group framework agreement signed with all representative trade union organisations in 2004 defined the principles and methodology to be rolled out to promote equality in French companies. In addition, in each French company, about twenty three-year action plans have been negotiated and adapted to the actual situation of the men and women in their working environment.

In Europe, the IDEA agreement signed in 2009 by the Group and the European Metalworkers' Federation contains an important component

consisting of measures to promote professional equality between women and men. It stipulates that an annual report on the comparative position of male and female employees be prepared in each signatory country so that action plans can be developed as necessary.

More generally, the agreement contains commitments in all areas related to equality between men and women: recruitment, career development, equal pay, the balance between professional and personal lives.

4.1.6.2.2 Concrete achievements

Achieving an even representation of women in the Group necessarily entails taking special care with recruitment, especially in the technical and scientific streams.

As a result of the actions performed in recruitment, the companies of the Group hired 1,367 women in 2011, representing 26% of the new employees hired around the world.

In France and the Netherlands, for instance, the Group runs communication campaigns in schools to encourage girls to go into scientific streams.

In France, different action plans work to correlate the recruitment of women with the percentage of women graduating from the target schools. In Spain, an equality "business plan" has been developed for this purpose.

In the area of compensation, in France, an annual budget equal to 0.1% of the payroll has been set aside, since 2006, specifically for dealing with any unjustified pay differences between men and women. In 2011, a further 1,221 women benefited from the measure, which, alone, brought them an individual average pay rise of 2.33%.

In terms of career development, the personnel reviews carried out each year in France pay special attention to women.

Finally, Thales is committed to parent responsibilities and the balance between professional and family life: the good practices implemented include the "Baby 1st" and "Home care" programmes established in Germany to support employees in their family lives.

In France, Thales has been participating since 2010 in the development of inter-company day care centres. At this date, nearly 120 children of employees from a dozen French companies are cared for close to their parents' work place in more than ten inter-company centres.

4.1.6.3 DIVERSITY AND NON-DISCRIMINATION

In its European IDEA agreement, Thales undertook to promote diversity and combat discrimination.

4.1.6.3.1 Promoting cultural diversity

Negotiating and implementing the European IDEA and TALK agreements have fostered a better understanding of social practices in European countries and have enriched national social policies in terms of employment, professional development and the promotion of diversity and non-discrimination.

The IDEA agreement provides for developing European-wide career paths so that teams are more diverse.

New recruits, who are required to take part in the "Welcome to Thales Convention", are invited to share their views on the subject of cultural diversity. New employees are therefore introduced to an open-minded corporate culture that values differences.

4.1.6.3.2 Disabled people's employment around the world

Whatever country they operate in, the Group's companies make a point of complying with the legal requirements and all local regulations and recommendations designed to promote the employment of people with disabilities.

While some of these national regulatory frameworks are essentially aimed at banning all forms of discrimination (the USA, the UK, the Netherlands), others (China, Germany, Austria, Spain and Italy) contain

an obligation to employ and companies that do not fulfil the obligation are generally made to pay a specific contribution. In a different approach, some legislations (e.g. Portugal) provide for paying financial incentives to companies that adopt a policy of recruiting people with disabilities.

Many Group companies, based in various countries, have also adopted a series of measures aimed at going beyond the legal requirements and promoting the employment of people with disabilities.

4.1.6.3.3 Disabled people's employment in France

As a result of deploying the multi-year Group agreements concluded with the representative trade union organisations, first in 2004 then in 2007, the percentage of disabled employees in the Group's workforce has steadily risen, attaining 5.1% at end-2011, compared with 4.9% in 2010 and 2.9% in 1992 and the Group is aiming for a figure of 6%.

As the agreement concluded in 2007 expired at end-2011, the Management and the representative trade union organisations negotiated a fresh agreement, which was signed, unanimously, on 21 October 2011.

The provisions of the agreement revolve around some focus areas, notably recruiting 120 disabled people (60% of whom will have open-ended contracts) and taking in 240 interns in the period 2012-2014, subcontracting more activities to specialised disabled work centres

and sheltered workshops and launching new projects through which Thales uses its technology and expertise to help disable people train and find jobs.

To deploy the measures contained in the agreement and oversee Group policy on disabled employment, Thales set up a specific organisation that includes the dedicated Group structure: "Mission insertion". The manager coordinates all of the initiatives and leads a network of "disability contacts" and Disabled Employment Commissions in every company with 250 or more employees.

In 2011, the Group maintained the partnerships formed in previous years with Agefip, Adapt and the GESAT network in order to facilitate and strengthen subcontracting to sectors working with the disabled.

4.1.6.3.4 Combating age discrimination

The signatories to the IDEA agreement asserted that any discrimination linked to employees' age is unacceptable. For this reason, all references to age (such as the date of birth) have been banned from human resource managed databases.

Since 2001, numerous clauses from a variety of agreements (Group agreement on anticipating changes in jobs, European IDEA agreement, agreement on quality of life at work) have reinforced the measures brought in for the over-fifties.

In France, the Group's desire to give fresh impetus to its efforts by adopting new measures to boost over-fifties employment led to the conclusion on 18 December 2009 of an agreement on over-fifties employment in the Thales Group.

This agreement, which covers the period 2010-2012, aims to prevent any risk of discrimination against over-fifties, anticipate career developments and develop the skills of over-fifties, improve working conditions and take account of situations in which employees are ill-suited to the work or under physical strain and adjust the second part of the career and provide a transition from full employment to retirement.

The Group (France) has set targets for the term of the agreement a 5% increase in the number of employees aged 55 and over (number

as at 31 December 2009) and a raise the number of recruitments of employees aged at least 50 years, so that they represent 4.5% of all recruitments.

The state of the many indicators provided by the agreement on over-fifties employment in the Thales Group, two years after its entry into force, shows how effective and useful its provisions are for achieving its stated objectives.

The number of employees aged 55 and over has risen by over 15% in two years. They represented around 19.5% of the Group's workforce in France at end-2011, compared with 17% at end-2009.

The number of recruitments of employees aged 50 and over is also on the rise: 3.92% of new recruits in 2011 were aged 50+, as against 3.12% at end-2010.

Data collected on 31 December 2011 shows that employees aged 50 and over had the same access to training as the rest of the workforce (over a third of the employees who undertook training in 2011 were aged 50 and over). In addition, a significant number of them had opted for professional or geographic mobility.

4.1.7 Social reporting method

The data presented in the 2011 Registration Document represents a synthesis of the Thales 2011 social report, which provides a complete and detailed description of the social programmes undertaken by the Group. This report can be downloaded from the Group's website www.thalesgroup.com, on the "corporate/responsibility" page or directly at <http://sustainability.thalesgroup.com>.

The Social Report, specifically designed to inform readers about what Thales companies are doing in the social matters, has this year further sharpened its focus on the Group's international dimension.

The introduction of a new human resources reporting tool, "e-Social Responsibility Reporting", has made it possible to poll Human

Resources Directors in all of the countries in which the Group operates, using meticulously-completed qualitative and quantitative indicators. A large part of the indicators used are drawn from the Global Reporting Initiative (GRI); others have been negotiated with the social partners, mainly at European level.

This reporting tool also makes it easier to collect the information necessary to prevent human resources risks (workplace health and safety) and draw up European and country gender-equality reports.

This social data and the Group's social policy, practices and initiatives are part of its social responsibility and underscore the Group's determination to be recognised as a standard-setting employer.

The information on employment, working conditions, professional training, collective agreements and social practices disclosed in this report reflect the Thales Group's situation on 31 December 2011.

The definition of "Employees under Thales management" used to draw up this social report is strictly identical to the definition used last year. Accordingly, the total number of employees reported on 31 December 2011 includes all employees working for fully consolidated and proportionally consolidated companies. "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.

As an exception to these principles, the following companies are not included even though they are proportionately consolidated: in the United States, Thales Raytheon Systems LLC; in Germany, Diehl Aerospace GmbH, Diehl Air Cabin and Junghans Microtec GmbH; in Italy, Telespazio and in France, DCNS.

Moreover, the scope of the Social Report is specified for each figure: for greater transparency, the percentage of employees covered is stated for all responses. Accordingly, the figures contained in this report are to be interpreted in the light of the scope of employees covered by the responses.

4.2 ENVIRONMENTAL INFORMATION

4.2.1 Policy

Environmental responsibility is one of the Thales Group's core ethical principles, reflecting the strength of corporate management's commitment to environmental issues. To engage all the players involved, Thales has produced a revised edition of its environmental policy, which is available in several languages and issued to all Group sites around the world. In addition to ensuring compliance with applicable regulations and anticipating future regulatory changes, the policy has five key areas of focus:

Prevention of impacts on people and the environment arising from the Group's activities:

- by reducing and controlling the impact of the environment on health,
- by respecting biodiversity and cultural heritage.

Incorporation of environmental factors into the design of products and services:

- by limiting their environmental footprint whenever possible,
- by using the environment as a driver of innovation.

Following the previous objectives of 2008-2010, Thales has set new targets for the 2011-2012 period:

Consumption of fewer natural resources:

- by limiting dependence on fossil fuels,
- by saving water.

Significant reduction in CO₂ emissions:

- by leveraging the Group's expertise,
- by reducing business travel and increasing the use of greener modes of transport.

Fostering a spirit of innovation with regard to the environment:

- by sharing expertise,
- by communicating transparently,
- by encouraging the involvement of employees, suppliers and other stakeholders.

	2007-2010 performance	2011	2012 target
Energy consumption	-11%	-3%	-5%
CO ₂ emissions from business trips per person	-14%	-5%	-10%
Reduction of CO ₂ emissions from energy and substances	-18%	-8%	-10%
Non hazardous waste per person	-20%	-8%	-10%
ISO 14001 certificates include environment in product & services		51%	50%
Assessment of environmental maturity for 50% of the top 1000 suppliers		—	500

4.2.1.1 YEARS OF ENVIRONMENTAL COMMITMENT

- 2011: Creation of network of product HSE (Health, Safety, Environment) managers and revision of Group targets in order to incorporate environmental factors into product design.
- 2010: Full integration of HSE process into the Group reference system, and incorporation of environmental approach into other processes (purchasing, design, bids, projects, etc.).
- 2009: Environment Department reports to Operations Department.

- 2008: Simultaneous award of ISO 14001 and OHSAS 18001 certification for the entire Aerospace Division.
- 2007: Formal definition of Group environmental policy.
- 2005: First worldwide environmental objectives.
- 2003: Signing of UN Global Compact. First annual environment report.
- 2001: Environment established as a core principle in the Code of Ethics.
- 2000: First ISO 14001-certified site (Hengelo in the Netherlands).
- 1997: First Environment Master Plan.

4.2.1.2 TRAINING AND AWARENESS FOR EMPLOYEES

Thales provides its employees with a range of training, awareness, communication and discussion tools. The aim is to encourage personnel to take a fresh look at the environment, and to incorporate environmental issues into their work at a day-to-day level. A collaborative IT platform provides a forum for hundreds of members from around the world to exchange news and information about the Group. Members include personnel working in areas such as design, communications, etc., in addition to those involved directly in environmental management.

Thales has also developed online e-learning modules to provide employees with an introduction to basic concepts of environmental risk management. The Thales training catalogue additionally includes modules specially designed for the different job families (Purchasing, Design, Sales, etc.).

4.2.1.3 DEDICATED MEASURES FOR PREVENTION OF ENVIRONMENTAL RISKS AND POLLUTION

4.2.1.3.1 A structured organisation

Reflecting Thales's commitment to environmental issues, the Environment Department reports to the SVP, Operations, a member of the Executive Committee. As part of its efforts to continuously improve its environmental performance and ensure effective mitigation of risks, the Group has implemented a two-tier organisation: a corporate environmental team responsible for formulating strategy, policy and

processes and overseeing their implementation across the Group; and a global network of environmental managers responsible for implementing Group policy at region, country and site level. This organisation has been expanded to encompass a network of "product environmental managers" to take environmental issues into consideration earlier in the product development process.

4.2.1.3.2 A continuous improvement process

To meet its environmental objectives, Thales has underscored the importance of managing environmental impacts and risks in a number of ways. In the Group's new reference system, managing environmental impacts and risks has become a process in its own right, to be applied by all employees across the Group. The new process is currently being deployed to all entities worldwide.

The process has two key areas of focus;

- operational sites and activities (buildings, industrial facilities, equipment, work sites),
- products and services (design, bids, projects, etc.).

Required practices for managing environmental impacts and risks, as well as methodological guides and rules applicable at all levels of the organisation, have been defined and disseminated. The new process has already been integrated into various functions, such as Purchasing, Quality, Real Estate and Legal, and is being rolled out to cover all functions and activities within the Group, thereby helping to embed environmental considerations into the design and development of all of Thales's products and services.

4.2.1.4 CONTROLLED RISK – RESERVES AND GUARANTEES FOR ENVIRONMENTAL RISK

Environmental risks are one of the risk factors that may have an impact on the Group's financial situation (see section 1.1.2.4). For many years, Thales has conducted regular analyses and updates of environmental risks to keep pace with changes in its business activities, scientific and technical developments, and emerging environmental challenges.

These analyses are used for risk mapping exercises with the following objectives:

- Verify that site employees and local communities are not exposed to health and environmental risks
- Check that activities do not present a threat to the environment
- Ensure the compliance of activities and products
- Evaluate the impact of new regulations on product design and other activities.

Risk mapping provides an overview of areas for improvement, which are addressed via action plans either at Group level or locally. Since 2007, the Group's Risk and Internal Control Committee has overseen an annual analysis of the risk management system by each of the Group's legal entities, leading if necessary to the development of an improvement plan in collaboration with Group experts. Management of environmental risks also encompasses disposals or acquisitions of assets, in respect of which it is important to limit the type, value and duration of any guarantees provided. Risks arising from accidents such as fire or pollution are managed locally, with the support of the Corporate

organisation if necessary. Accident prevention and management procedures, as well as procedures for handling specific complaints, are in place for such cases. Fewer than 20 incidents were reported worldwide in 2011. Examples include accidental ground spillage of small quantities of substances, limited leakages of coolant fluids, and releases in excess of allowable thresholds that were reported to the authorities.

Thales has not been fined as a result of any environmental litigation. At 31 December 2011, the amount of reserves for environmental contingencies at Group level amounted to €7.7m.

4.2.2 Pollution & waste management

4.2.2.1 LIMITING DISCHARGES

4.2.2.1.1 Industrial atmospheric discharges

In general, Thales's activities do not generate atmospheric discharges, with the exception of those linked to site operation (in particular heating). Industrial discharges to the atmosphere are collected and treated where

necessary by means of air filters, gas scrubbers, etc., and regularly checked. The most frequent discharges involve solvents.

4.2.2.1.2 Solvent discharges to the atmosphere

With the exception of the Mulwala propellant manufacturing plant in Australia, the use of solvents is mainly linked to isolated individual activities such as paintwork detailing or small-capacity component degreasing baths. The quantities used are therefore limited. However, it is difficult to measure atmospheric emissions, since the emanations are not systematically collected. As a result, the quantity of solvents purchased is used as an indicator for analysing consumption in the environmental reporting system. Ninety per cent of solvent purchases

concern just five sites, and 80% are purchased for the Mulwala facility alone. Discharges from this site comply with official licenses, and the authorities do not consider that they present a hazard for the environment. However, the site has implemented a programme aimed at reducing solvent emissions, with rollout of the associated process scheduled for completion at the end of 2012. Importantly, several sites have replaced solvents with detergents, or have eliminated solvent use altogether.

4.2.2.1.3 Industrial wastewater discharges

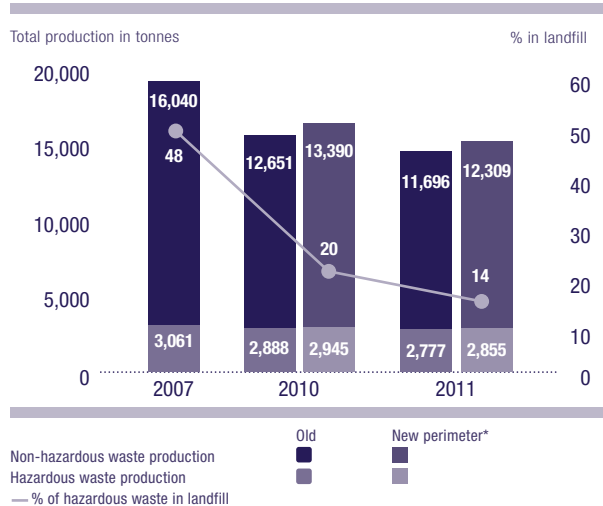
Thales's activities generate little in the way of industrial wastewater discharges. Ninety per cent of such discharges originate from just five sites. Changes in industrial processes and wastewater treatment methods have brought considerable reductions. Key measures include a policy of "zero industrial discharges", whereby 100% of industrial

wastewater is treated and recycled. Some sites that are not connected to public networks discharge their industrial wastewater into surface water, after treatment, in accordance with regulations, and with the approval of local authorities.

4.2.2.2 PREVENTING PRODUCTION, RECYCLING AND ELIMINATING WASTE

TREND IN WASTE
PRODUCTION

(Former and New Scope)



As part of its waste targets, Thales aims to reduce the quantity of waste it produces, as well as the amount sent to landfill. In 2010, the Group exceeded its previous target for reducing non-hazardous waste per person (-20% between 2008 and 2010). Thales is continuing to focus effort on this area, targeting a further 10% reduction by the end of 2012. An 8% cut had already been achieved by the end of 2011. Volumes of waste paper and packaging continue to fall (by 10% and 9% respectively compared with 2010), while recycling of non-hazardous waste has risen, from 31% in 2007 to 55% in 2011. Particular attention is also devoted to hazardous waste, with a significant reduction in volumes driven mainly by the move towards cleaner industrial processes.

As a reminder, the reporting scope in 2010 contains more sites than in 2007 (i.e. 153 sites against only 113 in 2007⁽¹⁾).

4.2.2.3 FIGHTING POLLUTION

4.2.2.3.1 Noise

Noise is also a concern for Thales, despite the fact that its activities generate little in the way of noise pollution. Cooling systems are the commonest sources of noise pollution, and precautions are taken to limit noise levels associated with this equipment. Noise levels are periodically checked, and the few sites where noise is a particular issue are equipped

with acoustic attenuation systems, or only conduct noise-generating activities within specific time periods. In addition, local residents are always notified of future activities that will generate exceptional amounts of noise. The increasing use of computer simulations for pyrotechnic testing, for example, also helps to reduce noise.

4.2.2.3.2 Odour

In general, Thales's activities do not generate olfactory nuisances. Only one entity in Australia is liable to emit odours at significant levels. Systems designed to capture atmospheric releases have been installed at the

facility concerned, and are subject to regular checks. No complaints have been made to date.

4.2.3 Sustainable use of resources

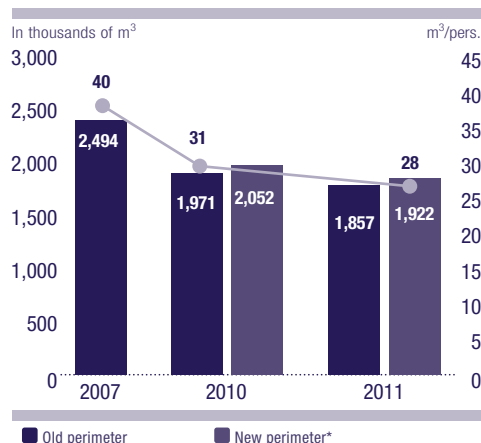
Thales has been developing a natural resources strategy for several years, and has introduced various programmes aimed at controlling and reducing consumption. These programmes focus on areas such

as energy efficiency of buildings and industrial processes, optimisation of water use, and best practice information campaigns for employees.

(1) See section 4.2.7.1 Scope (environmental reporting rules).

4.2.3.1 WATER USE AND SUPPLY ACCORDING TO LOCAL SITUATIONS

TREND IN WATER CONSUMPTION (Former and New Scope)

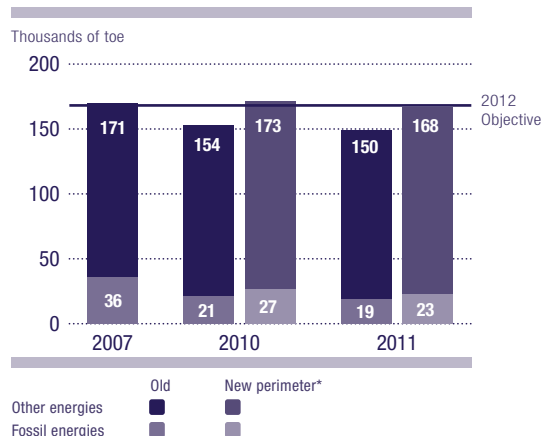


Water is a fundamental resource that needs to be preserved. The programme to reduce water consumption launched in 2000 continues to deliver results, with a 26% reduction achieved at worldwide level, and 48% in France, between 2007 and 2011.

As a reminder, the 2011 scope of consolidation contains more sites than that of 2007 (153 sites against only 113 in 2007⁽¹⁾).

4.2.3.2 ENERGY CONSUMPTION

TREND IN ENERGY CONSUMPTION (Tonnes of oil equivalent)



Thales has exceeded its previous target for cutting energy consumption (an 11% reduction between 2008 and 2010, measured in tonnes of oil equivalent). The Group is continuing to focus effort on this vitally important area, targeting a further 5% reduction by the end of 2012. A 3% cut had already been achieved by the end of 2011.

Limitations on the use of fossil fuels, combined with a raft of energy saving initiatives, are key drivers behind the Group's success in reducing its energy footprint.

As a reminder, the 2011 scope of consolidation contains more sites than that of 2007 (153 sites against only 113 in 2007⁽¹⁾).

4.2.3.3 LAND USE

When choosing locations for its sites, Thales takes into account environmental criteria including climate-related and geological risks, the impact of its activities on local communities and the environment, and land use factors. The objective is to optimise compatibility between the Group's activities and the environment. Although the majority of the Group's sites (56%) are located in industrial areas, activities such as pyrotechnics need special locations and large buffer zones need to be set aside because of the risks involved. These buffer zones account for almost 78% of the total area of the Group's sites. However, steps are taken to enhance their value by promoting biodiversity, for example by

converting them into pasture or even arable land. Soil erosion is also taken into account whenever warranted by local geographical conditions.

Since 1998, the Group has also been engaged in an extensive pollution risk assessment programme. Few sites have shown significant signs of contamination, and where contamination has been identified, it is usually due to earlier industrial practices. When remediation is feasible, decontamination work is carried out to minimise the impact on natural resources and the environment by ensuring that waste is treated locally rather than transferring pollutants to other sites. The water table is periodically monitored at industrial sites and sites located in industrial areas.

(1) See section 4.2.7.1 Scope (environmental reporting rules).

4.2.3.4 ECO-DESIGN

The Group's 2011 environment policy update provided a stronger focus on eco-design, and confirmed Thales's commitment to "design, produce and supply products and services that incorporate health, safety and environmental requirements", "contribute to the development of environmentally friendly technologies", and "participate in national and international programmes to improve understanding and protection of the environment". The Group's reference system underpins this policy by incorporating an environmental focus into all relevant processes, such as bid and project management, design, development, through-life support and decommissioning. A network of product HSE (Health, Safety, Environment) managers has been set up to oversee implementation of the reference system. A range of training and communications tools has been developed to support the network, including seminars, e-learning modules, and a new training programme dedicated to eco-design that is delivered by Thales

University and is available to all Group employees. A module aimed at enhancing awareness of eco-design issues is also incorporated into training programmes for product designers and developers. In addition, Thales is developing a series of tools and methods to support the eco-design initiative, including a global database listing the environmental characteristics of over 300,000 components and around 3,000 chemical compounds. The database contains compliance data for regulations such as REACH (*Registration, Evaluation, Authorisation and Restriction of Chemicals*), and is periodically updated to include the latest changes. Like all industry players, Thales is required to identify hazardous substances present in the components it uses, and to disclose this information to stakeholders (customers, regulatory bodies, etc.). Other tools are being developed for use in conjunction with the database to guide designers in their choices.

4.2.3.5 INNOVATING FOR THE DEVELOPMENT OF GREEN TECHNOLOGIES

Thales is committed to developing equipment that combines innovative technologies with a smaller environmental footprint, in spite of the tough security and reliability constraints on the majority of its products. Breakthrough technologies and new architectures are key to reconciling these two elements while at the same time maintaining basic functionalities and adapting to external change. Reflecting the Group's commitment to green technologies, Thales has adopted a number of innovative ideas to reduce energy consumption in its latest generation of radar systems, such as the use of gallium nitride (see box)

and low-consumption multi-layer processors, and the elimination of energy-hungry moving parts. New systems architectures help reduce the number of radars that platforms need to carry, as well as making radars more compact and lightweight, thereby cutting CO₂ emissions. Thales has also developed new concepts for passive radars that do not emit energy themselves, but use existing radio and television broadcast signals. Finally, to combat radar interference from wind turbines, the Group's specialists have devised a series of algorithms that enable wind turbines and radars to operate in the same vicinity.

Thales: First supplier in Europe of radars incorporating gallium nitride (GaN)

For several years, Thales has been conducting research and development work on gallium nitride (GaN), a new material whose unique properties can help reduce the environmental impact of electrical and electronic equipment.

A real technological breakthrough, gallium nitride offers exceptional potential for reducing energy consumption thanks to its excellent thermal performance, and requires fewer components to deliver the same level of power.

This extremely promising technology is the subject of a new R&D programme being conducted by Thales Research & Technology on the design of eco-friendly power supplies.

Focus 1 – Supply chain initiative at Thales Air Defence, Belfast (Northern Ireland)

To reduce the volumes of packaging and raw materials as well as the number of transport miles required for the manufacturing process, Thales Air Defence in Belfast set up several working groups comprising Thales employees and representatives of key suppliers to develop and implement new ideas. The key benefits of the initiative are as follows:

- 25% reduction in transport,
- 93% reduction in packaging,
- 85% of light alloys re-used.

Focus 2 – A more eco-friendly tube

Thales Electron Devices has developed a horizontal multi-beam klystron featuring waveguides pressurised with air rather than sulphur hexafluoride (SF6). SF6 has a global warming potential of almost 23,000 times that of CO₂, and is no longer part of the design process. The tube is being manufactured for Deutsches Elektronen Synchrotron (DESY), Germany's leading particle physics research centre. It will be used in the new XFEL particle accelerator to be installed at the centre's Hamburg facility.

Focus 3 – A tree for every takeoff...

Air crews require the equivalent of an entire tree in paper documentation every time an aircraft takes off. Thales's teams in Toulouse have developed TopWings, the digital alternative to paper documentation in the cockpit. This innovative solution comprises a single system composed of hardware and software subsystems that incorporate global data such as aerial maps, allowing aircraft to exchange information with airline operations teams on the ground in real time. The solution increases operational efficiency while reducing pilot workload, cutting the amount of paper documentation required and optimising airline costs.

4.2.4 Fighting climate change

	2011	2010
SCOPE 1*	94,330	124,028
SCOPE 2**	181,127	176,445
Sub-total (1+2)	275,457	300,475
SCOPE 3***	105,979	111,441
TOTAL (in tonnes)	381,436	411,914

Scope according to the breakdown of the GHG Protocol

The scopes group together CO₂ emissions related to:

* Gas, coal, fuel, substances;

** Electricity and steam;

*** Business trips.

Since Thales introduced indicators of CO₂ emissions and set emission-reduction targets several years ago, awareness of the impact of Thales's activities on climate change has grown and a number of new opportunities have been identified. To measure its greenhouse gas emissions, Thales has developed a methodology that is consistent with its activities and is based on the Greenhouse Gas Protocol created in 1998 by the World Resources Institute and the World Business Council for Sustainable Development. For a number of years, Thales has been

taking steps to reduce its carbon footprint by cutting CO₂ emissions caused by its activities (energy consumption and the use of substances that contribute to the greenhouse effect) and by business travel. CO₂ emissions have been significantly reduced thanks to local improvement initiatives undertaken in partnership with suppliers and the "travel less, travel better" policy. Special events and communications campaigns are regularly organised to help change employee behaviours by highlighting the benefits of using alternative modes of transport.

4.2.4.1 DRIVING THE ENVIRONMENTAL BENEFITS OF RAIL TRANSPORT...

In today's increasingly urbanised world, creating sustainable conditions for urban mobility and inter-city travel is an important way of reducing CO₂ emissions. Thales plays an important role by supplying transport operators with the systems they need to operate their infrastructures more efficiently while improving the service they provide to customers. For example, Thales deploys interconnected public transport fare collection systems that allow passengers to use different modes of transport at regional or national level with a single ticket.

Thales was the first supplier in the world to deploy technology associated with the new European rail signalling standard, and today is one of

the leading players. All the major players in the transport sector have contributed to this new standard, which is now being rolled out, and will eventually form the basis of an interconnected Europe-wide rail network. In the urban transport sector, Thales leads the way in automated train control systems based on CBTC (Communications- Based Train Control) technology, which significantly increases the number of trains that can operate on a given line. Thales's CBTC systems are deployed in new metro systems, or as part of upgrades to existing lines. Thales's solutions also allow rail operators to cut their energy consumption, thereby contributing to a further reduction in the carbon footprint of rail transport.

4.2.4.2 ... ROAD TRANSPORT...

Toll systems for trucks, like those introduced in Germany, Switzerland and Austria, help regulate road traffic flows and provide revenues for vital infrastructure upgrades. As a member of the "Eco-taxi" consortium, Thales is deploying an EU-compliant heavy goods vehicle toll collection

and control system in France through the company Ecomouv' (see box). Thales is also a recognised expert in highway supervision and information systems designed to improve the driving experience. Recent contract awards in this segment include the NTIS project for the UK Highways Agency in 2011.

The Eco-taxi heavy goods vehicles toll scheme project

From mid-2013, the French government's Ecotaxe toll collection scheme will be applied to French and foreign heavy goods vehicles of over 3.5 tonnes using roads in mainland France. In addition to the environmental benefits of encouraging the transfer of traffic from road to rail and river, the scheme also delivers financial benefits.

Heavy goods vehicles covered by the scheme will be equipped with an onboard GPS device, which will allow the toll to be calculated on the basis of vehicle class and distance travelled. Toll collection will be enforced automatically, with equipment installed on fixed gantries deployed around the road network, or manually by enforcement staff.

Thales is supplying the vehicle tracking system, which includes the technical supervision system and troubleshooting centre. Thales is also contributing to the design of the satellite positioning solution, and the overall security of the Ecotaxe system.

4.2.4.3 ... AND AIR TRANSPORT

With air traffic volumes should continue its expansion in the coming years, there is a need for the air transport sector to reduce its environmental footprint. Thales is part of the Clean Sky European research programme, a public-private partnership aimed at reducing CO₂, nitric oxide and noise emissions of aircraft by 40%, 60% and 50% respectively between now and 2020. As a founding member of the programme, Thales is coordinating one of the six main research topics, "Systems for Green Operations", which aims to reduce aircraft energy consumption through trajectory management, notably during take-off and approaches.

Thales is also coordinating Clean Sky's "Technology Evaluator", a simulation tool that will be used to assess the environmental impact of the programme. In addition, the Group is taking part in the SESAR programme, whose objectives for 2020 are to enhance air traffic management, improve safety, and achieve a 10% reduction in related consumption and emissions by optimising vertical and horizontal trajectories.

4.2.4.5 MONITORING THE CLIMATE

As the global climatological and environmental crisis continues to unfold, with inevitable effects on the planet and on human life, the industrial and scientific community is mobilising to provide solutions. Thales is a key player in space-based Earth observation programmes, providing high-resolution optical and radar imaging systems that promote a better understanding of climate change and more effective environmental monitoring. The Poseidon altimeter, for example, uses mapping of ocean surface topography to determine patterns of ocean circulation, improving our understanding of this important component of the planet's climate system.

The MERIS camera, meanwhile, provides high-quality images of the planet and its oceans on a daily basis, showing the continually changing face of the biosphere by recording phenomena such as plankton efflorescence and changes in vegetation cover. As part of the European GMES (Global Monitoring for Environment and Security) programme, the European Space Agency has selected Thales Alenia Space as prime contractor for the design, development and integration of the Sentinel-3 satellite, which will provide data on sea surface topography, as well as carrying out ice, land and vegetation monitoring.

4.2.4.6 PROMOTING ENGAGEMENT WITH CLIMATE CHANGE

In addition to reducing greenhouse gas emissions from its own activities, Thales encourages its partners to take a responsible attitude to the issue. For example, since 2009 the Group has co-chaired the Carbon working group of the French aerospace industries association (GIFAS), which provides methodological guides and organises briefing sessions to articulate the industry position, disseminate best practice, and foster a better understanding of key challenges and obligations. Case studies by the companies involved, including Thales, have helped illustrate the approach. Thales is also engaged in partnerships with other industry

players as well as research laboratories and government agencies. A new university chair in greenhouse gas emissions monitoring, inaugurated in 2011, provides a perfect example. Scientific partners supporting the professorship include the Laboratoire des Sciences du Climat et l'Environnement (LSCE), the French atomic energy commission (CEA), the University of Versailles Saint-Quentin-en-Yvelines and the French scientific research agency (CNRS), while industrial partners include Veolia Eau and Thales Alenia Space.

Thales and the Carbon Disclosure Project

In 2011, Thales scores 80/100. Since 2005, Thales has reported to the Carbon Disclosure Project (CDP), in complete transparency, on its climate change strategy and its progress in reducing CO₂ emissions. The CDP brings together over 550 institutional investors managing assets of 71 trillion dollars worldwide. Its aim is to assist investment decisions taken by its members by informing them of the effects of climate change on companies.

4.2.5 Protection of biodiversity

Particular attention is paid to protecting plant and animal species at a number of sites. Inventories of species are carried out, either on a volunteer basis or in partnership with the authorities or local biodiversity protection organisations. The Moirans site, for example, is located in France's Isère department, an area of exceptional biodiversity which is home to over half of the country's vertebrate species. However, the Isère has already lost twenty species of breeding birds, as well as three species of mammals and one species of reptiles. Species recorded on the Thales site itself include beech marten, barn owl, hedgehog, kestrel and red-legged partridge. Site employees have taken a number of steps aimed at improving habitats, including landscaping, creation of natural areas, and provision of feeders and nesting boxes. In addition, a specialist has conducted a survey to record all the species present on site. Specific features have also been introduced at other sites to preserve traditional habitats.

At Hengelo (Netherlands), for example, the forests and open grasslands which make up more than half of the Thales site's 39 hectares provide a haven for a range of animal species, including predators such as

martens, wildcats and birds of prey, as well as rabbits, hares, pheasants and even deer. Sharing habitat with Thales's operations can present problems in that some of these animals cause significant damage to electrical installations and cables. Nonetheless, the majority of the species recorded are protected in the Netherlands, and there are even rules prohibiting them from being "disturbed". So the damage is accepted – and repaired. The plant life that flourishes in this enclosed area is managed using 100% natural techniques. A neighbouring farmer cuts the grass in part of the grassland, and the remainder is grazed by sheep. The oldest buildings at the site are home to several species of bat, monitored by a local neighbourhood group. Respect for life and a commitment to biodiversity goes back a very long way at Hengelo: a few years ago, human remains dating back to the stone age were found on the site, and are now on display in the local natural history museum. Measures to protect and preserve biodiversity are becoming increasingly common at all the Group's sites. All new plant species introduced in landscaping projects, for example, are subjected to careful analysis to ensure that they are compatible with the local environment.

4.2.6 Environmental indicators

The table below contains a number of items for assessing trends in the Group's environmental performance.

The approach selected integrates new countries/entities every year, with performances assessed in two phases:

- former performance for the 2007-2010 period,
- extended 2010 scope including 27 countries and 154 entities, 2010 being the reference year for the new 2011-2012 targets,
- The GHG Protocol CO₂ emission factors changed on June 2011. 2010 data have been recalculated accordingly.

		Units	2007-2010 evolution	2010	2011
Energy					
Electricity consumption	✓	'000s toe	-4.5%	142	141
Per revenues electricity consumption	✓	top/k€		11.9	11.9
Fossil energy consumption	✓	'000s toe	-42%	27	23
Per revenues fossil energy consumption	✓	top/k€		2.3	1.9
Total energy consumption	✓	'000s toe	-11%	173	168
Per revenues total energy consumption	✓	top/k€		14.5	14.1
Water					
Water consumption	✓	'000s m³	-21%	2,052	1,922
Per revenues water consumption	✓	m³/k€		171	162
Waste					
Production of non-hazardous waste	✓	tonnes	-21%	13,390	12,309
(without exceptional waste)	✓				
Per capita production of non-hazardous waste	✓	kg/pers	-19.8%	190	175
(without exceptional waste)	✓				
Percentage of non-hazardous waste recovered ⁽¹⁾	✓	%	31%	82	84
Production of hazardous waste ⁽²⁾	✓	tonnes	-4.6%	2,945	2,855
Percentage of hazardous waste recovered ⁽¹⁾	✓	%	22%	81	80
Industrial waste water					
Waste water discharge		'000s m³	-57%	531	524
CO₂					
CO ₂ emissions from energy use	✓	'000s t CO ₂	-18.3%	247	237
Per capita CO ₂ emissions from energy use	✓	kg CO ₂ /pers	-17.3%	3,509	3,373
CO ₂ emissions linked to Kyoto Protocol substances	✓	'000s t CO ₂	-10%	37	21
o/w CO ₂ emissions linked to SF6	✓	'000s t CO ₂	-27.8%	25	15
CO ₂ emissions from business travel (company-wide)	✓	'000s t CO ₂	-14.7%	111	106
Per capita CO ₂ emissions from business travel	✓	kg CO ₂ /pers	-14.3%	1,665	1,582
CO2 SCOPES according to GHG Protocol					
Scope 1 (gas, fuel oil, coal, substances)	✓	'000s t CO ₂	-30.7%	124	94
Per revenues Scope 1	✓	kg CO ₂ /k€		10.4	8
Scope 2 (electricity, steam)	✓	'000s t CO ₂	-6%	176	181
Per revenues Scope 2	✓	kg CO ₂ /k€		14.7	15.3
Scope 3 (business travel by air, rail, road)	✓	'000s t CO ₂	-14.7%	111	106
Total scopes 1, 2 and 3	✓	'000s t CO ₂	-16.5%	412	381
Other					
ISO 14001-certified entities	✓		70%	118	118
Staff concerned as percentage of total workforce	✓	%	15%	75%	77%
Accident with significant impact			-		

(1) Not sent to landfill, nor incinerated with no energy recovery.

(2) Excluding exceptional waste or explosives.

(✓) Indicators which were checked by Ernst and Young for the 2011 reporting period and that led to a limited assurance conclusion.

4.2.7 Reporting rules

4.2.7.1 SCOPE

Most of the environmental data recorded relates to Thales's major countries of operation, and includes companies that are more than 50% owned or controlled by Thales. Because of changes in the scope of consolidation of the Thales Group (acquisitions and divestments), a

clearly defined set of criteria, including type of business and number of employees, has been established to decide which entities are included in the scope of environmental data reporting.

4.2.7.2 REPORTING PROCEDURE

The Group-wide reference system includes an environmental reporting procedure including instructions for each successive stage of data entry, validation and consolidation. The procedure also defines the roles and

responsibilities of each staff member involved and includes traceability and archiving guidelines.

4.2.7.3 INDICATORS

Environmental concerns change over time. Environmental performance indicators therefore have to evolve to stay abreast of developments and reflect the Group's policy priorities. Different interpretations of certain indicators can lead to conflicting data from different countries. Thales is therefore adapting the indicators to make the environmental

reporting system more efficient, building on lessons learned from previous years and refocusing the reporting effort on current and future environmental concerns. The reporting tool includes a full description of each indicator, and a structured method for calculating carbon footprints is also available.

Reporting tool

An environmental reporting and management tool for the entire scope of consolidation of the Thales Group is available on the corporate intranet. This tool consolidates the data from each entity, country and geographic area, and for the Group as a whole. It checks data

consistency and suggests country-specific units of measurement, conversion factors, etc. The same tool provides access to the rules for data entry, validation and consolidation defined in the reporting procedure.

Performance

For easier analysis of environmental data, the Group reporting system incorporates the following principles:

- Gross values (e.g. water consumption in m³) are weighted with ratios (e.g. per capita water consumption) to take changes in the scope of consolidation (acquisitions and divestments) into account.
- Group targets are set for a given period. During that period:
 - » Changes in performance are assessed on a like-for-like basis (i.e. at constant scope of consolidation).

- » Coefficients such as emission factors for CO₂ emissions are constant.
- If emission factors are modified at the start of a new period, the performance data for the reference year are recalculated using the new coefficients.
- Methodological guides to environmental reporting and calculation of CO₂ emissions are available in the Group reference system.

4.2.8 Assurance report on certain environmental performance indicators

This is a free translation into English of the Assurance report on certain environmental performance indicators issued in French and it is provided solely for the convenience of English-speaking users.

To the Chairman of the Board,

At your request and in our capacity as Thales statutory auditor, we planned and performed the work to provide limited assurance on all meaningful aspects of certain environmental performance data selected by Thales ("the data"⁽¹⁾) for 2011, identified in this report by the symbol ✓, in the indicator board on page 221. The data were prepared in accordance with:

- The Baseline for environmental data reporting, published 29 October 2010, and
- The CO₂ Reporting Guideline, published 16 February 2012 hereinafter the "Reference Procedures".

The Environment Department was responsible for preparing the performance data and establishing the Reference Procedures, which can be consulted at Thales headquarters and are described in part in the Environment Report 2011.

It is our responsibility to express an opinion of this data. Our review was conducted in accordance with the professional standards applicable in France and the International Standard on Assurance Engagement (ISAE 3000), published in December 2003. Our independence is defined by French legislation and regulations and the French Rules of Professional Conduct for Statutory Auditors.

Our opinion concerns the relevant data only, and not the complete chapter related to the Corporate Responsibility. Higher level of assurance would have required a more extensive review.

Nature and scope of the review

To support our assurance conclusion, we have planned and performed the work to obtain all the information and explanations considered necessary:

We have reviewed the Reference Procedures regarding their precision, relevance, reliability, understandability and completeness.

We have interviewed persons in charge of environmental reporting at the corporate level to verify compliance with the Reference Procedures.

As part of our review, we have selected a limited purpose non-statistical sample of 8 sites or subsidiaries⁽²⁾ for the environmental indicators. Sites were selected based on their activity, their contribution to the Group's consolidated data, their location and the findings of our previous reviews. For these sites and units, we have verified the understanding and application of the Reference Procedures and, on a test basis; verified the calculations and data reconciliation with the supporting documentation.

Our review covered 14% to 84% of the Thales Group consolidated environmental data.

Comments on the reference procedures

We bring the following comments on the reporting process to your attention:

- Thales' Reference Procedures appropriately describe the reporting scope, steps, as well as the roles and responsibilities of the participants. They are distributed in English and French to the various participants.

Environmental data reporting

- Thales' environmental reporting is based on a reporting software deployed at all units. This software has made environmental data collection more efficient.
- Environmental indicators are listed in the appendix of the Baseline for environmental data reporting, however, explicit definitions are not available. The definitions of these indicators are present in the reporting software; however, the indicators also need to be explained in the reference sent to the contributors.
- For some sites shared with other external entities, the energy or water consumptions are estimated on the basis of the site total consumption and reallocation to the different entities in proportion to the number of persons and / or surface, which may cause a significant inaccuracy.
- Wastes are monitored on a heterogeneous way within the Group. The various approaches among the sites need to be harmonized.

Greenhouse gases Reporting

- Thales' reporting on greenhouse gas emissions is based on a reporting software deployed at all units. This application has made greenhouse gases data collection more efficient.
- Thales' greenhouse gas reporting is based on the Greenhouse Gas Protocol and emission factors have been updated in 2011.

Conclusion

Based on the assurance work performed, nothing has come to our attention to suggest that the reviewed indicators have not, in all material respects, been prepared in compliance with the Reference Procedures.

Paris La Défense, 12 March 2012

French original signed by

The statutory auditors

Partner in charge of the
Cleantech & Sustainability
department of ERNST &
YOUNG

ERNST & YOUNG Audit

Nour-Eddine Zanouda

Christophe Schmeitzky

(1) Environmental indicators:

- Energy: electricity and fossil energy consumption
- CO₂: CO₂ emissions, linked with energy consumption, substances, SF₆ and transport (business travels and company vehicles)
- Water: water consumption
- Waste: waste production (common, hazardous, recovered)
- Management system: number of entities and % Thales staff in a ISO 14001 certified entity

(2) Elancourt (Thales Systèmes Aéroportés, Thales Services, Business Line Missile Electronics, Thales Optronique), Thales Electron Devices (TED) Thonon, Thales Nederlands B.V. Hengelo, Thales Transportation Systems GmbH Amstadt, Thales Land Australia (Mulwala), Thales USA, Thales Canada and Thales Mexico.

4.3 RELATIONSHIPS WITH STAKEHOLDERS

The strong commitments made by the Group and formalised in its Code of Ethics, demonstrate its willingness to act responsibly. Certain actions

conducted by Thales in the context of its social responsibility target stakeholders other than its own employees.

4.3.1 Territorial, economic and social impact of the business

4.3.1.1 THE TERRITORIAL POLICY AND PROGRAMME OF GERIS IN FRANCE

The territorial policy is based on close ties with local institutions and communities. As far as possible, subcontractors and suppliers are selected locally in order to support regional business.

In France, Thales has formed seven labour market areas to ensure better coordination of its actions. In each labour market area, a Thales representative responsible for developing ties with local and regional authorities, economic and social players, universities, schools and training centres, coordinates the territorial programmes.

For twenty years, Thales has also had a dedicated company, Geris Consultants, the delegated agent for a public service "revitalisation"

mission, which offers its expertise to groups, territorial authorities, and small and medium businesses being formed or developing in regions affected by the loss of industrial jobs.

The revitalisation missions conducted by Geris Consultants have created 3,210 jobs in France, including 609 in 2011 alone.

Within the framework of a free and confidential process, Geris Consultants also assists those forming or buying a company in their projects. In 2011, 52 new projects were assisted, raising the number of active projects to 90.

4.3.1.2 GROUP INITIATIVES TO SUPPORT PEOPLE WITH DISABILITIES

In 2011, the Group broadened the scope of its partnerships aimed at providing training and careers guidance for young people with disabilities:

- Partnership with Pierre et Marie Curie University (UPMC Paris) to provide employment follow-up and support for students with disabilities,
- Signature of agreements with the Universities of Bordeaux and Toulouse, whereby businesses in the region help disabled secondary-school students progress towards higher education, and oversee disabled students in their search for jobs,
- Partnership with the Université Paris-Descartes for the introduction of a bachelor's degree in supportive care and attention for people suffering from autism.

Thales also participates in the development of innovative products based on technologies developed within the Group in order to provide concrete assistance to disabled persons, including:

- the "Eyeschool" system, which enables young visually impaired students to capture on their computer what the teacher writes on the board, and vocalise documents handed out in the classroom.

- a "GUIDEO" system that, working through a smartphone, helps visually-impaired people find their own way around a building (this system will be built into Thales's new buildings in Gennevilliers and will equip ESSEC's campus in Cergy),
- "a smart wheelchair guidance system" using artificial intelligence technologies with the participation of the Fondation Garches in the framework of the three-year partnership with ISEN.

At the end of 2006, in conjunction with the French Standards Agency AFNOR, Thales took the initiative to bring together a group of companies to form a working group and design a standard defining a "disabled-friendly" business. Thales pursued its cooperation with AFNOR in 2011 by releasing a tool called "OK Pilot", which businesses can use to self-assess their performance against the standard's requirements and draw up the necessary action plans for improvement.

4.3.2 Dialogue with organisations

4.3.2.1 PARTNERSHIPS WITH PROFESSIONAL, INTERNATIONAL AND NON-GOVERNMENTAL ORGANISATIONS

The partnerships developed with a number of organisations give Thales the opportunity to share best practices with other companies, to anticipate changing regulations and standards, and to promote fair competition conditions among the players of its business sector.

As a result Thales cooperates closely with a number of institutions, such as:

- the United Nations;
- the Organisation for Economic Cooperation and Development (OECD);
- the European Commission;
- the International Chamber of Commerce (ICC);
- the AeroSpace and Defence Industries Association of Europe (ASD);
- BUSINESSEUROPE;
- the Aerospace Industries Association of America (AIA);
- the initiative of American defence companies on commercial ethics and business conduct (Defense Industry Initiative – DII);
- various forums established by the main British companies in the Defence sector, including: Defence Industry Anti-Corruption Forum, A | D | S Supply Chain 21 Task Force, UK Defence Industry Business Ethics Forum, Institute of Business Ethics;
- the Ethics Network Australian Defence Industry (ENADI);

- the Groupement des Industries Françaises Aéronautiques et Spatiales (GIFAS);
- the Mouvement des Entreprises de France (MEDEF – the French employers' confederation);
- the Observatoire sur la Responsabilité Sociétale des Entreprises (ORSE).

In the context of this policy of dialogue, Thales chairs the ethics and corporate responsibility working group within the Groupement des Industries Françaises Aéronautiques et Spatiales (GIFAS – the French Aerospace industries association) and the Business Ethics Committee of the AeroSpace and Defence Industries Association of Europe (ASD).

In the United States, Thales was the first non-American company, in 2002, to sign the Defense Industry Initiative (DII). In the United Kingdom, its British subsidiary was one of the very first members of the Defence Industry Anti-Corruption Forum, established by the country's top defence companies and professional associations in the sector.

Thales is also developing a policy of conducting regular and high quality dialogue with its stakeholders, particularly the financial community, socially responsible investment funds, the ratings agencies, non-financial analysts, etc. This policy is founded on a rigorous and proactive approach to ethics and corporate responsibility.

Thales also maintains regular contacts with NGOs, such as Transparency International, particularly on questions related to business ethics, and with Amnesty International and Saferworld on human rights issues.

4.3.2.2 THALES'S INITIATIVES WITH CHARITABLE ORGANISATIONS

In most countries, Thales's companies have joined forces with a large number of charitable organisations, to which they give financial and material backing. A few examples follow:

- In the United Kingdom, through its "Charitable Trust", Thales UK also continued in 2011 to support "Youthnet", a charity aiming to help young people aged 16 to 24 years old by answering their questions, particularly in terms of career choices,
- In the United States, a "Charitable Contributions Committee" was set up to organise actions in support of both local and national associations. In 2011, the committee gave support to the "American Cancer Association", the "American Heart Association", and the "America's 9/11 Foundation",
- In Portugal, Thales invested in the "Coração Amarelo Association", which combats loneliness and isolation by buying orthopedic equipment,

- In the Netherlands, Thales was keen to help the "Technology Museum" and the "Nautical Museum", along with the "Opkikker Foundation", which organises activities for children suffering from a serious illness and their family,
- In France, Thales continued its commitment to the La Chaîne de l'Espoir (Chain of Hope) association in 2011, having initiated a three-year agreement in 2009. The Group's annual donations are intended to fund initiatives to support sick children in Afghanistan.

In view of the sheer scale of the disaster that hit Japan in March 2011, Thales made a €100,000 donation to the Fondation de France disaster fund. The donations were redistributed to Japanese associations and used to help those hardest hit by the disaster.

4.3.3 Relations with suppliers: a responsible approach

As at 31 December 2011, the annual total for the Group's purchasing commitments remained stable (around €6 billion), equivalent to around half of the Group's consolidated revenues. In view of the nature of the Group's operations, suppliers based in EU countries account for the great majority of purchases and French suppliers account for 40%.

The Thales purchasing policy is aimed at working with a high-performance and reliable supplier base, capable of delivering technically compliant, competitive products and services. Once they have been selected by competitive procurement processes, suppliers must be able to support Thales in achieving its business goals in complying with export control, environmental, economic, ethical and social requirements as well as with national and international regulations.

In 2010, Thales signed a Charter of best practices between contractors and SMEs. This Charter represents a commitment on the part of the Group, defining 10 practices for responsible purchasing. It helps build a balanced relationship between suppliers and their customers, within an atmosphere of mutual trust and with full knowledge of and respect for their respective rights and obligations.

Thales also adheres to the United Nations Global Compact, which aims to define and implement practices that "foster a more beneficial relationship between business and society". Consequently, the company asks its suppliers to follow the principles of "corporate citizenship" promoted by

the Global Compact relative to the following: labour standards, corporate governance, protection of the environment, ethics as part of business ethics and export control.

Over the course of 2011, Thales' commitment to corporate social responsibility towards suppliers is particularly conveyed by:

- The deployment of the "Company purchasing and corporate social responsibility" charter, whereby Thales requests its suppliers to adhere to its Corporate Responsibility initiative and comply with both the principles contained within its Code of Ethics and those belonging to the Global Compact and the OECD, particularly regarding human rights, working standards, environment and corporate governance.
- An annual self-assessment questionnaire with a view to the deployment of the principles contained in the "Company Purchasing and Corporate Social Responsibility Charter", through 16 questions: nine dedicated to labour standards, three to the protection of environment, two to corporate governance, one to business ethics and one to export control. By the end of 2011, more than 1,476 Thales suppliers had signed the Purchasing and Corporate Responsibility Charter and filled in the assessment questionnaire. This represents 49% of the target. On this basis, suppliers' overall environmental, social and governance performance (ESG) stands at 9.2 on a scale of 10.

4.3.4 Fair practices

4.3.4.1 PREVENTION OF CORRUPTION

4.3.4.1.1 An internal compliance programme

Corruption represents a major risk for multinational corporations, particularly for those that bid on public contracts. The practices of solicitation, extortion or passive corruption are still very frequent in countries with weak governance. This type of practice can expose a company and its officers to civil and criminal penalties and, in addition, be extremely damaging in terms of reputation.

At the end of the 1990s, in order to mitigate these risks, Thales established a policy to prevent corruption which has since then been incorporated in a continuing improvement process.

The Group's compliance and integrity programme is regularly evaluated and adjusted on the basis of changes in external risks (new laws, for example, as was the case in 2011 when the Bribery Act took effect in the United Kingdom), in internal risks (areas of improvement identified by the internal audit, the risk committee, etc.) and the Group's commercial strategy.

This global compliance and integrity programme is based on:

- an international organisation and dedicated resources responsible for ensuring the implementation of systems and procedures to prevent corruption;
- the integration of procedures to prevent the risks of corruption within the company's operational processes, particularly during commercial transactions involving third parties;

- internal alert procedures available to the employees;
- a robust internal control and audit process;
- programmes to inform, increase awareness and train Group employees primarily intended for those with the greatest potential exposure (marketing, sales, projects, purchasing).

The policy of "zero tolerance" for any act of corruption is fully supported by the Group's Board of Directors and the Executive Committee.

The participation of the Thales Group within professional, intergovernmental and non-governmental organisations is also one of the key factors in its policy to prevent corruption, to share and disseminate best practices. Thales has contributed to the establishment of directives and common standards for all business sectors, such as the "Good Practice Guidance on Internal Controls, Ethics, and Compliance" of the OECD and – more specifically for the Aerospace and Defence sector – the Common Industry Standards in Europe, and the Global Principles of Business Ethics, published by the AeroSpace and Defence Industries Association of Europe (ASD) and the Aerospace Industries Association of America (AIA).

An ethics policy backed by a solid organisation

Since 2001, Thales has established an organisation designed to promote a culture of corporate responsibility throughout the Group, develop and implement an ethics policy, and oversee its deployment. Confirming the central place of ethics and corporate responsibility within Thales's strategy, the Ethics and Corporate Responsibility Committee is one of the three management bodies in the Group, together with the Executive Committee and the Risks and Internal Control Committee. The mission of this Committee is to monitor changes in ethical standards and define Thales's policy on corporate responsibility.

The role of the Ethics and Corporate Responsibility Department is to implement the policy defined by the Committee. It is led by a Vice President, who reports directly to the SVP⁽¹⁾ for Audit and Internal Control (who reports in turn to the Chairman and Chief Executive Officer). The Vice President, Ethics and Corporate Responsibility is also a member of the Risks and Internal Control Committee. The scope of responsibility of Audit and Internal Control, which integrates ethics and corporate responsibility, now covers the management of all risks.

The Ethics and Corporate Responsibility Department is also charged with updating the Code of Ethics, which sets out the general rules and values which frame Thales's actions for development.

Ethics officers have been deployed within an international network in order to ensure the dissemination of the Code of Ethics and its principles in all the Group's units. Their role is to oversee the training and awareness of the staff, answer questions about the application of the Code, and also to define the Group's ethical process relating to local practices and laws, for example in terms of gifts and hospitality or even ethics alerts procedures. They are also responsible for informing the Ethics and Corporate Responsibility Committee of any violations of the principles set out in the Code.

An ethics alert process has been established to allow any Group employee to obtain information and advice on interpreting the Code and to report, with complete confidentiality, any case of failure to comply with the rules of the Code which could generate liability for the Group.

(1) Senior Vice President.

4.3.4.1.2 Strict anti-corruption processes in dealings with third parties

Business risks are addressed throughout all governance processes. From the preliminary phase of a project, these operating processes provide for action plans to mitigate business risks, focusing particularly on the prevention of corruption.

Thales strictly governs the use of advisers and consultants through a very detailed procedure, which requires in-depth preliminary verifications (*External Due Diligence*) – reinforced through the analysis of red flags or risk factors, as well as the appropriate declarations and commitments from these advisors or service providers. Designed by the Group's Ethics and Corporate Responsibility Department, this procedure—which defines how Thales identifies, selects, appoints, manages and pays its "Business Advisers"—was significantly improved in 2010, particularly with regard to the use of agents and intermediaries paid with success fees.

Also, in order to enhance its strategy to expand its international presence and its footprint in target countries, in 2010 Thales established

a procedure for the qualification, selection and management of its local industrial partners. This procedure is intended to seal lasting partnerships with domestic industrial operators that meet the same requirements for integrity as those demanded by the Group. In 2011, this procedure was strengthened with enhanced control and anti-corruption procedures in Purchasing.

An international, dedicated organization, independent of the operational commercial structures, conducts the verifications required for these two procedures of qualification and selection, enhanced by outside studies and diagnostics performed by companies that specialise in business intelligence – during the phases to select the business advisers and industrial partners of Thales.

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.

4.3.4.2 ACTIONS TO SUPPORT HUMAN RIGHTS

Thales signed the United Nations Global Compact in 2003 and adheres to its ten principles, particularly with respect to human rights and labour law which are inspired by the Universal Declaration of the Human Rights and the ILO declaration on the principles and fundamental labour rights. These principles are implemented on the basis of agreements and good practices that ensure that its activities constitute responsible conduct.

In order to ensure strict control of its exports, at both national and international levels, Thales has established a solid global organisation and is continually strengthening its internal measures and procedures. This strong commitment is intended to protect the national security of democratic nations and contribute to the fight against the proliferation of weapons of mass destruction; Thales therefore approves the proposed adoption by the United Nations of a treaty on arms trading.

Since 2004, Thales has also ended any activity in cluster munitions, choosing to respond to the demands of NGOs working in human rights and anticipate the principles and definitions of the Oslo Convention on Cluster Munitions.

Finally, Thales extends its own commitments to corporate responsibility to its suppliers and subcontractors, particularly through its Purchasing and Corporate Social Responsibility Charter, in order to share a common foundation of values and principles, particularly the ten values set forth in the UN Global Compact. This action has been perceived by the Global Compact as a positive contribution to the Millennium Objectives for Development and notes this in a publication entitled *The Global Compact for Development*.

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14.1.	Name, business address, functions at the issuer and principal activities performed outside the issuer by a) members of the administrative, management or supervisory bodies; b) partners with unlimited liability, in the case of a partnership limited by shares; c) founders, if the company has been established for fewer than five years; and d) any senior manager who is relevant to establishing that the issuer has the appropriate expertise and experience for the management of the issuer's business. The nature of any family relationship between any of those persons. In the case of each member of the administrative, management or supervisory body of the company and of each person mentioned in points (b) and (d) above, details of that person's relevant management expertise and experience and the following information: (a) the names of all companies and partnerships of which such person has been a member of the administrative, management or supervisory bodies or partner at any time in the previous five years; (b) any convictions in relation to fraudulent offences for at least the previous five years; (c) details of any bankruptcies, receiverships or liquidations for at least the previous five years; (d) details of any official public incrimination and/or sanctions of such person by statutory or regulatory authorities and whether such person has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer for at least the previous five years.	
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