

Registration document 2012

ANNUAL FINANCIAL REPORT





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Registration Document

Annual Financial Report

2012



The registration document was filed with the *Autorité des Marchés Financiers* (AMF) on 3 April 2013, 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 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 consolidated financial statements and corresponding audit reports found on pages 27 to 82 of the 2011 registration document filed with the AMF on 10 April 2012;
- the Group's financial information, key figures and management report, found respectively on pages 5 and 8 to 26 of the 2011 registration document filed with the AMF on 10 April 2012.

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 having taken all reasonable measures to this 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 taken as a whole included in the consolidation, as well as a description of the main risks and uncertainties to which they are exposed.

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

The historic financial information presented in this registration document is the subject of reports from the statutory auditors. The reports on the consolidated financial statements for 2012 on pages 92 and 93 of this document and the parent company financial statements for 2012 on pages 130 and 131 of this document have been issued without reservation and do not contain any observation. The reports on the consolidated financial statements for 2010 and 2011, included by reference in this 2012 registration document, were issued without reservation and they include some observations.

Neuilly-sur-Seine, 3 April 2013

Jean-Bernard Lévy

Chairman & Chief Executive Officer

Overview of the Group

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

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

In order to meet the growing demand for security from governments and citizens, operators must have reliable and organised information to decipher a more complex environment and select the best option. To assist its customers in fulfilling 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 and optics) and supervision (civilian and military command and control systems, secure communications and transactions, large software systems, on-board electronics, satellites and 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 value-added equipment and 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 segments⁽¹⁾:

- the Defence & Security segment, with a primarily governmental customer base, leverages Thales’s expertise in these various fields: a comprehensive offer of equipment, 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 and borders) and sensitive data (cryptology and network security management);
- the Aerospace & Transport segment, with a primarily non-governmental customer base, develops its business in three key 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, etc.).

Thales is thus able to leverage the synergies between military and civil applications and technologies, drawing on cross-functional R&D capability with the critical mass to develop and maintain core competencies. The **Group’s technology base**, which spans all Thales activities, is continually enhanced by the work of the Group’s 25,000 engineers and technical staff.

Drawing on the strength of its 66,000⁽²⁾ employees, Thales 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 65% of its sales) and the rest of the world (approximately 35%), 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) From 1 April 2013, the Group instituted a new matrix structure described in the note on page 142.

(2) Consolidated number of employees, cf. definition page 51.

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 that of the Italian company SGS (IRI group) to form SGS-Thomson.
- 1989** Thomson-CSF acquires the defence electronics business 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 acquisition of 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

(€ million)	2012	2011
Order book at year-end ^(a)	29,658	30,697
Order intake	13,293	13,214
Sales ^(b)	14,158	13,028
France	4,196	3,407
United Kingdom	1,570	1,492
Other European countries	3,526	3,457
Outside Europe	4,867	4,672
EBIT ^(c)	927	749
Adjusted net income – Group share ^(d)	585	517
Operating cash flow	1,346	1,242
Net operating investments ^(e)	(415)	(256)
Net financial investments	202	(181)
Self-funded R&D ^(e)	(699)	(629)
Net cash position ^(a)	1,528	906
Equity, Group share	4,576	4,120
Consolidated workforce at year-end ^(a)	65,992	68,325

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

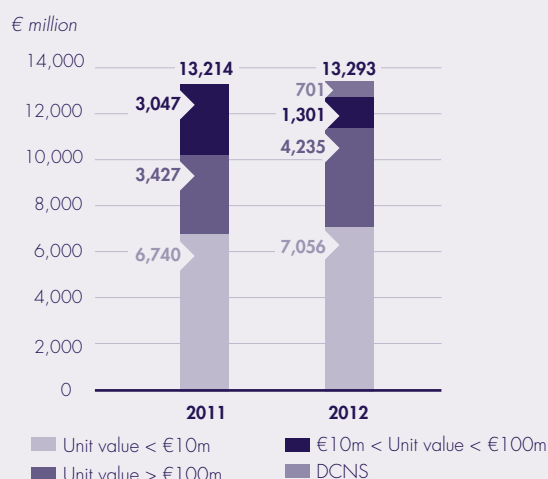
(b) Sales by destination.

(c) After restructuring and before impact of Purchase Price Allocation (PPA). Cf. presentation of financial information in the Group management report on page 8.

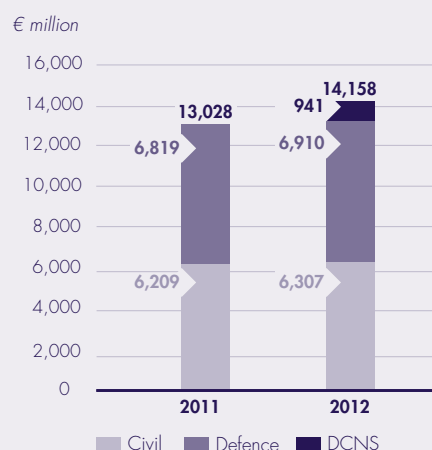
(d) Adjusted net income excludes "disposal of assets, changes in scope of consolidation and other", the "change in fair value derivative exchange instruments", pensions schemes amendments, curtailments and settlements, the amortisation of the actual losses and the impact of the minimum funding requirements in compliance with IFRIC14, net from corresponding tax impacts. Cf page 8 of the Group's consolidated management report.

(e) Including capitalised R&D.

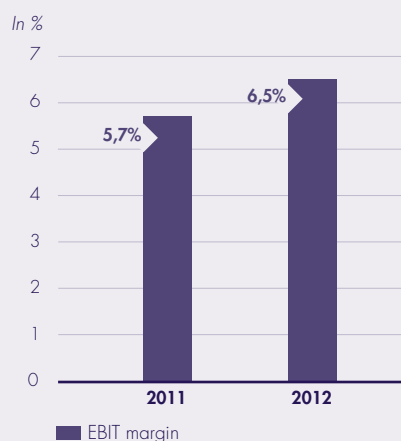
Robust and balanced orders



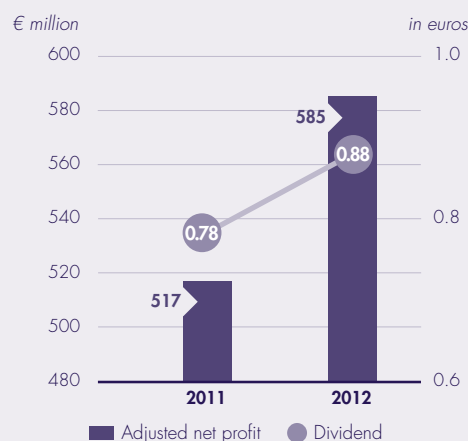
Balanced civil/defence sales



Continued improvement in EBIT⁽¹⁾



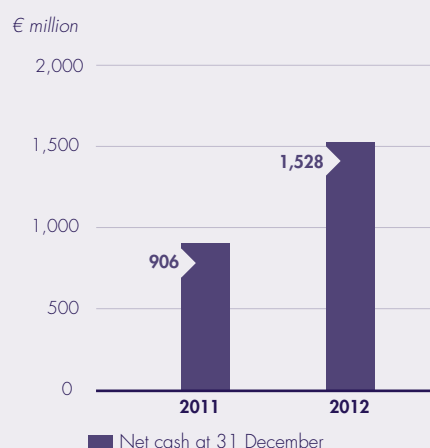
Increased adjusted net income⁽²⁾ and dividend



Increase in free operating cash flow



Positive net cash⁽³⁾



(1) EBIT after restructuring and before impact of purchase price allocation (PPA).

(2) The Group excludes from the adjusted net income statement "disposal of assets, changes in scope of consolidation and other", the "change in fair value derivative exchange instruments", pensions schemes amendments, curtailments and settlements, the amortisation of the actual losses and the impact of the minimum funding requirements in compliance with IFRIC 14, net from corresponding tax impacts. Cf page 8 of the consolidated management report.

(3) Including the impact of the consolidation of DCNS at 35% under the proportionate method (€619m in 2012 and €714m in 2011).

Financial information 2012

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1.1 Group management report

1.1.1 REPORT ON OPERATIONS AND RESULTS

During the past year, Thales has met its objectives. Despite a rather unfavourable economic environment in Europe, sales held up well and were stable on a like-for-like basis (at constant exchange rates

and scope), thanks to the positive momentum of the civil businesses. EBIT continued to improve and the Group's financial situation was further reinforced.

KEY FIGURES (ADJUSTED)^(a)

(€ million)	2012	2012 excl. DCNS impact ^(b)	2011	Total change	Change excl. DCNS impact ^(b)	Organic change ^(d)
Order intake	13,293	12,592	13,214	+1%	-5%	-6%
Sales	14,158	13,217	13,028	+9%	+1.5%	0%
EBIT ^(a)	927	848	749	+24%	+13%	+15%
in % of sales	6.5%	6.4%	5.7%			
Adjusted net income, Group share ^(c)	585	585	517	+13%		
per share (en €)	2.93	2.93	2.63			
Net cash	1,528	909	192 ^(d)			

(a) Cf. details of adjustments in the section entitled "Presentation of financial information".

(b) In this report, "DCNS impact" means "impact of the 35% proportionate consolidation of DCNS vs. consolidation under the equity method at 35%".

(c) In this report, "organic" means "on a like-for-like basis and at constant exchange rates".

(d) €906 million including DCNS impact.

PRESENTATION OF FINANCIAL INFORMATION

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 at 31 December 2012 (available on the following website: http://ec.europa.eu/internal_market/accounting/ias_fr.htm).

The accounting policies applied by the Group are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2011, except for the adoption of the following new standards and interpretations: amendment to IFRS 7 (Disclosures for transfers of financial assets) and amendment to IAS 12 (Deferred tax, recovery of underlying assets), which principally deals with the valuation of deferred tax on investment property. These amendments have no impact on the Group's financial statements. The amendment to IAS 1 (Presentation of Items of Other Comprehensive Income) was applied early at 31 December 2011.

Adjusted income statement

To facilitate the assessment and comparability of operating and financial performance, Thales presents an adjusted income statement.

In the adjusted income statement, EBIT is adjusted for entries relative to the amortisation of purchased intangible assets ("purchase price allocation" or "PPA") recorded when significant businesses are combined, to establish "Adjusted income from operations/EBIT". This largely concerns the acquisition in 2007 of space, transport and security businesses from Alcatel-Lucent and the equity interest in the capital of DCNS (in 2007 and 2011).

In addition, the Group excludes from the adjusted net income the "disposal of assets, changes in scope of consolidation and other" (as presented in the consolidated financial statements), changes in fair value of derivative foreign exchange instruments (recognised in "other financial income" in the consolidated financial statements), and the impact of amendments, curtailment and settlement of pension

schemes, amortisation of actuarial gains and losses and the impact of minimum funding requirements pursuant to IFRIC 14 (these items being recognised under "other components of pension charge" in the consolidated financial statements), net of the corresponding tax impacts.

Thales regards adjusted income from operations/EBIT and adjusted net income, which are not strictly GAAP measures, as relevant operating and financial performance indicators for the Group, as they enable non-operating and non-recurring items to be excluded.

The impact of these adjustments on the income statement is shown below:

For the 2012 financial year

	Adjustments					Adjusted income statement 2012
	Consolidated income statement 2012	Amortisation of intangible assets recognised at fair value on business combination (PPA)	Disposal of assets, change in scope of consolidation and other	Change in fair value of derivative exchange instruments	Amortisation of actuarial gains and losses, pensions schemes amendments, curtailments and settlements, IFRIC 14	
(€ million)						
Sales	14,158					14,158
Cost of sales	(10,868)					(10,868)
R&D	(687)					(687)
Selling, general and administrative expenses	(1,558)					(1,558)
Restructuring costs	(118)					(118)
Amortisation of intangible assets acquired (PPA)	(112)	112				-
Income from operations/EBIT	816	112				927
Impairment of non-current operating assets	(15)					(15)
Disposal of assets, change in scope of consolidation and other	114		(114)			-
Income of operating activities	915	112	(114)			913
Cost of net financial debt	(14)					(14)
Other financial income (expense)	(53)			26		(27)
Net financial expense	(67)			26		(41)
Other components of pension charge	(142)				75	(68)
Income tax	(194)	(38)	5	(9)	(7)	(243)
Share in income (loss) of equity affiliates	24					24
Net income (loss)	536	73	(109)	17	68	585

For the 2011 financial year

	Consolidated income statement 2011	Adjustments				Adjusted income statement 2011
		Amortisation of intangible assets recognised at fair value on business combination (PPA)	Disposal of assets, change in scope of consolidation and other	Change in fair value of derivative exchange instruments	Amortisation of actuarial gains and losses, pensions schemes amendments, curtailments and settlements, IFRIC 14	
(€ million)						
Sales	13,028					13,028
Cost of sales	(10,067)					(10,067)
R&D	(619)					(619)
Selling, general and administrative expenses	(1,432)					(1,432)
Restructuring costs	(161)					(161)
Amortisation of intangible assets acquired (PPA)	(71)	71				—
Income from operations/EBIT	678	71				749
Impairment of non-current operating assets	(7)					(7)
Disposal of assets, change in scope of consolidation and other	55		(55)			—
Income of operating activities	726	71	(55)			742
Cost of net financial debt	(48)					(48)
Other financial income (expense)	(10)			(6)		(16)
Net financial expense	(58)			(6)		(64)
Other components of pension charge	(63)				16	(47)
Income tax	(147)	(24)	(2)	2	(5)	(176)
Share in income (loss) of equity affiliates	53	8				62
Net income (loss)	512	55	(56)	(4)	11	517

It is reminded that only the consolidated financial statements are audited by the Group's statutory auditors. The consolidated financial statements include the adjusted income from operations set out in Note 4 "Segment Information". Adjusted financial data other than

provided in Note 4 "Segment Information" of the consolidated financial statements, are subject to the verification procedures applicable to all of the information provided in this document.

ORDER INTAKE

(€ million)	2012	2011 ^(a)	Total change	Organic change
Defence & Security	6,806	7,150	-5%	-7%
Aerospace & Transport	5,712	5,953	-4%	-6%
Others and divested businesses	74	111		
Total excl. DCNS impact	12,592	13,214	-5%	-6%
DCNS impact	701	-		
TOTAL	13,293	13,214	+1%	-6%

(a) Divested businesses in Navigation Solutions, IT services businesses in Switzerland, Austria, Argentina, Spain and France have been reclassified in 2011 from the "Defence & Security" operating segment in "others and divested businesses" and civil fixed-wing aircraft simulation in the UK and Diehl Aircabin reclassified from the "Aerospace & Transport" operating segment in "others and divested businesses".

New orders entered in the order book in 2012 amounted to **€13,293m**, up 1% compared with the previous year (€12,592m, representing a 5% decrease, excluding the DCNS impact). On an organic basis⁽¹⁾, order intake at 31 December 2012 was down 6% compared to 2011, which had benefited in the third quarter from the Mirage 2000 upgrade contract in India for over €1bn (excluding this contract, order intake would be up 4%).

As expected, the **book-to-bill** ratio thus amounted to **0.95** for the year, excluding the DCNS impact (0.94 including the DCNS impact). At 31 December 2012, the consolidated **order book** came to **€29,658m**, representing over two years of business (€25,010m excluding the DCNS impact).

Several **orders over €100m unit value** were notified during the year. In defence, main orders in 2012 included the Contact contract for the development of new-generation software-based radios in France, a new tranche of Bushmaster armoured vehicles in Australia, radar systems in the Netherlands, and significant upgrade and maintenance contracts won by DCNS for the French Navy. Orders in ground transportation were rail signalling contracts for main lines in Denmark and for urban rail in Singapore; in Avionics, in-flight entertainment systems for a major North American airline; and in Space, a telecommunications satellite contract for an Asian operator and new tranches of the European space exploration programme, Exomars.

In addition, **orders with a unit value of less than €10m** were up compared with the previous year, and still account for more than half the total order intake in terms of value.

Order intake in the **Defence & Security segment** was **€6,806m** in 2012. The 5% decrease compared with 2011 was due to the registration in the third quarter of last year of the Mirage 2000 upgrade contract in India, which was worth over €1bn (excluding this contract, order intake would be up 12%).

Order intake in Defence Mission Systems dropped as expected, despite a number of commercial successes in the naval business, particularly in the Middle East, and in the air domain with orders for

combat systems and drones in the UK. Land Defence, meanwhile, registered an increase in orders, driven mainly by new tranches of Bushmaster and Hawkei vehicles in Australia, optronics export contracts, missile electronics contracts in France and India, and a weapon system contract in South Korea. At the same time, order intake for C4I Systems was up, driven by radio communications in France, the United States and export, and by protection systems. Lastly, Air Operations recorded significant growth in orders, with the radar systems contract for the Netherlands mentioned above and air defence contracts for both the UK and export.

Aerospace & Transport orders came to **€5,712m**, down **4%** compared with 2011. This is due particularly to the decline in Space orders.

Space activities won new orders for the European Exomars and Meteosat programmes, but there was a notable decline in Telecommunications despite successes for Eutelsat and an order from an Asian operator. Transportation Systems saw a reduction in orders compared with the previous year, mainly due to the booking of the multi-year Ecotaxe contract in France at the end of 2011, whereas signalling activities advanced strongly during the year, with several mainline rail contracts in Europe (Denmark, Norway and Poland) and for urban rail in Asia (Singapore, Hyderabad, Kuala Lumpur and Nanjing) and America (Manaus and Vancouver). Avionics posted flat orders overall for the year. Increased Airbus production rates and orders from regional (SSJ) and business aircraft manufacturers, as well as several in-flight entertainment contracts, offset the expected decline in military avionics orders (due to the Mirage 2000 upgrade contract in India booked in 2011).

DCNS accounted for **€701m** of the Group's total order intake in 2012. The key orders registered in this period related to FREMM multi-mission frigates, upgrading and maintaining French submarines, and a maintenance contract for the Charles-de-Gaulle aircraft carrier.

(1) The foreign exchange impact on orders was a positive €285m, resulting from the appreciation of the pound sterling and US and Australian dollars against the euro.

SALES

(€ million)	2012	2011 ^(a)	Total change	Organic change
Defence & Security	7,166	7,179	0%	-3%
Aerospace & Transport	5,953	5,682	+5%	+4%
Others and divested businesses	98	167		
Total excl. DCNS impact	13,217	13,028	+1%	0%
DCNS impact	941	-		
TOTAL	14,158	13,028	+9%	0%

(a) Divested businesses in Navigation Solutions, IT services businesses in Switzerland, Austria, Argentina, Spain and France have been reclassified in 2011 from the "Defence & Security" operating segment in "others and divested businesses" and civil fixed-wing aircraft simulation in the UK and Diehl Aircabin reclassified from the "Aerospace & Transport" operating segment in "others and divested businesses".

Total sales amounted to **€14,158m** at 31 December 2012, an increase of **9%**, due to the impact of the proportionate consolidation of DCNS at 35%. Excluding this impact, sales totalled €13,217m in 2012, up 1.5% (stable at constant exchange rates⁽¹⁾).

Sales for the **Defence & Security** operating segment amounted to **€7,166m** over full-year 2012. This was stable compared with the previous year thanks to a favourable exchange rate impact (-3% in organic terms). Air Operations registered a decline in sales due to reduced air traffic control activities. Sales for the Defence Mission Systems division were also slightly down, with the ending of several naval export contracts only partially offset by the increase from the Mirage 2000 upgrade contract in India and the Watchkeeper programme in the UK. C4I Systems activities posted virtually flat sales, with the increase in civil security business offsetting lower sales in tactical radios. Land Defence activities posted slightly higher sales, with notable progress in optronics in France and for export as well as armaments in Australia.

In **Aerospace & Transport**, sales totalled **€5,953m** in 2012, up **5%** compared with 2011 (4% in organic terms). Transportation Systems activities posted higher sales, in particular the ramping up of the Ecotaxe contract in France, which offset the completion of several contracts in the Middle East. Avionics sales were slightly higher, thanks mainly to the increased production rates at Airbus and to regional aircraft (ATR and SSJ), as well as growth in support and helicopter activities (with the first deliveries of avionics suites for the S76D helicopter). Sales from Space activities grew slightly, with the progressive ramp-up of the Iridium Next and O3b constellation programmes, Meteosat satellites and the Exomars programme.

DCNS made a **€941m** contribution to Group consolidated sales in 2012, with the execution of programmes in France (Barracuda submarines, FREMM frigates, maintenance and services) and internationally (Brazil, India and Russia).

(1) The foreign exchange impact on sales was a positive €315m, resulting from the appreciation of the pound sterling and US and Australian dollars against the euro.

ADJUSTED RESULTS

Adjusted income from operations/EBIT

EBIT ^(b) (€ million)	2012	2011 ^(a)	Total change	Organic change
Defence & Security	504	499		
in % of sales	7.0%	7.0%	+1%	-1%
Aerospace & Transport	392	286	+37%	+42%
in % of sales	6.6%	5.0%		
Others and divested businesses	(48)	(36)		
Total excl. DCNS impact	848	749	+13%	+15%
in % of sales	6.4%	5.7%		
DCNS impact	79	-		
in % of sales	8.4%			
TOTAL	927	749	+24%	+15%
in % of sales	6.5%	5.7%		

(a) Divested businesses in Navigation Solutions, IT services businesses in Switzerland, Austria, Argentina, Spain and France have been reclassified in 2011 from the "Defence & Security" operating segment in "others and divested businesses" and civil fixed-wing aircraft simulation in the UK and Diehl Aircabin reclassified from the "Aerospace & Transport" operating segment in "others and divested businesses".

(b) After restructuring and before impact of purchase price allocation of ("PPA"), cf. details in appendix, in the paragraph "presentation of financial information" on page 8 of this management report.

At **€927m**, EBIT represented **6.5%** of sales (€848m excluding DCNS impact, i.e. 6.4% of sales) compared with €749m (5.7% of sales) in 2011. This improvement in EBIT reflects better operating performance and cost control, and lower restructuring costs than in 2011.

The improvement in operating performance is illustrated by the increase in the **gross margin**, which came to **€3,290m** compared with €2,961m in 2011, representing a gross margin on sales of 23.2% compared with 22.7% the previous year.

Cost control measures enabled the Group to fully absorb inflation on **selling and general expenses**, which were unchanged year-on-year, on a like-for-like basis.

Self-funded R&D amounted to **€687m**, up 5% on a like-for-like basis, with the amount capitalised on the balance sheet (€12m) similar to the amount recognised in 2011.

Although its sales declined organically, the **Defence & Security** segment posted flat EBIT⁽¹⁾ of **€504m**, representing 7% of sales, compared with €499m in 2011 (7% of sales).

EBIT for the **Aerospace & Transport** segment continued to grow, amounting to **€392m (6.6%** of sales), compared with €286m (5% of sales) in 2011, increasing organically by 42% compared to 2011.

DCNS continued to see improved performance and contributed €79m (8.4% of sales) to Group EBIT.

Adjusted income of operating activities

Adjusted operating income came to **€913m** compared with €742m in 2011 (+23%), in line with the increase in adjusted EBIT, as impairment on intangible assets was limited, at -€15m compared with -€7m in 2011.

Adjusted financial income

Adjusted net financial expense represented a charge of **-€41m** (-€52m excluding the DCNS impact) compared with a charge of -€64m at the end of December 2011, the 2011 net debt penalized by the early refinancing of the July 2011 bond payment. Adjusted **other components of pension charges** were higher, with a charge of **-€68m** compared with -€47m in 2011, mainly due to a higher interest cost and a lower expected return on plan assets in the UK.

Adjusted net income

Income from the equity-accounted companies fell to **€24m**, down from €62m for the previous year, as the Group's stake in DCNS is now proportionately consolidated rather than using the equity method.

Adjusted net income, Group share was up **13%** at **€585m** (compared with €517m in 2011), despite the significant increase in the adjusted tax charge, at -€243m compared with -€176m in 2011.

CONSOLIDATED RESULTS

EBIT

Consolidated EBIT came to €816m compared with €678m at the end of 2011. This increase reflects the changes mentioned above (cf. "Adjusted income from operations/EBIT"), and the increase in the impact of purchase price allocation (PPA), which came to -€112m compared with -€71m the previous year following the increase of the equity interest in DCNS to 35% at the end of 2011, which led to the proportional consolidation of DCNS as of 31 December 2011.

Income of operating activities

Consolidated income of operating activities came to €915m, a marked increase on the previous year (+26%), due to the combined effect of the increase in EBIT and higher income on disposals, largely the result of capital gains on the disposals of the civil simulation activity in the United Kingdom and the 49% equity interest in Diehl Aircabin in Germany.

Financial result

Net financial expense represented a charge of **-€67m** (-€78m excluding DCNS impact) compared with a charge of -€58m in 2011, the fall in interest rates on gross debt only partially offsetting the changes in value of exchange rate hedges (mainly euro/dollar).

Other components of the pension charge were significantly higher, at **-€142m** compared with -€63m in 2011, due to the increase in interest expense and lower expected return on plan assets in the UK and, above all, the increase in the amortisation expense of actuarial gains and losses, due to the reduction in interest rates.

Net income

Consolidated net income, Group share, amounted to €536m in 2012, compared with €512m the previous year, with a tax expense of -€194m compared with -€147m in 2011.

FINANCIAL POSITION AT 31 DECEMBER 2012

Free operating cash flow was markedly higher at **€669m** (€753m excluding the DCNS impact) compared with €379m in the previous year, due to the combined effect of improved results and a favourable change in working capital requirements, thanks to the receipt of significant payments at the end of 2012.

Cash flow (€ million)	2012	2011 ^(a)
Operating cash flow	1,346	1,242
Change in working capital requirements and in reserves for contingencies	13	(390)
Payment of contributions/pension benefits	(113)	(104)
Financial interest paid	(37)	(53)
Income tax paid	(125)	(60)
Net operating cash flow	1,084	635
Net operating investments	(415)	(256)
o/w capitalised R&D	(12)	(10)
Free operating cash flow	669	379
Net (acquisitions)/disposals	156	(289)
Deficit payments on pensions in the UK	(64)	(59)
Dividends	(155)	(64)
FX and others	17	34
Change in net cash	623	1

(a) Excluding DCNS impact.

Due to the disposal of activities in 2012 (civil fixed-wing aircraft simulation, IT services, Diehl Aircabin), net cash was up €623m (up €717m excluding the DCNS impact), whereas it was flat in 2011.

The Group ended the year with **positive net cash of €1,528m** (€909m excluding the DCNS impact), compared with €906m

(€192m excluding the DCNS impact) at the end of the previous year. **Shareholders' equity**, Group share, improved to **€4,576m**, up from €4,120m at year-end 2011.

PROPOSED DIVIDEND

At the Annual General Meeting on 24 May 2013, the Board of Directors will recommend the distribution to shareholders of a **dividend of €0.88** per share, up **13%**. If approved, the ex-dividend date will be 28 May 2013 and the payment date 31 May 2013.

The dividend will be paid entirely in cash and will total €0.63 per share, after deducting the interim dividend of €0.25 per share already paid in December 2012.

OUTLOOK FOR 2013⁽¹⁾

Despite the continuing unfavourable economic environment in Europe, the Group is anticipating a slight upturn in orders in 2013, largely due to the expected performance in the emerging countries.

Sales should remain stable, with the growth in civil activities offsetting a less favourable situation in defence.

A continuing drive to improve performance should enable the Group to post a further increase in EBIT, which should increase by 5% to 8% compared to 2012.

1.1.2 RISK FACTORS

Thales is exposed to a number of risks and uncertainties which could materially affect its business, reputation, 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' 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.

The Group manages this risk by trying to anticipate its cash needs and ensures that these are covered by the Group's short-term and long-term financial resources as follows:

- 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 centralising the entities' short-term assets and liabilities (cash pooling) is applied to the combination of entities in the same currency zone – euro zone, 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 2012, cash recorded under consolidated assets amounted to €2,518.3m (compared with €1,923.1m at end-2011), including:

- €1,721.8m held by the parent company and available for immediate use;
- €392.8m in the bank credit 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;
- €403.7m in cash held directly by the companies in joint ventures (prorated by Thales' interest in each joint venture), including €191.3m for DCNS, for which Group cash pooling cannot be used.

⁽¹⁾ Excluding any exceptional export contract.

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' credit risk ratings were as follows:

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

The decrease of Thales' credit risk rating does not trigger covenants included in financing contracts. The entry into force of the only clause 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 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 (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 and Treasury Department consolidates data on Thales' 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.

The breakdown of Thales' 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' average net debt, after hedging, a 1% rise in interest rates would reduce financial expense by €11.1m.

(€ million)	Due within 1 year		Due in 1 to 5 years		Thereafter		Total	
	Fixed	Variable	Fixed	Variable	Fixed	Variable	Fixed	Variable
Financial liabilities	(665.4)	(331.8)	(707.0)	(90.4)	(17.1)	(12.7)	(1,389.5)	(434.9)
Financial assets		3,352.3					0.0	3,352.3
Net position before management	(665.4)	3,020.5	(707.0)	(90.4)	(17.1)	(12.7)	(1,389.5)	2,917.4
Management operations	(15.2)	15.2	357.8	(357.8)	(9.2)	9.2	333.4	(333.4)
NET POSITION AFTER MANAGEMENT	(680.6)	3,035.7	(349.2)	(448.2)	(26.3)	(3.5)	(1,056.1)	2,584.0

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' sales are generated in the euro zone, which is also where most of its industrial operations are located. In addition, Thales' international development policy, both in Europe and in other parts of the world (the 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 sales.
- c. For certain businesses of the Group (civil avionics and tubes, civil space, etc.), the US dollar ("USD") is the reference transaction currency. For business activities outside the dollar zone (the 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 and 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 sales for 2012.
 - For longer-term programmes in markets traditionally denominated in USD (primarily in civil space and simulators), each bid is examined for profitability in the light of the effect of currency fluctuations, after accounting for corresponding purchases in USD, and, if necessary, is specifically hedged through market transactions (forward exchange-rate contracts and options).

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 sales for 2012.

- As well as this direct dollar risk, which concerned around 7% in total of consolidated sales at end-2012, 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 region shows that

approximately 20% of total sales may be exposed to this "indirect" dollar risk.

The "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 3,102m, the amount of the financial instruments hedging net firm commitments (USD risk against EUR, CAD and GBP) at 31 December 2012, compared with USD 3,563m at 31 December 2011;
- USD 238m, the amount of the financial instruments hedging USD bids against EUR, CAD and GBP at 31 December 2012 versus USD 201m at 31 December 2011.

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. A decrease (increase) of 5% in the USD against the EUR, GBP and CAD would have increased (decreased) shareholders' equity by approximately €118m at 31 December 2012 compared with €139m at 31 December 2011. The discount/premium component is not eligible to cash flow hedge accounting and is recognised through profit and loss. In 2012, the change in market value of the discount/premium was -€14m.

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 €5m at 31 December 2012 versus €2m at 31 December 2011.

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 very 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' 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 2012

(€ million)	GBP	USD	AUD
Assets	2,053.7	1,090.0	798.1
Liabilities	1,148.2	490.4	454.8
Net position before management	905.5	599.6	343.3
Off-balance-sheet position	(40.3)		
NET POSITION AFTER MANAGEMENT	865.2	599.6	343.3

1.1.2.1.4 Shares

Thales was not exposed to any significant equity risk at end-2012, excluding the risk on treasury shares.

At 31 December 2012, Thales held 2,795,564 treasury shares, representing 1.38% of the share capital.

1.1.2.1.5 Off-balance-sheet commitments

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 2012, Thales' 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 €4,203m for both countries, hedged by €3,888m in investments, representing an underlying shortfall of €815m. At 31 December 2012, these investments consisted of:

- 35% in equities;
- 42% in fixed-rate bonds;
- 8% in inflation linked bonds;
- 8% in alternative liquid investments;
- 4.5% in alternative long-term investments (e.g. real estate and infrastructure);
- 2.5% in cash.

Changing market parameters could affect the amount of the shortfall and the annual costs of defined-benefit plans. At 31 December 2012, 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 some countries, such as 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 2012, outstanding guarantees issued by the parent company in support of its subsidiaries stood at €10,254m. 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 risks connected to these parent company guarantees and optimises the financial conditions of the transactions guaranteed. The main objectives of this risk management policy are as follows:

- to limit risks to those corresponding to normal commitments on commercial contracts, particularly in terms of volume and duration;
- to limit the issue of guarantees to commitments made by wholly-owned subsidiaries, with guarantees on commitments by consortia or joint ventures only in proportion to the Group's equity interest or counter-guaranteed by the other shareholder in proportion to its interest;
- 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 relating to default of a private-sector customer

Non-governmental customers (aircraft manufacturers, airlines, private infrastructure operators and industry) account for approximately 25% of Thales's sales. 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 sales, 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.

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 expose the Group or its employees to civil, administrative or criminal rulings. Such a ruling could, if applicable, involve a temporary ban on trading, which would in turn have an adverse impact on the Group'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. Compliance actions rely for these needs on networks of compliance officers who may be specialists (export control), on risk sponsors in charge of the prevention of each of the major risks identified and monitored by the Risks & Internal Control Committee, or on a dedicated organisation as regards international trade (cf. below).

b) Credit risk relating to public-sector customers

Public, Government and institutional customers account for around 75% of Thales's sales. 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 2012, only two customers accounted for annual sales in excess of €500m: the French State (€3.1bn, including €0.8bn related to DCNS) and the British State (approx. €1bn). At 31 December 2012, these two countries still have first-class or high quality ratings (France AA+ by S&P's and Aa1 by Moody's – UK AAA by S&P's and Aaa by Moody's).

The Risks & Internal Control Committee participates in the preparation of the annual audit plan 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

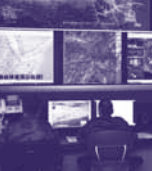
Because of its presence in more than 50 countries and the diversity of its markets and business segments, Thales is subject to national laws, particularly those resulting from the transposition of international conventions (OECD convention, UN convention to fight corruption, EU convention, Council of Europe conventions, etc.) and to international norms and standards 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 assessed and adjusted according to changes in external risks (new laws for example), internal risks (areas for improvement identified by the internal audit, the risks 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, dedicated units and independent control resources.

Business risks are addressed throughout 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.



1 FINANCIAL INFORMATION 2012

Group management report

Thales strictly governs the use of agents and consultants through a very detailed procedure, which requires in-depth preliminary verifications (due diligence) – reinforced by the analysis of red flags or risk factors, as well as the appropriate representations and warranties from these consultants. Designed by the Group's Corporate Ethics and Responsibility Department, this process has been further reinforced, especially as regards recourse to consultants paid according to success fees.

In addition, to underpin its strategy of strengthening its presence internationally and its establishment in target countries, Thales upsills and selects local industrial partners. The upskilling and selection process is aimed at sealing long-term partnerships with local industrial companies that meet a series of criteria with regard to business integrity and ethics, competence and expertise. This procedure is also part of its effort to strengthen control processes and prevent corruption in purchasing.

An international, dedicated network, 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 upskilling and selection phases for agents, consultants and local industrial partners for Thales.

In addition, by relying on risk mapping and rigorous internal control procedures, Thales' 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 ethical business conduct 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, reference guide, best practice guidelines, etc.) and training sessions (face-to-face training and e-learning is now available in French, English and German) is 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 as a priority intended for 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 Responsibility Charter. In this connection, in France in 2012 Thales received government recognition for responsible supplier relations. This is a three-year label given to French businesses that have demonstrated long-term balanced relations with their suppliers.

Thales also actively participates in 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 actively participates in a variety of initiatives in the fight against corruption, both at European level (Business Ethics Committee of the ASD) and under the global sectoral initiative of the Aeronautics and Defence industries (IFBEC⁽⁵⁾) which published its Public Accountability Report in October 2012 listing, in about 40 criteria, the level of maturity of business ethics programmes of the 20 member companies.

At the same time, Thales has been ranked in the defence sector's top 10 companies by Transparency International, an NGO working to combat corruption worldwide. The Transparency International report⁽⁶⁾ published in October 2012 presents an analysis of the corruption prevention programmes of the world's 129 biggest defence sector companies. The companies are assessed on five areas (leadership, governance and organisation – risk assessment – company codes and policies – training – personnel and helplines) with regard to the ethics and anti-corruption systems they have put in place.

In September 2012, the UN Global Compact, of which Thales has been a signatory since 2003, recognised the quality of Thales' ESG reporting and communication, raising its performance from "active" to "advanced". Among the 7,000 companies that are members of the Global Compact, only 386 (18 of them French) have so far obtained the Global Compact Advanced level.

b) Export control

Exports account for a significant proportion of Thales' 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' 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' business, profitability and financial position.

(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.*

(6) *Defence Companies Anti-corruption Index 2012 – Transparency International – <http://companies.defenceindex.org/report>.*

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. Operating units have access to a network of specialists within the Group, in charge of applying the compliance rules determined at Group level as well as monitoring the necessary authorisations and conformity of their implementation.

c) Competition

Thales' 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 that 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 controls the technology which is critical to the business. Thales is one of the largest filer of patents in France and was recognised in 2012 by Thomson Reuters as one of the 100 most innovative companies in the world. Thales' extensive intellectual property portfolio (over 13,000 patents, as well as software and know-how) and its presence throughout the value chain (equipment, systems and systems of systems) reduce its reliance on third-party

technology. As a result, Thales' dependence on such 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.

1.1.2.2.2 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 dispute resolution. This policy is reviewed on a regular basis to take into account 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 business litigation and enforcement procedures. These are handled by the headquarters legal affairs department, with the support of the Group companies concerned.

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 \$260m. Under an agreement signed in 2003, the client withdrew its request for arbitration.

In November 2012, the claimant filed a new request for arbitration for a revised amount of €226m. The parties are strongly challenging this claim and at this date it is not possible to evaluate any potential financial risk. Consequently, Thales has not recognised any provision.

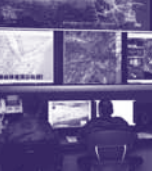
1.1.2.3 RISKS RELATED TO THALES' BUSINESSES

1.1.2.3.1 Competitive environment

The markets in which Thales operates are highly competitive, both in terms of international groups, especially in a context of shrinking defence budgets in their home countries, and in terms of local or niche companies in certain market segments. This competitive pressure could negatively impact Thales' commercial position, sales and profits.

There is also no 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 continues its research and development efforts in order to provide competitive and differentiating elements to the Group's operating units and also 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 appears 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 intensification (real or perceived) of terrorist activity, as well as the outbreak of conflict or epidemics.

The economic environment is therefore likely to remain unsettled, especially in North America and Europe. In order to remain profitable in a difficult market, airlines could cancel or postpone orders and aircraft manufacturers might have to reduce production rates. This environment could also lead the airlines to reduce or delay their maintenance expenditure or their investments in in-flight entertainment systems. Were they to materialise, these factors could have a negative impact on Thales' 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 sales).

1.1.2.3.3 Dependence on public procurement

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 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, contract execution, payments or a decrease in funding for research and development programmes.

Thales has based its strategy on a balanced portfolio of defence operations (approximately 55% of sales) and civil operations (approximately 45% of sales). 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' 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' 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 or equivalent, etc.).

The actual cost of design, development and manufacture may therefore exceed initial cost estimates, which in turn may adversely impact Thales' results and financial position, especially considering that the associated contracts are generally based on a fixed, all-inclusive price. In addition, many contracts provide for 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' 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 operating entities and, as needed, by the Group's 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.

The Group therefore continues 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 and 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;
- introduce advanced training for project managers to obtain International Project Management Association (IPMA) certification. In 2012, over 200 project managers gained IPMA certification.

1.1.2.3.5 Political risks

Thales generates a significant proportion of its sales 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' interest in a local company or, more broadly, discriminatory measures that compromise Thales' 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.). The occurrence of such events could affect the rollout of the Group's activities and its reputation and, consequently, its results and financial situation.

In its defence businesses, the Group is subject to different national regulations requiring it to implement measures to protect its employees and industrial assets.

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

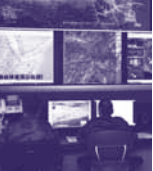
The Group has also established internal policies to protect its sites and sensitive information systems and increase employee awareness. These policies, which are replicated in all the subsidiaries, are relayed by the network of information system safety and security officers in the countries and divisions. For example, the application of Thales' "Information System Security" policy, based on ISO 27000, relies on the secure architecture of its information system, the critical awareness of users and IT personnel and appropriate means of monitoring and surveillance; it is regularly assessed through audits, vulnerability tests and surveys.

1.1.2.3.7 Management of supplier risk

Purchases constitute a very significant proportion of Thales' business, representing nearly half its sales 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' supplier panel.



Management of the risks of supplier default

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 operating 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 sales, 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.

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 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 purchasing 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 sales) is monitored for each panel of suppliers by market segment and for the main countries (France, the UK, the 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 reduced commitment rate.

The procurement policy, supplier selection and performance monitoring processes 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 or technology

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 such systems, equipment or technologies could result in client claims or third-party litigation. Thales could thus 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' results and financial position, as well as its reputation.

In order to limit the impact, Thales has put Group-wide procedures in place (risk management, Design Authority, quality, documentation and contractualisation). In addition, Thales conducts a policy to maintain appropriate insurance coverage (see section 1.1.2.6 below).

1.1.2.3.9 Raw materials risk

Given the nature of its business, Thales uses few raw materials. The Group's exposure to raw materials risk is therefore negligible.

1.1.2.3.10 Risk of lower impact of performance improvement measures

At the beginning of 2010, Thales initiated a global performance plan that is designed to increase the Group's operating profitability, by improving project execution and industrial efficiency and reducing overheads in order to narrow the operating profitability gap with its European peers.

The actual results may differ significantly from the objectives. 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' 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 negatively impacted if the proposed measures could not be fully implemented or if they failed to generate the expected savings according to the original timetable. The cost of implementing these measures could also be higher than forecast, depending particularly on the outcome of negotiations with employee representatives.

Thales pays particular attention to the management and monitoring of performance improvement actions. The Group's corporate management regularly reviews the progress of the main actions. 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 to 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 permanent health supervision unit, a crisis unit in the event of a major international health risk and the implementation of a specific procedure for missions in countries posing a major health risk all contribute to better management of the 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. Undertakings have also been made by the Group HR department on employees' occupational health and safety worldwide, such as the possibility of having a medical in the year of recruitment, the particular attention paid to isolated or night work, and informing employees about health and safety at work relating to their work environment.

Thales is also committed to increasing the quality of life in the workplace. In France, negotiations have been conducted with trade union organisations at Group level with the aim of reaching agreement in 2013 on a new "Quality of Life at Work" policy. This would follow on from the agreement signed in 2009, which defined a general framework for prevention, with a particular focus on the detection and prevention of psychosocial risks by implementing preventative actions at employee level and by collective prevention measures.

Proof of the Group's continuing commitment to certification, 94 Thales entities (representing 67% of the workforce) had obtained OHSAS 18001 certification by the end of 2012.

b) Attractiveness

If Thales is not attractive enough to recruit the qualified staff it needs in a timely manner and retain and motivate its employees to develop and conduct its business, sales and operating profitability could be negatively affected. Thales' success and performance effectively depend on the quality and commitment of its employees who are highly skilled in key areas, as well as its capacity to recruit the employees necessary for its development and the conduct of its business in different job markets in France and abroad.

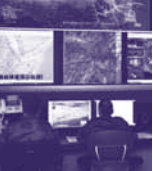
Thales therefore attaches great importance to its attractiveness and positioning as a top employer, ensuring a good external image which will boost recruitment and an internal situation that will contribute to retaining employees.

As an attractive and recognised employer in France, Thales also intends to build its image in all the countries where the Group is already present or is intending to develop. To do this, in 2012 Thales initiated an international communication campaign in the main countries in which it operates. This campaign is based on five main areas which reflect Thales' personality as an employer: passion, professional development, the Group's mission, team spirit and diversity.

For several years, Thales has operated a dynamic skills management policy in the Group's main professional families. A steering committee by family, composed of operational and HR managers, analyses developments in the businesses and expertise and the needs of the company, and establishes appropriate action plans (recruitment, mobility, training etc.). 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 core skills. Thanks to this policy's success with employees, 75% of whom have declared their skills, Thales has been able to make further improvements in 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' 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 emerging 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 products and sites environmental impacts in accordance with Thales's commitments. As such, environmental competences have been widened to include engineering, research, procurement and contracts. By the end of 2012, 124 sites had obtained ISO 14001 certification.

At 31 December 2012, the amount of reserves for environmental contingencies amounted to €7.4m.

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' 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' interest and specify the necessary conditions and parameters to ensure a successful outcome. The newly acquired company is then integrated into Thales' financial reporting system so that its performance can be monitored.

1.1.2.6 INSURANCE

Thales' 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 Group companies.

The Group covers the financial consequences of the risk of accidental damage suffered or caused by property or people using appropriate insurance policies with leading international insurance and reinsurance companies.

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 or by 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 2012.

Thales' 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, while general exclusions for the entire market (e.g. asbestos) also apply to Thales.

The maximum coverage limit of €1.3bn in 2012 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 by the risk map of the main business activities and at Group level, and on cover capacity available on the insurance market. The insurance coverage for

aviation 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 be able in the future 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 per year, 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 environmental or natural disasters affecting critical industrial facilities. In 2012, 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 continues to roll out 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 SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION

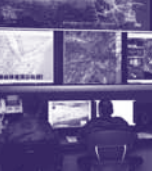
In accordance with Decree No.2012-557 of 24 April 2012 and with Article R.225-105-1 of the French Commercial Code on transparency obligations for companies on social and environmental matters, in its management report, Thales provides information on the Group's social, environmental and societal issues. This information,

which has been verified by a declaration of inclusion and a report of moderate assurance by independent verifiers, presented on pages 239 and 240 for the social data and on pages 255 and 256 for the environmental data, is presented in full in Chapter 4 on "Corporate Responsibility" in this Registration Document.

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	262	4.3.4.3	Actions to support Human Rights

1.1.4 EVENTS SINCE YEAR-END

Following incidents involving lithium ion batteries supplied by a Japanese company through a Thales subsidiary, the Federal Aviation Administration (FAA) decided on 17 January 2013 to suspend all Boeing 787 flights. In this framework, Thales participates to the

technical investigations and cooperates with Boeing with a view to enable the flights to resume.

1.1.5 SUMMARY STATEMENT OF SHARE TRANSACTIONS CARRIED OUT BY DIRECTORS, NON-VOTING DIRECTORS AND RELATED PERSONS IN 2012

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.

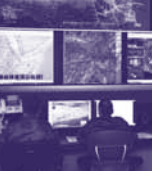
Pursuant to Article L.621-18-2 b) of the French Monetary and Financial Code, the Company has declared to the AMF that all members of the Executive Committee come under the category of non-voting directors in respect of obligations to declare share transactions.

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 by the French Council of State (*Conseil d'Etat*), with persons referred to in the aforementioned Article 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>):

Full Name Title	Purchases/subscriptions ^(a)		Sales ^(a)	
	Number of shares	Amount of transaction (in €)	Number of shares	Amount of transaction (in €)
Ann Taylor, Member of the Board of Directors	500	13,165		

(a) Share transactions executed in 2012 include transactions carried out by related persons, where applicable.



1.2 Consolidated financial statements

1.2.1 CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€ million)	Notes	2012	2011
Sales	note 4	14,158.1	13,028.4
Cost of sales		(10,868.1)	(10,067.1)
Research and development expenses		(687.4)	(619.2)
Marketing and selling expenses		(942.4)	(889.3)
General and administrative expenses		(615.2)	(543.2)
Restructuring costs	note 22	(117.8)	(160.5)
Amortisation of intangible assets recognised at fair value on business combination	note 4	(111.5)	(70.6)
Income from operations (EBIT)	note 4	815.7	678.5
Impairment of non-current operating assets	note 6	(14.7)	(7.1)
Disposal of assets, change in scope of consolidation and other	note 7	114.1	54.6
Income of operating activities		915.1	726.0
Financial interest on gross debt		(56.1)	(83.3)
Financial income from cash at bank and equivalents		42.5	35.8
Cost of net financial debt	note 8	(13.6)	(47.5)
Other financial income (expense)	note 8	(52.9)	(10.3)
Other components of pension charge	note 21	(142.5)	(62.8)
Income tax	note 9	(193.9)	(147.3)
Share in net income (loss) of equity affiliates	note 13	23.8	53.4
NET INCOME (LOSS)		536.0	511.5
Attributable to:			
Owners of the parent company		535.7	511.8
Non-controlling interests		0.3	(0.3)
Basic earnings per share (<i>in euros</i>)	note 10	2.69	2.60
Diluted earnings per share (<i>in euros</i>)	note 10	2.69	2.60

1.2.2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		2012		2011	
		Total attributable to:		Total attributable to:	
		Owners of the parent company	Non-controlling interests	Owners of the parent company	Non-controlling interests
<i>(€ million)</i>					
NET INCOME (LOSS)		535.7	0.3	511.8	(0.3)
Cumulated translation adjustments	note 20-e	25.6	(0.1)	61.0	(0.6)
Net foreign investments' hedge	note 20-e	(0.9)	–	(1.2)	–
Deferred tax		0.3	–	0.4	–
		25.0	(0.1)	60.2	(0.6)
Cash flow hedge	note 20-e	68.4	–	(114.2)	–
Deferred tax		(26.9)	–	39.8	–
		41.5	–	(74.4)	–
Financial assets available for sale	note 20-e	0.5	–	0.3	–
Deferred tax		–	–	–	–
		0.5	–	0.3	–
Total other comprehensive income (loss), net of tax^(a)		67.0	(0.1)	(13.9)	(0.6)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		602.7	0.2	497.9	(0.9)

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

1.2.3 CONSOLIDATED BALANCE SHEET

ASSETS

(€ million)	Notes	31/12/2012	31/12/2011 ^(a)
Goodwill, net	note 11	3,411.2	3,402.6
Other intangible assets, net	note 12	1,172.0	1,329.5
Tangible assets, net	note 12	1,505.3	1,493.9
Total non-current operating assets		6,088.5	6,226.0
Share in net assets of equity affiliates	note 13	148.6	157.5
Available-for-sale investments	note 14	207.0	117.8
Loans and other non-current financial assets	note 14	108.6	138.6
Fair value of interest rate derivatives	note 25	23.5	6.5
Other non-current financial assets	note 14	148.4	244.5
Total non-current financial assets		636.1	664.9
Pension and other employee benefits	note 21	103.7	117.0
Deferred tax assets	note 9	906.7	955.0
NON CURRENT ASSETS		7,735.0	7,962.9
Inventories and work in progress	note 15	2,478.9	2,426.9
Construction contracts: assets	notes 15 & 16	2,082.6	2,305.3
Advances to suppliers	note 15	785.6	896.6
Accounts, notes and other current receivables	notes 15 & 17	4,831.8	4,709.5
Fair value of foreign currency derivatives	note 25	124.1	122.5
Total current operating assets		10,303.0	10,460.8
Current tax receivables		55.7	50.1
Loans and other current financial assets	note 14	333.4	260.4
Other current financial assets	note 14	387.0	430.2
Cash at bank and equivalents	note 24	2,518.3	1,923.1
Total current financial assets		3,238.7	2,613.7
CURRENT ASSETS		13,597.4	13,124.6
TOTAL ASSETS		21,332.4	21,087.5

(a) Restated to take into account the final purchase price allocation of the 35% stake in DCNS (note 3).

EQUITY AND LIABILITIES

(€ million)	Notes	31/12/2012	31/12/2011 ^(a)
Capital, paid-in surplus and other reserves		4,699.5	4,295.8
Cumulative translation adjustment		(35.4)	(60.4)
Treasury shares		(87.9)	(115.2)
Total attributable to owners of the parent company	note 20	4,576.2	4,120.2
Non-controlling interests		10.2	9.7
TOTAL EQUITY		4,586.4	4,129.9
Financial debt: long-term	note 24	850.6	1,494.6
Pension and other employee benefits	note 21	904.9	883.4
Deferred tax liabilities	note 9	383.4	386.3
NON-CURRENT LIABILITIES		2,138.9	2,764.3
Advances received from customers on contracts		4,988.4	4,810.3
Refundable grants		179.6	181.9
Construction contracts: liabilities	note 16	1,345.0	1,355.6
Reserves for contingencies	note 22	1,206.5	1,230.5
Accounts, notes and other current payables	notes 15 & 17	5,738.2	5,940.6
Fair value of foreign currency derivatives	note 25	104.0	178.8
Total current operating liabilities		13,561.7	13,697.7
Current tax payables		48.1	58.5
Financial debt: short-term	note 24	997.3	437.1
CURRENT LIABILITIES		14,607.1	14,193.3
TOTAL EQUITY AND LIABILITIES		21,332.4	21,087.5

(a) Restated to take into account the final purchase price allocation of the 35% stake in DCNS (note 3).

1.2.4 CONSOLIDATED STATEMENT OF CASH FLOWS

(€ million)	Notes	2012	2011
Net income (loss)		536.0	511.5
Add (deduct):			
Income tax expense (gain)		193.9	147.3
Cost of net financial debt		13.6	47.5
Share in net (income) loss of equity affiliates (net of dividends received)	note 13-b	(7.3)	(24.6)
Amortisation of intangible assets recognised at fair value on business combination	note 12-b	111.5	70.6
Depreciation and amortisation of tangible and intangible assets	note 12-b	369.5	344.5
Provisions for pensions and other employee benefits	note 21	219.7	131.4
Impairment of non current operating assets	note 6	14.7	7.1
Disposal of assets, change in scope of consolidation and other	note 7	(114.1)	(54.6)
Net allowances to restructuring provisions	note 22	(22.0)	53.3
Other items		30.5	8.0
Operating cash flows before working capital changes, interests and tax		1,346.0	1,242.0
Change in working capital requirement and in reserves for contingencies ^(a)	note 15	12.8	(389.5)
Payment of contributions/pensions benefits (defined benefit plans):	note 21	(177.0)	(162.8)
• deficit payment in the UK		(63.5)	(59.0)
• future service cash		(113.5)	(103.8)
Financial interests (paid) received ^(b)		(36.8)	(52.5)
Income tax (paid) received		(125.1)	(60.0)
NET CASH FLOWS FROM OPERATING ACTIVITIES	- I -	1,019.9	577.2
Capital expenditure on tangible and intangible assets	note 26-a	(437.3)	(264.1)
Proceeds from disposal of tangible and intangible assets		22.4	8.6
Net operating investment		(414.9)	(255.5)
Acquisitions of subsidiaries, net of cash acquired	note 26-b	(92.2)	(124.0)
Disposals of subsidiaries, net of cash disposed	note 26-b	234.2	24.8
Decrease (increase) in loans and other non current financial assets		113.7	(9.5)
Decrease (increase) in loans and other current financial assets		(53.6)	(72.6)
Net financial investment		202.1	(181.3)
NET CASH FLOWS FROM INVESTING ACTIVITIES	- II -	(212.8)	(436.8)
Dividends paid in cash		(155.4)	(64.0)
Increase in equity (exercise of subscription options)		0.2	0.9
Purchase/sale of treasury shares		17.8	(7.9)
Acquisitions/disposals of interests in controlled entities		-	(3.2)
Increase in financial debt		146.4	111.9
Repayment of financial debt		(230.6)	(925.4)
NET CASH FLOWS FROM FINANCING ACTIVITIES^(c)	- III -	(221.6)	(887.7)
Effect of exchange rate variations and other	- IV -	9.7	(80.1)
TOTAL INCREASE (DECREASE) IN CASH AT BANK AND EQUIVALENTS	I+II+III+IV	595.2	(827.4)
Cash at bank and equivalents at beginning of period		1,923.1	2,750.5
CASH AT BANK AND EQUIVALENTS AT END OF PERIOD^(d)		2,518.3	1,923.1

(a) See details of change in working capital requirement in note 15.

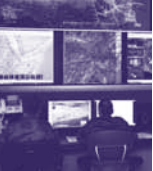
(b) In 2012, financial interest paid amounted to €67.8m and financial interest received to €31.0m (respectively €87.0m and €34.5m in 2011).

(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 2011	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 (loss)	–	–	–	–	(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 issues	35	0.2	0.8	–	–	–	–	–	1.0	–	1.0
Dividends paid in shares (note 20-d)	3,211	9.6	73.8	(83.4)	–	–	–	–	–	–	–
2011 dividends paid in cash (note 20-d)	–	–	–	(14.3)	–	–	–	–	(14.3)	–	(14.3)
2012 interim dividends (note 20-d)	–	–	–	(49.7)	–	–	–	–	(49.7)	–	(49.7)
Share-based payments (note 20-f)	–	–	–	14.6	–	–	–	–	14.6	–	14.6
Acquisitions/disposals of treasury shares (note 20-c)	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
Net income (loss)	–	–	–	535.7	–	–	–	–	535.7	0.3	536.0
Other comprehensive income (loss)	–	–	–	–	41.5	0.5	25.0	–	67.0	(0.1)	66.9
Total comprehensive income (loss) for 2012	–	–	–	535.7	41.5	0.5	25.0	–	602.7	0.2	602.9
Employee share issues	11	–	0.2	–	–	–	–	–	0.2	–	0.2
2012 dividends paid in cash (note 20-d)	–	–	–	(105.6)	–	–	–	–	(105.6)	–	(105.6)
2013 interim dividends (note 20-d)	–	–	–	(49.8)	–	–	–	–	(49.8)	–	(49.8)
Share-based payments (note 20-f)	–	–	–	12.8	–	–	–	–	12.8	–	12.8
Acquisitions/disposals of treasury shares (note 20-c)	747	–	–	(14.8)	–	–	–	27.3	12.5	–	12.5
Other	–	–	–	(1.6)	–	–	–	–	(1.6)	(1.0)	(2.6)
Changes in scope of consolidation	–	–	–	(15.2)	–	–	–	–	(15.2)	1.3	(13.9)
AT 31 DECEMBER 2012	199,544	607.0	3,731.6	340.6	18.7	1.6	(35.4)	(87.9)	4,576.2	10.2	4,586.4



1 FINANCIAL INFORMATION 2012

Consolidated financial statements

1.2.6 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

On 28 February 2013, the Board of Directors closed, and authorised for issue, Thales's consolidated financial statements for the year ended 31 December 2012. In accordance with French legislation, the financial statements will be finally approved by the

shareholders of Thales at the Annual General Meeting convened for 24 May 2013.

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_fr.htm) at 31 December 2012.

These principles do not differ from the standards and interpretations required at 31 December 2012, 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 applied in the preparation of the Group's annual IFRS consolidated financial statements for the year ended 31 December 2011, except for the adoption of the new following standards and interpretations:

- amendment to IFRS 7 (Disclosures related to Transfer of Financial Assets): required information is disclosed in note 15-b;
- amendment to IAS 12 (Deferred Tax, Recovery of Underlying Assets) clarifies the determination of deferred tax related on investment property measured at fair value. This amendment has no effect on the Group's financial statements.

Amendment to IAS 1 (Presentation of items of other comprehensive income) has been early adopted by Thales at 31 December 2011.

The following new standards, revised standards, amendments and interpretations, have been published by the IASB and are applicable to annual periods beginning on or after 1 January 2013:

- Employee Benefits (IAS 19 revised): The main changes to the current standard mainly concern:
 - options for recognition for actuarial gains and losses: the amended standard requires that actuarial gains and losses must be fully recognised in other comprehensive income (and not subsequently taken to profit and loss). The "corridor" approach, used until the end of 2012 by the Group, will no longer be used,
 - recognition of past service cost: the amended standard states that past service cost must be recognised immediately in P&L at the date the plan amendment occurs, whether the rights would be acquired or not,
 - expected return on plan assets: the profit will be determined using the same rate as the discount rate used for obligations,
 - disclosures on defined benefit plans, their characteristics and risks associated with them.

The impact of this amendment on the Group accounts is detailed in note 21-f.

- Fair Value Measurement (IFRS 13): This new standard provides guidance on how to measure fair value. However, this standard does not change the scope of fair value measurement;
- Annual Improvements to IFRS, published in May 2012. This text has not been adopted by the European Union yet;
- Amendment to IAS 32 (offsetting financial assets and financial liabilities).

The following new standards have been published by the IASB and, due to specific provisions of adoption from the European Union, will only be effective as of 1 January 2014:

- Consolidated Financial Statements (IFRS 10): This new standard replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements, and addresses the issues raised in SIC 12 (Consolidation - Special Purpose Entities). According to IFRS 10: "An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee".

- 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".

According to IFRS 11, joint arrangements can be broken down into two categories: joint operations and joint ventures. This amendment removes the option to account for jointly controlled entities using proportionate consolidation (method used by Thales up to now). Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method.

So far, the Group has not identified significant joint operations activity. The contribution of joint ventures to the Group consolidated statements is detailed in note 18.

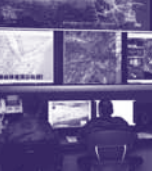
IAS 28 "Investments in associates" has been revised accordingly;

- Disclosure of Interests in Other Entities (IFRS 12): IFRS 12 includes into a single standard the disclosures relating to entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

Finally, the following text, published by the IASB and applicable from 1 January 2015, has not been adopted by the European Union yet:

- Financial Instruments: classification and measurement of financial assets and liabilities: this standard should gradually replace IAS 39.

The potential impact of these new standards on the Group's accounts has not been evaluated yet.



1 FINANCIAL INFORMATION 2012

Consolidated financial statements

A) CONSOLIDATION

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

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

Transactions between fully consolidated or proportionately consolidated companies are eliminated, as well as internal gains and losses related to consolidated companies. Transactions between a fully consolidated company and a proportionately consolidated company, whether or not they affect consolidated profit and loss, are eliminated to the extent of the Group's ownership interest in the proportionately consolidated company. As an exception to this principle, transactions between a fully consolidated company and a proportionately consolidated company are fully eliminated when the jointly controlled company acts simply as an intermediary or performs profit-neutral services on behalf of, or as a direct extension of the activities of, its 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, etc.) 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 measure again 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 at disposal which is calculated on the whole stake owned at the transaction date. The investment remaining 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 identified 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.

Business combinations completed before 1 January 2010

The main changes from the standards described above are as follow:

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 several steps, 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 insofar the extent that its payment was probable and that its amount could 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) FINANCIAL STATEMENTS TRANSLATION OF FOREIGN SUBSIDIARIES

The financial statements of companies which 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, until the date of disposal. On this date, they will be recognised in profit and loss..

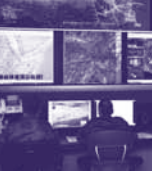
Main closing and average exchange rates used for translation purposes

(in euros)	31/12/2012		31/12/2011	
	Closing rate	Average rate	Closing rate	Average rate
Australian Dollar	1.2712	1.2447	1.2723	1.3438
Sterling Pound	0.8161	0.8119	0.8353	0.8718
U.S. Dollar	1.3194	1.2932	1.2939	1.4013

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. On 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, not to retrospectively reconstitute 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 is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. 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 into account 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, etc.).

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

F) IMPAIRMENT OF NON-CURRENT ASSETS

Every time 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 highest 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 sales 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.

- Receivables and financial loans 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 their lower 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) SALES

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

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

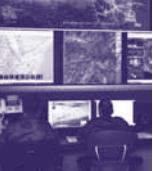
Sales of goods and services

Sales of goods and services together with royalty and licence income are recognised when the future economic benefits will likely flow to the Group and when the amount of sales can be measured

reliably. The following specific criteria must also be satisfied in order for sales to be recognised:

- sales from the sale of goods are recognised when the company has transferred the principal risks and rewards inherent to ownership of the goods to the purchaser;
- sales related to the rendering of services are recognised according to 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 sales.



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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 sales and expenses will be recognised.

Sales and expenses on construction contracts are recognised in accordance with the technical percentage of completion method. However, when there is no significant time 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 sales. 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 on loss-making contracts do not include sales 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 categorised as "Construction contracts: assets" in balance sheet assets. If it is negative it is categorised as "Construction contracts: liabilities" in balance sheet liabilities.

J) RESEARCH AND DEVELOPMENT EXPENSES

A significant share of research and development expenses is funded by customers and government agencies. 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 harder to share development work and therefore harder to capitalise the associated costs.

The impact of the crisis, particularly on Aerospace activities, led the Group since 2009 to roughly 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;

- 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 sales 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 sales 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 obtention 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 is equal to income of operating activities before taking into account:

- gains and losses on disposal of intangible or tangible assets, businesses or investments;
- impact of changes in the scope on the consolidated net income:
 - costs related to the 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) PENSION AND OTHER EMPLOYEE BENEFITS

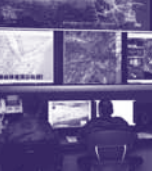
In accordance with local legislation and practice in the countries in which it operates, the Group grants its employees post-employment benefits (pensions, retirement awards, medical care, etc.) and other long-term benefits (long-service benefits, long-service awards on departure, etc.).

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

- for defined contribution schemes and state plans, contributions paid by the Group are in full discharge of the Group's liability and are recognised as an expense for the period;
- obligations under defined benefit plans are measured by independent actuaries using the projected unit credit method on the basis of estimated salaries at the date of retirement. The calculations mainly take into account assumptions concerning the expected retirement date, future salary levels and staff turnover rates, an appropriate discount rate and an inflation rate.

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



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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 pension 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 IAS 19, as revised, of recognising actuarial gains and losses directly in equity has not been taken.

O) SHARE BASED PAYMENTS

Share options and free shares

Thales grants shares, share options and free shares to its employees. The Group uses a binomial model to measure the amount of the benefit to employees receiving the shares 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 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;

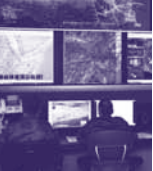
- a cash flow hedge is a hedge of the exposure to changes in the value of future cash flows (unknown future interest flows payable on existing variable rate borrowings or on highly probable future borrowing issues, for example).

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). These transfers, which are without recourse in case of payment default by the debtor, involve the transfer of substantially all

corresponding risks and rewards. Under these conditions, transferred trade receivables should be "derecognised" from the balance sheet (see note 15-b).

**NOTE 2 Significant accounting 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 11)

Goodwill is subject to impairment tests (see note 1-f). The recoverable amount of goodwill by cash generating unit is assessed on the basis of forecast data from the strategic plans prepared, in accordance

with Group procedures, for each of the Group's businesses or divisions.

DEVELOPMENT COSTS (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 sales and profitability of the corresponding projects.

PENSION 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 considered.

RISKS AND LITIGATION (NOTE 23)

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 3 Change in scope of consolidation**IN 2012**

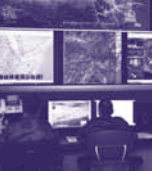
- At the end of December 2011, Thales exercised its option to increase its participation in the capital of DCNS to 35%. Thales has had this option since it acquired a 25% stake in DCNS in 2007. The price paid for the additional 10% stake was €264.6m.

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.

In 2012, the Group proceeded in measuring at their fair value assets and liabilities acquired. Thales's consolidated balance sheet at 31 December 2011 has been adjusted accordingly. The 35% share of the balance sheet in the Group's consolidated accounts, after purchase price allocation, is given hereafter:

31 December 2011 (35%)		Before allocation	Allocation & reclass.	After allocation	Dep. period
Customer relationships: backlog		–	267.0	267.0	12 years
Acquired technologies		–	152.0	152.0	23 years
Customer relationships: long-term		–	161.0	161.0	18 years
Other intangible assets		7.1	6.0	13.1	7 years
Tangible assets		178.4	–	178.4	
Share in net assets of equity affiliates and available-for-sale investments		16.0	–	16.0	
Current and deferred tax		13.6	(202.0)	(188.4)	
Pension and other employee benefits		(12.6)	–	(12.6)	
Current operating assets		1,573.8	(190.0)	1,383.8	
Current operating liabilities		(2,343.3)	190.0	(2,153.3)	
Net cash		713.6	–	713.6	
Net assets acquired at end of 2011	(I)	146.6	384.0	530.6	
DCNS shares under equity method at end of 2011		558.0	–	558.0	
Fair value adjustment through profit & loss		37.0	–	37.0	
Acquisition cost of the additional 10%		264.6	–	264.6	
Total	(II)	859.6	–	859.6	
GOODWILL	(II) – (I)	713.0	(384.0)	329.0	

- In January 2012, Thales acquired Areva's 10% stake of Sofradir for €24m, increasing its participation from 40% to 50%. From now on the company, jointly owned with Safran, is accounted for under the proportionate consolidation method at 50% (40% until the end of 2011).
- In April 2012, Thales finalized the acquisition of 51% of the American SATCOM company Tampa Microwave for \$18.6m (€14.3m). Thales has a call option for the 49% remaining, which is exercisable in 2014.
- In August 2012, Thales signed an agreement with L-3 Communications for the sale of its civil fixed-wing flight simulation business and aircrew training activities for £84.2m (€103.8m). Thales recognized a capital gain of €18.6m from the sale.
- In November 2012, Thales acquired for €24.4m Sysgo AG, one of the European leaders in real-time, highly secure operating systems. The company will be consolidated as of 1 January 2013.
- In December 2012, Thales sold for €100m its 49% stake in the joint venture Diehl Air Cabin GmbH to its joint shareholder Diehl Group. Thales recognized a capital gain of €73.4m from the sale.
- At the end of December 2012, Thales finalized the acquisition for \$30.7m (€23.3m) of the Helmet Mounted Display (HDM) and motion tracking businesses from Gentex Corporation, activities gathered under the name of "Visionix". The company will be consolidated as of 1 January 2013.



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IN 2011

- In January 2011, Telespazio acquired for €53.3m (corresponding to €17.5m at 33% for Thales) of the English group Vega Space, as well as Space activities from Elsat Datamat.
- In September 2011, Thales paid €16.4m to increase its stake from 40% to 100% in Yaltes, a company active in a large number of Turkish naval programs. In accordance with IFRS 3 R, the Group measured again its previous-held interests by €7.1m and recorded a €19.7m goodwill.
- In December 2011, Thales sold for \$38m (€29.4m) of its 35% stake in the joint venture Navigation Solutions LLC to its joint shareholder Hertz Corp. The amount from the disposal was received in January 2012.
- At the end of December 2011, Thales exercised its option to increase its participation in the capital of DCNS from 25% to 35%. This company, which was previously accounted for under the equity method, is accounted for under the proportionate method as of 31 December 2011.

As a result, Thales's share in DCNS's 2011 net income remained accounted for under the equity method at 25%. Previously-held interests were measured again at fair value at the date of the transaction, which led to a €37.0m gain.

NOTE 4

Segment information

In 2012, the Group's organisation structure is a two-dimensional matrix by Division and by geographical 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, etc.), 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.

Geographic areas are defined as follows:

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

Information issued hereafter follow 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, in order to monitor and compare performance.

These primarily represent the 2007 acquisition of the space, transportation and security businesses of Alcatel-Lucent and the interest in DCNS, initially 25%, for an additional 10% in 2012.

A) INFORMATION BY BUSINESS SEGMENT

For comparably reasons, DCNS's information is presented separately. The figures under the column "DCNS impact" correspond to the consolidation of DCNS under the proportionate method at 35% in the Group accounts since 31 December 2011.

2012	Aerospace and Transport	Defence and Security	Other, elim and non allocated ^(c)	Total excl. DCNS	DCNS impact	Thales before PPA ^(d)
Consolidated order backlog	10,888.3	14,063.1	58.5	25,009.9	4,648.2	29,658.1
Consolidated new orders	5,711.6	6,805.7	74.5	12,591.8	701.1	13,292.9
Consolidated sales	5,952.4	7,166.2	98.2	13,216.8	941.3	14,158.1
Inter-segment sales	91.0	323.6	(414.6)	—	—	—
Total sales	6,043.4	7,489.8	(316.4)	13,216.8	941.3	14,158.1
Income from operations (EBIT) ^(a)	392.1	504.3	(48.2)	848.2	79.0	927.2
Capital expenditure	117.1	221.8	57.7	396.6	40.7	437.3
Dep. and amortisation of tangible and intang. assets	168.2	107.5	68.4	344.1	25.4	369.5
Consolidated number of employees end of period ^(b)	22,749	33,045	5,444	61,238	4,754	65,992

2011 restated ^(c)	Aerospace and Transport	Defence and Security	Other, elim and non allocated ^(c)	Total excl. DCNS	DCNS impact	Thales before PPA ^(d)
Consolidated order backlog	11,371.7	14,374.5	95.5	25,841.7	4,854.8	30,696.5
Consolidated new orders	5,952.7	7,149.6	111.4	13,213.7	—	13,213.7
Consolidated sales	5,682.3	7,178.9	167.2	13,028.4	—	13,028.4
Inter-segment sales	62.1	334.6	(396.7)	—	—	—
Total sales	5,744.4	7,513.5	(229.5)	13,028.4	—	13,028.4
Income from operations (EBIT) ^(a)	285.6	498.7	(35.2)	749.1	—	749.1
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	—	344.5
Consolidated number of employees end of period ^(b)	23,872	34,554	5,034	63,460	4,865	68,325

(a) Group income from operations includes tax credits related to research expenses amounting to €115.5m in 2012 and €120.5m in 2011.

(b) The consolidated number of employees includes all employees of fully consolidated companies and the proportionate share of employees of companies consolidated under the proportionate method. It does not include the employees of companies accounted for under the equity method or of unconsolidated affiliates. Personnel expenses amount to €5,620.1m in 2012 (including €346.8m related to DCNS) and €5,082.0m in 2011.

(c) The "Other, elim and non allocated" column corresponds to the elimination of transactions between the two business sectors, and includes figures relating to corporate activities (Thales parent company, Thales Global Services, Group R&D centers, facilities management) and businesses sold during the prior year.

The non-allocated income from operations includes the corporate income from operations which is not charged back to areas, the cost of vacant premises and results from activities sold during the prior year.

Other costs (mainly results from foreign holding companies which are not charged back and the expense related to share-based payments) are reallocated to sectors proportionally to their respective ex-Group sales. This reallocation represents an evolution compared to 2011. Thus, 2011 first half figures have been restated accordingly.

(d) Income from operations and amortisation of intangible assets are restated from the adjustment entries related to the Purchase Price Allocation (PPA):

	2012	2011
Thales before PPA	927.2	749.1
PPA	(111.5)	(70.6)
THALES REPORTED	815.7	678.5

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B) INFORMATION BY GEOGRAPHIC AREA

For comparably reasons, DCNS's information is presented separately. The figures under the column "DCNS impact" correspond to the consolidation of DCNS under the proportionate method at 35% in the Group accounts since 31 December 2011.

2012	Area A	Area B	France	Other, elim and non allocated ^(b)	Total DCNS excl.	DCNS impact	Thales before PPA ^(a)
Consolidated order backlog	8,381.7	3,635.2	12,985.6	7.4	25,009.9	4,648.2	29,658.1
Consolidated new orders	4,792.6	2,318.8	5,436.3	44.1	12,591.8	701.1	13,292.9
Consolidated sales	4,323.7	2,472.9	6,366.0	54.2	13,216.8	941.3	14,158.1
Inter-segment sales	183.8	374.4	633.6	(1,191.8)	–	–	–
Total sales	4,507.5	2,847.3	6,999.6	(1,137.6)	13,216.8	941.3	14,158.1
Income from operations (EBIT)	228.7	119.9	547.8	(48.2)	848.2	79.0	927.2
Capital expenditures	70.1	63.3	263.2	–	396.6	40.7	437.3
Dep. and amortisation of tangible and intang. assets	118.2	46.1	179.8	–	344.1	25.4	369.5
Consolidated number of employees end of period	17,247	11,928	29,784	2,279	61,238	4,754	65,992

2011 restated ^(b)	Area A	Area B	France	Other, elim and non allocated ^(b)	Total DCNS excl.	DCNS impact	Thales before PPA ^(a)
Consolidated order backlog	7,958.4	3,966.9	13,885.4	31.0	25,841.7	4,854.8	30,696.5
Consolidated new orders	3,667.3	2,319.0	7,140.2	87.2	13,213.7	–	13,213.7
Consolidated sales	4,203.4	2,585.2	6,122.3	117.5	13,028.4	–	13,028.4
Inter-segment sales	200.6	340.8	651.7	(1,193.1)	–	–	–
Total sales	4,404.0	2,926.0	6,774.0	(1,075.6)	13,028.4	–	13,028.4
Income from operations (EBIT)	205.4	119.2	459.7	(35.2)	749.1	–	749.1
Capital expenditures	72.7	46.6	144.5	0.3	264.1	–	264.1
Dep. and amortisation of tangible and intang. assets	116.6	47.6	178.2	2.1	344.5	–	344.5
Consolidated number of employees end of period	17,754	12,707	30,036	2,963	63,460	4,865	68,325

(a) Income from operations and amortisation of intangible assets are restated from the adjustment entries related to the Purchase Price Allocation (PPA) – see note 4-a.

(b) The "Other, elim and non allocated" column corresponds to the elimination of transactions between the areas, and includes figures relating to corporate activities as well as businesses sold during the prior year.

The non-allocated income from operations includes the corporate income from operations which is not charged back to areas, the cost of vacant premises and results from activities sold during the prior year.

Other costs (mainly the expense related to share-based payments) are reallocated to areas proportionately to their respective ex-Group sales.

C) SALES (DIRECT AND INDIRECT) BY COUNTRY/REGION OF DESTINATION

	2012 excluding DCNS	DCNS Impact	2012	2011
France	3,563.9	631.9	4,195.8	3,406.9
United Kingdom	1,569.3	0.4	1,569.7	1,492.2
Rest of Europe	3,449.3	76.7	3,526.0	3,456.6
North America	1,399.7	0.1	1,399.8	1,269.1
Middle East	748.5	26.2	774.7	947.1
Asia and Pacific	1,960.9	95.4	2,056.3	1,849.2
Africa and Latin America	525.2	110.6	635.8	607.3
TOTAL	13,216.8	941.3	14,158.1	13,028.4

D) INFORMATION BY TYPE OF CONTRACTS

More than half of the Group's sales comes 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.

	2012	2011
Construction contracts	7,371.8	6,811.8
Sales of goods and equipment	3,533.9	3,406.5
Services	3,179.8	2,737.0
Other	72.6	73.1
TOTAL	14,158.1	13,028.4

NOTE 5**Information on comparable basis with constant exchange rates**

	2012 adjusted	2011 adjusted	Total variation	Changes in scope	Changes in exchange rate	Organic growth
Sales	14,158.1	13,028.4	1,129.7	831.9	314.6	(16.8)
Cost of sales	(10,868.1)	(10,067.1)	(801.0)	(649.0)	(266.9)	114.9
Research and development expenses	(687.4)	(619.2)	(68.2)	(25.1)	(10.0)	(33.1)
Marketing and selling expenses	(942.4)	(889.3)	(53.1)	(31.7)	(18.4)	(3.0)
General and administrative expenses	(615.2)	(543.2)	(72.0)	(60.4)	(15.5)	3.9
Restructuring costs	(117.8)	(160.5)	42.7	0.4	(2.2)	44.5
INCOME FROM OPERATIONS (EBIT)	927.2	749.1	178.1	66.1	1.6	110.4

Organic change means on a like-for-like basis and at constant exchange rates :

Companies acquired in 2012 are excluded from the restated 2012 profit and loss account, and the accounts of companies acquired during 2011 have been restated in order to affect 2012 profit or loss over an identical period to that over which such companies were consolidated in 2011.

Companies sold in 2011 are excluded from 2011 restated results. The accounts of companies sold during 2012 have been restated

in order to impact profit and loss for an identical period in 2012 and in 2011.

The exchange rate change is determined as follows: 2011 results of foreign subsidiaries are translated at 2012 average exchange rates. The exchange difference thus obtained is adjusted to take into account the effect of changes in currency rates on transactions denominated in a different currency than the subsidiary's functional currency.

NOTE 6**Impairment of non current operating assets**

	2012	2011
Goodwill (Note 11)	(5.6)	(5.7)
Other tangible and intangible assets	(9.1)	(1.4)
TOTAL	(14.7)	(7.1)

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

At the end of 2012, impairment tests were performed with the initial assumption of a 8.5% discount rate (same in 2011) for every CGU, knowing that these CGU present a risk level more or less equivalent and show 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

	2012	2011
Fair value adjustments^(a):	15.1	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
Tampa Microwave	15.1	–
Disposal of investments:	88.4	4.6
Diehl Aircabin GmbH (49%)	73.4	–
UK activities of simulation	18.6	–
Navigation Solutions LLC (35%)	–	10.0
Other	(3.6)	(5.4)
Disposal of other assets:	(1.7)	0.5
Real estate assets	(1.7)	3.3
Equipment	–	(2.8)
Provision on litigation and other^(b)	12.3	(0.9)
TOTAL	114.1	54.6

(a) In the case of step acquisitions, the previously-held equity interests are measured again 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.

(b) In 2012, this amount includes €12.4m as the reversal of provision constituted in 2010 related to the arbitration claim by the Republic of China Navy (Taiwan).

NOTE 8 Financial income (expense)

A) COST OF NET FINANCIAL DEBT

	2012	2011
Interest expense:		
• on gross debt	(68.4)	(96.1)
• on interest rate swaps	12.3	12.8
Total	(56.1)	(83.3)
Interest income/cash and equivalents	42.5	35.8
TOTAL	(13.6)	(47.5)

B) OTHER FINANCIAL INCOME (EXPENSE)

	2012	2011
Foreign exchange gains (losses)	(10.8)	(1.6)
Change in fair value of derivative exchange instruments	(26.1)	6.2
Cash flow hedge inefficiency/foreign exchange instruments	0.5	(5.8)
Net foreign exchange gains (losses)	(36.4)	(1.2)
Net interest income on non-financial receivables and payables	–	4.6
Dividends received	7.1	4.9
Impairment of investments in shares (available-for-sale)	(5.8)	(0.3)
Depreciation of loans and other financial debtors	(4.3)	(6.5)
Other	(13.5)	(11.8)
TOTAL	(52.9)	(10.3)

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

	2012	2011
Current tax	(178.4)	(94.4)
Deferred tax	(15.5)	(52.9)
TOTAL	(193.9)	(147.3)

B) EFFECTIVE TAX RATE

	2012	2011
Net income (loss)	536.0	511.5
Less: income tax	193.9	147.3
Less: share in net income (loss) of equity affiliates	(23.8)	(53.4)
Profit before tax	706.1	605.4
Average tax rate	32.7%	31.3%
Theoretical tax gain (expense)	(231.0)	(189.6)
Reconciliations:		
• Tax credit	65.2	55.7
• Non taxable items or items taxable at reduced rates	11.6	6.8
• Change in deferred tax not recorded as an asset	(9.9)	5.0
• Prior year adjustments	(7.0)	(19.1)
• Foreign taxes ^(a)	(16.4)	(7.5)
• Other	(6.4)	1.4
INCOME TAX PROFIT (LOSS)	(193.9)	(147.3)

(a) Including in particular the IRAP in Italy and foreign investments tax.

C) DEFERRED TAX ASSETS AND LIABILITIES

	31/12/2012	31/12/2011 restated ^(a)
Deferred tax assets	906.7	955.0
Deferred tax liabilities	(383.4)	(386.3)
DEFERRED TAX ASSETS, NET	523.3	568.7

(a) Restated in order to take into account the definitive purchase price allocation of the 35% of DCNS (see note 3).

D) CHANGES IN NET DEFERRED TAX ASSETS:

Changes by nature

	01/01/2012	(Expense) income of the period	Recognised through equity	Changes in exchange rate, scope and other	31/12/2012
Temporary differences:	305.1	69.6	(18.4)	(6.5)	349.8
• Pensions and other employee benefits	159.0	7.7	–	(0.8)	165.9
• Intangible assets	(394.1)	39.4	–	(0.1)	(354.8)
• Reserve for losses at completion	282.2	(42.4)	–	(0.1)	239.7
• Other	258.0	64.9	(18.4)	(5.5)	299.0
Tax loss carry-forwards	465.3	(75.2)	–	2.2	392.3
TOTAL	770.4	(5.6)	(18.4)	(4.3)	742.1
Part not recognised in the balance sheet	(201.7)	(9.9)	(5.4)	(1.8)	(218.8)
Total net deferred tax assets	568.7	(15.5)	(23.8)	(6.1)	523.3

	01/01/2011	(Expense) income of the period	Recognised through equity	Changes in exchange rate, scope and other	31/12/2011 Restated
Temporary differences:	462.4	(6.8)	46.7	(197.2)	305.1
• Pensions and other employee benefits	163.5	(6.7)	–	2.2	159.0
• Intangible assets	(199.7)	27.2	–	(221.6)	(394.1)
• Reserve for losses at completion	325.6	(47.1)	–	3.7	282.2
• Other	173.0	19.8	46.7	18.5	258.0
Tax loss carry-forwards	504.8	(51.1)	–	11.6	465.3
TOTAL	967.2	(57.9)	46.7	(185.6)	770.4
Part not recognised in the balance sheet	(207.4)	5.0	1.7	(1.0)	(201.7)
Total net deferred tax assets	759.8	(52.9)	48.4	(186.6)	568.7

Deferred tax allocated to equity

	2012	2011
Cash flow hedge	(26.9)	39.8
Net foreign investments' hedge	0.3	0.4
Total deferred tax on other comprehensive income	(26.6)	40.2
Deferred tax/payment in shares	2.8	8.2
TOTAL DEFERRED TAX ALLOCATED TO EQUITY	(23.8)	48.4

E) EXPIRATION OF TAX LOSS CARRY-FORWARDS

Total tax loss carry-forwards represent a potential tax saving of €392.3m at 31 December 2012 (€465.3m at 31 December 2011). Corresponding expiry dates are:

	31/12/2012		31/12/2011
2013	0.6	2012	2.7
2014-2017	2.6	2013-2016	0.7
Beyond 2017	37.5	Beyond 2016	42.1
Without any time limit	351.6	Without any time limit	419.8
Total	392.3	Total	465.3
Of which, not recognized on the balance sheet	(141.0)	Of which, not recognized on the balance sheet	(172.4)
NET DEFERRED TAX ASSET	251.3	NET DEFERRED TAX ASSET	292.9

Only deferred tax assets related to tax losses which the Group expects to recover (note 1-I) are recognised in the balance sheet. In particular, the Group takes into account loss carry-forward limitation.

NOTE 10 Earnings per share

		2012	2011
Numerator (in millions of euros):			
Net income (loss), attrib. to owners of the parent company	(a)	535.7	511.8
Denominator (in thousands):			
Average number of shares outstanding	(b)	199,270	196,736
Share options ^(a)		32	47
Diluted average number of shares outstanding	(c)	199,302	196,783
Earnings per share (in euros)	(a) / (b)	2.69	2.60
Diluted earnings per share (in euros)	(a) / (c)	2.69	2.60

(a) Average share price amounted to €26.33 in 2012 (€26.63 in 2011). 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-f.

NOTE 11 Goodwill

Changes in this item

	31/12/2011 restated ^(a)	Cash out	Cash in	Impairment	Scope, exch. rates and other	31/12/2012
Avionics	318.4	–	(4.9)	–	(0.3)	313.2
Transportation Systems	875.4	–	–	–	–	875.4
Space	487.1	–	–	–	(0.1)	487.0
Aerospace and Transport	1,680.9	–	(4.9)	–	(0.4)	1,675.6
Defence & Security C4I Systems	576.1	5.3	(4.0)	–	1.9	579.3
Defence Mission Systems	491.3	–	–	–	1.4	492.7
Land Defence	275.4	13.6	–	–	0.6	289.6
Air Operations	41.8	–	–	–	0.8	42.6
Defence and Security	1,384.6	18.9	(4.0)	–	4.7	1,404.2
DCNS	329.0	–	–	–	–	329.0
Other	8.1	–	–	(5.6)	(0.1)	2.4
TOTAL	3,402.6	18.9	(8.9)	(5.6)	4.2	3,411.2

(a) Restated in order to take into account the definitive purchase price allocation of the 35% of DCNS (see note 3).

	31/12/2010	Cash out	Cash in	Impairment	Scope, exch. rates and other	31/12/2011 restated ^(a)
Avionics	317.5	–	–	–	0.9	318.4
Transportation Systems	875.4	–	–	–	–	875.4
Space	467.2	19.9	–	–	–	487.1
Aerospace and Transport	1,660.1	19.9	–	–	0.9	1,680.9
Defence & Security C4I Systems	585.0	–	(7.7)	(5.7)	4.5	576.1
Defence Mission Systems	475.3	13.9	–	–	2.1	491.3
Land Defence	274.3	–	–	–	1.1	275.4
Air Operations	41.8	–	–	–	–	41.8
Defence and Security	1,376.4	13.9	(7.7)	(5.7)	7.7	1,384.6
DCNS	–	329.0	–	–	–	329.0
Other	8.4	–	–	–	(0.3)	8.1
TOTAL	3,044.9	362.8	(7.7)	(5.7)	8.3	3,402.6

(a) Restated in order to take into account the definitive purchase price allocation of the 35% of DCNS (see note 3).

NOTE 12 Tangible and intangible assets

A) DETAILS OF BALANCE SHEET ITEMS

	31/12/2012			31/12/2011
	Gross	Depreciation and Impairment	Net	Net restated ^(a)
Customer relationship: long-term	560.8	(161.8)	399.0	430.2
Customer relationship: backlog	479.4	(234.6)	244.8	281.3
Acquired technologies	414.6	(184.7)	229.9	256.9
Other	25.5	(8.0)	17.5	17.1
Intangible assets acquired in the context of business combination	1,480.3	(589.1)	891.2	985.5
Development costs	875.2	(719.6)	155.6	203.3
Other	651.5	(526.3)	125.2	140.7
Intangible assets (excluding goodwill)	3,007.0	(1,835.0)	1,172.0	1,329.5
Lands	70.9	(7.1)	63.8	74.9
Buildings	1,203.6	(708.1)	495.5	531.4
Plant and equipment	2,292.1	(1,691.7)	600.4	567.7
Other	906.5	(560.9)	345.6	319.9
Tangible assets	4,473.1	(2,967.8)	1,505.3	1,493.9
TOTAL	7,480.1	(4,802.8)	2,677.3	2,823.4
Of which:				
Fixed assets held under lease agreements	62.3	(34.2)	28.1	27.2

(a) Restated in order to take into account the definitive purchase price allocation of the 35% of DCNS (see note 3).

B) CHANGES IN NET TANGIBLE AND INTANGIBLE ASSETS

	Intangible assets acquired	Development costs	Other intangible assets	Tangible assets	Total
Net value at 1 January 2011	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)
Amortisation of intangible assets recognised at fair value on business combination	(70.6)	–	–	–	(70.6)
Oth. depreciation and amortisation	–	(42.7)	(36.5)	(265.3)	(344.5)
Impairment (note 6)	–	–	–	(1.4)	(1.4)
PPA DCNS	586.0	–	–	–	586.0
Scope, foreign exchange rates and other	0.5	(0.7)	29.1	189.4	218.3
Net value at 31 December 2011	985.5	203.3	140.7	1,493.9	2,823.4
Acquisitions/capitalisations	–	12.1	50.3	374.9	437.3
Disposals	–	–	(1.0)	(21.4)	(22.4)
Amortisation of intangible assets recognised at fair value on business combination	(111.5)	–	–	–	(111.5)
Oth. depreciation and amortisation	–	(59.3)	(45.2)	(265.0)	(369.5)
Impairment (note 6)	–	–	–	(9.1)	(9.1)
Scope, foreign exchange rates and other	17.2	(0.5)	(19.6)	(68.0)	(70.9)
NET VALUE AT 31 DECEMBER 2012	891.2	155.6	125.2	1,505.3	2,677.3

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)	
	31/12/2012	31/12/2011	31/12/2012	31/12/2011	2012	2011
Aviation Com. & Surveillance Syst.	30	30	54.8	58.2	5.3	4.8
DCNS ^(a)	–	–	–	–	–	33.4
DpiX	20	20	18.8	18.9	0.3	0.1
Elettronica	33	33	34.4	32.5	6.6	5.4
ESG Elektroniksystem & Logistik GmbH	30	30	21.9	21.3	3.5	3.8
Other	–	–	18.7	26.6	8.1	5.9
TOTAL			148.6	157.5	23.8	53.4

(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 (see note 3).

B) CHANGES IN "NET ASSETS OF EQUITY AFFILIATES"

	2012	2011
Share in net assets of equity affiliates at 1 January	157.5	681.9
Share in income (loss) of equity affiliates	23.8	53.4
Dividends paid	(16.5)	(28.8)
Proportionate consolidation of DCNS at 31 December 2011	–	(558.0)
Exchange rate variations and other	(16.2)	9.0
SHARE IN NET ASSETS OF EQUITY AFFILIATES AT 31 DECEMBER	148.6	157.5

NOTE 14 Financial assets

A) AVAILABLE-FOR-SALE INVESTMENTS

Fair value of investments at 31 December

	31/12/2012	31/12/2011
Participation in Cloudwatt (22.23%) ^(a)	50.0	–
Investments held by Thales International Offsets ^(b)	33.1	33.6
Sysgo ^(c)	24.4	–
Visionix ^(c)	23.3	–
Seso ^(c)	14.6	14.6
Investments held by Thales Corporate venture ^(d)	11.4	12.8
Other	50.2	56.8
TOTAL	207.0	117.8

(a) Company created with cooperation of Orange Participations and the Caisse des Dépôts et des Consignations in order to offer cloud-based infrastructures.

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

(c) These companies will be consolidated as of 2013.

(d) The Group's venture capital vehicle.

Changes over the period

	2012	2011
Investments in shares at 1 January	117.8	102.1
Acquisitions (disposals) of non-consolidated investments	99.8	16.7
Impairment of investments (note 8-b)	(5.8)	(0.3)
Exchange rate variations and other	(4.8)	(0.7)
INVESTMENTS IN SHARES AT 31 DECEMBER	207.0	117.8

B) LOANS AND FINANCIAL ASSETS

	31/12/2012	31/12/2011
Loans to related parties	50.3	72.7
Current accounts with related parties	329.1	260.4
Other	73.7	76.6
Total	453.1	409.7
Depreciation	(11.1)	(10.7)
LOANS AND FINANCIAL ASSETS AT AMORTISED COST	442.0	399.0
Of which:		
Non-current (maturity > 1 year)	108.6	138.6
Current (maturity < 1 year)	333.4	260.4

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.

	31/12/2012	31/12/2011
DCNS investments (35%), maturity > 1 year	113.6	217.3
DCNS investments (35%), maturity < 1 year	385.8	400.8
Receivable related to the disposal of Navsol	–	29.4
Other	36.0	27.2
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS ACCOUNT	535.4	674.7
Of which:		
Non-current	148.4	244.5
Current	387.0	430.2

NOTE 15 Current operating assets and liabilities

A) CHANGE IN WCR AND PROVISIONS

	01/01/2011	Change in WCR and provisions	DCNS scope impact	Other scope impacts, exch. rate var. and reclass.	31/12/2011	Change in WCR and provisions	Scope impacts, exch. rate var. and reclass.	31/12/2012
Inventories and work-in-progress	2,301.9	11.3	96.1	17.6	2,426.9	86.7	(34.7)	2,478.9
Construction contracts: assets	2,057.7	150.5	83.4	13.7	2,305.3	(229.7)	7.0	2,082.6
Advances to suppliers	366.5	(0.2)	717.6	2.7	896.6	(113.4)	2.4	785.6
Accounts, notes and other current receivables	3,981.0	18.6	676.7	33.2	4,709.5	167.9	(45.6)	4,831.8
FV of foreign currency derivatives	184.6	52.1	–	(114.2)	122.5	(80.7)	82.3	124.1
Current operating assets	8,891.7	232.3	1,573.8	(47.0)	10,460.8	(169.2)	11.4	10,303.0
Advances received from cust. on contracts	(3,448.7)	45.5	(1,178.0)	(229.1)	(4,810.3)	(183.2)	5.1	(4,988.4)
Refundable grants	(173.3)	(8.4)	–	(0.2)	(181.9)	(12.6)	14.9	(179.6)
Construction contracts: liabilities	(1,365.7)	37.0	(104.2)	77.3	(1,355.6)	11.5	(0.9)	(1,345.0)
Reserves for contingencies	(1,458.3)	169.9	(48.9)	106.8	(1,230.5)	3.3	20.7	(1,206.5)
Accounts, notes and oth. cur. payables	(4,956.6)	(114.6)	(1,012.3)	(47.1)	(5,940.6)	284.1	(81.7)	(5,738.2)
FV of foreign currency derivatives	(152.9)	(25.5)	0.1	(0.5)	(178.8)	75.3	(0.5)	(104.0)
Current operating liabilities	(11,555.5)	103.9	(2,343.3)	(92.8)	(13,697.7)	178.4	(42.4)	(13,561.7)
NET	(2,663.8)	336.2	(769.5)	(139.8)	(3,236.9)	9.2	(31.0)	(3,258.7)
Of which net allowances to restruct. prov.	140.1	53.3	13.2	3.7	210.3	(22.0)	(4.3)	184.0
Decrease (increase) in WCR and reserves for contingencies	(2,523.7)	389.5	(756.3)	(136.1)	(3,026.6)	(12.8)	(35.3)	(3,074.7)

B) RECEIVABLES ASSIGNED WITHOUT RECOURSE

The Group transfers trade receivables, mainly from the French *Direction Générale de l'Armement* (Directorate General of Armaments). At 31 December 2012, the transferred receivables, mainly including mature receivables bearing interest on overdue payments, amounted to €20.7m (€156.8m at 31 December 2011 and €202.1m at 31 December 2010).

As these transfers, which are without recourse in case of payment default by the debtor, involve the transfer of substantially all corresponding risks and rewards, those receivables are derecognised. The following risks and rewards are not transferred to the bank: the dilution risk and the remuneration received under the recovery mandate.

NOTE 16 Construction contracts

This note is related to contracts accounted for under IAS11.

	31/12/2012	31/12/2011
Construction contracts: assets	2,082.6	2,305.3
Construction contracts: liabilities	(1,345.0)	(1,355.6)
NET	737.6	949.7

This balance is analyzed as follows:

	31/12/2012	31/12/2011
Work in progress on construction contracts	1,087.6	1,287.2
Unbilled receivable on construction contracts	1,337.4	1,369.7
Reserves for losses at completion on construction contracts ^(a)	(737.7)	(884.6)
Other reserves on construction contracts	(949.7)	(822.6)
TOTAL	737.6	949.7
Advances received from customers on construction contracts	3,546.3	3,341.9

(a) The variations of reserves for losses at completion between 2011 and 2012 are mainly explained by the utilization of reserves booked during the previous years.

In 2010, Thales booked significant charges on some complex contracts. During 2012, the technical milestones on these contracts have been reached as scheduled.

NOTE 17 Current receivables and payables

	31/12/2012			31/12/2011
	Total	< 1 year	> 1 year	
Accounts and unbilled receivable, gross	3,618.4	3,400.0	218.4	3,598.8
Provisions on accounts & notes receivable	(111.2)	(68.9)	(42.3)	(118.6)
Accounts and unbilled receivable, net	3,507.2	3,331.1	176.1	3,480.2
Other tax receivables (excluding income tax)	860.7	537.3	323.4	806.0
Other debtors and prepaid expenses, gross	470.5	392.6	77.9	465.1
Related provisions	(6.6)	(1.0)	(5.6)	(41.8)
Net	1,324.6	928.9	395.7	1,229.3
ACCOUNTS, NOTES AND OTHER CURRENT RECEIVABLES	4,831.8	4,260.0	571.8	4,709.5
Accounts and notes payable	2,699.6	2,687.9	11.7	2,837.7
Accrued holiday pay and social	1,286.5	1,281.6	4.9	1,252.0
Other tax payables (excluding income tax)	766.0	764.3	1.7	886.9
Other creditors and accrued liabilities	986.1	911.5	74.6	964.0
ACCOUNTS, NOTES AND OTHER CURRENT PAYABLES	5,738.2	5,645.3	92.9	5,940.6

Changes in provisions for depreciation can be analysed as follows:

	31/12/2011	Net depreciation (reversal)	Utilization	Scope, exch. rates and other	31/12/2012
Depreciation on accounts & notes receivable	(118.6)	(7.0)	39.7	(25.3)	(111.2)
Depreciation on other receivable	(41.8)	–	1.2	34.0	(6.6)

NOTE 18 Companies under joint control

Part of Thales consolidated financial statements attributable to companies accounted for proportionate consolidation method.

Profit and loss account

	2012	2011
Sales	3,676.0	2,675.4
Income of operating activities	209.3	192.1
Net income	123.1	123.4

Balance sheet

	31/12/2012	31/12/2011
Non current assets	2,438.1	2,385.6
Current assets	3,991.5	4,275.1
TOTAL ASSETS	6,429.6	6,660.7
Equity	2,483.4	2,458.9
Non current liabilities	560.6	446.5
Current liabilities	3,385.6	3,755.3
TOTAL LIABILITIES AND EQUITY	6,429.6	6,660.7

Change in net cash

	2012	2011
Net cash at 1 January	1,412.5	530.3
Cash-flow from operating activities ^(a)	83.6	242.2
Cash-flow from investing activities	(132.0)	(83.1)
Net cash DCNS (35%)	–	713.6
Exchange rate variation and other	24.0	9.5
NET CASH AT 31 DECEMBER	1,388.1	1,412.5
<i>Of which, deposit with the Group Treasury department</i>	<i>419.6</i>	<i>455.1</i>

(a) After deduction of dividends paid by companies under joint control.

NOTE 19 Related party transactions

The Group has identified the following related parties: shareholders of Thales Parent Company (especially 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.

Because of its positioning in the domestic market, Thales's sales with the French State amount to €3.1bn in 2012 (of which €0.8bn related to DCNS) and are mainly related to its customer DGA (*"Direction Générale de l'Armement"*) in the Defence business. This figure amounted to €2.4bn in 2011 (of which €0.2bn related to DCNS).

A) TRANSACTIONS WITH OTHER RELATED PARTY

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

	2012	2011
Sales	204.1	228.2
Purchases	391.2	325.1
Net current operating assets/liabilities	26.2	53.5
Loans and financial assets	370.5	333.1
Financial debts	251.9	307.7

These figures do not include transactions with DCNS.

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 in 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

	2012	2011
Short-term benefits		
• Fixed compensation	4.9	4.9
• Variable compensation	3.2	3.0
• Employer's social security contribution	2.6	2.7
• Contract termination benefits resulting from contract commitments	0.9	1.3
• Employer's social security contribution/contract termination benefits	0.2	0.3
• Compensation for attendance at Board meetings	0.5	0.6
Other benefits		
• Post employment benefits	0.6	1.0
• Share-based payments	1.2	1.1

NOTE 20**Equity****A) SHARE CAPITAL**

The share capital of Thales parent company amounts to €607,019,022 and is made of 202,339,674 shares with an individual value of €3. Changes can be analysed as follows:

	2012	2011
Share Capital at 1 January	202,328,457	199,082,027
Capital increase due to the exercise of subscription stock options	11,217	35,620
Share-based payment	–	3,210,810
SHARE CAPITAL AT 31 DECEMBER	202,339,674	202,328,457

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 into account the structure of the Group's shareholder base, and particularly 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 main ratings agencies or retained by 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.

B) OUTSTANDING SECURITIES GIVING ACCESS TO THE SHARE CAPITAL OF THE COMPANY

At 31 December 2012, there is no securities that give access to the share capital of the Company, with the exception of the options to subscribe for shares described in note 20-f.

C) TREASURY SHARES

Thales Parent Company held 2,795,564 of its own shares at 31 December 2012. They are accounted for with a €87.9m decrease from the consolidated equity. In accordance with the authorizations given to the Board of Directors at the Annual General Meeting, the company did the following operations:

	2012	2011
Treasury shares at 1 January	3,542,173	3,717,478
Purchases as part of the liquidity contract	1,043,357	1,322,476
Sales as part of the liquidity contract	(1,504,941)	(1,242,309)
Purchase in the market	–	740,650
Transfer to employees as part of the employee share purchase offering	–	(712,272)
Delivery of free shares	(285,025)	(283,850)
TREASURY SHARES AT 31 DECEMBER	2,795,564	3,542,173

At 31 December 2012, relating to the liquidity contract between Thales and Exane-BNP Paribas, the liquidity account had the following means:

	2012	2011
Shares at 31 December	134,865	596,449
Value (million euros)	17.6	5.1

D) DIVIDENDS

Dividends per share amounted to €0.78 in 2012 and €0.50 in 2011.

Dividends in 2011 were paid either fully in cash or fully in new Thales shares, at the option of the shareholders. The exercise of the option to receive the dividend in shares led to the issue of 3,210,810 new shares.

Dividends in 2012 were paid fully in cash (with the payment of an interim dividend of €0.25 on 23 December 2011 and the balance of €0.53 on 31 May 2012).

2012 dividend per share being higher than the average dividend of the two prior years, the Group, in accordance with the 2011 French law (*loi de financement rectificative de la sécurité sociale*), entered in negotiations with employees to determine the amount and terms

of the corresponding profit sharing bonus to be paid to employees. A provision of €6.6m was recorded in the 2012 consolidated accounts to that effect.

On 29 November 2012, the Board of Directors decided to pay an interim dividend of €0.25 per share for 2012, booked as a cash payment on 14 December 2012 for a total amount of €49.9m.

On 28 February 2013, the Board of Directors decided to offer the shareholders, who will be called in to a general meeting on 24 May 2013, the payment of a total amount of €0.88 per share. After deducting the interim dividend of €0.25 per share already paid, the amount will total €0.63 per share. The ex-dividend date will be 28 May 2013.

E) CUMULATIVE TRANSLATION ADJUSTMENT

At 31 December 2012, all components accounted under "Other comprehensive income" can be taken to profit during an upcoming period.

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

	2012	2011
Translation of the financial statements of foreign subsidiaries:	25.6	61.0
• Changes in fair value	22.4	60.8
• Taken to profit and loss	3.2	0.2
Hedges of net investments in foreign subsidiaries:	(0.9)	(1.2)
• Changes in fair value	(0.9)	(1.2)
• Taken to profit and loss	–	–

Changes in fair value of financial instruments directly recognised in equity

	2012	2011
Cash flow hedges	68.4	(114.2)
• Changes in fair value	53.8	(66.4)
• Taken to profit and loss	8.6	(47.6)
• Change into scope of consolidation and exchange rate	6.0	(0.2)
Available-for-sale assets	0.5	0.3
• Changes in fair value	0.5	0.3
• Taken to profit and loss	–	–
• Change into scope of consolidation and exchange rate	–	–

F) SHARE-BASED PAYMENT**Expenses related to share-based payments**

Grant date	Initial number of options or shares granted	Fair value at grant date	Fair value at 31/12/2012	2012 Expense	2011 Expense
04/07/2007	1,574,530	14.8	–	–	(0.2)
01/07/2008	1,688,076	11.2	–	(0.1)	(0.8)
25/06/2009	1,600,340	11.2	0.1	(0.9)	(2.0)
23/09/2010	471,850	2.8	0.2	(1.0)	(1.3)
15/09/2011	435,300	2.3	0.7	(1.3)	(0.3)
Share subscription options			1.0	(3.3)	(4.6)
04/07/2007	312,435	11.5	–	–	(0.7)
01/07/2008	317,705	9.3	–	(0.8)	(2.1)
25/06/2009	334,980	8.7	1.1	(2.1)	(2.2)
23/09/2010	631,730	13.6	5.8	(3.3)	(3.3)
15/09/2011	630,990	13.0	8.7	(3.2)	(1.0)
20/12/2012	718,290	16.1	16.0	(0.1)	–
Free shares			31.6	(9.5)	(9.3)
Company savings scheme			–	–	(0.7)
TOTAL			32.6	(12.8)	(14.6)

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

Grant date	Share price at grant date	Expected volatility ^(a)	Risk-free rate	Distribution rate on future income
Share subscription options:				
04/07/2007	€45.13	20%	4.5%	2.5%
01/07/2008	€35.72	20%	4.5%	2.5%
25/06/2009	€31.93	25%	3.9%	2.5%
23/09/2010	€26.40	25%	3.1%	2.5%
15/09/2011	€25.20	25%	3.5%	2.5%
Free shares:				
04/07/2007	€45.13	N/A	4.5%	2.5%
01/07/2008	€35.72	N/A	4.5%	2.5%
25/06/2009	€31.93	N/A	3.9%	2.5%
23/09/2010	€26.40	N/A	3.1%	2.5%
15/09/2011	€25.20	N/A	3.5%	2.5%
20/12/2012	€27.47	N/A	2.0%	2.5%

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

Description of the different plans implementing new options plans

Thales regularly granted its employees and managers, purchase and subscription options up until 2011. The decision was made in 2012 to stop granting options.

Likewise, the Group regularly grants free shares and/or performance-based shares within the performance management policy. These

different plans are described below. At 31 December 2012, the following options and shares were outstanding:

- 126,700 share purchase options at a weighted average exercise price of €42.46;
- 12,294,262 share subscription options at a weighted average exercise price of €33.96, of which 872,250 performance-based shares;
- 2,212,145 free shares, of which 497,290 performance-based shares.

1- Outstanding purchase options plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31 Dec. 2011	Options granted in 2012	Options exercised in 2012	Options cancelled in 2012	Number of options outstanding at 31 Dec. 2012
25/11/2008	From 25 Nov. 2012 to 24 Nov. 2018	€38.50	47,800	–	–	(1,100)	46,700
04/07/2007	From 4 July 2011 to 3 July 2017	€44.77	80,000	–	–	–	80,000

2- Outstanding subscription options plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31 Dec. 2011	Options granted in 2012	Options exercised in 2012	Options cancelled in 2012 ^(b)	Number of options outstanding at 31 Dec. 2012
15/09/2011 ^(a)	From 15 Sep. 2015 to 14 Sep. 2021	€26.34	403,000	–	–	–	403,000
25/09/2010 ^(a)	From 23 Sep. 2014 to 22 Sep. 2020	€26.34	469,250	–	–	–	469,250
25/06/2009	From 25 June 2013 to 24 June 2019	€32.88	1,508,000	–	–	(2,000)	1,506,000
01/07/2008	From 1 st July 2012 to 30 June 2018	€38.50	1,631,287	–	–	(52,937)	1,578,350
04/07/2007	From 4 July 2011 to 3 July 2017	€44.77	1,516,308	–	–	(102,138)	1,414,170
09/11/2006	From 09 Nov. 2010 to 08 Nov. 2016	€36.47	1,998,225	–	–	(32,400)	1,965,825
30/06/2005	From 30 June 2009 to 29 June 2015	€34.01	1,799,843	–	–	(24,800)	1,775,043
01/07/2004	From 1 st July 2008 to 30 June 2014	€29.50	1,868,071	–	–	(17,344)	1,850,727
01/07/2003	From 1 st July 2007 to 30 June 2013	€25.70	1,355,614 ^(c)	–	(11,217)	(12,500)	1,331,897
02/07/2002	From 2 July 2006 to 1 st July 2012	€40.97	2,523,325	–	–	(2,523,325)	–

(a) Performance-based plans.

(b) Including, for the involved plans, written-off options when performance targets are not, partially or totally, achieved. So far, no option has been written-off because performance targets were not 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 July 2002 and 1 July 2008 can already be exercised in full.

Stock purchase and subscription stock options granted on 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 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.

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

Plans of free shares and/or performance-based shares have been implemented since 2007. Up until 2011, the Chairman (the only company representative, "mandataire social", legally responsible as defined by the French Commercial Code), and 21 executives (including Executive Committee) could not benefit from these plans.

On 20 December 2012 the Board of Directors approved a new free shares plan that includes executives but excludes the Chairman. It is divided into 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.

Performance-based allocation of shares

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 of the three years in question.

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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 French tax resident 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. The lock-in period does not apply to beneficiaries who are not French tax resident.

Date of Board decision	Vesting period	Share price at grant date	Number of free shares at 31/12/2011	Adjustments posterior to closing	Shares granted in 2012	Shares cancelled in 2012 ^(b)	Shares delivered in 2012	Number of free shares at 31/12/2012
20/12/2012	From 20/12/2012 to 20/12/2016	€27.47	—	—	487,940	(50)	—	487,890
			—	—	230,350	—	—	230,350 ^(a)
15/09/2011	From 15/09/2011 to 15/09/2015	€25.20	482,290	—	—	(11,720)	(200)	470,370
			143,490	—	—	(6,650)	—	136,840 ^(a)
23/09/2010	From 23/09/2010 to 23/09/2014	€26.40	468,190	—	—	(14,920)	(340)	452,930
			136,830	—	—	(6,730)	—	130,100 ^(a)
25/06/2009	From 25/06/2009 to 25/06/2013	€31.93	316,755	—	—	(12,960)	(130)	303,665
01/07/2008	From 01/07/2008 to 01/07/2012	€35.72	295,220	—	—	(10,865)	(284,355)	—
04/07/2007	From 04/07/2007 to 04/07/2011	€45.13	150	—	—	(150)	—	—

(a) Performance-based shares

(b) Including, for the concerned plans, written-off options when performance targets are not partially or totally achieved. So far, no option has been written-off because performance target was not achieved

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.

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.

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 company's pension expense is thus limited to contributions paid.

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. Validated options will not exceed the amount originally granted.

A) PROVISIONS RECOGNISED IN THE BALANCE SHEET

	2012			2011		
	Externally funded countries	Internally funded countries	Total	Externally funded countries	Internally funded countries	Total
NET PROVISIONS AT 1 JANUARY	(15.0)	(751.4)	(766.4)	(83.6)	(711.5)	(795.1)
Current service cost	(28.2)	(49.0)	(77.2)	(26.8)	(41.8)	(68.6)
Interest cost	(177.3)	(53.1)	(230.4)	(166.7)	(48.7)	(215.4)
Expected return on plan assets	150.8	11.6	162.4	158.3	10.3	168.6
	(26.5)	(41.5)	(68.0)	(8.4)	(38.4)	(46.8)
Schemes amendments, curtailments and settlements	(0.5)	6.6	6.1	–	–	–
Amortisation of scheme amendments	(3.3)	(14.6)	(17.9)	(3.3)	(13.7)	(17.0)
Amortisation of actuarial gains (losses)	(46.4)	(1.0)	(47.4)	(12.1)	0.7	(11.4)
Actuarial gains/losses and other long-term benefits	(0.5)	(14.8)	(15.3)	–	(0.4)	(0.4)
Effect of a minimum funding requirement ^(a)	–	–	–	12.8	–	12.8
	(50.7)	(23.8)	(74.5)	(2.6)	(13.4)	(16.0)
Other component of pension charge	(77.2)	(65.3)	(142.5)	(11.0)	(51.8)	(62.8)
Defined benefits plans: total cost	(105.4)	(114.3)	(219.7)	(37.8)	(93.6)	(131.4)
Benefits and contributions	113.3	63.7	177.0	102.2	60.6	162.8
• Deficit payments in the United Kingdom	63.5	–	63.5	59.0	–	59.0
• Future service cash	49.8	63.7	113.5	43.2	60.6	103.8
Exchange rate variation	2.4	(0.2)	2.2	3.6	(1.4)	2.2
Chg in scope of consolidation and other	1.4	4.3	5.7	0.6	(5.5)	(4.9)
NET PROVISIONS AT 31 DECEMBER	(3.3)	(797.9)	(801.2)	(15.0)	(751.4)	(766.4)
Of which:						
Assets	90.2	13.5	103.7	107.7	9.3	117.0
Liabilities	(93.5)	(811.4)	(904.9)	(122.7)	(760.7)	(883.4)
Of which:						
Post-employment benefits	(0.8)	(634.2)	(635.0)	(13.0)	(628.5)	(641.5)
Other long-term benefits	(2.5)	(163.7)	(166.2)	(2.0)	(122.9)	(124.9)

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

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

Externally funded countries	2012			2011		
	U.K.	Netherlands	Total	U.K.	Netherlands	Total
Obligations at 1 January	(2,905.2)	(759.3)	(3,664.5)	(2,401.9)	(760.2)	(3,162.1)
Current service cost	(22.7)	(5.5)	(28.2)	(19.2)	(7.6)	(26.8)
Interest cost	(139.8)	(37.5)	(177.3)	(127.9)	(38.8)	(166.7)
Plan participants' contributions	(10.1)	(8.5)	(18.6)	(9.9)	(8.7)	(18.6)
Curtailment/settlements	1.2	–	1.2	–	–	–
New actuarial gains/losses ^(a)	(170.6)	(210.5)	(381.1)	(357.8)	31.8	(326.0)
Benefits paid by plan assets	106.8	26.0	132.8	89.9	24.2	114.1
Effect of a minimum funding requirement	–	–	–	12.8	–	12.8
Scope, exchange rate var. and other	(67.1)	–	(67.1)	(91.2)	–	(91.2)
Obligations at 31 December	(3,207.5)	(995.3)	(4,202.8)	(2,905.2)	(759.3)	(3,664.5)
Plan assets at 1 January	2,202.0	799.7	3,001.7	2,047.7	737.4	2,785.1
Expected return on plan assets	109.7	41.1	150.8	123.3	35.0	158.3
Employer's contribution ^(b)	87.6	25.7	113.3	83.6	18.6	102.2
Plan participants' contributions	10.1	8.5	18.6	9.9	8.7	18.6
Benefits paid by plan assets	(106.8)	(26.0)	(132.8)	(89.9)	(24.2)	(114.1)
New actuarial gains/losses	98.0	87.0	185.0	(39.2)	24.2	(15.0)
Scope, exchange rate var. and other	51.0	–	51.0	66.6	–	66.6
Plan assets at 31 December	2,451.6	936.0	3,387.6	2,202.0	799.7	3,001.7
Net obligations at 31 December	(755.9)	(59.3)	(815.2)	(703.2)	40.4	(662.8)
Unrecognised actuarial gain/loss	836.9	(45.4)	791.5	801.4	(177.3)	624.1
Unrecognised past service cost	–	20.4	20.4	–	23.7	23.7
Net provisions at 31 December	81.0	(84.3)	(3.3)	98.2	(113.2)	(15.0)

(a) Net experience gains (losses) created in 2012 on obligations amounts to €9.6m (€11.2m in 2011, –€15.7m in 2010, +€50.4m in 2009, –€48.8m in 2008 and +€109.2m in 2007).

(b) Employer's contribution and benefits paid by employer should, in 2013, remain stable.

Countries mainly internally funded	2012			2011		
	France	Other	Total	France	Other	Total
Obligations at 1 January	(708.2)	(414.1)	(1,122.3)	(660.6)	(373.0)	(1,033.6)
Current service cost	(30.4)	(18.6)	(49.0)	(27.0)	(14.8)	(41.8)
Interest cost	(34.2)	(18.9)	(53.1)	(31.1)	(17.6)	(48.7)
Scheme amendments	–	0.9	0.9	(74.7)	–	(74.7)
Curtailment/settlements	4.3	6.8	11.1	–	–	–
New actuarial gains/losses ^(a)	(152.6)	(48.5)	(201.1)	53.0	(13.3)	39.7
Benefits paid by plan assets	2.1	10.7	12.8	2.0	5.3	7.3
Benefits paid by employer ^(b)	34.8	16.2	51.0	33.8	14.9	48.7
Scope, exchange rate var. and other	1.6	(6.3)	(4.7)	(3.6)	(15.6)	(19.2)
Obligations at 31 December	(882.6)	(471.8)	(1,354.4)	(708.2)	(414.1)	(1,122.3)
Plan assets at 1 January	113.3	112.0	225.3	108.5	105.4	213.9
Expected return on plan assets	5.1	6.5	11.6	4.9	5.4	10.3
Employer's contribution ^(b)	6.3	6.4	12.7	1.1	10.8	11.9
Benefits paid by plan assets	(2.1)	(10.7)	(12.8)	(2.0)	(5.3)	(7.3)
Curtailment/settlements	(2.7)	–	(2.7)	–	–	–
New actuarial gains/losses	4.0	0.5	4.5	(7.4)	(5.2)	(12.6)
Scope, exchange rate var. and other	0.7	5.2	5.9	8.2	0.9	9.1
Plan assets at 31 December	124.6	119.9	244.5	113.3	112.0	225.3
Net obligations at 31 December	(758.0)	(351.9)	(1,109.9)	(594.9)	(302.1)	(897.0)
Unrecognised actuarial gain/loss	78.4	73.8	152.2	(56.7)	27.8	(28.9)
Unrecognised past service cost	159.8	–	159.8	174.3	0.2	174.5
Net provisions at 31 December	(519.8)	(278.1)	(797.9)	(477.3)	(274.1)	(751.4)

(a) Net experience gains (losses) created in 2012 on obligations amounts to €9.6m (€11.2m in 2011, –€15.7m in 2010, +€50.4m in 2009, –€48.8m in 2008 and +€109.2m in 2007).

(b) Employer's contribution and benefits paid by employer should, in 2013, remain stable.

Net obligations at 31 December 2012

	United Kingdom	Netherlands	France	Rest of the world	Total
Net obligations at 31 December 2012	(755.9)	(59.3)	(758.0)	(351.9)	(1,925.1)
Unrecognised actuarial (gain)/loss	836.9	(45.4)	78.4	73.8	943.7
Unrecognised past service cost	–	20.4	159.8	–	180.2
Net provisions at 31 December 2012	81.0	(84.3)	(519.8)	(278.1)	(801.2)

	United Kingdom	Netherlands	France	Rest of the world	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 2012	98.2	(113.2)	(477.3)	(274.1)	(766.4)

C) ACTUARIAL ASSUMPTIONS USED

The actuarial assumptions used are ascertained by actuaries according to special features of each country and each system:

2012	United Kingdom	Netherlands	France	Germany ^(b)
Inflation rate	2.73%	2.00%	2.00%	2.00%
Revaluation rate of pensions	1.90% - 2.26%	0.70% - 1.05%	–	–
Discount rate	4.48%	3.42%	2.90%	3.53%
Expected long-term return on plan assets ^(a)	4.84%	5.30%	4.70%	–
Future compensation increase	3.36%	3.00%	2.90%	3.00%
Expected average residual service life (years)	9 years	10.5 years	14.7 years	12 years

2011	United Kingdom	Netherlands	France	Germany ^(b)
Inflation rate	2.79%	2.00%	2.00%	2.00%
Revaluation rate of pensions	2.10% - 2.50%	0.70% - 1.05%	–	–
Discount rate	4.76%	4.93%	4.63%	4.94%
Expected long-term return on plan assets ^(a)	6.10%	4.90%	4.70%	–
Future compensation increase	3.79%	3.00%	2.90%	3.00%
Expected average residual service life (years)	9 years	10.9 years	14.9 years	12 years

(a) Used to calculate expected long-term return booked in the P&L of the corresponding financial year.

(b) Main country of the category "Others".

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 Corporate

AA index, adjusted in accordance with the duration of the concerned countries' commitments.

At 31 December 2012, 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 2012	88.0	(89.2)	215.6	(228.0)	418.0	(470.2)

D) RETURNS ON PLAN ASSETS

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 2012, plan assets are invested as follows:

	2012	2011
Bonds	51%	55%
Shares	34%	32%
Alternative funds	8%	8%
Property	4%	3%
Other assets	3%	2%
TOTAL	100%	100%

The actual return on plan assets in 2012 is estimated at €351.3m (€141.0m in 2011).

E) 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. Within this framework, discussions are in progress with the trustees at 31 December 2012. The previous negotiation, held on the basis of the 2008 valuation, had concluded in maintaining an annual contribution of £50m per year.

In addition, Thales Holding UK granted a guarantee covering future financing obligations of its subsidiaries in the UK. At 31 December 2012, this guarantee amounted to £429m and is underwritten by Thales (parent company) for an amount of £12m. 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.

F) APPLICATION OF REVISED IAS 19

On 16 June 2011, the IASB published a revised version of IAS 19 Employee benefits which was adopted by the European Union on 5 June 2012. This revised standard shall be applied retrospectively from 1 January 2013 and will have the following impacts:

Restated equity at 1 January 2012

Main changes to the existing standard are:

- a) The option to use the "corridor" method for actuarial gains and losses, currently used by the Group, is no longer allowed;
- b) The possibility to recognize past service costs resulting from pension plan amendments over the remaining service period of the employees concerned is no longer allowed.

Consequently, on the 2013 accounts, equity at 1 January 2012 should be restated in order to take into account unrecognized actuarial gains and losses and unrecognized past service costs at 31 December 2011.

The amount of the restatement is estimated at -€840m before tax. The effect on the matching differed tax should be limited, regarding the fiscal situation in the United Kingdom.

2012 restated account

In the 2012 restated account:

- a) Actuarial gains and losses arising after 1 January 2012 will be recognized in "Other comprehensive income" (without recycling in income statement afterwards);
- b) Pension plan amendment after 1 January 2012 will be recognized in the income statement during which period they occurred, in "Other operating income and expenses";
- c) Expected return on plan assets will be calculated using the same rate as the discount rate used to determine the obligation. Remeasurement related to the actual return will be recognized in "Other comprehensive income";
- d) Only administrative costs related to the cost of managing plan assets can be deducted from expected return on asset.

As a consequence, the impacts expected on the 2012 restated accounts are the following:

- Income from operations: +€10m
- Other financial income (expense): +€45m
- Net income (loss) before tax: +€55m
- Other comprehensive income (loss) before tax: -€320m

Therefore, the total impact on equity as at 31 December 2012 amounts to circa -€1,100m before tax.

NOTE 22 Reserves for contingencies

Reserves 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.

	31/12/2011	Increase	Utilization	Reversal	Scope, exch. rates and other	31/12/2012
Restructuring ^(a)	210.3	67.1	(80.7)	(8.4)	(4.3)	184.0
Litigation ^(b)	157.9	42.5	(27.8)	(25.7)	(9.9)	137.0
Guarantees	298.0	70.8	(72.3)	(21.3)	0.7	275.9
Losses at completion	112.1	46.5	(58.9)	(4.8)	(9.6)	85.3
Provisions on contracts	142.4	89.0	(27.2)	(10.2)	(0.3)	193.7
Other ^(c)	309.8	123.3	(57.3)	(15.3)	(29.9)	330.6
TOTAL	1,230.5	439.2	(324.2)	(85.7)	(53.3)	1,206.5

	31/12/2010	Increase	Utilization	Reversal	Scope, exch. rates and other	31/12/2011
Restructuring ^(a)	140.1	143.6	(82.3)	(8.0)	16.9	210.3
Litigation	298.1	48.8	(201.9)	(15.4)	28.3	157.9
Guarantees	274.6	110.8	(87.6)	(21.5)	21.7	298.0
Losses at completion	180.3	27.8	(90.5)	(2.0)	(3.5)	112.1
Provisions on contracts	195.6	45.8	(30.6)	(22.5)	(45.9)	142.4
Other ^(c)	369.6	105.4	(76.4)	(13.4)	(75.4)	309.8
TOTAL	1,458.3	482.2	(569.3)	(82.8)	(57.9)	1,230.5

a) The net restructuring costs are as follow:

	2012	2011
Increase in reserve during the period	(67.1)	(143.6)
Reversal in reserve during the period	89.1	90.3
Expenses during the period	(139.8)	(107.2)
RESTRUCTURING COSTS	(117.8)	(160.5)

b) An arbitration proceeding was pronounced in 2012 in the case that opposed DCNI to the Republic of China (Taiwan) with respect to a contract for the provision of six Lafayette-class frigates. Thales executed the award proportionally to its industrial share in the related contract and therefore reversed the provision booked in 2010.

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

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 dispute resolution. This policy is reviewed on a regular basis to take into account 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 headquarters and business litigation and enforcement procedures. These are handled by the corporate legal affairs department, with the support of the Group companies concerned.

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 business involvement, Thales would have been liable for around 20% of the total of \$260m. Under an agreement signed in 2003, the client withdrew its request for arbitration.

In November 2012, the claimant filed a new request for arbitration for a revised amount of €226m. The parties are strongly challenging this claim and at this date it is not possible to evaluate any potential financial risk. Consequently, Thales has not recognised any provision.

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 emerging 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 products and sites environmental impacts in accordance with Thales's commitments. As such, environmental competences have been widened to include engineering, research, procurement and contracts. By the end of 2012, 124 sites had obtained ISO 14001 certification. At 31 December 2012, the amount of reserves for environmental contingencies amounted to €7.4m.

NOTE 24 Net financial assets/liabilities

	31/12/2012	31/12/2011
Long-term financial debt	850.6	1,494.6
Short-term financial debt	997.3	437.1
Fair value of interest rate derivatives ^(a)	(23.5)	(6.5)
Total gross financial debt (I)	1,824.4	1,925.2
Current financial receivables and loans	333.4	260.4
DCNS investments, with maturity > 1 year (note 14-c)	113.6	217.3
Other current financial assets	387.0	430.2
Cash at bank and equivalents (note 28-d)	2,518.3	1,923.1
Cash and other short-term financial assets (II)	3,352.3	2,831.0
NET CASH (II - I)	1,527.9	905.8
Of which, DCNS contribution:		
Cash at bank and equivalents	191.3	178.7
Investments: maturity < 1 year	385.8	400.8
Investments: maturity > 1 year	113.6	217.3
Financial debt ^(b)	(71.7)	(83.2)
STAKE IN DCNS NET CASH (35%)	619.0	713.6
Net cash, DCNS excluded	908.9	192.2

(a) In accordance with IAS 39, the value of borrowings takes into account changes in the fair value of hedged risk. This change in 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 (€5.5m at the end of 2012 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.

A) BREAKDOWN OF GROSS FINANCIAL DEBT

	31/12/2012	31/12/2011
Bond, maturity 2016	619.9	602.0
Bond, maturity 2013	599.4	600.7
Project financing debt	139.1	168.1
Borrowings from financial institutions	32.0	48.2
Other borrowings	144.0	140.7
Capital lease obligations	14.5	16.2
Current accounts with affiliated companies	252.0	307.7
Bank overdrafts	21.5	22.5
Accrued interest	25.5	25.6
Fair value of interest rate derivatives	(23.5)	(6.5)
GROSS FINANCIAL DEBT	1,824.4	1,925.2

Nature of borrowings at 31 December 2012

	Nominal value	Maturity date	Nature	Rate		
				Nominal (excluding effect of hedging)	Effective (excluding effect of hedging)	
Bond, maturity date 2016	€600m	October 2016	Fixed	inc. €400m swapped at variable rate	2.750%	2.912%
Bond, maturity date 2013	€600m	April 2013	Fixed	–	4.375%	4.576%
Project financing debt	Non-recourse, or limited recourse, debt whose interest costs and repayment is covered by the share of project sales 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.					

B) BREAKDOWN OF GROSS FINANCIAL DEBT BY CURRENCY⁽¹⁾

	31/12/2012	31/12/2011
Euro	1,654.1	1,701.9
Pound Sterling	78.8	102.0
US Dollar	32.9	52.9
Australian Dollar	43.3	54.9
Other	15.3	13.5
TOTAL	1,824.4	1,925.2

C) BREAKDOWN OF GROSS FINANCIAL DEBT BY TYPE OF RATE⁽¹⁾

	31/12/2012	31/12/2011
Fixed rate	1,056.1	1,118.8
Floating rate	768.3	806.4
TOTAL	1,824.4	1,925.2

D) BREAKDOWN OF GROSS FINANCIAL DEBT BY MATURITY⁽¹⁾

	31/12/2012	31/12/2011
2012	–	437.1
2013	997.3	674.3
2014	84.4	82.1
2015	71.0	50.3
2016	626.4	623.0
2017 and beyond	45.3	58.4
Total at more than one year	827.1	1,488.1
TOTAL	1,824.4	1,925.2

These amounts include the revaluation of bonds swapped at variable rate (€23.5m related to the bond with maturity 2016, for a nominal of €400m at 31 December 2012).

Maturity cash flows below 1 year mainly include the bond with maturity 2013 and current accounts payable with affiliated companies.

(1) After incidence of the corresponding derivative instruments.

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Contractual cash-flows of financial debt

Gross financial debt at 31/12/2012	Interest payable	Total at 31/12/2012	Contractual cash flows scheduled in:				
			2013	2014	2015	2016	2017 and beyond
1,824.4	70.7	1,895.1	1,018.9	103.0	87.6	644.2	41.4

At 31 December 2012, 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 2012, undrawn confirmed credit facilities granted by banks amounted to €1,500m, 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⁽¹⁾ were to exceed 3, clauses providing for accelerated repayment would apply.

Fair value of debt⁽²⁾

	31/12/2012	31/12/2011
Total	1,874.1	1,952.1

NOTE 25 Summary of financial instruments

A) FINANCIAL INSTRUMENTS ASSETS

At 31 December 2012	Loans and receivables	At fair value				Total
		Financial assets		Derivatives		
		Through P&L	Available for sale	Through P&L	Not qualified for hedge accounting	
Non current financial assets:						
Available-for-sale investments	–	–	207.0	–	–	207.0
Loans and other non current financial assets	108.6	–	–	–	–	108.6
Fair value of interest rate derivatives	–	–	–	23.5	–	23.5
Other non-current financial assets	–	148.4	–	–	–	148.4
Current financial assets:						
Accounts, notes and other current receivables	4,831.8	–	–	–	–	4,831.8
Fair value of foreign currency derivatives	–	–	–	122.2	1.9	124.1
Fair value of interest rate derivatives	–	–	–	–	–	–
Loans and other current financial assets	333.4	–	–	–	–	333.4
Other current financial assets	–	387.0	–	–	–	387.0
TOTAL FINANCIAL ASSETS	5,273.8	535.4	207.0	145.7	1.9	6,163.8
Methods used to measure fair value:						
Valuation at cost		–	207.0	–	–	207.0
Quoted prices in active markets (level 1)		–	–	–	–	–
Valuation techniques based on observable market data (level 2)		–	–	145.7	1.9	147.6
Valuation techniques based on non-observable market data (level 3)		535.4	–	–	–	535.4

(1) 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 minus the depreciation of goodwill. This item is determined by reference to French accounting standards.

(2) 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.

At 31 December 2011	Loans and receivables	At fair value				Total
		Financial assets		Derivatives		
		Through P&L	Available for sale	Through P&L	Not qualified for hedge accounting	
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 based on non-observable market data (level 3)		674.7	–	–	–	674.7

B) FINANCIAL INSTRUMENTS LIABILITIES

	At amortised cost	At fair value			Total
		Financial liabilities	Derivatives		
			Hedge accounting	Not qualified for hedge accounting	
At 31 December 2012					
Non current liabilities:					
Financial debt-long term	827.1	23.5	–	–	850.6
Fair value of interest rate derivatives	–	–	–	–	–
Current liabilities:					
Accounts, notes and other current payables	5,743.1	–	–	–	5,743.1
Fair value of foreign currency derivatives	–	–	88.8	15.2	104.0
Financial debt-short term	997.3	–	–	–	997.3
TOTAL LIABILITIES	7,567.5	23.5	88.8	15.2	7,695.0
Methods used to measure fair value:					
Quoted prices in active markets (level 1)		–	–	–	–
Valuation techniques based on observable market data (level 2)		23.5	88.8	15.2	127.5
Valuation techniques not based on non-observable market data (level 3)		–	–	–	–

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At 31 December 2011	At amortised cost	At fair value			Total
		Financial liabilities	Derivatives		
			Hedge accounting	Not qualified for hedge accounting	
Non current liabilities:					
Financial debt-long term	1,488.1	6.5	–	–	1,494.6
Fair value of interest rate derivatives	–	–	–	–	–
Current liabilities:					
Accounts, notes and other current payables	5,940.6	–	–	–	5,940.6
Fair value of foreign currency derivatives	–	–	172.9	5.9	178.8
Financial debt-short term	437.1	–	–	–	437.1
TOTAL LIABILITIES	7,865.8	6.5	172.9	5.9	8,051.1
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)		–	–	–	–

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 (see note 12-b).

B) NET FINANCIAL INVESTMENT

Acquisitions

	2012	2011
Sofradir (stake raised from 40% to 50%)	(24.0)	–
Visionix	(23.7)	–
Sysgo AG (€5,3m remain payable)	(19.1)	–
Tampa Microwave (acquisition of 51%)	(14.3)	–
Cloudwatt (22.23%), paid-up share	(12.5)	–
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)
Other	(5.6)	(4.1)
Acquisitions	(99.2)	(317.2)
• Cash and cash equivalents of DCNS (35%)	–	178.7
• Cash position of other companies acquired	7.0	14.5
ACQUISITIONS, NET	(92.2)	(124.0)

Disposals

	2012	2011
United Kingdom activities of simulation	103.8	–
Diehl Aircabin GmbH (49%)	100.0	–
Navsol (cash in of the transfer price in January 2012)	29.4	–
Indra Espacio (50% paid in 2010, remaining part in January 2011)	–	13.1
Interest of Thales Ventures	–	9.4
Other	11.0	5.1
Disposals	244.2	27.6
• Cash position of companies sold	(10.0)	(2.8)
DISPOSALS, NET	234.2	24.8

C) CHANGE IN NET CASH (DEBT)

	2012 excl. DCNS	DCNS impact	2012	2011
Net cash (debt) at 1 January	192.2	713.6	905.8	191.1
Net cash flows from operating activities	1,064.3	(44.4)	1,019.9	577.2
<i>Of which, reduction of United Kingdom pension deficits</i>	(63.5)	–	(63.5)	(59.0)
Capital Expenditure	(375.1)	(39.8)	(414.9)	(255.5)
Acquisitions ^(a)	(99.2)	–	(99.2)	(317.2)
Disposals ^(a)	244.2	–	244.2	27.6
Variation of loans	19.3	(8.8)	10.5	–
Dividends paid	(155.4)	–	(155.4)	(64.0)
Acquisition/Disposal of treasury shares	17.8	–	17.8	(7.9)
Other changes in scope	23.8	–	23.8	726.6
Exchange rate var.	(4.7)	–	(4.7)	(3.3)
Other	(18.3)	(1.6)	(19.9)	31.2
NET CASH (DEBT) AT 31 DECEMBER	908.9	619.0	1,527.9	905.8

(a) 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 2012, bid bonds issued amounted to €67.4m (€47.1m at 31 December 2011).

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 2012, performance bonds amounted to €1,905.8m (€1,952.9m at 31 December 2011).

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 2012, advance payment bonds amounted to €1,957.7m (€2,122.0m at 31 December 2011).

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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 2012, warranty retention bonds amounted to €108.8m (€96.2m at 31 December 2011).

The maturity dates of these commitments are:

	< 1 year	1 to 5 years	> 5 years	Total
Bid bonds	59.2	7.7	0.5	67.4
Performance bonds	772.8	954.0	179.0	1,905.8
Advance payment bonds	861.5	816.6	279.6	1,957.7
Warranty retention bonds	52.7	51.5	4.6	108.8
Other bank bonds	113.4	94.4	46.2	254.0
TOTAL	1,859.6	1,924.2	509.9	4,293.7

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 2012, these "corporate" guarantees amount to €10,253.7m and €9,585.7m at 31 December 2011.

B) 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 2012 are analysed below:

31 December 2012	Rent payable			
	Total	< 1 year	1 to 5 years	> 5 years
Financial leases ^(a)	16.7	3.2	8.1	5.4
Operation leases	1,253.4	227.8	550.7	474.9

31 December 2011	Rent payable			
	Total	< 1 year	1 to 5 years	> 5 years
Financial leases ^(a)	18.5	3.4	9.2	5.9
Operation leases	1,058.8	178.4	483.5	396.9

(a) Including interest (€2.2m and €2.3m respectively). The corresponding debt is recognised in the consolidated balance sheet for an amount excluding interest (note 24).

C) 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.

D) 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.

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 €118m at 31 December 2012, compared with €139m at 31 December 2011. The premium/discount component is not eligible to cash flow hedge accounting and is recognised through profit and loss. In 2012, the premium/discount market value evolution was of -€14m (+€22.5m in 2011).

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 €5m at 31 December 2012, compared to €2m at 31 December 2011.

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 2012 and 31 December 2011. 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 "purchases of foreign currencies" or "sales of foreign currencies" columns depending on the nature of the operation at maturity.

Purchases of foreign currencies

	2012					2011	
	USD	GBP	Other	Total	Market Value	Total	Market Value
Forward exchange contracts	1,077.5	323.0	539.6	1,940.1	(24.4)	1,958.0	16.5
Foreign exchange swaps:							
• to hedge investments	–	–	–	–	–	–	–
• to hedge commercial commitments	660.3	733.8	727.9	2,122.0	(21.1)	1,961.0	25.6
Foreign exchange options:							
• Purchase of options	1.8	19.8	43.1	64.7	0.4	88.2	0.9
• Sale of options	76.9	–	5.6	82.5	(3.3)	83.8	(0.2)

Sales of foreign currencies

	2012					2011	
	USD	GBP	Other	Total	Market Value	Total	Market Value
Forward exchange contracts	2,545.3	290.8	783.9	3,620.0	43.0	3,766.2	(30.0)
Foreign exchange swaps:							
• to hedge investments	–	40.2	–	40.2	0.4	39.3	(0.7)
• to hedge commercial commitments	1,509.3	268.1	670.0	2,447.4	32.2	2,529.5	(61.7)
Foreign exchange options:							
• Purchase of options	341.5	1.9	69.6	413.0	7.8	286.4	2.7
• Sale of options	4.8	–	30.1	34.9	–	7.3	(0.2)

Maturity dates are as follows:

Purchases of foreign currencies

	2012			
	< 1 year	1 to 5 years	> 5 years	Total
Forward exchange contracts	1,220.3	719.8	–	1,940.1
Foreign exchange swaps:				
• to hedge investments	–	–	–	–
• to hedge commercial commitments	2,031.2	90.8	–	2,122.0
Foreign exchange options:				
• Purchase of options	64.7	–	–	64.7
• Sale of options	82.5	–	–	82.5

Sales of foreign currencies

	2012			
	< 1 year	1 to 5 years	> 5 years	Total
Forward exchange contracts	1,961.9	1,552.1	106.0	3,620.0
Foreign exchange swaps:				
• to hedge investments	40.2	–	–	40.2
• to hedge commercial commitments	1,956.8	489.6	1.0	2,447.4
Foreign exchange options:				
• Purchase of options	413.0	–	–	413.0
• Sale of options	34.9	–	–	34.9

B) INTEREST RATE RISK MANAGEMENT

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

The Corporate Financing and Treasury department consolidates data on Thales's exposure to interest rate risk and uses 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 2012 and 2011, 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:

	2012					2011	
	< 1 year	1 to 5 years	> 5 years	Total	Market value	Total	Market Value
Interest rate swap:							
• lend	–	400.0 ^(a)	–	400.0	23.5	400.0	6.5
• borrow	–	–	15.5	15.5	(0.8)	117.6	(0.4)

(a) Related to the bond with maturity 2016.

Based on the average debt for 2012 (taking into account hedging instruments), a 1% rise in interest rates would decrease financial expense by €11.1m (decrease of €5.9m in 2011).

C) CREDIT RISK MANAGEMENT

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

a. Risk relating to failure of a private-sector customer

Non-governmental customers (aircraft manufacturers, airlines, private infrastructure operators and industry) account for approximately 25% of Thales's sales. 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 sales, 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 relating to public-sector customers

Public, Government and institutional customers account for around 75% of Thales's sales. 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 2012, only two customers accounted for annual sales in excess of €500m: the French State (€3.1bn, including €0.8bn related to DCNS) and the British State (approx. €1bn). At 31 December 2012, these two countries still have first-class or high quality ratings (France AA+ by S&P's and Aa1 by Moody's – UK AAA by S&P's and Aaa by Moody's).

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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 2012 and 2011, the ageing of these accounts and notes receivable is as follows:

31 December 2012	Accounts and notes receivables overdue:			
	Total	< 3 months	3 to 6 months	> 6 months
Overdue accounts & notes receivables not depreciated				
State and assimilated ^(a)	177.0	117.0	17.0	43.0
Others	281.9	203.0	36.1	42.8

31 December 2011	Accounts and notes receivables overdue:			
	Total	< 3 months	3 to 6 months	> 6 months
Overdue accounts & notes receivables not depreciated				
State and assimilated ^(a)	98.9	43.1	7.6	48.2
Others	291.7	169.7	41.6	80.4

(a) Mainly due to the low level of receivables transferred at 31 December 2012.

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. 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 2012, the cash recorded under consolidated assets (€2,518.3m compared to €1,923.1m at end-2011), includes:

- €1,721.8m held by the parent company and available for immediate use (€1,119.0m in 2011). These amounts include respectively €1,587.2 and €981.0m in negotiable debt securities, money-market funds with maturities of less than 3 months and other very short-term investments;
- €392.8m 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 (€382.9m in 2011);
- €403.7m in cash invested directly by joint ventures (prorated by Thales's interest in each joint venture), of which €191.3m related to DCNS since cash pooling is not applicable to joint ventures (€421.2m in 2011, of which €178.7m related to DCNS).

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	stable outlook
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 coming into effect 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 €1.5bn 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 2012 and 2011 are detailed below^(a):

	Mazars				Ernst & Young			
	Amount (pre-tax)		%		Amount (pre-tax)		%	
	2012	2011	2012	2011	2012	2011	2012	2011
Audit								
Auditing, certification, examination of individual and consolidated accounts ^(b)								
• Issuer	752	709	13%	12%	790	796	15%	14%
• Subsidiaries fully consolidated	4,158	4,104	73%	69%	3,289	3,207	60%	56%
Other efforts and services directly associated with the assignment of the auditor ^(c)								
• Issuer	229	232	4%	4%	352	770	6%	13%
• Subsidiaries fully consolidated	512	923	9%	15%	428	557	8%	10%
Sub-total	5,651	5,968	99%	100%	4,859	5,330	89%	93%
Other services rendered by the networks subsidiaries fully consolidated ^(d)								
Legal, tax-related, social-security-related	20	–	1%	–	612	388	11%	7%
Other (if > 10% of audit fees)	–	–	–	–	–	–	–	–
Sub-total	20	–	1%	–	612	388	11%	7%
TOTAL	5,671	5,968	100%	100%	5,471	5,718	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 Events after reporting period

Following incidents involving lithium ion batteries supplied by a Japanese company through a Thales subsidiary, the Federal Aviation Administration (FAA) decided on 17 January 2013 to suspend all

Boeing 787 flights. In this framework, Thales participates to the technical investigations and cooperates with Boeing with a view to enable the flights to resume.

NOTE 31 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 2012 by reference to section 264 paragraph 3 German Commercial Code.

List of main consolidated companies

(Excluding Thales parent company)

	% Control		% Stake	
	31/12/2012	31/12/2011	31/12/2012	31/12/2011
1. Consolidated subsidiaries				
Thales Security Solutions & Services Company (Saudi Arabia)	100%	100%	100%	100%
Thales Australia Ltd (Australia)	100%	100%	100%	100%
TDA Armements SAS (France)	100%	100%	100%	100%
Thales Air Systems SAS (France)	100%	100%	100%	100%
Thales Air Systems & Electron Devices GmbH (Germany) ^(a)	100%	100%	100%	100%
Thales Austria GmbH (Austria)	100%	100%	100%	100%
Thales Avionics SAS (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) ^(b)	100%	100%	100%	100%
Thales Communications & Security SAS (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 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 Norway A.S. (Norway)	100%	100%	100%	100%
Thales Optronique SAS (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 Ltd (United Kingdom)	100%	100%	100%	100%

(a) On 31 May 2012, Thales Electron Devices GmbH was absorbed by Thales Air Systems GmbH.

(b) On 1 January 2012, Thales Rail Signalling Solutions Inc merged in Thales Canada Inc.

	% Control		% Stake	
	31/12/2012	31/12/2011	31/12/2012	31/12/2011
Thales Services SAS (France)	100%	100%	100%	100%
Thales Solutions Asia Pte Ltd (Singapore)	100%	100%	100%	100%
Thales Systèmes Aéroportés SAS (France)	100%	100%	100%	100%
Thales Transport & Security Ltd (United Kingdom)	100%	100%	100%	100%
Thales Espana Grp S.A. (Spain)	100%	100%	100%	100%
Thales Training & Simulation SAS (France)	100%	100%	100%	100%
Thales Training & Simulation Ltd (United Kingdom)	100%	100%	100%	100%
Thales Underwater Systems Ltd (United Kingdom)	100%	100%	100%	100%
Thales Underwater Systems SAS (France)	100%	100%	100%	100%
Thales Components Corporation (United States)	100%	100%	100%	100%
2. Accounted for under the proportionate method				
Air Command Systems International SAS (ACSI) (France)	50%	50%	50%	50%
Amper Programas de Electronica Y Comunicaciones SA (Spain)	49%	49%	49%	49%
Citylink Telecommunications Holding Ltd (United Kingdom)	33%	33%	33%	33%
DCNS (France)	35%	35%	35%	35%
Diehl Aircabin GmbH (Germany)	–	49%	–	49%
Diehl Aerospace GmbH (Germany)	49%	49%	49%	49%
Junghans Microtec GmbH (Germany)	45%	45%	45%	45%
Samsung Thales Co. Ltd (Corea)	50%	50%	50%	50%
Sofradir SAS (France)	50%	40%	50%	40%
Thales Alenia Space SAS (France)	67%	67%	67%	67%
Thales Alenia Space Italia SpA (Italy)	67%	67%	67%	67%
Telespazio SpA (Italy)	33%	33%	33%	33%
Thales-Raytheon Systems Company LLC (United States)	50%	50%	50%	50%
Thales-Raytheon Systems Company SAS (France)	50%	50%	50%	50%
Trixell SAS (France)	50%	50%	51%	51%
3. Accounted for under the equity method				
Aviation Communications & Surveillance Systems (United States)	30%	30%	30%	30%
Air Tanker Holdings Ltd (United Kingdom)	13%	13%	13%	13%
Electronica SpA (Italy)	33%	33%	33%	33%
ESG Elektroniksystem und Logistik GmbH (Germany)	30%	30%	30%	30%

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's management report.

This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meetings we hereby report to you, for the year ended December 31, 2012, on:

- the audit of the accompanying consolidated financial statements of Thales;

- the justification of our assessments;
- the specific verification required by law.

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

I. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the group as at December 31, 2012 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.

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 2 "Main sources of estimates" to the consolidated financial statements, Thales' management is required to make estimates and assumptions that affect certain amounts included in the consolidated financial statements of the group and the accompanying notes to these consolidated financial statements. These assumptions are by nature uncertain, and the actual figures may vary from these estimates under the circumstances anticipated in note 2 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, accounting for 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 - Sales" to the consolidated financial statements. Such income is based on estimates of income on completion made by the project managers, according to the group's procedures and under the control of group's management.

Based on the information provided to us at the time of our audit, our work consisted in assessing the data and assumptions used to estimate the income on completion for these contracts, comparing the amounts of income on completion from previous financial periods with the corresponding actual figures, and checked that the notes to the financial statements provide appropriate information.

Acquisition goodwill

Acquisition goodwill, which appears in the balance sheet as at December 31, 2012 for a net amount of M€ 3,411, 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, verified the consistency of the assumptions used with the forecasted data taken from the strategic plans drawn up for each of the business activities under the group's control and checked that the note 6 "Impairment of non current operating assets" and the note 11 "Goodwill" provide appropriate information.

Development costs

Internally funded development costs related to projects in progress are accounted for by Thales as intangible assets (net amount capitalized of €155m as at December 31, 2012) or are charged to the profit and loss account, as stated in note 1.j "Accounting policies - Research and development expenses" to the consolidated financial statements. This note specifies the criteria used for the capitalization of development costs of the projects of civil and aeronautics activities. For the main development projects, we reviewed the analysis performed by the company to justify the accounting treatment of the associated development costs. In particular, our work consisted in reviewing the estimates at completion on those projects, the sales and profitability forecasts, and the assumptions used for the amortization and the impairments, if any, of the capitalized costs. We have checked that the notes to the financial statements provide appropriate information.

Deferred tax assets

As stated in notes 1.l "Accounting policies - Deferred taxation" and 2 "Accounting policies - Main sources of estimation" to the consolidated financial statements, the recoverability of net deferred tax assets amounting in the balance sheet as at December 31, 2012 to M€ 907 was assessed by Thales on the basis of forecast data taken from the strategic plans drawn up for each of the consolidated tax groups concerned, under the group's control. We reviewed the recoverability tests performed by Thales on these deferred tax assets and checked that the notes 1.l and 2 to the financial statements provide appropriate information.

Provisions for pension plans and related commitments

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

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

Litigation and contingency provisions

As regards litigation and contingency provisions, we ensured that the procedures in force in your group allow their identification evaluation and recognition from an accounting standpoint in satisfactory conditions. We checked that the disputes identified during the implementation of these procedures were described in appropriate terms in the notes to the consolidated financial statements, and, in particular, in note 23 "Litigation and environment".

Purchase price allocation in respect of business combinations

As stated in notes 1.b "Accounting policies - Business combinations" and 2 "Accounting policies - Main sources of estimation" to the consolidated financial statements, in the framework of business combination realized by the group, Thales is brought to measure the acquiree's identifiable assets, liabilities and contingent liabilities at their fair value, including intangible assets. These assessments, mainly entrusted to independent experts, are based on assumptions (forecast) and parameters characterizing the activities acquired. Our work consisted in assessing the methodology used, the assumptions used in models of valuation for the concerned identifiable assets and liabilities as well as the reasonableness of the parameters used and checked that the notes to the financial statements provide appropriate information.

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.

Paris-La Défense and Courbevoie, March 4, 2013

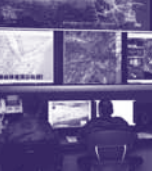
The statutory auditors
French original signed by

ERNST & YOUNG Audit

Michel Gauthier
Nour-Eddine Zanouda

Mazars

Jean-Marc Deslandes
Anne-Laure Rousselou



1.3 Parent company management report and financial statements

1.3.1 PARENT COMPANY MANAGEMENT REPORT

1.3.1.1 BUSINESS AND RESULTS

Operating income amounted to €541m, compared with €505m in 2011. Sales came to €175m, compared with €144m in 2011.

Operations by sector are described in the notes.

Sales 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. The increase in sales is due to the increase in invoicing related to the new site of Gennevilliers and the takeover of the Common Facilities Management contract previously handled by Vinci.

Other operating income amounted to €315m, compared with €329m the previous year. This was made up of fees paid by operating subsidiaries and rents re-billed to those subsidiaries. In 2012, the increase in re-billed rents came to €20m. This income includes general and specific services rendered by the parent company to subsidiaries.

Net operating income was -€46m, compared with -€77m in 2011.

Net financial income amounted to €313m, compared with €198m in 2011. Provisions for investments and risks on subsidiaries totalled -€114m in 2012 compared with -€181m in 2011. Reversals on

provisions for investments represented €110m in 2012, having totalled €96m in 2011.

Income from investments totalled €395m in 2012, compared with €366m in 2011.

Extraordinary items represented a net charge of -€8m, compared with -€25m in 2011. Capital losses of -€17m related mainly to the liquidation of Thales Information System SA/NV for -€18m. Other exceptional items are due to the reversal of €12m following the execution of the judgment on 17 October 2012 in the arbitration proceeding between Thales and the Republic of China (Taiwan).

Corporate income tax represented a net gain of €48m (compared with a net gain of €79m in 2011), almost all of which is due to the tax consolidation applied by Thales and its subsidiaries. In 2012, expenditure excluded from tax-deductible expenses pursuant to articles 223 quarter and 39.4 of the French General Tax Code amounted to €0.2m, compared with €0.3m in 2011.

A net profit of €307m was recorded in 2012, compared with €175m in 2011.

1.3.1.2 BALANCE SHEET AT 31 DECEMBER 2012

The balance sheet total stood at €11,971m at the end of 2012, a rise of €469m from €11,502m at the end of 2011.

Non-current assets of €8,992m compared with €8,947m in 2011 mainly reflected long-term financial assets. The increase is due mainly to the capital increase of Thales Avionics for €45m and of Cloudwatt for €50m and the purchase of Sofradir shares for €24m, minus the proceeds of the liquidation of Thales Information System SA/NV for -€18m, the disposal of Thales Safare for -€7.9m, Thales VP for -€2m and treasury shares for -€34m, the bulk of which were allocated to the 20 December 2012 free share plan.

Other long-term investments declined by €11m, mainly due to the repayment of tax credits on EIG Hobart prior to liquidation.

Current assets were up by €425m to total €2,980m at the end of December 2012. Group company accounts decreased by €212m. The Thales Communications & Security SAS current account balance showed a credit of €182m, while the Thales Security Solutions & Services Company current account balance decreased by €70m, offset by a €31m increase in the current account balance of Thales Europe SAS. Cash and cash equivalents came to €1,722m at the end of 2012 compared with €1,119m at the end of 2011; this increase was largely the counterpart of the increase in debts to Group companies.

The balance of amounts due to and from Group companies represented a net debt of €4,237m at the end of 2012, compared with €3,716m at the end of 2011. The other financial debts item also includes debts in foreign currencies and euros to subsidiaries and investee companies of the Group in the amount of €137m, compared with €92m at the end of 2011. Net debt to Group companies stood at €4,374m at the end of 2012, compared with €3,808m at the end of 2011.

Other financial debts rose to €1,360m at the end of 2012, compared with €1,316m at the end of 2011. This mainly included:

- €600m for the bonds issued at a fixed rate of 4.375% in April 2009 and maturing in April 2013;

- €600m for the bonds issued at a fixed rate of 2.750% in October 2010 and maturing in October 2016.

At the end of 2012, net financial debt of the parent company, Thales, excluding debts to Group companies, amounted to -€461m, compared with €105m at the end of 2011.

At 31 December 2012, share capital stood at €607m.

At 31 December 2012, shareholders' equity totalled €5,136m, compared with €4,984m at the end of 2011.

Information on supplier payment schedules (article 441-6-1 of the French Commercial Code)

Thales' 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.

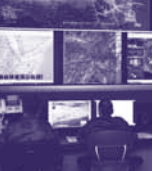
See presentation below on the ageing of trade payables in relation to the date of invoice.

(€ million)	Trade payables at 31/12/2012			Trade payables at 31/12/2011		
	Group	Non-group	Total	Group	Non-group	Total
France						
Due in less than two months (not due)	21.3	6.4	27.7	16.8	5.6	22.4
Due in two to four months	0.6	1.2	1.8	1.2	1.1	2.3
Due after four months	0.3	0.4	0.7	0.1	0.6	0.6
	22.2	8.0	30.2	18.0	7.3	25.3
International						
Due in less than two months (not due)	0.2	0.1	0.3	2.4	–	2.4
Due in two to four months	0.6	–	0.6	–	0.1	0.1
Due after four months	–	0.1	0.1	0.2	0.1	0.3
	0.8	0.2	1.0	2.6	0.2	2.8
Sub-total	23.0	8.2	31.2	20.6	7.5	28.1
Charges payable, not due			43.0			24.8
TOTAL TRADE PAYABLES			74.2			52.9

Main shareholders

	31/12/2012	31/12/2011	31/12/2010
TSA	27.08%	23.00%	22.93%
Sofivision	–	4.08%	4.07%
French State (including one golden share)	–	–	–
Sogepa	–	–	–
Public Sector ^(a)	27.08%	27.08%	27.00%
Dassault Aviation	25.96%	25.96%	25.89%
Thales	1.38%	1.75%	1.87%
Employees	3.05%	3.14%	2.92%
Other shareholders	42.53%	42.07%	42.32%
Total	100%	100%	100%
NUMBER OF SHARES COMPRISING SHARE CAPITAL	202,339,674	202,328,457	199,082,027

(a) Under the terms of the shareholders' agreement (see AMF 27 Nov. 2008), the "Public Sector" includes TSA and its subsidiary Sofivision (absorbed by TSA during the second semester of 2012), excluding the French State directly.



1.3.1.3 SUMMARY STATEMENT OF SHARE TRANSACTIONS IN 2012 CARRIED OUT 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 France's Monetary and Financial Code, related persons are persons who have close personal ties, as defined in a decree by the French Council of State (*Conseil d'État*), with those referred to in the aforementioned article 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 Position	Purchases/subscriptions ^(a)		Sales ^(a)	
	Number of shares	Amount of transaction (in €)	Number of shares	Amount of transaction (in €)
Ann Taylor, Member of the Board of Directors	500	13,165		

(a) Share transactions executed in 2012 include transactions carried out by related persons, where applicable.

1.3.1.4 REVERSAL OF GENERAL EXPENSES FOLLOWING TAX AUDIT

None.

1.3.1.5 OUTLOOK FOR THE CURRENT YEAR

Results for 2013 should reflect the dividends paid by some subsidiaries in respect of the 2012 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 2013.

1.3.1.6 PROPOSED ALLOCATION OF EARNINGS⁽¹⁾

The General Meeting notes that distributable earnings, made up of the net profit for the 2012 financial year	€306,774,489.30
Less allocation to the legal reserve	€3,365.10
Plus the increase in the amount of the interim dividend of €0.25 paid on 14 December 2012	€49,884,712.25
Plus the credit balance brought forward	€292,537,753.79
Amounts to a total of	€649,193,590.24

The General Meeting resolves to allocate this profit as follows:

Distribution of a unitary dividend of €0.88 to 202,339,674 shares bearing rights as from January 2012	€178,058,913.12
Balance carried forward	€471,134,677.12
Total equivalent to distributable earnings	€649,193,590.24

(1) Subject to the approval of the Annual General Meeting of 24 May 2013. The dividend will be paid entirely in cash and will total €0.63 per share, after deducting the interim dividend of €0.25 per share already paid in December 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 2012 dividend is approved by the Annual Meeting on 24 May 2013, it will be detached on 28 May 2013 and paid out on 31 May 2013. 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 2009, 2010 and 2011 qualified for a possible tax credit of 40%.

Year	Dividend per share
2009	€0.50
2010	€0.50
2011	€0.78
2012	€0.88^(a)

(a) Subject to the approval of the Annual General Meeting of 24 May 2013, which will vote on the 2012 financial statements.

1.3.1.8 EVENTS SINCE YEAR-END

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

1.3.1.9 TREASURY SHARES

In 2012, the number of treasury shares decreased due to the following transactions:

- 1,043,357 shares were purchased under a liquidity contract;
- 1,504,941 shares were sold under a liquidity contract;

- 285,025 were assigned as free shares.

Treasury shares thus amounted to 1.38% of the capital, which amounts to 2,795,564 shares, at 31 December 2012.

1.3.1.10 TRADING IN COMPANY SHARES DURING 2012

In 2012, 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.).

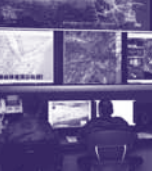
These transactions were carried out as part of the share repurchase programme authorised at the Annual General Meeting on 18 May 2011 for transactions performed between 1 January 2012 and 15 May 2012, and in accordance with the authorisation given

by the Annual General Meeting on 15 May 2012 for transactions performed between 16 May 2012 and 31 December 2012.

At 1 January 2012, Thales held 3,542,173 treasury shares, representing 1.75% of the capital, compared with 2,795,564 treasury shares at 31 December 2012.

The net balance of 2012 trading was the disposal of 746,609 shares, broken down by objective as follows:

a) Net disposal 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 for the employee shareholding plan	-285,025
b) Regulation of the market price by a liquidity contract drawn up in accordance with the AFEI Code of Conduct	-461,584



Breakdown of treasury shares by objective at 31 December 2012

The total number of shares held at that date was 2,795,564, representing 1.38% of Thales's share capital. The breakdown by objective was as follows:

a) Disposal 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	2,338,895
b) Exchange of shares under external growth operations	321,804
c) Regulation of the market price by a liquidity contract drawn up in accordance with the AFEI Code of Conduct	134,865

Market value of the portfolio at 31 December 2012:

€73,369,577 at the closing price on 31 December 2012, i.e. €26,245

	Cumulative gross flows from 1 January 2012 to 31 December 2012		Positions open on the date of the programme description					
			Positions open to purchase			Positions open to sale		
	Purchases	Sales	Calls bought	Puts sold	Futures purchases	Calls bought	Puts sold	Futures sales
Number of shares	1,043,357	1,789,966						
Average maximum maturity								
Average transaction price (in €)	26.8	22.6						
Average exercise price								
Totals (in €)	27,961,967.6	40,453,231.6						

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

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

General Meeting Authorisations	Board of Directors	Observation
General Meeting of 20 May 2010		
Allocation of options for the purchase of shares (twenty-fourth resolution) with no discount on the average price of the last 20 trading days (although potential discount on cost price). Ceiling: 2 million shares. Validity of options: 10 years. Validity of the authorisation: 38 months until 19 July 2013	No utilisation	In France, discounts in excess of 5% are taxable; discounts apply to the higher of the average price of the last 20 trading days and the selling price
General Meeting of 18 May 2011		
Allotment of share subscription options (sixth resolution) with no discount from the average price in the last 20 trading days, with or without performance conditions as decided by the Board of Directors . Ceiling: 2 million shares. Validity of options: 10 years. Validity of the authorisation: 38 months until 17 July 2014	Board meeting of 15 September 2011: allotment of 435,300 share subscription options at €26.34 with performance conditions (inc. 64,000 for Chairman & Chief Executive Officer, the only company representative). Board meeting of 20 December 2012: decision to cease awarding stock purchase or subscription options	Balance: 1,564,700 options

General Meeting Authorisations	Board of Directors	Observation
Cancellation of shares (seventh resolution) representing up to 10% of the share capital at the date of cancellation Authorisation valid for: 24 months <u>until 17 May 2013</u>	No utilisation	The General Meeting on 24 May 2013 will be asked to renew this authority
General Meeting of 15 May 2012		
Share repurchase programme (twelfth resolution) for up to 10% of the capital Maximum purchase price: €50 Valid for 18 months <u>until 14 Nov. 2013</u>	Board meeting of 20 December 2012: authority delegated to Chairman & Chief Executive Officer Information not public Sub-delegation possible	The General Meeting of 24 May 2013 will be asked to renew this authority
Issue of securities giving access to equity capital - Limits with pre-emptive subscription rights (thirteenth resolution): 30 million shares and €1.5bn debt securities - Limits without pre-emptive subscription rights (fourteenth resolution) with possibility of priority subscription period: as above - Greenshoe option applicable in each case (fifteenth resolution): max 15% of issuance, subject to the aforementioned limits Valid for 26 months, i.e. until 14 July 2014	No utilisation	Overall ceiling (seventeenth resolution) for operations under resolutions 13 to 16: 50 million shares and €2bn in debt securities
Issuance of new shares (sixteenth resolution) up to a maximum of 20.2 million shares as consideration for contributions of the securities of third-party companies Valid for 26 months, i.e. until 14 July 2014	No utilisation	Overall ceiling (seventeenth resolution) for operations under resolutions 13 to 16: 50 million shares and €2bn in debt securities
Issue of new shares reserved for employees who are members of a group savings plan (eighteenth resolution – as legal consequence of resolutions of capital increase in cash) Ceiling: 6 million shares Maximum discount: 20% for a 5-year employee savings plan and 30% for a 10-year holding period Valid for 26 months, i.e. until 14 July 2014	No utilisation	Employee shareholding operations are now conducted using existing shares, which have previously been bought back by the company under a current share repurchase programme (cf. above)
Free allotment of existing shares (nineteenth resolution) of up to 3 million shares, with or without performance conditions at the decision of the Board of Directors , and a minimum vesting period of two years. The compulsory holding period (two years) may be cancelled if the vesting period is four years or more. Validity of the authorisation: 38 months <u>until 14 July 2015</u>	Board meeting of 20 December 2012: allotment of 718,290 existing shares to 5,522 employee beneficiaries; 230,350 shares have performance conditions for 336 beneficiaries	Validity of the authorisation: 2,281,710 shares

1.3.1.12 KEY FACTORS LIABLE TO AFFECT A PUBLIC OFFER (DISCLOSURES WITHIN THE SCOPE OF ARTICLE L. 225-100-3 OF THE FRENCH COMMERCIAL CODE)

The structure of share ownership and the distribution of voting rights mean that Thales is unlikely to be affected by any public offer. Furthermore:

- A.** The two main shareholders (Dassault Aviation and TSA) have declared that they are acting in concert within the framework of a shareholders' agreement, the key terms of which are described on page 166.
- B.** In the absence of termination at the cooperation agreement expiration on 31 December 2011, the agreement was tacitly renewed for a period of five years, expiring on 31 December 2016. It may be tacitly renewed for five-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 2012

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 (four dedicated funds ^(a))	5,891,268	95.50%	2.91%	3.84%
Netherlands (three dedicated funds ^(b))	149,412	2.42%	0.07%	0.09%
Italy (two dedicated funds ^(c))	13,073	0.21%	0.01%	0.00%
United Kingdom (SIP trust ^(d))	84,699	1.37%	0.04%	0.03%
Shares held directly in the employee savings plan (2002 and 2008 offers)	30,622	0.50%	0.02%	0.02%
Total subject to article L. 225-102 of the French Commercial Code	6,169,074	100.00%	3.05%	3.99%
Total number of shares held by employees	6,169,074	100.00%	3.05%	3.99%
Total share capital	202,339,674			

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

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

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

(d) *Share Incentive Plan.*

1.3.1.14 ELEMENTS CONSTITUTING 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 2012 Registration Document:

- included below with the parent company financial statements for 2012 are:
 - table of acquisitions of interests and crossing of thresholds in French companies,
 - table of subsidiaries and affiliated companies,
 - table of outstanding options at 31 December 2012,
 - table of company results in the last five financial years;
- included in the 2012 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 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 of 24 May 2013 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

(€ million)		2012	2011
Operating income	(note 3)		
• Re-billing of rent		160.6	129.6
• Research		14.3	14.3
Total sales		174.9	143.9
• Royalties		185.8	179.1
• Re-billing of expenses		129.1	149.5
Total other operating income		314.9	328.6
Reversal of provisions		42.4	25.7
Transfer of expenses		9.0	6.6
Total operating income		541.2	504.8
Operating expenses			
Purchases and changes in inventories and work-in-progress		(13.4)	(13.1)
Other external charges		(382.3)	(331.5)
Taxes other than on income or payroll-related		(7.3)	(10.3)
Personnel expenses		(161.6)	(188.9)
Depreciation and amortisation		(17.1)	(16.4)
Provisions		(5.7)	(21.1)
Total operating expenses		(587.4)	(581.3)
Income (loss) from operations		(46.2)	(76.5)
Net financial income/(expense)	(note 4)		
Net interest expense		(40.7)	(64.5)
Income from investments		395.3	365.9
Other financial income		138.0	117.7
Other financial expenses		(179.4)	(221.3)
Total net financial income (expense)		313.2	197.8
Income (loss) before income tax		267.0	121.3
Net extraordinary items	(note 5)		
Restructuring costs		(4.0)	(13.9)
Capital gains and losses on disposals and similar		(4.3)	(10.9)
Total net extraordinary items		(8.3)	(24.8)
Profit (loss) before income tax		258.7	96.5
Income tax	(note 6)	48.1	78.9
NET INCOME		306.8	175.4

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

1.3.2.2 BALANCE SHEET

(€ million)		31/12/2012	31/12/2011
ASSETS			
Non-current assets:			
Intangible assets, gross	(note 7)	18.7	23.2
Less: depreciation & amortisation	(note 7)	(18.7)	(23.0)
Intangible assets, net		0.0	0.2
Property, plant and equipment, gross	(note 7)	190.4	183.0
Less: depreciation & amortisation	(note 7)	(132.1)	(116.8)
Tangible assets, net		58.3	66.2
Non-current investments:			
Equity investments	(note 7)	8,807.3	8,718.3
Other investment securities (treasury shares)	(notes 7 & 11)	15.9	38.5
Other non-current financial assets	(notes 7 & 8)	110.2	123.9
Total long-term investments		8,933.4	8,880.7
Total non-current assets		8,991.7	8,947.1
Current assets:			
Inventories and work in-process		15.0	15.4
Trade receivables	(note 8)	151.0	166.3
Group companies accounts	(note 8)	614.0	825.7
Other receivables and prepayments	(notes 8 & 9)	407.0	364.4
Marketable securities		70.9	64.4
Short term investments		1,721.8	1,119.0
Total current assets		2,979.7	2,555.2
TOTAL ASSETS		11,971.4	11,502.3

(€ million)		31/12/2012	31/12/2011
LIABILITIES			
Equity (note 10)			
Share capital		607.0	607.0
Additional paid-in capital		3,731.6	3,731.4
Reserves and retained earnings		490.7	470.6
Net income for the period		306.8	175.4
Total capital and reserves		5,136.1	4,984.4
Reserves for contingencies	(note 12)	138.3	183.9
Financial debt:			
Debt to Group companies	(note 8)	4,850.7	4,541.5
Other financial debt	(note 8)	1,360.1	1,315.9
Total financial debt		6,210.8	5,857.4
Operating and other liabilities:			
Advances received on contracts in progress		15.8	14.7
Trade payables	(note 8)	74.2	52.9
Other creditors and accrued liabilities	(notes 8 & 9)	396.2	409.0
Total operating and other liabilities		486.2	476.6
TOTAL LIABILITIES		11,971.4	11,502.3

Off-balance sheet commitments (note 13).

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

1.3.2.3 STATEMENT OF CASH FLOWS

(€ million)	2012	2011
Net profit	306.8	175.4
Net depreciation charges on tangible and intangible assets	17.1	16.4
Net depreciation provisions on non-current assets, provisions for pensions and regulated provisions	(2.5)	58.1
Loss (gain) on disposals of assets	17.3	6.5
Operating cash flow	338.7	256.4
Change in non-operating provisions	(0.7)	0.2
Change in working capital requirement ^(a)	(94.3)	(212.0)
CASH FLOWS FROM OPERATING ACTIVITIES	243.7	44.6
Acquisitions of tangible and intangible assets	(11.2)	(8.8)
Disposals of tangible and intangible assets	0.0	0.1
Net operating investments	(11.2)	(8.7)
Disposals of other investments	14.9	0.2
Investments in subsidiaries and investee companies (note 7)	(83.3)	(772.6)
Other net financial investment	25.2	139.0
CASH FLOWS FROM INVESTING ACTIVITIES	(54.4)	(642.1)
Increase (decrease) in shareholders' equity ^(b)	(155.2)	(63.1)
Acquisition/disposal of treasury shares	12.5	(2.6)
Increase in financial debt	69.8	22.6
Repayment of financial debt	(15.7)	(935.8)
Increase (decrease) of debt with Group companies	500.7	740.0
CASH FLOWS FROM FINANCING ACTIVITIES	412.1	(238.9)
Increase (decrease) in cash at bank before transactions in investment securities	601.4	(836.4)
Decrease (increase) in investment securities	1.4	3.5
TOTAL INCREASE (DECREASE) IN CASH AT BANK AND EQUIVALENTS	602.8	(832.9)
Cash at banks and equivalents at beginning of year	1,119.0	1,951.9
CASH AT BANKS AND EQUIVALENTS AT END OF YEAR	1,721.8	1,119.0

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

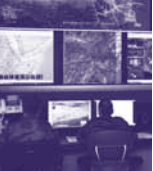
(b) Primarily represents dividend payments: for 2012 (-€105.6m in 2011 dividends, -€49.9m interim 2012 dividend), and for 2011 (-€14.3m in 2010 dividends and -€49.6m interim 2011 dividends).

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

Period from 1 January 2011 to 31 December 2012

(€ million)	Number of shares in circulation (thousands)	Share capital	Share premiums	Retained earnings	Net income for the period	Revaluation reserve	Total shareholders' equity
As of 1 January 2011	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	3,246	9.8	74.6	—	—	—	84.4
2011 earnings	—	—	—	—	175.4	—	175.4
As of 31 December 2011	202,328	607.0	3,731.4	470.6	175.4	0.0	4,984.4
Allocation of 2011 earnings	—	—	—	175.4	(175.4)	—	0.0
Distribution of 2011 dividends	—	—	—	(105.6)	—	—	(105.6)
Distribution of 2012 interim dividends	—	—	—	(49.8)	—	—	(49.8)
Capital increase	12	—	0.2	—	—	—	0.2
2012 earnings	—	—	—	—	306.8	—	306.8
AS OF 31 DECEMBER 2012	202,340	607.0	3,731.6	490.7	306.8	0.0	5,136.1



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Parent company management report and financial statements

1.3.2.5 NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

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All the amounts in these notes are expressed in millions of euros (€m) except for per share data, the table of subsidiaries and equity affiliates and the inventory of equity investments and securities held.

NOTE 1

Accounting principles

Thales' 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 market 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 items.

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.

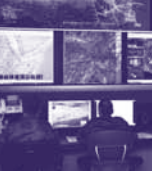
F) FIXED ASSETS**Intangible assets**

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 keep. 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 2012 were performed using an initial discount rate assumption of 8.5% (the Group's average cost of capital at the end of 2012). A 2% increase in the discount rate would not result in the company recognising material additional impairment 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) and 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) SALES

Sales from goods and services, together with royalty and licence income are recognised when the company has transferred the main risks and benefits to the buyer. Sales 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 expenses are directly charged to the profit and loss account in the financial year in which they are incurred.

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 estimated final salary.

For post-employment benefits, actuarial gains and losses are capitalised or expensed when cumulative unrecognised actuarial

gains and losses for each scheme at the end of the previous financial year exceed 10% of the defined benefit obligation or of the fair value of plan assets at that date, whichever is greater. These gains and losses are recognised over the expected average residual working life of employees in the scheme ("corridor method").

The expense representing the change in net commitments is recognised in income from operations for the current service cost component and in other financial income and expenses for the other components.

M) STATEMENT OF CASH FLOWS

The "indirect method" (presenting the reconciliation between net income and cash flows from operating activities) has been retained. Cash balances, changes in which are presented in this statement, include cash and all financial assets considered to be equivalent to cash. Changes in bank overdrafts are reported in cash flows from financing activities. Acquisitions (disposals) of investment 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

At the year-end, treasury shares are recognised as assets. The net asset value is determined according to their assigned function:

- if they have not been assigned, they are valued at the stock market closing price on the last day of the month before the balance sheet date,

- if they have been assigned for a free share plan, those allocated to employees of Thales parent company are amortised over the life of the plan, i.e. 48 months,
- if they have been assigned for a free share plan, those allocated to employees of subsidiaries are maintained at their historic cost provided they are intended to be rebilled to the subsidiaries concerned at that value on delivery

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 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 in "restructuring costs" in the income statement.

NOTE 2 Change in Thales' direct investments**A) MAJOR OPERATIONS IN 2012**

In January 2012, Thales acquired 10% of Sofradir from Areva for €24m, raising its interest in the company jointly held with Safran from 40% to 50%. The company is now proportionally integrated at 50% in the Group's consolidated financial statements (40% to yearend 2011).

On 27 June 2012, Thales subscribed to the capital increase of its subsidiary, Thales Avionics SAS for €44.7m.

Thales now holds 22.23% of Cloudwatt following a capital increase subscribed in the amount of €50m and paid up for €12.5m in September 2012.

B) MAJOR OPERATIONS IN 2011

Thales subscribed to the capital increase 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 SAS on 30 June 2011.

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

At the end of December 2011, Thales exercised its share purchase option, 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.

NOTE 3 Operating income**SALES BY GEOGRAPHIC DISTRIBUTION**

Thales' total sales break down as follows:

	2012	2011
France	174.7	143.6
Rest of Europe	0.2	0.3
TOTAL	174.9	143.9

NOTE 4 Net financial income/(expense)**FINANCIAL INTEREST, INCOME AND EXPENSE**

	2012	2011
Interest and financial income:		
• on financial receivables ^(a)	28.6	31.1
• on interest rate swaps	8.6	33.9
	37.2	65.0
Interest and financial expense:		
• on financial debt ^(b)	(72.6)	(104.5)
• on interest rate swaps	(5.3)	(25.0)
	(77.9)	(129.5)
TOTAL	(40.7)	(64.5)

(a) Including associates for €7.7m in 2012 compared with €12.5m in 2011.

(b) Including associates for €26.9m in 2012 compared with €32.1m in 2011.

Other financial income and expenses

	2012	2011
INCOME FROM INVESTMENTS^(a)	395.3	365.9
Foreign exchange gains	9.9	0.1
Reversals of financial provisions ^(b)	122.7	109.4
Amounts recovered on clawback provisions ^(c)	0.2	1.8
Other	5.2	6.4
OTHER FINANCIAL INCOME	138.0	117.7
Foreign exchange loss	(0.3)	(9.7)
Increases in financial provisions ^(d)	(122.4)	(195.4)
Write-offs of receivables granted to subsidiaries ^(e)	(52.3)	(8.3)
Other	(4.4)	(7.9)
OTHER FINANCIAL EXPENSES	(179.4)	(221.3)

(a) Income from investments are detailed in the table of subsidiaries and equity associates on pages 126 and 127.

(b) Including a reversal of provisions on securities in 2012 for €110.4m: Thales Avionics SAS €75m, Thales Information Systems SA/NV €18m and Avimo Group Ltd €16.1m, and reversal of provisions on treasury shares for €6.1m.

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

(c) Including, in 2012, Thales Belgium for €0.2m.

Including, in 2011, Thales Université for €1.8m.

(d) Including, in 2012, provisions on investments for €112.0m: Thales Holdings UK Plc €100m and provisions for subsidiaries' risks for €2.4m.

Including, in 2011, provisions on investments for €155.2m: of which Thales UK Plc for €120m, provisions for subsidiary risks for €25.6m and provisions on treasury shares for €8.9m.

(e) Including, in 2012, Thales Security Solutions & Services Company (€52.3m).

Including in 2011, Thales Belgium for €8.0m and ELG La Pérouse for €0.3m.

NOTE 5

Net extraordinary items

	2012	2011
Restructuring costs	(4.0)	(13.9)
Capital gains or losses on disposals ^(a)	(17.3)	(10.1)
Other ^(b)	13.0	(0.8)
TOTAL	(8.3)	(24.8)

(a) In 2012, the losses related to the liquidation of Thales Information Systems SA/NV (€18m).

In 2011, the losses were mainly on the disposal of treasury shares under the employee shareholding plan (€10.0m).

(b) In 2012, writeback of €12.4m following the execution of the judgment on 17 October 2012 in the arbitration proceeding between Thales and the Chinese government (Taiwan) (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 (*Code Général des Impôts*).

Companies included in the tax consolidation pay tax as if they had been taxed separately. The tax savings realised by the Group through use of the losses incurred are retained by the parent company and recognised in income. However, the parent company may incur a tax charge corresponding to the losses of loss-making subsidiaries if these subsidiaries should become profitable again and are able to deduct the losses as if they had not been part of the tax consolidation.

Income tax for 2012 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 exceptional contribution of 5%. This additional amount of income tax is payable by companies generating sales over €250m. This measure is applicable to financial years 2011 to 2014 inclusive;
- the contribution of 3% on the distribution of dividends from 17 August 2012.

The impact of this contribution was taken into account in the calculation of the current tax liability for 2012 and 2011 and deferred taxes.

Income tax for 2012 and 2011 can be analysed as follows:

	2012	2011
Income from tax consolidation	67.4	61.2
Deferred tax on results of EIGs	8.7	9.2
Income tax expense	(36.6)	–
Other taxes ^(a)	8.6	8.5
TOTAL	48.1	78.9

(a) Including, in 2012, -€0.2m of adjustments in respect of 2011 income tax and +€8.8m in research tax credit.

Including, in 2011, +€0.4m of adjustments in respect of 2010 income tax and +€8.4m 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:

	31/12/2012	31/12/2011
Net asset temporary differences		
• Provisions for holiday pay	17.4	16.6
• Provisions for restructuring	3.4	0.7
• Currency exchanges difference	–	6.6
• Provisions for risks and charges	8.8	37.2
• Other	56.0	31.4
NET ASSET BALANCE	85.6	92.5

Expenses excluded from deductible charges (articles 223 *quater* and 39.4 of the French General Tax Code) represented €0.2m in 2012 compared with €0.3m in 2011 (corresponding to the surplus amortisation of the vehicles).

NOTE 7 Fixed assets**A) FIXED ASSETS AT COST**

	Amounts at 31/12/2011	Increases	Decreases	Account transfers ^(b)	Amounts at 31/12/2012
Intangible assets	23.2	–	(4.5)	–	18.7
Property, plant and equipment					
Buildings	122.3	6.0	–	–	128.3
Industrial plant and equipment					
industrial machinery	42.3	1.5	(0.6)	–	43.2
Other property, plant and equipment	18.4	0.7	(0.2)	–	18.9
TOTAL	183.0	8.2	(0.8)	0.0	190.4
Long-term investments					
Equity investments ^(a)	10,307.4	120.8	(30.2)	(135.4)	10,262.6
Other fixed investment (treasury shares)	50.8	28.0	(61.8)	–	17.0
Other non-current financial assets	126.3	35.6	(46.8)	–	115.1
TOTAL	10,484.5	184.4	(138.8)	(135.4)	10,394.7

(a) The increase in equity investments corresponds to the capital increases for Thales Avionics SAS (€44.7m) and Cloudwatt (€50.0m) of which 25% has been paid up (€12.5m) and the purchase of Sofradir shares (€24.0m).

(b) The account transfers item corresponds to the merger between Thales Security Solutions & Services and Thales Communications & Security SAS.

B) AMORTISATION AND DEPRECIATION

	Amounts at 31/12/2011	Increases	Decreases	Account transfers ^(b)	Amounts at 31/12/2012
Intangible assets	23.0	0.2	(4.5)	–	18.7
Property, plant & equipment^(a)					
Buildings	67.6	12.7	(0.8)	–	79.5
Industrial plant and equipment	36.4	2.3	(0.6)	–	38.1
Other property, plant and equipment	12.8	1.8	(0.1)	–	14.5
TOTAL	116.8	16.8	(1.5)	0.0	132.1
Non-current investments					
Equity investments ^(c)	1,589.1	112.0	(110.4)	(135.4)	1,455.3
Other fixed investment (treasury shares)	12.3	–	(11.2)	–	1.1
Other non-current financial assets	2.4	2.5	–	–	4.9
TOTAL	1,603.8	114.5	(121.6)	(135.4)	1,461.3

(a) To calculate depreciation, the useful life applied is 20 years for buildings and three to 10 years for other assets.

(b) The account transfers item corresponds to the merger between Thales Security Solutions & Services and Thales Communications & Security SAS.

(c) The increase in impairment of equity investments corresponds to the provisions for impairment including Thales Holdings UK Plc (€100.0m). The decrease in impairment of equity investments corresponds to reversals of provisions for Thales Avionics SAS shares (€75.0m), Thales Information System SA/NV (€18.0m) and Avimo Group Ltd (€16.1m).

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 affiliates	99.9	81.9	13.6	4.4
Other non-current investments	10.3	0.3	–	10.0
Subtotal	110.2	82.2	13.6	14.4
Current receivables				
Inventories and work-in-progress	15.0	15.0	–	–
Trade and other accounts receivable	151.0	151.0	–	–
Receivables from Group companies	614.0	614.0	–	–
Other receivables	407.0	116.5	290.5	–
Cash and cash equivalents	1,721.8	1,721.8	–	–
Subtotal	2,908.8	2,618.3	290.5	0.0
TOTAL RECEIVABLES	3,019.0	2,700.5	304.1	14.4
Borrowings				
Other financial debt ^(a)	1,360.1	726.1	634.0	–
Subtotal	1,360.1	726.1	634.0	0.0
Debt of Group companies	4,850.7	4,850.7	–	–
Advances on orders	15.8	15.8	–	–
Trade creditors and other accounts payable	74.2	74.2	–	–
Other debts	396.2	221.3	174.9	–
Subtotal	5,336.9	5,162.0	174.9	0.0
TOTAL PAYABLES	6,697.0	5,888.1	808.9	0.0

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

At 31 December 2012, 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 2012, committed and undrawn bank credit facilities totalled €1,500m, expiring in 2015. These credit facilities

are used as a backup for commercial paper and as a financial reserve. The credit agreement states that, in the event that the State no longer holds its golden share and, simultaneously, the ratio of consolidated net financial debt to EBITDA⁽¹⁾ were to exceed 3, clauses providing for accelerated repayment would apply.

The breakdown by currency for long-term investments and other financial debt at 31 December 2012 is as follows:

	Long-term investments	Other financial debt
Euro	53.7	1,272.8
Saudi riyal	24.9	–
South African rand	23.8	–
Swiss franc	–	48.9
Singapore dollar	–	32.4
Other currencies	7.8	6.0
TOTAL	110.2	1,360.1

(1) 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 payables

	31/12/2012		31/12/2011	
	Assets	Liabilities	Assets	Liabilities
Tax and employee-related receivables and payables	14.7	73.9	7.3	77.3
Government, income tax	293.5	1.5	232.4	–
Deferred tax on results of EIGs	–	–	–	8.7
Accrued interest	–	–	–	1.5
Premiums on foreign exchange option/swaptions	7.9	4.2	8.2	4.6
Foreign exchange revaluation	68.4	115.8	67.5	124.4
Tax receivables and payables on tax consolidated companies	4.1	184.2	8.9	171.9
Other	18.4	16.6	40.1	20.6
TOTAL	407.0	396.2	364.4	409.0

NOTE 10 Equity**A) SHARE CAPITAL**

Thales' share capital, totalling €607,019,022 at 31 December 2012, is composed of 202,339,674 shares with a nominal value of €3 each.

B) SECURITIES OUTSTANDING GIVING ACCESS TO THE COMPANY'S SHARE CAPITAL**Distribution of capital**

	31/12/2012		31/12/2011	
	In number of shares	In %	In number of shares	In %
Public ^(a)	92,223,965	45.58	91,466,139	45.21
French State ^(b)	54,788,714	27.08	54,788,714	27.08
Dassault Aviation	52,531,431	25.96	52,531,431	25.96
Thales ^(c)	2,795,564	1.38	3,542,173	1.75
TOTAL	202,339,674	100.00	202,328,457	100.00

(a) Including shares held by employees, directly or through collective investment funds (3.05% which amounts to 6,169,074 shares).

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

(c) Treasury shares (note 11).

Reserves and retained earnings

	31/12/2011	Allocation of the 2011 result	Dividends paid ^(a)	31/12/2012
Legal reserve	59.7	1.0	–	60.7
Blocked reserve	8.3	–	–	8.3
Ordinary reserve	128.9	–	–	128.9
Other reserves	0.3	–	–	0.3
Retained earnings	273.4	174.5	(155.4)	292.5
TOTAL	470.6	175.5	(155.4)	490.7

(a) Dividends paid 2011
Distribution of 2012 interim dividend

(105.6)
(49.8)
(155.4)

NOTE 11 Treasury shares

At 31 December 2012, Thales held 583,419 freely transferable treasury shares (0.29% of the capital) and 2,212,145 treasury shares reserved for employee free share allotments (representing 1.09% of the capital).

The distribution by plan is as follows:

- 25 June 2009 plan: 303,665
- 23 September 2010 plan: 583,030
- 15 September 2011 plan: 607,210
- 20 December 2012 plan: 718,240

Changes in transferable shares were as follows:

	31/12/2011	Acquisition	Transfer	Allocation to/ Cancellation from allotment plan	Valuation at average price ^(a)	31/12/2012
Number of shares:	1,699,248	1,043,357	(1,504,941)	(654,245)	–	583,419
Value (€ million)	38.5	28.0	(35.4)	(16.9)	1.7	15.9

(a) The average price for the month of December 2012 was 27.30.

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

SCHEDULE OF OUTSTANDING OPTIONS AT 31 DECEMBER 2012

The Group regularly awarded stock subscription or purchase options to its employees and directors until 2011. A decision was taken in 2012 to stop awarding options.

Similarly, the Group regularly awards free shares and/or performance shares in the course of its usual performance management policy for Group personnel. The various plans are described below.

At 31 December 2012, the following were outstanding:

- 126,700 share purchase options at a weighted average exercise price of €42.46;
- 12,294,262 share subscription options at a weighted average exercise price of €33.96, of which 872,250 were performance-based shares;
- 2,212,145 free shares, of which 497,290 performance-based shares.

1- Outstanding share purchase option plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31 Dec. 2011	Options granted in 2012	Options exercised in 2012	Options cancelled in 2012	Number of options outstanding at 31 Dec. 2012
25/11/2008	from 25 Nov. 2012 to 24 Nov. 2018	€38.50	47,800	–	–	1,100	46,700
04/07/2007	from 4 July 2011 to 3 July 2017	€44.77	80,000	–	–	–	80,000

2- Outstanding subscription options plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31 Dec. 2011	Options granted in 2012	Options exercised in 2012	Options cancelled in 2012 ^(b)	Number of options outstanding at 31 Dec. 2012
15/09/2011 ^(a)	from 15 Sept. 2015 to 14 Sept. 2021	€26.34	403,000	–	–	–	403,000
23/09/2010 ^(a)	from 23 Sept. 2014 to 22 Sept. 2020	€26.34	469,250	–	–	–	469,250
25/06/2009	from 25 June 2013 to 24 June 2019	€32.88	1,508,000	–	–	(2,000)	1,506,000
01/07/2008	from 1 July 2012 to 30 June 2018	€38.50	1,631,287	–	–	(52,937)	1,578,350
04/07/2007	from 4 July 2011 to 3 July 2017	€44.77	1,516,308	–	–	(102,138)	1,414,170
09/11/2006	from 9 Nov. 2010 to 8 Nov. 2016	€36.47	1,998,225	–	–	(32,400)	1,965,825
30/06/2005	from 30 June 2009 to 29 June 2015	€34.01	1,799,843	–	–	(24,800)	1,775,043
01/07/2004	from 1 July 2008 to 30 June 2014	€29.50	1,868,071	–	–	(17,344)	1,850,727
01/07/2003	from 1 July 2007 to 30 June 2013	€25.70	1,355,614 ^(c)	–	(11,217)	(12,500)	1,331,897
02/07/2002	from 2 July 2006 to 1 July 2012	€40.97	2,523,325	–	–	(2,523,325)	–

(a) Performance-based plans.

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

(c) Figure modified following adjustments identified after year-end.

Conditions of exercise

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

Stock options granted between 2 July 2002 and 1 July 2008 can already be exercised in full.

Share purchase or subscription options granted on 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 tranches of one-third once the Board of Directors has approved the Group consolidated accounts of the related three-year periods. The number of shares vested will not

exceed the number of shares initially allotted. For all beneficiaries, options may be exercised only from the fourth anniversary of the grant date.

3. Allotment of free shares and/or performance-based shares

Plans of free shares and/or performance-based shares have been implemented since 2007. Until 2011, the Chairman & Chief Executive Officer (the only "mandataire social": company representative as defined by the French Commercial Code), and 21 senior executives (including members of the Executive Committee) have been excluded from these plans.

On 20 December 2012, the Board of Directors approved a new plan including the senior executives but excluding the Chairman & Chief Executive Officer. This plan has 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.

Shares subject to performance conditions

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 tranches of one-third, once the Board of Directors has approved the accounts for 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.

In the two sub-plans, 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 lock-in period does not apply to beneficiaries who are not French tax resident.

Date of Board decision	Vesting period	Share price at grant date	Number of free shares at 31/12/2011	Post year-end adjustments	Shares granted in 2012	Shares cancelled in 2012 ^(b)	Shares delivered in 2012	Number of free shares at 31/12/2012
20/12/2012	from 20 December 2012 to 20 December 2016	€27.47	–	–	487,940	(50)	–	487,890
			–	–	230,350	–	–	230,350 ^(a)
15/09/2011	from 15 September 2011 to 15 September 2015	€25.20	482,290	–	–	(11,720)	(200)	470,370
			143,490	–	–	(6,650)	–	136,840 ^(a)
23/09/2010	from 23 September 2010 to 23 September 2014	€26.40	468,190	–	–	(14,920)	(340)	452,930
			136,830	–	–	(6,730)	–	130,100 ^(a)
25/06/2009	from 25 June 2009 to 25 June 2013	€31.93	316,755	–	–	(12,960)	(130)	303,665
01/07/2008	from 1 July 2008 to 1 July 2012	€35.72	295,220	–	–	(10,865)	(284,355)	–
04/07/2007	from 4 July 2007 to 4 July 2011	€45.13	150	–	–	(150)	–	–

(a) Shares subject to performance conditions.

(b) Including, for the plans concerned, cancelled options when performance targets are not partially or totally achieved. To date, there have been no option cancellations due to failure to meet performance conditions.

Options granted and exercised in 2012

	Number of options awarded/shares subscribed or purchased	Exercise price	Expiration date	Plan date
1 – Directors				
Options granted in 2012				
• Luc Vigneron	None			
• Jean-Bernard Lévy	None			
2 – The ten biggest awards of options granted to employees^(a)				
Options granted in 2012				
3 – Ten largest exercises by employees^(a)				
Options exercised in 2012	1,200	€25.70	–	01/07/2003
	900	€25.70	–	01/07/2003
	800	€25.70	–	01/07/2003
	800	€25.70	–	01/07/2003
	800	€25.70	–	01/07/2003
	400	€25.70	–	01/07/2003
	400	€25.70	–	01/07/2003
	400	€25.70	–	01/07/2003
	400	€25.70	–	01/07/2003
	400	€25.70	–	01/07/2003

(a) For all Group companies combined.

NOTE 12 Provisions for risks and charges

	Amounts at 31/12/2011	Increase	Utilization Reversal	Amounts at 31/12/2012
Restructuring	6.7	4.0	(4.7)	6.0
Subsidiary risks	37.4	2.5	–	39.9
Retirement benefits and similar ^(a)	52.9	7.0	(7.5)	52.4
Other ^(b)	86.9	3.6	(50.4)	40.1
TOTAL	183.9	17.1	(62.6)	138.4

(a) Breakdown of post-employment benefits and similar:

	Post-employment benefits	Other	Total
Balance sheet position at end of 2011	50.3	2.6	52.9
Normal cost	2.5	0.1	2.6
Interest costs	4.8	0.1	4.9
Expected return on plan assets	(1.5)	0.0	(1.5)
Amortisation of actuarial gains and losses	0.1	(0.1)	(0.0)
Amortisation of plan amendments	1.7	0.0	1.7
Liquidations and curtailments	(1.1)	0.0	(1.1)
Total financial component	4.0	0.0	4.0
Impact on profit and loss	6.5	0.1	6.6
Benefits paid by employer	(1.5)	0.0	(1.5)
Employer contributions	(6.6)	0.0	(6.6)
Transfers	0.9	0.1	1.0
BALANCE SHEET POSITION AT END OF 2012	49.6	2.8	52.4

Actuarial gains and losses still to be amortised are reported under off-balance sheet commitments (note 13a). These totalled €5.9m in 2012, compared with €1.9m in 2011.

(b) An arbitration proceeding was pronounced in 2012 in the case that opposed DCNI to the Republic of China (Taiwan) with respect to a contract for the provision of six Lafayette-class frigates. Thales executed the award proportionally to its industrial share in the related contract and therefore reversed the provision booked 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 dispute resolution. This policy is reviewed on a regular basis to take into account 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 headquarters and business litigation and enforcement procedures. These are handled by the corporate legal affairs department, with the support of the Group companies concerned.

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 \$260m. Under an agreement signed in 2003, the client withdrew its request for arbitration.

In November 2012, the claimant filed a new request for arbitration for a revised amount of €226m. The parties are strongly challenging this claim and at this date it is not possible to evaluate any potential financial risk. Consequently, Thales has not recognised any provision.

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 emerging 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 products and sites environmental impacts in accordance with Thales's commitments. As such, environmental competences have been widened to include engineering, research, procurement and contracts.

At 31 December 2012, the amount of reserves for environmental contingencies amounted to €4.6m.

NOTE 13 Off-balance sheet commitments**A) COMMITMENTS GIVEN AND RECEIVED****Commitments to lease and purchase property, plant and equipment**

	Total	In less than 1 year	1 to 5 years	In more than 5 years
Operating leases	615.9	118.5	319.7	177.7
Purchase of property, plant and equipment	27.5	0.0	27.5	0.0

		31/12/2012	31/12/2011
Actuarial gains and losses still to be amortised	(note 12)	5.9	1.9
Commitments given			
• Guarantees and pledges		10,262.0	9,585.7
Of which related companies	(a)	10,077.8	9,268.6
(a) The main companies concerned are:			
Thales Canada Inc		840.3	1,149.7
Thales Alenia Space France S.A.S.		788.7	801.0
Thales Communications & Security S.A.S.		771.4	688.0
Thales Australia Ltd		700.1	823.7
Thales Nederland B.V.		661.5	634.3
Thales Transport & Security, Inc		630.1	643.5
Thales Avionics Inc		533.9	544.4
Thales Holdings UK Ltd		503.5	474.2
Thales Rail Signalling Solutions Ltd		427.2	–
Thales International Saudi Arabia		396.8	377.1
Thales Rail Signalling Solutions AG		369.7	346.5
Thales Alenia Space S.A.S		291.5	420.7
Thales Norway A.S.		288.0	97.0
Thales Underwater Systems UK Ltd		223.6	218.5

	31/12/2012	31/12/2011
Thales Transport Signalling & Security Solutions AS	219.5	–
Thales Solutions Asia Pte Ltd	184.6	–
Thales Security Solutions & Services Company	176.8	198.5
Thales Deutschland GmbH	165.0	–
Thales Underwater Systems S.A.S.	158.2	174.4
Thales Transportation Systems GmbH	152.2	154.1
Thales Portugal S.A	141.5	171.3
Thales Espana Grp SA	116.4	120.6
Thales Training & Simulation Ltd	115.5	115.2
Thales Missile Electronics Ltd	107.0	111.2
ACSI (Air Command Systems International) Company	99.6	99.8
Thales Raytheon Systems Company S.A.S.	97.5	97.5
Thales Transport & Security Ltd	90.7	88.6
DCNS S.A.	27.1	28.6
Commitments received:		
Debt write-offs granted to related companies with return to better fortune clauses	180.4	256.2

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.

Interest rate risk management

At 31 December 2012 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:

	2012		2011	
	Buyer/lender	Seller/borrower	Buyer/lender	Seller/borrower
Interest rate swap:	400.0	15.5	400.0	117.6

The corresponding market values are as follows:

	2012		2011	
	Buyer/lender	Seller/borrower	Buyer/lender	Seller/borrower
Rate swaps	23.5	(0.8)	6.5	(0.4)

The duration of these contracts is as follows:

	2012				2011			
	< 1 year		1 to 5 years		< 1 year		1 to 5 years	
	Lender	Borrower	Lender	Borrower	Lender	Borrower	Lender	Borrower
Interest rate swap	–	–	400.0	–	–	100.0	400.0	–

Currency risk management

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

Thales mainly held forward foreign exchange contracts at 31 December 2012 and 31 December 2011.

Nominal forward buy and sell contract amounts, converted into euros at closing rates, are detailed below by currency. Where options are concerned, the amounts indicated correspond to nominal values for underlying currency transactions and are mentioned in the "buyer" or "seller" columns depending on the nature of the transaction at maturity.

	2012		2011	
	Buyer/lend	Seller/borrow	Buyer/lend	Seller/borrow
Futures				
US dollar	2,305.60	2,922.38	2,376.17	3,190.84
Pound sterling	322.97	290.82	296.28	338.64
Swiss franc	74.68	87.38	76.99	80.38
Other	471.71	689.43	647.07	506.78
	3,174.96	3,990.01	3,396.51	4,116.64
Foreign exchange swaps				
hedging investments				
Pound sterling	—	40.26	—	39.33
	—	40.26	—	39.33
hedging sales commitments				
US dollar	705.41	1,636.03	750.34	1,703.27
Pound sterling	733.80	268.09	741.34	207.24
Swiss franc	64.19	18.74	58.83	26.61
Other	663.74	651.30	474.40	567.48
	2,167.14	2,574.16	2,024.91	2,501.60
TOTAL	5,342.10	6,604.43	5,421.42	6,657.57
Currency options				
• Put				
Canadian dollar	30.14	30.14	30.87	—
Pound sterling	19.80	—	40.69	—
Israeli shekel	5.58	5.58	4.04	4.04
Turkish lira	—	—	4.91	4.91
US dollar	153.78	333.78	189.66	328.78
• Call				
Australian dollar	—	—	9.43	—
Brazilian real	7.40	7.40	—	—
Pound sterling	1.85	1.86	—	—
Japanese Yen	—	—	—	9.08
Israeli shekel	5.58	5.58	4.04	4.04
Polish zloty	—	19.21	—	—
Saudi riyal	—	—	6.31	6.31
US dollar	14.35	14.35	4.35	4.35
South African rand	—	50.38	—	—
	238.48	468.28	294.30	361.51

The corresponding market values are as follows:

	2012		2011	
	Buyer/lender	Seller/borrower	Buyer/lender	Seller/borrower
Futures	(66.1)	55.12	(5.70)	(18.03)
Foreign exchange swaps:				
• hedging investments	–	0.39	–	(0.74)
• hedging sales commitments	(22.2)	33.04	28.38	(60.37)
Currency options				
• Put	7.27	(4.08)	(1.62)	3.20
• Call	0.95	(0.53)	0.72	(0.33)

The maturity schedule is as follows:

	2012		2011	
	Minimum	Maximum	Minimum	Maximum
Forward contracts	January 2013	March 2019	January 2012	March 2019
Foreign exchange swaps:				
• hedging investments	June 2013	June 2013	June 2012	June 2012
• hedging sales commitments	January 2013	December 2018	January 2012	September 2016
Currency options				
• Put	January 2013	October 2013	January 2012	October 2012
• Call	January 2013	October 2013	January 2012	October 2012

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

	31/12/2012		31/12/2011	
	Sales	Purchasing	Sales	Purchasing
US dollar	1,250.4	3,649.5	1,194.2	4,028.2
Pound sterling	406.7	398.4	433.3	459.2
Canadian dollar	294.9	125.5	249.7	100.9
Australian dollar	140.7	97.3	105.3	60.8
Swiss franc	59.8	76.5	73.1	86.8
Saudi riyal	46.1	59.6	61.3	78.1
UAE dirham	20.2	51.9	48.9	90.1
Other currencies	218.2	720.3	230.1	425.5
TOTAL	2,437.0	5,179.0	2,395.9	5,329.6

NOTE 14 Headcount

Average number of employees	2012	2011
Engineers and managers	711	808
Technical and supervisory staff	113	177
TOTAL	824	985

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 senior executives.

A) AGREEMENTS SIGNED WITH THALES' 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.

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 additional 10% interest enable Thales to participate in 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 and purchasing).

C) COMPENSATION OF DIRECTORS AND SENIOR EXECUTIVES

The compensation, benefits and social charges awarded to the directors and the members of the Executive Committee break down as follows:

	2012	2011
Short-term benefits:		
• Fixed compensation	4.9	4.9
• Variable compensation	3.2	3.0
• Employer's social security contribution	2.6	2.7
• Contract termination benefits resulting from contract commitment	0.9	1.3
• Employer's social security contributions/contract termination benefits	0.2	0.3
• Directors' fees	0.5	0.6
Other benefits:		
• Post-employment benefits	0.6	1.0
• Share-based payments (IFRS 2)	1.2	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.

NOTE 16 Events since year-end

Following incidents involving lithium ion batteries supplied by a Japanese company through a Thales subsidiary, the Federal Aviation Administration (FAA) decided on 17 January 2013 to suspend all Boeing 787 flights. In this framework, Thales participates to the technical investigations and cooperates with Boeing with a view to enable the flights to resume.

1.3.2.6 RESULTS OF THE COMPANY FOR THE LAST FIVE YEARS

(in millions of euros, except for per share data)

	2008	2009	2010	2011	2012
1. Share capital at year-end					
Share Capital	596.2	597.1	597.2	607.0	607.0
Number of ordinary shares issued	198,724,809	199,023,932	199,082,027	202,328,457	202,339,674
Maximum number of shares to be created in future:					
• By exercise of subscription options	16,838,349	17,669,210	17,860,559	15,056,223	12,294,262
2. Operations and results for the period					
Sales excluding tax	147.9	139.0	133.0	143.9	174.9
Earnings before taxes, employee profit-sharing, depreciation, amortisation and provisions	56.1	123.1	152.6	(224.2)	222.0
Income tax	135.1	87.9	87.4	78.9	48.1
Employee profit-sharing during the period	–	–	–	–	–
Earnings after taxes, employee profit-sharing, depreciation, amortisation and provisions	63.6	(29.2)	192.3	175.4	306.8
Net result distributed	204.7	97.7	97.7	155.2	178.1 ^(a)
3. Earnings per share					
Earnings after tax and employee profit-sharing but before amortisation, depreciation and provisions	0.96	1.06	1.21	(0.72)	1.34
Earnings after taxes, employee profit-sharing, depreciation, amortisation and provisions	0.32	(0.15)	0.97	0.87	1.52
Net dividend per share	1.05	0.50	0.50	0.78	0.88 ^(a)
4. Personnel					
Average employee headcount during the year	990	1,009	987	985	824
Total wage and salary costs for the period	115.0	132.4	120.8	138.4	113.7
Social charges and benefits paid in the year (Social security, welfare, etc.)	44.7	51.8	45.6	50.5	47.9

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.

2012: Capital increased from €606,985,371.0 to €607,019,022.0 following a capital increase.

(a) Subject to the approval of the Annual General Meeting of 24 May 2013.



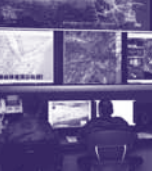
1.3.2.7 TABLE OF SUBSIDIARIES AND EQUITY AFFILIATES

Position at 31 December 2012

A. Detailed disclosures concerning subsidiaries and investee companies where the gross value exceeds 1% of the company's share capital												
	Share capital (local currency) '000s	Sh. equity other than capital (local currency) '000s	% of share capital held	Carrying amount of investments held		Loans and advances made by Thales not yet repaid (€k)	Amounts of deposits and guarantees given by Thales (€k)	Prior year sales exc. VAT (local currency) '000s	Share in income (loss) for last year ended (local currency) '000s	Dividends received by Thales during the year (€k)	Receivables (€k)	Liabilities (€k)
				Gross (€k)	Net (€k)							
1. Subsidiaries												
THALES HOLDINGS UK PIC	GBP	726,848	874,701	100%	2,571,704	1,700,000			3,894			692,232
THALES AVIONICS S.A.S.	EUR	175,000	366,318	100%	936,797	936,797		1,105,142	136,955			348,147
THALES ALENIA SPACE S.A.S.	EUR	1,530,035	(89,858)	67.00%	724,106	724,106	291,540		97,100	64,789		5,435
THALES SYSTÈMES AÉROPORTÉS S.A.S.	EUR	93,152	70,492	100%	706,108	706,108	56,885	723,228	79,808			900,534
THALES DEUTSCHLAND GmbH	EUR	27,124	422,454	100%	644,958	644,958	165,000		3,966		31,317	1,245
THALES NORTH AMERICA INC.	USD	118,103	570,569	100%	603,196	603,196	22,787		32,156	32,489		147,701
THALES COMMUNICATIONS S.A.S	EUR	163,950	51,085	100%	590,752	590,752	771,448	1,785,608	82,432	45,906	67	573,685
THALES INTERNATIONAL S.A.S.	EUR	313,000	10,681	100%	398,542	398,542	6,000		14,681	13,355	127,101	
THALES AIR SYSTEMS S.A.S.	EUR	126,348	228,260	88.88%	314,100	314,100	14,605	584,137	17,284	10,208		342,100
AVIMO GROUP Ltd	SGD	22,104	35,105	100%	250,690	54,640			296			
THALES NEDERLAND B.V.	EUR	29,510	18,768	99.00%	235,174	235,174	661,527	395,868	28,956	99,000		141,913
THALES UNDERWATER SYSTEMS N.V.	EUR	4,538	4,047	100%	129,206	8,503			49			
THALES SERVICES S.A.S.	EUR	1,479	46,110	100%	126,368	126,368	800	401,210	11,553	16,601		7,078
SIFELEC	EUR	38,304	465	100%	111,755	38,671			(13)	175		27,987
THALES OPTRONIQUE S.A.S.	EUR	56,244	112,642	77.24%	106,287	106,287			20,186	1,466		114,279
THALES UNDERWATER SYSTEMS S.A.S.	EUR	15,253	3,133	100%	96,473	96,473	158,157	353,461	28,407	23,336		200,353
THALES HOLDING NORWAY AS	NOK	419,845	(186,577)	100%	77,157	77,157			(169)			
THALES CORPORATE VENTURES S.A.S.	EUR	15,000	12,086	100%	73,347	17,675			376	4,219		5,114
THALES MICROELECTRONICS S.A.S.	EUR	500	10,515	100%	65,633	9,300		57,606	(2,043)		16,962	
THALES SUISSE S.A.	CHF	57,200	4,039	100%	56,092	56,092		66,533	5,822	2,375		
TDA ARMEMENT S.A.S.	EUR	306	19,572	100%	51,678	51,678		128,716	28,637	27,411		33,621
THALES EUROPE S.A.S.	EUR	43,182	1,109	100%	43,182	43,182			(26,242)	2,942	195,849	
THALES BELGIUM S.A.	EUR	3,408	659	100%	41,416	3,516	12,241	23,397				7,878
THALES ELECTRON DEVICES S.A.S.	EUR	30,999	45,957	100%	39,227	39,227	7,131	304,442	17,362	8,287	10,206	
SORADIR	EUR	6,000	71,258	50.00%	26,439	26,439	1,680	105,761	17,733	4,000		
UMS HOLDING	EUR	33,898	4,828	50.00%	24,266	19,268			2,351			
CMT MEDICAL TECHNO Ltd	USD	1,048	33,563	100%	21,788	21,788		17,652	(879)	1,814		8,374
THALES CANADA INC	CAD	8,202	37,130	55.46%	19,670	19,670	831,958	442,211	40,595		3,156	2,604
THALES AVIONICS ELECTRICAL SYSTEMS S.A.S.	EUR	6,851	9,428	100%	18,599	18,599		106,545	4,641	4,494	14,813	607

	Share capital (local currency '000s)	Sh. equity other than capital (local currency '000s)	% of share capital held	Carrying amount of investments held		Loans and advances made by Thales not yet repaid (€k)	Amounts of deposits and guarantees given by Thales (€k)	Prior year sales exc. VAT (local currency '000s)	Share in income (loss) for last year ended (local currency '000s)	Dividends received by Thales during the year (€k)	Receivables (€k)	Liabilities (€k)
				Gross (€k)	Net (€k)							
FINANCIERE SESO	EUR 449	2,291	99.98%	14,606	14,606					238		
SAS CHATELERAUT BRELAND	EUR 2,000	1,363	100%	10,013	8,224			2,026	1,324			1,299
THALES COMMUNICATIONS LTDA	BRL 14,571	(10,797)	100%	9,199	0		2,487	55,827	3,430	(3,447)		
THALES ANGENIEUX S.A.S	EUR 2,717	7,280	100%	8,136	8,136			73,833	4,685	1,830		7,235
TOTAL SUBSIDIARIES				9,146,664	7,719,232					364,935	399,471	3,569,421
2. Other shareholdings												
DCNS	EUR 563,000	376,965	35.00%	833,688	833,688		27,118	2,933,693	164,158	18,326		
TELESPAZIO SpA	EUR 50,000	184,254	33.00%	81,634	81,634			562,260	14,166			
THALES SYSTEMS IRLANDE LTD	EUR 1	251,230	22.50%	56,330	56,330				18			
ELETTRONICA SpA	EUR	46,156	33.33%	26,724	26,724				19,870	4,750		
CLOUDWATT	EUR 224,997	(3,207)	22.23%	50,009	50,009				(3,197)			
APEC AMPER PROGRAMAS	EUR 3,005	6,420	49.00%	11,190	3,490			37,691	(1,620)	2,107		
TOTAL INVESTEE COMPANIES				1,059,575	1,051,875				25,183	0	0	0
B. General disclosures concerning other subsidiaries and investee companies												
1. Subsidiaries not listed in section A.												
French subsidiaries				35,531	25,513		26,000			3,779	30,737	23,792
Foreign subsidiaries				3,995	90							
Total				39,526	25,603					3,779	30,737	23,792
2. Investee companies not listed in section A.												
in French companies				12,708	10,492		1,000			1,233	4	21,801
in foreign companies				4,132	79		179,800			149	33,559	
Total				16,840	10,571					1,382	33,563	21,801
GRAND TOTAL				10,262,605	8,807,281					395,279	463,771	3,615,014

Data derived from the financial statements prepared according to Thales Group standards as recognised on consolidation



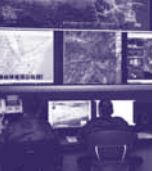
1.3.2.8 LIST OF EQUITY INVESTMENTS AND SECURITIES HELD

at 31 December 2012

Number of securities	Value	% interest	Net amount of inventory (€ thousand)
1. Equity interests and marketable securities with net asset value of €15,244 or more			
3,500,000	THALES AVIONICS S.A.S.	100.00%	936,797
19,705,000	DCNS S.A.	35.00%	833,688
41,005,675	THALES ALENIA SPACE S.A.S.	67.00%	724,106
5,822,010	THALES SYSTÈMES AÉROPORTÉS S.A.S.	100.00%	706,108
10,929,987	THALES COMMUNICATIONS & SECURITY S.A.S.	100.00%	590,752
20,866,670	THALES INTERNATIONAL S.A.S.	100.00%	398,542
10,208,364	THALES AIR SYSTEMS S.A.S.	88.88%	314,100
147,889	THALES SERVICES S.A.S.	100.00%	126,368
2,715,001	THALES OPTRONIQUE S.A.S.	77.24%	106,287
1,089,516	THALES UNDERWATER SYSTEMS S.A.S.	100.00%	96,473
2,000	TDA ARMEMENTS S.A.S.	100.00%	51,678
4,999,933	CLOUDWATT	22.23%	50,009
2,698,875	THALES EUROPE S.A.S.	100.00%	43,182
2,066,595	THALES ELECTRON DEVICES S.A.S.	100.00%	39,227
2,503,550	SIFELEC	100.00%	38,671
200,000	SOFRADIR	50.00%	26,439
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	FINANCIÈRE SESO	99.98%	14,606
33,334	THALES MICROELECTRONICS S.A.S.	100.00%	9,300
181,158	THALES ANGENIEUX S.A.S.	100.00%	8,136
21,625	EUROTRADIA INTERNATIONAL	16.53%	3,099
299,999	ODAS	10.00%	3,000
35,250	THALES UNIVERSITY S.A.S.	100.00%	2,578
166,026	THALES GEODIS FREIGHT & LOGISTICS S.A.	50.00%	2,172
100,000	THALES CRYOGENIE S.A.S.	100.00%	2,116
20,000	GIE III-Vlab	40.00%	2,000
2,500	THALES ASSURANCES ET GESTION DES RISQUES S.A.S.	100.00%	1,567
11,017	SOFRESA	11.02%	1,338
7,181	SOFEMA	9.57%	897
4,295	GERIS CONSULTANTS	100.00%	443
5,000	GERAC S.A.S.	100.00%	79
429	IRDI MIDI PYRÉNÉES	0.21%	71
100,000	PARIS PUBLISHING	25.00%	62
3,700	188CENTELEC	100.00%	37
3,700	187CENTELEC	100.00%	37
1,300	VIGEO	0.75%	25
3,700	SYRACUSE SERVICES S.A.S.	100.00%	23
3,700	184CENTELEC	100.00%	23
3,700	182CENTELEC	100.00%	20
2. Equity interests and marketable securities with net asset value of less than €15,244			11
3. Investments in property companies			24,631
4. Investments in foreign companies			3,593,041
TOTAL			8,807,281

1.3.2.9 INVESTMENTS MADE AND THRESHOLDS CROSSED IN FRENCH COMPANIES IN 2012

	Amount of Investment (€ thousand)	Percentage owned									
		As of 31/12/2011					As of 31/12/2012				
		>5%	>20%	>33%	>50%	>66%	>5%	>20%	>33%	>50%	>66%
1. Increases											
Sofradir	24,000	–	–	40.00	–	–	–	–	–	50.00	–
Cloudwatt	49,991	–	–	–	–	100.00	–	22.23	–	–	–
2. Decreases											
Thales Property Services		–	–	–	–	100.00	–	–	–	–	–
Thales VP		–	–	–	–	99.00	–	–	–	–	–
Thales Safare		–	–	–	–	100.00	–	–	–	–	–
Thales Group		–	–	–	–	100.00	–	–	–	–	–
175centelec		–	–	–	–	99.85	–	–	–	–	–
176centelec		–	–	–	–	99.85	–	–	–	–	–



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.

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meetings, we hereby report to you, for the year ended December 31, 2012, on:

- the audit of the accompanying financial statements of Thales;
- the justification of our assessments;

- the specific verifications and information required by law.

These financial statements have been approved by 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, 2012 and of the results of its operations for the year then ended in accordance with French accounting principles.

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, 2012 for a net amount of M€ 8,807 are assessed at their cost price and subject to impairment tests in accordance with the methods set out in note 1.g to the financial statements.

Based on the information provided to us at the time of our audit, our work consisted in assessing the data used to estimate the net realizable value, in particular, we reviewed the update of forecasted profitability of the subsidiaries and investments, and verified the consistency of the assumptions used with the forecast data taken from the strategic plans drawn up for each of these subsidiaries or investments under management's control and checked that the notes to the financial statements provide appropriate information.

Litigation and contingency provisions

As regards contingency provisions and litigation, we ensured that the procedures in force in your company made it possible to identify, evaluate and recognize such provisions from an accounting standpoint in satisfactory conditions. We also ensured that the disputes identified during the implementation of these procedures were described in appropriate terms in notes to the financial statements, and, in particular, in note 12.

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

III. SPECIFIC VERIFICATIONS AND INFORMATION

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of article L. 225-102-1 of the French commercial code (Code de commerce) relating to remunerations and benefits received by the directors and any other commitments made in their favour,

we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders and holders of the voting rights and mutual shareholders has been properly disclosed in the management report.

Paris-La Défense and Courbevoie, March 4, 2013

The statutory auditors
French original signed by

ERNST & YOUNG Audit

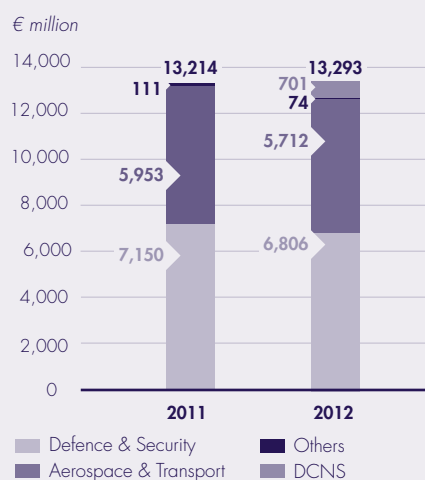
Michel Gauthier
Nour – Eddine Zanouda

Mazars

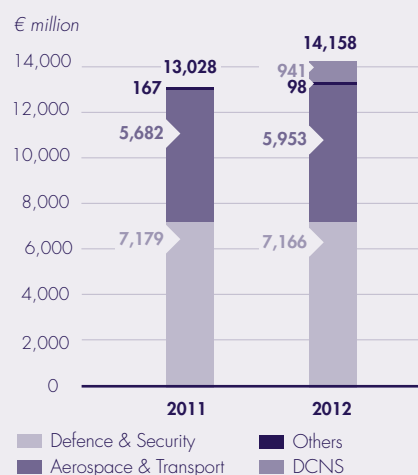
Jean-Marc Deslandes
Anne-Laure Rousselou

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

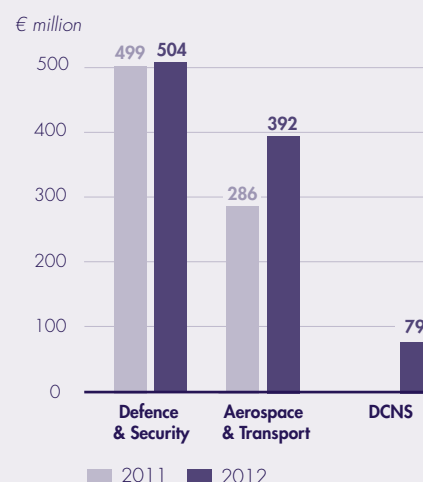
ORDERS



SALES

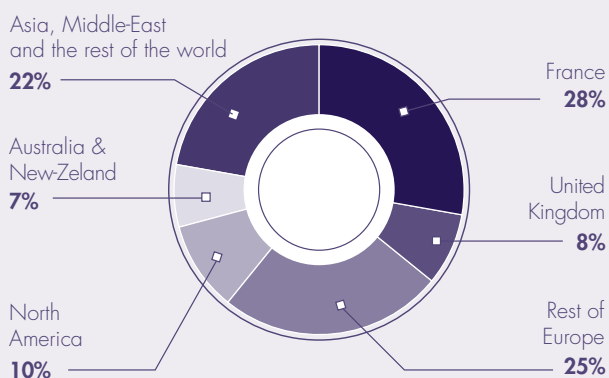


EBIT⁽¹⁾

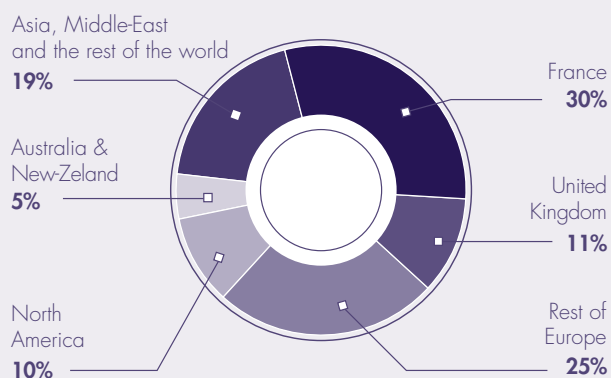


A strong international presence

ORDERS BY DESTINATION 2012



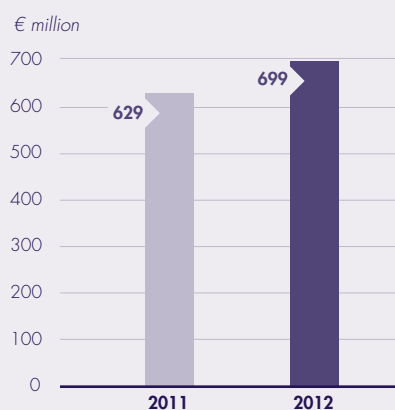
SALES BY DESTINATION 2012



Innovation at the heart of the strategy

- Total R&D represents approximately 20% of sales, over a quarter self-funded.
- A portfolio of 13,000 patents, 350 new applications filed in 2012.
- A policy of innovation open to the academic world, research centres and industrial partners: 5 laboratories collaborating with universities and over 30 cooperative partnerships with universities and research centres.
- A fifth research centre opened in 2012 in Canada to complement the Thales Research & Technology network in France, the UK, the Netherlands and Singapore.
- Thales, a major player in the competitive clusters in France and the UK.

TOTAL SELF-FUNDED R&D



(1) EBIT after restructuring and before impact of purchase price allocation (PPA). EBIT not allocated to the segments came to -€48m in 2012 compared to -€35m in 2011.

2

Business review

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2 BUSINESS REVIEW

Key data

2.1 Key data

		Defence & Security	Aerospace & Transport	Other	Total excl. DCNS	DCNS impact ^(b)	Total
2012	Order book at 31 December	14,063	10,888	59	25,010	4,648	29,658
	Order intake	6,806	5,712	74	12,592	701	13,293
	Consolidated sales	7,166	5,953	98	13,217	941	14,158
	Income from operations (EBIT) ^(a)	504	392	(48)	848	79	927
	Consolidated number of employees	33,045	22,749	5,444	61,239	4,754	65,992
2011	Order book at 31 December	14,375	11,372	95	25,842	4,855	30,697
	Order intake	7,150	5,953	111	13,214		13,214
	Consolidated sales	7,179	5,682	167	13,028		13,028
	Income from operations (EBIT) (a)	499	286	(35)	750		750
	Consolidated number of employees	34,577	23,889	4,994	63,460	4,865	68,325

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

(b) DCNS impact: impact of the 35% proportionate consolidation of DCNS vs consolidation under the equity method at 35%.

Consolidated number of employees includes the total number of employees of the fully consolidated companies and the proportionate share of employees of companies consolidated under the proportionate method (including 4,754 for the 35% stake in DCNS at the end of 2012, 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 65,138 **employees were under Group management** at 31 December 2012. This figure includes all the employees of fully

consolidated and proportionately consolidated companies, except for DCNS in France, Diehl Aerospace GmbH, Helicopter Training Media International and Junghans Microtec GmbH in Germany, Telespazio in Italy, Amper Programmas in Spain, Thales Raytheon Systems and Advanced Acoustics Concept in the United States and Network Information Systems in the UK, whose employees are not managed by the Group. Employees "under Thales management" do not include staff working for companies carried under the equity method but do include employees of companies that are controlled below consolidation thresholds.

Employees under management, by business segment, were as follows at end-2011 and end-2012:

Employees under management at 31 December	Defence & Security	Aerospace & Transport	Other	Total
2012	35,109	24,425	5,604	65,138
2011	38,176	24,753	4,050	66,979

The overall decline in the workforce is mainly explained in 2012 by the disposal of the following companies: Thales Information Systems SAU in Spain (630 employees) and its subsidiary in Argentina (312 employees), Thales Information Systems GmbH in Austria (63 employees), the disposal of the civil simulation business in the UK (365 employees) and the Business Solutions branch of Thales Services in France (467 employees).

The decline in the workforce in the Defence & Security sector is also explained by a reclassification of over a thousand UK employees to "Other".

The main programmes in the order book at 31 December 2012 break down as follows:

Value	Programme
More than €600m	Iridium (United States) Rafale (France) Mirage 2000 upgrade (India) Fremm Frigates (France/Italy)
Between €400m and €600m	In-flight entertainment systems London Underground signalling (UK)
Between €200m and €400m	Queen Elizabeth class aircraft-carriers (UK) Bushmaster (Australia) Communications satellite (Asia) Watchkeeper UAV system (UK) Contact – software-defined radios development contract (France) Balard – Ministry of Defence (France) Galileo (European Union) Rail signalling Fjernebanen West (Denmark)

2.2 Research and innovation

Thales needs to acquire increasingly sophisticated technologies, particularly in detection, analysis and decision-making technology, in order to design and develop critical information systems. These innovative solutions serve customers in the fields of secure military communications, space systems, air traffic control, on-board electronics and government information networks.

Thales commits nearly 20% of its sales 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 25,000 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 €699m⁽¹⁾ self-funded by the Group, representing around 28% 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.

⁽¹⁾ Of which €12m of capitalised R&D.



2.2.2 FOUR KEY TECHNICAL DOMAINS

It is important for Thales to own technology in four key domains, which determine the direction of the Group's technological research and development:

- hardware technology, including, inter alia, electronics, electromagnetism, optronics, acoustics, radiofrequency techniques and management of thermal constraints;
- software technology (signal and information processing computers, real-time on-board systems, distributed systems, service-oriented architectures, model-driven engineering, engineering tools, information systems safety and security);
- information and cognitive sciences (data fusion, data mining, autonomous/robot systems, synthetic environments, human factors);
- alongside these three technical domains, which are the technological building blocks, is the technical domain of "Systems". Focused on architectural system design, this area provides support for methodology, processes and expertise.

Focus 1: "Cloud Computing" and security

A technological breakthrough and new business model, "cloud computing" is the culmination of an internet development that separates physical infrastructures (servers, storage, networks, etc.) on the one hand, from software and applications on the other, supplying them on demand in the form of services. "Cloud computing" is revolutionising every form of information technology, from the one we use in our everyday life to the one at the heart of the most critical systems which Thales provides and operates for clients.

Having been a key player in European research and development in this area from the outset, Thales is an expert in "cloud computing" technologies and deploys them in the form of private infrastructure for client use right through to theatres of operations.

Thales is also an expert in the huge computer infrastructures that constitute public "clouds", evidenced in the creation of the company Cloudwatt in association with Orange and with support from the French government in the context of the "Investments for the Future" programme.

Confidence and security are critical to the success of "cloud computing". Thales, a European leader in cybersecurity, assures the security of financial transactions for 19 of the 20 biggest banks, and its clients include nine of the ten global leaders in digital technology. It has developed specific security technologies and architectures for "cloud computing" by building its research and development capacities to make it the trusted partner of companies and governments, even at the most sensitive levels of security. For these reasons, Thales designs, produces and manages the security of Cloudwatt.

2.2.3 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 optimize the synergies generated by the trio formed by major industrial groups, innovation-driven companies, and training and research institutions.

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, and since November 2012 also in Canada (cf. focus). They are often located on university campuses, which facilitates interaction with the academic world. 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.

Similarly, 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 one of the few joint international research units with an industrial partner.

Thales conducts strategic partnerships with its academic partners such as (but not limited to) the CNRS, ONERA, *École Polytechnique*, *Université Pierre et Marie Curie* (Paris VI) and *Université Paul Sabatier* (Toulouse III).

The most advanced form of partnership is the joint laboratory operated by Thales with the CNRS for physics, with CEA-LETI in the 3-5 Lab (an EIG whose members are Alcatel-Lucent, Thales and CEA-LETI), with CEA-LIST in a joint laboratory dedicated to artificial vision, with UPMC in data mining and with Bordeaux academics in the ALBATROS group.

Thales is positioned as a major player in numerous high-tech clusters in France (including System@tic Paris-Région and Cap Digital Paris-Région, Aerospace Valley in the southwest, the Maritime clusters in Brittany and Provence-Alpes-Côte d'Azur, and the *Images et Réseaux* - images and networks - telecommunications cluster in the Brittany region).

In the United Kingdom, the Reading site works closely with major British universities, including Cambridge and Bristol. Thales is one of the founder members of the "Mobile Virtual Centre of Excellence" (MVCE) in mobile communications, while in data security, Thales is a member of the group set up at Queen's University Belfast. In aeronautics, like other manufacturers in the sector, Thales is a

member of the Integrated Vehicle Health Management (IVHM) centre at the University of Cranfield. Thales is also a member of the Centre for Secure Information Technology (CSIT).

In Canada, the Group is already used to working with research networks and institutions such as CRIAQ (*Consortium de Recherche et Innovation en Aérospatiale au Québec*), the University of Toronto, McGill University, the *École Polytechnique de Montréal*, CADSI (Canadian Association of Defence and Security Industries) and CUTA (Canadian Urban Transport Association).

In Australia, Thales has forged strong relationships with the universities of New South Wales and Sydney in particular.

Focus 2: in November 2012, Thales opened its fifth "Thales Research & Technology" centre in Canada

Thales is intensely involved in research in Canada in the three segments of Defence & Security, Urban Transport and Avionics.

In order to take advantage of the Group's solid establishment in North America, it was logical to extend the network of corporate laboratories in this region of the world. Thales therefore decided to open its fifth Research & Technology centre in the pioneering city of Quebec, at the heart of a vast ecosystem of technological innovation.

Thales in Canada is a leading player in the local scientific community through collaborative and precompetitive research projects, projects demonstrating technologies that are components of sustainable development, and research projects in each of the Group's domains.

For example, the projects in progress mainly concern: (i) optimisation of information sources with the DRDC (Defence Research and Development Canada) to facilitate the sharing of understanding of a complex situation and (ii) the use of hybrid data networks with the University of Toronto to improve traffic management for urban transport.

Training is also part of this global strategy of relations between the Group and the academic world, via PhDs and the Group's support for university chairs.

The Group supports around 220 PhD students worldwide. They work on subjects directly connected with a technical issue facing Thales, which thus reinforces the appeal for young scientists.

In 2003, with the *École Polytechnique*, Thales created a chair in complex systems engineering. The exceptional success of this chair

led to its extension to ENSTA ParisTech, Telecom ParisTech, DGA, DCNS and Dassault Aviation in 2011. In 2010, with Supélec, the French graduate school for electrical engineering, the Group launched a chair in analog electronics to inspire young engineers in this subject. In the domain of innovation and the capacity to transform knowledge into real advances on the market, Thales supports the "Theory and Methods of Innovative Design" chair at Mines ParisTech. In 2012, a new chair was inaugurated in cybersecurity with the French military academy of *Écoles de Saint-Cyr Coëtquidan*.

Focus 3: intense laser for particle physics

Using ultrashort pulse laser technology, lasers can generate power exceeding a PetaWatt (10^{15} Watts). Coupled with particle accelerators, these powers complement or are even an alternative to big scientific instruments for particle physics.

Thales has nearly 30 years of expertise in the domain of scientific lasers. Using its complex systems design experience, Thales designed, produced and delivered a world-first PetaWatt laser to the US Department of Energy at its research site in Berkeley, California.

Drawing on cooperation with French public research, Thales designed the "turnkey" BELLA laser system, fully qualified at its Elancourt site then installed in California. This laser, covering an area of 450 m², achieved the record performance of 1.3 PetaWatts at the rate of one pulse per second. This world first was recorded in July 2012 and acclaimed by the entire intense lasers community.

The first use of ultra-intense lasers is to create increasingly powerful particle accelerators which are pushing back the limits of matter analysis. Defence, meteorology, cancer treatment with proton-therapy and processing of nuclear waste are some of the many fields of operation for intense laser technology, which has multiplied in power by a factor of 50 in ten years.



2 BUSINESS REVIEW

Relations between Thales and its subsidiaries

2.2.4 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 2012), 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. This effort was recognised in December 2012 at the Thomson Reuters

2012 Top 100 Global Innovators awards, where Thales was named one of the world's 100 most innovative companies, emphasising the Group's commitment to innovation, the protection of ideas and the marketing of inventions.

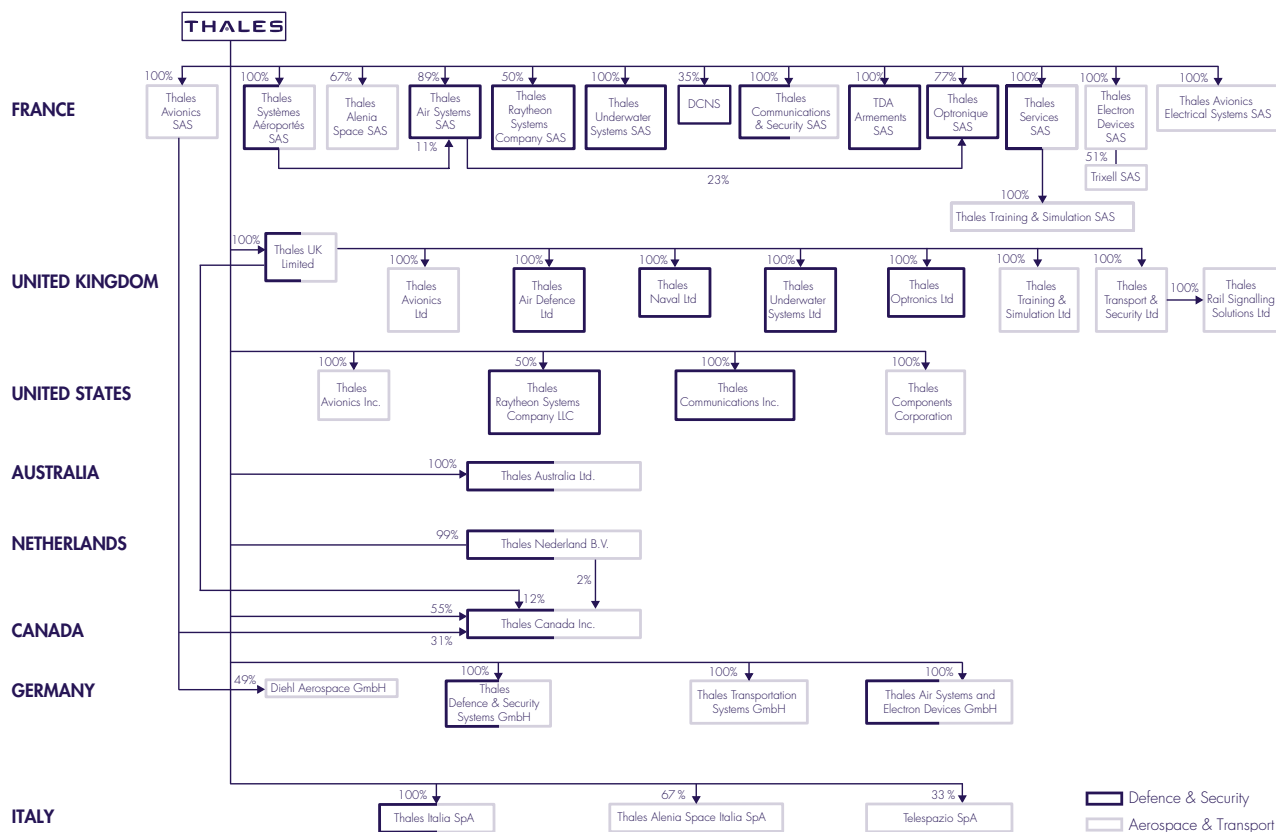
The Thales portfolio included more than 13,000 patents and patent applications at the end of 2012 and is regularly adapted as operational requirements evolve, particularly to protect Thales's market share.

2.3 Relations between Thales and its subsidiaries

2.3.1 SIMPLIFIED ORGANISATIONAL CHART OF THALES AT 31 DECEMBER 2012

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

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 135 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, conducting operations 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 BUSINESS REVIEW

Information about major operational subsidiaries and manufacturing sites

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 Note 30 of the consolidated financial statements.

2.4.1.1 FULLY CONSOLIDATED COMPANIES

Company Name	Registered office/city	Nationality	% of capital held by Thales	% of voting rights held
Thales Security Solutions & Services Company	Riyadh	Saudi Arabia	100%	100%
Thales Australia Ltd	Potts Point	Australia	100%	100%
TDA Armements SAS	La Ferté Saint-Aubin	France	100%	100%
Thales Air Systems SAS	Rungis	France	100%	100%
Thales Air Systems & Electron Devices GmbH	Stuttgart-Münchingen	Germany	100%	100%
Thales Austria GmbH	Vienna	Austria	100%	100%
Thales Avionics SAS	Neuilly-sur-Seine	France	100%	100%
Thales Avionics Inc	Irvine	United States	100%	100%
Thales Avionics Ltd	Weybridge	United Kingdom	100%	100%
Thales Avionics Electrical Systems SAS	Chatou	France	100%	100%
Thales Canada Inc ^(a)	Saint-Laurent	Canada	100%	100%
Thales Communications & Security SAS	Gennevilliers	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 SAS	Vélizy-Villacoublay	France	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 Norway A.S.	Oslo	Norway	100%	100%
Thales Optronique SAS	Élancourt	France	100%	100%
Thales Optronics Ltd	Glasgow	United Kingdom	100%	100%
Thales Transportation Systems GmbH	Stuttgart	Germany	100%	100%
Thales Rail Signalling Solutions Ltd	Addlestone	United Kingdom	100%	100%
Thales Services SAS	Vélizy-Villacoublay	France	100%	100%
Thales Solutions Asia Pte Ltd	Singapore	Singapore	100%	100%
Thales Systèmes Aéroportés SAS	Élancourt	France	100%	100%
Thales Transport & Security Ltd	Weybridge	United Kingdom	100%	100%
Thales Espana Grp SA	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%

(a) On 1 January 2012, Thales Rail Signalling Solutions Inc merged with Thales Canada Inc.

2.4.1.2 COMPANIES CONSOLIDATED UNDER THE PROPORTIONATE METHOD

Company Name	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	Paris	France	35%	35%
Diehl Aerospace GmbH	Überlingen	Germany	49%	49%
Junghans Microtec GmbH	Dunningen-Seedorf	Germany	45%	45%
Samsung Thales Co. Ltd	Gumi-City	South Korea	50%	50%
Sofradir SAS	Chatenay-Malabry	France	50%	50%
Thales Alenia Space SAS	Cannes-La-Bocca	France	67%	67%
Thales Alenia Space Italia SpA	Rome	Italy	67%	67%
Telespazio SpA	Rome	Italy	33%	33%
Thales-Raytheon Systems Company LLC	Fullerton	United States	50%	50%
Thales-Raytheon Systems Company SAS	Massy	France	50%	50%
Trixell SAS	Moirans	France	50%	51%

2.4.1.3 EQUITY-ACCOUNTED COMPANIES

Company Name	Registered office/city	Nationality	% of capital held by Thales	% of voting rights held
Aviation Communications & Surveillance Systems	Wilmington	United States	30%	30%
Air Tanker Holdings Ltd	Weybridge	United Kingdom	13%	13%
Electronica SpA	Rome	Italy	33%	33%
ESG Elektroniksystem & Logistik GmbH	Fürstfeldbruck	Germany	30%	30%

2.4.2 MAJOR MANUFACTURING SITES

At 31 December 2012, 12 sites with over 1,000 employees accounted for more than 41% of the global workforce under Thales management⁽¹⁾.

At 31 December 2012	Headcount	Owned	Size (m ²)
In France			
Bordeaux (South-west)	2,110	Leased (Le Haillan), and Owned (Pessac)	59,000
Brest (Brittany)	1,441	Leased	55,055
Cannes (Provence)	1,965	Owned-Leased	86,000
Gennevilliers (Île-de-France)	3,481	Leased	86,920
Élancourt (Île-de-France)	2,819	Leased	104,980
Massy (Île-de-France)	1,081	Leased	31,000
Meudon-la-Forêt/Vélizy (Île-de-France)	4,497	Leased	124,000
Rungis (Île-de-France)	1,195	Leased	31,200
Toulouse (South-west)	3,776	Owned-Leased	52,855
In the United Kingdom			
Crawley	1,795	Leased	34,000
In Australia			
Sydney	1,135	Leased	60,000
In the Netherlands			
Hengelo	1,387	Owned	100,000

(1) See definition on page 223.



2.5 Operating segments and Geographic Areas

In 2012, the Group's organisational structure was **a two-dimensional matrix: by Division and by Geographic Area⁽¹⁾**.

The Divisions were 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 were split into two operating segments:

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

Thales also holds a 35% stake in **DCNS**, proportionally consolidated from 31 December 2011.

The **Geographic Areas** were responsible for implementing these global strategies and policies in accordance with the Group's short-term earnings targets, for managing the relationship with local customers and were responsible for orders, sales and business performance. The countries were grouped in three areas:

- **Area A:** United States, Canada, United Kingdom, Netherlands, Norway, South Korea, Australia, Central and Northern Europe and North Asia;
- **Area B:** Germany, Austria, Switzerland, Italy, Spain, Singapore, Latin America, Southern Europe, the Middle East & Africa, Western Asia and South Asia;
- **France.**

2.5.1 DEFENCE & SECURITY SEGMENT

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 and communication systems, 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 radar 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 control 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 domain, Thales and Raytheon each own 50% of Thales Raytheon Systems (TRS), a leading international air defence company. Since its creation in 2001, TRS has sold air defence radar and command and control centres for military airspace throughout the world, ensuring the security and protection of forces and resources deployed in over 60 countries. TRS provides support and maintenance for the solutions it delivers.

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

⁽¹⁾ From 1 April 2013, the Group instituted a new matrix structure:

- Six Global Business Units grouped into 3 segments: Defence & Security (Information Systems and Secure Communications, Land and Air Systems, Defence Mission Systems), Aerospace (Avionics, Space) and Transportation (Ground Transport Systems);
- An international organisation broken down into the main countries in which the the most significant Group's entities are based (Germany, Australia & New Zealand, Canada, United States, France, Netherlands and UK), other European countries and international development.

Ground Master 60, 200 and 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 40% of the world's airspace controlled by TopSky-ATC, Thales is at the forefront of air traffic control systems and civilian radars. Thales is positioned on new non-radar technologies, giving an alternative approach to the surveillance world.

Other major players in the civil sector are the US groups Lockheed Martin and Raytheon, European companies Finmeccanica (Selex) and Indra, and in some niche areas Saab, Sensis, Frequentis and ITT Exelis.

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 2012

Thales shared with its clients its new product strategy along with a rejuvenation of the brand for ATM solutions with the launch of TopSky-ATM solutions.

2.5.1.2 LAND DEFENCE

2.5.1.2.1 General overview

Thales designs, develops, manufactures, integrates and provides support for interoperable solutions for surveillance, mobility, protection, target acquisition and engagement of land forces, including missile and armaments 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 specialises in multirole weapon systems based on the new lightweight multirole missile (LMM). It is one of the major European suppliers of active, semi-active and passive seekers and of security weapons units and proximity flares. Thales is also a major player in the munitions sector: ammunition rocket mortar systems, metric precision munitions, vehicle close protection systems, soldier systems and battlefield protection systems.

In optronics, Thales designs and manufactures components and systems for day and night surveillance, reconnaissance, protection and target acquisition on all types of land, sea (surface and subsurface) or air platforms for defence and security customers worldwide. Thales's expertise in optics is also applicable to the commercial fields of zoom lenses for film-making and lasers for scientific research.

Thales enhanced its capacity for innovation in air traffic control with the creation of a second laboratory called 'SkyCentre' which supplements the existing innovation centre in Australia. These laboratories enable experiments to be carried out and new concepts to be developed, and they allow Thales's clients to be involved in these developments.

As a major player in the SESAR programme, Thales had an active role in the first "initial 4Dimension" Airbus flight between Toulouse and Stockholm. This significant step enabled new operational concepts to be validated that will fluidify airport arrivals and departures.

In the Afghan theatre of operation, following positive feedback on the first Ground Alerter 10 (GA10) delivered, the deployment of more GA10 systems is continuing as planned.

As a leading player in Europe in ground radar, Thales is successfully developing and integrating its Ground Master 200 and Ground Smarter 100. The Ground Master 400 (GM400) is now operational in Slovenia. Factory acceptances for the first GM400 radars destined for Germany and Finland have taken place.

Thales is continuing to work on the manufacture of over 30 air surveillance radar systems ordered since 2009 and has already delivered GM400 systems to Finland, Estonia and French Guyana.

Thales designs, manufactures and supports 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. The 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.

Thales also offers extended services, including strategic support services, logistic information systems and training solutions, as well as integrated logistic support for its own and other manufacturers' products.

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 weapon 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 weapon systems.

Thales is Europe's foremost optronics supplier facing competition in this segment from US suppliers (Raytheon and Flir Systems). In 2012, with Safran, the other major European player in the domain, Thales created a 50:50 joint venture commercial company called



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Optrolead, which will market future optronics systems, especially to armies. The creation of Optrolead was also an opportunity to strengthen the cooperation between the two groups in their joint subsidiary Sofradir, a French company specialising in infrared detectors, the technology at the heart of optronics systems, taking the participation of Thales and Safran to 50% each.

Thales's optronics equipment and capabilities continue to be heavily integrated onto equipment and systems for soldiers (e.g. in France, the 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, with Thales operating in Europe as an independent integrator of both its own and other suppliers' equipment within complex mission systems, e.g. on UK armoured vehicle programmes such as Talisman, Foxhound and Warthog.

2.5.1.2.3 Significant events in 2012

In terms of advanced weapon systems 2012 saw the successful launch of the Thales Advanced Air Defence package of equipment, systems and services designed to satisfy the most complex air defence requirements. SAMP-T entered service in France and STARStreak was successfully deployed by the British Army at London 2012 Olympics. Contracts were signed with the Royal Thai Army for STARStreak and with UK MoD for the RAPIDRanger Technology Demonstrator Programme. Development of the Lightweight Multirole Missile (LWM) continued with the first firing of the SAL variant of the missile.

In 2012, the optronics domain saw significant investment in R&D with the enlargement of its range of night-vision goggles and thermal cameras for foot soldiers, vehicle protection and surveillance. Successes on the export market strengthened the positions of new-generation thermal cameras for viewfinders on combat vehicles and for surveillance at borders and sensitive sites. The first tranche of the new-generation laser targeting pod (PDL-NG) was announced at the end of 2012; this new capacity should be put into service by the French Air Force in 2018. In the field of lasers, the University of Berkeley established a new world record for power at its new fundamental research facility using the Thales laser system that was delivered in July.

For protected vehicle systems, following the Hawkei down-selection for further development by the Australian Department of Defence at the end of 2011, Thales has progressed work on the vehicle and began delivering more capable prototypes to the Department of Defence in late 2012. In the UK, the entry into service of the UK MoD's new Foxhound Light Protected Patrol Vehicle with its Thales-supplied Electrical and Electronic Architecture is the first implementation of an Ethernet based Generic Vehicle Architecture (GVA) in a British military vehicle.

In terms of soldier systems, all elements of the Future Integrated Soldier Technology (FIST) Surveillance and Target Acquisition (STA) system have been accepted into the UK inventory, as well as a location tracking system for dismounted soldiers, whilst Thales launched its F90 assault weapon – an innovative and lightweight weapon. A variant of the F90 is being developed as the EF88 for the Australian Department of Defence's rifle upgrade program.

In ordnance, Thales launched Australian Munitions – a business dedicated to providing a wide range of munitions to Australia's warfighters.

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 radars, 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 and European FREMM multimission frigates) and in many 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 2012

- **Electronic Combat Systems.** Following the delivery of the first series-produced RBE2 radar with active electronically scanned array (AESA) in 2012, Rafale is the only operational European aircraft to have this leading technology, procuring numerous 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 jamming. The Indian government has also selected Rafale as its “preferred solution” for the purchase of 126 combat aircraft. Negotiations are under way between the Rafale EIG and the Indian Ministry of Defence with a view to signing a contract in due course.

- **Airborne Surveillance and Intelligence Systems.** Under the Meltem programme for the Turkish Navy, Thales has finalised the delivery of the initial maritime patrol standard, with four aircraft entering service in 2012. In addition, the UAE has signed final acceptance of the first MPA (Maritime Patrol Aircraft) for the armed forces.
- **Abovewater and Underwater Systems.** The FREMM multimission frigate programme continued in 2012 with the delivery and sea trials of the Thales equipment on the first four frigates, along with the Queen Elizabeth class aircraft carrier programme in the United Kingdom. Sea trials for the fourth Venezuelan patrol vessel and the third Sigma frigate for Morocco have been successfully conducted. Modernisation programmes in Indonesia and Colombia continued in 2012, with the fourth and third ship respectively. An agreement with the UK Ministry of Defence to market Thales’ naval countermeasure system, already in service in the British Navy, led to the launch of the Vigile DPX, with extended frequency range.

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 businesses offer interoperable and secure information and communications systems for military and security forces. In these activities, the Group is present throughout the value chain, from equipment to systems and systems of systems, support and services.

These businesses represent five major segments:

- **Radio Communication 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. The armed forces of more than 50 countries around the world are equipped with Thales solutions. The Group is one of the major players in the development of high performance, secure software radio solutions, and for interoperability relies on the work of ESSOR (European Secure Software defined Radio), in conjunction with a European Defence Agency programme launched by Finland, France, Italy, Poland, Spain and Sweden;
- **Network and Infrastructure Systems.** Ensuring the security, integrity and resilience of deployable or mobile infrastructure networks are major challenges for a country’s security and defence. 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. In France, the Group manages the construction and deployment phases, through to operation, of the information, communication and security systems of the new Ministry of Defence site;

- **Information Technology Security.** Thales is a trusted partner capable of providing secure telecommunications, solutions for cybercrime detection, analysis and response, and guaranteeing 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.
Today a number of banks and trading websites use Thales solutions to secure their banking transactions.
Thales also runs an operational centre offering 24-hour supervision of information systems for major corporations.
- **Protection Systems.** Thales has developed C4I systems, national security systems (identity management and border surveillance, etc.), and security solutions for cities (urban security) and critical infrastructure (protection for airports, sensitive sites and power-generating sites). These solutions facilitate rapid decision-making by offering users relevant, clear and immediate information about their environment. For example, Thales has developed the

(1) Identification Friend or Foe.

(2) International Security Assistance Force (ISAF). ISAF is the military component of the NATO-led coalition that has been operating in Afghanistan under UN mandate since 2001.



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largest urban security system for Mexico City (more than 8,000 cameras);

- **Critical Information Systems.** For the most demanding users, Thales designs, develops, integrates and provides high added value services based around critical information systems. Thanks to its 15 IT service centres and five highly secure data centres, Thales has the capacity to guarantee very high service levels, working very closely with clients whether they are public organisations (such as governments and public authorities) or major companies (industry, transport, aerospace, space, finance, etc.). The solutions offered enable it to respond fully to broad range of requirements, such as availability-based IT services for critical infrastructure, development of high-performance, high-integrity software, resilient network maintenance and development, and permanent security management.

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 Europe, Rohde & Schwarz has a strong presence in naval communications and electronic warfare.

In protection systems, Thales' competitors are mainly in the aerospace/defence sector (Boeing, Northrop Grumman, Honeywell, EADS, etc.) or information systems (IBM, Siemens, etc.) The latter are also competitors in critical information systems.

In information systems security, Thales is in competition with companies such as RSA and Safenet in the civil sector and EADS, Rohde & Schwarz and Secunet in defence.

2.5.1.4.3 Significant events in 2012

In France, in the domain of tactical radiocommunications, the signing of the CONTACT contract marks a major stage for Thales towards new-generation software-defined radios. The rollout of the CONTACT programme, launched in 2012, will provide a family of radios intended to equip the majority of tactical platforms, replacing existing radio sets, with performances meeting the needs of modern combat (higher data rates and greater protection). This provides some long-term visibility for the tactical radio business, with the first deliveries expected in 2018 enabling the progressive equipping of two joint brigades by 2021.

In software-defined radio, Thales is a major player in the SVFuA programme in Germany.

In Switzerland, Thales has developed and tested high-performance radio links, operating in the V band frequency. Over 200 radio links equipped with high-speed modems are now in service.

In aeronautical communications, Thales is continuing to extend its offer with a new airborne high-speed Satcom terminal selected by a client in the Middle East. In addition, Thales's new high-speed terminal, intended to facilitate interoperability between NATO's airborne surveillance systems, successfully passed JITC (Joint Interoperability Test Command) certification tests to standard 7085. The combination of these two new products will provide innovative solutions for the growing sector of UAV communications.

In security, Thales has successfully completed the first phase of the NGD (Next Generation Desktop) programme for the Ministry of Defence in Australia, which will enable end users to operate in a multilevel security environment using a latest-technology desktop computer.

For the French Interior Ministry, Thales has continued to commission BioNET stations in Europe (UK), North Africa (Algeria and Tunisia) and the Middle East (Saudi Arabia and Kuwait). These deliveries represent the first step towards the widespread use of this BioNET system which enables the capture of biometric data for persons applying for Schengen visas.

In 2012, Thales exceeded the milestone of 10,000 TEOREM telephones manufactured for highly secure personal communications use by the French government. In addition, last year the Group launched TEOPAD, its innovative security solution that is compatible with Android smartphones and tablets in the business environment. TEOPAD offers the possibility of creating a secure space to hold and use corporate applications.

Thales has made several important announcements in encryption systems with the launch of additional key products for the payShield range and integration of nShield material security modules in Microsoft Windows solutions: SQL Database (protection of encryption keys) and Active Directory (protection of user certificates). Thales also obtained level 2 FIPS 140-2 certification for KeyAuthority and National Institute of Information Technology certification in Brazil for nShield hardware.

Capitalising on its expertise in information systems security, Thales created the company Cloudwatt in September 2012 with Orange Participations and the Caisse des Dépôts et des Consignations (the French public sector financial institution). Cloudwatt is intended to provide companies and public authorities with a competitive infrastructure for cloud computing. Thales supplies Cloudwatt with its solutions, expertise and services in the areas of security, trust and privacy.

2.5.2 AEROSPACE & TRANSPORT SEGMENT

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 and urban and mainline network signalling;

- in air transport, where Thales is the leading supplier of avionics and cabin systems for the major manufacturers and is developing flight simulators for military fixed-wing and civil and military 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 segment, with a primarily non-governmental customer base, brings together Thales's expertise in these various domains.

2.5.2.1 SPACE

2.5.2.1.1 General overview

Thales's activities in the space domain are conducted through Thales Alenia Space, a company jointly owned by Thales (67%) and Finmeccanica (33%), supplying satellite solutions and orbital infrastructures. Present in France, Italy, Spain, Belgium, Germany and the United States, the company is a global market leader in telecommunications, navigation, space exploration and Earth observation.

In telecommunications, Thales Alenia Space is present in the commercial market with its offer of Spacebus geostationary satellites but also by supplying payloads for other major contractors in the sector, as well as equipment. The company is also the leader on the low-orbit civilian constellation market (*Globalstar*, Iridium NEXT and 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) and military observation systems (Helios, Pleiades, CSO – rest of Helios, SAR-LUPE) as well as dual civilian and military systems (Cosmo-Skymed, Athena-Fidus and Yahsat). The company is at the heart of Franco-Italian cooperation with the Sicral and Athena Fidus programmes.

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 prime contractor for weather satellite programmes in Europe (three generations of Meteosat satellites) and for environmental missions in the context of GMES (Sentinel programmes) or space altimetry. This altimetric product line is now a leader for exports to China, Russia and the United States (SADKO, SWIM and GFO-RA).

For scientific missions, the company has developed Proteus, a multimission platform (class 500-700 kg), which has proved itself in the SMOS, Jason Corot and Calipso missions. It was also prime contractor for the Herschel-Planck mission for the ESA (the European

Space Agency) and runs the Exomars programme. On the ground, it deploys radioastronomy antennae on the Atacama Plateau in Chile under the ALMA programme for the European Southern Observatory.

With such expertise, the company is currently working on complex issues for the measurement of greenhouse gas emissions by developing atmospheric probe technologies derived from the IASI instrument (created for Eumetsat for its low-orbit meteorology programme).

Thales Alenia Space is also at the origin of satellite navigation in Europe as prime contractor for Egnos, the precursor to Galileo, and has a major role in its development with Galileo system support, participation in the In-Orbit Validation (IOV) phase, which consists of manufacturing the first four satellites of the constellation, and especially in the deployment of the ground-based mission segment (GMS – Galileo Mission 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 and PMM) and heavily involved in the ATV (Automated Transfer Vehicle) for the ESA and Cygnus for NASA, which will supply the ISS in the coming years. In addition, the company is developing the IXV atmospheric re-entry demonstrator for the ESA.

Thales Alenia Space also contributes to the European policy on access to space through the provision of the on-board electronics for the Ariane rocket and the on-board backup system for Soyuz in Guyana.

2.5.2.1.2 Competitive position

The satellite market is a highly competitive arena. In the commercial satellite segment, the main competitors of Thales Alenia Space are MDA (Loral), EADS (Astrium), Orbital Sciences Corporation, Boeing and Lockheed Martin. Other international suppliers – in Russia, China, India etc. – are now entering the commercial market with competitive solutions for small (entry-level) geostationary satellites.

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



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2.5.2.1.3 Significant events in 2012

In the satellite telecommunications segment, the Yahsat 1B satellite, constructed by Thales Alenia Space on a co-contracting basis, was successfully launched in April 2012. 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. The Yahsat 1A satellite was launched in 2011.

In constellations, the last two Galileo-IOV satellites, integrated by Thales Alenia Space, were launched with a Soyuz rocket from Guyana in October.

In space transport, Thales Alenia Space delivered the fourth ATV (Automated Transfer Vehicle) freight module for the European Space Agency. The third ATV was successfully launched in March 2012. The company is responsible for the pressurised modules for all five ATV, illustrating Europe's pivotal role in the operation of the International Space Station.

In meteorology, the MSG3 (the third Second Generation Meteosat) satellite was successfully launched in July 2012 while the METOP-B (polar orbiting satellite) entered its orbit in September with, on board, the IASI instrument (Infrared Atmospheric Sounding Interferometer) constructed by Thales Alenia Space. The company has been the prime contractor for European meteorological satellites for over 30 years and has developed globally acclaimed excellence in climatology instruments.

In telecommunications, the 21B satellite for the European operator Eutelsat was successfully launched in November 2012 and Thales Alenia Space successfully recovered the Yamal 402 satellite which the launcher had ejected into a wrong transfer orbit. The satellite is now operational for the Russian client Gazprom Space.

In the field of science, cooperation between the ESA (the European Space Agency) and Roscosmos (the Russian Federation Space Agency) on the Exomars exploration of Mars, for which Thales Alenia Space is the prime contractor, was fully adopted by the representatives of the member states of the ESA on 19 November 2012, ensuring the continuation of the programme.

2.5.2.2 AVIONICS

2.5.2.2.1 General overview

Thales manufactures flight avionics systems, passenger cabin equipment and systems, and flight simulators for helicopters and all types of 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⁽¹⁾, and cabin lighting and service systems through Diehl Aerospace.

In simulation and training, Thales provides flight simulators for several European defence programmes and provides training for pilots, particularly for helicopters, via the Helisim joint venture.

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

As one of the leading players on the avionics market, Thales is the supplier for the civilian and military aircraft manufacturers AgustaWestland, Airbus, Airbus Military, ATR, Bell, Boeing, Bombardier, Dassault Aviation, Embraer, Eurocopter, Gulfstream, NHIndustries, Sikorsky 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.

There are numerous competitors on the simulation solutions market, particularly from US defence companies such as Lockheed Martin, Raytheon and L3Com.

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

2.5.2.2.3 Significant events in 2012

In 2012, several certifications were received, notably from the European Air Safety Agency (EASA), for Sukhoi's SSJ100, for the ATR 72-600 with a modified cockpit – the addition of operational functions for the pilot such as automatic management of procedures related to alerts and airport navigation – and for the ATR 42-600. These aircraft all have avionics suites designed by Thales, as does Sikorsky's S-76D helicopter, which obtained certification from the FAA (Federal Aviation Authority). The FAA also issued type certification for the Gulfstream G650 twin-engine business jet to which Thales contributes by supplying the computer for the three-axis business aircraft's fly-by-wire flight control system.

⁽¹⁾ Thales's stake in Diehl Aircabin (49%) was sold to the Diehl group on 20 December 2012.

In the Airbus A350 XWB programme, the various Thales systems performed as expected by the aircraft manufacturer on powering up the first prototype. This powering up of the cockpit will enable checks to be carried out on most of the systems ahead of the first test flights.

The UK Ministry of Defence has approved the commissioning of Chinook helicopters that have been modernised under Project Julius. Thales supplies the TopDeck suite CDS (Cockpit Display System) and Mission Avionics System (MAS). Also in the UK, the inaugural flight of Voyager 1, the first A330-200 modified for the programme of multirole air tankers for the Royal Air Force (RAF) marked the start of the FSTA (Future Strategic Tanker Aircraft) service in 2012.

In cabin multimedia, Thales launched its TopSeries AVA wireless "streaming" offer. In China, a joint venture was created with China Electronics Technology Avionics Co. Ltd. to provide integration for TopSeries cabin multimedia systems on board the future C919 for COMAC⁽¹⁾. At London's Heathrow Airport, Thales inaugurated

new "local" premises for the maintenance and repair of multimedia systems operated by British Airways, among other airlines.

Thales delivered six helicopter simulators in France, Switzerland, Australia, and Singapore, including the first three simulators for the latest-generation "Reality H" range.

The ODICIS (One Display for a Cockpit Interactive Solution) cockpit demonstrator which delivers a display system concept on a single tactile screen was awarded the "Janus de la prospective" prize from the French Design Institute. Its configuration, which can be adapted to civil and military aircraft and helicopters, offers much greater freedom to operate the display area and benefit from a completely tactile surface. ODICIS has also developed to integrate new functionalities in line with the demands of the SESAR⁽²⁾/NextGen⁽³⁾ and *Clean Sky*⁽⁴⁾ programmes. Thales is among the leading players in the *Clean Sky* programme, the latest phase of which, *Clean Sky 2*, became official in 2012.

2.5.2.3 TRANSPORTATION SYSTEMS

2.5.2.3.1 General overview

Thales provides operators and transport infrastructure managers with systems and services to operate their investments to best effect by optimising their operational performance, offering the best services to passengers, and managing the growing complexity of transport systems. Thales solutions help increase the capacity of transport infrastructures and promote optimal safety in the transport of people and goods, rapidly and cost effectively.

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 monitoring and communications, Thales leverages its expertise in critical information systems to offer transport network operators integrated solutions. They can thus monitor and effectively control critical operations (from traffic to power and communications management) and implement efficient solutions to satisfy passengers by offering a higher quality of service while helping to improve both network and personal safety.

Thales is also an international player in passenger payment collection solutions, particularly for public transport operators, as well as in the Intelligent Transport Systems segment (tolls and 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. Through its positioning, Thales is differentiated from its "generalist" competitors, who offer a range dominated by rolling stock, as well as from specialist single-domain players. Its key capacities make Thales a recognised leading player with strong positions in these markets.

The competitive landscape varies significantly depending on the ground transport market segment targeted by Thales. In signalling, Thales main competitors are Siemens, Alstom, Ansaldo STS, Bombardier, GE Transportation and Invensys Rail. 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 Cubic, Parkeon, Xerox and Vix.

2.5.2.3.3 Significant events in 2012

In 2012, Thales delivered major projects such as the new Kadıköy-Kartal metro line in Istanbul. Equipped with SelTrac CBTC signalling systems and integrated communication and supervision, this line transports 700,000 passengers a day.

(1) Commercial Aircraft Corporation of China.

(2) SESAR (Single European Sky ATM Research): programme intended to provide Europe with high performance air traffic control systems in order to modernise the current systems within the Single European Sky (SES) project.

(3) The NextGen project is the US equivalent of SESAR in Europe.

(4) A European cooperation partnership between the public sector and the private sector, the goal of which is to develop a set of technologies necessary for "an air system that is clean, innovative and competitive".



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In China, the extension of the Shanghai metro line 9 with three new stations came into operation; it uses Thales's SelTrac® CBTC system.

In England, during the Olympic Games in London, the SelTrac CBTC signalling systems proved their reliability and capacity to manage exceptional peak flows. The lines serving the Olympic sites, such as the Jubilee Line (traffic +30%) and the DLR (traffic +100%), functioned perfectly to the satisfaction of passengers and London's public authorities.

In South Korea, Thales equipped two train lines with ETCS technology: the Gyeongchun line north-east of Seoul and the Jeolla line in the south of the country. This modernisation took peak speed to 200 km/h instead of 80 km/h previously, as well as increasing the frequency of the trains. Both projects were completed in very short periods of time, respectively 18 and 7 months.

In New Zealand, Thales delivered a new multimodal and multioperator ticketing system for the rail network and ferries of the city of Auckland.

In Madrid, Spain, a new tunnel connecting the city's two main railway stations, Atocha and Chamartín, is now in service. This suburban line controlled by Thales's ETCS level 1 system offers optimal functional safety and more frequent train services. It is the first application in Europe of the ERTMS standard on a very dense suburban network.

In Austria, OBB has brought the Vienna/Saint Poltern high-speed section into service. Trains equipped with the Altrac ETCS level 2 solution now travel at 250 km/h and provide better service to passengers and greater freight capacity.

In France, the centralised control centres for lines 12 and 5 of the Paris metro network came into service. These centralised control centres consolidate, in real time, all the operating and safety data and adjust the frequency and spacing of the metro trains on these lines.

In Europe, Thales delivered or modernised electronic interlocking systems, notably in Switzerland for SBB, in Germany for Deutsche Bahn, in Austria for OBB, in Spain for ADIF, in Turkey for TCDD, in Poland for PKP-PLK and in France for RFF.

In ticketing, Thales launched the "Gate of the future" which represents the very latest in access gates. Compact in size and with a small footprint, the new gate incorporates the latest technologies such as a 3D camera which accurately monitors the flow of passengers and also helps limit fare-dodging while speeding up the flow of travellers. Another innovation is in the new metro gates and bus ticket validators that are equipped with an OR 500 reader which contactlessly reads the main transport tickets and accepts bank cards. The OR 500 is amongst the most reliable readers on the market and guarantees a high level of protection of data exchange and the hardware within the system.

2.5.3 DCNS

Thales has a minority stake in DCNS. This stake is proportionally consolidated at 35% since 31 December 2011, following the acquisition of an additional 10% that entitles Thales to participate

jointly with the French government in the company's governance. Further information about the DCNS group can be found on the website www.dcnsgroup.com.

2.5.3.1 GENERAL OVERVIEW

Among the world leaders in naval defence and an innovative player in energy, DCNS designs, manufactures and maintains the service condition of submarines and surface ships as well as their associated systems and infrastructures. The company provides services for naval shipyards and bases. DCNS also offers a broad range of solutions in civilian nuclear energy and marine renewable energy.

To meet the specific needs of clients and prospects, DCNS offers:

- abovewater systems such as FREMM multimission frigates, anti-air Horizon frigates, the Gowind® range of offshore patrol vessels (OPV), projection and command ships, not to mention future mine warfare systems or UUVs (unmanned underwater vehicles);
- submarines such as nuclear-powered ballistic missile submarines (SSBN) of the Triumphant type, Barracuda nuclear attack submarines (SSN), or the Scorpène® and Andrastra® conventional attack submarines (SSKS);

- services including maintenance with availability guarantee, warship modernisation and support;
- submarine weapons such as MU90 lightweight torpedoes, F21 heavyweight torpedoes and contralto anti-torpedo protection systems;
- simulators for training marine crews;
- services for the design, manufacture and maintenance of equipment for civilian nuclear plants;
- innovative solutions in marine renewable energy such as floating wind farms, tidal turbines, ocean thermal energy conversion plants and wave energy converters.

2.5.3.2 COMPETITIVE POSITION

DCNS is positioned in three markets:

- **naval defence** (new construction and services). DCNS has a range of high-performance products and a bespoke service offer to meet the new defence and security needs expressed by navies around the world. On this global market, the main competitors are TKMS, Navantia, Fincantieri, and for services Babcock;
- **civil nuclear**. In this rapidly growing market, DCNS is positioned as a prime contractor for sub-assemblies, as an equipment supplier and as a service provider.
- **marine renewable energy**. DCNS aims to play a significant role on this emerging and promising market by investing in research and development and in the production of demonstrators and prototypes. DCNS has created an incubator in Brest to develop its business in this domain.

2.5.3.3 SIGNIFICANT EVENTS IN 2012

In **Abovewater Systems**, DCNS, in conjunction with STX France, delivered the Dixmude projection and command ship (BPC) to the French defence procurement agency (DGA) three months early and commenced the construction of two BPCs for Russia. In frigates, DCNS delivered the FREMM Aquitaine to the French Navy after successful trials (naval cruise missiles, torpedoes, helicopter landing grids etc.), and FREMM Normandie was launched. In patrol vessels, DCNS delivered the fourth and fifth Skjold patrol vessels to the Norwegian Navy and gained an order for the modernisation of a combat system, while the first operations of the offshore patrol vessel Gowind® L'Adroit were highly successful. DCNS, in collaboration with STX France, also won a contract for technical surveys and risk assessments for the future military vessels of the French Navy's logistics fleet. DCNS and the Piriou shipyard began exclusive negotiations to create a joint venture in the area of civilian standard ships for maritime action.

In **Submarines**, DCNS's industrial programmes in Brazil, France and India are progressing satisfactorily. Among the main milestones in the Barracuda nuclear attack submarines programme for the French navy, the first boiler room module has been delivered and successfully fitted on board in its compartment. The combat system integration platform has been commissioned, marking the move from the design phase of the combat system to the functional integration stage. In Brazil, DCNS provided its expertise for the definition of the naval base and infrastructures necessary for the construction and maintenance of four Scorpène® submarines under a technology transfer framework.

In India, Mazagon Dock Limited (MDL) is in the process of constructing six Scorpène® submarines under a technology transfer from DCNS. At the same time, DCNS India, the subsidiary of the DCNS Group in Mumbai, selects Indian partners with a view to local production of the Scorpène® equipment. The first Scorpène® submarine is due to be launched at the end of 2013 and commissioned in 2015. The last one is due to be commissioned in 2018.

In **Services**, DCNS is running the programme of long-term maintenance work and adaptation of ballistic missile submarines (SNLE) to M51 missiles. The SNLE Vigilant was moved from Brest to l'Île Longue where DCNS teams will complete the adaptation to the M51 missile. The total time for work on each submarine is estimated at around 30 months. New contracts were signed during 2012, including the maintenance contract for surveillance frigates based overseas in conjunction with STX France and the maintenance contracts for the French Navy's Horizon frigates. Also, DCNS was also selected by EDF for the construction of a power production plant at Saint-Pierre and Miquelon.

In **Marine Renewable Energies**, DCNS installed the first onshore prototype for ocean thermal energy conversion at Reunion Island. DCNS also announced the intention to take majority control of OpenHydro, a highly innovative Irish technology company.

In **civil nuclear** activities, DCNS is driving forward projects already underway, especially as project manager for EDF and development of engineering, supply and construction contracts on behalf of CEA at the Cadarache site (Jules Horowitz reactor).

2.5.4 AREA A ⁽¹⁾

(sales in €m)		United Kingdom	United States	Australia	Netherlands	Canada	Other	Total
2012	Sales by destination	1,570	1,150	698	189	250	968	4,824
	Sales by origin	1,645	994	766	332	276	311	4,324
	Consolidated headcount	7,096	2,249	3,185	1,906	1,250	1,561	17,247
2011	Sales by destination	1,492	1,050	643	193	219	1,001	4,598
	Sales by origin	1,627	870	716	402	272	316	4,203
	Consolidated headcount	7,569	2,228	3,144	2,007	1,287	1,519	17,754

(1) Excluding DCNS.



2 BUSINESS REVIEW

Operating segments and Geographic Areas

2.5.4.1 AUSTRALIA & NEW ZEALAND

Thales has around 3,300⁽¹⁾ employees in Australia and New Zealand, and is a trusted partner of the Australian Defence Force (ADF), government, and commercial sectors including aerospace and transport.

In 2012 the ADF ordered an additional 214 new Bushmaster protected vehicles, and down-selected the new Hawkei Light Protected Vehicle to replace up to 1,300 Land Rovers.

Thales launched its new F90 assault rifle, and in August established Australian Munitions, a business dedicated to providing a wide range of munitions to Australian warfighters.

In October, Thales launched a new integrated ticketing system in Auckland for train commuters. The system launched on Auckland ferries in late November 2012.

2.5.4.2 CANADA

Thales has around 1,300⁽¹⁾ employees in Canada serving the defence, security, aerospace and transportation sectors.

Success in domestic urban rail signaling included the Ottawa LRT project, while export wins included a second project in Brazil – Manaus Monorail, Singapore's NSEW Line, Kuala Lumpur's Ampang Line, and Hong Kong Airport's automated people mover.

In Defence, Thales won a contract for uncooled optronics technology to modernize the Canadian Army LAV III combat vehicles. Thales also renewed its contract as the Canadian Army's Command and Control provider through the renewal of the Land Command Software Support program.

Thales opened in November 2012 a new research & development centre at the Parc Technologique in Quebec City, its fifth in the world and the first in North America.

2.5.4.3 NETHERLANDS

Thales has a little over 1,900⁽¹⁾ highly skilled employees in the Netherlands serving the domestic and international defence market, with particularly strong capabilities in the exporting naval sector.

Thales developed a line of integrated sensor masts for military ships, and in 2012 the first of these 'I-Masts' was integrated and entered service with the first of the Royal Netherlands Navy's Holland offshore patrol vessels.

The Netherlands MOD granted a contract to Thales to upgrade the SMART-L surveillance radar on its four Air Defence Command Frigates to deliver an early warning capability in ballistic missile defence.

In July 2012 Thales and the Singapore shipyard ST Marine signed a contract for the delivery and installation of sensors and a combat management system that will be installed on the four Al-Ofouq class patrol vessels that are to be built for the Sultanate of Oman.

2.5.4.4 UNITED KINGDOM

Thales has close to 7,100⁽¹⁾ employees in the UK, working in aerospace, defence, security and transportation systems and serving governmental and commercial customers.

During the London 2012 Olympic and Paralympic Games, Thales's SelTrac signaling system helped transport record numbers of passengers on the London Underground's Jubilee Line and the Docklands Light Railway (DLR), while the STARStreak missile system from Thales was a cornerstone of the British Army's air security plan.

Thales Watchkeeper was a key pillar of the Anglo-French defence cooperation announced in 2012, as the French government confirmed its interest in working with the UK to develop the unmanned air system (UAS).

In July 2012 Thales won a contract to supply the Royal Air Force with a full-flight simulator (FFS) for the A400M transport aircraft. Three other A400M FFSs are to be delivered to French, German and Spanish training facilities.

In November, Thales signed a contract to supply the STARStreak system the Royal Thai Army.

In transport, Network Rail selected Thales to deliver a prototype traffic management system (TMS). The prototype will draw on Thales's global expertise in TMS, and is expected to be completed by the end of 2013.

⁽¹⁾ Employees under Group management, see page 223 et seq. on the Group's employment policy.

2.5.4.5 UNITED STATES

In the United States, Thales has 19 main locations in 13 states, and over 1,900⁽¹⁾ employees, including three joint ventures: 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.

The company's focus in the U.S. includes naval, land forces, commercial and military aviation, security, transportation and space domains.

After the agreement signed in December 2011, Thales finalized in April 2012 the acquisition of Tampa Microwave, a company specializing in tactical satellite communications (SATCOM) terminals and related products for government and commercial customers.

In November 2012, Thales announced that it has signed a definitive agreement to acquire the Helmet Mounted Display (HMD) and motion tracking businesses from Gentex Corporation.

Called "Visionix," the combined group designs, develops and delivers HMD, inertial tracking and sensor fusion technology for defence and aerospace applications, along with others that require precision motion tracking, to customers worldwide.

The Thales In-Flight Entertainment and Connectivity business in the US expanded its global presence with a new facility at London's Heathrow Airport and a new technical laboratory with Qatar Airways at the Qatar Science and Technology Park in Doha. It signed in 2012 contracts with China Southern Airlines, LAN Airlines, Malaysia Airlines, Air India and a major North American airline for new in-flight entertainment (IFE) systems.

The US Army awarded Thales the second Low Rate Initial Production contract for AN/ORC-154 Rifleman radios, part of the Joint Tactical Radio System Handheld, Manpack, and Small Form Fit program.

2.5.4.6 NORTHERN ASIA

In South Korea, Samsung Thales Co. Ltd (STC), the joint venture of Thales and Samsung group, has more than 1,700⁽¹⁾ employees working on defence systems for tactical communications, radar, electro-optics and fire control.

In 2012 Thales had continued success in Japan with in-flight entertainment (IFE) systems, including an additional contract with Japan Airlines (JAL), an established client.

In China, Thales currently employs over 470⁽¹⁾ people developing products or solutions such as air traffic control, radar, avionics,

transport security, e-banking and medical imaging. Thales's urban rail signalling offering is delivered in China through a joint venture with Shanghai Electric Corporation and Shanghai Automation Instrumentation Co, named Thales SAIC Transportation System Ltd. Thales SAIC Transportation System Ltd has been awarded in September a first signalling contract for the Nanjing airport rail link to supply its SelTrac CBTC signaling system. This follows on previous successes in the Chinese Urban Rail market, by signalling the Shanghai, Beijing, Wuhan, Guangzhou and Hong-Kong Metro with its SelTrac CBTC system.

2.5.4.7 NORTHERN AND CENTRAL EUROPE

In Northern and Central Europe, Thales is a major supplier in aerospace, defence, security and transportation.

With more than 190⁽¹⁾ highly skilled engineers, Thales is a significant national competence centre, exporting more than 40% of its activity. In the high-grade security domain, its network crypto solutions are today securing all NATO networks and operations, with 11,000 systems already delivered, France being the largest user outside of Norway. In addition, its secure communications systems are used for all NATO countries within the ACCS network. In 2012, Thales developed the Norwegian Soldier modernisation "Normans" programme, in which several other countries have already expressed interest.

In the transport sector, the Norwegian Rail Authorities have selected Thales in 2012 to deliver a renewal of the signalling systems for the national Main Line rail systems, which will provide Norway with an efficient and modern signalling system over the next ten years.

In Denmark, Thales was awarded a contract to modernise half of Denmark's main line network with its latest generation signalling solution, ETCS Level 2. The signalling system will be deployed on 1,200 km of track, in the west of Denmark, mainly in Jutland.

⁽¹⁾ Employees under Group management, see page 223 et seq. on the Group's employment policy.



2 BUSINESS REVIEW

Operating segments and Geographic Areas

2.5.5 AREA B ⁽¹⁾

(sales in €m)		Germany	Italy	Spain	Other	Total
2012	Sales by destination	776	413	245	2,757	4,191
	Sales by origin	805	691	238	739	2,473
	Consolidated headcount	3,765	2,907	946	4,310	11,928
2011	Sales by destination	777	387	347	2,859	4,370
	Sales by origin	885	691	285	724	2,585
	Consolidated headcount	4,314	2,949	982	4,462	12,707

2.5.5.1 GERMANY

In Germany, Thales employs about 3,000⁽²⁾ people in ten locations. The sales of Thales's German subsidiaries are primarily generated from civil activities, notably in the transportation sector. Thales hosts a global centre of excellence for Thales's rail signalling activity and has been instrumental in building the Group's expertise in ETCS⁽³⁾ standards. Thales Germany is also active in defence, particularly in the Land and Naval sectors.

In 2012, Thales signed a contract with Rheinmetall for night vision goggles Lucie II D (Minie D) and UHF radio SOLAR 400 EGE for the GLADIUS project (infantryman of the future). Furthermore Thales

was contracted by the German Navy with the hardware upgrade of CMS (Combat Management System) of the F124 class frigates.

In its Transportation business, Thales obtained key rail signalling orders in Denmark and Norway and various contracts were signed with Deutsche Bahn in Germany for electronic interlocking systems.

In November 2012, Thales acquired Sysgo AG, a company specialising in safe and secure operating systems required for markets served by the Group such as aeronautics, space, transport, defence and security.

In December 2012, the Diehl group acquired Thales's minority interest (49%) in Diehl Aircabin GmbH, Laupheim, Germany.

2.5.5.2 ITALY

Thales employs a little over 2,800⁽²⁾ people in six locations in Italy with both civil and military activities, including Space through the Thales Alenia Space joint venture.

In the Aerospace domain, Thales won various contracts to supply Air traffic control systems to the China Civil Aviation Authority, the Turkish Civil Aviation Authority, the Italian Ministry of Defence as well to Bulgaria, Romania, Mongolia, Taiwan and Spain.

In the Defence domain, Thales has been awarded contract for the Mid-Life Upgrade of the CBRN Reconnaissance Vehicles in use by the Italian Army.

In the transportation domain, several electronic ticketing, transport and security contracts have been awarded in Italy.

In the Space domain, Thales Alenia Space signed with Astrium the final contract for the European Space Agency's planetary exploration programme, BEPI Colombo.

2.5.5.3 SPAIN

Thales employs a little over 900⁽²⁾ people in ten locations in Spain. In Spain, Thales activities are focused on rail signalling, defence & security and space.

In 2012, the Spanish railway infrastructure authority has awarded Thales several contracts, such as the maintenance of the signalling and communication systems for different high speed lines in Spain and signaling systems for main lines and regional railways.

Furthermore, Thales Spanish affiliate has signed important contracts in Turkey in different sectors such as rail signalling and telecommunications for high speed lines as well as communications for suburban rail.

In Spain, the new contracts won in 2012 have strengthened the creation of Thales Sistemas de Seguridad, a company dedicated to the installation and maintenance of security systems in the civil sector (airports, rail networks, etc.).

(1) Excluding DCNS.

(2) Employees under Group management, see page 223 et seq. on the Group's employment policy.

(3) ETCS European Train Control System, the European standard of rail signalling solutions for main lines.

2.5.5.4 MIDDLE EAST

Thales has been present in the Middle East for more than 30 years and employs over 1,100⁽¹⁾ people in the region. Thales's Middle East regional office is located in Dubai, in the United Arab Emirates. Thales has also a strong presence in the Kingdom of Saudi

Arabia with more than 700⁽¹⁾ employees in offices covering all the provinces. In Saudi Arabia, the Group has built a mature and long standing relationship based on solid partnerships with both the public and private sectors.

2.5.5.5 SOUTH-EAST ASIA

Thales employs about 700⁽¹⁾ people in the region with an important centre in Singapore, addressing all the markets of the Group. In the avionics domain, Singapore produces specific on-board equipment and is the MRO (maintenance, repairs and operations) hub for Asia-Pacific.

In Transportation, Thales Singaporean affiliate works together with the Canadian affiliate on a significant contract by the SMRT Corporation

for the North-South East-West Line, which is the largest resignalling project for urban rail in Thales in terms of track length and number of stations. Other key wins, in 2012, in Singapore include the signaling contract for the new Tuas Extension and underwater systems projects, both off-shore and on-shore, for the Singapore Navy.

2.5.5.6 WESTERN ASIA

Thales has operated in India for more than 50 years and employs about almost 250⁽¹⁾ people. Thales runs offices in Delhi, Gwalior, Mumbai, Visakhapatnam, Bangalore, Chennai, Kochi and Lucknow to better serve its Army, Navy Air Force and civil customers. In August 2012, Thales & BEL (Bharat Electronics) announced a joint venture to design and manufacture both defence and civilian radars.

Thales won a contract for providing Communications Based Train Control (CBTC) and Integrated Communications and Supervision (ICS) systems for Hyderabad Metro Rail Project.

2.5.5.7 LATIN AMERICA

Thales has been established in the region for more than 40 years and employs about 600⁽¹⁾ people in Argentina, Brazil, Chile, Colombia, Mexico and Venezuela. In 2012, Thales Latin America's headquarters were transferred from Mexico to Brazil.

In Brazil, through its fully-owned Brazilian subsidiary Omnisys, Thales offers a global centre of expertise in long-range air traffic control radars.

2.5.5.8 AFRICA

In Africa, Thales has been a major partner in the Aerospace, Defence, Security and Transport markets for more than 30 years. With more than 300⁽¹⁾ employees, Thales offers industrial facilities and a significant industrial partnership network.

Thales's South African subsidiary is a recognized industrial base for both local and export defence markets. 2012 saw Thales South

Africa being awarded the extension contract for the artillery ATES system to the South Africa Army and securing a contract with the UAE for the mortar fire control system. Thales South Africa has achieved being selected by PRASA this year for the passenger rail resignalling contract in the Western Cape.

⁽¹⁾ Employees under Group management, see page 223 et seq. on the Group's employment policy.



2 BUSINESS REVIEW

Operating segments and Geographic Areas

2.5.6 FRANCE ⁽¹⁾

(sales in €m)

2012	Sales by destination	3,564
	Sales by origin	6,366
	Consolidated headcount	29,784
2011	Sales by destination	3,407
	Sales by origin	6,122
	Consolidated headcount	30,036

2.5.6.1 SITES

At 31 December 2012, France represents around 50% of the global workforce of the Group⁽²⁾.

The Group's largest research centre is also located in France, at Palaiseau near Paris, with approximately 350 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 SAS, Thales Alenia Space SAS, Thales Avionics SAS, Thales Avionics Electrical Systems SAS, Thales Communications & Security SAS, Thales Raytheon Systems Company SAS, Thales Optronique SAS, TDA Armements SAS, Thales Systèmes Aéroportés SAS, Thales Underwater Systems SAS, Thales Electron Devices SAS (TED), Trixell SAS, Thales Services SAS and Thales Training & Simulation SAS (see organisational chart on page 138).

2.5.6.2 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.

In air operations, the progressive overhaul of radar coverage in France is continuing with the signing by Thales Raytheon Systems of a contract for an additional GM400 radar station and by Thales of a contract for three STAR2000 radars for air control at the test centres of the French defence procurement agency (DGA).

In the domain of land defence, the first development tranche for the new-generation laser targeting pod (PDL-NG) was announced at the end of 2012; this new capability will be put into service in the French Air Force in 2018.

In defence mission systems and under Franco-British cooperation, France announced that it will assess and perform operational trials on Thales's Watchkeeper system in 2012 and 2013. Thales received an order from Dassault Aviation for the preparatory phase of the demonstration programme FCAS-DP (Future Combat Aircraft System-Demonstration Phase) and the French defence procurement agency (DGA) awarded Thales a contract for the definition phase for the PERFECTA multifunction sensors demonstrator. In the naval domain, Thales received the first order for the acoustic head for the French Navy's new heavy torpedo, and a contract to maintain Flash sonar in operational condition.

In defence and security C4I systems, the DGA awarded Thales the development contract for the CONTACT tactical and theatre-level

digital communications programme. This strategic programme is designed to equip the majority of the French forces' platforms with next-generation tactical radios incorporating innovative software-defined radio technology. Future CONTACT radio products will be fielded with the French Army, Air Force and Navy, providing faster transmission speeds, better security and interoperability in a theatre of operation.

Thales was also selected by DIRISI⁽³⁾ to develop, deploy and maintain its future logistics information system.

In the security domain, Thales was selected by the Paris city authority to supply and install security systems for the infrastructures of the city and *département* of Paris.

The French national agency for the management of secure identity documents (ANTS) at the Interior Ministry awarded Thales, in partnership with Orange, the through-life support contract for biometric data capture system for passports in France and the design and supply of new capture systems for the future electronic national identity card (CNIE). In winning this new civil biometric programme, Thales has strengthened its position on the French identity card market. The French Interior Ministry also confirmed its confidence in Thales with an additional order for BioNET stations. These stations, which enable the capture of biometric data of Schengen visa applicants, are due to be installed in 2013 in Lebanon, Egypt and Nigeria.

In a consortium with G4S and Onet Sécurité, Thales was selected by the French Justice Ministry for the design, implementation and

(1) Excluding DCNS.

(2) Employees under Group management, see page 223 et seq. on the Group's employment policy.

(3) DIRISI (Direction Interarmées des Réseaux d'Infrastructure et des Systèmes d'Information) is the only operator of defence information systems in France.

operation of the new electronic surveillance system for people on a court-tagging order as an alternative to prison.

Thales is one of the key industrial partners – as a data security operator – of Cloudwatt, the new company marketing secure and sovereign “cloud computing” solutions.

In the space domain, Thales Alenia Space signed a contract with Eutelsat for the provision of the 8VVB telecommunications satellite. The global contract for the Meteosat Third Generation (MTG) was also signed in February with the European Space Agency, which also confirmed successive tranches for the continuation of the Exomars programme.

In avionics, Thales signed an agreement with Airbus on the new generation A320 (A320neo “new engine option”), which is due to enter service in 2015. Thales will be specifically involved in supplying cockpit displays, flight control computers and the integrated electronic standby instrument.

In after-sales, Thales signed an FHS (Flight Hour Service) agreement with Airbus and ATR for the provision of maintenance services to operators of equipment made by these two aircraft manufacturers. Thales also signed a long-term support contract with the helicopter manufacturer Eurocopter for the maintenance of Thales avionics suites on-board Super Puma helicopters.

2.5.6.3 MAIN ACHIEVEMENTS IN THE EXPORT MARKET

The French companies continue to be the Group’s leading export base: in 2012, approximately 45% of the sales of the French companies were generated outside France.

In air operations, several civil command and air radar systems contracts were signed, in Europe (Cyprus, Coopans, a programme combining Austria, Croatia, Denmark, Ireland and Sweden), in the Middle East (Bahrain), in Asia (Turkmenistan and Mongolia), in Africa (ASECNA, which combines 17 African countries) and in Central and Latin America (Panama, Mexico, Brazil, Colombia and Aruba).

In land defence, Thales won export orders in 2012, especially in missile electronics in India and optonics contracts.

In defence mission systems, Thales received an order from Airbus Military to equip CN-295 maritime patrol aircraft destined for the Oman Navy. In the naval domain, Thales won the first success in Australia for its ALFS sonar and in Brazil a first order for acoustic heads for torpedoes through DCNS.

In defence and security C4I systems, NATO renewed for an additional year the secure communication and information services contract for ISAF (International Security Assistance Force) in Afghanistan. Through this contract, Thales has successfully supplied innovative secure communications and information system services for NATO users throughout Afghanistan since 2007. NATO also selected Thales to provide military staff with a Common Operational Picture in the form of walls of images updated in real time. Thales was selected to provide a turnkey tactical communications network

for a country in the Middle East. Thales was also selected for secure and interoperable broadband satellite communications equipment for Norwegian patrol vessels.

In security, Thales signed several new contracts in Morocco, Kenya and Cameroon to supply secure identity documents.

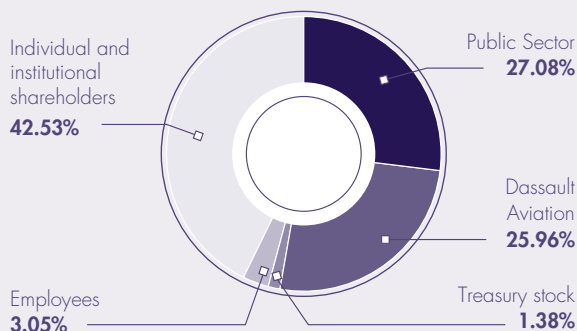
In the space domain, Thales Alenia Space signed a contract to supply a telecommunications satellite for an Asian operator and a payload for Arabsat in a joint prime contractor role with Astrium.

In the avionics domain, Embraer awarded Thales a contract for the provision of an inertial navigation system and a GPS to equip the KC-390 military transport aircraft, developed under contract with the Brazilian Air Force.

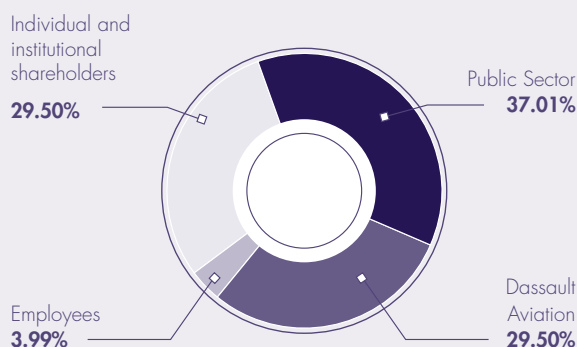
Qatar Airways announced it would equip its A350 XWB (80) and A380 (10) aircraft with dual Head Up Display (HUD) systems supplied by Thales. American Airlines selected the flight mission management system TopFlight FMS for its 130 future aircraft in the A320 range. Thales signed a contract with Avicopter/Avic International for the delivery of the first ten systems for alternative emergency generation installed on the auxiliary power unit of the AC313 helicopter manufactured by AVIC Changhe Aircraft Industry Group.

Lastly, in the ground transport domain, Thales was selected in New Zealand by Auckland Transport to supply a bus ticketing system and in India by Delhi Metro Rail Corporation to deliver the necessary ticketing equipment for the extension of the Delhi metro network.

Distribution of capital - 31 December 2012



Distribution of voting rights - 31 December 2012⁽¹⁾



(1) Exercisable at that date.

Shareholding in concert by the "Public Sector" and the "Industrial Partner"

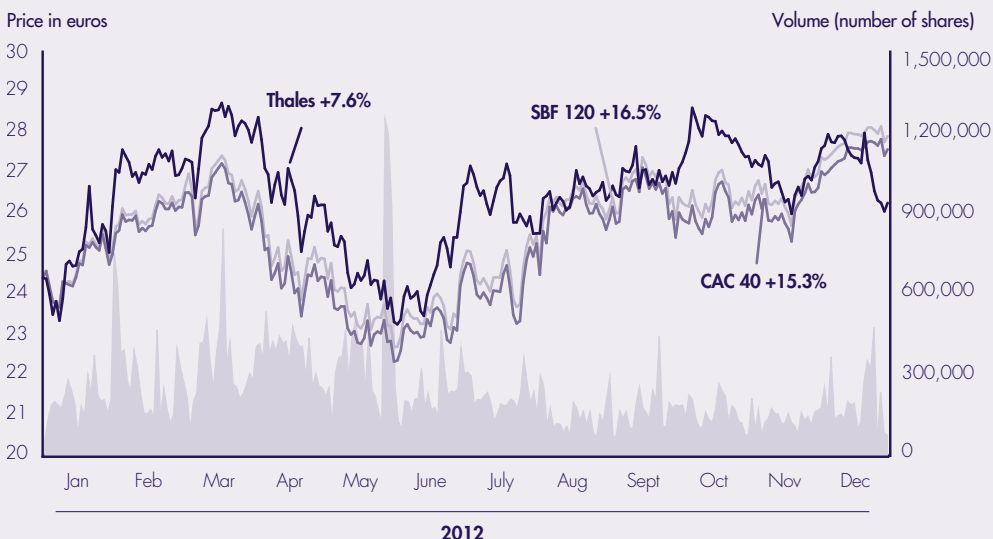
- Three agreements: the shareholders' agreement, the agreement on the protection of strategic national interests and the specific agreement.
- Principal provisions:
 - Definition of corporate governance and members of Thales corporate governing bodies;
 - Veto right and commitments of the "Industrial Partner" to the "Public Sector";
 - Restrictions concerning the transfer or disposal 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.
- 4 independent members and 4 women on the Board of Directors in 2012.
- Board of Directors' proposal to the General Meeting on 24 May 2013 to reduce the statutory term of Directors' appointments from 6 to 4 years.
- The Board met 8 times in 2012, with an attendance rate of 87%.
- 3 Committees:
 - Strategic Committee (3 meetings in 2012 with an attendance rate of 88%);
 - Audit & Accounts Committee (4 meetings in 2012 with an attendance rate of 94%);
 - Selection & Remuneration Committee (6 meetings in 2012 with an attendance rate of 89%).

Market information

THALES SHARE PRICE COMPARISON WITH CAC 40 AND SBF120



The Thales share (HO FP) is listed on the regulated market Euronext Paris (Compartment A) of NYSE- Euronext.

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 public limited company (*société anonyme*) with a Board of Directors. It is governed by French law, particularly the French Commercial Code and certain provisions of the amended law on privatisation of 6 August 1986, since the French State owns more than 20% of the share capital.

Registered office

45, rue de Villiers, 92200 Neuilly-sur-Seine – France.
Telephone: +33 1 57 77 80 00.

Registration

No. 552 059 024 in the Nanterre Register of Trade and Companies; APE business identifier code: 7010 Z.

Term

Thales was formed on 11 February 1918 for a period of 99 years. It will cease trading on 11 February 2017, unless this period is extended or the company is dissolved before then. The extension of the company for a further 99 years will be proposed at the Annual General Meeting of 24 May 2013.

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, substances, 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 head 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, 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 head 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 disposal 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 (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 2012, the share capital stood at €607,019,022, divided into 202,339,674 shares with a par value of €3 each.

Pursuant to the applicable regulations, each month the company publishes on its website www.thalesgroup.com, under 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 81236 – 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 169).

3 SHAREHOLDER INFORMATION

Company and share capital

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. 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	74,304,866	3,246,430	9,739,290		
31 Dec. 2011		3,731,400,000			606,985,371	202,328,457
Financial year 2012	Exercise of stock options	220,794	11,217	33,651		
31 DEC. 2012		3,731,620,794			607,019,022	202,339,674

3.1.3.2 CHANGES IN THE DISTRIBUTION OF CAPITAL AND VOTING RIGHTS OVER THE LAST THREE FINANCIAL YEARS

At 31 December 2012, the total number of exercisable voting rights was 293,293,981. 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 161).

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. 2012			31 Dec. 2011			31 Dec. 2010		
	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%	37.01%	54,786,654	27.08%	41.73%	53,746,948	27.00%	41.86%
Govt. (inc. 1 golden share)	2,060	—	—	2,060	—	—	2,022	—	—
Sogepa	—	—	—	—	—	—	5,214	—	—
Public Sector^(a)	54,788,714	27.08%	37.01%	54,788,714	27.08%	41.73%	53,754,184	27.00%	41.86%
Dassault Aviation ^(b)	52,531,431	25.96%	29.50%	52,531,431	25.96%	20.40%	51,539,524	25.89%	20.27%
Thales ^(c)	2,795,564	1.38%	—	3,542,173	1.75%	—	3,717,478	1.87%	—
Employees	6,169,074	3.05%	3.99%	6,362,998	3.14%	4.64%	5,811,663	2.92%	4.54%
Other shareholders	86,054,891	42.53%	29.50%	85,103,141	42.07%	33.23%	84,259,178	42.32%	33.33%
GRAND TOTAL	202,339,674^(d)	100%	100%	202,328,457	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 (after absorption by Sofivision in the second half of 2012), excluding the State directly. All Thales shares held directly and indirectly by the French State are in directly registered form.

(b) Dassault Aviation holds 34,654,349 shares in directly registered form (of which 34,000,000 acquired a double voting right at the end of the first half of 2012) and 17,877,082 shares in bearer form.

(c) Treasury shares totalled 134,865 bearer shares under a liquidity contract, and 2,660,699 directly registered shares.

(d) During 2012, 11,217 shares were created by the exercise of stock options, bearing rights from 1 January 2012.

3.1.3.3 MAJOR CHANGES IN SHARE OWNERSHIP OVER THE LAST FIVE YEARS

The company 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, i.e. 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 to employees due to free shares delivery.

Treasury shares thus amounted to 1.87% of the capital, i.e. 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, i.e. 3,542,173 shares, at 31 December 2011.

During 2012, the number of treasury shares was reduced due to the following transactions:

- 1,043,357 shares were purchased under a liquidity contract;
- 1,504,941 shares were sold under a liquidity contract;
- 285,025 shares were sold to employees due to free shares delivery.

Treasury shares thus amounted to 1.38% of the capital, i.e. 2,795,564 shares, at 31 December 2012.

3.1.3.4 NOTIFICATION OF LEGAL THRESHOLDS EXCEEDED IN 2012

During 2012, the company was notified of share ownership thresholds being crossed on several occasions by the following companies:

- on 10 February 2012, Tradewinds Global Investors, LLC (Los Angeles, United States), in its capacity as asset manager on behalf of clients and funds, announced it had crossed the threshold of 5% of Thales capital and held 10,029,597 shares giving an equal number of voting rights, representing 4.96% of the capital and 3.88% of voting rights;
- on 12 July 2012, Dassault Aviation notified the French *Autorité des Marchés Financiers* that it had exceeded the threshold on

9 July 2012 of 25% of Thales voting rights and individually held 52,531,431 Thales shares representing 86,531,431 voting rights, which is 25.96% of the capital and 29.33% of the voting rights. This threshold was exceeded as a result of the statutory allocation of double voting rights to Dassault Aviation because it had held registered shares for more than two years. On the other hand, the concert formed by the Public Sector and Dassault Aviation crossed no threshold and holds 107,318,085 Thales shares, representing 193,988,991 voting rights, which is 53.04% of the capital and 65.75% of the voting rights.

3.1.4 POTENTIAL CAPITAL

3.1.4.1 MAXIMUM POTENTIAL CAPITAL AT 31 DECEMBER 2012

	In number of shares with par value of €3
Share capital at 31 December 2012	202,339,674
Current stock option plans	12,294,262
1 July 2003 plan: 1,331,897 options at €25.70	
1 July 2004 plan: 1,850,727 options at €29.50	
30 June 2005 plan: 1,775,043 options at €34.01	
9 November 2006 plan: 1,965,825 options at €36.47	
4 July 2007 plan: 1,414,170 options at €44.77	
1 July 2008 plan: 1,578,350 options at €38.50	
25 June 2009 plan: 1,506,000 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 (+6.07%)	214,633,936

3.1.4.2 SECURITIES IN CIRCULATION THAT PROVIDE ACCESS TO CAPITAL (BONDS, WARRANTS AND OPTIONS)

At 31 December 2012, 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 116 et seq.).

Stock options

At 31 December 2012, the following were outstanding:

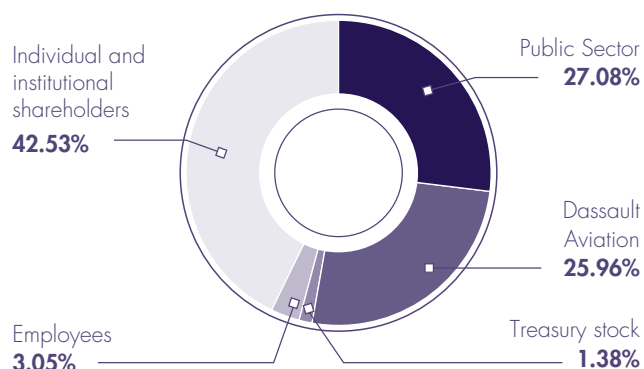
- 126,700 share purchase options at a weighted average exercise price of €42.46;
- 12,294,262 share subscription options at a weighted average exercise price of €33.96, of which 872,250 were performance-based shares.

Thales decided to stop granting options in 2012.

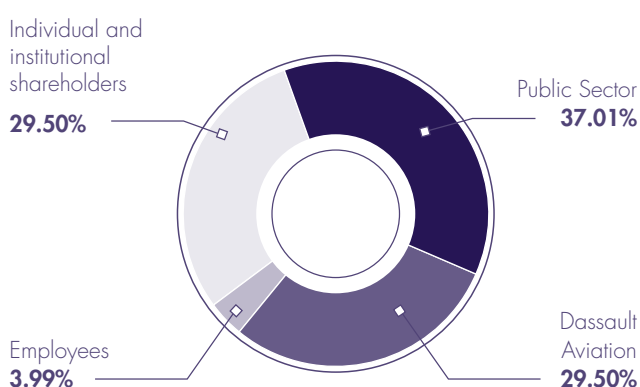
3.1.5 SHAREHOLDERS

3.1.5.1 BREAKDOWN OF SHAREHOLDERS AT 31 DECEMBER 2012

Capital



Voting rights ⁽¹⁾



At 31 December 2012, as far as Thales is aware, no shareholder – other than those mentioned in this chapter – holds 5% or more of the capital or of the voting rights (see page 162 for the distribution of capital and voting rights over the last three years).

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 54,786,654 Thales shares. Following merger transactions, Sofivision (a wholly owned subsidiary of TSA) was absorbed and the Thales shares formerly held by Sofivision are now owned by TSA.

The French State directly holds 2,060 shares, including a golden share which gives it the rights⁽²⁾ described on page 169.

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 2012.

Dassault-Aviation is 50.55% owned by Groupe Industriel Marcel Dassault.

⁽¹⁾ Exercisable at that date.

⁽²⁾ Pursuant to article 3 of Decree 97-190 of 4 March 1997.

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 signed on 28 December 2006 – namely the shareholders' agreement and the agreement on the protection of strategic national interests in Thales⁽¹⁾.

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, which governs relations between the Public Sector and the Industrial Partner within Thales. This agreement came into effect on the date of transfer of assets from Alcatel-Lucent Participations (5 January 2007).

The agreement was signed pursuant to the cooperation agreement entered into on 1 December 2006 between Thales, Alcatel-Lucent and TSA, which replaced the 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, which it replaced⁽³⁾.

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 external 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 higher 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 & 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 & 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 & 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 €150m) 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⁽⁴⁾.

Should Dassault Aviation exercise its right of veto over the appointment of the Chairman & Chief Executive Officer, after a consultation period of three months, either of the parties may terminate the agreement.

(1) See Decision No. 207C0013 of 2 January 2007, published in the French legal gazette (Bulletin des annonces légales obligatoires) on 5 January 2007.

(2) 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.

(3) This agreement is included in the appendix of the Thales Board of Directors' 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).

(4) 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.

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 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 and; (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 head 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.

(1) TSA and Sofivision within the meaning of AMF decision no. 208C2115. Sofivision was absorbed by TSA during the second half of 2012.

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.

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 "*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&txsch=> or on the BALO website at <http://balo.journal-officiel.gouv.fr/html/2008/1201/200812010814709.htm>.

Dassault Aviation announced it had individually exceeded the 25% threshold of voting rights on 9 July 2012 and individually held 52,531,431 Thales shares representing 86,531,431 voting rights, representing 25.96% of the capital and 29.33% of the voting rights.

This threshold was crossed due to the allocation of double voting rights to Dassault Aviation on a portion of its holding.

Dassault Aviation 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 has no intention of acquiring sole control of Thales, given that the Group acting in concert already holds control;
- in accordance with the Shareholders' Agreement dated 28 December 2006, endorsed by Dassault Aviation as described in AMF decision 208C2115 of 27 November 2008, which has been tacitly renewed, 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. Dassault Aviation does not intend to seek an amendment to the allocation of directors as provided for in said agreement;
- none of the transactions listed in Article 223-17 I, 6° of the General Regulations is expected;
- There is no temporary sale agreement for the issuer's shares or voting rights;
- No financing has been put in place since the threshold was crossed following an allocation of double voting rights".

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 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 the capital of the following companies:

Thales Systèmes Aéroportés SAS, Thales Optronique SAS, Thales (Wigmore Street) Ltd, Thales Communications & Security SAS, Thales Air Systems SAS, Thales Nederland BV, Thales Avionics SAS, Thales Training & Simulation SAS and Thales Underwater Systems NV.

3.1.5.4 TREASURY SHARES

At 31 December 2012, Thales held 2,795,564 treasury shares (1.38% 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 28 February 2013, it held 2,796,009 treasury shares, including 135,310 bearer shares under the liquidity contract.

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 Annual and Extraordinary Shareholders' 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), of 16 May 2001 (memorandum of 24 April 2001, COB approval no. 01-432), of 16 May 2002 (memorandum of 24 April 2002, COB approval no. 02-440), of 15 May 2003 (memorandum of 24 April 2003, COB approval no. 03-312), of 11 May 2004 (memorandum of 20 April 2004, AMF approval no. 04-295) and 17 May 2005 (memorandum of 29 April 2005, AMF approval no. 05-330) authorised the continuation of this programme.

In accordance with the authorisations granted to the Board of Directors by the General Meeting, the company carried out the following transactions:

- in 1999, repurchase of 1.9 million shares;

- in 2001, when Thales sold its stake in Alcatel Space to Alcatel: the transaction amount of €795m was paid half in cash and half in Thales shares, equivalent to 8.8 million shares;
- in 2002, 1.1 million shares were sold on the market;
- in 2004, 1.2 million shares were sold on the market, directly and by proxy, 1.3 million shares were sold under a liquidity contract, and approximately 520,000 shares were transferred to employees as part of an employee stock offer;
- in 2005, 2 million shares were sold on the market, directly and by proxy, 1 million shares were sold under a liquidity contract, and approximately 300,000 shares were transferred to employees as options vested. 87,000 shares were transferred to Group employees in the United Kingdom who had subscribed to an employee shareholding scheme in December 2004;
- in 2006, approximately 457,000 shares were purchased and 388,000 shares sold under a liquidity contract, and approximately 98,000 sold to employees as purchase options vested;
- in 2007, 793,295 shares were purchased 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 purchased and 1,020,515 shares sold under a liquidity contract. Purchase of 3,176,127 shares in the market and transfer of 2,519,280 shares to Thales employees as part of the 2008 employee shareholding scheme. 96,473 shares were transferred for vested options;
- in 2009, purchase of 916,054 shares and disposal of 911,370 shares as part of the liquidity contract. 191,373 shares were sold for the exercise of options and as part of a free share delivery;

[1] Pursuant to article 3 of Decree 97-190 of 4 March 1997.



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- **in 2010**, purchase of 1,368,874 shares and disposal of 1,207,329 shares as part of the liquidity contract. 760 shares were sold as part of a free share delivery;
- **in 2011**, 1,322,476 shares were purchased and 1,242,309 shares sold under a liquidity contract. 740,650 shares were purchased in the market and 712,272 shares transferred to Thales employees as part of the 2011 employee share purchase offering. 283,850 shares were transferred as part of a free share delivery;
- **in 2012**, 1,043,357 shares were purchased and 1,504,941 shares sold under a liquidity contract. Finally, 285,025 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 by the General Meeting of 16 May 2007 for a period of 24 months under the same conditions. It expired on 15 May 2009 without having been used. This authorisation was renewed by the General Meeting of 18 May 2011 for a period of 24 months under the same conditions. The current authorisation will expire in May 2013 and the Annual General Meeting on 24 May 2013 will decide whether to renew it.

3.1.5.4.3 Allotment of free shares

Allotment of free shares and/or performance shares

The Board of Directors, on the authorisation of the Annual General Meeting, has decided to implement a sixth free share allotment plan.

The Chairman & Chief Executive Officer (the only company representative) is not entitled to benefit from this plan.

The allotment on 20 December 2012 consists of two sub-plans:

Free shares

- All designated beneficiaries of the plan will be allotted 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 French tax resident 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 French tax resident.

Shares subject to performance conditions

- The shares allotted are subject to the fulfilment of internal performance conditions during the three financial years following the allotment 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.
- Options may be vested in tranches of one-third 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.
- All designated beneficiaries of this sub-plan will be allotted 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 French tax resident 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 French tax resident.

	20/12/2012		15/09/2011		23/09/2010		25/06/2009	01/07/2008	04/07/2007
Date of Board decision	Free shares	Performance shares	Free shares	Performance shares	Free shares	Performance shares	Free shares	Free shares	Free shares
Number of beneficiaries at allotment date	5,186	336	5,178	314	5,355	327	3,848	3,624	3,545
Share price at allotment date	€27.47	€27.47	€25.16	€25.16	€26.40	€26.40	€31.93	€35.72	€45.13
Number of shares allotted	487,940	230,350	485,690	145,300	487,680	144,050	334,980	317,705	312,435
Number of free shares at 31/12/2011	-	-	482,290	143,490	468,190	136,830	316,755	295,220	150
Cancellation of allotments during the financial year ^(a)	50	-	11,720	6,650	14,920	6,730	12,960	10,865	150
Early allotments during the financial year ^(b)	-	-	200	-	340	-	130	140	-
Number of shares delivered at expiration of the plan	N/A	N/A	N/A	N/A	N/A	N/A	N/A	284,355	282,215
Number of beneficiaries of delivery at expiration	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3,246	3,201
Balance of free shares net of cancellations and early allotments at 31/12/2012	487,890	230,350	470,370	136,840	452,930	130,100	303,665	-	-
Number of beneficiaries remaining at 31/12/2012	5,185	336	4,961	295	4,932	293	3,467	-	-
Vesting period	From 20/12/2012 to 20/12/2016	From 15/09/2011 to 15/09/2015	From 23/09/2010 to 23/09/2014	From 23/09/2010 to 23/09/2014	From 25/06/2009 to 25/06/2013	From 01/07/2008 to 01/07/2012	From 04/07/2007 to 04/07/2011		

(a) Due to the departure of the beneficiary or, for the plans concerned, due to eliminations related to the partial or total non-achievement of the performance conditions.

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

Validation of the performance conditions for financial year 2012

Option and share plans subject to performance conditions	Validation of the first third of the allotment		Validation of the second third of the allotment		Validation of the final third of the allotment	
	Reference year	% achievement of performance conditions	Reference year	% achievement of performance conditions	Reference year	% achievement of performance conditions
23 September 2010	2011	100%	2012	100%	2013	-
15 September 2011	2012	100%	2013	-	2014	-
20 December 2012	2013	-	2014	-	2015	-

Share allotments in financial year 2012

Ten largest allotments of shares to employees during the year	Number of shares allotted	Share price at allotment date	Plan date
Free shares	2,500		
Shares subject to performance conditions	32,500		20/12/2012

During the 2012 financial year, between 300 and 4,000 shares were allotted subject to performance conditions to employees of the Company or its subsidiaries, excluding Thales company representative.

Between 50 and 250 free shares were allotted to employees of the Company or its subsidiaries, excluding Thales company representatives.

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3.1.5.4.4 Description of the share buy-back programme subject to the approval of the General Meeting on 24 May 2013

- Maximum proportion of capital subject to repurchase: 10% at the repurchase date.
- Maximum number of shares that may be purchased: 20,233,967.
- Maximum amount of the programme: 1,011,698,350.
- 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 24 May 2013, i.e. no later than 24 November 2014.

- **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>	01/01/2013	01/01/2012
French institutional investors and investment funds	25,251	25,225
Non-resident institutional investors	53,709	54,024
Employee shareholders	6,169	6,363
Individual shareholders and associations ^(a)	5,945	4,864
Not identified	1,150	990
Entire public	92,224	91,466
TOTAL NUMBER OF SHARES	202,340	202,328

(a) Mainly French residents.

	As% of the total capital		% of free float (exc. treasury shares)	
	01/01/2013	01/01/2012	01/01/2013	01/01/2012
French institutional investors and investment funds	12.5%	12.5%	27.4%	27.6%
Non-resident institutional investors	26.5%	26.7%	58.2%	59.0%
Employee shareholders	3.1%	3.1%	6.7%	7.0%
Individual shareholders and associations	2.9%	2.4%	6.5%	5.3%
Not identified	0.6%	0.5%	1.2%	1.1%
ENTIRE PUBLIC	45.6%	45.2%	100%	100%

To the Company's knowledge, and on the basis of the TPI survey carried out on 31 December 2012 and the number of shares registered at that date, the number of shareholders of the company can be estimated at approximately 48,000 at the end of 2012. This figure represents 99.4% of the total capital identified, and includes 38,600 bearer shareholders and 9,400 registered shareholders.

Furthermore, an additional survey was carried out at the beginning of 2013 with leading French and foreign institutional investors operating on the Paris market. This information, more recent than the TPI survey and containing more details about the nationality of the institutional investors, is given in the table below.

	Number of shares owned (in thousands)	As % of the total capital	Number of investors
France	25,251	12.5%	82
North America	18,400	9.1%	69
Continental Europe (exc. France)	18,226	9.0%	113
United Kingdom & Ireland	15,223	7.5%	46
Rest of the world	1,860	0.9%	27
TOTAL	79,249	39.2%	337

3.1.5.6 EMPLOYEE SHAREHOLDERS

At 31 December 2012, Group employees, as defined in article L. 225-102 of the French Commercial Code, held 6,169,074 Thales shares, representing 3.05% of the share capital (and 3.99% 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 2012, nearly 50% of the Thales shares held by employees were freely transferable (compared with 60% at 31 December 2011 and 55% at 31 December 2010).

3.1.6 INFORMATION ON REGULATED AGREEMENTS

3.1.6.1 AGREEMENTS AUTHORISED SINCE YEAR-END

On 1 February 2013, the Board of Directors authorised three 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 Jean-Bernard Lévy, Chairman & Chief Executive Officer, upon termination of his term of office as company representative.

Subject to the fulfilment of the performance condition imposed by the Board of Directors and if so decided by the Board, and under the conditions set forth in the AFEP-MEDEF code adopted by the company, compensation may be paid to Mr Jean-Bernard Lévy if his term of office should be terminated, unless this is on grounds of serious misconduct or gross negligence.

The amount of this compensation is fixed on 1 January 2014 at six months of the fixed portion of the annual remuneration, i.e. €225,000, this amount increasing by €100,000 per quarter, with a ceiling on the maximum compensation of €1,500,000. Under no circumstances can compensation for termination of the employment contract exceed the total amount (basic + performance-related) received during the last 24 months of employment.

Payment of this compensation will be subject to the Board's assessment as to whether the following performance criteria set by the Board have been met:

- if the termination occurs before 1 January 2016, compensation will be paid if the average level of achievement of the annual operating profitability targets is equal to or greater than 80% according to the financial criteria available for the period concerned;
- if the termination occurs after 1 January 2016, compensation will be paid if the average level of achievement of the annual

operating profitability targets is equal to or greater than 80% over the last three full financial years;

If that is not the case, no compensation payment will be due.

2. Private redundancy insurance that the company has decided to take out for Mr Jean-Bernard Lévy, the benefit of which is subject to the same performance condition as the above termination of employment compensation.
3. The "company representative" supplementary pension scheme applicable to Mr Jean-Bernard Lévy since his appointment as Chairman & Chief Executive Officer (20 December 2012).

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. The rights will only be deemed acquired after 1 January 2015, and they are conditional on meeting 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.

An increase in the annuity will be conditional on the maintenance of the Chairman & Chief Executive Officer's term of office for a minimum of three years from the date of joining the Group.

In accordance with the regulations, this information was published on the Company's website within five days of the Board of Directors' decision.

3.1.6.2 AGREEMENT AUTHORISED IN 2012

Board of Directors on 20 December 2012

With Mr Luc Vigneron, Chairman & Chief Executive Officer until 20 December 2012.

Maintaining the stock options granted to Mr Luc Vigneron

The Board of Directors on 20 December 2012 decided to maintain provisionally the stock options awarded to Mr Luc Vigneron which came with 3-year performance conditions. The Board of Directors on 1 February 2013 decided to maintain definitively the stock options awarded to Mr Luc Vigneron on their initial conditions.

3.1.6.3 AGREEMENTS AUTHORISED DURING PREVIOUS FINANCIAL YEARS

The agreements approved by the General Meeting in previous financial years which continued to be performed in 2012 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 2012 financial statements.

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;
- 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 this operation.

For the period from 28 October 2011 to 27 October 2012, Thales invoiced Air Tanker in the amount of £312,668, pursuant to letters of credit in force.

Board of Directors' meeting of 24 July 2009

Regulated agreement between the Company and Mr Bernard Rétat, permanent representative of TSA, director (Art. L. 225-38 of the French Commercial Code)

Since 18 May 2009, Bernard Rétat has represented TSA, a member of the Thales Board of Directors, the permanent representative being subject to the same conditions and obligations as if he were a

director in his own right (Art. L. 225-20 of the French Commercial Code).

A service agreement between the Client (Thales) and Mr Bernard Rétat, which specifies:

- the nature of the duties entrusted by Thales to Mr 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.

In 2012, the services invoiced by Mr Bernard Rétat to Thales in this respect came to €50,000 excluding tax and excluding fees actually reimbursed against receipts, and the agreement was terminated on 31 October 2012.

TSA ceased to be a director of Thales after the General Meeting of 15 May 2012.

In addition, the following two regulated agreements lapsed, without having been used, on 20 December 2012, the date on which Mr Luc Vigneron resigned from his post as Chairman & Chief Executive Officer and director:

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 agreements, 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 (2014 OGM), 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 points 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.

Board of Directors' meeting of 29 September 2009

Agreement regulated by Article L.225-38 of the French Commercial Code

Assistance agreement between Thales and TSA

For 2012, the services invoiced by Thales to TSA under the assistance agreement, covering the provision of administrative, legal and financial services provided by Thales to TSA, came to €462,416.66 excluding tax.

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 it is provided solely for the convenience of English-speaking users. This report should be read in conjunction with, and is construed in accordance with, French law and professional standards applicable in France.

Year ended 31 December 2012

To the Shareholders,

In our capacity as statutory auditors of your company, we hereby report on certain related party agreements and commitments.

We are required to inform you, on the basis of the information provided to us, of the terms and conditions of those agreements and commitments indicated to us, or that we may have identified in the performance of our engagement. We are not required to comment as to whether they are beneficial or appropriate or to ascertain the existence of any such

agreements and commitments. It is your responsibility, in accordance with Article R. 225-31 of the French commercial code (Code de Commerce), to evaluate the benefits resulting from these agreements (and commitments) prior to their approval.

In addition, we are required, where applicable, to inform you in accordance with Article R. 225-31 of the French commercial code (Code de Commerce) concerning the implementation, during the year, of the agreements and commitments already approved by the General Meeting of Shareholders.

We performed those procedures which we considered necessary to comply with professional guidance issued by the national auditing body (Compagnie Nationale des Commissaires aux Comptes) relating to this type of engagement. These procedures consisted in verifying that the information provided to us is consistent with the documentation from which it has been extracted.

AGREEMENTS AND ENGAGEMENTS SUBMITTED FOR APPROVAL BY THE GENERAL SHAREHOLDERS' MEETING APPROVAL

a) Agreements and engagements authorized during the year

In accordance with article L. 225-40 of the French commercial code (Code de Commerce), we have been advised of certain related party agreements and commitments which received prior authorization from your Board of Directors.

- With Mr Luc Vigneron, Chairman & Chief Executive Officer until December 20, 2012
→ Maintaining the stock-options granted

The Board of Directors on December 20, 2012 decided to maintain provisionally the stock options awarded to Mr Luc Vigneron, which came with three-year performance conditions. The Board of Directors on February 1, 2013 decided to maintain definitively the stock options awarded to Mr Luc Vigneron on their initial conditions.

b) Agreements and commitments authorized after closing

We have been advised of certain related party agreements and commitments which received prior authorization from your Board of Directors after closing.

With Mr Jean-Bernard Lévy, Chairman & Chief Executive Officer since December 20, 2012

Commitments related 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 February 1, 2013, upon the proposal of the committee on selection of directors, authorized the commitment pertaining to the compensation payments likely to be payable to Mr Jean-Bernard Lévy, Chairman & Chief Executive Officer, upon discontinuation of his duties as representative of the company ("mandataire social"), in accordance with the provisions of Article 17 of the TEPA law (law on labour, employment and purchasing power) dated August 21, 2007.

Subject to the 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 Jean-Bernard Lévy, if his term of office should be discontinued, except for serious misconduct or gross negligence.

The amount of this compensation is fixed on January 1, 2014 at six months of the fixed portion of the annual remuneration, i.e. €225,000, this amount increasing by €100,000 per quarter, with a ceiling on the maximum compensation of €1,500,000. Under no circumstances can compensation for termination of the employment contract exceed the total amount (basic + performance-related) received during the last twenty-four months of employment.

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.

Commitments related to a private unemployment insurance scheme

The meeting of the Board of Directors on February 1, 2013 decided to subscribe to a private unemployment insurance scheme in favour of Mr Jean-Bernard Lévy. 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.

Commitment related to an additional retirement benefits

The meeting of the Board of Directors on February 1, 2013 authorized the commitment related to a "Company representative" retirement benefit scheme for the Chairman and Chief Executive Officer, Mr Jean-Bernard Lévy, since his appointment as Chairman and Chief Executive Officer on December 20, 2012.

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 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 at minimum three years its mandate of Chairman and Chief Executive Officer, calculated from the date of entry in the Group.

- 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.

AGREEMENTS AND COMMITMENTS PREVIOUSLY APPROVED BY THE SHAREHOLDERS' MEETING

Agreements and commitments approved in previous years

a) whose implementation continued during the year

In accordance with article R. 225-30 of the French commercial code (Code de Commerce), we have been advised that the implementation of the following agreements and commitments which were approved by the General Meeting of Shareholders continued during the year.

With Mr Bernard Rétat, (permanent representative of TSA and member of the Board of Thales until May 15, 2012)

The meeting of the Board of Directors on July 24, 2009 authorized the conclusion of an agreement for the provision of services between the Client (Thales) and Mr Bernard Rétat.

Under this agreement, the amount invoiced in 2012 was about €50,000 (excl. taxes) for ten months of activity. The agreement was terminated on October 31, 2012.

With Thales UK, a wholly-owned subsidiary of Thales (member of the Board of Directors involved: Mr Roger Freeman, Chief Executive Officer of Thales UK and officer of Thales until May 15, 2012)

Commitments to be undertaken by the parent company within the public-private partnership "FSTA"

Within the public-private partnership "FSTA", Thales granted guarantees to the British companies of the Group.

The concerned companies are Thales UK Ltd, as a member of the consortium Air Tanker, and Thales Avionics Ltd, Thales Training & Simulation Ltd and Thales UK Ltd (Thales Air Operations) as subcontractors.

The meeting of the Board of Directors on March 6, 2008 approved the issuance 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.

Pursuant to letters of credit in force, Thales invoiced Air Tanker the total amount of £ 312,688.

With TSA (shareholder of 27.08 % of Thales and member of the Board of Directors until May 15, 2012)

Rider to the agreement on assistance to TSA

The meeting of the Board of Directors on September 29, 2009 authorized 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 in 2012 under this agreement amounted to €462,417 excluding taxes.

b) which were not implemented during the year

In addition, we have been advised that the following agreements and commitments which were approved by the General Meeting of Shareholders in prior years were not implemented during the year.

With Mr Luc Vigneron, Chairman & Chief Executive Officer until December 20, 2012

Commitment pertaining to compensation payments that may be due to the Chairman & Chief Executive Officer upon discontinuation of his term of office as company representative

The meeting of the Board of Directors on July 24, 2009, upon the proposal of the committee on selection of directors, authorized the commitment pertaining to the compensation payments likely to be payable to Mr Luc Vigneron, Chairman & Chief Executive Officer, upon discontinuation of his duties as representative of the company ("mandataire social"), in accordance with the provisions of Article 17 of the TEPA law (law on labour, employment and purchasing power) dated August 21, 2007.

Subject to the fulfilment of the performance condition set out by the Board of Directors, i.e. at least 80% of the targeted operation margin is reached, and upon the Board's decision, a 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.

Furthermore, the Board of Directors had decided to subscribe to a private unemployment insurance scheme in favour of Mr Luc Vigneron, which was subject to the same performance condition as the above-mentioned compensation for termination.

Following the resignation of Mr Luc Vigneron on December 20, 2012, and insofar as performance condition were not achieved, this commitment became caduc and void before producing any benefit.

Additional retirement benefits for the company director executive

The meeting of the Board of Directors on July 24, 2009 authorized the commitment related to the additional retirement benefit scheme of Mr Luc Vigneron, since his nomination as Chairman & Chief Executive Officer. Entitlement to the rights acquired by the Company Representative was 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.

Following the resignation of Mr Luc Vigneron on December 20, 2012, and insofar as performance condition were not achieved, this commitment became caduc and void before producing any benefit.

Paris-La Défense and Courbevoie, March 4, 2013
The Statutory Auditors

ERNST & YOUNG Audit

Michel Gauthier
Nour – Eddine Zanouda

Mazars

Jean-Marc Deslandes
Anne-Laure Rousselou

3.2 Corporate Governance

3.2.1 MEMBERS OF THE BOARD OF DIRECTORS AT 31 DECEMBER 2012

3.2.1.1 DIRECTORS

Jean-Bernard LÉVY (57)

Chairman & Chief Executive Officer

Chairman of Strategic Committee

Career:

Born on 18 March 1955, Jean-Bernard Lévy is an alumnus of the École Polytechnique (1973) and Telecom ParisTech.

Jean-Bernard Lévy began his career at France Telecom in 1979 as an engineer, then in 1982 at the Corporate Office Personnel department.

In 1986, he became a technical adviser in the office of Gérard Longuet, Deputy Minister for Post and Telecommunications.

From 1988 to 1993, Jean-Bernard Lévy was in charge of the Satellites activity for the telecommunications business of Matra Espace, which subsequently became Matra Marconi Space. In 1993 and 1994, he was in charge of the office of Gérard Longuet, Minister for Industry, Post and Telecommunications, and Foreign Trade.

In 1995, he was appointed Chairman & Chief Executive Officer of Matra Communication. In 1998 he joined Oddo & Cie as Managing Director and then became Managing Partner.

In the summer of 2002, Jean-Bernard Lévy joined Vivendi where he was Chief Executive Officer until April 2005, and then became Chairman of the Management Board from April 2005 until June 2012.

He was appointed Chairman & Chief Executive Officer of Thales by the Board of Directors on 20 December 2012.

Jean-Bernard Lévy is a Knight of the French Legion of Honour (*Chevalier de la Légion d'Honneur*) and an Officer of the French National Order of Merit (*Officier de l'Ordre National du Mérite*).

First appointed: 20 December 2012.

Current term expires: 2014 OGM.

Number of shares held: 1,200 Thales shares.

Does not include 33 shares held by his minor-age daughter and 250 held by his spouse.

Appointments held:

In France: Chairman of the Supervisory Board of Viroxis SAS, Chairman of the Board of Directors of JBL Consulting & Investment SAS and the *Institut Mines-Télécom*, Director of Vinci*, Société Générale*, DCNS and the *Institut Pasteur*, Vice-Chairman of GIFAS, Member of the Strategic Advisory Board of A.T. Kearney Paris and Paris Europlace.

Abroad: none.

Other positions held by Mr Lévy over the last five years:

In France: Chairman of the Board of Directors of Vivendi*, Chairman of the Supervisory Board of Canal+ France and Groupe Canal+, Chairman & Chief Executive Officer of SFR.

Abroad: Chairman of the Board of Directors of Activision Blizzard Inc*. (USA), GVT (Brazil), Vice Chairman of the Supervisory Board of Maroc Télécom* (Morocco), Director of Vivendi Games Inc. (USA) and NBC Universal Inc. (USA).

Olivier BOURGES (46)

Member of the Audit & Accounts Committee

Member of the Appointments & Remuneration Committee

Member of the Strategic Committee

Career:

Born on 24 December 1966, a French citizen, Olivier Bourges is a graduate of the *Institut d'Études 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'État* (the French government shareholding agency).

Since January 2013, Olivier Bourges has been Deputy General Director of the General Management of Public Finances.

First appointed: 29 September 2009.

Current term expires: 2016 OGM.

Number of shares held: does not hold any Thales shares (representative of the French State as defined by Article 139 of the New Economic Regulations Law (NRE)).

Appointments held:

In France: Director of France Télécom*, 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'Épargne.

Abroad: Vice President, Corporate Planning and Program Management Officer, Nissan North America (USA).

* Companies denoted with an asterisk are listed companies.

Charles EDELSTENNE (74)

Member of the Strategic Committee

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.

Since 2000, he has been Chairman & Chief Executive Officer.

In January 2013, Charles Edelstenne became Chief Executive Officer of Groupe Industriel Marcel Dassault.

He was the founder, Managing Director then Chairman & Chief Executive Officer, and is now Chairman of the Board of Directors of Dassault Systèmes.

First appointed: 19 May 2009.

Current term expires: 2014 OGM.

Number of shares held: 509 Thales shares.

Appointments held:

In France: Chairman of the Board of Directors of Dassault Systèmes SA*, Chief Executive Officer and Member of the Supervisory Board of Groupe Industriel Marcel Dassault SAS, Director of Dassault Aviation SA*, Carrefour SA* and Sogitec Industries SA, Honorary Chairman of Dassault Aviation SA* and Gifas, Managing Director of the Arie and Arie 2, Nili and Nili 2 partnerships

Abroad: Director of SABCA* (Belgium) and 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 & Chief Executive Officer of Dassault Aviation SA*, Chairman of Gifas and Cidef.

Abroad: Chairman of Dassault Falcon Jet Corp. (United States)

Yannick D'ESCATHA (64)

Independent director

Chairman of the Appointments & Remuneration Committee

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 Chief Executive Officer 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 managing director of the CEA on 1 July 1995 and Chairman of CEA-Industrie on 28 June 1999.

On 1 January 2000, he was appointed Executive Vice President Industry at EDF. As the head of EDF's industry cluster, he was responsible for the company's industrial policy.

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 Center for Space Studies (CNES), and renewed his appointment in February 2010.

First appointed: 19 May 2009.

Current term expires: 2016 OGM.

Number of shares held: 500 Thales shares.

Appointments held:

In France: Chairman of the *Centre National d'Études Spatiales* (until March 2013), Chairman of the Board of Directors of Troyes University of Technology, Member of the Board of Directors of EDF* (until March 2013), Member of the Board of the Technology Academy, permanent representative of the CNES on the Board of Directors of Arianespace SA and permanent representative of the CNES on the Board of Directors of Arianespace Participation (until March 2013).

Abroad: none.

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).

Abroad: none.

* Companies denoted with an asterisk are listed companies.

Dominique FLOCH (54)

Director appointed by employees

Member of the Strategic Committee

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: 562 Thales shares (including shares in the Thales employee shareholding FCPE/investment fund).

No offices or positions in other companies.

Stève GENTILI (63)

Independent director

Member of the Strategic Committee

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 OGM.

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'Épargne 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

Abroad: none.

Philippe LEPINAY (59)

Director representing employee shareholders

Member of the Strategic Committee

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 General Meeting of 16 May 2007.

Current term expires: 2017 OGM.

Number of shares held: 2,137 Thales shares (41 bearer, 200 registered and 1,896 in the PEG, including shares in the Thales employee shareholding FCPE/investment fund).

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.

Abroad: none.

Other positions held by Mr Lépinay over the last five years:

In France: President of the Thales employee shareholders association (APAT)

Abroad: none.

* Companies denoted with an asterisk are listed companies.

Didier LOMBARD (70)**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, he 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 functions of Chairman & Chief Executive Officer on 24 February 2010, he was appointed Chairman of the Board of Directors 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 OGM.

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 the Supervisory Board of ST Microelectronics* (the Netherlands), Chairman of European Issuers (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 AII (Agency For Industrial Innovation).

Abroad: none.

Bruno PARENT (59)**Career:**

Born on 9 August 1953, a French citizen, Bruno Parent is a former student 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)).

Appointments 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.

Jeanne-Marie PROST (54)**Career:**

Born 22 September 1958, of French nationality, Jeanne-Marie Prost is a graduate of the *Institut d'études politiques* in Paris and an alumnus of the ENA (promotion - year of - Louise Michel).

On leaving ENA in 1984, Jeanne-Marie Prost had various responsibilities at the Ministry of the Economy, Finances and Budget (June 1984 – July 1996) then at France Télévision (July 1996 – October 1999) of which she became Finance Director (October 1999 – September 2000).

On 1 September 2000, Jeanne-Marie Prost was appointed as first consul in London, UK, for one year.

In September 2001, she became a partner in the Brunswick group Ltd in London.

From July 2007 to October 2008, she was research director at the London School of Economics.

Since January 2009, Jeanne-Marie Prost has been the deputy head of the *Médiation Nationale du Crédit aux Entreprises*. In January 2013, she became national credit mediator.

First appointed: 15 May 2012.

Current term expires: 2018 OGM.

She 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)).

Appointments held:

In France: Member of the Supervisory Board of the Strasbourg-Entzheim Airport, as government representative, Director representing the state on the Board of Directors of Semmaris (mixed economy company on the Rungis market).

Abroad: none.

Other positions held by Ms Prost in the last five years:

In France: none.

Abroad: none.

* Companies denoted with an asterisk are listed companies.

Martine SAUNIER (55)

Director appointed by the employees

Member of the Audit & Accounts Committee

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 Saint-Egrève (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 appointments or positions in other companies.

Loïc SEGALEN (52)

Member of the Audit & Accounts Committee

Career:

Born on 27 March 1960, a French citizen, Loïc Segalen graduated from the École Centrale of Lyon and ESSEC.

He started his career in 1986 in the Finance Department of Dassault International. Financial advisor to Dassault Aviation's Vice President for Economic and Financial affairs in 1990, he subsequently became Deputy Director (1998-1999), then Director.

In January 2009, Loïc Segalen was appointed Vice President for Economic and Financial Affairs at Dassault Aviation.

Loïc Segalen has been Vice President for Economic and Social Affairs at Dassault Aviation since September 2011.

In January 2013, he became Deputy Chief Executive Officer of Dassault Aviation.

He is a member of the Dassault Aviation management committee.

First appointed: 19 May 2009.

Current term expires: 2018 OGM.

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*, Sabca Limburg (Belgium) and Dassault Belgique Aviation.

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 (66)

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 Chief Executive Officer, Chairman & Chief Executive Officer of Volvo France, Chairman of Volvo Corporate Europe, member of the Executive Committee of the Volvo group and member of the strategic committee of Renault Volvo.

He joined the Paribas group in 1993 as member of the Executive Board of Compagnie Financière de Paribas and of Banque Paribas responsible for investments and industrial affairs, and later on as Chairman of PAI Partners.

Amaury de Sèze is also Vice Chairman of Power Financial of Canada.

First appointed: 19 May 2009.

Current term expires: 2014 OGM.

Number of shares held: 500 Thales shares.

Appointments held:

In France: Chairman of the Supervisory Board of PAI Partners SAS, Director of Carrefour SA*, Imerys* and Suez Environnement*, Member of the Supervisory Board of Publicis Groupe*.

Abroad: Vice Chairman of Power Corporation of Canada, BW group, 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, Vice-Chairman of the Supervisory Board of Carrefour SA*, Director of group Industriel Marcel Dassault SAS, Eiffage*, Novalis SAS, Novasaur SAS and Vivarte SA, Member of the Supervisory Board of Gras Savoye SCA.

Abroad: Chairman of PAI Partners UK Ltd., director of PAI Europe III General Partner N.C. (GG), of PAI Europe IV General Partner N.C. (GG), of PAI Europe IV UK General Partner Ltd. (GB), of PAI Europe V General Partner N.C. (GG), of PAI Partners Srl (I), of Gepeco SA (B), and of Saeco SpA (I).

* Companies denoted with an asterisk are listed companies.

Anne-Claire TAITTINGER (63)**Independent director****Chairman of the Audit and Accounts Committee****Career:**

Born on 3 November 1949, of French nationality, Anne-Claire Taittinger is a graduate of the *Institut d'Etudes Politiques* de Paris, holder of a master's degree in Urban Sociology, a DESS in Urbanism and Planning and an MBA HEC (CPA Paris).

Anne-Claire Taittinger began her career in 1975 at the urban planning departmental subsidiaries of the Caisse des Dépôts et Consignations, as manager for urban operations at Villepinte, Sevran, Les Ulis and Lyon (1976-1979).

She joined the Groupe du Louvre in 1979 as Secretary General, then became Chairman & Chief Executive Officer of the Compagnie Financière Deville. She was successively Chairman & Chief Executive Officer of the Compagnie Financière Leblanc, ELM-Leblanc, Vice-Chairman & Chief Executive Officer of the Industriel division of Deville and Chairman & Chief Executive Officer of Annick Goutal perfumes, then Baccarat. She became Chief Executive Officer then Chairman of the Management Board of the Société du Louvre in 1997, then in 2002, Chairman of the Management Board of Groupe Taittinger and Chief Executive Officer of its subsidiary Groupe du Louvre in the context of separating the functions of Chairman of the Board and Chief Executive Officer, posts which she left in July 2006 following the change in the shareholder structure of Groupe Taittinger.

First appointed: 15 May 2012.

Current term expires: 2018 OGM.

Number of shares held: 500 Thales shares.

Appointments held:

In France: Director of Carrefour*, Club Méditerranée*, FinanCités, IFA (Institut Français des Administrateurs) and the Fondation PlanetFinance, Member of the Supervisory Board of Planet Finance, and Chairman of SAS Le Riffay.

Abroad: none.

Other positions held by Ms Taittinger in the last five years:

In France: none.

Abroad: none.

Ann TAYLOR (65)**Independent director****Career:**

Ann Taylor, a UK national born on 2 July 1947 in the United Kingdom, studied at the University of Bradford, where she obtained a bachelor's degree in political science and history, and the University of Sheffield, where she obtained a master's degree in economic history.

In 1974, she was elected MP (Labour) for Bolton West, holding this seat until 1983.

She subsequently became head of the Housing Corporation and a lecturer at the Hansard Society (a member of Birkbeck College) from 1983 to 1987.

In 1987, Ann Taylor was elected MP (Labour) for Dewsbury. She then held various ministerial roles, notably Under Secretary of State for Education and Under Secretary of State for the Environment, between 1990 and 1997. In 1998, she reported directly to the Prime Minister and sat on most government committees.

In 2001, she chaired the Intelligence and Security Committee under the direct authority of the Prime Minister.

In 2005, she entered the House of Lords (with a life peerage), where she is a representative at the Parliamentary Assembly of the Council of Europe (political committee) and the Western European Union (defence committee). She is currently a member of the NATO parliamentary assembly.

In 2007, as a British State minister in the House of Lords, Ann Taylor became responsible for matters of defence, notably as Minister for Defence Equipment and Support in 2007 and 2009, and then as Minister for International Defence and Security from 2008 to 2010.

Ann Taylor is currently a member of the House of Lords and sits on the National Security Strategy Joint Committee.

First appointed: 15 May 2012.

Current term expires: 2018 OGM.

Number of shares held: 500 Thales shares.

Offices held:

In France: none.

Abroad: member of the Advisory Board of Thales UK PLC⁽¹⁾.

Other positions held by Baroness Taylor in the last five years:

In France: none.

Abroad: none.

Éric TRAPPIER (52)**Member of the Appointments & Remuneration Committee****Career:**

Born on 1 June 1960, a French citizen, Éric 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 Chief Executive Officer (International) in 2002.

* Companies denoted with an asterisk are listed companies.

(1) A company of the Thales group.

3 SHAREHOLDER INFORMATION

Corporate Governance

Since 2006, Éric Trappier has been the international Vice President of Dassault Aviation.

He was appointed Chairman & Chief Executive Officer in January 2013.

He has been awarded the French National Order of Merit and French Legion of Honour.

First appointed: 19 May 2009.

Current term expires: 2018 OGM.

Number of shares held: 500 Thales shares.

Appointments held:

In France: Chairman & Chief Executive Officer of Dassault Aviation SA*, Vice Chairman of Gifas and the Defence Committee of the ASD, Chairman of the Defence Commission of Cidef/Gifas, Managing Director of the EIG Rafale International, Managing Director of Dassault International.

Abroad: none.

Other positions held by Mr Trappier over the last five years:

In France: Director of Sofresa/Odas, Sofema and Eurotradia.

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 interest exists between the Board members' private interests and their duties to Thales.

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, 62 years of age, 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 169 and pursuant to Article 10 of the Company's Articles of Association).

Government commissioner

Marc Gatín, 63 years of age, 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, 60 years of age, 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.

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-Marc Deslandes, partner.

* Companies marked with an asterisk are listed companies.

3.2.2 CHAIRMAN'S REPORT TO THE GENERAL MEETING OF 24 MAY 2013 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 28 February 2013, 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 Jean-Bernard Lévy, the Chairman & 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.

Application of the "comply or explain" rule

The Company complies with the recommendations contained in the AFEP-MEDEF Code, with the exception of those concerning:

Heading	AFEP-MEDEF	Thales 2012	Explanation
Ratios of independent directors:			
• Board of Directors	1/3 (controlled companies)	1/4	The provisions of the shareholders' pact (cf. below) do not allow compliance with the ratios of the AFEP-MEDEF code.
• Audit & Accounts Committee	2/3	1/4	
• Appointments & Remuneration Committee	>1/2	1/3	
Statutory terms of the directors	Max 4 years	6 years	The Board of Directors decided to submit to the General Meeting of 24 May 2013 a reduction in the statutory term of directors' appointments from six to four years. If approved, this provision will apply for the first time to appointments or renewals of terms of office at the General Meeting of 2014.

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 & Chief Executive Officer, since the Board has deemed the administrative and supervisory bodies to be more effective this way, and that there is thus no need for separation.

Under the terms of the shareholders' agreement between the Public Sector and the Industrial Partner (Dassault Aviation), as published by the AMF, the Board is made up of 16 directors, of whom 14

are appointed at the General Meeting and 2 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, 4 are "external directors" selected jointly by the Public Sector and Dassault Aviation, one is 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 & 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.

⁽¹⁾ The Appointments & Remuneration Committee, for the part relating to corporate governance, and the Audit & Accounts Committee, for the part relating to internal control and risk management.

At 31 December 2012, the Board therefore had 16 members, as indicated below:

Directors	1 st appointment	Positions currently held	
		Starts	Ends
Public Sector			
Jean-Bernard Lévy, Chairman & Chief Executive Officer	20/12/2012	20/12/2012	2014 OGM
Olivier Bourges	29/09/2009	20/05/2010	2016 OGM
Didier Lombard	30/06/2005	15/05/2008	2014 OGM
Bruno Parent	19/05/2009	20/05/2010	2016 OGM
Jeanne-Marie Prost	15/05/2012	15/05/2012	2018 OGM
Industrial Partner			
Charles Edelstenne	19/05/2009	19/05/2009	2014 OGM
Loïk Segalen	19/05/2009	15/05/2012	2018 OGM
Amaury de Sèze	19/05/2009	19/05/2009	2014 OGM
Eric Trappier	19/05/2009	15/05/2012	2018 OGM
Representative of employee shareholders			
Philippe Lépinay	01/04/2007	18/05/2011	2017 OGM
Elected by employees			
Dominique Floch	19/01/2008	09/12/2010	08/12/16
Martine Saunier	09/12/2010	09/12/2010	08/12/16
External directors			
Yannick d’Escatha	19/05/2009	20/05/2010	2016 OGM
Stève Gentili	19/05/2009	20/05/2010	2016 OGM
Anne-Claire Taittinger	15/05/2012	15/05/2012	2018 OGM
Ann Taylor	15/05/2012	15/05/2012	2018 OGM

The other positions of the members of the Board of Directors are listed in the biography for each director which can be found in this 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 60 at the end of 2012. In the absence of a specific provision 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

As regards strengthening the presence of women on the Board of Directors, the objectives set by the AFEP-MEDEF code and Law 2011-103 of 27 January 2011 are identical, but with a 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).

Appointments of directors made at the General Meeting of 15 May 2012 (Ms Prost, Ms Taittinger and Ms Taylor) enabled the Company to have a Board on that date composed of 25% women and to achieve (and exceed) the objective of 20% women a year ahead of AFEP-MEDEF and two years ahead of the legal deadline.

Independence of directors

Based on the proposal of the Appointments & Remuneration Committee, the Board of Directors has decided to maintain the strict approach adopted in recent years, namely: directors appointed by the 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 respect to corporate bank directors, the Board also wished, in March 2008, to specify the rules of conduct that apply to them in 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;

⁽¹⁾ See pages 178 to 184 of this document.

- no participation in the vote on any resolution concerning a project in which the bank concerned would or could be involved as an advisor.

Having closely examined the situation of four directors who are "external to the Company" under the shareholders' pact, the only ones who can be declared independent under the criteria in force, the Board decided, pursuant to the recommendation of the Selection & Remuneration Committee, to declare Anne-Claire Taittinger, Ann Taylor, Yannick d'Escatha and Stève Gentili as independent directors.

Overall, the Board of Directors therefore has four independent directors, i.e. 25% of members, a proportion that is below the one third recommended by the AFEP-MEDEF code for controlled companies.

Board's 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 (Board membership, independence, availability, prime duty, transparency, confidentiality and compensation)

It is stipulated that members of the Board of Directors must notify the Chairman of any situation that presents – or may present – a conflict of interest with the company. In this regard, 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 interest exists between the Board members' private interests and their duties to Thales."

II- Powers of the Board of Directors (representation and corporate interests, specific powers and shareholders' agreement)

The annual budget, under the rolling three-year strategic plan, the appointment and dismissal of the Chairman & Chief Executive Officer (or the appointment of a Chairman and a Chief Executive Officer in the event of separation or potential separation of these functions), the acquisitions or disposals of investments or assets with a value exceeding €150m, as well as strategic alliance agreements 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 and 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, non-voting directors if any, and the statutory auditors shall receive all documents sent to directors and are invited to attend Board meetings;
- 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 Company representatives. Thereafter, each director may request additional training.

IV- Board committees (formation and responsibilities, organisation, information, Audit and Accounts Committee, Appointments & Remuneration Committee and Strategic Committee)

It is stipulated that in addition to the responsibilities 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 2012.

V- Functioning of the Board of Directors (meetings, attendance and representation, annual assessment and 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, the directors have been informed of the provisions concerning the planned management mandate, but the Company has not made any specific recommendation at this stage. At the date of the Board meeting that approved this report, 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 period of notice for meetings is longer than the minimum requirements. All shareholders, regardless of the number of shares they own, are entitled to take part in General Meetings. The date of the General Meeting is published on the Company's website approximately six months in advance.

At least 21 days prior to the meeting, all documentation is provided on the website [http://www.thalesgroup.com/rubrique Investors/ General Meeting](http://www.thalesgroup.com/rubrique%20Investors/General%20Meeting). The results of votes on resolutions are put online by the day following 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

Director's Fees

In 2008, the General Meeting set the total amount of attendance fees at €600,000 per year, to be divided among directors and non-voting members 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 for 2010 (€11,950) and 2011 (€6,950, representing a reduction of over 50%).

Non-voting members 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 non-voting members on Thales' Board of Directors.

For 2012, attendance fees payable totalled €566,250 (gross) (compared with €599,700 in 2011); these were partially paid in July 2012, with the balance paid in January 2013.

For information purposes, the amount (net of withholding at source) paid in financial year 2012 amounted to €410,513 (compared with €631,325 in 2011). The AMF tables on remuneration of company representatives are Table No. 1 for Luc Vigneron, Chairman & Chief Executive Officer until 20 December 2012 (€32,700) and No. 3 for directors (€377,813), cf. pages 201 and 203 for details.

Remuneration policy for the Chairman & Chief Executive Officer of the Board, the only company representative

The remuneration of the Chairman & Chief Executive Officer is decided each year by the Board of Directors at the meeting to approve the accounts for the year, based on the proposal of the Appointments & 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 pursuant to the following rules, concerning the stock options (cf. AMF table No. 4) for Luc Vigneron, Chairman & Chief Executive Officer until 20 December 2012:
- internal performance criteria (identical to the quantitative criteria for variable remuneration) for the entire amount allocated and validation of third-party stock options over a three-year period;
 - the Chairman & Chief Executive Officer is prohibited from hedging options using derivatives;
 - whenever stock options are exercised, 40% of the capital gain, net of tax, must be held in shares.

The 10 AMF recommendation tables, which can be found in the registration document, contain details of the remuneration of the Chairman & Chief Executive Officer, which is consistent in every respect with the recommendations of the AFEF-MEDEF code.

Summary of transactions on the Company's securities by directors in 2012

The summary statement (stipulated in Article 223-26 of the AMF General Regulations) of securities transactions executed in 2012 by persons required to file a declaration (directors, non-voting directors – members of the Executive Committee and related persons can be found on page 31 of the registration document). In 2012, this concerned a director appointed at the General Meeting of 15 May 2012, who purchased 500 Thales shares as required by the Articles of Association and within the timescales defined by the regulations.

3.2.2.1.2 Report on Board activity in 2012

Number/duration of meetings and attendance rate

The Board of Directors met eight times in 2012. The average attendance by directors was 87%.

As stipulated in the Board's rules of procedure, the statutory 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 statutory auditors were provided with the same documents as the directors.

Key topics covered

In addition to recurrent topics within the remit of the Board of Directors (annual budget and update of forecasts, strategic plan, preparation of annual consolidated and corporate financial statements, examination of the consolidated half-yearly financial statements, calculation of the Chairman & Chief Executive Officer's remuneration and indication of the quantitative and qualitative criteria for his variable remuneration, dividend and interim dividend proposal, approval of annual meeting documents and notice of the General Meeting, announcement of blackout periods for trading in the Company's shares, prior approval if applicable for regulated agreements, various delegations of powers to the Chairman & Chief Executive Officer and reporting on the use of such powers, annual review of the independence of the directors, etc.), the agendas of these meetings included the following items in 2012, in some cases with reports from the relevant Board committee:

- oversight of strategic decisions and mergers & acquisitions;
- allotment of free shares and performance shares (depending on the level of responsibility of the beneficiaries);
- preparation for the strategic annual seminar at a Group site;
- review of the Group's IT policy and property strategy;

- the decision to carry out an employee share ownership scheme in 2013;
- the methods for selecting a statutory auditor;
- an assessment of the Board's performance;
- the Group's corporate social responsibility.

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 – in which case three days is considered a desirable minimum.

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 training

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 powers of the Board of Directors, for monitoring:

- a) the preparation of financial information;
- b) the efficiency of internal control and risk management systems;
- c) the statutory audit of the Company's financial statements and consolidated financial statements by the statutory auditors;



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Corporate Governance

- 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 statutory 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 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 2012, the members of the committee were:

- Anne-Claire Taittinger (Chairman and independent Director);
- Olivier Bourges;
- Martine Saunier;
- Loïk 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 Anne-Claire Taittinger on page 183).

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 four times in 2012, with an average attendance rate of 94%.

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-year), and specify the accounting options used and the highlights of their audit of the financial statements.

The Group Finance Director and the director of Audit & 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 and the Group legal and contracts director.

In addition to the annual and interim financial statements, in 2012 the committee also examined:

- the execution of difficult contracts, the accounting consequences and monitoring of contract provisions;
- monitoring of main disputes;
- monitoring developments in avionics;
- the external audit plan and statutory auditors' fees;
- the organisation of internal control, risk mapping and assessment of the implementation of the 2011 and 2012 audit plan;
- the internal audit plan for 2013 adopted at the end of 2012;
- streamlining the Group's legal structures;
- monitoring key indicators for the progress of the Probasis plan and the impact of this plan on the accounts;
- changes in pension commitments, especially in the UK and the impact of the IFRS published in 2011;
- financial management of the foreign exchange risk;
- the proposed interim dividend for 2012;
- the Statutory Auditor selection process;
- 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 & Internal Control Department. It laid out its recommendations for the follow-up on assignments.

At the meeting devoted to the 2011 financial statements, the committee acknowledged the memorandum on the Group's exposure to risks and on the major off-balance sheet commitments, according to the AFEP-MEDEF recommendations. This memorandum, which was circulated to all the directors, is reiterated in the section of the registration document on "risk factors".

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 – 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 & Remuneration Committee

In compliance with rule 17 of the Board's rules of procedure, the Appointments & Remuneration Committee has the task of examining:

- the remuneration policy for the Company's senior executives;
- the remuneration of the Chairman & Chief Executive Officer and directors' remuneration (attendance fees) and, if applicable, that of other Company representatives;
- stock option 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 & 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 2012, the members of the committee were:

- Yannick d'Escatha, Chairman and independent director;
- Olivier Bourges;
- Éric Trappier.

It met six times in 2012 with an attendance rate of 89%.

The ratio of independent directors recommended by the AFEP-MEDEF code (at least half) is not satisfied for the reasons mentioned earlier: because of the shareholders' agreement, the ratio is actually one third.

In 2012, the Group HR Director and Finance Director were invited to all the committee's meetings as was the Chairman & Chief Executive Officer depending on the agenda and when the discussion could be enriched by his presence.

The items reviewed by the committee in 2012 included:

- the Group's LTI (Long-Term Incentive) policy and the preparation of a plan submitted to the Board (free shares or performance shares), including performance conditions attached to the validation of the free shares for certain beneficiaries;

- the examination of the global remuneration package of the Chairman & Chief Executive Officer (Luc Vigneron), and in particular the qualitative criteria applicable to his variable remuneration;
- the principles of remuneration within the Group and their implementation by level of responsibility, and career management mechanisms;
- social responsibility and the NRE (French new economic regulations) social report;
- preparation for an employee share ownership scheme to be conducted in 2013;
- implementation of the "profit-sharing" premium;
- the independence of directors;
- review of the candidacies for the post of director from "External Persons" selected in conjunction with the two signatories of the shareholders' agreement;
- the terms for the annual assessment of the operation of the Board of Directors;
- 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 2012, the members of the committee were:

- Jean-Bernard Lévy – Chairman
- Olivier Bourges;
- Charles Edelstenne;
- Dominique Floch;
- Stéphane Gentili, independent director;
- Philippe Lépinay

No independence criterion is imposed for directors on this type of committee by the law or the AFEP-MEDEF code.

It met three times in 2012, with an average attendance rate of over 88%, particularly to review the 2012 budget, the strategy by division/country and the strategic plan, monitoring strategic decisions and the M&A project dashboard and various mergers and acquisitions, and preparation for the annual strategy seminar at a Group site.

In 2012 the Group Finance Director and Strategy Director attended all the Strategic Committee meetings. A report on each meeting is submitted to the next meeting of the Board of Directors by the Chairman & 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 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 2011, the Board had called on an external consultant for this purpose. It decided, in 2012, to conduct this exercise using an internal questionnaire that had previously been used in 2010.

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.

The Board considered that the implementation of the recommendations proposed in 2011 had been beneficial and should be continued. It also decided to adopt the following suggestions proposed by the directors in 2012 and recommended by the Selection and Remuneration Committee:

- assign the task of improving the operation of the Strategic Committee to the Selection & Remuneration Committee;
- further formalise the oversight of the Board's decisions.

3.2.2.2 INTERNAL CONTROL AND RISK MANAGEMENT

This section was submitted to the Audit & Accounts Committee at its meeting of 25 February 2013, 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 2012. 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 2012.

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 & 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.

In 2012, as it has done every year since 2006, the Audit & Internal Control Department submitted voluntarily to verification and certification by IFACI that its practices comply with the international standards of the profession. This approval was renewed on 5 February 2013.

The assessment also suggested that the proceedings of meetings could be further improved, particularly by giving a dominant place to discussion between the directors and increasing the time devoted to outlook, rather than simple "reporting", which is still necessary, of course, on a number of subjects, particularly accounting.

3.2.2.1.5 Restrictions, if any, to the Chief Executive Officer's powers

In accordance with the provisions of the French new economic regulations (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 decided that the existing system was the most effective and that there was thus no need to proceed with the separation, since Jean-Bernard Lévy acts as Chairman & 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 procedure, 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.

3.2.2.2.1 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:

a) 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.

b) 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.

c) 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.

d) 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.

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.

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

In 2012, Thales was organised under a two-dimensional matrix structure: by Division and by Geographic Area⁽¹⁾.

The Divisions were 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 were split into two operating segments:

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

The Geographic Areas and the countries that were part of them were responsible for implementing these global strategies policies in accordance with the Group's short-term earnings targets; they manage relations with local customers and are responsible for order intake, sales and business performance. The countries were grouped in three areas:

- **Area A:** the United States, Canada, the United Kingdom, the Netherlands, Norway, South Korea, Australia, Central and Northern Europe and North Asia;
- **Area B:** Germany, Austria, Switzerland, Italy, Spain, Singapore, Latin America, Southern and Eastern Europe, Middle East & Africa, Western Asia and South Asia;
- **France.**

The Group defined common processes, provided units with the corresponding tools and set up umbrella departments to implement these.

The rules on delegation reflected this sharing of responsibility and were implemented in legal entities coordinated at national level.

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.

A reorganisation plan was in the course of preparation on the date the Board of Directors closed the 2012 accounts.

Company representatives

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.

⁽¹⁾ From 1 April 2013, the Group has put in place a new matrix structure described in the footnote of the page 142.



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The corporate risk management function

Since 2007, the Audit & Internal Control 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 properly 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.

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' 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 newflashes 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 best practices in respect of internal control.

Quality assurance function

The Group's Quality Assurance Department defines the quality assurance policy and objectives, and drives improvements in customer satisfaction. It steers the process management framework (Chorus 2.0) 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.

b) Thales' operating principles and procedures

Thales' 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.

The reference system

Thales has created a process-based reference system called Chorus 2.0, which defines the organisation, rules, practices and methods to be implemented at each Group entity. Organisational memoranda are also stored in Chorus 2.0.

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 detailed in a Technical Reference System.

Chorus 2.0 is accessible via the intranet which makes it easy to locate the policies, procedures, instructions, models and forms which need to be used. Chorus 2.0 covers nine headline processes, subdivided into 26 processes. These processes, which are strongly interfaced – and identify activities that require attention with regard to the potential for risks to occur – precisely define how Thales works according to the roles, rules, practices and operating modes described.

This reference system has an international reach as it gives all Group companies a shared language and a unified management process. Chorus 2.0 also aims at organisational alignment across the Group within each country/company.

Chorus 2.0 is therefore a vital tool to enable each entity to have its management systems certified – on a Group-wide platform – in terms of quality, health, safety and environment and with regard to the norms and standards applicable to each activity.

Chorus 2.0 is thus a vital tool for the Group's internal control and is a natural component of the reference frameworks used in the missions of the Audit & Internal Control Department.

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.

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 ethical business conduct, 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' 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 directors, 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.

The internal audit is thus equipped to intervene in all corporate processes throughout the Group, complying with the joint venture agreements which may impose specific audit models, in order to assess risk management and the quality of internal control, acting on its own initiative where required.

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 risk sponsor 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 on-going system improvements.

The definitions of the risks on this list were specifically updated in 2012 and are described in section 1.1.2 "Risk factors" in the Group management report.

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 who 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 under a specific procedure described in Chorus 2.0 – commercial intermediation contracts with external 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 several procedural manuals applicable in all entities and reiterated in the processes defined in Chorus 2.0.

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 general 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, general 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, sales, 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 Integration), which is suited to its business and recognised by many clients, as a tool for improving and assessing the maturity of operational processes: the use of different models (Development, Acquisition and Services) covers aspects of the management of tenders and projects, and of system, equipment and software engineering, control of suppliers and support activities.

CMMI® assessments, conducted by auditors accredited by the SEI (Software Engineering Institute), enable improvements in the maturity of organisations to be measured according to a system of stage progressions: CMMI® levels of maturity. In addition, for information system developments, when relevant, Thales uses the dedicated ITIL (Information Technology Infrastructure Library) model and ISO 20000.

Production activities

Thales has adopted the international Supply Chain Operations Reference (SCOR) model and the corpus of the APICS (Association for Operations Management) as standards for its supply chain performance measurement tool.

Its supply chain performance measurement refers to the measurement of the maturity and efficiency of its services in relation to the provision of the end products.

This measurement covers all activities forming part of the supply chain, incorporating the preparation, production, and planning of supplies and production, purchases and supplies, workshop management, delivery management and the treatment of customer feedback.

Process management

The Thales group has obtained and maintains, within its different sites and activities, certifications that attest to its ability to manage its processes to meet the needs of its clients.

For quality and for all Group activities, the certification standard is ISO 9001, and, depending on the activities, the following standards are also used (non-exhaustive list):

- AQAP 2110, NATO quality standard for the defence sector;
- EN 9100, European standard describing a quality assurance system for aeronautics and space;
- EASA Part 21 subpart G for production activities (Europe);
- EASA Part 145 (Europe) and FAR 145 (USA) for maintenance activities;
- EASA Part 147 for aeronautical training and maintenance;
- ISO 14001 and OHSAS 18001 for Environment, Health & Safety at work.

b) Self-assessment and on-going improvement of corporate risk management

The Group has required a corporate risk management process since 2008, 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, reviewed and signed by the directors of the legal entities, in all countries including France. In turn, they send a summary to the Group Chairman. In 2012, based on major risk mapping established for the Group, this system covered all major risks and used the same methodology applied in the previous two years, in order to promote consistency and facilitate the adoption of the diagnosis and action plans defined by the subsidiary companies.

As in previous years, an analysis by segment, geographic region and risk will enable the Group to launch cross-functional actions for improvement, to closely monitor entities with a level of maturity considered as being below the reasonable level expected by the Group, and to ensure that the risk sponsors have a close understanding of the entities in order to provide them with the necessary support to prevent risks and manage mitigation actions.



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For several years, these summaries and action plans have been presented to the Risks & Internal Control Committee.

Last year, as was the case the previous year, the analysis did not reveal any areas that might compromise the published consolidated financial statements.

c) Self-assessment and on-going 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 and based on the AMF recommendation document entitled "Internal control: reference framework".

Each year, the Group's consolidated entities update their replies and add to the attestation letter signed by their company representative at the end of the year by including a summary of the self-assessment and the resulting progress plans.

Since the questionnaire was created, the Internal Audit and Control Department has conducted audits on Group entities to facilitate an understanding of the system and improve the reliability of the results. At 31 December 2012, it audited 85% of the units (90% at the end of 2011), thus covering approximately 99% of the 2012 projected sales.

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 accounts, the Group Finance Director submits a memorandum to the Audit & Accounts Committee on procedures applied to identify and control major risks and off-balance sheet commitments.

Each year, the Audit & Internal Control 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 2012, this committee met four times.

Risks & Internal Control Committee

This committee, chaired by the Group Finance Director, 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 2012, 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 2011 self-assessments on internal control and legal compliance. In 2012, 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 2012, this committee met twice.

The Group Audit & Internal Control Department

Reporting to the Chairman & Chief Executive Officer, the Audit and Internal Control 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 Audit & Internal Control 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 ON THE REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS OF THALES

This is a free translation into English of a report issued in French and 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.

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 report on 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 ended 31 December 2012.

The Chairman is responsible for preparing and submitting for the approval of the Board of Directors approval 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*) relating to matters such as 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 (*Code de commerce*). It should be noted that we are not responsible for verifying the fair presentation of those other disclosures.

We have performed our work in accordance with 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 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, March 4, 2013

The Statutory Auditors
French original signed by

Mazars

Jean-Marc Deslandes
Anne-Laure Rousselou

ERNST & YOUNG

Michel Gauthier
Nour-Eddine Zanouda

3.2.4 GENERAL MANAGEMENT

3.2.4.1 CHANGES IN THE COMPOSITION OF THE EXECUTIVE COMMITTEE FROM 1 JANUARY 2012 TO 3 APRIL 2013

	From 1 January 2012 to 9 April 2012	From 10 April 2012 to 31 August 2012	From 1 September 2012 to 20 December 2012	From 20 December 2012 to 4 February 2013
Chairman and Chief Executive Officer ^(a)	Luc Vigneron	Luc Vigneron	Luc Vigneron	Jean-Bernard Lévy
SVP, International, Area A ^(b)	Alex Dorrian ^(d)	Alex Dorrian ^(d)	Pascale Sourisse	Pascale Sourisse
SVP, International, Area B ^(c)	Blaise Jaeger	Blaise Jaeger	Reynald Seznec	Reynald Seznec
SVP, Research and Technology	Marko Erman	Marko Erman	Marko Erman	Marko Erman
SVP, Finance	Luc Vigneron ^(e)	Pascal Bouchiat	Pascal Bouchiat	Pascal Bouchiat
SVP, Human Resources and Communication	Loïc Mahé	Loïc Mahé	Patrick Fournié	Patrick Fournié
SVP, Operations	Patrick Fournié	Patrick Fournié	Patrick Fournié	Patrick Fournié
SVP, Strategy	Hervé Multon	Hervé Multon	Hervé Multon	Hervé Multon
SVP, C4I Defence & Security Systems	Pascale Sourisse	Pascale Sourisse	Marc Darmon	Marc Darmon
SVP, Defence Mission Systems	Pierre-Eric Pommellet	Pierre-Eric Pommellet	Pierre-Eric Pommellet	Pierre-Eric Pommellet
SVP, Land Defence	Alex Cresswell	Alex Cresswell	Serge Adrian	Serge Adrian
SVP, Air Operations	Jean-Loïc Galle	Jean-Loïc Galle	Guy Delevacque	Guy Delevacque
SVP, Avionics	Michel Mathieu	Michel Mathieu	Michel Mathieu	Michel Mathieu
SVP, Transport Systems	Jean-Pierre Forestier	Jean-Pierre Forestier	Jean-Pierre Forestier	Jean-Pierre Forestier
SVP, Space	Reynald Seznec	Reynald Seznec	Jean-Loïc Galle	Jean-Loïc Galle

	From 4 February 2013 to 28 February 2013	Since 1 March 2013
Chairman and Chief Executive Officer ^(a)	Jean-Bernard Lévy	Jean-Bernard Lévy
Senior Executive Vice President, Operations and Performance	Patrice Caine	Patrice Caine
Senior Executive Vice President, International Development	Pascale Sourisse	Pascale Sourisse
Senior Executive Vice President, Finance and Information Systems	Pascal Bouchiat	Pascal Bouchiat
Senior Executive Vice President, Human Resources	Jean-Bernard Lévy ^(e)	Jean-Bernard Lévy ^(e)
Group Secretary	-	Philippe Logak
Senior Vice President, Strategy, Research and Technology	Hervé Multon	Hervé Multon
Senior Vice President, Secure Communications and Information Systems	Marc Darmon	Marc Darmon
Senior Vice President, Defence Mission Systems	Pierre-Eric Pommellet	Pierre-Eric Pommellet
Senior Vice President, Land & Air Systems ^(f)	Alex Cresswell	Alex Cresswell
Senior Vice President, Avionics	Michel Mathieu	Michel Mathieu
Senior Vice President, Transport	Jean-Pierre Forestier	Jean-Pierre Forestier
Senior Vice President, Space	Jean-Loïc Galle	Jean-Loïc Galle

(a) The only company representative.

(b) Area A: Australia and New Zealand, South Korea, Canada, United States, Norway, Netherlands, UK, North Asia, Northern and Central Europe.

(c) Area B: Germany, Austria, Spain, Italy, Singapore, Switzerland, Africa, Latin America, South Asia, Southern Europe, Middle East & West Asia.

(d) Also Chairman of Thales UK.

(e) Post held by interim.

(f) Merger of Land Defence and Air Operations divisions under Global Business Unit of Land and Air Systems.

3.2.4.2 COMPENSATION OF DIRECTORS AND OFFICERS

3.2.4.2.1 Remuneration policy for the Chairman & Chief Executive Officer, Thales' only company representative

The company representative's compensation consists of a fixed and a variable part, in the same way as that adopted by Thales for its directors. 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.

There was a change of company representative at the end of financial year 2012: Luc Vigneron resigned on 20 December and was replaced by Jean-Bernard Lévy on the same date.

Decisions concerning Luc Vigneron's remuneration for 2012 were taken at the Board of Directors' meeting of 27 March 2012.

Table 1: remuneration, options and shares granted to the executive company representative

(€ thousand)	2012	2011
Luc Vigneron, Chairman & Chief Executive Officer until 19 December 2012		
Remuneration due for the year (detailed in Table 2)	1,423.3	1,538.7
Value of options granted during the year (detailed in Table 4)	—	373.0
Value of performance shares granted during the year (detailed in Table 6)	—	—
Jean-Bernard Lévy – Chairman & Chief Executive Officer from 20 December 2012		
Remuneration due for the year (detailed in Table 2)	16.8	
Value of stock options granted during the financial year	—	
Value of performance shares granted during the financial year	—	
TOTAL	1,440.1	1,550.7

Table 2: remuneration of the executive Company representative

	2012		2011	
	Due for the period	Paid during the financial year	Due for the period	Paid during the financial year
<i>(€ thousand)</i>				
Luc Vigneron, Chairman & Chief Executive Officer until 19 December 2012				
Fixed compensation	678.8	700.0*	700.0	702.7
Variable compensation ^(a)	704.6	790.4**	790.4	415.1**
Exceptional compensation				
Attendance Fees	36.8	32.7	45.2	48.9
Benefits in kind ^(b)	3.1	3.1	3.1	3.1
Total Luc Vigneron	1,423.3			
Jean-Bernard Lévy – Chairman & Chief Executive Officer from 20 December 2012				
Fixed compensation	13.8			
Variable compensation	–			
Exceptional compensation	–			
Attendance Fees	2.9			
Benefits in kind ^(b)	0.1			
Total Jean-Bernard Lévy	16.8			
TOTAL	1,440.1	1,526.2	1,538.7	1,169.8

* The excess paid in December 2012 was remedied in January 2013

** Paid for the previous period.

(a) The Board of Directors' meeting of 27 March 2012 decided that the target variable compensation would be 100% of the fixed remuneration, with a maximum of 137.50% if performance targets were exceeded (a maximum of 150% for quantitative criteria and 100% for qualitative criteria). The criteria for calculating variable compensation, based on a weighting decided by the Board of Directors, were quantitative and equivalent to a total of 75% (in descending order: 45% EBIT, 20% operating cash flow and 10% of order intake in 2012). The targets were set by the Board during the budgetary process but were not made public for reasons of confidentiality. For the balance, i.e. 25% of the variable remuneration, the Board decided to use as the qualitative criteria for 2012 change management and strategy, the progress and results of the Probasis plan, the organisation and management of the major programmes and development of skills, without necessarily being limited to this list.

On 28 February 2013, the Board reviewed the results achieved, based partly on the quantitative criteria set previously, i.e.:

- EBIT for 2012;
- operating cash flow for 2012;
- order intake in 2012;

and partly on qualitative criteria.

This review led the Board of Directors to decide, upon the proposal of the Appointments and Remuneration Committee, that the variable remuneration payable in 2013 to Luc Vigneron for the 2012 financial year would be €704,628 (gross).

(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 remuneration received by non-executive corporate officers in 2012 and 2011

Beneficiary (€)	Paid in 2012	Paid in 2011	Notes
R. Freeman (net of deduction at source)	102,269	106,586	(a)
Ph. Lepinay	30,700	44,450	(b)
D. Lombard	24,450	36,950	
Inter CFDT (M-P. Delpierre + D. Floch + M. Saunier)	57,650	90,150	
State treasurer – Art. 139 NRE (O. Bourges + B. Parent + J.-M. Prost)	57,650	92,650	
Ch. Edelstenne	30,700	46,950	
Y. d'Escatha	-	-	(c)
S. Gentili	26,950	39,450	
P. Mutz	26,950	44,450	
L. Segalen	31,950	43,200	
A. de Sèze ^(e)	12,950	31,950	(e)
A.-C. Taittinger	2,500	-	
A. Taylor (net of deduction at source)	38,083	-	(d)
E. Trappier	31,950	45,700	
TSA	19,450	34,450	
TOTAL PAID (NET OF DEDUCTION AT SOURCE)	494,202	656,936	
including attendance fees (excl. company representative(*))	377,813	582,375	

Notes

(a) Including £65,000 for the duties performed by Roger Freeman in the Group in the United Kingdom (which represents, at the average exchange rate for the period: €80,056 in 2012 and €74,561 in 2011), the remainder consisting of Thales attendance fees paid in France, net of the deduction at source applicable to non-residents;

(b) Philippe Lépinay has informed the company that he paid €6,250 in 2011 and €4,500 in 2012 to Thales' employee shareholder association (APAT), indicating that these sums represented about half of his attendance fees for the period after associated taxes and expenses.

(c) Yannick d'Escatha decided not to collect his attendance fees.

(d) Including £29,500 gross for the contribution of Ann Taylor on the advisory board of Thales UK – a non-executive post (which represents, at the average exchange rate for the year: €36,333 in 2012, the remainder consisting of Thales attendance fees paid in France, net of the deduction at source applicable to non-residents.

(e) Net of the deduction at source for the payment of July 2012.

* Attendance fees paid to the company representative are shown in AMF Table 2 (Remuneration of the company representative).

Table 4: stock options granted during the year to the company representative 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	None			None			
Jean-Bernard Lévy	None			None			



3 SHAREHOLDER INFORMATION

Corporate Governance

Table 5: stock options exercised during the year by the company representative

Name of company representative	Plan date	Number of options exercised during the year as company representative	Exercise price
Luc Vigneron			None
Jean-Bernard Lévy			None

Table 6: performance shares allotted during the year to the company representative

Director's name	Date of Plan	Number of shares allotted	Value of shares based on method used for consolidated accounts	Vesting date	Date of availability	Performance condition
Luc Vigneron						None
Jean-Bernard Lévy						None

On 20 December 2012, the Board of Directors decided to implement a free share allotment plan (existing shares) or performance-based share allotment plan (existing shares) depending on the level of responsibility of the beneficiaries (cf. pages 69 and 70).

The Company decided, when it first started making such grants (in 2007), to exclude the Chairman & Chief Executive Officer (the sole company representative).

Table 7: performance shares made available during the year for the company representative

Director's name	Date of Plan	Number of shares made available	Vesting conditions
Luc Vigneron			None
Jean-Bernard Lévy			None

Table 8: historical record of stock options allotted to the company representative

Date of authorisation by AGM	18/05/2011	15/05/2008	15/05/2008
Date of Board decision	15/09/2011	23/09/2010	25/06/2009
Allotment discount	None	None	None
Nature of options	Subscription	Subscription	Subscription
Performance conditions	Yes ^(a)	Yes ^(a)	
Exercise period	15 September 2015 to 15 September 2021	23 September 2014 to 23 September 2020	
Exercise price	€26.34	€26.34	Waiver ^(c) (d)
Allotment to the company representative on the plan date	64,000	64,000	
Total number of options in current plan at 31/12/2012	403,000	469,250	
Incl. effective options held at 31/12/2012 by the former company representative Luc Vigneron ^{(b)(e)}	64,000	64,000	
Of which options exercisable by the company representative at 31/12/2012	0	0	

(a) Details and comments in table 4 (page 203).

(b) Data net of eliminations related to partial or complete failure to achieve the performance conditions (cf. page 210 table tracking performance conditions).

(c) At the Board meeting of 10 December 2009 Luc Vigneron waived 80,000 options that he had been allotted by the Board of Directors on 25 June 2009.

(d) The key features of the plan are described on page 69.

(e) On 20 December 2012, the Board of Directors provisionally allowed Luc Vigneron to maintain his options, on their original terms, and it confirmed its decision definitively at the Board meeting of 1 February 2013.

Table 9: stock options allotted to the top ten employees who are not company representatives, and options exercised by the ten employees with the highest number of options purchased or subscribed during 2012

	Total number of options	Weighted average price
Options granted during the year by the issuer and any company within the scope of the allotment of options, to the ten employees of the issuer and any company within that scope, having the highest number of options thus granted	None	None
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	6,500	€25.70

In 2012, the Company decided to cease granting any more stock options.

Table 10

Company representative	Employment contract		Supplementary pension scheme		Compensation or other benefits in connection with termination/change of function		Compensation for restrictive covenant	
	Yes	No	Yes	No	Yes	No	Yes	No
Luc Vigneron – Chairman & Chief Executive Officer from 19 May 2009 to 19 December 2012 inclusive		X	X		X			X
Jean-Bernard Lévy – Chairman & Chief Executive Officer from 20 December 2012		X	X		X			X

Supplementary pension

Luc Vigneron, company representative until 19 December 2012

Following a decision of the Board of Directors dated 24 March 2009, Thales' 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.

On the date of his departure, the performance condition had not been met. Consequently, no share entitlement under this scheme was payable at the end of Luc Vigneron's term of office.

Jean-Bernard Lévy, company representative since 20 December 2012

Following a decision of the Board of Directors dated 1 February 2013, Thales' 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 is deemed to have been earned as of 1 January 2015 but remains subject 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. An increase in the annuity will be conditional on the maintenance of the Chairman & Chief Executive Officer's term of office for three years from the date of joining the Group.

Benefits and rights upon the termination of office of the company representative

Luc Vigneron, company representative until 19 December 2012 inclusive

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 Luc Vigneron on account of the termination of his office as Chairman & Chief Executive Officer, unless for serious or gross misconduct.

This compensation would be equal ab initio to a gross amount of €757,000, with this figure increasing on a straight-line basis to reach at the end of the first term of office (2014 OGM) 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.

On the date of his departure, the performance condition had not been met. Consequently no compensation was paid to Luc Vigneron due to the termination of his employment contract. For the same reason, Luc Vigneron does not benefit from private unemployment insurance benefit.

Jean-Bernard Lévy, company representative since 20 December 2012

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 Jean-Bernard Lévy on account of the termination of his office as Chairman & Chief Executive Officer, except in the case of serious or gross misconduct.

The amount of this compensation was set on 1 January 2014 at €225,000 gross, increasing by €100,000 per quarter to a maximum amount of compensation of €1,500,000. Under no circumstances can compensation for termination of the employment contract exceed the total amount (fixed + variable) received during the last 24 months of employment.

A decision has also been made to take out private unemployment insurance based on the same performance criterion as for severance pay.

Regulated commitments (pension and unemployment insurance compensation) for Luc Vigneron were ratified by the General Meeting of 20 May 2010.

Pursuant to legislation in force, regulated commitments (pension and unemployment insurance compensation) for Jean-Bernard Lévy were published on the company's website for five days following the Board of Directors' meeting of 1 February 2013 that took these decisions, and they will be submitted to the General Meeting of 24 May 2013 for approval in a Special Report of the statutory auditors.

Fiscal year 2013

On the recommendation of the Selection & Remuneration Committee, the Board of Directors decided for 2013:

- at its meeting of 1 February 2013
 - to set the gross basic salary of Jean-Bernard Lévy, Chairman & Chief Executive Officer, at €450,000;
 - to set the amount of the target variable remuneration at €530,000, with a maximum of €713,750 in the event of the targets being exceeded;
- at its meeting of 28 February 2013
 - that the criteria for calculating the variable remuneration for 2013, based on a weighting set by the Board of Directors,

would be quantitative and equivalent to a total of 75% (in descending order: adjusted net income per share for 22.5%, income from operations (excluding DCNS⁽¹⁾) for 22.5%, operating cash flow for 15% (excluding DCNS⁽¹⁾) and order intake for 15% (excluding DCNS⁽¹⁾). The targets are set by the Board of Directors during the budgetary process but are not made public for reasons of confidentiality. For the balance of 25% of the variable remuneration, the Board decide to retain qualitative criteria which are not publicised at the start of the year for the same reasons.

3.2.4.2.2 Compensation of other Group Executives

After several reorganisations during the year (cf. 3.2.4.1), the Group Executive Committee had 13 members at the end of 2012, not including the Chairman & Chief Executive Officer.

Total compensation paid in 2012 to Executive Committee members (proportionate to the time spent on the committee), excluding the Chairman & Chief Executive Officer, was €5,981,000, including 30.8% representing the variable portion for 2011⁽²⁾. As is the case for the Chairman & 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 & Chief Executive Officer) in 2011 and 2012

	2012	2011
	Paid during the financial year	Paid during the financial year
(€ thousand)		
Executive Committee (excl. Chairman & Chief Executive Officer)		
Fixed compensation	4,105	4,205
Variable compensation	1,842	1,890
Exceptional compensation	-	1,268
Benefits in kind	34	41
Total before contributions	5,981	7,404
Employer contributions	1,872	2,327
TOTAL EXPENSE	7,853	9,731

In addition, at the end of December 2012, the 13 members of the Executive Committee other than the Chairman together have a total of 809,000 stock options and 37,950 shares subject to performance conditions. The breakdown by allotment date and the

detailed features, as well as any options exercised, are shown in the tables on pages 31 and 96 of the summary of operations carried out by directors, senior executives and related persons.

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

(2) Variable remuneration for 2012 is paid in 2013.

3.2.4.2.3 Share-based payments

1. Description of the different plans allotted by the Group

Thales regularly allots its employees and directors stock options and/or free shares (since 2007), as part of its standard management policy on the performance of the Group's employees. These different plans are described below.

Outstanding options at 31 December 2012

At 31 December 2012, the following were outstanding:

- 126,700 share purchase options at a weighted average exercise price of €42.46;
- 12,294,262 share subscription options at a weighted average exercise price of €33.96.

Outstanding purchase options plans

Date of Board decision	25/11/2008	04/07/2007	13/11/2001	02/04/2001
Allotment discount	None	None	None	None
Performance conditions	No	No	No	No
Exercise period ^(a)	From 25 November 2012 to 24 November 2018	From 4 July 2011 to 3 July 2017	From 13 November 2005 to 12 November 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 31/12/2012, NET OF OPTIONS CANCELLED				
(d) AND EXERCISED	46,700	80,000^(e)	0	0
of which exercisable options at 31/12/2012	46,700	80,000	–	–
of which outstanding options at 31/12/2012 held by:				
• Chairman, Jean-Bernard Lévy	–	–	–	–
• Other members of the Executive Committee	15,000	–	–	–
NUMBER OF BENEFICIARIES OF OUTSTANDING OPTIONS				
	11	1		
Including members of the Executive Committee (excluding Chairman) at 31/12/2012	1	–	–	–
Total allotted 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 allotment 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 allotment date.

(d) Notably due to termination of the employment contract between the grantee and the Group since the allotment date.

(e) Because the former company representative Denis Ranque's options have been maintained.

Outstanding subscription options plans

Date of Board decision	15/09/2011	23/09/2010	25/06/2009	01/07/2008	04/07/2007	09/11/2006	30/06/2005	01/07/2004	01/07/2003	02/07/2002
Allotment discount	None	None	None	None	None	None	None	None	None	None
Performance conditions	Yes	Yes	No	No	No	No	No	No	No	No
Exercise period ^(a)	From 15 Sep. 2015 to 14 Sep. 2021	From 23 Sep. 2014 to 22 Sep. 2020	From 25 Jun. 2013 to 24 Jun. 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
Exercise price	€26.34	€26.34	€32.88	€38.50	€44.77	€36.47	€34.01	€29.50	€25.70	€40.97 ^(b)
NUMBER OF OPTIONS OUTSTANDING AT 31/12/2012, NET OF OPTIONS CANCELLED^(c) AND EXERCISED	403,000	469,250	1,506,000	1,578,350	1,414,170	1,965,825	1,775,043	1,850,727	1,331,897	-
of which exercisable options at 31/12/2012	-	-	305,134	1,578,350	1,414,170	1,965,825	1,775,043	1,850,727	1,331,897	-
of which outstanding options at 31/12/2012 held by:										
• Chairman, Jean-Bernard Lévy	-	-	-	-	-	-	-	-	-	-
• Other members of the Executive Committee	129,500	144,500	126,500	102,000	97,400	64,500	70,100	53,300	6,200	-
NUMBER OF BENEFICIARIES OF OUTSTANDING OPTIONS	109	119	1,313	1,209	1,160	1,718	1,592	2,484	2,093	-
including members of the Executive Committee (excluding Chairman) at 31/12/2012	12	12	12	12	12	9	9	8	2	-
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

(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 allotment date.

(c) 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.

Conditions of exercise

All Thales stock options are granted for a 10-year period, at no discount to the market price.

Stock options granted up to 25 November 2008 can already be exercised in full.

Stock options granted on 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 allotment date, then up to 6.25% of the number allotted at the end of each subsequent quarter, reaching a total of 100% four years after the allotment 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 allotment date.

The options allotted 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 (after restructuring), operating cash flow and order intake, with a weighting of 60%, 25% and 15% respectively.

Options may be vested in tranches of one-third 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. For all beneficiaries, options may be exercised only from the fourth anniversary of the allotment date.

Validation of the performance conditions for fiscal year 2012

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 September 2010	2011	100%	2012	100%	2013	–
15 September 2011	2012	100%	2013	–	2014	–
20 December 2012	2013	–	2014	–	2015	–

Options allotted and exercised in 2012

	Number of options allotted/shares subscribed or purchased	Exercise price	Maturity date	Plan date
1 – Directors				
Options allotted in 2012				
• Luc Vigneron	None			
• Jean-Bernard Lévy	None			
2 – The 10 biggest awards of options allotted to employees(a)				
Options allotted in 2012	None			
3 – The 10 biggest exercises of options by employees^(b)				
Options exercised in 2012	1,200	€25.70	–	01/07/2003
	900	€25.70	–	01/07/2003
	800	€25.70	–	01/07/2003
	800	€25.70	–	01/07/2003
	800	€25.70	–	01/07/2003
	400	€25.70	–	01/07/2003
	400	€25.70	–	01/07/2003
	400	€25.70	–	01/07/2003
	400	€25.70	–	01/07/2003
	400	€25.70	–	01/07/2003
	400	€25.70	–	01/07/2003

(a) 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 2012, for financial year 2011, in the payment of profit-sharing rights totalling €24.3m.

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'intéressement*) on the basis of indicators which represent its key objectives. Under the terms of the Group profit-sharing agreement in France, 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.

28 Group companies paid incentives in 2012 for fiscal 2011 for a total of €45.15m.

Gross amounts paid out in incentives and profit-sharing in recent years

(€ million)	2012	2011	2010	2009	2008
In the Group^(a) in France					
Profit share paid	24.29	36.52	39.15	51.30	35.86
Incentives paid	45.15	23.99	15.13	16.92	15.30
By Thales (parent company)					
Incentives paid	4.80	–	–	2.77	3.18

(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
92400 Courbevoie

Represented by Jean-Marc Deslandes and Anne-Laure Rousselou

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 Zanouda

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

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 2012 and 2011 are presented below^(a):

	Mazars				Ernst & Young			
	Amount (pre-tax)		%		Amount (pre-tax)		%	
	2012	2011	2012	2011	2012	2011	2012	2011
Audit								
Auditing, certification, examination of individual and consolidated accounts ^(b)								
• Issuer	752	709	13%	12%	790	796	15%	14%
• Subsidiaries fully consolidated	4,158	4,104	73%	69%	3,289	3,207	60%	56%
Other work and services directly associated with the assignment of the auditor ^(c)								
• Issuer	229	232	4%	4%	352	770	6%	13%
• Subsidiaries fully consolidated	512	923	9%	15%	428	557	8%	10%
Sub-total	5,651	5,968	99%	100%	4,859	5,330	89%	93%
Other services provided by the networks to fully consolidated subsidiaries^(d)								
Legal, tax and employee-related	20	–	1%	–	612	388	11%	7%
Others (if > 10% of audit fees)	–	–	–	–	–	–	–	–
Sub-total	20	--	1%	--	612	388	11%	7%
TOTAL	5,671	5,968	100%	100%	5,471	5,718	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 statutory auditors' network which the auditor uses in connection with certifying the financial statements.

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

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

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

3.3 Stock market information and financial communication

3.3.1 THALES SHARE

3.3.1.1 LISTING MARKETS

Thales stock is listed on the NYSE Euronext Euronext Paris regulated market (Compartment A). It is eligible for the SRD deferred settlement system.

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: SBF 120 (since 31 December 1990), SBF 250, and CAC All-Shares.

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 2012 closing price, Thales's total market capitalisation was €5,310m, which is 0.28% of the SBF 120 market capitalisation. Thales's free float market capitalisation, as defined by the NYSE Euronext Indices Steering Committee, was €2,420m.

- International indices: DJ Euro Stoxx, 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 2011 to December 2012 (share prices in euros)

	No. of trading days	No of shares traded	Total value traded (in €m)	Aver. daily volume	Weighted average price	High price	Low price	Closing price
2012								
January	22	4,957,213	124.00	225,328	25.010	26.700	23.225	26.155
February	21	5,791,364	156.83	275,779	27.080	27.770	26.105	27.095
March	22	7,371,913	206.65	335,087	28.032	28.905	26.220	28.060
Q1 2012	65	18,120,490	487.48	278,777	26.902	28.905	23.225	28.060
April	19	7,391,224	196.72	389,012	26.610	28.500	25.000	26.175
May	22	9,197,892	225.58	418,086	24.525	26.500	23.570	23.910
June	21	4,823,098	118.13	229,671	24.490	26.050	23.070	26.020
Q2 2012	62	21,412,214	540.43	345,358	25.239	28.500	23.070	26.020
July	22	4,905,068	129.28	222,958	26.360	27.510	25.180	25.485
August	23	3,473,191	91.43	151,008	26.320	27.190	25.340	26.420
September	20	3,400,416	91.35	170,021	26.860	27.770	26.030	26.725
Q3 2012	65	11,778,675	312.06	181,210	26.493	27.770	25.180	26.725
October	23	3,710,696	103.29	161,335	27.830	28.870	26.590	27.135
November	22	3,108,690	83.58	141,304	26.887	27.975	25.970	27.655
December	19	3,769,751	102.93	198,408	27.303	28.270	25.870	26.245
Q4 2012	64	10,589,137	289.80	165,455	27.367	28.870	25.870	26.245
TOTAL 2012	256	61,900,516	1,629.76	241,799	26.329	28.905	23.070	26.245
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

3.3.1.3.2 Annual data from 2011 to 2012 (share prices in euros)

Price and performance

	2012	2011
Closing price	26.245	24.400
Session high	28.905	30.500
Session low	23.070	21.610
Weighted average price	26.33	26.88
Net dividend in respect of the previous year	0.78	0.50
Total shareholder return (TSR) ^(a)	+10.76%	-4.91%
Change in Thales share over the period (%)	+7.56%	-8.90%
CAC 40 performance over the period (%)	+15.25%	-19.00%
SBF 120 performance over the period (%) ^(b)	+16.50%	-18.16%

(a) Total shareholder return: differential between annual closing prices, plus dividend before tax credit paid during the year in respect of the previous year, relative to the opening price.

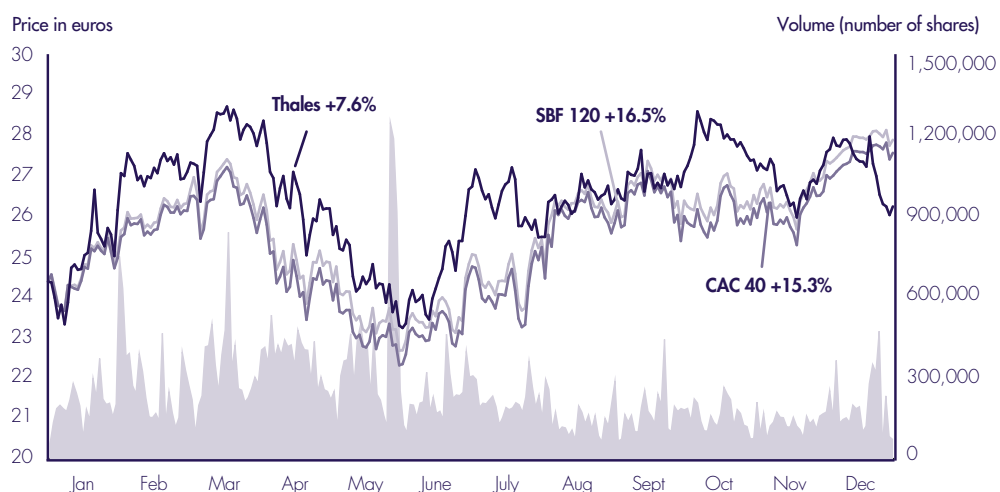
(b) Thales was included in the SBF 120 on 31 December 1990.

	2012	2011
Average number of shares traded daily (thousands)	242	394
Total number of shares traded over the period (millions)	62	101
Total value traded over the period (€m)	1,630	2,721
Average number of shares traded per month (thousands)	5,158	8,436
Average value traded per month (€m)	135.81	226.75
Total number of shares in capital (period-end)	202.3	202.3
Total number of shares in free float (period-end) ^(a)	92.2	91.5

(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 2012 to 31 December 2012

Share price and traded volume from 1 January 2012 to 31 December 2012



Closing price of the Thales share:
 2 January 2012: €24.40
 31 December 2012: €26.245
 2012 high: €28.905
 2012 low: €23.070

a) Comments on share price in 2011 and 2012

- **In 2012**, the Thales share price increased by 7.6% over the year; this compares with 15.3% for the CAC 40 and 16.5% for the SBF 120 in the context of a recovery on the European equity markets compared with the previous year.
- **In 2011**, after growth in the first half, the Thales share price fell -8.9%; this compares with the CAC 40 and SBF 120 indices which lost 19% and 18.2% respectively, in a general downward environment on all European markets.

b) Comments on traded volumes in 2011 and 2012

- **In 2012**, daily traded volumes reached an average of 241,799 shares, down from 2011, in the context of a fall in volumes traded on European markets. Volumes traded recorded three significant peaks during the year: the first two at the time of the publication of annual sales in February and of the annual earnings in March, and the third at the ex-dividend date at the end of May.
- **In 2011**, daily traded volumes 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 ex-dividend date at the end of May.

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.

As a reminder, the Thales Annual General Meeting on 15 May 2012 approved the payment of a dividend of €0.78 per share for 2011, entirely in cash. As an interim dividend of €0.25 per share had been paid on 23 December 2011, the balance of the dividend for 2011 of €0.53 per share was paid after the Annual General Meeting.

On 29 November 2012, the Board of Directors of the Company decided to pay an interim dividend of €0.25 per share for 2012. This interim dividend, equal to the interim dividend paid in December 2011, was paid on 14 December 2012.

For 2012, the dividend recommended by the Board of Directors to shareholders at the Annual General Meeting on 24 May 2013 will be paid entirely in cash. As an interim dividend of €0.25 per share was paid on 14 December 2012, this payment will represent the balance of the dividend for 2012 of €0.63 per share, subject to the approval by the shareholders at the Annual General Meeting on 24 May 2013 of the dividend recommended by the Board of Directors of €0.88 per share for the year 2012. 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 2009, 2010 and 2011 qualified for a possible tax reduction of 40%.

DIVIDENDS PAID FOR THE LAST FIVE YEARS

(Euros)	2012 ^(a)	2011	2010	2009	2008
Dividend before tax credit	0.88	0.78	0.50	0.50	1.05

(a) Subject to the approval of the Annual General Meeting of 24 May 2013, which will vote on the 2012 financial statements. The ex-dividend date is 28 May 2013 and the payment date is 31 May 2013.

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 business segment, the main statutory information about the company, and its corporate responsibility policy, Thales also publishes an interim report and two letters to shareholders as well as regular financial press releases and statements. Other publications include an corporate activity report with key information about the Group, a corporate social responsibility report, a social report and an environment report providing a detailed description of its commitments and achievements in these areas.

All Thales information documents, presentations and financial press releases are available on the Thales website: www.thalesgroup.com, in the "Investors" section.

Thales also holds briefings for the financial community, by teleconference where appropriate, particularly when announcing results (annual and interim financial statements and quarterly information) or important strategic or financial operations.

Regular meetings between Thales executives and institutional investors are held in Europe and North America, typically as part of roadshows or investor days. These include more detailed presentation about the company's business activities and performance.

Thales also publishes information on its corporate social responsibility policy for Socially Responsible Investors (SRI). These reports cover corporate, social, environmental and governance issues, and information about management of commercial activities especially as regards prevention of corruption and control of exports of equipment or defence technologies or dual-use devices and technologies.

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.

In October 2012, Thales's financial communication was rewarded at the 4th Financial Transparency Awards ceremony held in Paris. The Group won the "Best progression among SBF 120 companies" and was ranked second in the "Large caps" and "Industrial Goods & Services" categories. Organised annually under the auspices of a scientific committee⁽¹⁾ which includes a wide range of representatives from the financial community, the Financial Transparency Awards recognise best practices among listed companies in providing access to regulated financial information.

3.3.2.2 PROVISIONAL FINANCIAL REPORTING CALENDAR FOR 2013

28 February	2012 consolidated results
25 April	Q1 2013 financial information
24 May	Annual General Meeting of Shareholders
28 May	2012 ex-dividend date
24 July	2013 interim consolidated results
24 October	Q3 2013 financial information

3.3.2.3 CONTACTS

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⁽¹⁾ Composition of scientific committee: NYSE Euronext, AMF (French stock markets regulator), Université Paris Dauphine, SFAF (Association of French Financial Analysts), AFG (Association of Asset Management Professionals), IFA (French Institute of Directors) and shareholders' associations such as ADAM (Association for Minority Shareholders' Rights), APAI (Association of Retail Shareholders) and F2IC (Federation of Retail Shareholders and Investment Clubs)



3

SHAREHOLDER INFORMATION

Stock market information and financial communication

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).

2011 results

In the "Investors" section, under the heading "Releases and publications":

- Press release – 7 February 2012: sales and order intake at 31 December 2011;
- Press release – 6 March 2012: 2011 annual results;
- Presentation – 6 March 2012: 2011 annual results;
- 2011 consolidated annual results.

Quarterly information at 30 March 2012

In the "Investors" section, under the heading "Releases and publications":

- Press release – 10 May 2012;
- Presentation – 10 May 2012.

2012 Annual General Meeting of Shareholders

In the "Investors" section, under the heading "Annual General Meetings":

- AGM of 15 May 2012 – draft resolutions;
- Brochure specified in Article R. 225-83 for the AGM of 15 May 2012;
- Notice to attend AGM on 15 May 2012;
- Notice of AGM of 15 May 2012;

- AGM presentation – 15 May 2012;
- Press release – AGM of 15 May 2012;
- Quorum & results of votes – AGM of 15 May 2012;
- AGM brochure – 15 May 2012;
- Capital and voting rights at 30 March 2012.

2012 first-half results

In the "Investors" section, under the heading "Releases and publications":

- Press release – 25 July 2012;
- Presentation – 25 July 2012;
- Interim consolidated financial statements.

Quarterly information at 30 September 2012

In the "Investors" section, under the heading "Releases and publications":

- Press release – 25 October 2012;
- Presentation – 25 October 2012.

2012 results

In the "Investors" section, under the heading "Releases and publications":

- Press release – 28 February 2013;
- Presentation – 28 February 2013;
- 2012 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%. This loan, which matured in April 2013, was refinanced in March 2013 by an €800m bond issue, structured in the form of a 5-year €500m tranche with a coupon of 1.625% and an 8-year €300m tranche with a coupon of 2.25%.

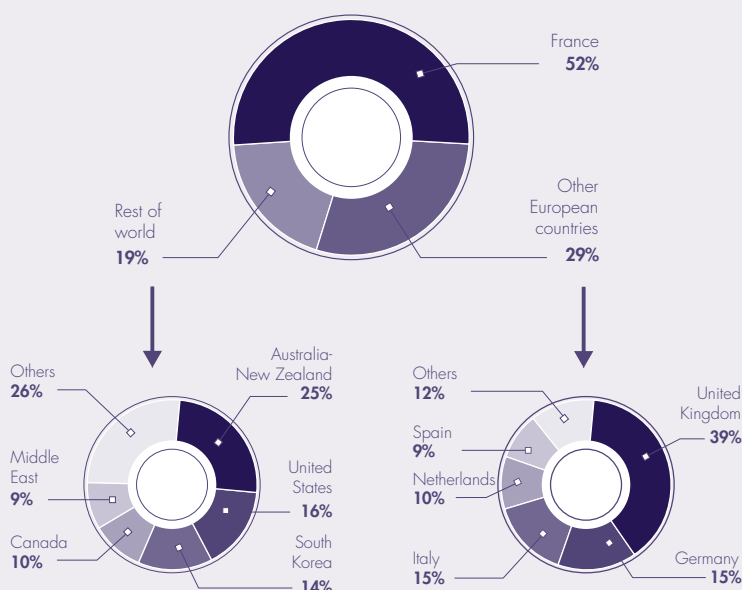
3.3.3.2 BOND MATURING IN 2016

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 matures in October 2016.

Thales, a responsible employer

- Anticipation to support professional development: 83% of the employees benefited from a professional development interview with their manager in 2012.
- Continuing training programme: 83% of the Group's employees received training in 2012 compared with 73% in 2011.
- A salary policy that enables employees to share in the Group's results, primarily through employee savings and employee shareholding plans.
- High-quality social dialogue: 89% of the Group's employees in the world are covered by collective conventions or agreements.
- A concrete and committed social policy for gender equality (women representing 22% of the Group's workforce and 27% of new hires in 2012). In France, since 2006, Thales has set aside a specific annual budget equal to 0.1% of the payroll for dealing with any unjustified pay differences between men and women
- An active policy to support diversity and to fight against discrimination, particularly age- or disability-related.

DISTRIBUTION OF EMPLOYEES BY GEOGRAPHIC REGION



Long-standing environmental commitments

- First Environment Master Plan launched in 1997.
- A structured and dedicated organisation, adapted to the area, country and site level and enhanced with the "Environment-Product" managers.
- Programmes promoting the control and reduction of water and energy consumption, recycling and elimination of waste, limiting atmospheric emissions and the discharge of industrial water, and combating nuisance. ISO 14 001 certification includes the environment in products and services (tenders, projects, design, development).
- A key player in combating climate change, for example transport, thanks to innovation in green technologies, the eco-design of products or the Group's involvement in the dissemination of best environmental practice.

- An ambitious environmental policy delivering results:

	Performance 2008-2010	Performance 2010-2012	Target 2012
Energy consumption	-11%	-5%	-5%
CO ₂ emissions from business trips per person	-14%	-1%	-10%
CO ₂ emissions from buildings, processes and substances	-18%	-9%	-10%
Non-hazardous waste per person	-20%	-11%	-10%
ISO 14001 certificates including the environment in products & services		60%	50%
Assessment of environmental maturity for 50% of the top 1,000 suppliers		51%	50%

A pro-active corporate social responsibility policy, a key element in performance



- A coherent global system based on rigorous and demanding programmes of compliance and integrity, especially in terms of preventing corruption, deployed worldwide for many years and forming part of a continuing improvement process. In 2012, Thales was ranked by Transparency International among the top ten companies in the Defence sector.
- A strong commitment in international cooperation to promote best 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. In 2012, Thales saw its performance level raised by the United Nations Global Compact from "active" to "advanced", making it the only company to date in the "Aerospace & Defence" segment to benefit from "Global Compact Advanced" status.
- A responsible approach with suppliers: more than 1,800 suppliers have signed the Purchasing and Corporate 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.

4

Corporate responsibility

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4 CORPORATE RESPONSIBILITY

Social information

Corporate responsibility: a company strategy

Because of the very nature of its businesses, Thales is a stakeholder in the societal, 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 position in the security-defence continuum gives Thales a special corporate 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.

The Group therefore has to manage its businesses in an increasingly complex environment, as much in terms of human resources as environmental policy and international trade.

Fully embracing the values of ethical conduct, integrity and responsibility, our employees and subcontractors are committed to continuous improvement, supported by a large number of informational campaigns and training programmes.

The technological performance and high quality of the products and services provided by Thales are essential for its future success, and the ethical rigour that the Group has imposed on its operations is, in itself, a crucial element that Thales intends to develop as a decisive competitive advantage.

4.1 Social information

SOCIAL REPORTING METHOD

The data presented in this Registration Document represents a synthesis of the Thales 2012 Social Report, which provides a complete and detailed description of the social programmes undertaken by the Group. The Social Report can be downloaded from the Group's website, www.thalesgroup.com, under the "corporate responsibility" tab, or directly from <http://sustainability.thalesgroup.com>.

The Social Report provides detailed information on social data, policy, practices and actions that come under the Group's corporate social responsibility. It reflects its international dimension. The information it contains presents the situation of the Thales group at 31 December 2012.

ORGANISATION AND METHODOLOGY

In order to ensure the accurate and reliable collection of data, a dedicated organisation and customised methodology have been implemented. Accordingly, further to the process initiated in 2011, and thanks to the deployment of the computerised "e-Social Responsibility Reporting" reporting tool, the information it contains is provided in a precise way by the contributors and approved by the HR Directors of each country or region. They are questioned using a qualitative and quantitative questionnaire that includes indicators mainly derived from those suggested by the "Global Reporting Initiative"⁽¹⁾ and partly from indicators negotiated with the social partners, particularly at European level.

In addition to the indicators responding to the new legislative provisions, other indicators have enabled collection of the information needed for the prevention of HR "personal injury" risk and the establishment of European and individual country reports on gender equality.

The data collected from countries have been transmitted for control, validation and consolidation to the Group's HR department, which is responsible for controlling consistency and drafting the report.

⁽¹⁾ The "Global Reporting Initiative" (GRI) is a not-for-profit organisation that develops a common framework for the drafting of sustainable development reports. Created in 1997, the GRI published a preliminary version of its guidelines in 1999. Compliance with this text by companies is completely voluntary.

SCOPE

- The definition of "Employees under Thales management" used to draw up the Social Report and the extract in the Registration Document is strictly identical to the definition used last year. Accordingly, the total number of employees reported on 31 December 2012 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 Group financial statements: in the US, Thales Raytheon Systems LLC and Advanced Acoustics Concept; in Germany, Diehl Aerospace GmbH, Junghans Microtec GmbH, UMS GmbH and Helicopter Training Media International; in Italy, Telespazio; in Spain, Amper Programmas; in the UK, Network Information Systems; 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.

FURTHER INFORMATION

- "Employees under management" in the Registration Document does not take apprenticeship and training contracts into account. However, these contracts have been accounted for in recruitments.
- Regarding training data, in 2011 the number of hours of training was calculated in France with reference to the number of hours actually delivered, plus an estimate of the number of hours delivered in relation to the number of hours still committed to. In 2012, only the hours actually delivered were included (confirmation of training delivered received by the date of drafting the Social Report).

- Data on absenteeism and the frequency and severity of accidents at work have been calculated with reference to the number of days theoretically worked within each country. These figures have been obtained from reconciling data provided in the HR Department's and Environment Department's reporting tools.

4.1.1 RESPONSIBLE EMPLOYMENT POLICY

With recognised technological expertise, a broad international presence, a wealth of talents and skills and a long tradition of success and innovation in all its areas of activity, the Group has been able to face the challenges of a fast-changing world.

The data for 2012 demonstrate the stability of the Group's social dimension.

4.1.1.1 EMPLOYMENT IN THE GROUP

The breakdown of the Thales group's 65,138 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 2012, 30,464 employees worked outside France, representing almost 47% of the global workforce;

- its highly-skilled workforce, 74% occupying a post equivalent to engineer, specialist or manager;
- the presence of women (22%);
- the proportion of long-term jobs, i.e. permanent contracts (97.5%);
- and the volume of full-time jobs (93.5%).

(1) By "employees", Thales means all male and female employees under management.



4 CORPORATE RESPONSIBILITY

Social information

4.1.1.1 Breakdown of employees worldwide

The international footprint of the Group is one of the pillars of Thales' 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, with 80% of active employees there, i.e. 52,481 employees.

	Headcount
Area A	
Australia - New Zealand	3,283
Canada	1,287
China	476
United States	1,930
Hong Kong	249
Norway	190
Japan	45
Netherlands	1,921
United Kingdom	7,075
Taiwan	21
South Korea	1,719
Other ^(a)	43
Area B	
Algeria	35
Spain	906
Germany	2,998
Brazil	226
India ^(b)	248
Italy	2,811
South Africa	240
Saudi Arabia	722
Austria	288
Belgium	715
Middle East (excluding Saudi Arabia) ^{(b)(c)}	449
Greece	39
Poland	163
Portugal	181
Romania	214
Russia	20
Singapore	562
Switzerland	186
Malaysia	98
Mexico	327
Turkey	112
Israel	99
Venezuela	23
Other ^(a)	563
France	
France ^(d)	34,674
WORLD (2012)	65,138

(a) Other countries with fewer than 20 employees and stable establishments: Cameroon, Chile, Denmark, Hungary, Indonesia, Kazakhstan, Latvia, Panama, Czech Republic, San Domingo, Sweden and Thailand.

(b) Employees in these countries also include those of stable establishments belonging to the French companies Thales Communications & Security SAS and Thales Air Systems SAS.

(c) The Middle East includes the United Arab Emirates, Egypt, Kuwait, Jordan, Lebanon, Oman and Qatar.

(d) Figure corresponding to active employees, including those of Helisim (48), Sofradir (432), Ulis (132) and Sysgo SAS (11). A total of 36,734 employees were registered on 31 December 2012.

In France, most of the employees are based in the Île-de-France region (51% of the workforce), in the South-West (18%), in Provence-Alpes-Côte d'Azur (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 business segment

The breakdown of employees in Thales' two business segments remains generally stable.

	Defence & Security	Aerospace & Transport	Other	Total
2012	35,109	24,425	5,604	65,138
2011	38,176	24,753	4,050	66,979
2010	37,640	24,902	4,377	66,919

The overall decrease in the Group's workforce in 2012 is mainly explained by changes in the scope of consolidation, i.e. the disposal of Thales Information Systems SAU in Spain (630 employees) and its subsidiary in Argentina (312 employees) and Thales Information Systems GmbH in Austria (63 employees), the disposal by Thales Training and Simulation Limited UK in the UK of 100% of Thales civil simulation activities (365 employees) and by the disposal of the Business Solutions activities of Thales Services in France (467 employees).

The decline in the workforce in the Defence & Security segment results from a change in the classification of certain companies within the operating segments: in particular, Thales UK Ltd Dep. Corporate, comprising over a thousand employees, was reclassified from "Defence & Security" to "Other", and from disposals in this operating segment.

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, 97.5% of staff members have a permanent job.

In addition, the vast majority of Group employees (93.5%) have a full-time job.

Temporary work is relatively limited, as the Group called on only 2,707 temporary workers worldwide in 2012. In France, this figure has also slightly decreased, with 794 employees on temporary contracts in 2012 compared with 938 in 2011.

4.1.1.2 RECRUITMENTS

Thanks to an employment policy adapted to the Group's requirements, and despite the slowdown on some employment markets and the need to adapt in certain countries, the Group recruited 5,985 new employees in 2012 (versus 5,342 in 2011). The majority of new recruits were offered permanent employment (open-ended contracts).

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.

At 31 December 2012, 74% of Thales employees were in positions equivalent to the level of engineer, specialist or manager (LR 7 to 12).

4.1.1.1.5 Breakdown of employees by age bracket

Thales, in common with peer groups in the sector, presents data related to length of time with the company and average age, which are relatively high but stable. Thales is a group in which many employees spend their whole career and this favours both the employment of "over-fifties" (34% of employees are aged 50 or over) and the integration of young people (35% of employees are aged under 40).

In France, the employees' average age was 44 on 31 December 2012, whereas the average length of time with Thales employees was 17 years (stable figures compared to the previous year).

(1) The apprenticeship figures concern new hires in 2012 only and do not include ongoing apprenticeships, internships, international business volunteering and CIFRE industrial agreements for training through research.



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4.1.1.3 DEPARTURES

In 2012, 4,212 employees left the Group (excluding disposals), representing departures of 11% which is below the figure in 2011 (4,719). Most of the departures were resignations or retirements (67.3% of the departures).

Dismissals accounted for 25.7% of terminated contracts (1,081 dismissals in 2012, versus 1,357 in 2011).

In some countries (Canada and Australia) where turnover is high due to a dynamic employment market, the number of resignations has fallen significantly since 2011.

The number of departures in France – excluding expiry of fixed-term contracts – amounted to 1,477, mainly due to resignations (571) and retirements (632).

In the UK, the number of departures (571) is due not only to resignations and retirements but also the impact of a reduced workload due to budget cuts, especially in the Defence budget.

4.1.1.4 ATTRACTIVENESS POLICY

To support its international growth, the Group is keen to extend its search for new talent by including employees with a great variety of profiles in terms of training, experience and culture.

4.1.1.4.1 An attractive recruitment website

To support its recruitment procedures, the Group has developed its presence on the internet 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 which are still in force, particularly with Monster, Regionjob, etc. to publish its job vacancies. The "multiposting" solution deployed in the Group in 2011 enables job offers to be advertised on more than 20 job-search websites.

The proportion of recruitments made through social networks and recruitment websites is now significant and accounts for around 30% of all hires (a 10-point increase compared with 2011).

4.1.1.4.2 Educational partners and links with schools and students

Thales maintains long-lasting and close links with schools and attaches great importance to exchanges of experience and knowledge between students and the company.

The Group makes a special effort to get young people (girls and boys alike) interested in scientific and technological occupations and encourages 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 business.

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' drive to help young people integrate into the world of work.

Thales sees work and study programmes as a prime means of integrating young people. For example, 1,038 apprentices were present across the Group at 31 December 2012 (975 of whom had started their apprenticeship during the year), 315 young people on training contracts and 111 on CIFRE (industrial agreement for training through research).

Drawing on best practice developed in the United Kingdom, the European IDEA (Improving professional Development through Effective Anticipation) agreement signed in 2009 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.

The European agreement also initiated a programme for mentoring new recruits, sometimes called the "Buddy programme", which facilitates the successful integration of newcomers, drawing on the base of another European best practice.

4.1.2 HIGH-QUALITY SOCIAL DIALOGUE

The Thales group supports and encourages high quality social dialogue.

4.1.2.1 COLLECTIVE BARGAINING

Demonstrating its wish to involve employee representatives at a transnational level, Thales instituted social dialogue at European level in 2009.

4.1.2.1.1 Collective bargaining at European level

In June 2009, Thales signed with the European Metalworkers' Federation (EMF, now IndustriAll) its first European agreement on "Improving professional Development through Effective Anticipation" (IDEA). IDEA is a European agreement that concerns over 52,000 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 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 30 measures.

The momentum created at European level by the IDEA agreement led to the signing with EMF (now IndustriAll) of a second European agreement in April 2010 – the TALK "Transparent annual Activity discussion for mutual listening and developing professional Knowledge" agreement.

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.

European conventions attended by employee representatives and HR managers were held to share new best practices under IDEA and provide a preliminary platform for the TALK agreement.

4.1.2.1.2 Collective bargaining around the world

In 2012, 88.7% of Thales Group employees worldwide were covered by collective agreements, including the European agreements signed by the Group. Each country can add locally negotiated agreements to this framework.

In 2012, the main subjects for negotiation in the countries revolved around the conditions for employee pay rises (Brazil, South Africa, etc.) and employment conditions (the UK and Australia) but collective bargaining agreements were able in previous years in some countries, and particularly in Europe, to cover many other subjects, especially the working hours and work organisation, and health and safety.

In France, Group agreements such as those on the exercise of trade union rights and social dialogue, social provisions, the employment of "over-fifties" and people with a disability, the standardisation of rates under the supplementary ARRCO pension scheme (signed on 20 December 2012), and a Group framework agreement on gender equality at work (amendment signed on 27 June 2012), have provided a solid common social platform to all employees in France, irrespective of the company to which they belong.

To give company and French Group agreements added legitimacy, in 2010 the Group made permanent its 2006 commitment to conclude only strong majority agreements, barring exceptional cases.

4.1.2.1.3 Collective bargaining in subsidiaries in France

Apart from the compulsory annual negotiations, the Group's French subsidiaries concluded several agreements in 2012.

The main subjects of negotiation in the Group's subsidiaries in France are as follows:

- agreements on gender equality;
- profit-sharing agreement;
- working time;
- remote working.

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 comprises representatives from Thales' 11 main European countries. Its resources were adapted and increased in 2002 and 2007.

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.



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In 2012, the European Works Council convened for two ordinary meetings and one extraordinary meeting; the Select Committee had five meetings.

New negotiations are ongoing to make further revisions to the founding agreement.

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.

The European Anticipation Commission was not able to convene in 2012 but the terms of organisation of the next Commission were presented to the European Works Council at the meeting of 15 November 2012.

National Anticipation Commissions have also been set up since 2009 in each of the 11 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 structure of trade union coordination 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 Intercenters, dedicated structures set up to liaise with the management of representative union organisations on a Group level, which have one permanent representative per union organisation, their own budget and dedicated resources.

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 in 2000 as the result of an agreement which provisions were revised by all trade unions organisations 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 main businesses.

4.1.3 ANTICIPATION 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 support 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 with European-level trade unions, is now the benchmark for Thales' social policy in Europe, focused on mobilising three main players:

- the employer who chooses to share job-related information and actions, in an effort to improve transparency;
- employee representatives, who, having a greater awareness and part in future developments within job families, are well versed

in these analysis methods and will voice their opinion on short, medium and long-term action plans;

- employees, who also become integral players as part of a new, significant involvement in their own career development and who, by making use of job-specific information, can 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' key values. Its aims are twofold:

- in the short to medium term, to ensure a fulfilling professional life for all employees and enhance their employability;
- in the medium to long term, to provide a clearer picture of developments in jobs and employment based on forward-looking assessments that take account of environmental factors.

The architecture of job families worldwide has been fundamentally adjusted to meet ongoing developments in the Group's markets and build and enhance employee skills.

Thales' technological innovation relies on a community of specialists/experts. The Group recognises their contribution to all levels of responsibility and within each job family.

At a comparable level of responsibility, specialists/experts and managers are treated in an identical way based on a two-tier career development scale, implemented at an international level. Lateral 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 and identifying 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 bids 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. 26,000 employees have listed their skills to date, in the context of implementing this process globally.

4.1.3.3 PROSPECTIVE EMPLOYMENT MANAGEMENT: A SHARED AND TRANSPARENT PROCESS

The Group recognises the fundamental role of employee representation bodies in setting up a policy for anticipating changes within the various job families and business lines.

The Group agreement signed in France on 23 November 2006 is the foundation for the forward-looking management of jobs and skills, and sets out the conditions, implementation process and associated measures for active management of employment at Group companies facing economic difficulties connected with new skills requirements, or the risk of a technological breakthrough likely to have an impact on employment in certain occupational categories.

This active employment management, based on the two-fold aspiration of the company and employees, has been implemented in several Group companies after the employee representatives had been informed and consulted about the economic forecasts, their effects on employment and the timeliness of implementing the initiative in many subsidiaries of the Group.

A new draft Group agreement currently under negotiation follows on from the earlier agreement and proposes new measures for active and prospective employment management.

4.1.3.4 SUPPORT FOR PROFESSIONAL DEVELOPMENT

Thales believes that each employee should be an active player in his/her career.

Accordingly, each year, at the Professional Development Discussion, employees are individually informed by their line manager of trends in their job family and business line, as well as about resources that could contribute to their professional development.

The Group intends to give employees all the information they need to give them a relevant and informed view of developments in their position within the company.

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. The aim of this appraisal is to define, jointly between the employee and his or her line manager, a career path that takes account of the employee's aspirations for career development and mobility, and define an associated action plan. This action plan includes training and other actions to promote professional development.

In 2012, 83% of Thales employees worldwide had a Professional Development Discussion with their manager. In the European countries covered by the IDEA agreement, 86% of employees had one.

If the employee wants to consider professional or geographic mobility, this is facilitated by the internal job market system and mechanisms to promote mobility.

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 to offer employees rich and varied career paths.



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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, 1,424 employees opted for geographic mobility in 2012.

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 (Thales e-HR Together service), consult job offers on the internal job market and post their CVs 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' 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 (representing around 85% of staff worldwide): - 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 who received training at Thales University in 2012 (16,019) was 56% higher in France than in 2011 (10,254) due mainly to the development of training offered through e-learning and widespread deployment of training in the new Chorus 2.0 system.

The number of hours of training (257,044 hours) delivered by Thales University in France also increased by 9% in 2012 (235,389 hours in 2011).

4.1.4.2 TRAINING PROGRAMMES TO MEET THE NEEDS OF THE GROUP AND ITS EMPLOYEES

Training in France has been organised as a Shared Service since 2007 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.

4.1.4.3 KEY TRAINING FIGURES FOR 2012

Data on the percentage of employees trained in the Group show a significant increase in the number of employees who received training in 2012 compared with 2011 (83% vs. 73%).

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 24 hours' training in 2012.

A total of 1,472,261 hours of training were delivered in the Group in 2012 (1,433,477 for 2011). Compared with 2011, the average number of training hours was up sharply in Australia/New Zealand (30 vs. 19 hours), in Germany (39 vs. 21 hours) and

in Italy (27 vs. 19 hours). The total number of hours of training was also higher in Canada, Poland, Portugal, Switzerland and Mexico.

The average number of training hours for employees working in France (21.9 hours) is slightly up on the figure for 2011 (20.6 hours).

Note also that in France the cost of training as a percentage of payroll increased in 2012 (from 3.8% in 2011 to 3.9% in 2012).

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 teams. 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

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 in all Group companies has also included a global variable pay plan for employees in a post with a responsibility level of 8 to 12, which defines a target rate of variable pay for each level of responsibility.

This variable compensation 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 and involve team members in the business results of the Group and the company to which they belong, as assessed on economic indicators.

In 2012, salaries rose by over 2.5% in France. This increase includes both individual pay rises and, for the employees concerned, the collective pay rises negotiated with the trade union organisations.

Worldwide, it has not been possible this year to provide information in the form of country indicators for remuneration and salary progression. Work is in progress so that further information can be provided in the next registration document.

At this stage, on the basis of the data shown in the 2012 consolidated financial statements (and therefore relating to the consolidated number of employees), staff costs (excluding DCNS) came to €5,273m for 2012 compared with €5,082m for 2011.



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4.1.5.2 INCENTIVES AND PROFIT-SHARING 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 total profit-sharing reserve distributed in 2012 for 2011 came to €24.29m.

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.

In 2012, 28 French companies of the Group paid out incentive rights for financial year 2011 for a total amount of €45.15m (the amount paid in 2011 for the 2010 incentives was €23.99m); note that in view of the proposed cap for the profit share agreement, the decrease in the profit share in 2012 generated increased incentives in the companies.

Thales parent company paid €4.80m in incentives in 2012 but no incentive was paid in 2011 for 2010.

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 2012, the savings generated by Group schemes amounted to €536.3m, held by around 50,000 former and current Group employees.

4.1.5.3.1 Group savings scheme and employee shareholding

At the end of 2012, assets handled as part of the Group's savings scheme amounted to around €406m, €280m of which were in diversified assets.

Within the Group savings scheme, the employee shareholding 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 2012, assets managed in Thales company within the Thales Group savings plan, on behalf of around 25,000 shareholders, amounted to approximately €125.4m.

Employee shareholding in Thales capital (irrespective of the type of holding) equated to 3.05% of Thales capital at 31 December 2012.

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. First, 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 2012, the assets handled as part of the PERCO scheme amounted to €130m, on behalf of 24,143 holders.

4.1.5.4 STOCK OPTIONS AND FREE SHARE DISTRIBUTIONS

Pursuant to a decision by Thales' Board of Directors on 28 June 2012, no stock subscription or purchase option (stock option) plan was put in place during the year.

On 20 December 2012, Thales' Board of Directors approved the introduction of the following:

- a free share distribution plan involving 5,186 beneficiaries, managers, experts and technicians in addition to other key employees from 33 Group countries;

- a performance-related share distribution plan for 336 senior executives.

The scheme adopted in 2012 therefore concerned roughly the same number of beneficiaries as that implemented in 2011.

4.1.6 PROMOTING SOCIAL RESPONSIBILITY

In 2012 Thales redefined the Group's social policy on a common platform, "Thales Together", a new identity under which Thales confirms its long-term commitment to its employees.

Thales' commitments are aimed at sharing a set of common values that constitute a key differential which will boost its performance, drawing on dialogue and social responsibility in all its actions to strengthen the Group's cohesion, and complying with the specifics of each country, while adopting an ethical approach both internally and with its clients and suppliers.

The Group's employees are bound by four values which form an integral part of Thales' business culture: "Listen to our clients", "Improve our performance through teamwork", "Innovate", and "Develop our talents".

The principles of social responsibility which guide the Group's actions constitute an essential strand of its attitude to people and business. Within this framework, Thales is committed to:

- sharing a common culture;
- developing all talent;
- recognising the value of its employees;
- acting in a socially responsible way.

For the first time, social responsibility has been integrated in a separate strand of the Group's "Thales Together" social policy on the basis of the following commitments:

- encourage diversity and treat each employee fairly and with respect;
- promote gender equality at work through specific action plans;
- offer a safe and healthy working environment to all employees;
- base the Group's success on dialogue with employees and their representatives.

Beyond the Group's actions to conduct a high-quality social responsibility policy with regard to its employees, Thales also engages in social responsibility actions with regard to other stakeholders.

Promote and respect Human Rights

In 2001, the Group drafted a Code of Ethics sent to all employees which includes, in its social section, commitments on human rights and labour rights.

Thales signed the United Nations Global Compact in 2003 and adheres to its ten principles on human rights and labour rights, which are inspired by the Universal Declaration of Human Rights and the International Labour Organisation declaration on the principles and fundamental rights of labour. These principles are implemented on the basis of agreements and best practices that ensure that the Group's activities constitute responsible conduct.

In 2012, the Global Compact raised Thales' performance level in corporate responsibility from "active" to "advanced". Thales is thus the only company in the aerospace and defence sector to appear among the 18 French companies classified as Global Compact Advanced.

The desire to promote social responsibility led to the creation of an e-learning "Social Responsibility" programme for all Group employees. The e-learning programme specifies the commitments and concrete actions implemented by Thales, and has been developed in English and French to make it more widely accessible. The challenge is to further integrate the social responsibility dimension into HR policy and strengthen employees' sense of belonging to a socially responsible group.

4.1.6.1 A SAFE AND HEALTHY WORKING ENVIRONMENT: WORKPLACE HEALTH & SAFETY

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

4.1.6.1.1 A dedicated organisation

The Group has established a dedicated organisation, which has been in place for two years and applies to all countries worldwide, designed to prevent risks to health and safety at work.

Within the Group, the Human Resources and HSE-Operations Departments share responsibility for the vast sphere of health and safety (H&S). The HSE-Operations Department monitors environmental health and safety at the sites and facilities. The Human Resources Department 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 "personal damage" risks, conducts regular monitoring of the risks that could affect employees around the world (discriminatory practices, sexual and moral harassment, damage to health, accidents at work, professional risks and psycho-social risks).

From 1 July 2012, each Group company in France appointed a two-person team, composed of an HR and an HSE officer, to assist the employer and the occupational health services in preventing risks to health and safety at work. The HR and HSE officers have been appointed at each company level, and HR and HSE managers have also been appointed to pass on information within establishments.



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4.1.6.1.2 Concrete procedures and measures

Concrete procedures to anticipate and manage major health risks that could occur internationally and/or nationally were formalised in 2012 in the Group reference system to make them even more visible and known to all parties concerned:

- a “permanent medical surveillance unit” with a consulting physician/Thales medical coordination officer on watch to identify and raise an alert in the event of a major health risk identified in the world or a country;
- a “crisis unit in the event of a major international health risk” which can be convened in the event of a major health crisis affecting one or more countries in which the Group has employees, whether on a permanent or temporary basis, in order to determine, disseminate and monitor the deployment of appropriate measures;
- 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.

In France, the “Quality of life at work” agreement signed on 2 July 2009 defines a general framework for Thales’ health and safety policy and establishes a system for identifying and preventing occupational risks. The agreement is based on a preventative 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 6 December 2012, the agreement was reviewed during a meeting of the Central Quality of Life at Work Committee.

A large number of measures have also been initiated in different countries to improve the health and safety of Group employees, particularly in the United Kingdom, Spain and Italy. In Australia, an agreement on working conditions came into force in 2012.

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 (94 certificates issued, representing 67% of the global workforce), marking a significant increase since 2011 (80 certificates in 2011).

4.1.6.1.3 Data on accidents at work and absenteeism

Around the world, the overall absenteeism rate⁽¹⁾ is 2.64%.

For accidents at work, the overall frequency rate⁽²⁾ is 2.42 for 2012 and the severity rate⁽³⁾ is 0.07. The rates differ substantially by country, depending in particular on the activities conducted. Even so, we can see that many countries have a relatively low frequency and severity rate.

In France, the overall absenteeism rate⁽¹⁾ (excluding maternity and paternity leave) was 2.72% for 2012. If maternity and paternity are added to other absences, the global absenteeism rate was 3.06% for 2012. This latter rate has been stable for the last three years (3.10% in 2011, 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.

In France, for 2012, the frequency rate⁽²⁾ of accidents at work was 2.85 and the severity rate⁽³⁾ was 0.10.

It should be noted that the inherent difficulty in the definition of the concept of occupational illness in countries has not allowed this information to be consolidated across all countries in which the Group is established. The information on occupational illness is consequently shown only for France.

In France, 2,309 days were lost due to occupational illness in 2012.

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 had the same collective status across all 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.

(1) The overall absenteeism rate corresponds to the percentage of the number of days lost for any type of incapacity, of professional origin or not, against the number of days theoretically worked in the countries. Authorised absences such as annual leave, study leave, maternity/paternity leave or for family events are excluded.

(2) The frequency rate is the number of accidents at work with stoppages in 2012, multiplied by 1,000,000 and reported in numbers of hours.

(3) The severity rate is the number of days lost due to accidents at work, multiplied by 1,000 and reported in numbers of hours theoretically worked during the year.

4.1.6.1.5 Working time

The Group considers that working time should enable a balance between professional and personal life to be respected, with each country organising working time according to employment law, applicable agreements and regulations.

93.5% of Group employees are employed full time. This means that part time working is scarcely significant and mostly corresponds to a chosen scheme.

Throughout the world, 89% of employees are covered by regulations on working time in their country. In many countries (France, Italy, Germany, the Netherlands, etc.), working hours are regulated by collective agreements.

74% of Group employees are of a level equivalent to engineer, specialist or manager, which means that few employees are subject to unconventional working hours (nights, alternating shifts, etc.).

Within the Group, many employees work on the basis of 40 hours per week. For example, Spain, China, Italy, Hong Kong, Norway, Austria, the Netherlands, Poland, Portugal, Switzerland and South Korea operate a 40-hour week. The working day is eight hours in most countries.

In some countries, working time is less than this, due to legal or contractual provisions (France and Germany have a 35-hour week, and Australia 38). The companies have also been able to bring in special arrangements at company level. In the United Kingdom, the "UK Alignment project" put in place in 2012 is aimed at progressively standardising working time in all Thales companies based on a 37-hour week. In Germany, collective branch agreements give a working time of 35, 38 or 40 hours per week, depending on the region.

Senior executives are subject to specific regulations for working time in France, Italy and Canada.

Most Group companies in France have concluded agreements adapting the framework agreement signed in 2000, which had the following provisions:

- for monthly-paid employees, working time of 35 hours per week on average over the year, with reduced working time days granted;
- for managerial staff, a flat-rate measure in hours or days over the year based on 210 working days a year - excluding solidarity days.

The total volume of overtime worked in France was 80,393 hours in 2012.

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 2012 women accounted for 22% of the global and European workforce and 23% of 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 20 three-year action plans have been negotiated and adapted to the actual situation of the men and women in their working environment. These action plans, prepared using a comparative situation report, are renegotiated every three years. A new Group framework agreement was concluded in June 2012. Thales has thus set targets and earmarked new resources to strengthen its actions in recruitment, and the development of women's careers, and to promote a better work-life balance.

In order to encourage gender diversity by recruiting women, Thales has established a gender-equality process in all its companies. In 2012, the French companies of the Group signed new three-year agreements to integrate the new commitments on equality defined at Group level.

In Europe, the IDEA agreement signed in 2009 by the Group and the European Metalworkers' Federation (now IndustriAll) 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 and the professional/personal life balance.

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.

Actions conducted in favour of recruitment enabled Group companies to hire 1,642 women in 2012, representing 27.4% of recruitments worldwide.

In France and Germany, in particular, the Group runs communication campaigns in schools to encourage girls to go into scientific streams.

The action plans negotiated in Group companies in France are aimed at achieving a forward-looking analysis of personnel departures in order to set a recruitment percentage for women that enables their presence in the Group to be maintained (24% of employees registered in France).



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In Spain, a gender equality “business plan”, drafted at the end of 2011, is ready for deployment.

Thales has set aside an annual budget in France of 0.1% of the payroll, since 2006, specifically for dealing with any unjustified pay differences between men and women. In 2012, a further 1,193 women benefited from the measure, which, alone, brought them an individual average pay rise of 2.43%.

In terms of career development, the personnel reviews carried out each year in France pay special attention to women.

Finally, Thales is committed to parental 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 crèches. To date, nearly 200 children of employees from a dozen French companies are cared for close to their parents’ work place in more than ten inter-company crèches.

An emergency care system in inter-company crèches has been created with a partner company to enable employee parents to benefit, where possible and up to 15 days per year, from an emergency temporary replacement.

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

Thales is an international company, incorporating diverse cultures. The Group respects and encourages a range of cultures in the workplace. It pays particular attention to recruiting employees in all the countries in which it is based. In the context of an increasingly globalised employment market, cultural diversity is a source of wealth which contributes to the Group’s strength. It allows it to be competitive internationally and gain a better appreciation of local clients. Multicultural teams are synonymous with creativity and innovation.

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 and encourage greater openness to new profiles.

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 UK, the Netherlands, Australia and Norway), others (Germany, Austria,

Spain, Italy and South Africa) contain an employment obligation, and companies that do not fulfil the obligation are generally made to pay a specific contribution.

In a different approach, some legislative systems (e.g. in 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

Due to the deployment of multi-year Group agreements in France, first concluded in 2004, in 2007, and then on 21 October 2011 by unanimous agreement of the trade union organisations, the employment rate for people with disabilities in the Group has continually risen, standing at 5.4% at the end of 2012, compared with 2.9% in 1992.

The provisions of the 2011 agreement provide for the recruitment of 120 disabled people (60% of whom will have open-ended contracts) and 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 disabled people train and find jobs.

To deploy the measures contained in the agreement and oversee Group policy on disabled employment, Thales has a specific organisation that includes a dedicated Group structure: “mission insertion”. The manager coordinates all the initiatives and leads a network of “disability contacts” and Disabled Employment Commissions in every company with 250 or more employees.

In 2012, 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 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 and "Quality of life at work" agreement) 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 employment of over-fifties led to the conclusion in 2009 of an agreement on over-fifties employment in the Thales group.

This agreement 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 local agreements supplementing this agreement have also been extended.

The Group (France) has set targets for the term of the agreement with a 5% increase in the number of employees aged 55 and over (number as at 31 December 2009) and a raise in 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 employment of over-fifties 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 24% in three years. They represented around 21% of the Group's workforce in France at end-2012, compared with 17% at end-2009.

The number of recruitments of employees aged 50 and over is also on the rise: 4.04% of new recruits in 2012 were aged 50+, as against 3.7% at end-2009.

Data collected on 31 December 2012 show 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 2012 were aged 50 and over). In addition, a significant number of them had opted for professional or geographic mobility since 2009.

Scope of data verification

Indicators	Data 2012	Scope	Data verification	
			Registration Document	Social Report
Total headcount^(a) at 31 Dec. 2012	65,138	100%	✓	✓
Headcount by country				
Headcount France	34,674	100%	✓	✓
Headcount Europe	52,481	100%	✓	✓
Headcount outside France	30,464	100%	✓	✓
Headcount by gender				
% of women	22%	94.6%	✓	✓
% of men	78%	94.6%	✓	✓
% of women in France	23%	98.2%	✓	✓
Headcount by type of contract				
% of permanent contracts	97.5%	94.6%	✓	✓
% of full-time contracts	93.5%	94.6%	✓	✓
Headcount by age group				
< 30	11%	94.6%	✓	✓
30-39	24%	94.6%	✓	✓
40-50	31%	94.6%	✓	✓
> 50	34%	94.6%	✓	✓
Headcount by LR				
LR 1 to 6	26%	94.5%	✓	✓
LR 7 to 12	74%	94.5%	✓	✓
Number of temporary staff	2,707	94.7%	✓	✓

(a) Headcounts shown are active headcounts



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Indicators	Data 2012	Scope	Data verification	
			Registration Document	Social Report
Departures by type				
Number of departures	4,212	94.6%	✓	✓
% Resignations	46.4%	94.6%	✓	✓
% Redundancies	25.7%	94.6%	✓	✓
% Retirement	20.9%	94.6%	✓	✓
% Other departures (including death)	7.0%	94.6%	✓	✓
Recruitments				
Total number of recruitments	5,985	94.6%	✓	✓
% of women	27.4%	94.6%	✓	✓
Number of apprenticeships signed in 2012	975	94.6%	✓	✓
Training				
% of employees benefiting from a PDD ^(b)	83%	94.5%	✓	✓
% of employees trained	83%	94.6%	✓	✓
% of women trained	84%	94.6%	✓	✓
Average number of hours' training per employee	24	94.5%	✓	✓
Total number of hours' training	1,472,261	94.5%	✓	✓
% of employees covered by a collective bargaining agreement	88.7%	92.9%	✓	✓
% of employees covered by a regulation on work time	89%	95.5%	✓	✓
Health and safety				
Global absenteeism rate World	2.64%	94.6%	✓	✓
Global absenteeism rate France	2.72%	98.2%	✓	✓
Global absenteeism rate France including maternity/paternity leave	3.06%	98.2%	✓	✓
Severity rate of accidents at work World	0.07	94.6%	✓	✓
Severity rate of accidents at work France	0.10	98.2%	✓	✓
Frequency rate of accidents at work World	2.42	94.6%	✓	✓
Frequency rate of accidents at work France	2.85	98.2%	✓	✓
Number of days lost for occupational illness in France	2,309	98.2%	✓	✓
Other				
Staff costs World	€5.27bn	100% financial consolidation	✓	✓
Rate of employment of persons with a disability in France	5.4%		✓	✓
Number of jobs created by GERIS in 2012	859		✓	✓
Number of new business creation or takeover projects supported by GERIS in 2012	50		✓	✓
Proportion of purchases from suppliers in EU	2/3		✓	✓
% of purchases from suppliers in France	37%		✓	✓
Volume of industrial subcontracting services in France	€1.5bn		✓	✓

(a) Headcounts shown are active headcounts.

(b) PDD: Professional Development Discussion.

✓) Indicators that have been verified by Mazars for 2012

4.1.7 INDEPENDENT VERIFIER'S ATTESTATION AND LIMITED ASSURANCE REPORT ON SOCIAL INFORMATION PRESENTED IN THE MANAGEMENT REPORT

This is a free translation into English of the statutory auditor's report provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

For the attention of Thales Executive Management

Pursuant to your request and in our capacity as Statutory Auditors of Thales, we hereby report to you on the consolidated social information presented in the management report, inserted in

chapter 4.1 of the annual report, prepared in respect of the year ended December 31, 2012 pursuant to Article L.225-102-1 of the French Commercial Code (Code du commerce).

RESPONSIBILITY OF MANAGEMENT

The Board of Directors is responsible for preparing a management report including the consolidated social information provided for in Article R. 225-105-1 of the French Commercial Code (hereinafter

the "Information"), prepared in accordance with the reporting criteria (the "Reporting Criteria") used by the entity and available from the Group Human Resources Department.

INDEPENDENCE AND QUALITY CONTROL

Our independence is defined by regulatory texts, the profession's code of ethics as well as the provisions set forth in Article L. 822-11 of the French Commercial Code. Furthermore, we have set up a quality control system that includes the documented policies

and procedures that aim to ensure compliance with rules of ethics, professional standards and the applicable legal texts and regulations.

RESPONSIBILITY OF THE STATUTORY AUDITOR

Based on our work, our responsibility is to:

- attest that the required Information is presented in the management report, inserted in chapter 7 of the annual report, or, in the event of omission, is explained pursuant to the third paragraph of Article R. 225-105 of the French Commercial Code and Decree no. 2012-557 of April 24, 2012 (Attestation of inclusion);
- express limited assurance on the fact that the Information are presented, in all material aspects, fairly and in accordance with the Reporting Criteria (Limited assurance).

To assist us in conducting our work, we referred to the Corporate Social Responsibility and Sustainable Development experts of our Firm.

- We have verified that the Information covered the consolidated scope, i.e., the Company and its subsidiaries within the meaning of Article L. 233-1 of the French Commercial Code and the companies that it controls within the meaning of Article L. 233-3 of the French Commercial Code, within the limits specified in the paragraph "social reporting methodology" inserted in the chapter 4.1 of the annual report ;
- In the event of omission of certain consolidated information, we have verified that explanations were provided in accordance with Decree no. 2012-557 of April 24, 2012.

Based on our work, we attest to the inclusion of the required Information in the management report.

1. Attestation of inclusion

We conducted the following procedures in accordance with professional standards applicable in France:

- We have compared the Information presented in the management report, inserted in chapter 4.1 of the annual report, with the list set forth in Article R. 225-105-1 of the French Commercial Code ;

2. Assurance report

Nature and scope of procedures

We conducted our procedures in accordance with ISAE 3000 (International Standard on Assurance Engagements) and professional guidelines applicable in France.

We have carried out the following procedures to obtain limited assurance on the fact that the information presented in the management report, inserted in chapter 4.1 of the annual report, does not contain any material anomalies that would call into question its fairness, in all material aspects, in accordance with the Reporting Criteria.



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A higher level of assurance would have required more extensive work.

We performed the following procedures:

- We assessed the appropriateness of the Reporting Criteria with respect to its relevance, completeness, neutrality, clarity and reliability, by taking into consideration, when relevant, the sector's best practices.
- We have verified the set-up within the Group of a process to collect, compile, process and check the Information with regard to its completeness and consistency and have familiarized ourselves with the internal control and risk management procedures relating to the compilation of the Information. We have conducted interviews with individuals responsible for social reporting
- We selected the consolidated information to be tested⁽¹⁾ and determined the nature and scope of the tests, taking into consideration their importance with respect to the social consequences related to the Group's business and characteristics.
 - Concerning the selected quantitative information:
 - At the consolidating entity level and the controlled entities level, we implement analytical procedures and, based on

sampling, verified the calculations and the consolidation of this information;

- At sites level that we have selected⁽²⁾ based on their activity, their contribution to the consolidated indicators, their location and a risk analysis:
 - conducted interviews to verify the proper application of procedures and obtain information to perform our verifications;
 - conducted substantive tests, using sampling techniques, to verify the calculations performed and reconcile data with supporting evidence.
- With regard to the qualitative consolidated data we considered as the most important, we engaged in interviews and reviewed the applicable documentary sources to corroborate the information and assess its fairness of presentation.
- Finally, we assessed the relevancy of the explanations for any information omitted.

CONCLUSION

Based on our work, we have not identified any material anomaly likely to call into question the fact that the Information has been

prepared in accordance with the Reporting Criteria.

Paris la Défense, March 04, 2013

The Independent Verifier
French original signed by:

Mazars

Anne-Laure Rousselou
Partner

Emmanuelle Rigaudias
*Partner CSR and Sustainable
Development*

(1) Total headcount at year end, percentage of women, percentage of men, headcount displayed by age, hiring, departures, total number of training hours, absenteeism rate.

(2) Thales Systèmes Aéroportés, Thales Avionics, Thales Optronique, Thales Air Systems, Thales UK limited. The contribution to Group data from these entities amounts to 19,4 % of headcount.

4.2 Environmental information

4.2.1 GENERAL POLICY ON ENVIRONMENTAL ISSUES

4.2.1.1 LONG-STANDING COMMITMENTS

Environmental responsibility is one of the Thales Group's core ethical principles, reflecting the strength of executive management's commitment to environmental issues. To engage all the players involved in environmental management, Thales deploys its environmental responsibility policy at all Group sites. 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.

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.

This pro-environment commitment has been a guiding principle for the Group for over 15 years and entails taking account of environmental impacts and risks in all its activities and in the different levels of the organisation. To underpin this commitment, the Group has set performance targets for all its entities.

	Performance 2008-2010	Performance 2010-2012	Target 2012
Energy consumption	-11%	-5%	-5%
CO ₂ emissions from business trips per person	-14%	-1%	-10%
Reduction of CO ₂ emissions from energy and substances	-18%	-9%	-10%
Non-hazardous waste per person	-20%	-11%	-10%
ISO 14001 certificates including the environment in products & services		60%	50%
Assessment of environmental maturity for 50% of the top 1,000 suppliers		51%	50%

NB: the scope of consolidation for the two periods is different.

For 2013-2015, the new targets concern:

- reduction in energy consumption and natural resources;
- reduction in CO₂ emissions;
- improvement in non-hazardous waste management (quantity and recycling);

- strengthening suppliers' commitment to the Group's environmental strategy;
- taking greater account of the environment in product policies.



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4.2.1.2 ENVIRONMENTAL ORGANISATION

Reflecting Thales' 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 country and entity level, especially for site-related aspects (buildings, infrastructures, energy consumption, etc.). And, to take the environmental process further upstream of product development, the organisation has been extended to a

network of "Environment-Product managers", first in France and then in Europe.

At the end of 2012, the sites/operations HSE network involves 320 people and the HSE product network 92, full time or sharing time with other assignments.

Aware that the environmental risks and issues in the Group's different business lines require employees with managerial or technical skills in environmental matters, these networks are seated within a dedicated professional family to enhance their skills, determine the need for recruitment and training, predict future developments and share their expertise within a single community.

4.2.1.3 STAKEHOLDER TRAINING AND INFORMATION

4.2.1.3.1 Employee training and information

To underpin the Group's skills in environmental matters, dedicated training modules are offered in the catalogue of the internal training centre, Thales University. These modules are designed for environment managers as well as for different professional families (Purchasing, Design, Sales, etc.). Thales also has online e-learning modules to educate Group employees in the fundamentals of environmental risk control, on general themes such as "Eco-responsibility" or specific issues such as the "REACH" (Registration, Evaluation and Authorisation of CHemicals) regulations or the new labelling system for hazardous chemicals.

The objective is to shed fresh light on this theme and take it into account in day-to-day business practices through training, awareness-raising, communication and discussion. 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.

Because an environmental process necessarily requires all employees to sign up to it, Thales offers various communication tools for all its employees: a dedicated intranet, posters, competitions, special events, etc.

4.2.1.3.2 Involving suppliers

In a bid to extend its eco-responsible approach to all its suppliers, Thales requires them to sign the Company Purchasing and Corporate Responsibility Charter, a contractual document intended to align suppliers' policies and internal processes with all the principles that Thales is committed to respecting. At the end of 2012, 1,800 supplier sites around the world had signed up, representing year-on-year progress of over 20%.

In addition, in the selection process, potential suppliers identified are invited to complete a self-assessment enabling them to measure the maturity of their environmental management and sign up to a process of continuous improvement. This self-assessment may be verified after the process during supplier audits, which may also lead to a request for an improvement plan, or even lead to Thales making the decision to remove the supplier from its list if certain essential criteria are not met.

To drive this process forward, the Group Purchasing Department has set itself an environmental objective for 2011-2012 which consists of assessing the maturity of half the Group's top 1,000 suppliers. At the end of 2012, over 500 supplier sites had been assessed in this way.

In the call for tenders phase, the environment is now included in the weighted criteria for supplier selection, based on their commitment as well as their responses to various environmental demands set out by the Group. Supplier selection decisions effectively took these criteria into account in 2012.

Thales has also maintained very close partnerships over many years with certain suppliers to work together on shared actions for progress. In order to continue this approach, the Purchasing Department is strengthening the involvement of suppliers through new objectives for the 2013-2015 period.

4.2.1.3.3 Relations with stakeholders

Thales is keen to communicate in a totally transparent way – with local authorities as well as its local neighbours.

When required by its activity, the sites are pro-active and provide advance information: for example, when particular operations will generate exceptional noise, or an emission exceeds the authorised threshold, or a pollution incident occurs. These procedures also enable claims to be dealt with quickly and provide an appropriate response.

To meet the requirements of society in general, investors, rating agencies and clients, Thales provides its environmental data on its website. It is also possible to send questions to the Environment Department at a dedicated email address.

In the course of its partnerships, particularly with schools, Thales promotes preservation of the environment through intervention on climate change, natural resources and work with universities.

4.2.1.4 CONTROL AND PREVENTION OF ENVIRONMENTAL RISKS AND POLLUTION

4.2.1.4.1 Continuous improvement and prevention 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 management 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 and work sites);
- products and services (design, bids, projects, etc.).

It requires the implementation of an environmental management system on all sites and is aimed at controlling and limiting environmental risks and impacts from the activities conducted and products delivered.

It supplies best practice, methodological guides and rules applicable at all levels of the organisation. The new process has already been integrated into various functions, such as Bids, Projects, 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' products and services.

It also defines the risk management and alert procedures in the event of an accident.

124 entities are ISO 14 001 certified, representing 85% of the Group's workforce. Among these sites, 74 incorporate the design/development of products within their certification scope.

4.2.1.4.2 Risk mapping

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.

This analysis, represented by risk mapping, is intended to:

- 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 Risks & 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. Audits are conducted by the internal audit teams as well as by external auditors for ISO 14 001 certification or prevention visits.

In 2011, Thales launched a process, with its prevention engineering partner, to evaluate exposure to natural disasters at Group sites. This analysis consists not only of identifying the sites that could be susceptible to flooding, storms or earthquakes, but also considers the consequences in terms of the environment, property damage and impact on the business. In the course of developing the analysis of exposure to natural disasters, the evaluation and audit process was continued in 2012 and was rolled out at additional sites.

In 2012, Thales also began mapping the risks related to water resources and biodiversity at all its sites in order to assess the sensitivity of the sites, for regions under hydric stress as well as for species that are threatened, protected or of ecological interest. The results are expected in 2013.

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.

4.2.1.4.3 Accidents and site pollution

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 available techniques allow, steps are taken to remove pollution even if this is not a regulatory requirement. The impact on the available environmental resources is then reduced to a minimum by preferring in situ treatment to transferring pollution to another site. The water table is periodically monitored at industrial sites and sites located in industrial areas.



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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. Deployment of a reporting tool for accidents means that the

nature of the accidents can be identified precisely and they can be capitalised upon to share feedback. In 2012, four accidents occurred, with no significant impact on health and the environment as corrective measures were deployed immediately.

4.2.1.5 GUARANTEES, PROVISIONS AND COMPENSATION

Thales was not cited in any environmental dispute that gave rise to compensation or granted any specific guarantee in terms of the environment during disposals of assets in 2012.

At 31 December 2012, the amount of reserves for environmental contingencies at Group level amounted to €7.4m.

4.2.2 POLLUTION & WASTE MANAGEMENT

4.2.2.1 LIMITING DISCHARGES

4.2.2.1.1 Industrial atmospheric discharges

In general, Thales' 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.

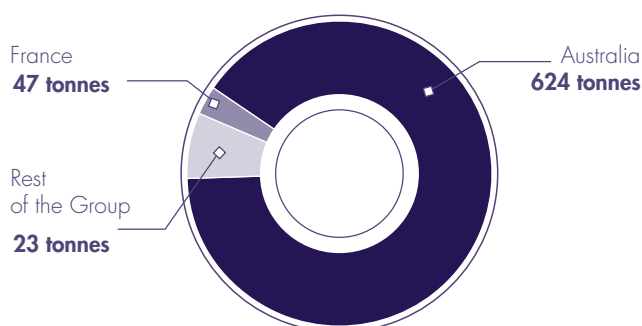
it is difficult to measure atmospheric emissions, since the emanations are not systematically collected.

In fact, although 79 entities purchase solvents, 90% of these purchases concern only six of them (80% for the Mulwala site). On their own, the Australian sites represent 90% of total emissions.

It should be noted that numerous sites have stopped using solvents or replaced them with detergents.

4.2.2.1.2 Solvent discharges to the atmosphere

Geographical split for solvent emission



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,

4.2.2.1.3 Industrial wastewater discharge

Thales' activities generate little in the way of industrial wastewater discharges. 90% of them are discharged from six sites, and 60% by the Mulwala site alone.

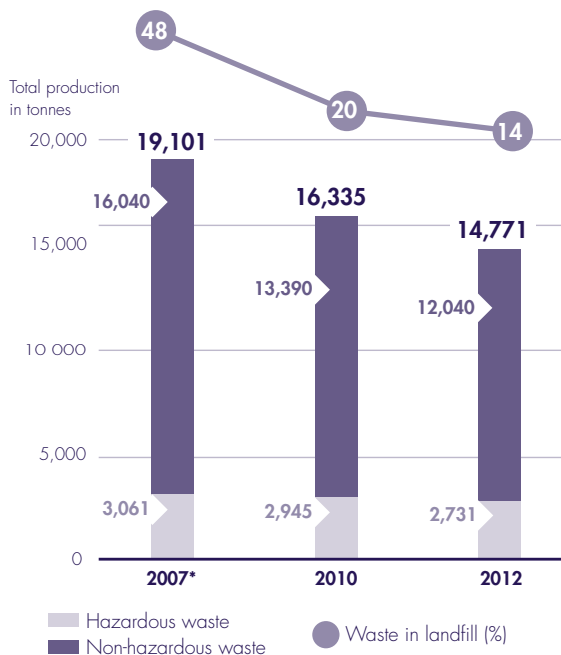
In 2012, industrial wastewater discharge saw a 47% increase compared with 2011. This is due mainly to discharges from the effluent treatment plant at Mulwala (Australia) which necessitated excess water consumption (see section 4.2.3.1) but also the Turin site, which has commenced work to discharge its effluent into the networks, after agreement from the authorities, rather than remove it as hazardous waste. Not counting the waste from these two sites, the quantities of industrial effluent has remained constant since 2010, having been reduced by 57% between 2007 and 2010.

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 in tonnes

(without exceptional waste)



(*) 2007, fewer reporting sites in the 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). The Group has continued its efforts to meet its 2012 target.

It has done this through various measures linked to sorting waste and seeking optimal treatment processes as well as changing behaviour: printing policy, reusing cardboard boxes and other packaging etc., all of which have contributed to reducing waste production and improving its treatment. Hazardous waste has also been a particular target. Dedicated areas for collection and storage have helped to manage this type of waste.

Quantities of paper and packaging continue to fall (respectively -15% and -16% compared with 2010). The recycling rate for non-hazardous waste increased from 31% in 2007 to 54% in 2012.

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

Thales' activities do not generally generate odour, except for one entity in Australia. At this site, systems to capture atmospheric emissions have been installed and are regularly checked.



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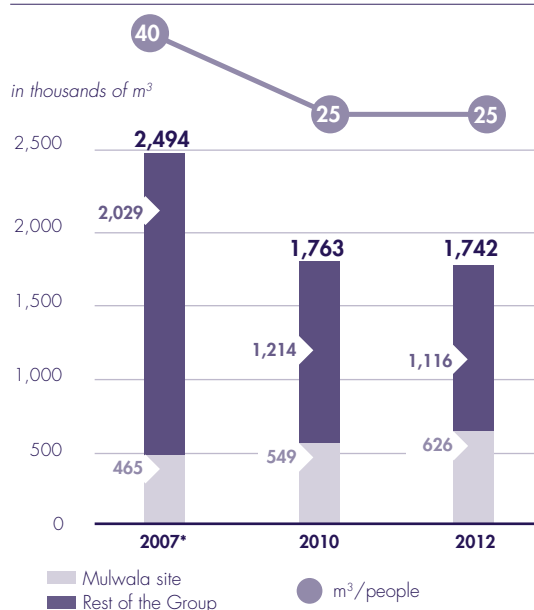
4.2.3 SUSTAINABLE USE OF RESOURCES

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.

4.2.3.1 CONSUMPTION OF WATER AND MEASURES TO IMPROVE ITS EFFICIENT RECYCLING

Trend in water consumption



(*) 2007, fewer reporting sites in the scope

Water is a vital resource to be protected. Accordingly, since 2000, Thales has been engaged in a far-reaching programme to reduce its consumption. In addition to dealing with leaks, it has replaced high-consuming equipment, optimised industrial processes, re-used water etc., as well as raising the awareness of employees.

The consumption of water in 2012 was relatively stable compared with 2010, after decreasing in 2011. This is due in particular to redevelopment at Mulwala (Australia) and to an incident at the effluent treatment plant which, by agreement with the authorities, necessitated excess consumption of water. As this site alone accounts for 35% of Thales' water consumption, any change has a substantial influence on the Group's consumption.

Excluding this temporary excess consumption, the Group's overall consumption decreased by 10% between 2010 and 2012 and has fallen by 36% since 2007.

The Group's water consumption in France has halved since 2007.

These achievements are due to the exploitation and widespread application of best practice.

4.2.3.2 CONSUMPTION OF RAW MATERIALS AND MEASURES TO IMPROVE THEIR EFFICIENT USE

Thales designs, develops and supplies equipment, systems and services in aeronautics, space, transport, security and defence. The raw materials consumed by Thales are natural resources (see sections 4.2.3.1 and 4.2.3.3) and various materials used in the manufacture of products by Thales and its subcontractors.

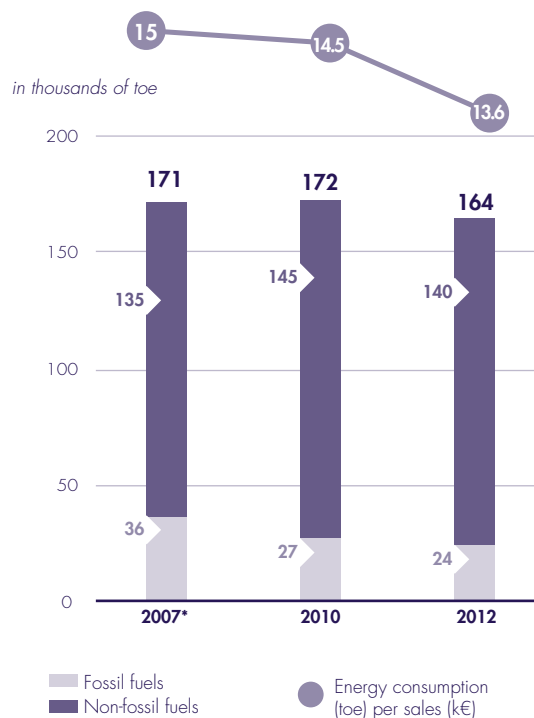
The search for new technologies and the design of new equipment involve restricting the use of materials to cut down on size and mass and to facilitate dismantling (see section 4.2.6). These requirements are conveyed to suppliers of the equipment and components that

Thales assembles at its sites. The manufacturing processes are also optimised to limit loss of materials and quantities of discharge and waste.

Thales has also reduced its use of materials such as wood, cardboard and plastic by limiting and reusing packaging. This is the case for supplies to Thales sites as well as for the transfer of equipment from one site to another.

4.2.3.3 ENERGY CONSUMPTION AND, WHERE APPLICABLE, MEASURES TO IMPROVE ENERGY EFFICIENCY AND RENEWABLE ENERGY USE

Trend in energy consumption



(*) 2007, fewer reporting sites in the scope

Thales has defined targets for reducing energy consumption since 2007 in a bid to address the energy issue.

Following on from 2008-2010, a period in which the target of cutting consumption by 10% was exceeded (-11%), the Group has continued its efforts by further reducing its energy consumption in 2010-2012, despite difficult climate conditions in the winter of 2011/2012 and higher production at certain sites, as shown in the ratio of consumption to sales (see diagram).

To achieve this energy efficiency, various audits have been conducted at some of the biggest energy-consuming sites. These have given rise to reduction programmes deployed at all Group sites, with a particular effect on lighting, office equipment, heating and process-related equipment. Thales is also increasing its efforts to manage parameters such as the temperature of heating, the hours during which the equipment functions and the replacement of heavy-consumption equipment as a way of optimising energy use. The Group's energy footprint has also been reduced by limiting the use of energy from fossil fuels.

Green IT is an illustration of Thales' environmental policy, reducing the environmental footprint of IT equipment and of information systems more generally. The use of new-generation inverters and the optimisation of IT equipment have led to a cut in energy consumption of over 10% in some cases.

In addition, use of cleaner energy is beneficial to the Group's environmental results. The share of energy derived from fossil fuels (gas, oil and coal) continued to fall in 2012 (-12% compared with 2010), while the share of electricity from renewables now accounts for over 16% of electricity consumption.

4.2.3.4 LAND USE

The Group incorporates environmental criteria when choosing locations for its sites: climate and geological risks, the impact of its activities on the human and natural environment and land use. The objective is to optimise compatibility between the Group's activities and the environment. For example, some activities, such as pyrotechnics, require a specific site due to the risks they generate, and need to be bounded by extensive security areas. These areas account for approximately 79% of the Group's land area (two sites in Australia and one in France). However, steps are taken to enhance their value by promoting biodiversity, for example by converting them

into pasture or even arable land. Due to their activity, the majority of other Group sites tend to be in industrial areas (59% of land area excluding pyrotechnics sites).

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 for land and underground water. (See section 4.2.1.4.3).

4.2.4 FIGHTING CLIMATE CHANGE

Climate change is a major concern and one to which Thales aims to respond in a way that is consistent with its activities through a policy of reducing CO₂ emissions at source but also by contributing – through programmes, partnerships, products and services – to a better understanding of the effects of climate change and the reduction of its clients' emissions and those of civil society. In addition

to the technical measures put in place, the "climate change" strategy initiated by Thales necessarily relies on all its employees signing up to it. Supporting this change in behaviour is one of the key points for the success of such an approach.

4.2.4.1 REDUCTION OF GREENHOUSE GAS EMISSIONS FROM ACTIVITIES

4.2.4.1.1 Carbon footprint

Since Thales introduced indicators of CO₂ emissions and set emission-reduction targets several years ago, awareness of the impact of Thales' 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.

	2012	2010
Scope 1 ^(a)	97,707	124,028
Scope 2 ^(b)	166,698	167,576
Sub-total (1+2)	264,405	291,605
Scope 3 ^(c)	107,395	111,441
TOTAL (IN TONNES)	371,800	403,046

Scope according to the breakdown of the GHG Protocol, at constant 2010-2012 scope

The scopes group together CO₂ emissions related to:

(a) Gas, coal, fuel and substances.

(b) Electricity and steam.

(c) Business trips.

4.2.4.1.2 Eco-efficient buildings and processes

The impact of buildings on climate change is closely related to energy consumption.

Refurbishing and renovating certain buildings to the most ecological standards and changing equipment and consumption habits are all measures taken to improve energy efficiency and thereby help to reduce CO₂ emissions. The choice of buildings (architecture, materials, technical management of the building, comfort, access, etc.) contribute to the fight against climate change. The new Thales sites incorporate environmental criteria in the provision of the premises.

For example, Cristal, the new headquarters of Thales Communications & Security SAS at Gennevilliers (near Paris), which was opened in 2012, incorporates modern techniques to reduce energy consumption: highly insulated façades and terraces, triple-glazed bays, reversible heat pumps, energy-efficient lighting with automatic on-off sensors and a centralised technical management system. The site is ISO 14 001, HQE (*Haute Qualité Environnementale*) and BBC (*Bâtiment Basse Consommation*) certified.

The headquarters of Thales USA are now situated in a building that has obtained LEED (Leadership in Energy and Environmental Design) certification at Gold level (in 2009) and Platinum level (in 2012). Thales USA has obtained LEED Gold certification due to the various actions it has taken: a 25% reduction in energy needs, a cut in CO₂ emissions, recycling 75% of waste, use of 20% recycled content in construction materials, use of local materials and low presence of volatile organic compounds (VOCs) in coatings.

Beyond reductions in energy consumption (see section 4.2.3.3.), substances that impoverish the ozone layer are monitored and reduced, especially those cited in the Kyoto Protocol, mainly used in refrigeration systems. The reduction in the number of leaks in these facilities helps to reduce CO₂ emissions. Among the substances listed in the Protocol, SF₆ accounts for over 50% of Thales' CO₂ emissions. This gas, used in a specific industrial process to insulate electronic tubes during high-voltage tests, has a global warming potential of 23,600 kg CO₂. It is used by very few sites, and they have been implementing ambitious plans to reduce emissions by 70% since 2007, such as the manufacture of tubes without using SF₆.

4.2.4.1.3 Cleaner modes of transport

In addition to the reduction of CO₂ emissions related to energy, especially from fossil fuels, Thales has increased its initiatives to reduce emissions from business travel (road, air and rail). Having reduced CO₂ emissions per person from transport for business travel by 14% between 2007 and 2010, efforts have continued to encourage the use of videoconferencing and teleconferencing, car sharing and hiring vehicles with lower fuel consumption.

4.2.4.2 CONTRIBUTION TO MEASURES TO COMBAT CLIMATE CHANGE

4.2.4.2.1 In air and ground transport

Thales operates in the air, rail and road transport markets and contributes to reducing greenhouse gas emissions by developing technologies and products that help to cut energy consumption.

In the air sector, the European SESAR programme, in which Thales is a key player, should provide a response to the challenges posed by the doubling of air traffic by 2020, and the tenfold improvement in flight safety, while reducing the consumption of commercial aircraft by 5%. The Cleansky programme, of which Thales is a founding member, should for its part develop technologies for the next generation of commercial aircraft, halving the energy consumption of existing aircraft.

Thales is also a leading industrial player in the control of automated trains using CBTC (Communications Based Train Control) technology. CBTC significantly increases the number of trains that can run on a line and is being used for all newly built metros and to modernise existing lines. Thales' functionalities and solutions also allow rail operators to cut their energy consumption, thereby contributing to a further reduction in the carbon footprint 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 within and between towns and cities, at regional or national level, with a single ticket.

Transport regulation by road and renovation of road infrastructure are fundamental. The regulations may be reinforced with the introduction of heavy goods vehicle toll collection, which has already been deployed in Germany, Switzerland and Austria, as part of the "Eco-taxi" project in France. Thales is a key player in the project through the company Ecomouv'.

Overall, CO₂ emissions have decreased since 2010. This decrease has been driven by focusing efforts on company cars and car hire, where emissions have decreased respectively by 33% and 5% since 2010. This is the result of actions implemented with partners managing the car fleet and individual sites.

4.2.4.2.2 In the deployment of renewable energies

Thales provides its expertise and adapts its product range to promote the deployment of renewable energies.

Wind farms interfere with civil aviation, defence and meteorology radar. A wind farm disrupts radar by creating a mask and triggering false alarms. This problem has led many countries to defer their projects to establish thousands of wind farms.

In order to address this, Thales has developed a material that absorbs broadband radiofrequency, which reduces the Equivalent Radar Surface (ERS) of the objects coated with it, reducing or eliminating the interference. This reduces the radar signature of wind turbines by 99%.

This solution has now been added to an existing solution consisting of a series of algorithms enabling radars to determine whether an echo has been sent by an aircraft or a wind turbine, thus reducing the risk of transmitting erroneous information to air traffic controllers. Thales has proved the effectiveness of its system at Inverness airport in Scotland. This site was chosen because it is surrounded by 141 wind turbines.

4.2.4.2.3 In climate monitoring

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 Group contributes to most European climate missions and is a partner to global agencies. For example, the Sentinel 3 satellite will collect essential information to predict the climate and monitor the status of vegetation globally: topography of the surface of the oceans, ice floes and land surfaces; observation of the oceans in terms of currents, pollution and marine life; the increasing temperature on the surface of the sea and land; and the global status of vegetation to better manage its development.

The development of the third-generation Meteosat (MTG) will guarantee Eumetsat's continued geostationary capacity to monitor the weather through to the 2030s.



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Imaging and atmospheric probing data will also provide unprecedented information on water vapour and temperature profiles. The increase in the volume of historic data will help climatologists gain a better understanding of climate change. Thales Alenia Space will continue to provide its meteorological findings to around half the world's population.

4.2.4.2.4 In the definition of international standards and partnerships

In addition to reducing greenhouse gas emissions from its own activities, Thales encourages its partners to take a responsible attitude to the issue. To illustrate this, since 2009 Thales has been joint chair of the "Carbon" working party of the aeronautics and space industry

group GIFAS (*Groupe des Industries de l'Aéronautique et du Spatial*) and is a member of the greenhouse gas working party of the IAEG (International Aerospace Environmental Group) to define international standards. Thales is also engaged in partnerships with other industry players as well as research laboratories and government agencies. A university chair in greenhouse gas emissions monitoring, inaugurated in December 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 (UVSQ) and the French scientific research agency (CNRS), while industrial partners include Veolia Eau and Thales Alenia Space.

4.2.5 PROTECTION OF BIODIVERSITY

The preservation of biodiversity is a response to one of the new environmental challenges. Preserving species and their habitat, keeping dedicated areas for flora and protecting the natural historic heritage must now be part of daily behaviour to support any decision to promote protection of the environment.

The Group has taken this environmental challenge into account for many years. As early as 2006, Thales drew up a preliminary inventory of its sites near or within protected areas for flora and fauna and their habitat and, on certain sites, assessed the impact of activities on biodiversity and the degree of dependence on ecological services rendered by nature.

Although the global impact of the Group's activities on biodiversity is low, flora and fauna are of particular concern at a number of locations and the Group encourages its sites and employees to preserve and promote biodiversity. In 2012, an internal competition open to all the Group's employees awarded prizes to an educational process to learn about the biodiversity of entomology and fauna at a site and its surroundings, the rehabilitation of a pond to encourage ecological development and the establishment of fallow fields and insect habitats.

Locally, a variety of initiatives have been taken worldwide to encourage flora and fauna. Inventories are made at some sites, by volunteers or in partnership with local authorities or biodiversity protection agencies, and ad hoc management measures may be put in place. At Lithgow (Australia), in close cooperation with the Lithgow Council for Endangered Species, a habitat management plan has been established for one of the rarest species of butterflies

in Australia: the Bathurst Copper Butterfly. The aim is to encourage its population to stabilise and then expand as part of a wider programme set up by the National Parks and Wildlife Service.

Other sites focus on planning outdoor areas to foster the natural habitat and boost local fauna (bird feeders and shelters, specialists to count species, etc.) or replant local compatible species to provide relatively safe and protected shelter for a wide variety of plants, fungi and animals.

For sites with large areas of plains or forests, particular precautions are taken for the fauna and flora by promoting soft natural techniques for mowing and grazing.

At other sites, employee awareness will be raised through photographic exhibitions of the forest, agroforestry and the species present on the site, allowing beekeepers to place their hives on the site, and also by keeping a register of species and creating a dedicated online review. Partnerships have been set up – for example, in Mexico, where Thales employees and their families took part in a planting day in a park in Mexico City, as part of a campaign on "Greening and Recycling for your City". In return for Thales supplying Istle (a local plant producing a natural fibre used by natives), the Ministry of the Environment provided all the logistics for the event (tools, publicity, etc.).

Additionally, in 2012, Thales embarked on an analysis of the risks related to biodiversity to identify the sensitivity of sites with regard to threatened species and protected ecological areas or areas of environmental interest. The results are expected in early 2013.

4.2.6 PRODUCTS AND ENVIRONMENT

4.2.6.1 INNOVATION FOR THE DEVELOPMENT OF GREEN TECHNOLOGIES

Thales puts innovation at the heart of its strategy and 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 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. To illustrate Thales' commitment to green technologies, next-generation radar incorporates innovative principles to reduce energy consumption: using gallium nitride (GaN) and low-consumption multilayer processes (identical to mobile telephony), eliminating high-energy rotating parts.

New system architectures help reduce the amount of on-board equipment as well as making it more compact in size so it is more easily transportable, 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. And 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 has also patented a multi-axis electrical system to replace the hydraulic system used in helicopter simulators while safeguarding the flexibility of the hydraulic movement. Thanks to this system, energy consumption has been reduced and the pollution risk related to the use of fluids has been eliminated.

Thales is also careful to identify replacement products if a substance presents a risk or is threatened with being banned. As a ban on the use of certain chemical substances could impact its processes and products, this is a critical issue for Thales. Conducted internally or with industrial partners, substitution surveys are aimed at validating the characteristics and implementation processes of the new substance, and ensuring that the expected performance of the products will be maintained. In some cases it is necessary to redesign products and interfaces and rescope industrial tools.

New materials and new architectures to reduce weight or size and optimise energy efficiency, etc. have been promoted at two events organised by Thales and open to clients and the press: Research Days (a trade fair dedicated to developing technologies) and Technodays (a trade fair dedicated to new products, solutions and systems).

4.2.6.2 ECO-RESPONSIBLE PRODUCTS

Thales has long been engaged in efforts, on all the markets in which the Group is present, to miniaturise and reduce energy consumption to meet the needs of clients and the expectations of environmentalists. However, these developments are not at the expense of compromising on the rigorous demands of security, safety and reliability. This is why the systems and high-tech products and services offered to the aeronautics, space, defence, transport and security markets sometimes sit uneasily with an environmental approach.

Nevertheless, Thales is committed to a responsible approach aimed at limiting the impact of its products and services on the environment in order to comply with multiplying regulations along with the demands of the market and civil society. Beyond the regulatory constraints, incorporating environmental factors into product design generates creativity and dynamism.

On this basis, Thales works to transform these new constraints into real opportunities: identifying hazardous substances from the design phase, seeking alternative solutions for substances that are not advised or are prohibited, replacing materials, saving energy, etc., which all help with taking the environment into account in methods, processes and mindsets in order to stimulate the drive for innovation.

To underpin this approach, the Group's framework integrates environmental dimensions into all relevant processes: in calls for tender, for a better analysis of the risks related to the environment, as well as in product policies and the development, design, maintenance and dismantling phases. To anticipate future regulations and requirements in this area and ensure traceability during the product's life cycle, and in anticipation of dismantling, Thales develops methods and tools to help designers and product architects to make eco-responsible choices and capitalise on environmental information: guides, questionnaires, check-lists, calculators and dedicated IT tools such as the hazardous substances database in the components regularly updated in light of regulatory changes or impact analysis. In order to supervise the incorporation of environmental aspects upstream and during the product development phase, a permanent dedicated network of HSE product officers is trained (see also section 4.2.1.2).

Beyond compliance with regulations, Group companies have been engaged in various initiatives to reduce the environmental impact of civil and military products from the design stage. And although the majority of Thales products require very high levels of safety and reliability, leaving very little latitude in design, a certain number of product lines already integrate environmental criteria assessed

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during life cycle analyses: particularly the next-generation Reality H helicopter simulator, the range of GM400 radars, intelligent radars that filter false alerts generated by wind turbines, e-ticket machines,

electronic tubes, medical imaging equipment, the GAIA laser in optronics, etc. Some catalogues contain over 50% of eco-responsible products.

4.2.6.3 PRODUCTS TO SERVE THE ENVIRONMENT

Thales also designs products aimed at serving the environment, in the various markets in which the Group is present. For example, the surveillance satellite Sentinelles 3 is dedicated to Earth observation. While complying with its requirements for reliability and security, the Group has also launched a far-reaching programme to reduce the environmental impact of civil aviation. Known as "Green ATM", Thales' initiative offers the airline sector the opportunity to benefit from its numerous investigations in this area, working for example to enhance the benefits of continuous descent approaches when this is possible, and optimise the consumption of kerosene thanks to a

better exchange of information between the control tower and the cockpit crew or limit on-ground waiting time before take-off, another source of fuel savings.

Also in transport, Thales promotes traffic management and energy saving tools. Its participation in a variety of national and international programmes also demonstrates Thales' commitment to this process. (Also see paragraph 4.2.4.2.)

4.2.7 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:

- on the previous scope (the 2010-2012 period);
- on an extended scope for 2012, comprising 28 countries and 156 entities, with 2012 as the benchmark year for the targets for

2013-2015. This scope represents 92% of sales and 93% of the Group's workforce;

- CO₂ emissions factors from the GHG Protocol changed in June 2011. The electricity factor in France is derived from the "Base Carbone". Consequently, CO₂ emissions for 2010 have been recalculated on these bases.

		2007-2010		2010-2012		2012 (new perimeter)	
		Units	evolution	2010	2012	evolution	
ENERGY							
Electricity consumption	✓	'000s toe	-5%	142	137	-4%	139
Per sales electricity consumption	✓	top/k€		11.9	11.3	-5%	11.4
Fossil energy consumption	✓	'000s toe	-42%	27	24	-11%	24
Per sales fossil energy consumption	✓	top/k€		2.3	2	-13%	2
Total energy consumption	✓	'000s toe	-11%	173	164	-5%	166
Per sales total energy consumption	✓	top/k€	-15%	14.5	13.6	-6%	13.7
WATER							
Water consumption	✓	'000s m ³	-21%	1,763	1,742	-1%	1,770
Per sales water consumption	✓	m ³ /k€	-24%	147	144	-2%	146
WASTE							
Production of non-hazardous waste (without exceptional waste)	✓	tonnes	-21%	13,390	12,008	-10%	12,464
Per capita production of non-hazardous waste (without exceptional waste)	✓	kg/pers	-20%	190	169	-11%	172
Percentage of non-hazardous waste recovered ^(a)	✓	%	31%	82	85	4%	85
Production of hazardous waste ^(b)	✓	tonnes	-5%	2,945	2,731	-7%	3,088
Percentage of hazardous waste recovered ^(a)	✓	%	22%	81	80	-1%	72
Total production of waste per sales		tonne/k€	-24%	1.36	1.22	-10%	1.28
INDUSTRIAL DISCHARGE							
Waste water		'000s m ³	-57%	531	782	47%	782
Air emissions		tonnes		990	693	-30%	694

		Units	2007-2010 evolution	2010	2012	2010-2012 evolution	2012 (new perimeter)
CO₂							
CO ₂ emissions from energy use	✓	'000s t CO ₂	-18%	238	226	-5%	227
Per sales CO ₂ emissions from energy use	✓	kg CO ₂ /k€	-33%	19.9	18.7	-6%	19
CO ₂ emissions linked to Kyoto Protocol substances	✓	'000s t CO ₂	-10%	37	19	-49%	19
o/w CO ₂ emissions linked to SF ₆	✓	'000s t CO ₂	-28%	25	11	-56%	11
CO ₂ emissions from business travel (company-wide)	✓	'000s t CO ₂	-15%	111	107	-4%	107
Per capita CO ₂ emissions from business travel	✓	kg CO ₂ /pers	-14%	1,665	1,649	-1%	1,649
CO₂ SCOPES ACCORDING TO GHG PROTOCOL							
Scope 1 (gas, fuel oil, coal, substances)	✓	'000s t CO ₂	-31%	124	98	-21%	98
Per sales Scope 1	✓	kg CO ₂ /k€	-33%	10.4	8.1	-22%	8.1
Scope 2 (electricity, steam)	✓	'000s t CO ₂	-6%	168	167	-1%	168
Per sales Scope 2	✓	kg CO ₂ /k€	-7%	14	14	-1%	13.9
Scope 3 (business travel by air, rail, road)	✓	'000s t CO ₂	-15%	111	107	-4%	107
Total scopes 1, 2 and 3	✓	'000s t CO ₂	-16%	403	372	-8%	373
OTHER							
ISO 14001- certified entities	✓		70%	118	124		124
Staff concerned as percentage of total workforce	✓	%	15%	75%	85%		85%

(1) Not sent to landfill, nor incinerated with no energy recovery.

(2) Without exceptionnal waste and explosive.

✓ Indicators reviewed by Ernst and Young for the 2012 reporting period and included in limited assurance conclusion.

4.2.8 ENVIRONMENTAL REPORTING RULES

4.2.8.1 SCOPE

The consolidation scope of environmental data is based on the financial consolidation scope. However, due to restricted activity

and/or workforce or the absence of operational control by Thales, certain establishments have not been included.



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4.2.8.1.1 Criteria

Only companies meeting the following criteria are included:

Equity interest and operational control	• Thales equity interest of 50% or more. • Thales exercises operational control over the company. Companies and joint ventures <i>not</i> meeting the above criteria are not included in Thales' environmental reporting.
Activity/Workforce	• "company/site" conducting an industrial activity (surface treatment, painting, pyrotechnics, shipbuilding etc.) irrespective of number of employees. • "company/site" conducting only a semi-industrial activity (testing, integration, R&D, etc.) with over 50 employees. • "company/site" with service activity only (headquarters, service, sales agency etc.) with over 100 employees.
Environmental Management System	All "companies/sites" that are ISO 14001 and/or EMAS certified are included in the scope irrespective of the criteria related to activity.

4.2.8.1.2 Changes to scope

- Disposals/acquisitions: company to be included as soon as one full calendar year has been completed and if the company meets the scope selection criteria.
- Creation of activity: company to be included as soon as one full calendar year has been completed and if the company meets the scope selection criteria.
- Transfer from one site to another: data taken into account in the reporting:
 - of the departure site from 1 January N to the date of transfer;
 - of the arrival site from the date of transfer to 31 December N.
- Intra-Group merger: integration of data of the absorbed entity for the period 01 January N to the date of absorption in the data of the absorbing entity.

4.2.8.2 REPORTING PROCEDURE

The Group-wide reference system includes an environmental reporting procedure with instructions for each successive stage of data entry, validation and consolidation. It also defines the roles of

each person involved and includes the recording of data (traceability, archiving, etc.).

4.2.8.3 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 indicators are described in the reporting tool. Information is also available on the calculation of the carbon footprint.

4.2.8.3.1 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.

4.2.8.3.2 Analysis of performance

For easier analysis of environmental data, the Group reporting system incorporates the following principles:

- changes in scope related particularly to disposals and acquisitions. For each family of indicators, a gross figure is given (e.g. water consumption in m³) and a ratio supplements the information to take account of changes in scope (e.g. water consumption per person);
- 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.

4.2.9 INDEPENDENT VERIFIER'S ATTESTATION AND LIMITED ASSURANCE REPORT ON ENVIRONMENTAL INFORMATION PRESENTED IN THE MANAGEMENT REPORT

This is a free translation into English of the original report issued in the French language and it is provided solely for the convenience of English speaking users. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the general management,

Pursuant to your request and in our capacity as independent verifier of Thales, we hereby report to you on the consolidated environmental information presented in the management report issued for the year

ended December 31st 2012 in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code (*Code de commerce*).

MANAGEMENT'S RESPONSIBILITY

The Board of Directors is responsible for the preparation of the management report including the consolidated social, environmental and societal information (the «Information») in accordance with the requirements of Article R. 225-105-1 of the French Commercial

Code (*Code de commerce*), presented as required by the entity's internal reporting standards (the «Guidelines») and available at the entity's premises.

OUR INDEPENDENCE AND QUALITY CONTROL

Our independence is defined by regulatory requirements, the Code of Ethics of our profession (*Code de déontologie*) and Article L. 822-11 of the French Commercial Code (*Code de commerce*). In addition, we maintain a comprehensive system of quality control

including documented policies and procedures to ensure compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

INDEPENDENT VERIFIER'S RESPONSIBILITY

It is our role, on the basis of our work:

- To attest whether the required environmental Information is presented in the management report or, if not presented, whether an appropriate explanation is given in accordance with the third paragraph of Article R. 225-105 of the French Commercial Code (*Code de commerce*) and Decree no. 2012-557 dated 24 April 2012 (Attestation of presentation);
- To provide limited assurance on whether the environmental Information is fairly presented, in all material respects, in accordance with the Guidelines (limited assurance);

1. Attestation of presentation

Our engagement was performed in accordance with professional standards applicable in France:

- We compared the environmental Information presented in the management report with the list as provided for in Article R. 225-105-1 of the French Commercial Code (*Code de commerce*);
- We verified that the environmental Information covers the consolidated perimeter, namely the entity and its subsidiaries within the meaning of Article L. 233-1 and the controlled entities within the meaning of Article L. 233-3 of the French Commercial Code (*Code de commerce*) within the limits specified in the methodology note presented in the chapter "Environmental reporting guidelines" (*Règles de reporting environnemental*) of the management report;

- In the event of the omission of certain consolidated environmental Information, we verified that an appropriate explanation was given in accordance with Decree no. 2012-557 dated 24 April 2012.

On the basis of our work, we attest that the required environmental information is presented in the management report.

2. Assurance report

Nature and scope of the work

We conducted our engagement in accordance with ISAE 3000 (International Standard on Assurance Engagements) and French professional guidance. We performed the following procedures to obtain limited assurance that nothing has come to our attention that causes us to believe that the environmental Information is not fairly presented, in all material respects, in accordance with the Guidelines. A higher level of assurance would have required more extensive verification works.

Our work consisted in the following:

- We assessed the appropriateness of the environmental Guidelines as regards their relevance, completeness, neutrality, clarity and reliability, taking into consideration, where applicable, the good practices in the sector.



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- We verified that the Group had set up a process for the collection, compilation, processing and control of the environmental Information to ensure its completeness and consistency. We examined the internal control and risk management procedures relating to the preparation of the environmental Information. We conducted interviews with those responsible for environmental reporting.
 - We selected the consolidated environmental Information to be tested⁽¹⁾ and determined the nature and scope of the tests, taking into consideration their importance with respect to the environmental consequences related to the Group's business and characteristics.
 - Concerning the quantitative consolidated environmental information that we deemed to be the most important:
 - at the level of the consolidating entity and the controlled entities, we implemented analytical procedures and, based on sampling, verified the calculations and the consolidation of this information;
 - at the level of the sites that we selected⁽²⁾ based on their business, their contribution to the consolidated indicators, their location and a risk analysis:
 - we conducted interviews to verify that the procedures were correctly applied and to identify any omissions;
 - we performed tests of detail based on sampling, consisting in verifying the calculations made and reconciling the data with the supporting documents.
- The sample thus selected represents between 10% and 43% of the quantitative environmental information tested⁽³⁾.
- Concerning the qualitative consolidated environmental information that we deemed to be the most important, we conducted interviews and reviewed the related documentary sources in order to corroborate this information and assess its fairness.
 - As regards the other consolidated environmental information published, we assessed its fairness and consistency in relation to our knowledge of the company and, where applicable, through interviews or the consultation of documentary sources.
 - Finally, we assessed the relevance of the explanations given in the event of the absence of certain environmental information.

COMMENTS ON THE ENVIRONMENTAL GUIDELINES AND INFORMATION

We wish to make the following comments on the environmental Guidelines and Information:

- Environmental indicators are listed in an Appendix of the environmental Guidelines but without explicit definition. Indeed, environmental indicators are defined in the reporting tool but it would be appropriate to detail and exemplify those definitions, especially concerning waste-related indicators, in order to ensure a better harmonization of reporting practices between sites.
- Information reported and published regarding waste production is to be understood as "without exceptional waste", that is to say without accounting for waste produced in particular during construction works, demolition works or exceptional cleaning operations such as "5S". Although the reporting tool provides the ability to report separately these exceptional wastes, several sites have reported all or part of their exceptional wastes as common wastes.

CONCLUSION

Based on our work described in this report, nothing has come to our attention that causes us to believe that the environmental Information

is not fairly presented, in all material respects, in accordance with the Guidelines.

Paris-La Défense, March 5th 2013

The Independent Verifier

Ernst & Young et Associés

French original signed by:

Christophe Schmeitzky

(1) Environmental information :

- Energy consumption: annual electricity consumption (toe), annual fossil energy consumption (toe), total annual energy consumption (toe).
- GHG (greenhouse gas) emissions: GHG emissions from energy consumption (tCO₂), GHG emissions from Kyoto substances (tCO₂), GHG emissions from transportation (professional travels) (tCO₂),
- Industrial waste water emissions other release (thousands of m³),
- Water consumption: annual water consumption (m³),
- Waste production: common waste production (tons), hazardous waste production (tons), common waste recovery (%), hazardous waste recovery (%),
- Management system: number of entities and % of Group manpower present in an ISO 14001 certified entity.

(2) Selected sites : Crawley & Reading (Thales Aerospace, Thales Corporate Services, Thales e-Security, Thales ITS Radio Com, Thales Transport & Security, Thales Training & Simulation, Thales Training & Consultancy, Thales Research & Technology), Benalla and Mulwala (Thales Land Australia), Toulouse Candie (TAS), Vélizy (TED), Hengelo (Thales Nederlands B.V.).

(3) The 10% and 43% figures respectively correspond to the following environmental information: ISO 14001 certification and water consumption.

4.3 Societal information

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 BY GERIS CONSULTANTS IN FRANCE

The territorial policy is based on close ties with economic and social players, 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 some thirty years, Thales has also had a dedicated company, Geris Consultants, the delegated agent for a public service "revitalisation" mission, which offers its expertise to companies,

regional authorities, and SMEs being formed or developing in regions affected by the loss of industrial jobs.

The revitalisation missions conducted by Geris Consultants have created over 3,000 jobs in France, including 859 in 2012 alone at around 450 SMEs.

Within the framework of a free and confidential process, Geris Consultants also assists those forming or buying a company in their projects. In 2012, 50 new projects were supported, raising the number of active projects to 116.

4.3.1.2 GROUP INITIATIVES TO SUPPORT PEOPLE WITH DISABILITIES

In 2012, 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;
- foundation of the Hanvol Association whose mission is helping people with disabilities into work in the Aeronautics business lines.

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 which, working through a smartphone, helps visually-impaired people find their way around a building (this system will be incorporated in Thales' new buildings in Gennevilliers and will equip ESSEC's campus in Cergy in 2013);
- "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. This system became operational in 2012.

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 2012 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.



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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, especially the UN Global Compact which, in September 2012, recognised the quality of Thales' non-financial reporting and communication, raising its performance rating from "active" to "advanced". Among the 7,000 companies that are members of the Global Compact, only 386 have so far obtained the Global Compact Advanced level – 18 of them are French and only one is in the aerospace & defence sector;
- 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, ADS Supply Chain 21 Task Force, UK Defence Industry Business Ethics Forum and Institute of Business Ethics;
- the Ethics Network Australian Defence Industry (ENADI);

- the *Groupe 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 *Groupe 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 UK 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 ethical business conduct, and with Amnesty International and Saferworld on human rights issues.

4.3.2.2 THALES' INITIATIVES WITH CHARITABLE ORGANISATIONS

In most countries in which they are located, many of Thales' companies have joined forces with charitable organisations, to which they give financial and material backing. A few examples follow:

- in the UK, "Community Investment" is at the heart of the actions conducted by Thales with regard to employees, clients, investors and suppliers. This is the context in which actions are conducted with schools and higher education institutions to enable children and young people to have a good view of the career prospects offered by studying engineering. Also, through its "Charitable Trust", Thales UK continued in 2012 to support "Youthnet", an association aimed at helping young people aged 16 to 24 get career guidance. The partnership with "Railway Children" and the "Talk, don't Walk" project were continued. The "Give as You Earn" programme, created in 2012, enables employees to give

a percentage of their gross salary to a charity of their choice, with only part of it deducted from their net salary (the rest is covered by Thales). In 2012 Thales donated £500,000 to "Marie Curie Cancer Care";

- in the Netherlands, Thales supports the "University Fund Twente", the "Study Centre Hengelo" and the "Opkikker Foundation", which organises activities for children suffering from a serious illness and their family, Thales participates locally in the "Technology Museum" and the "Nautical Museum";
- in Spain, Thales participates in projects in which the employees are directly involved. Any Thales employee in Spain can therefore apply for funding to set up a charitable project under the "Thales Commitment" programme. In 2012, Thales collaborated in ten projects run by different foundations or associations.

- in Italy, Thales provides its support to hospitals and operations conducted by associations, such as "Téléthon" and "Deaf-mute";
- in Australia, Thales participates in numerous actions to support education. Permanent links exist with schools and universities to promote training, innovation and development. For example, bursaries are available for students studying engineering;
- in the United States, Thales supports numerous causes run by associations (civic actions, healthcare support organisations and support for military families);
- in South Africa, Thales grants bursaries and participates in innovative initiatives for children;
- in France, in 2012, Thales continued its commitments in support of schools and universities and sponsored over 20 schools (Telecom Bretagne: 4L Trophy (humanitarian sports challenge), Polytechnique: Arialix (French Cup for Robotics), ESCP Europe (rowing club), Supélec: Cercle Europe (European schools week), ESSEC: Comedia d'Elle Essec (Trainee Coordination Forum/Theatre Company), ISEP: Isep Voile (Edhec Student & Cruising French Cup for Sailing). It also continued its support for La Chaîne de l'Espoir (Chain of Hope) association, having initiated a three-year agreement in 2009. The Group's annual donations fund initiatives to support sick children in Afghanistan.

4.3.3 RELATIONS WITH SUPPLIERS: A RESPONSIBLE APPROACH

At 31 December 2012, the annual volume of Group purchasing came to €5.7bn, which represented nearly 45% of consolidated sales (excluding DCNS). In view of the nature of the Group's operations, suppliers based in EU countries account for two thirds of purchases and French suppliers account for 37%.

In 2012, the Group's industrial sub-contracting services represented a volume of nearly €1.5bn euros; sub-contractors are similar to suppliers in terms of respect for the principles of "corporate citizenship" (human rights, working standards, environmental protection and ethics in economic relations).

The Thales purchasing policy is aimed at working with a high-performance and reliable supplier base, 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 in building 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.

In 2012, Thales was awarded the "*Label Relations Fournisseurs Responsables*", a French government award given for the first time by Médiation Inter-entreprises and the *Compagnie des Dirigeants et Acheteurs de France* (CDAF), to four corporations which have demonstrated particularly fair and lasting relations with suppliers.

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, business ethics and export control.

Over 2012, Thales' commitment to corporate responsibility towards suppliers is particularly conveyed by:

- the deployment of the Company Purchasing and Corporate 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 Responsibility Charter through 16 questions: nine dedicated to labour standards, three to the protection of the environment, two to corporate governance, one to business ethics and one to export control. By the end of 2012, more than 1,800 Thales suppliers had signed the Purchasing and Corporate Responsibility Charter and filled in the assessment questionnaire. On this basis, suppliers' overall environmental, social and governance performance (ESG) stands at 9.2 on a scale of 10;
- the "Innovative SMEs Charter", signed in 2012, which reinforces Thales' commitment to SMEs to help them in their innovation projects and contribute to their future development, in return for access to their innovative technology.



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4.3.4 FAIR PRACTICES

4.3.4.1 PREVENTING 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 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 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 and purchasing).

The policy of "zero tolerance" for any act of corruption is fully supported by the Group corporate management and Board of Directors.

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 "Best 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 IFBEC⁽¹⁾, a joint structure for the AeroSpace and Defence Industries Association of Europe (ASD) and the Aerospace Industries Association of America (AIA).

⁽¹⁾ International Forum on Business Ethical Conduct.

An ethics policy backed by a solid organisation

Thales has an organisation designed to conceive, implement and manage a coherent system for ethical standards – in particular on corruption prevention – and to institute a culture of corporate responsibility across the Group's entire scope. Emphasising the central place of ethics and corporate responsibility within the Group's strategy, Thales established an Ethics and Corporate Responsibility Committee in 2001. This committee is one of the Group's three management bodies, alongside the Executive Committee and the Risks & Internal Control Committee. The mission of this Committee is to monitor changes in ethical standards and define Thales' policy on corporate responsibility.

Within the Group's General Management, 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 & Internal Control. The Vice President, Ethics and Corporate Responsibility is also a member of the Risks & Internal Control Committee. The scope of responsibility of Audit & Internal Control, which integrates ethics and corporate responsibility, thus 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' actions for development.

Ethics officers are responsible for the dissemination of the Code of Ethics and its principles in all Group entities. Their role is to oversee training and staff awareness, responding to questions on the application of the code, and to define the Group's ethical approach in light of local practices and legislation. They are also responsible for informing the Ethics and Corporate Responsibility Committee of any violations of the principles set out in the Code.

Compliance officers oversee compliance with national law and the Group's own business ethics standards. The compliance officers play a key role in assessing and qualifying partners and third parties.

To strengthen Thales' Ethics and Corporate Responsibility approach, and every employee's means of expression, so that everyone can play their part in risk prevention, an ethics alert system has been made available to all Group employees. In 2012, after obtaining express authorisation from the CNIL, the French civil liberties body, Thales developed this system to ensure its compliance with French rules on the ethics alert mechanism. This system also enables Group employees to:

- obtain information and advice in case of questions or doubts about the application or interpretation of the Code of Ethics;
- to raise ethics-related concerns with respect to accounting, financial and banking practices, corruption prevention or fair trade ; or instances of discrimination, harassment or any serious non-compliance with occupational health and safety regulations that could affect the physical or mental health of employees and thereby significantly impact the Group's business or engage its liability.

A user guide for employees was published in 2012 to facilitate adoption of this tool.

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 agents and consultants (business 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 been strengthened since 2010 with regard to the use of consultants who are paid with success fees.

To underpin its strategy of strengthening its presence internationally and its establishment in target countries, Thales upskills and selects

local key industrial partners (KIP). The upskilling and selection process is aimed at sealing long-term partnerships with local industrial companies that meet a series of criteria with regard to business integrity and ethics, competence and expertise. This procedure is 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 key industrial partners of Thales.

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

(1) Senior Vice President.



4 CORPORATE RESPONSIBILITY

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Thales has also been ranked in the defence sector's top 10 companies by Transparency International, an NGO working to combat corruption worldwide. The Transparency International report⁽¹⁾ published in October 2012 presents an analysis of the corruption prevention programmes of the world's 129 biggest defence sector

companies. The companies are assessed in five areas (leadership, governance and organisation – risk assessment – company codes and policies - training – personnel and helplines) with regard to the ethics and anti-corruption systems they have put in place.

4.3.4.2 HEALTH AND SAFETY OF CONSUMERS

Not applicable.

Thales' products, technologies and services are aimed exclusively at government "B to G" ("Business to Government") clients, especially

in the defence and security sectors, and at private commercial "B to B" ("Business to Business") clients, especially in aeronautics, space and rail transport.

4.3.4.3 ACTIONS TO SUPPORT HUMAN RIGHTS

Thales signed the United Nations Global Compact in 2003 and adheres to its 10 principles, particularly with respect to human rights and labour law which are inspired by the Universal Declaration of Human Rights and the International Labour Organisation declaration on the principles and fundamental rights of work. These principles are implemented on the basis of agreements and best practices that ensure that its activities constitute responsible conduct. Reflecting the relevance of its actions in corporate responsibility, Thales saw its UN Global Compact performance rating raised from "active" to "advanced" in September 2012; among the 7,000 companies that are members of the Global Compact, to date only 386 have been awarded "Global Compact Advanced" status, 18 of them French and only one in the aerospace & defence sector.

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 all activities 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.

Thales also extends its own commitments to corporate responsibility to its suppliers and subcontractors, particularly through its Purchasing and Corporate Responsibility Charter, in order to share a common foundation of values and principles, particularly the 10 values set forth in the UN Global Compact. This action is viewed 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.

⁽¹⁾ Defence Companies Anti-corruption Index 2012 – Transparency International – <http://companies.defenceindex.org/report>.

4.4 Cross-reference table relative to Article R. 225-105-1 of the French Commercial Code

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Design & published by **RR DONNELLEY**

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