

Registration Document 2013

ANNUAL FINANCIAL REPORT



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REGISTRATION DOCUMENT **2013**

including the Annual Financial Report



The registration document was filed with the Autorité des Marchés Financiers (AMF) on 1 April 2014, 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 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 consolidated financial statements and corresponding audit reports found on pages 32 to 93 of the 2012 registration document filed with the AMF on 3 April 2013;
- the Group's financial information, key figures and management report, found respectively on pages 5 and 8 to 31 of the 2012 registration document filed with the AMF on 3 April 2013.

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

CHAIRMAN & CHIEF EXECUTIVE OFFICER'S FOREWORD

In many respects, 2013 was a milestone year for Thales.

As our full-year financial results show, Thales is back in motion. We recorded a substantial increase in new orders, particularly in emerging markets, where order intake surged by 30%. Even if revenues remained stable, operating profitability rose by 8% to a record high, thanks to our efforts to improve our competitiveness. The adjusted net income also climbed 13%. Based on these encouraging results, the Board of Directors recommended a 27% increase in the dividend to €1.12 per share.

During 2013, we defined Ambition 10, an ambitious new strategic vision for the Group that is shared by all our employees and based on their collective intelligence. Ambition 10 is built on three strategic pillars — growth, competitiveness and people — which will support Thales's development as we move forward.

After several years of flat sales and a persistently unfavourable environment in Western defence markets, we need to continue and speed up our growth in emerging markets and further leverage the expansion of our civil business in aerospace, ground transportation and security. A few years from now, we expect civil markets to account for the majority of our sales and we should generate more than a third of our revenues in emerging markets.

At the same time, we will be pursuing efforts to improve the competitiveness of all our businesses. We intend to achieve additional savings in purchasing costs and further improvements in contract execution, and we are now taking steps to enhance our engineering and structure costs. With this improved competitiveness and a return to revenue growth, we expect to deliver levels of profitability closer to those of the best-performing companies in our industry.

Building on this new momentum and the excellence of our employees, and drawing even more effectively on their talent and diversity everywhere the world, Thales is now poised to return to sustainable, profitable growth and to become a truly global player.

Jean-Bernard Lévy

Chairman & Chief Executive Officer

OVERVIEW OF THE GROUP

Thales provides its government and private-sector customers in the aeronautics, space, transport, defence and security markets with high technology solutions that help to make the world safer.

In increasingly complex, open and interconnected environments, the security of people and property, of infrastructure and States is based on the ability of organisations to make good decisions and to respond quickly in order to achieve the best results.

Thales provides its customers with support and expertise across all these markets, which are split into three operating segments: Aerospace (Aeronautics and Space), Transport and Defence & Security.

In the **Avionics** sector, Thales provides aircraft manufacturers, airlines and civil aviation administrations with safe and efficient electronics and information systems. These solutions meet the need for ongoing improvement in air traffic safety and efficiency (avionics and cabin systems for the major manufacturers).

In the **Space** sector, Thales designs, develops and deploys orbital infrastructure, satellite systems, ground systems and related services for the space programmes of satellite operators, space agencies, States and military customers (communications, earth observation and navigation satellites, etc.).

In the **Transport** segment, Thales helps its customers optimise the capacity and efficiency of ground transport networks whilst maximising safety, cutting costs and providing passengers with improved services (rail traffic management and ticketing systems).

In the **Defence** sector, Thales helps armed forces gain and maintain decision-making and operational superiority in conventional theatres, urban combat and cyberspace. The Group provides all domains (air, land, sea) with a complete line-up of equipment, systems and services for battlespace digitisation.

In the **Security** sector, Thales provides integrated solutions, resilient networks and high value-added services. These solutions not only help safeguard citizens (secure communications systems), sensitive data (cryptology, cybersecurity), but also critical infrastructure (airports, ports, borders).

Thales has recognised expertise in information systems and electronics based on its control of the “**critical decision chain**”: detection (radar, sonar, optics) and supervision (civilian and military command and control systems, secure communications and transactions, large software systems, on-board electronics, satellites and integrated systems). These technologies cut across all the Group’s activities 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.

Thanks to its business portfolio, Thales has an expertise in dual technologies developed by leading experts across the world and based on the collaboration of experienced multi-national teams. The investment policy is moreover driven by this ongoing search for technical excellence. Thales is 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.

Thales is stepping up its development in growth countries where its experience and positioning help meet the new challenges facing its customers: globalisation, urbanisation, cybersecurity, etc. Drawing on the strength of its 66,000⁽¹⁾ employees⁽¹⁾, Thales develops long-term, close relations with its customers, building the trust required for complex, long-term projects.

**Together — Safer —
Everywhere**

*Ensemble, pour un monde
plus sûr, partout.*

(1) Consolidated number of employees, see definition on page 44.

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 Airbus Group).
- 2000** Takeover of Racal Electronics in the United Kingdom.
Thomson-CSF changes its name to Thales.
Thales and Raytheon form joint venture Thales Raytheon Systems 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 DATA

(€ million)	2013 ^(a)	2012 ^(a)	2011 ^(a)
Order book at year-end ^(b)	29,527	29,849	30,697
Order intake ^(b)	14,168	13,285	13,214
Sales ^(c)	14,194	14,158	13,028
France	4,141	4,196	3,407
United Kingdom	1,494	1,570	1,492
Rest of Europe	2,796	2,959	3,457
Outside Europe	5,763	5,433	4,672
EBIT ^(d)	1,003	927	749
Adjusted net income—Group share ^(e)	644	570	517
Operating cash flow	1,415	1,346	1,242
Net operating investments	(433)	(415)	(256)
Net financial investments	144	202	(181)
Self-funded R&D ^(f)	(705)	(699)	(629)
Net cash	1,666	1,528	906
Equity, Group share	3,911	3,541	4,120
Consolidated workforce at year-end	66,447	65,992	68,325

(a) After impact of the consolidation of DCNS under the proportionate method at 35% from 31/12/2011 and to 31/12/2013.

(b) In 2013, the Group revised the rules for valuing the order book, especially in civil avionics, so that the approach provides a better reflection of the economic reality.

(c) Sales by destination.

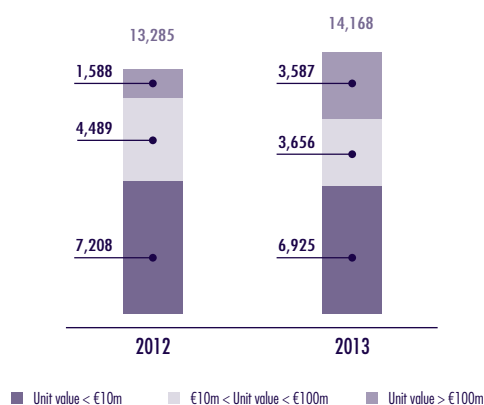
(d) Income from operations (EBIT) excluding the amortization of intangible assets acquired (purchase price allocation, "PPA"). Cf. presentation of financial information in the Group management report on page 8.

(e) Adjusted net income excludes (i) the amortisation of intangible assets acquired, (ii) "disposal of assets, change in scope of consolidation and other" (as presented in the consolidated financial statements), (iii) changes in fair value of derivative foreign exchange instruments (recorded in "other financial income (expense) ") in the consolidated financial statements, as well as (iv) actuarial gains/losses on long-term benefits accounted within "finance costs on pensions and other employee benefits" in the consolidated financial statements, net of the corresponding tax effects. Cf. presentation of financial information in the Group management report on page 8.

(f) Including capitalised R&D.

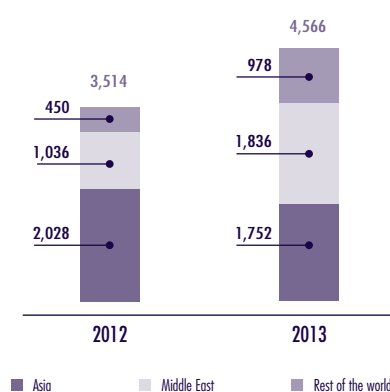
► INCREASE IN ORDERS

(€ million)

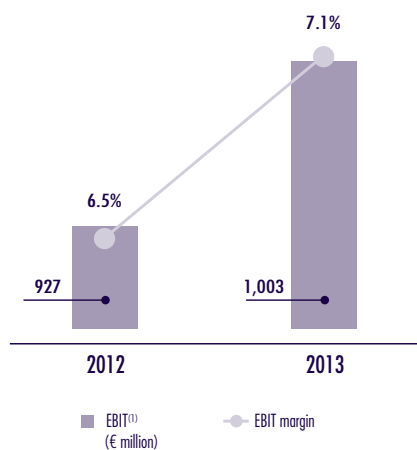


► STRONG GROWTH IN ORDERS IN EMERGING COUNTRIES

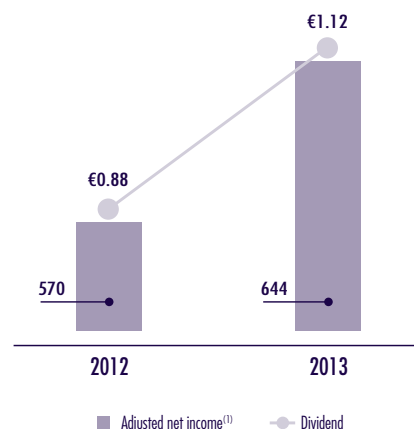
(€ million)



► CONTINUED GROWTH IN EBIT⁽¹⁾



► INCREASED ADJUSTED NET INCOME⁽¹⁾ AND DIVIDEND



► SOLID CASH FLOW GENERATION

(€ million)



► POSITIVE NET CASH

(€ million)



(1) Non-GAAP measure, see Group management report, pages 8 and 13.



FINANCIAL INFORMATION 2013

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1.1 GROUP MANAGEMENT REPORT

1.1.1 Report on operations and results

In 2013, Thales achieved all its objectives. Whilst sales were stable, as expected, the Group achieved a substantial improvement in operating

profitability, with a strengthened financial situation, and a strong growth of order intake, particularly in emerging markets.

1.1.1.1 Key figures (adjusted)

(€ million)	2013	2012 ^(a)	Total change	Organic change ^(b)
Order intake	14,168	13,285	+7%	+10%
Order book ^(c)	29,527	29,849	-1%	+0%
Sales	14,194	14,158	+0%	+3%
EBIT ^(d)	1,003	927	+8%	+11%
in % of sales	7.1%	6.5%		
Adjusted net income, Group share ^(d)	644	570	+13%	
Adjusted net income per share (in euros) ^(d)	3.20	2.86	+12%	
Net income, Group share	573	586	-2%	
Dividend per share (in euros) ^(e)	1.12 ^(e)	0.88	+27%	
Free operating cash flow ^(d)	466	669		
Net cash	1,666	1,528		

(a) Restated to take into account IAS 19 R first adoption (see note 1-a of the notes to the consolidated financial statements).

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

(c) In 2013, the Group revised the rules for valuing the order book, especially in civil avionics, so that the approach provides a better reflection of the economic reality.

(d) Non-GAAP measure, see definition below in the section "Presentation of financial information".

(e) Total amount proposed to the AGM on 14 May 2014, including the interim dividend of €0.27 paid in December 2013.

1.1.1.2 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 2013.

These principles, described in note 23, are consistent with those applied for the year ended 31 December 2012, except for the following elements: IAS 19 revised (Employee Benefits), IFRS 13 (Fair value measurement) and the amendment to IFRS 7 (Disclosures and Offsetting Financial Assets and Financial Liabilities). Annual Improvements to IFRS, published in May 2012, has no significant impact for the Group.

Non-GAAP financial measures

In order to enable better monitoring and benchmarking of its operating and financial performance, the Group presents two main non-GAAP

indicators, excluding non-operating and non-recurring items. They are determined as follows:

- **EBIT**, an adjusted operating metric, equivalent to income from operations excluding the amortisation of intangible assets acquired (purchase price allocation, "PPA") recorded as part of important business combinations.

Starting from 1 January 2014 and the start of application of the new IFRS 10 and IFRS 11 standards, EBIT will also include share in net income (loss) of equity affiliates.

- **Adjusted net income** refers to net income, excluding (i) amortisation of intangible assets acquired, (ii) disposal of assets and others, (iii) change in fair value of derivative foreign exchange instruments (recorded in "other financial results" in the consolidated accounts), (iv) actuarial gains or losses on long-term benefits (accounted within the "finance costs on pensions and employee benefits" in the consolidated accounts, net of the corresponding tax effects).

For reminder, only the consolidated financial statements are audited by the statutory auditors, including the EBIT set out in note 3 to the consolidated financial statements "Segment information". Adjusted financial data other than provided in note 3 "Segment Information", is subject to the verification procedures applicable to all of the information provided in this report.

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

► IMPACT OF ADJUSTMENT ENTRIES ON INCOME STATEMENT — 2013

(€ million)	Consolidated income statement 2013	Adjustments			Adjusted income statement 2013
		Amortisation of intangible assets (PPA)	Gain (loss) on disposal of assets and others	Change in fair value of derivative exchange instruments	
Sales	14,194				14,194
Cost of sales	(10,845)				(10,845)
R&D	(673)				(673)
Selling, general and administrative expenses	(1,554)				(1,554)
Restructuring costs	(119)				(119)
EBIT	N/A				1,003
Amortisation of intangible assets acquired (PPA)	(98)	98			-
Income from operations	905	98			N/A
Impairment of non current operating assets	(4)				(4)
Disposal of assets, change in scope of consolidation and other	12		(12)		-
Income of operating activities	913	98	(12)		999
Cost of net financial debt	(1)				(1)
Other financial income (expense)	(50)			29	(21)
Net financial expense	(51)			29	(22)
Finance costs on pensions and other employee benefits	(72)				(72)
Income tax	(237)	(34)		(10)	(281)
Share in net income (loss) of equity affiliates	20				20
Net income	573	64	(12)	19	644

► IMPACT OF ADJUSTMENT ENTRIES ON INCOME STATEMENT — 2012

(€ million)	Consolidated income statement 2012 ^(a)	Adjustments				Adjusted income statement 2012
		Amortisation of intangible assets (PPA)	Gain (loss) on disposal of assets and others	Change in fair value of derivative exchange instruments	Actuarial gains/losses on other long-term benefits	
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)
EBIT	N/A					927
Amortisation of intangible assets acquired (PPA)	(112)	112				-
Income from operations	816	112				N/A
Impairment of non current operating assets	(15)					(15)
Disposal of assets, change in scope of consolidation and other	123		(123)			-
Income of operating activities	923	112	(123)			913
Cost of net financial debt	(13)					(13)
Other financial income (expense)	(53)			26		(27)
Net financial expense	(66)			26		(40)
Finance costs on pensions and other employee benefits	(99)				15	(84)
Income tax expense	(197)	(39)	8	(9)	(5)	(242)
Share in net income (loss) of equity affiliates	24					24
Net income	586	73	(115)	17	10	570

(a) Restated to take into account IAS19 R first adoption (see note 1-a of the notes to the consolidated financial statements).

1.1.1.3 Order intake

(€ million)	2013	2012	Total change	Organic growth
ORDER INTAKE				
Aerospace	4,130	4,051	+2%	+9%
Transport	1,492	1,653	-10%	-8%
Defence & Security	7,661	6,748	+14%	+17%
DCNS (at 35%)	795	758	+5%	+5%
Others and discontinued activities	90	75		
TOTAL	14,168	13,285	+7%	+10%

New orders booked in 2013 amounted to **€14,168m**, a **7%** increase compared to 2012 (+10% at constant exchange rates and scope). At 31 December 2013 **the consolidated order book** stood at **€29,527m**, representing more than two years of sales. The book-to-bill ratio (order intake to sales) amounted to 1.00 for the full year 2013.

Nineteen significant **orders over €100m unit value** were registered in 2013, compared to ten⁽¹⁾ in 2012.

Ten of these major 2013 contracts are for emerging market customers, compared to two in 2012:

- in **Aerospace**, the Group won several major contracts: in Avionics, a UK A400M aircrew training and simulation service contract and in Space, a contract with the European Space Agency (ESA) as prime contractor for the 2016 and 2018 missions of the Exomars scientific programme, as well as several contracts for satellites, including a dual-use communication satellite for Brazil, an observation satellite for an African country and a new tranche of the European Meteosat programme;

(1) Including two contracts booked by DCNS.

- in **Transport**, two major main line rail signalling orders were signed in South Africa and Egypt.
- in **Defence & Security**, the Group booked several large orders: in France, with the second tranche of the Contact software defined radio programme, the Atlantique 2 maritime patrol aircraft renovation and the new F3R standard Rafale (laser targeting pod, electronic systems). In the United Kingdom, Thales was awarded a sensor system support contract for the Royal Navy. In emerging markets, several major contracts were captured in Defence & Security, particularly in the Middle East (Saudi frigates upgrade, air defence radars in the United Arab Emirates, optronics and critical infrastructure security).

Orders for a unit value of less than €10m represent almost half of the order intake in terms of value.

New orders in emerging markets recorded a sharp rise (+30%) compared to 2012, at **€4,566m**, and amounted to **32%** of total order intake, compared to 26% over the same period in 2012. This growth was particularly significant in the Middle East, where the Group order intake nearly doubled compared to 2012.

New orders for **Aerospace** amounted to **€4,130m**, compared to €4,051m for 2012. Excluding the impact due to the disposal of activities in 2012 (civil fixed-wing aircraft simulation, Diehl Aircabin), Avionics order intake remained generally stable, as the continued growth in on-board avionics activities, both original equipment and support, and helicopters avionics compensated lower orders in in-flight entertainment, tubes and imaging (after the high level of orders witnessed in 2012). Space activities saw major growth in orders, particularly in observation and exploration satellites (Exomars, Meteosat, Cosmo-Skymed programmes), whereas the Telecom segment was down,

despite the signature of the above-mentioned contract for a dual-use communication satellite contract in Brazil.

In the **Transport** segment, new orders amounted to **€1,492m**, compared to €1,653m in 2012 (during which several high unit value contracts were notified: mainline rail network in Denmark, Singapore urban rail). However, 2013 witnessed several significant commercial successes, particularly in emerging markets: mainline rail signalling contracts in South Africa (Cape region) and in Egypt (Cairo-Alexandria line), and metros in China (Hong Kong, Guangzhou, Nanjing) and in Latin America (Santiago).

Defence & Security order intake stood at **€7,661m** versus €6,748m in 2012, which represented an organic growth of **14%**. This evolution reflects the sharp rise in orders for Defence Mission Systems, driven in particular by the UK Royal Navy sensor system support contract, the new F3R standard Rafale and the French Atlantique 2 maritime patrol aircraft renovation and the Sawari I Saudi frigates upgrade. Orders for Secure Communications and Information Systems recorded a strong increase, particularly in radio-communications (new tranche of the French Contact software defined radio contract), in military communications networks (France, NATO), as well as in cybersecurity. Order intake for Land and Air Systems was mainly stable, with successes in air defence, optronics and weapons systems in the Middle East or in air traffic management in the Philippines, Brazil and Africa.

DCNS order intake (at 35%) totalled **€795m** in 2013, compared to €758m in 2012. The key orders booked during the period were the Sawari I frigates upgrade contract for Saudi Arabia, as well as amendments to the French FREMM frigates and submarine programmes.

1.1.1.4 Sales

(€ million)	2013	2012	Total change	Organic change
SALES				
Aerospace	4,451	4,417	+1 %	+6 %
Transport	1,481	1,535	-4 %	-2 %
Defence & Security	6,988	7,081	-1 %	+1 %
DCNS (at 35%)	1,176	1,027	+14 %	+14 %
Others and discontinued activities	98	98		
TOTAL	14,194	14,158	+0 %	+3 %

Group sales totalled **€14,194m** at 31 December 2013, which is almost identical to the 2012 figures⁽¹⁾.

In **Aerospace**, sales amounted to **€4,451m**, a **1%** increase compared to 2012 (+6% at constant exchange rates and scope). Avionics activities continued their strong progression, driven by flight avionics systems (Airbus, Bombardier), in-flight entertainment and military simulation activities (A400M). Tubes and imaging activities also made a positive contribution to sales. Space sales increased slightly, both in observation and exploration activities (Cosmo-Skymed, Exomars) and in Telecom (Iridium, Eutelsat and Arabsat programmes).

Sales for **Transport** segment recorded **€1,481m**, compared to €1,535m at end of 2012 (**-2%** at constant exchange rates and scope). Signalling activity sales were slightly up due to recent order intake while only partially offsetting lower sales in ticketing due to some major contracts coming to an end.

(1) The foreign exchange impact on sales was -€227m, mainly because of the appreciation of the euro against the Australian dollar, the Pound sterling and the American dollar.

Defence & Security sales came to **€6,988m**, down **1%** (+1% at constant exchange rates and scope). Secure Communications and Information Systems sales were slightly down over the period, despite the increase of radio communications (ramp up of the Contact contract in France) and of cybersecurity. Land and Air Systems recorded slightly lower sales in 2013, particularly in armaments and air defence activities. At the same time, sales of Defence Mission Systems saw a major increase over the period, mainly driven by the French Rafale programme, the

Indian Mirage 2000 upgrade, as well as electronic warfare and sonar activities.

DCNS sales (at 35%) amounted to **€1,176m** at 31 December 2013, a **14%** increase compared to 31 December 2012. This evolution reflects a good progress of the programmes in France (FREMM frigates, Barracuda submarines) and internationally (submarines in India and Brazil, Mistral-class projection and command ship for Russia).

1.1.1.5 Adjusted results

► EBIT

(€ million)	2013	2012	Total change	Organic growth
EBIT				
Aerospace	370	297	+24%	+26%
in % of sales	8.3%	6.7%		
Transport	97	95	+3%	+7%
in % of sales	6.5%	6.2%		
Defence & Security	518	504	+3%	+5%
in % of sales	7.4%	7.1%		
DCNS (at 35%)	63	79	-20%	-15%
in % of sales	5.4%	7.7%		
Others and discontinued activities	(45)	(48)		
TOTAL	1 003	927	+ 8%	+ 11%
in % of sales	7.1%	6.5%		

In 2013, the Group's EBIT came to **€1,003m**, or **7.1%** of sales compared to €927m (6.5% of sales) in 2012. This **8% increase** in EBIT (+11% in organic terms) reflects ongoing performance improvement measures.

The **Aerospace** segment's EBIT continues to grow, reaching **€370m** (8.3% of sales), compared to €297m (6.7% of sales) in 2012. In Avionics, the marked growth in results, boosted by the civil avionics activities and in-flight entertainment, is due to a favourable volume impact and improved project execution. Space activities also recorded improved EBIT in 2013, thanks to more efficient project management and reduced restructuring costs.

The **Transport** segment posted an EBIT of **€97m** (6.5% of sales), stable compared to 31 December 2012 (€95m, or 6.2% of sales). This stable profit level over 2013 reflects a more efficient execution of contracts during the second half-year, despite an unfavourable mix and volume effect.

The EBIT of **Defence & Security** increased in 2013 and totalled **€518m** (7.4% of sales), compared to €504m in 2012 (7.1% of sales). Thanks to good contract execution and efficient indirect cost control, Secure Communications and Information Systems showed an increasing EBIT in 2013. Defence Mission Systems recorded a slight increase in EBIT compared to last year, despite higher restructuring costs, which offset

the project execution improvement. By contrast, EBIT for Land and Air Systems was lower, mainly due to an unfavourable volume effect during the period.

The EBIT for **DCNS** (at 35%) reached **€63m** at 31 December 2013, significantly lower than in 2012 (-20%) despite strong sales growth. The deterioration of operating profitability is due to difficulties in the execution of civil nuclear projects.

Adjusted income of operating activities

Adjusted **operating income** came to **€999m** compared with €913m in 2012 (+9%), in line with the increase in EBIT, as impairment on intangible assets was limited at -€4m compared with -€15m in 2012.

Adjusted financial income

Adjusted net financial expense, came to **-€22m** compared to -€40m in 2012, mostly due to the fall in financial costs following the refinancing of the 2013 bond at favourable market conditions. **Adjusted finance costs on pensions and other employee benefits⁽¹⁾** dropped to **-€72m** compared to -€84m⁽¹⁾ in 2012, thanks to the fall in interest costs.

(1) Restated to take into account IAS19 R first adoption (see note 1-a of the notes to the consolidated financial statements).

Adjusted net income

Share in net income of equity affiliates recorded a slight decrease at **€20m**, compared to €24m last year.

Thus, 2013 closed with an **adjusted net profit, Group share⁽¹⁾** of **€644m**, representing an increase of **13%** compared to 2012, after adjusted net income tax⁽¹⁾ of -€281m against -€242m⁽¹⁾, giving an effective tax rate of 31%, which is similar to last year. **Adjusted net income per share⁽¹⁾** was **€3.20** compared to €2.86⁽¹⁾ in 2012, up 12%.

1.1.1.6 Consolidated results

Income from operations

Consolidated EBIT came to **€905m** compared to €816m in 2012 representing an increase of +11%. This increase reflects the changes mentioned above (cf. paragraph "EBIT" in the section "Adjusted Results"), as well as the decline in the effect of amortisation of intangible assets acquired ("PPA"), which came to -€98m in 2013 compared to -€112m the previous year, mainly linked to acquisitions of Alcatel's Space and Transport activities in 2007 and the entry (2007) then increase of equity interest (2011) in DCNS.

1.1.1.7 Financial position at 31 December 2013

Free operating cash flow⁽²⁾ was **€466m** compared to €669m in the previous year, during which the Group had received significant payments at the end of the year.

(€ million)	2013	2012
Operating cash flows	1,415	1,346
Change in working capital requirements and in reserves for contingencies	(275)	13
Payment of contributions/pension benefits	(126)	(113)
Financial interest paid	(24)	(37)
Income tax paid	(91)	(125)
Net operating cash flow^(a)	899	1,084
Net operating investments	(433)	(415)
Free operating cash flow	466	669
Net (acquisitions)/disposals	(89)	156
Deficit payments on pensions in the United Kingdom	(64)	(64)
Dividends	(181)	(155)
Foreign exchange and others	6	17
Change in net cash	138	623

(a) Excluding deficit payments on pensions in the United Kingdom.

Due to increased dividend payments and net (acquisitions)/disposals of -€89m in 2013, compared to a positive balance of €156m in 2012 thanks to different disposals of assets, **net cash** amounted to **€1,666m** up €138m compared to year-end 2012.

Income of operating activities

Consolidated income of operating activities came to **€913m**, broadly stable compared to the previous year, with the progression in EBIT in 2013 offset by the capital gains registered in 2012 from the disposals of the civil simulation activity in the United Kingdom and the 49% participation in Diehl Aircabin in Germany.

Financial result

Financial expense was **-€51m** compared to -€66m in 2012, mainly due to the decrease in financial costs following the refinancing of the 2013 bond payment at favourable market conditions. The **other components of pension charge** declined to **-€72m** against -€99m in 2012, thanks to the reduction in interest expense.

Net income

Consolidated net profit, Group share, reduced slightly to €573m compared to €586m during the previous year, with a tax expense of -€237m compared to -€197m in 2012.

Equity, Group share, was **€3,911m** compared to €3,541m⁽¹⁾ at year-end 2012, which takes into account a consolidated net income of €573m.

(1) Restated to take into account IAS19 R first adoption (see note 1-a of the notes to the consolidated financial statements).

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

1.1.1.8 Proposed dividend

At the Annual General Meeting on 14 May 2014, the Board of directors will recommend the distribution to shareholders of a **dividend of €1.12** per share, up 27%. This corresponds to an increase in the payout ratio to 35% of the adjusted net income, compared to 30% last year.

If approved, the ex-dividend date will be 27 May 2014 and the payment date 30 May 2014. The dividend will be paid entirely in cash and will total €0.85 per share, after deducting the interim dividend of €0.27 per share already paid in December 2013.

1.1.1.9 Outlook for 2014

Order intake in emerging markets should continue to increase, with double-digit growth expected for 2014, allowing to offset the expected fall of order intake from mature countries, particularly in defence markets.

Sales should remain stable.

A continuing drive to improve performance should enable the Group to post a further increase in EBIT, which should increase by 5 to 7% compared to 2013.

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 14 to the consolidated financial statements;
- gross debt, listed by maturity in note 11 to the consolidated financial statements;
- committed, undrawn credit facilities granted by banks as backup to the commercial paper programme and acting as a financial reserve. These are described in more detail in note 21 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; and
- 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 2013, cash recorded under consolidated assets amounted to €3,023.8m (compared with €2,518.3m at end-2012), including:

- €2,051.7m held by the parent company and available for immediate use (€1,721.8m in 2012);
- €501.8m in the bank credit balances of subsidiaries (€392.8m in 2012), most of them outside of 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;
- €470.3m in cash held directly by the companies in joint ventures (prorated by Thales' interest in each joint venture), including €218.5m for DCNS for which Group cash pooling cannot be used in certain cases (€403.7m in 2012, of which €191.3m for 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' credit risk ratings were as follows:

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

The decrease of Thales' 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 lower rating would result in an increase (capped) in the margins applicable to the committed credit facility of €1.5bn (described in note 21 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 financing. 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 by consolidating and pooling the cash surpluses and requirements of all its units.

The breakdown of Thales' debt by type of interest rate is described in note 21 to the consolidated financial statements. The table below summarises the Group's exposure to interest rate risk before and after hedging. Based on the Group's average net cash (taking into account hedging instruments), a 1% rise in interest rates would decrease financial expense in 2013 by €12m (compared to €11.1m in 2012).

(€ million)	< 1 year		> 1 year		Total	
	Fixed	Variable	Fixed	Variable	Fixed	Variable
Financial liabilities	(70.0)	(387.2)	(1,447.1)	(77.9)	(1,517.1)	(465.1)
Financial assets		3,648.5			0.0	3,648.5
Net exposure before taking account of derivatives	(70.0)	3,261.3	(1,447.1)	(77.9)	(1,517.1)	3,183.4
Derivatives	(20.6)	20.6	950.0	(950.0)	929.4	(929.4)
NET EXPOSURE AFTER TAKING ACCOUNT OF DERIVATIVES	(90.6)	3,281.9	(497.1)	(1,027.9)	(587.7)	2,554.0

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.

- As a general rule, Thales is structurally immune to exchange rate fluctuations for a significant part of its business activity. More than 40% of Thales' sales are generated in the euro zone, which is also where most of its industrial operations are located. More generally, the reinforcement of the Group's international industrial footprint allows the Company to manufacture and invoice in local currency, thereby eliminating exchange rate risk on local sales.
- 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. The main currencies are the Pound sterling, the US dollar, the Canadian dollar and the Australian Dollar.
- For certain Group businesses (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 2013.

- 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 on an *ad hoc* basis.

Overall, net exposure represented around 4% of the Group's total sales for 2013.

- As well as this direct dollar risk, which concerned around 7% in total of consolidated sales at end-2013, the Group 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 one quarter 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 2,795m, the amount of financial instruments hedging net firm commitments (USD risk against Euro, Canadian dollar and Pound sterling) at 31 December 2013 compared to USD 3,102m at 31 December 2012;

- USD 281m, the amount of financial instruments hedging bids in USD against the Euro, Canadian dollar and Pound sterling at 31 December 2013 compared to USD 238m at 31 December 2012.

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 US dollar compared to the Euro, Pound sterling and Canadian dollar, would have increased (decreased) shareholder's equity by approximately €103m at 31 December 2013 compared to €118m at 31 December 2012. The premium/discount component is not eligible to cash flow hedge accounting and is recognised through profit and loss. In 2013, the change in market value of the discount/premium was -€11m.

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 US dollar compared to the Euro, Pound sterling and Canadian dollar, would have increased (decreased) the result by approximately €2m at 31 December 2013 compared to €5m at 31 December 2012.

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 2013 FOR MAIN CURRENCIES

(€ million)	GBP	USD	AUD
Assets	1,795.2	938.8	733.4
Liabilities	1,752.7	434.0	407.5
Net position before management	42.5	504.8	325.9
Off-balance-sheet position	(39.4)		
NET POSITION AFTER MANAGEMENT	3.1	504.8	325.9

1.1.2.1.4 Shares

Thales was not exposed to any significant equity risk at end-2013, excluding the risk on treasury shares.

At 31 December 2013, Thales held 2,490,177 treasury shares, representing 1.21% 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 2013, 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 €4,314m for both countries, hedged

by €3,512m in investments, representing an underlying shortfall of €802m. At 31 December 2013, these investments consisted of:

- 38% in equities;
- 37% in fixed-rate bonds;
- 8% in inflation linked bonds;
- 7% in alternative liquid investments;
- 6% in alternative long-term investments (e.g. real estate, infrastructure, etc.);
- 4% in cash.

Changing market parameters could affect the amount of the shortfall and the annual costs of defined-benefit plans. At 31 December 2013, 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 hedging bonds held as plan assets and interest rate swaps;
- changes in the total return on investments in equities and other assets;

- 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 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 & Chief Executive Officer, 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 2013, outstanding guarantees issued by the parent company in support of its subsidiaries stood at €10,884m. 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 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' 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' 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' 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 2013, only two customers accounted for annual sales for Thales in excess of €500m: the French State (around €3bn, including one third related to DCNS) and the British State (approx. €1bn). At 31 December 2013, 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 Aa1 by Moody's).

1.1.2.2 Litigation

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).

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, European Union 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 readjusted according to changes in legislation and external risks (country risks, etc.), internal risks (areas for improvement identified by the internal audit, 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.

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 appropriate representations and engagements from these consultants. Designed by the Group's Ethics and Corporate Responsibility Department, this procedure, updated in early 2013, is regularly revised in consultation with the Group Legal Department and the Sales and Marketing Department.

In addition, to underpin its strategy of strengthening its presence internationally and its establishment in target countries, Thales vets and selects local industrial partners. The vetting 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 scheme is part of the policy of deploying tailored and reasonable prior due diligence procedures for third parties.

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 vetting 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' Audit & Internal Control 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. Adherence and accountability are key to the awareness and training model designed by the Ethics and Corporate Responsibility Department. A broad array of tools (Code of Ethics, reference guide, best practice guides, etc.) and training sessions (face-to-face training and e-learning are 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 practices 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.) dealing with business ethics, and within the working groups of intergovernmental organisations (OECD, United Nations, ISO⁽⁵⁾, etc.). In September 2013, Thales signed the recommendations of the Chairmen and CEOs of member companies in the B20 "Transparency and Anti-corruption" Task Force intended for Heads of State of the G20, which calls on them to step up the fight against corruption by facilitating the emergence of new approaches (industry actions, public/private-sector dialogue, etc.). Thales was also chosen by the French Ministry of Foreign Affairs to present its anti-corruption policy at the Fifth Conference of the States Parties to the United Nations Convention against Corruption. This conference, which took place in November 2013 in Panama, was attended by 1,600 representatives from 132 countries, as well as all governmental or non-governmental organisations concerned by these issues; the choice of the French government illustrates the reputation of the Group for business ethics and corporate social responsibility.

(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 Organization for Standardization.

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⁽¹⁾) whose most recent world forum took place in Washington in September 2013.

Thales is also a stakeholder in international standardisation work carried out within the ISO on compliance and anti-corruption programmes.

At the same time, since 2012, Thales has been ranked by TI - an NGO working to combat corruption worldwide - as one of the top 10 companies of the Defence sector. The Transparency International⁽²⁾ report 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.

In addition, for the second consecutive year, Thales obtained the "Global Compact Advanced" level of the UN Global Compact, which, by respecting 21 specific criteria, is the highest level of reporting and performance in responsible development. Among the 8,000 companies that are members of the Global Compact, only 360 have so far obtained the Global Compact Advanced level - 26 of them are French and only one is in the aerospace & defence sector.

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.

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 monitoring the application within operational units of 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, and legal bans. They could also have a serious impact on the Group's reputation.

To avoid any such infringements, Thales has initiated an awareness-raising programme to these rules, in particular through the roll-out of a dedicated e-learning tool and training programmes.

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 perceived infringement of their intellectual property rights.

To reduce the risk of reliance on critical third-party technology, Thales has implemented an identification process and management of each situation with a precise, strategic "Make/Team/Buy" (MTB) plan.

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 filers of patents in France and was recognised in 2012 and 2013 by Thomson Reuters as one of the 100 most innovative companies in the world. Thales' extensive intellectual property portfolio (over 15,000 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 criminal litigation and claims. These are handled by the corporate legal affairs department, with the support of the Group companies concerned.

(1) International Forum on Business Ethical Conduct.

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

At the end of 2002, a group of French manufacturers, including Thales and one of its subsidiaries, collectively received a request for arbitration relating to the execution of old contracts. In proportion to each industrial partner's involvement, Thales would have been liable for around 20% of the total claim of \$260 million. Under an agreement signed in 2003, the client withdrew its request for arbitration.

In November 2012, the claimant filed a new request for arbitration for a revised amount of €226 million. Industrial partners 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.

This procedure is still in process.

The Company knows of no other governmental, legal or arbitration procedures, pending or threatened, that are likely to have or that have had a significant impact on the financial situation or profitability of the Company and/or Group over the last 12 months.

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

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 financing. In addition, the civil aviation market is also susceptible to the effects of intensification (real or perceived) of terrorist activity, as well as conflicts and epidemics or disasters, which can have an important, if temporary, impact on air traffic and thus affect the entire civil aviation market.

The economic environment is therefore likely to remain unsettled, especially in 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. Similarly, air navigation service providers could reduce or delay investments in air traffic control equipment and 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, North America and Australia. 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 operational 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, local shares, compensation commitments 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 include stringent performance levels and/or tight delivery schedules for the products or systems sold, particularly given the increased competition. 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 (business lines, Global Business Units) 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 continues to pay particular attention to analyses and action plans for the management efficiency of bids and projects by measuring and monitoring financial variance on the projects and the implementation of corrective actions.

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 technical 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;
- introduce advanced training for project managers to obtain International Project Management Association (IPMA) certification. At the end of 2013, nearly 650 project managers within the Group have gained IPMA certification, with approximately 240 certified during the year.

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 the Global Business Units. 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 (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.

a) 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 - particularly critical 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 skills 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.

b) 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 where the Group is implanted (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 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.

1.1.2.3.9 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 1.1.2.7 below).

1.1.2.3.10 Risk of lower impact of performance improvement measures

Thales initiated a plan to improve the Group's overall performance. This performance plan provides a common framework within which the units can implement plans and measurements adapted to their own issues in terms of performance improvements. The programme, whose objectives are validated during the multi-year budget preparations, covers all Group issues in terms of growth, competitiveness and talent development.

The actual results may differ significantly from the objectives. Performance initiatives 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 or export markets or unfavourable regulatory or legislative changes.

Furthermore, the future earnings and financial position of Thales could be negatively impacted if the proposed initiatives could not be fully implemented or if they failed to generate the expected results according to the original timetable. The cost of implementing these initiatives could also be higher than forecast.

Thales pays particular attention to the management and monitoring of performance improvement initiatives. The Group's corporate management regularly reviews the progress of the main initiatives. Expected impacts for all initiatives for the year are regularly updated as part of the Group's steering 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 risks (discriminatory practices, moral and sexual harassment, injuries to health such as professional and psycho-social risks, etc.) that could affect the Group's employees is conducted every year on the basis of specialised indicators. Undertakings made by the Group HR Department on employees' occupational health and safety worldwide are ongoing. Thus, new employees, whatever their country, can have a medical in the year of recruitment with Thales.

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 a new agreement on "Quality of Life at Work", following on from an agreement signed in 2009, which defined a general framework for prevention, with a particular focus on the detection and prevention of psycho-social risks by implementing preventive actions at employee level and by collective preventive actions.

Proof of the Group's continuing commitment to certification, 95 Thales entities (representing 65% of the workforce) had obtained OHSAS 18001 certification by the end of 2013.

b) Talent development

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 its capacity to recruit employees in the different employment markets, in France and abroad, the quality of the key skills and the commitment of its employees, and its capacity to globally manage the talents required for the development of its activity worldwide.

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.

Thus, particular attention is paid to the systematic deployment of recruitment tools and organisations in emerging markets. In addition, a global recruitment function, attached to the HR general management has been created to help the Group develop in these geographical zones. The global process of identification and management of the Group's talents has also been reinforced, by encouraging exchanges between management teams in different parts of the organisation.

Thales is also continuing its dynamic skills management policy for the Group's main professional families. A steering committee per family, composed of operational and HR managers, annually analyses developments in the jobs, expertise, and the needs of the Company, and establishes action plans (training, anticipated management of internal mobility, external recruitment etc.). To complement this tool, each year the Group's internal University updates the key programmes in response to changing needs.

Finally, in 2013, the Group signed, with all the representative trade unions in France, agreements to welcome young people in work-study programmes or those already graduated through the transfer of knowledge (so-called "Generation contracts"), the development of mixity in the organisation (Gender Equality Agreement), and anticipated management of jobs and skills.

These agreements will enable the Group, in the coming months and years in France, to better manage the integration of young graduates, improve the development of critical skills, favour diversity and better anticipate change in the Group.

1.1.2.4 Environmental risks

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 aims at:

- ensuring that employees and surrounding residents are not exposed to health and environmental risks (pollution, asbestos, etc); through their activities or work environment, including outside of Thales sites and in production units;
- ensuring the compliance of activities and products (substances, waste, etc);
- analysing the impact of new regulations, including on product design;
- analysing the impact of the environment on activities (water stress, climatic events, etc.);
- specifying an appropriate organisation and associated action plans, either at Group level or locally, according to the results of this analysis.

In support of this analysis, an Environmental Management System has been deployed at all sites in order to ensure the control and limitation of the products' and activities' environment impacts. Integrated into the Group commitments, this management system is applied to the different functions. As such, environmental competences have been widened to include engineering, research, procurement and contracts.

At the end of 2013, 125 entities had been certified ISO 14001, representing 82% of the Group's workforce.

At 31 December 2013, the amount of reserves for environmental contingencies amounted to €7.8m.

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 Risks linked to joint ventures, consortiums and minority investments

Thales generates an important part of its sales within the framework of various consortiums, joint ventures and investments, where control is shared with other partners.

The signing of partnerships and alliances with other market players is an integral part of Thales' strategy, particularly as part of its international development, and the share of sales generated by consortiums, common companies and investments is likely to increase.

However, Thales exercises a variable degree of control over these consortiums, common companies and investments. The risk of disagreement or blockage, inherent in any jointly-controlled entity, exists, particularly in those where important decisions require the unanimity of members or where there are limited exit rights.

Consequently, the Group ensures that appropriate governance modes are defined, in order to best protect its interests. In addition, activities managed by consortiums, common companies and investments are integrated into the Group's financial reporting system in order to monitor their performance and all the Group's procedures and directives apply to joint ventures where Thales has exclusive control.

1.1.2.7 Insurance

Thales' Insurance and Risk Management Department, based at head office and reporting to the SEVP Finance & Information Systems, 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.

Whilst certain damageable events were notified to insurers, the Group had no major loss in 2013.

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 2013 for damage to property and consequent business interruptions takes into account 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 retention 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 exposures, such as environmental or natural disasters and the vulnerability of critical industrial facilities. In 2013, 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 infrared thermography inspections by an outside organisation specialised in the prevention of electrical damage.

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

Table of reconciliation decree no. 2012-557 of 24 April 2012

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 an assurance report moderated by independent verifiers, presented on pages 221 and 222 for the social data, on pages 237 and 238 for the environmental data and on pages 246 and 247 for the societal data, is presented in full in chapter 4 on "Corporate Responsibility" in this registration document.

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1.1.4 Events since year-end

No significant events after reporting period.

1.1.5 Summary statement of share transactions in 2013 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 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'État*), 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>):

Director's name	Financial instrument	Type of transaction	Total amount of transaction (in €)	Unit price (in €)
Patrice Caine	Other financial instruments	Exercise of stock options	51,400	25.70
	Shares	Sale	65,220	32.61
	FCPE investment fund units ^(a)	Subscription	5,000	31.96
Alex Cresswell	Other financial instruments	Exercise of stock options	11,063	29.50
	Shares	Sale	13,865	36.97
Marc Darmon	Other financial instruments	Exercise of stock options	247,800	29.50
	Other financial instruments	Exercise of stock options	102,030	34.01
	Shares	Sale	370,440	44.10
	Shares	Sale	135,000	45.00
Jean-Pierre Forestier	FCPE investment fund units ^(a)	Subscription	2,500	30.08
	FCPE investment fund units ^(a)	Subscription	5,000	31.96
Jean-Loïc Galle	Other financial instruments	Exercise of stock options	128,500	25.70
	Shares	Sale	151,500	30.30
	FCPE investment fund units ^(a)	Subscription	1,000	30.08
Philippe Lépinay	FCPE investment fund units ^(a)	Subscription	9,850	30.08
	FCPE investment fund units ^(a)	Subscription	150	31.96
Hervé Multon	FCPE investment fund units ^(a)	Subscription	5,000	30.08
	FCPE investment fund units ^(a)	Subscription	5,000	31.96
Pierre-Éric Pommellet	Other financial instruments	Exercise of stock options	88,500	29.50
	Shares	Sale	98,580	32.86
	FCPE investment fund units ^(a)	Subscription	5,000	30.08
Pascale Sourisse	FCPE investment fund units ^(a)	Subscription	20,000	30.08

(a) Within the framework of the employee shareholders plan 2013.

1.2 CONSOLIDATED FINANCIAL STATEMENTS

1.2.1 Consolidated profit and loss account

(€ million)	Notes	2013	2012 ^(a)
Sales	note 3	14,194.1	14,158.1
Cost of sales		(10,844.7)	(10,868.1)
Research and development expenses		(673.1)	(687.4)
Marketing and selling expenses		(958.2)	(942.4)
General and administrative expenses		(596.0)	(615.2)
Restructuring costs	note 16-d	(118.9)	(117.8)
Amortisation of intangible assets acquired (PPA)	note 3-b	(98.4)	(111.5)
Income from operations	note 3	904.8	815.7
Disposal of assets, change in scope of consolidation and other	note 4	12.1	123.4
Impairment of non current operating assets	note 7	(4.1)	(14.7)
Income of operating activities		912.8	924.4
Financial interest on gross debt		(34.7)	(56.1)
Financial income from cash at bank and equivalents		33.5	42.5
Financial interests net	note 9-a	(1.2)	(13.6)
Other financial income (expense)	note 9-b	(49.5)	(52.9)
Finance costs on pensions and other employee benefits	note 15	(72.4)	(99.0)
Income tax	note 13	(236.9)	(196.9)
Share in net income (loss) of equity affiliates	note 8	20.2	23.8
NET INCOME (LOSS)		573.0	585.8
Attributable to:			
Shareholders of the parent company		573.4	585.5
Non-controlling interests		(0.4)	0.3
Basic earnings per share <i>(in euros)</i>	note 14-e	2.85	2.94
Diluted earnings per share <i>(in euros)</i>	note 14-e	2.84	2.94

(a) Restated to take into account effects of IAS 19 R first adoption (note 1-a).

1.2.2 Consolidated statement of comprehensive income

(€ million)	2013			2012 ^(a)		
	Total attributable to:			Total attributable to:		
	Shareholders of the parent company	Non-controlling interests	Total	Shareholders of the parent company	Non-controlling interests	Total
NET INCOME (LOSS)	573.4	(0.4)	573.0	585.5	0.3	585.8
Cumulative translation adjustment (note 14-g)	(135.4)	(0.7)	(136.1)	6.5	(0.1)	6.4
Deferred tax (note 13-b)	(0.3)	–	(0.3)	0.3	–	0.3
Net	(135.7)	(0.7)	(136.4)	6.8	(0.1)	6.7
Cash flow hedge (note 14-h)	60.3	–	60.3	68.4	–	68.4
Deferred tax (note 13-b)	(22.4)	–	(22.4)	(26.9)	–	(26.9)
Net	37.9	--	37.9	41.5	--	41.5
Financial assets available for sale	(0.1)	–	(0.1)	0.5	–	0.5
Items to be subsequently reclassified to P&L	(97.9)	(0.7)	(98.6)	48.8	(0.1)	48.7
<i>Of which, part related to equity affiliates^(b)</i>	<i>(19.5)</i>	<i>–</i>	<i>(19.5)</i>	<i>(17.7)</i>	<i>–</i>	<i>(17.7)</i>
Actuarial gains and losses on pensions (note 15)	(32.3)	0.3	(32.0)	(321.9)	(0.8)	(322.7)
Deferred tax (note 13-b)	(11.0)	(0.1)	(11.1)	77.1	0.2	77.3
Items that will not be reclassified to P&L	(43.3)	0.2	(43.1)	(244.8)	(0.6)	(245.4)
<i>Of which, part related to equity affiliates</i>	<i>–</i>	<i>–</i>	<i>–</i>	<i>–</i>	<i>–</i>	<i>–</i>
Other comprehensive income (loss) for the period, net of tax	(141.2)	(0.5)	(141.7)	(196.0)	(0.7)	(196.7)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	432.2	(0.9)	431.3	389.5	(0.4)	389.1

(a) Restated to take into account IAS 19 R first adoption (note 1-a).

(b) This contribution includes respectively, for 2013 and 2012:

- -€3.6m and -€1.4m included in the cumulative translation adjustment change;
- -€15.9m and -€16.3m included in the cash flow hedge reserve variation.

1.2.3 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 shareholders of the parent company	Non controlling interests	Total
AT 1 JANUARY 2012 PUBLISHED	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
Restatements IAS 19 R (note 1-a)	-	-	-	(769.3)	-	-	(52.6)	-	(821.9)	0.8	(821.1)
AT 1 JANUARY 2012 RESTATED^(a)	198,786	607.0	3,731.4	(790.2)	(22.8)	1.1	(113.0)	(115.2)	3,298.3	10.5	3,308.8
Net income (loss)	-	-	-	585.5	-	-	-	-	585.5	0.3	585.8
Other comprehensive income (loss)	-	-	-	(244.8)	41.5	0.5	6.8	-	(196.0)	(0.7)	(196.7)
Total comprehensive income (loss) for 2012^(a)	-	-	-	340.7	41.5	0.5	6.8	-	389.5	(0.4)	389.1
Employee share issues	11	-	0.2	-	-	-	-	-	0.2	-	0.2
Dividends (note 14-f)	-	-	-	(155.4)	-	-	-	-	(155.4)	-	(155.4)
Share-based payments (note 14-d)	-	-	-	12.8	-	-	-	-	12.8	-	12.8
Acquisitions/disposals of treasury shares (note 14-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 RESTATED^(a)	199,544	607.0	3,731.6	(623.7)	18.7	1.6	(106.2)	(87.9)	3,541.1	10.4	3,551.5
Net income (loss)	-	-	-	573.4	-	-	-	-	573.4	(0.4)	573.0
Other comprehensive income (loss)	-	-	-	(43.3)	37.9	(0.1)	(135.7)	-	(141.2)	(0.5)	(141.7)
Total comprehensive income (loss) for 2013	-	-	-	530.1	37.9	(0.1)	(135.7)	-	432.2	(0.9)	431.3
Employee share issues	3,405	10.2	95.0	-	-	-	-	-	105.2	-	105.2
Dividends (note 14-f)	-	-	-	(180.7)	-	-	-	-	(180.7)	-	(180.7)
Share-based payments (note 14-d)	-	-	-	14.7	-	-	-	-	14.7	-	14.7
Acquisitions/disposals of treasury shares (note 14-c)	305	-	-	(10.4)	-	-	-	6.5	(3.9)	-	(3.9)
Other	-	-	-	4.0	-	-	-	-	4.0	(0.2)	3.8
Changes in scope of consolidation	-	-	-	(1.6)	-	-	-	-	(1.6)	20.6	19.0
AT 31 DECEMBER 2013	203,254	617.2	3,826.6	(267.6)	56.6	1.5	(241.9)	(81.4)	3,911.0	29.9	3,940.9

(a) Restated to take into account IAS 19 R first adoption (note 1-a).

1.2.4 Consolidated balance sheet

Assets

(€ million)	Notes	31/12/2013	31/12/2012 ^(a)	01/01/2012 ^(a)
Goodwill, net	note 5	3,453.5	3,411.2	3,402.6
Other intangible assets, net	note 6	1,129.6	1,172.0	1,329.5
Tangible assets, net	note 6	1,565.9	1,505.3	1,493.9
Total non current operating assets		6,149.0	6,088.5	6,226.0
Share in net assets of equity affiliates	note 8	187.8	148.6	157.5
Available-for-sale investments	note 10-a	79.5	207.0	117.8
Loans and non-current financial assets	note 10-b	125.0	108.6	138.6
Other non current financial assets	note 10-c	289.1	148.4	244.5
Total non current financial assets		681.4	612.6	658.4
Non current derivatives - assets	note 21	16.6	23.5	6.5
Deferred tax assets	note 13	826.4	995.7	984.5
NON CURRENT ASSETS		7,673.4	7,720.3	7,875.4
Inventories and work in progress	note 16	2,518.0	2,478.9	2,426.9
Construction contracts: assets	note 16	2,004.9	2,082.6	2,305.3
Advances to suppliers	note 16	842.5	785.6	896.6
Accounts, notes and other current receivables	note 16	4,833.5	4,831.8	4,709.5
Current derivatives - assets	note 21	178.7	124.1	122.5
Total current operating assets		10,377.6	10,303.0	10,460.8
Current tax receivables		53.1	55.7	50.1
Current financial assets	note 11-a	366.9	720.4	690.6
Cash at bank and equivalents	note 11-b	3,023.8	2,518.3	1,923.1
Total current financial assets		3,390.7	3,238.7	2,613.7
CURRENT ASSETS		13,821.4	13,597.4	13,124.6
TOTAL ASSETS		21,494.8	21,317.7	21,000.0

(a) Restated to take into account IAS 19 R first adoption (note 1-a).

Equity and liabilities

(€ million)	Notes	31/12/2013	31/12/2012 ^(a)	01/01/2012 ^(a)
Capital, paid-in surplus and other reserves		4,234.3	3,735.2	3,526.5
Cumulative translation adjustment		(241.9)	(106.2)	(113.0)
Treasury shares		(81.4)	(87.9)	(115.2)
Total attributable to shareholders of the parent company		3,911.0	3,541.1	3,298.3
Non-controlling interests		29.9	10.4	10.5
TOTAL EQUITY	NOTE 14	3,940.9	3,551.5	3,308.8
Financial debt: long-term	note 11	1,539.0	850.6	1,494.6
Non current derivatives - liabilities	note 21	2.6	-	-
Pensions and other employee benefits	note 15	1,906.8	1,925.1	1,602.2
Deferred tax liabilities	note 13	333.6	383.4	401.1
NON CURRENT LIABILITIES		3,782.0	3,159.1	3,497.9
Advances received from customers on contracts		5,112.1	4,988.4	4,810.3
Refundable grants		173.6	179.6	181.9
Construction contracts: liabilities	note 16	1,131.2	1,345.0	1,355.6
Reserves for contingencies	note 16	1,101.7	1,206.5	1,230.5
Accounts, notes and other current payables	note 16	5,629.8	5,738.2	5,940.6
Current derivatives - liabilities	note 21	92.6	104.0	178.8
Total current operating liabilities		13,241.0	13,561.7	13,697.7
Current tax payables		73.7	48.1	58.5
Financial debt: short-term	note 11	457.2	997.3	437.1
CURRENT LIABILITIES		13,771.9	14,607.1	14,193.3
TOTAL EQUITY AND LIABILITIES		21,494.8	21,317.7	21,000.0

(a) Restated to take into account IAS 19 R first adoption (note 1-a).

1.2.5 Consolidated statement of cash flows

(€ million)	Notes	2013	2012 ^(a)
Net income (loss)		573.0	585.8
Add (deduct):			
Income tax expense (gain)		236.9	196.9
Financial interests, net expense		1.2	13.6
Share in net (income) loss of equity affiliates (net of dividends received)	note 8-b	(4.3)	(7.3)
Amortisation of intangible assets acquired (PPA)	note 6	98.4	111.5
Depreciation and amortisation of tangible and intangible assets	note 6	359.3	369.5
Provisions for pensions and other employee benefits	note 15	167.6	166.9
Impairment of non current operating assets	note 7	4.1	14.7
Disposal of assets, change in scope of consolidation and other	note 4	(12.1)	(123.4)
Net allowances to restructuring provisions	note 16-d	(37.7)	(22.0)
Other items		28.1	39.8
Operating cash flows before working capital changes, interests and tax		1,414.5	1,346.0
Change in working capital requirement and in reserves for contingencies	note 16-a	(274.5)	12.8
Payment of contributions/pensions benefits (defined benefit plans):	note 15	(190.5)	(177.0)
■ related to reduction of the UK deficit		(64.3)	(63.5)
■ related to future service (recurrent contributions)		(126.2)	(113.5)
Financial interests paid		(55.9)	(67.8)
Financial interests received		31.8	31.0
Income tax paid		(90.8)	(125.1)
NET CASH FLOWS FROM OPERATING ACTIVITIES	- I -	834.6	1,019.9
Capital expenditure on tangible and intangible assets		(453.7)	(437.3)
Proceeds from disposal of tangible and intangible assets		21.0	22.4
Net operating investment	note 17-b	(432.7)	(414.9)
Acquisitions of subsidiaries	note 17-c	(81.3)	(99.2)
Less cash acquired		23.9	7.0
Net investing		(57.4)	(92.2)
Disposals of subsidiaries	note 17-c	8.9	244.2
Less cash disposed		-	(10.0)
Net disposals		8.9	234.2
Decrease (increase) in loans and other non current financial assets		(159.8)	113.7
Decrease (increase) in other current financial assets		351.8	(53.6)
Net financial investment		143.5	202.1
NET CASH FLOWS FROM INVESTING ACTIVITIES	- II -	(289.2)	(212.8)
Dividends paid in cash		(180.7)	(155.4)
Increase in equity (exercise of subscription options)		97.3	0.2
Purchase/sale of treasury shares		(6.8)	17.8
Increase in financial debt		850.2	146.4
Repayment of financial debt		(764.4)	(230.6)
NET CASH FLOWS FROM FINANCING ACTIVITIES	- III -	(4.4)	(221.6)
Effect of exchange rate variations and other	- IV -	(35.5)	9.7
TOTAL INCREASE (DECREASE) IN CASH AT BANK AND EQUIVALENTS	I+II+III+IV	505.5	595.2
Cash at bank and equivalents at beginning of period		2,518.3	1,923.1
CASH AT BANK AND EQUIVALENTS AT END OF PERIOD		3,023.8	2,518.3

(a) Restated to take into account IAS 19 R first adoption (note 1-a).

The Group net cash position and its change on both periods are presented in note 17-a.

1.2.6 Notes to the consolidated financial statements

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All monetary amounts included in these notes are expressed in € million

NOTE 1 ACCOUNTING STANDARDS FRAMEWORK

On 19 February 2014, the Board of directors approved, and authorised for issue, Thales's consolidated financial statements for the year ended 31 December 2013. In accordance with French legislation, the financial statements will be finally approved by the shareholders of Thales S.A. at the Annual General Meeting on 14 May 2014.

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.

a) Basis of preparation of the 2013 consolidated financial statements

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 2013⁽¹⁾.

These principles, described in note 23, are consistent with those applied for the year ended 31 December 2012, except for the following elements:

Employee Benefits (IAS 19 revised)

This revised standard, of which the application is retrospective, leads to the full recognition in the consolidated financial statements of net obligation for post-employment benefits. Accordingly:

- actuarial gains and losses, so as past service costs not recognised at 1 January 2012 have been booked through retained earnings, net of tax;

- as the "corridor" option is no longer allowed, actuarial gains and losses arising as from 1 January 2012 are recognised in "Other comprehensive income", with no subsequent reclassification to profit and loss account;

- as from 1 January 2012, past service cost must be recognised immediately in profit and loss account at the date the plan amendment occurs and is included in income of operating activities.

In the consolidated income statement:

- expected return on plan assets is calculated using the same rate as the discount rate used to determine the obligation. Remeasurement related to the actual return is recognised in "Other comprehensive income" and cannot be taken to profit subsequently;
- only administrative costs related to the cost of managing plan assets can be deducted from actual return on asset. Other taxes and administration costs are recognised in the income statement of the period, in operating expenses for the part related to active employees and in financing costs for retired people.

Because of the retrospective application of the IAS 19 revised standard, and for comparability reasons, the consolidated financial statements of 2012 have been restated accordingly. The detailed impacts of the first time adoption of the standard are the following.

(1) Available on the following internet address: http://ec.europa.eu/internal_market/accounting/ias_fr.htm.

► IMPACT ON 2012 CONSOLIDATED EQUITY:

	2012
Unrecognised actuarial (gain)/loss	(595.2)
Unrecognised past service cost	(198.2)
Assets ceiling (Netherlands)	(42.4)
Total at 1 January 2012	(835.8)
Deferred tax	14.7
Adjustment of Equity at 1 January 2012	(821.1)
<i>Of which Retained earnings</i>	<i>(768.5)</i>
<i>Of which Cumulative transaction adjustment</i>	<i>(52.6)</i>
Impact on pensions cost, before tax	52.8
Tax	(3.0)
2012 Net Income impact	49.8
Other comprehensive income (loss), before tax	(322.7)
Tax	77.3
2012 Other comprehensive income (loss), net of tax	(245.4)
Changes in exchange rate variation 2012	(18.2)
ADJUSTMENT OF EQUITY AT 31 DECEMBER 2012	(1,034.9)
<i>Of which Retained earnings</i>	<i>(964.1)</i>
<i>Of which Cumulative transaction adjustment</i>	<i>(70.8)</i>

► IMPACT ON 2012 PROVISION FOR PENSIONS AND OTHER EMPLOYEE BENEFITS:

	2012 (published)	Adjustments	2012 (restated)
Amount recognised in assets at 1 January	117.0	(117.0)	-
Amount recognised in equity & liabilities at 1 January	(883.4)	(718.8)	(1,602.2)
Net obligation at 1 January	(766.4)	(835.8)	(1,602.2)
Current service cost	(77.2)	-	(77.2)
Curtailments and settlements	-	9.3	9.3
Interest cost	(230.4)	-	(230.4)
Expected return on plan assets	162.4	(8.2)	154.2
Net interest	(68.0)	(8.2)	(76.2)
Administrative costs	-	(7.5)	(7.5)
Schemes amendments, curtailments and settlements	6.1	(6.1)	-
Amortisation of scheme amendments	(17.9)	17.9	-
Amortisation of actuarial gains (losses)	(47.4)	47.4	-
Actuarial gains & losses/other long-term benefits	(15.3)	-	(15.3)
Other financial items	(74.5)	51.7	(22.8)
Finance costs on pensions and other employee benefits	(142.5)	43.5	(99.0)
Total pensions cost of the period	(219.7)	52.8	(166.9)
Actuarial gains & losses (Other comprehensive income (loss) of the period)	-	(322.7)	(322.7)
Benefits and contributions	177.0	--	177.0
■ Deficit payment in the United Kingdom	63.5	-	63.5
■ Future service cash	113.5	-	113.5
Exchange rate variation	2.2	(18.2)	(16.0)
Change in scope of consolidation and Other	5.7	-	5.7
NET OBLIGATION AT 31 DECEMBER	(801.2)	(1,123.9)	(1,925.1)
Amount recognised in assets at 31 December	103.7	(103.7)	-
Amount recognised in equity & liabilities at 31 December	(904.9)	(1,020.2)	(1,925.1)

Other standards applicable in 2013

IFRS 13 (Fair value measurement) provides guidance on how to measure the fair value of assets and liabilities. However, this standard does not change the scope of fair value measurement.

In particular, this standard states that the valuation of derivatives must take into account the risk of default of the counterparty, and in the case of liabilities, the own credit risk of the entity. The application of these arrangements does not have a significant impact on the accounts of Thales. Additional disclosures required by IFRS 13 on the fair value of assets and liabilities are presented in note 12.

Amendment to IFRS 7 (Disclosures and Offsetting Financial Assets and Financial Liabilities) requires to disclose the effect of offsetting agreements related to financial assets and liabilities. These are presented in the note 21-c.

Annual Improvements to IFRS, published in May 2012 has no significant impact for the Group.

b) Standards compulsory after 31 December 2013 with no early application elected by the Group

Standards on consolidation

The following new standards have been published by the IASB and will be effective as from 1 January 2014, according to EU specific provisions.

Consolidated Financial Statements (IFRS 10)

This new standard replaces IAS 27 and SIC 12 (Consolidation - Special Purpose Entities).

IFRS 10 introduces a new single control model defined as follows: "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". Previously, control was based on the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

In this framework, the Group has undertaken an analysis of its not fully owned investments to determine the level of control exercised over them and to confirm their method of consolidation.

In particular, this led to review, according to IFRS 10 criteria, the consolidation method of Space activities that were, up to now, consolidated under the proportionate method. It was concluded that these activities should be consolidated as follows:

- Thales Alenia Space, sub-group owned at 67%, under the full consolidation method;
- Telespazio, owned at 33%, under the equity method.

As these changes are deemed not material on 2013 Group consolidated accounts, these new methods will only be applied as from 1 January 2014.

Joint Arrangements (IFRS 11)

IFRS 11 replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non Monetary Contributions by Venturers".

This standard defines the accounting treatment of joint arrangements through which at least two parties exercise joint control. Pursuant to this new standard, there are only two types of joint arrangement: joint ventures and joint operations.

Classification is based on the rights and obligations of the parties to the arrangement, taking into consideration the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances:

- a joint operation is a joint arrangement whereby the parties have rights to the assets and obligations for the liabilities, relating to the arrangement. At this stage, the Group did not identify a joint operation in its perimeter;
- a joint venture is a joint arrangement whereby the parties (joint venturers) that have joint control of the arrangement have rights to the net assets of the arrangement. Pursuant to IAS 31, the Group accounted for its joint arrangements, classified as joint ventures, using the proportionate consolidation method. In accordance with IFRS 11, joint arrangements classified as joint ventures must be accounted for using the equity method (proportionate consolidation is no longer allowed).

As from 1 January 2014, the Group will account all arrangements under a joint control using the equity method.

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.

► IMPACTS OF THESE NEW STANDARDS EXPECTED BY THE GROUP:

The impact of IFRS 10 and IFRS 11 on the Group key figures is the following:

Key figures	2013 (published)	Expected impacts IFRS 10 & 11	2013 estimated after IFRS 10 & 11	Of which DCNS impact
Order intake	14,168.1	(1,240.4)	12,927.7	(764.1)
Sales	14,194.1	(1,496.5)	12,697.6	(1,088.9)
Income from operations	904.8	(88.3)	816.5	(24.6)
Share in net income (loss) of equity affiliates	20.2	85.8	106.0	15.2
Net income (loss), attributable to shareholders of the parent company	573.4	-	573.4	-
NET CASH	1,666.3	(589.0)	1,077.3	(555.2)

To facilitate the assessment and comparability of operating and financial performance, Thales presents an adjusted operational performance indicator ("EBIT") and an adjusted net income. These indicators are regularly followed by the main executives of the Group.

The definition of these indicators, is detailed in the note 23-a (Accounting policies), which also gives the new definition of EBIT as from 1 January 2014.

Adjusted results	2013 (published)	Expected impacts IFRS 10 & 11	2013 estimated after IFRS 10 & 11	Of which DCNS impact
EBIT ^(a) (I)	1,003.2	(124.9)	878.3	(63.1)
Share in net income (loss) of equity affiliates ^(a) (II)	20.2	112.5	132.7	40.5
EBIT ^(a) (new definition) (I)+(II)			1,011.0	
NET INCOME (LOSS), ATTRIB. TO SHAREHOLDERS OF THE PARENT COMPANY	643.8	-	643.8	-

(a) Before Purchase Price Allocation entries (PPA).

Other Standards, amendments and interpretations effective in 2014

Subject to their definitive endorsement by the European Union, the following texts are of mandatory application from 1 January 2014:

- the interpretation IFRIC 21 - Levies, providing guidance on when to recognize a liability for a levy imposed by a government (excluding income tax);
- amendments to IAS 32 – seeking to clarify the principles for offsetting financial assets and liabilities;
- amendments to IAS 36 (Impairment of assets) – relating to disclosures on the recoverable values of non financial assets.

The Group does not expect a significant impact on its consolidated financial statements.

c) 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 characterised 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-b)

Recognition of incomes and expenses relating to construction contracts is based on estimates of overall profit or loss on completion of such contracts (see note 23-d). These estimates are performed by project managers, under the supervision of General Management, in accordance with Group procedures.

Goodwill (notes 5 and 7)

Goodwill is subject to impairment tests (see note 23-i). 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. Tests of sensitivity to changes in key assumptions are used to secure the conclusions reached.

Development costs (note 6)

Development costs that meet the criteria for capitalisation (note 23-f) are recognised as intangible assets and amortised over their useful lives. Assessments of compliance with the criteria are carried out on the basis of the forecast revenues and profitability of the corresponding projects.

Pensions and other long-term employee benefits (note 15)

Benefit obligations in respect of pensions and other long-term employee benefits are estimated on statistical and actuarial bases in accordance with the policies outlined in the note 23-l. Actuarial assumptions made by the Group (discount rates, inflation rate, mortality tables, etc.) are reviewed each year with the Group's actuaries.

Deferred tax assets (note 13)

Deferred tax assets are recognized for unused tax losses and deductible temporary differences between the book value and the tax value of assets and liabilities. Recovery of these assets is assessed on the basis of forecast data contained in the strategic plans of each of the tax groups considered, over a period of 5 years.

Litigation (note 20)

The Group regularly identifies and reviews litigation in progress and recognises, depending on the circumstances, accounting provisions that it considers to be reasonable. Any uncertainties concerning litigation in progress are described in the note 20.

Purchase price allocation in respect of business combinations

Business combinations are accounted for in accordance with the "purchase accounting" method described in the note 23-c: thus, on the date of the takeover of 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 future events, which are uncertain at the acquisition date.

NOTE 2 SIGNIFICANT EVENTS

a) Group's organisational structure

As from 1 April 2013, the Group has set up a new matrix organisation based on:

- Six Global Business Units (GBU) combined in three operating segments: Aerospace (Avionics, Space), Transport (Ground Transportation Systems), Defence & Security (Secure Communications & Information Systems, Land and Air Systems, Defence Mission Systems). The Group considers an additional segment corresponding to the company DCNS, held for 35% by the Group and accounted for under the proportionate consolidated method until 31 December 2013;

- An international organisation divided between the major industrial countries (Germany, Australia & New-Zealand, Canada, the United States, France, the Netherlands and the United Kingdom), other European countries and emerging markets.

b) Main changes in scope of consolidation

In 2013:

- on 14 March 2013, DCNS increased its interest in the capital of OpenHydro, an Irish company specialised in marine turbines, from 11% to 62%, for an amount of €130.2m (€45.6m at 35%). The financial investment, net of cash of the acquired entity, amounted to €61.9m (€21.7m at 35%). As from this date, OpenHydro is fully consolidated in DCNS accounts, whereas its shares were previously accounted for under the equity method. Moreover, previously-held shares were measured again at fair value through profit and loss account at the date of the transaction for an amount of €6.9m (€2.4m at 35%).

No other significant changes in scope occurred in 2013.

In 2012:

- 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 finalised 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 recognised a capital gain of €18.6m from the sale. The transaction was completed in 2013 leading to additional gain of €8.4m;
- in September 2012, Thales subscribed jointly with Orange Participations and La Caisse des Dépôts et des Consignations to the share capital of Cloudwatt, a company created in order to offer cloud-based infrastructures. Thales invested €50m, representing 22% of the share capital, of which €12.5m paid-up shares at 31 December 2013. Cloudwatt is accounted for under the equity method as of 1 January 2013;
- in November 2012, Thales acquired for €24.4m Sysgo AG, an European leader in real-time, highly secure operating systems. The Company is consolidated as from 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 recognised a capital gain of €73.4m from the sale;
- at the end of December 2012, Thales finalised the acquisition for \$30.7m (€23.3m) of the Helmet Mounted Display (HMD) and motion tracking businesses from Gentex Corporation, activities gathered under the name of "Visionix". The Company is consolidated as from 1 January 2013.

NOTE 3 SEGMENT INFORMATION

a) Information by business segment

2013	Aerospace	Transport	Defence & Security	DCNS (at 35%)	Oth. elim and non allocated	Thales
Consolidated order backlog	7,274.6	3,410.6	14,139.6	4,631.2	71.0	29,527.0
Consolidated new orders	4,129.8	1,491.6	7,661.1	795.1	90.5	14,168.1
Consolidated sales	4,450.5	1,480.7	6,988.4	1,175.8	98.7	14,194.1
Inter-segment sales	92.3	22.0	376.0	-	(490.3)	--
Total sales	4,542.8	1,502.7	7,364.4	1,175.8	(391.6)	14,194.1
EBIT ^(a)	369.8	97.2	518.4	63.1	(45.3)	1,003.2
Capital expenditures	134.4	14.8	143.7	41.3	119.5	453.7
Dep. and amort. of tangible and intangible assets	124.8	9.4	126.7	28.7	69.7	359.3
Consolidated number of employees end of period	16,578	6,055	33,595	4,917	5,302	66,447

(a) Refers to the note 3-b.

2012 restated	Aerospace	Transport	Defence & Security	DCNS (at 35%)	Oth. elim and non allocated	Thales
Consolidated order backlog	7,580.4	3,512.7	13,792.4	4,904.8	58.4	29,848.7
Consolidated new orders	4,050.6	1,653.0	6,748.4	758.4	74.5	13,284.9
Consolidated sales	4,417.7	1,534.7	7,080.8	1,026.8	98.1	14,158.1
Inter segment sales	71.2	24.6	405.8	-	(501.6)	--
Total sales	4,488.9	1,559.3	7,486.6	1,026.8	(403.5)	14,158.1
EBIT ^(a)	297.5	94.6	504.4	79.0	(48.3)	927.2
Capital expenditures	105.5	11.6	221.8	40.7	57.7	437.3
Dep. and amort. of tangible and intangible assets.	156.1	12.1	107.5	25.4	68.4	369.5
Consolidated number of employees end of period	16,371	6,379	33,045	4,754	5,443	65,992

(a) Refers to the note 3-b.

Other, elim and non allocated

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

The non-allocated income from operations includes the corporate income from operations which is not charged back to areas and the cost of vacant premises. 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.

Consolidated number of employees

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. Except profit-sharing and incentive schemes, personnel expenses (including social security contributions) amounted to €5,677.6m in 2013 and €5,620.1m in 2012.

2012 Restatements

2012 segment information have been restated in order to:

- present separately the two Business Sectors Aerospace and Transport;
- present DCNS as a Group Business Sector.

Besides, while maintaining strict rules regarding the registration in order backlog, the Group reviewed in 2013 the rules for measuring the order backlog in order to have a more economically realistic approach than strictly legal, especially in civilian avionics. The 2012 order backlog and new orders have been accordingly restated (impact of +€190.7m on order backlog and of -€8.0m on new orders).

b) Adjusted results

As indicated in the note 23-a: to facilitate the assessment and comparability of operating and financial performance, the Group presents an adjusted EBIT and an adjusted net income.

EBIT excludes the amortisation of purchased intangible assets (Purchase Price Allocation PPA) recorded when significant businesses are combined.

	2013	2012
Income from operations	904.8	815.7
Impact of PPA	98.4	111.5
EBIT	1,003.2	927.2

The adjusted net income is calculated as follows:

	2013	2012
Net income, attributable to shareholders of the parent company	573.4	585.5
<i>Less:</i>		
Amortisation of intangible assets acquired (PPA)	98.4	111.5
Disposal of assets, change in scope of consolidation and other	(12.1)	(123.4)
Change in fair value of derivative exchange instruments	28.3	26.1
Actuarial gains and losses/long term benefits	(0.5)	15.3
Tax impact of adjustments	(43.7)	(44.7)
Adjusted net income, attributable to shareholders of the parent company	643.8	570.3
<i>Average number of shares outstanding</i>	<i>200,967</i>	<i>199,270</i>
Adjusted earnings per share (attributable to shareholders of the parent company)	3.20	2.86

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

	2013	2012
France	4,141.2	4,195.8
United Kingdom	1,494.1	1,569.7
Rest of Europe	2,796.0	2,960.1
North America	1,489.5	1,399.8
Australia & New Zealand	709.2	719.6
Saudi Arabia & Middle East	915.9	774.7
Asia	2,037.2	1,902.6
Africa and Latin America	611.0	635.8
TOTAL	14,194.1	14,158.1

d) Sales by category of contracts

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

	2013	2012
Construction contracts	7,473.4	7,371.8
Sales of goods and equipment	3,496.2	3,533.9
Services	3,137.4	3,179.8
Other	87.1	72.6
TOTAL	14,194.1	14,158.1

NOTE 4 DISPOSAL OF ASSETS, CHANGES IN SCOPE OF CONSOLIDATION AND OTHER

	2013	2012 ^(a)
Fair value adjustments^(b):	2.4	15.1
OpenHydro	2.4	-
Tampa Microwave	-	15.1
Disposal of investments:	5.0	88.4
Diehl Aircabin GmbH (49%)	-	73.4
Simulation activities in UK	8.4	18.6
Other	(3.4)	(3.6)
Disposal of other assets:	(1.3)	(1.7)
Real estate assets	(0.2)	(1.7)
Equipments	(1.1)	-
Provisions on litigation and other^(c)	5.0	12.3
Impact of curtailments and settlements of pensions plans and long-term benefits (note 15)	1.0	9.3
TOTAL	12.1	123.4

(a) Restated to take into account IAS 19 R first adoption (note 1-a).

(b) In the case of step acquisitions, the previously-held equity interests are measured again at fair value through profit and loss account (note 23-c).

(c) In 2013, the profit refers to the grant provided by the Abruzzo Region further to the damages of the L'Aquila earthquake (site of production of Thales Alenia Space) in April 2009. In 2012, this amount corresponds to the reversal of provision constituted in 2010 related to the arbitration claim by the Republic of China Navy (Taiwan).

NOTE 5 GOODWILL

	31/12/2012	Acquisition	Disposal	Impairment	Exchange rate and other	31/12/2013
Avionics	313.2	26.9	-	-	(3.9)	336.2
Space	487.0	-	-	-	(0.1)	486.9
Aerospace	800.2	26.9	-	-	(4.0)	823.1
Transport	875.4	-	-	-	(0.1)	875.3
Secure Communications and Information Systems	579.3	14.9	-	-	(24.2)	570.0
Land and Air Systems	332.2	16.8	-	-	(5.5)	343.5
Defence Mission Systems	492.7	-	-	-	(15.2)	477.5
Defence & Security	1,404.2	31.7	-	-	(44.9)	1,391.0
DCNS	329.0	32.7	-	-	-	361.7
Other	2.4	-	-	-	-	2.4
TOTAL	3,411.2	91.3	-	-	(49.0)	3,453.5

	01/01/2012	Acquisition	Disposal	Impairment	Exchange rate and other	31/12/2012
Avionics	318.4	–	(4.9)	–	(0.3)	313.2
Space	487.1	–	–	–	(0.1)	487.0
Aerospace	805.5	–	(4.9)	–	(0.4)	800.2
Transport	875.4	–	–	–	–	875.4
Secure Communications and Information Systems	576.1	5.3	(4.0)	–	1.9	579.3
Land and Air Systems	317.2	13.6	–	–	1.4	332.2
Defence Mission Systems	491.3	–	–	–	1.4	492.7
Defence & 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

NOTE 6 TANGIBLE AND INTANGIBLE ASSETS

a) Changes in net tangible and intangible assets

	Intangible assets acquired	Development costs	Other intangible assets	Tangible assets	Total
Net value at 1 January 2012	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 acquired (PPA)	(111.5)	–	–	–	(111.5)
Other depreciation and amortisation	–	(59.3)	(45.2)	(265.0)	(369.5)
Impairment	–	–	–	(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
Acquisitions/capitalisations	–	32.4	40.6	380.7	453.7
Disposals	–	–	(2.2)	(18.8)	(21.0)
Amortisation of intangible assets acquired (PPA)	(98.4)	–	–	–	(98.4)
Other depreciation and amortisation	–	(39.0)	(49.1)	(271.2)	(359.3)
Impairment	–	–	–	(4.1)	(4.1)
Scope, foreign exchange rates and other	31.1	(0.6)	42.8	(26.0)	47.3
NET VALUE AT 31 DECEMBER 2013	823.9	148.4	157.3	1,565.9	2,695.5

b) Detail of balance sheet items

	31/12/2013			31/12/2012	01/01/2012
	Gross	Depreciation and Impairment	Net	Net	Net
Customer relationship: long-term	564.5	(195.4)	369.1	399.0	430.2
Customer relationship: backlog	479.3	(256.8)	222.5	244.8	281.3
Acquired technologies	438.2	(223.8)	214.4	229.9	256.9
Other	29.0	(11.1)	17.9	17.5	17.1
Intangible assets acquired (PPA)	1,511.0	(687.1)	823.9	891.2	985.5
Development costs	875.1	(726.7)	148.4	155.6	203.3
Other	725.4	(568.1)	157.3	125.2	140.7
Intangible assets	3,111.5	(1,981.9)	1,129.6	1,172.0	1,329.5
Lands	64.2	(1.6)	62.6	63.8	74.9
Buildings	1,286.5	(756.9)	529.6	495.5	531.4
Plant and equipment	2,441.2	(1,826.8)	614.4	600.4	567.7
Other	972.4	(613.1)	359.3	345.6	319.9
Tangible assets	4,764.3	(3,198.4)	1,565.9	1,505.3	1,493.9
Of which Fixed assets held under lease agreements	64.9	(37.3)	27.6	28.1	27.2

NOTE 7 IMPAIRMENT OF NON CURRENT OPERATING ASSETS

	2013	2012
Goodwill	-	(5.6)
Other tangible and intangible assets (note 6)	(4.1)	(9.1)
TOTAL	(4.1)	(14.7)

Goodwill is allocated to CGU (Cash Generating Unit), which corresponds to the Global Business Unit (GBU) of the Group, with certain exceptions such as joint ventures.

At the end of 2013, as in 2012, impairment tests were performed with the initial assumption of a 8.5% discount rate for every CGU (these CGU present a risk level more or less equivalent and the specific risks of CGU are included in the projections). A 1% increase of the discount rate would not lead 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 (23-i). A 2% decrease in the operational profitability of the CGU would not lead the Group to book significant additional impairments.

NOTE 8 EQUITY AFFILIATES**a) Group share in net assets and net income of equity affiliates**

	Share in net assets			Share in income (loss)	
	31/12/2013	31/12/2012	01/01/2012	2013	2012
Aviation Com.& Surveillance Syst. (30%)	50.8	54.8	58.2	7.5	5.3
Air Tanker Ltd (13%)	-	-	11.0	8.8	5.1
Cloudwatt (22%)	42.6	-	-	(6.7)	-
DpiX (20%)	18.1	18.8	18.9	0.1	0.3
Electronica SpA (33%)	38.8	34.4	32.5	8.4	6.6
ESG Elektroniksystem & Logistik GmbH (30%)	21.2	21.9	21.3	2.2	3.5
Other	16.3	18.7	15.6	(0.1)	3.0
TOTAL	187.8	148.6	157.5	20.2	23.8

b) Changes in net assets of equity affiliates

	2013	2012
Shares in net assets of equity affiliates at 1 January	148.6	157.5
Share in income (loss) of equity affiliates	20.2	23.8
Dividends paid	(15.9)	(16.5)
Net	4.3	7.3
Change in scope (Cloudwatt in 2013)	50.0	-
Exchange rate variations and other	(15.1)	(16.2)
SHARE IN NET ASSETS OF EQUITY AFFILIATES AT 31 DECEMBER	187.8	148.6

NOTE 9 FINANCIAL INCOME (EXPENSE)**a) Net financial interests**

	2013	2012
Interest expense:		
- on gross debt	(51.5)	(68.4)
- on interest rate swaps	16.8	12.3
	(34.7)	(56.1)
Interest income/cash and equivalents	33.5	42.5
TOTAL	(1.2)	(13.6)

b) Other financial income (expense)

	2013	2012
Foreign exchange gains (losses)	2.9	(10.8)
Change in fair value of derivative exchange instruments ^(a)	(28.3)	(26.1)
Cash flow hedge inefficiency/foreign exchange instruments	1.9	0.5
Net foreign exchange gains (losses)	(23.5)	(36.4)
Change in fair value of financial assets and liabilities	(3.6)	1.3
Dividends received	7.5	7.1
Impairment of investments in shares (available-for-sale)	(4.9)	(5.8)
Depreciation of loans and financial assets	0.9	(4.3)
Net financial costs operating loans/debts	(11.9)	(8.7)
Other	(14.0)	(6.1)
TOTAL	(49.5)	(52.9)

(a) Includes the variation of forward points fair value (€11.1m in 2013 and -€13.9m in 2012) and the time value of the hedge accounting derivatives (-€7.1m in 2013 and -€8.6m in 2012), and also includes the variation of the fair value of derivatives non qualified for hedge accounting.

NOTE 10 NON CURRENT FINANCIAL ASSETS

a) Non-consolidated available-for-sale investments

Fair value of investments at 31 December

	31/12/2013	31/12/2012	01/01/2012
Participation in Cloudwatt (22%) ^(a)	-	50.0	-
Investments held by Thales International Offsets (offsets) ^(b)	28.2	33.1	33.6
Investments held by Thales Corporate Ventures (venture capital)	5.2	11.4	12.8
Sysgo ^(c)	-	24.4	-
Visionix ^(c)	-	23.3	-
Seso ^(c)	-	14.6	14.6
Other	46.1	50.2	56.8
TOTAL	79.5	207.0	117.8

(a) Company created jointly with Orange and La Caisse des Dépôts et des Consignations in order to offer cloud-based infrastructures. This investment is accounted for under the equity method as of 1 January 2013.

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

(c) These companies are consolidated as of 1 January 2013.

Changes over the period

	2013	2012
Investments in non-consolidated shares at 1 January	207.0	117.8
Acquisitions (disposals) of non-consolidated investments	(6.4)	99.8
Impairment of investments included in financial result	(4.9)	(5.8)
Change in scope (Cloudwatt, Sysgo, Visionix and Seso in 2013)	(112.9)	-
Exchange rate variations and other	(3.3)	(4.8)
INVESTMENTS IN NON-CONSOLIDATED SHARES AT 31 DECEMBER	79.5	207.0

b) Loans and financial assets

	31/12/2013	31/12/2012	01/01/2012
Loans to related parties	63.4	50.3	72.7
Other receivables and loans at amortised cost	70.4	69.4	76.6
Total	133.8	119.7	149.3
Depreciation	(8.8)	(11.1)	(10.7)
NET	125.0	108.6	138.6

c) Other financial assets

This category includes mainly interest rate products (term deposits, medium-term negotiable notes, etc.) as well as money-market funds and other mutual funds.

	31/12/2013	31/12/2012	01/01/2012
DCNS investments (35%), maturity > 1 year ^(a)	257.8	113.6	217.3
Other	31.3	34.8	27.2
TOTAL	289.1	148.4	244.5

^(a) When the contractual residual maturity date or the projected holding period is higher than one year, these investments are classified in non current financial assets. They are considered as liquid investments with a liquidation value corresponding to the book value (financial assets evaluated at the fair value through profit and loss account).

NOTE 11 NET CASH (NET DEBT)

The Group's net cash is as follows:

	31/12/2013	31/12/2012	01/01/2012
DCNS investments with maturity > 1 year (note 10-c)	257.8	113.6	217.3
Current financial assets	366.9	720.4	690.6
Cash at bank and equivalents	3,023.8	2,518.3	1,923.1
Cash and other short-term financial assets (I)	3,648.5	3,352.3	2,831.0
Long-term financial debt	1,539.0	850.6	1,494.6
Short-term financial debt	457.2	997.3	437.1
Fair value of interest rate derivatives (note 21) ^(a)	(14.0)	(23.5)	(6.5)
Total gross financial debt (II)	1,982.2	1,824.4	1,925.2
NET CASH (I – II)	1,666.3	1,527.9	905.8
Stake in DCNS net cash (35%)	555.2	619.0	713.6
NET CASH, DCNS EXCLUDED	1,111.1	908.9	192.2

^(a) In accordance with IAS 39, the value of borrowings qualified for fair value hedge accounting takes into account changes in the fair value of the hedged risk. This change in debt is offset by changes in the value of swaps used as hedges (note 21-b).

a) Current financial assets

	31/12/2013	31/12/2012	01/01/2012
DCNS investments with maturity < 1 year	132.4	385.8	400.8
Current accounts receivable with affiliated companies (note 18)	223.3	329.1	260.1
Other	11.2	5.5	29.7
CURRENT FINANCIAL ASSETS	366.9	720.4	690.6

Investments included in the net cash correspond to liquid investments.

b) Cash at bank and equivalents

The available cash presented in the consolidated balance sheet at 31 December 2013 is detailed in the note 21-d.

c) Gross financial debt

	31/12/2013	31/12/2012	01/01/2012
Bond maturity 2021	291.0	-	-
Bond maturity 2018	495.5	-	-
Bond maturity 2016	612.4	618.5	601.8
Bond maturity 2013	-	599.4	600.7
Project financing debt ^(a)	98.9	139.1	168.1
Other borrowings from financial institutions	36.3	32.0	48.2
Current accounts payable with affiliated companies	225.1	252.0	307.7
Commitment/preferred dividends DCNS ^(b)	39.8	54.6	69.9
Subscription commitments	71.1	63.5	17.5
Capital lease obligations	14.0	14.5	16.2
Other borrowings	43.1	25.9	53.3
Bank overdrafts	51.7	21.5	22.5
Accrued interests	17.3	26.9	25.8
Fair value of interest rate derivatives (note 21-b)	(14.0)	(23.5)	(6.5)
GROSS FINANCIAL DEBT	1,982.2	1,824.4	1,925.2

(a) Non-recourse, or limited recourse, debt whose interest costs and repayment are covered by the share of project revenues which is guaranteed contractually by customers. The debt comprises fixed-rate loans (or floating-rate loans swapped to fixed-rate loans) maturing in years up to 2020.

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

Nature of bonds	Nominal value	Maturity date	Nature	Rate	
				Nominal (excluding effect of hedging)	Effective
Bond, maturity date 2021	€300m	March 2021	fixed inc. €300m swapped at variable rate	2.25%	2.40%
Bond, maturity date 2018	€500m	March 2018	fixed inc. €300m swapped at variable rate	1.625%	1.74%
Bond, maturity date 2016	€600m	October 2016	fixed inc. €400m swapped at variable rate	2.75%	2.91%
Bond, maturity date 2013	€600m	April 2013	fixed	4.38%	4.58%

Breakdown of gross financial debt by maturity

31/12/2013	Total	Contractual cash flows scheduled in:				
		2014	2015	2016	2017	>2017
Gross financial debt	1,982.2	457.2	70.3	619.6	21.5	813.6
Contractual maturity date	2,108.3	469.5	95.4	648.4	37.1	857.9

31/12/2012	Total	Contractual cash flows scheduled in:				
		2013	2014	2015	2016	>2016
Gross financial debt	1,824.4	997.3 ^(a)	84.4	71.0	626.4	45.3
Contractual maturity date	1,898.3	1,017.9	101.3	85.2	643.7	50.2

(a) Mainly include the bond with maturity April 2013 and current accounts payable with affiliated companies.

Breakdown of gross financial debt by currency

	31/12/2013	31/12/2012	01/01/2012
Euro	1,790.7	1,654.1	1,701.9
Pound Sterling	119.3	78.8	102.0
US Dollar	12.0	32.9	52.9
Australian Dollar	21.0	43.3	54.9
Other	39.2	15.3	13.5
TOTAL	1,982.2	1,824.4	1,925.2

After incidence of the corresponding derivative instruments.

NOTE 12 SUMMARY OF FINANCIAL ASSETS AND LIABILITIES**a) Financial assets**

At 31 December 2013:	Loans and receivables at amortised cost	At fair value				Total
		Financial assets		Derivatives		
		Through P&L	Available for sale	Hedge accounting	Not qualified for hedge accounting	
Non current financial assets:						
Available-for-sale investments	-	-	79.5	-	-	79.5
Loans and financial assets, non current	125.0	-	-	-	-	125.0
Non current derivatives, asset	-	-	-	16.6	-	16.6
Other non current financial assets	-	289.1	-	-	-	289.1
Current financial assets:						
Non current derivatives, asset	-	-	-	169.0	9.7	178.7
Current financial assets	233.0	133.9	-	-	-	366.9
Cash at bank and equivalents	2,456.8	567.0	-	-	-	3,023.8
TOTAL FINANCIAL ASSETS		990.0	79.5	185.6	9.7	
Methods used to measure fair value:						
Valuation at cost		-	79.5	-	-	79.5
Quoted prices in active markets (level 1)		567.0	-	-	-	567.0
Valuation techniques based on observable market data (level 2)		423.0	-	185.6	9.7	618.3
Valuation techniques not based on observable market data (level 3)		-	-	-	-	-

At 31 December 2012:	Loans and receivables at amortised cost	At fair value				Total
		Financial assets		Derivatives		
		Through P&L	Available for sale	Hedge accounting	Not qualified for hedge accounting	
Non current financial assets:						
Available-for-sale investments	-	-	207.0	-	-	207.0
Loans and financial assets, non current	108.6	-	-	-	-	108.6
Non current derivatives, asset	-	-	-	23.5	-	23.5
Other non current financial assets	-	148.4	-	-	-	148.4
Current financial assets:						
Non current derivatives, asset	-	-	-	122.2	1.9	124.1
Current financial assets	333.4	387.0	-	-	-	720.4
Cash at bank and equivalents	1,919.2	599.1	-	-	-	2,518.3
TOTAL FINANCIAL ASSETS		1,134.5	207.0	145.7	1.9	
Methods used to measure fair value:						
Valuation at cost		-	207.0	-	-	207.0
Quoted prices in active markets (level 1)		599.1	-	-	-	599.1
Valuation techniques based on observable market data (level 2)		535.4	-	145.7	1.9	683.0
Valuation techniques not based on observable market data (level 3)		-	-	-	-	-

Customer receivables and advances from customers on contracts, as detailed in the note 16, are accounted for as financial assets and evaluated at amortised costs in accordance with IAS32/39.

b) Financial liabilities

At 31 December 2013:	At amortised cost	Financial liabilities	At fair value		Total
			Derivatives		
			Hedge accounting	Not qualified for hedge accounting	
Non current liabilities:					
Financial debt-long-term	1,525.0	14.0	-	-	1,539.0
Non current derivatives, liability	-	-	2.6	-	2.6
Current liabilities:					
Current derivatives, liability	-	-	79.8	12.8	92.6
Financial debt-short-term	457.2	-	-	-	457.2
TOTAL FINANCIAL LIABILITIES		14.0	82.4	12.8	
Methods used to measure fair value					
Valuation techniques based on observable market data (level 2)		14.0	82.4	12.8	109.2

At 31 December 2012:	At amortised cost	Financial liabilities	At fair value		Total
			Derivatives		
			Hedge accounting	Not qualified for hedge accounting	
Non current liabilities:					
Financial debt-long-term	827.1	23.5	-	-	850.6
Non current derivatives, liability	-	-	-	-	-
Current liabilities:					
Current derivatives, liability	-	-	88.8	15.2	104.0
Financial debt-short-term	997.3	-	-	-	997.3
TOTAL FINANCIAL LIABILITIES		23.5	88.8	15.2	
Methods used to measure fair value					
Valuation techniques based on observable market data (level 2)		23.5	88.8	15.2	127.5

As detailed in the note 16, accounts payable, refundable grants and advances to suppliers, are accounted for as financial liabilities and evaluated at amortised cost in accordance with IAS32/39.

Measurement of fair value of financial assets and liabilities

The fair value of financial assets and liabilities estimated at amortised cost, approximates their carrying amount, except for financial debts.

The fair value of debt obligation is measured on the basis of prices quoted (Level 1). The fair value of other financial debts is determined for each loan by discounting future cash flows with the Euribor interest rate

at the balance sheet date, adjusted for the Group's credit risk (Level 2). On this basis, the fair value of the financial debt amounts to €2,013.7m at 31 December 2013 and €1,874.1m at December 2012.

The fair value of money market funds and other mutual funds is estimated according to their latest available net market value. The fair value of interest rates products (certificates of deposit, term accounts, medium-term negotiable notes, etc.) is estimated by discounting coupons and price excluding accrued interests, 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.

There were no transfers between the fair value hierarchy levels during the year ended 2013 and 2012.

NOTE 13 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

	2013	2012 ^(a)
Current tax ^(b)	(167.8)	(178.4)
Deferred tax	(69.1)	(18.5)
TOTAL	(236.9)	(196.9)

(a) Restated to take into account IAS 19 R first adoption (note 1-a).

(b) Before deduction of research tax credits, which are included in the income from operations (€141.0m in 2013, €115.5m in 2012).

► EFFECTIVE TAX RATE

	2013	2012
Net income (loss)	573.0	585.8
Less: income tax	236.9	196.9
Less: share in net income (loss) of equity affiliates	(20.2)	(23.8)
Profit before tax and impact of equity affiliates	789.7	758.9
Average tax rate ^(a)	31.6%	32.3%
Theoretical tax gain (expense)	(249.8)	(245.3)
Reconciliation items:		
■ Tax credits ^(b)	69.7	65.2
■ Effect of disposals, change in scope and other	3.3	32.1
■ Other non taxable items	(6.5)	(15.6)
■ Income related to previously unrecognised deferred tax assets	13.0	19.7
■ Expenses related to the non-recognition of deferred tax assets	(7.4)	(18.2)
■ Taxes not taken into account in the theoretical rate ^(c)	(16.6)	(21.1)
■ Prior years adjustments	(8.8)	(7.0)
■ Impact of dividends paid ^(d)	(29.3)	(6.5)
■ Impact of change in the deferred tax rate	(6.0)	1.8
■ Other	1.5	(2.0)
ACTUAL TAX GAIN (EXPENSE)	(236.9)	(196.9)
Effective tax rate	30.0%	25.9%

(a) Weighted average rate, depending on the income of each country to which is applied its own tax rate.

(b) Includes:

- The amount, at corporate tax rate, of research tax credits (and, starting from 2013, tax credit for encouraging competitiveness and jobs (CICE), recorded in the non taxable income of operations (especially in France);
- The fiscal benefits related to the research, recorded in the income tax (notably in Australia and Netherlands);

(c) Including in particular the additional contribution in France, the IRAP in Italy and foreign investments tax.

(d) Including, in 2013 -€17.7m of deferred tax on expected distributions.

b) Deferred tax allocated to equity

	2013		2012 ^(a)	
	Base	Tax	Base	Tax
Translation of the financial statements of foreign subsidiaries	(137.0)	-	7.3	-
Net foreign investments hedge	0.9	(0.3)	(0.9)	0.3
Cash flow hedge	60.3	(22.4)	68.4	(26.9)
Available-for-sale investments	(0.1)	-	0.5	-
Items subsequently reclassified to P&L	(75.9)	(22.7)	75.3	(26.6)
Actuarial gains and losses/pensions - United Kingdom	(75.5)	— ^(b)	(63.5)	— ^(b)
Actuarial gains and losses/pensions - other countries	43.5	(11.1)	(259.2)	77.3
Items not subsequently reclassified to P&L	(32.0)	(11.1)	(322.7)	77.3
Payment in shares		0.8		2.8
TOTAL DEFERRED TAX ALLOCATED TO EQUITY		(33.0)		53.5

(a) Restated to take into account IAS 19 R first adoption (note 1-a).

(b) After depreciation of deferred taxes in the United Kingdom.

c) Deferred tax assets and liabilities

	At 01/01/2013	(Expense) income of the period	Recognised through equity	Cash flow impact	Changes in exch. rate, scope and other	At 31/12/2013
Current income tax assets	55.7	-	-	(2.6)	-	53.1
Current income tax liabilities	(48.1)	(167.8)	-	93.4	48.8	(73.7)
Current income tax net	7.6	(167.8)	-	90.8	48.8	(20.6)
Deferred tax assets	995.7	(118.9)	(33.0)	-	(17.4)	826.4
Deferred tax liabilities	(383.4)	49.8	-	-	-	(333.6)
Deferred tax net	612.3	(69.1)	(33.0)	-	(17.4)	492.8
TOTAL		(236.9)	(33.0)	90.8		

	At 01/01/2012 ^(a)	(Expense) income of the period	Recognised through equity	Cash flow impact	Changes in exch. rate, scope and other	At 31/12/2012 ^(a)
Current income tax assets	50.1	-	-	5.6	-	55.7
Current income tax liabilities	(58.5)	(178.4)	-	119.5	69.3	(48.1)
Current income tax net	(8.4)	(178.4)	-	125.1	69.3	7.6
Deferred tax assets	984.5	(36.2)	53.5	-	(6.1)	995.7
Deferred tax liabilities	(401.1)	17.7	-	-	-	(383.4)
Deferred tax net	583.4	(18.5)	53.5	-	(6.1)	612.3
TOTAL		(196.9)	53.5	125.1		

(a) Restated to take into account IAS 19 R first adoption (note 1-a).

Current income tax

The payment of corporate tax is reported net of tax credits utilised. The allocation of tax credits is presented in the column "changes in exch. rate, scope and other".

Deferred tax

Changes by nature

	At 01/01/2013	(Expense) income of the period	Recognised through equity	Changes in exch. rate, scope and other	At 31/12/2013
Temporary differences:	632.0	(46.1)	(41.9)	(23.8)	520.2
■ Pensions and other employee benefits	448.1	4.4	(19.3)	(4.8)	428.4
■ Intangible assets	(354.8)	39.0	-	(7.5)	(323.3)
■ Reserve for losses at completion	239.7	(79.4)	-	(3.0)	157.3
■ Other	299.0	(10.1)	(22.6)	(8.5)	257.8
Tax loss carry-forwards	392.3	(28.6)	-	(4.5)	359.2
TOTAL	1,024.3	(74.7)	(41.9)	(28.3)	879.4
Part not recognised in the balance sheet	(412.0)	5.6	8.9	10.9	(386.6)
Total net deferred tax assets	612.3	(69.1)	(33.0)	(17.4)	492.8

	At 01/01/2012	(Expense) income of the period	Recognised through equity	Changes in exch. rate, scope and other	At 31/12/2012
Temporary differences:	520.7	55.2	74.6	(18.5)	632.0
■ Pensions and other employee benefits	374.6	(6.7)	93.0	(12.8)	448.1
■ 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	986.0	(20.0)	74.6	(16.3)	1,024.3
Part not recognised in the balance sheet	(402.6)	1.5	(21.1)	10.2	(412.0)
Total net deferred tax assets	583.4	(18.5)	53.5	(6.1)	612.3

Expiration of tax loss carry-forwards

Total tax loss carry-forwards represent a potential tax saving of €359.2m at 31 December 2013 (€392.3m at 31 December 2012). Corresponding expiry dates are:

	31/12/2013
2014	7.1
2015-2018	1.3
Beyond 2018	32.3
Without any time limit	318.5
Total	359.2
Of which not recognized on the balance sheet	(163.6)
NET DEFERRED TAX ASSET	195.6
Of which in France	132.6

	31/12/2012
2013	0.6
2014-2017	2.6
Beyond 2017	37.5
Without any time limit	351.6
Total	392.3
Of which not recognized on the balance sheet	(141.0)
NET DEFERRED TAX ASSET	251.3
Of which in France	192.8

Only deferred tax assets related to tax losses which the Group expects to recover, in accordance with note 23-k, are recognised in the balance sheet. In particular, the Group takes into account loss carry-forward limitation.

NOTE 14 EQUITY**a) Share capital**

The share capital of Thales parent company amounts to €617,233,500 and is made of 205,744,500 shares with an individual value of €3, compared with 202,339,674 shares at 31 December 2012. This represents an increase of 3,404,826 shares resulting from the exercise of share subscription options by the beneficiaries of the plans.

The Group manages its capital, based on authorisations 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 2013, there are no securities that give access to the share capital of the Company, with the exception of the share subscription options described in the note 14-d.

c) Treasury shares

Thales parent company held 2,490,177 of its own shares at 31 December 2013. They are accounted for with a €81.4m decrease from the consolidated equity.

In accordance with the authorisations given to the Board of directors at the Annual General Meeting, the Company did the following operations:

	2013	2012
Treasury shares at 1 January	2,795,564	3,542,173
Purchases as part of the liquidity contracts	1,582,469	1,043,357
Sales as part of the liquidity contracts	(1,624,034)	(1,504,941)
Purchase in the market	524,861	-
Transfer to employees as part of the employee share purchase offering	(473,653)	-
Delivery of free shares	(306,130)	(285,025)
Exercise of share purchase options	(8,900)	-
TREASURY SHARES AT 31 DECEMBER	2,490,177	2,795,564

At 31 December 2013, as in 2012, relating to the liquidity contract between Thales and Exane-BNP Paribas, the liquidity account had the following means:

	2013	2012
Number of shares at 31 December	93,300	134,865
Value (million euros)	19.2	17.6

d) Share-based payment

• Description of the different plans granted by the Group

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 2013, the following options and shares were outstanding:

- 117,800 share purchase options at a weighted average exercise price of €42.76;
- 8,186,261 share subscription options at a weighted average exercise price of €35.58, of which 825,550 performance-based shares;
- 2,583,600 free shares, of which 789,140 performance-based shares.

1- Outstanding purchase options plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31/12/2012	Options granted in 2013	Options exercised in 2013	Options canceled in 2013	Number of options outstanding at 31/12/2013
25/11/2008	from 25 Nov. 2012 to 24 Nov. 2018	€38.50	46,700	-	(8,900)	-	37,800
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 31/12/2012	Options granted in 2013	Options exercised in 2013	Options canceled in 2013 ^(b)	Number of options outstanding at 31/12/2013
15/09/2011 ^(a)	from 15 Sep. 2015 to 14 Sep. 2021	€26.34	403,000	-	-	(18,800)	384,200
23/09/2010 ^(a)	from 23 Sep. 2014 to 22 Sep. 2020	€26.34	469,250	-	-	(27,900)	441,350
25/06/2009	from 25 June 2013 to 24 June 2019	€32.88	1,506,000	-	(378,906)	(69,213)	1,057,881
01/07/2008	from 1 July 2012 to 30 June 2018	€38.50	1,578,600 ^(c)	-	(191,890)	(64,350)	1,322,360
04/07/2007	from 4 July 2011 to 3 July 2017	€44.77	1,414,170	-	(9,160)	(42,760)	1,362,250
09/11/2006	from 09 Nov. 2010 to 08 Nov. 2016	€36.47	1,965,825	-	(400,470)	(42,700)	1,522,655
30/06/2005	from 30 June 2009 to 29 June 2015	€34.01	1,775,043	-	(528,610)	(29,013)	1,217,420
01/07/2004	from 1 July 2008 to 30 June 2014	€29.50	1,850,727	-	(946,277)	(26,505)	877,945
01/07/2003	from 1 July 2007 to 30 June 2013	€25.70	1,331,897	-	(949,513)	(382,184)	200 ^(d)

(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 target was not achieved.

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

(d) Due to an estate issue still ongoing.

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 1 July 2003 and 25 June 2009 can already be exercised in full.

The options granted on 23 September 2010 and 15 September 2011 are 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.

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 *mandataire social*: legally responsible as defined by the French Commercial Code), and 21 executives (including Executive Committee) could not benefit from these plans. Since 2012, only the Chairman could not benefit from these plans.

On 17 September 2013 the Board of directors approved a new shares plan. This plan 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 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. The number of options vested will not exceed the number of shares initially allotted.

Shares granted in 2010, 2011 and 2012:

- the three criteria used are EBIT, operating cash flows and order intake, each of these criteria having a 60%, 25% and 15% weighting respectively;
- 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.

Within the two sub-plans, beneficiaries who are French tax residents 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 residents.

Shares granted in 2013:

- the three criteria used are EBIT, operating cash flows and order intake, each of these criteria having a 60%, 15% and 25% weighting respectively;
- 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. Following developments in French legislation, the lock-in period of two years no longer apply to beneficiaries who are not French tax residents.

Date of Board decision	Vesting period	Share price at grant date	Number of free shares at 31/12/2012	Adjustments posterior to closing	Shares granted in 2013	Shares cancelled in 2013 ^(b)	Shares delivered in 2013	Number of free shares at 31/12/2013
17/09/13	from 17/09/2013 to 17/09/2017	€39.16	-	-	424,830	(2,390)	(400)	422,040
			-	-	299,460 ^(a)	(1,360)	-	298,100
20/12/12	from 20/12/2012 to 20/12/2016	€27.47	487,890	-	-	(11,670)	(640)	475,580
			230,350 ^(a)	-	-	(1,850)	-	228,500
15/09/11	from 15/09/2011 to 15/09/2015	€25.20	470,370	-	-	(12,810)	(1,210)	456,350
			136,840 ^(a)	-	-	(1,550)	-	135,290
23/09/10	from 23/09/2010 to 23/09/2014	€26.40	452,930	-	-	(11,640)	(800)	440,490
			130,100 ^(a)	-	-	(2,850)	-	127,250
25/06/09	from 25/06/2009 to 25/06/2013	€31.93	303,665	-	-	(585)	(303,080)	-

(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.

• Expenses related to share-based payments:

In the consolidated statements, the benefit granted to the beneficiaries of stock options and free shares is recognised as an operating expense. This breaks down as follows:

Grant date	Initial number of options or shares granted	Fair value at grant date	Initial fair value	Remaining fair value at 31/12/2013	2013 Expense	2012 Expense
Share subscription options^(a):						
15/09/2011	435,300	€25.20	2.3	0.3	(0.6)	(1.3)
23/09/2010	471,850	€26.40	2.8	-	(0.3)	(1.0)
25/06/2009	1,600,340	€31.93	11.2	-	(0.1)	(0.9)
01/07/2008	1,688,076	€35.72	11.2	-	-	(0.1)
Total				0.3	(1.0)	(3.3)
Free shares^(b):						
17/09/2013	724,290	€39.16	22.8	21.1	(1.6)	-
20/12/2012	718,290	€27.47	16.1	12.0	(4.0)	(0.1)
15/09/2011	630,990	€25.20	13.0	5.4	(3.2)	(3.2)
23/09/2010	631,730	€26.40	13.6	2.5	(3.2)	(3.3)
25/06/2009	334,980	€31.93	8.7	-	(1.0)	(2.1)
01/07/2008	317,705	€35.72	9.3	-	-	(0.8)
Total				41.0	(13.0)	(9.5)
Company savings scheme ^(c)				-	(0.7)	-
TOTAL				41.3	(14.7)	(12.8)

(a) The decision to stop granting share purchase and subscription options plans was made in 2012.

(b) The fair value of free shares plan takes into account a distribution rate of 2.5% of future results.

(c) The 2013 offer included a traditional option, allowing employees to benefit from a 20% discount to the reference price (€37.6) and an employer contribution corresponding to one free share for every ten shares acquired, within the limit of five matching shares. The offer also included a protected option, allowing employees to benefit from a guarantee of their initial investment. In the UK, the share offering was implemented as part of the SIP, the employees benefiting from one matching share for every five shares acquired.

e) 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 take into account instruments that have a dilutive effect on earnings per share and exclude anti-dilutive instruments. The dilutive effect of share subscription options is calculated using the treasury stock method, taking into account the average market price for the share in the period in question.

	2013	2012 ^(a)
Numerator (in millions of euros):		
Net income (loss), attributable to shareholders of the parent company (I)	573.4	585.5
Denominator (in thousands):		
Average number of shares outstanding (II)	200,967	199,270
Share subscription options ^(b)	602	32
Diluted average number of shares outstanding (III)	201,569	199,302
EARNINGS PER SHARE (IN EUROS) (I)/(II)	2.85	2.94
DILUTED EARNINGS PER SHARE (IN EUROS) (I)/(III)	2.84	2.94

(a) Restated to take into account IAS 19 R first adoption (note 1-a).

(b) Only exercisable subscription options plans (of which the exercise price is lower than the average share price) are used for diluted earnings per share calculation. The average prices of share are amounted to €36.25 in 2013 and to €26.33 in 2012.

Detailed information relating to those plans are presented in the previous note.

f) Dividends

Dividends per share amounted to €0.88 in 2012 and €0.78 in 2011.

On 19 February 2014, the Board of directors decided to offer the shareholders, who will be called in to a General Meeting on 14 May 2014, the payment of a total amount of €1.12 per share. Given the down payment of €0.27 per share, the balance of €0.85 per share will be distributed on 30 May 2014.

Dividends paid in 2012 and 2013 are described below:

Full year	Approved by	Description	Dividend per share (euros)	Payout date	How paid	Total (millions of euros)
2013	Board of directors meeting on 17 September 2013	2013 interim dividend	€0.27	13 December 2013	Cash	54.9
	Shareholders' Meeting on 24 May 2013	Balance for 2012	€0.63	28 May 2013	Cash	125.8
	Total dividends paid in 2013					180.7
2012	Board of directors meeting on 29 November 2012	2012 interim dividend	€0.25	14 December 2012	Cash	49.8
	Shareholders' Meeting on 15 May 2012	Balance for 2011	€0.53	31 May 2012	Cash	105.6
	Total dividends paid in 2012					155.4
2011	Board of directors meeting on 15 December 2011	2011 interim dividend	€0.25	23 December 2011	Cash	49.7

g) Translation differences

Translation differences result from the translation of financial statements of companies whose functional currency is not the euro, where appropriate offset by the impact of derivative instruments denominated in foreign currencies to hedge net investments in foreign subsidiaries.

These differences are recorded in equity as other comprehensive income, subsequently reclassified to profit and loss at the date of disposal of such investments. They are as follows:

	2013	2012 ^(a)
Translation differences at 1 January	(106.2)	(113.0)
Changes in value	(135.4)	3.3
Reclassified to profit and loss	-	3.2
Gross variation	(135.4)	6.5
Deferred tax	(0.3)	0.3
Translation differences at 31 December	(241.9)	(106.2)
Of which Hedge of net foreign investments	5.1	4.2

(a) Restated to take into account IAS 19 R first adoption (note 1-a).

h) Reserves for cash flow hedge

The Group uses foreign exchange derivatives to hedge against changes in the value of future cash flows related to trade flows in foreign currencies. In the Group's consolidated financial statements, changes in fair value of these derivatives, when efficient, are recognised directly in equity, until the hedged cash flows affect profit and loss.

	2013	2012
Cash flow hedge at 1 January	18.7	(22.8)
Changes in value	82.2	53.8
Reclassified to profit and loss	(12.8)	8.6
Scope and exchange variations	(9.1)	6.0
Gross variation	60.3	68.4
Deferred tax	(22.4)	(26.9)
CASH FLOW HEDGE AT 31 DECEMBER^(a)	56.6	18.7

(a) A positive balance at closing means that the exchange rates of the derivative instruments documented as hedge are generally more favorable than the exchange rates prevailing at the date of closing.

NOTE 15 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 the funding of retirement is mainly based on defined contribution plans and where certain other long-term 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;
- countries in which retirement and other long-term benefits are mainly funded externally: this category includes the UK and the Netherlands.

In the UK, the master plan "Thales UK Pension Scheme", provides a pension based on the average of salary and indexed to inflation. In 2002, this plan was closed to new entrants, who have a collective defined contribution pension scheme.

In the Netherlands, employees have a defined benefit plan, the indexation of which depends on the level of financing achieved, as assessed by the local prudential rules.

a) Provisions recognised in the balance sheet

	2013	2012 ^(a)
Net obligation at 1 January	(1,925.1)	(1,602.2)
Current service cost	(96.2)	(77.2)
Curtailments and settlements	1.0	9.3
Interest cost	(212.0)	(230.4)
Expected return on plan assets	144.2	154.2
Net interest	(67.8)	(76.2)
Fund costs	(5.1)	(7.5)
Actuarial gains & losses/other long-term benefits	0.5	(15.3)
Finance costs on pensions and other employee benefits	(72.4)	(99.0)
Total pensions cost of the period	(167.6)	(166.9)
Actuarial gains & losses (Other comprehensive income (loss) of the period)	(32.0)	(322.7)
Benefits and contributions	190.5	177.0
■ Deficit payment in the United Kingdom	64.3	63.5
■ Future service cash	126.2	113.5
Exchange rate variation	24.2	(16.0)
Change in scope of consolidation & Other	3.2	5.7
NET OBLIGATION AT 31 DECEMBER	(1,906.8)	(1,925.1)
Of which Post-employment benefits	(1,744.9)	(1,758.9)
Other long-term benefits	(161.9)	(166.2)

(a) Restated to take into account IAS 19 R first adoption (note 1-a).

b) Changes in defined benefit obligations and plan assets, by category of country

31 December 2013	Externally funded countries			Countries mainly internally funded			Total
	UK	Netherlands	Total	France	Other	Total	
Obligations at 1 January	(3,207.5)	(995.3)	(4,202.8)	(882.6)	(471.8)	(1,354.4)	(5,557.2)
Current service cost	(22.9)	(12.4)	(35.3)	(41.6)	(19.3)	(60.9)	(96.2)
Interest cost	(135.4)	(33.6)	(169.0)	(27.1)	(15.9)	(43.0)	(212.0)
Plan participants' contribution	(8.9)	(9.2)	(18.1)	-	(0.6)	(0.6)	(18.7)
Curtailments/Settlements	-	4.4	4.4	(3.4)	-	(3.4)	1.0
Experience gains (losses)	(5.5)	24.6	19.1	(11.1)	0.4	(10.7)	8.4
Actuarial gains (losses)/ financial assumptions	(44.2)	20.3	(23.9)	29.9	5.3	35.2	11.3
Actuarial gains and losses/ demographic assumptions	(87.5)	(7.3)	(94.8)	(22.8)	(0.7)	(23.5)	(118.3)
Actuarial gains (losses) on long-term benefits	-	(0.5)	(0.5)	(3.2)	4.2	1.0	0.5
Benefits paid by plan assets	113.4	27.5	140.9	2.0	1.0	3.0	143.9
Benefits paid by employer ^(a)	-	-	-	45.9	22.0	67.9	67.9
Scope, exch. rate var. and other	65.8	-	65.8	1.1	15.4	16.5	82.3
OBLIGATIONS AT 31 DECEMBER	(3,332.7)	(981.5)	(4,314.2)	(912.9)	(460.0)	(1,372.9)	(5,687.1)
Plan assets at 1 January	2,451.6	936.0	3,387.6	124.6	119.9	244.5	3,632.1
Expected return on plan assets	105.2	31.9	137.1	3.5	3.6	7.1	144.2
Employer's contribution ^(a)	95.8	19.5	115.3	3.3	4.0	7.3	122.6
Plan participants' contribution	8.9	9.2	18.1	-	0.6	0.6	18.7
Benefits paid by plan assets	(113.4)	(27.5)	(140.9)	(2.0)	(1.0)	(3.0)	(143.9)
Experience gains (losses)	61.8	(9.9)	51.9	4.8	10.0	14.8	66.7
Scope, exch. rate var. and other	(56.0)	(1.2)	(57.2)	(0.5)	(2.4)	(2.9)	(60.1)
PLAN ASSETS AT 31 DECEMBER	2,553.9	958.0	3,511.9	133.7	134.7	268.4	3,780.3
NET PROVISIONS AT 31 DECEMBER	(778.8)	(23.5)	(802.3)	(779.2)	(325.3)	(1,104.5)	(1,906.8)

(a) Contributions/benefits paid amount to €190.5m in 2013, compared to €177.0m in 2012. They should remain stable in 2014, at constant scope and exchange rates.

31 December 2012	Externally funded countries			Countries mainly internally funded			Total
	UK	Netherlands	Total	France	Other	Total	
Obligations at 1 January	(2,905.2)	(759.3)	(3,664.5)	(708.2)	(414.1)	(1,122.3)	(4,786.8)
Current service cost	(22.7)	(5.5)	(28.2)	(30.4)	(18.6)	(49.0)	(77.2)
Interest cost	(139.8)	(37.5)	(177.3)	(34.2)	(18.9)	(53.1)	(230.4)
Plan participants' contribution	(10.1)	(8.5)	(18.6)	-	-	-	(18.6)
Curtailments/Settlements	1.2	-	1.2	4.3	7.7	12.0	13.2
Experience gains (losses)	18.8	9.2	28.0	(18.2)	(0.2)	(18.4)	9.6
Actuarial gains (losses)/ financial assumptions	(134.8)	(213.3)	(348.1)	(116.0)	(51.3)	(167.3)	(515.4)
Actuarial gains and losses/ demographic assumptions	(54.6)	(5.9)	(60.5)	(4.0)	-	(4.0)	(64.5)
Actuarial gains (losses) on long-term benefits	-	(0.5)	(0.5)	(14.4)	(0.4)	(14.8)	(15.3)
Benefits paid by plan assets	106.8	26.0	132.8	2.1	10.7	12.8	145.6
Benefits paid by employer ^(a)	-	-	-	34.8	16.2	51.0	51.0
Scope, exch. rate var. and other	(67.1)	-	(67.1)	1.6	(2.9)	(1.3)	(68.4)
OBLIGATIONS AT 31 DECEMBER	(3,207.5)	(995.3)	(4,202.8)	(882.6)	(471.8)	(1,354.4)	(5,557.2)
Plan assets at 1 January	2,202.0	757.3	2,959.3	113.3	112.0	225.3	3,184.6
Expected return on plan assets	106.8	37.3	144.1	5.0	5.1	10.1	154.2
Employer's contribution ^(a)	87.6	25.7	113.3	6.3	6.4	12.7	126.0
Plan participants' contribution	10.1	8.5	18.6	-	-	-	18.6
Benefits paid by plan assets	(106.8)	(26.0)	(132.8)	(2.1)	(10.7)	(12.8)	(145.6)
Curtailments/Settlements	-	-	-	(2.7)	-	(2.7)	(2.7)
Experience gains (losses)	107.1	134.5	241.6	4.1	1.9	6.0	247.6
Scope, exch. rate var. and other	44.8	(1.3)	43.5	0.7	5.2	5.9	49.4
PLAN ASSETS AT 31 DECEMBER	2,451.6	936.0	3,387.6	124.6	119.9	244.5	3,632.1
NET PROVISIONS AT 31 DECEMBER	(755.9)	(59.3)	(815.2)	(758.0)	(351.9)	(1,109.9)	(1,925.1)

(a) Contributions/benefits paid amount to €190.5m in 2013, compared to €177.0m in 2012. They should remain stable in 2014, at constant scope and exchange rates.

c) Actuarial assumptions used

The actuarial assumptions used are ascertained by actuaries according to special features of each country and each system. The most sensitive assumptions are the following:

2013	UK	Netherlands	France	Germany ^(a)
Inflation rate	3.25%	2.00%	2.00%	2.00%
Discount rate	4.61%	3.69%	3.17%	3.77%
Average duration of the plans	17 years	16 years	11 years	19 years
2012	UK	Netherlands	France	Germany ^(a)
Inflation rate	2.73%	2.00%	2.00%	2.00%
Discount rate	4.48%	3.42%	2.90%	3.53%
Average duration of the plans	17 years	16 years	11 years	19 years

(a) 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, the Group refers to the Iboxx Corporate AA index, adjusted in accordance with the duration of the concerned countries' commitments.

At 31 December 2013, 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 (€ million)	88.2	(91.5)	221.8	(235.7)	422.8	(479.1)

In the UK, an increase (decrease) of the inflation rate of 25 points basis would generate an increase (decrease) of the commitment by €93m.

d) Return on plan assets

The actual return on plan assets in 2013 amounts to €210.9m (€351.3m in 2012), which represents an average increase of 5.8%. At 31 December 2013, plan assets are invested as follows:

	UK	Netherlands	Other countries	2013	2012
Fixed rate bonds	29%	55%	74%	37.5%	42%
Linked investments	11.5%	-	-	8%	8%
Shares	40%	36%	26%	38%	35%
Liquid alternative investments	9%	1%	-	6.5%	8%
Illiquid alternatives	6%	7%	-	6%	4.5%
Liquidities	4.5%	1%	-	4%	2.5%
TOTAL	100%	100%	100%	100%	100%

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 of the Thales UK scheme 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.

This assessment, based on the underfunding at the end of 2011, was completed on 30 March 2013, and led to a slight increase in the annual contribution from £50m to £52.6m.

In addition, Thales UK Holding granted a guarantee covering future liabilities of the relevant subsidiaries in the United Kingdom under this financing plan. At 31 December 2013 the balance of the guarantee is £773.1m, this amount will be reduced by any amount paid accordingly to the financing plan.

This guarantee is underwritten by Thales (parent company) for an amount of £750m at 31 December 2013. This amount will be reduced by any amount paid accordingly to the financing plan, from 31 December 2017.

This financing plan and the attached guarantees will be updated on the basis of financing level valuation at 2014 end.

NOTE 16 CURRENT OPERATING ASSETS AND LIABILITIES

The current operating assets and liabilities include the elements of working capital requirement (WCR) and the provisions for risks and charges. Their evolution is presented below.

Contracts under IAS 11 are subject to a specific classification in the consolidated balance sheet: for each contract, the balances of unbilled revenues, work-in-progress and provisions for risks and charges are presented in the assets or liabilities in the "Construction Contracts" (note 23-d).

The Group may transfer trade receivables, mainly from the French *Direction Générale de l'Armement* (Directorate General of Armaments). At 31 December 2013, the transferred receivables, mainly including mature receivables bearing interest on overdue payments, amounted to €139.0m (€20.7 m at 31 December 2012 and €156.8m at 31 December 2011).

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 (within the meaning of IFRS 7): the dilution risk and the remuneration received under the recovery mandate.

a) Evolution of current operating assets and liabilities

	01/01/2012	Change in WCR and provisions	Ex. rate var. chg in scope and reclass.	31/12/2012	Change in WCR and provisions	Ex. rate var. chg in scope and reclass.	31/12/2013
Inventories and work-in-progress	2,426.9	86.7	(34.7)	2,478.9	71.4	(32.3)	2,518.0
Construction contracts: assets	2,305.3	(229.7)	7.0	2,082.6	(19.4)	(58.3)	2,004.9
Advances to suppliers	896.6	(113.4)	2.4	785.6	59.7	(2.8)	842.5
Accounts, notes and other current receivables	4,709.5	167.9	(45.6)	4,831.8	31.5	(29.8)	4,833.5
Derivative instruments - assets	122.5	(80.7)	82.3	124.1	54.8	(0.2)	178.7
Current operating assets	10,460.8	(169.2)	11.4	10,303.0	198.0	(123.4)	10,377.6
Advances received from cust. on contracts	(4,810.3)	(183.2)	5.1	(4,988.4)	(176.2)	52.5	(5,112.1)
Refundable grants	(181.9)	(12.6)	14.9	(179.6)	5.3	0.7	(173.6)
Construction contracts: liabilities	(1,355.6)	11.5	(0.9)	(1,345.0)	196.1	17.7	(1,131.2)
Reserve for contingencies	(1,230.5)	3.3	20.7	(1,206.5)	22.1	82.7	(1,101.7)
Accounts, notes and other current payables	(5,940.6)	284.1	(81.7)	(5,738.2)	55.8	52.6	(5,629.8)
Derivative instruments - liabilities	(178.8)	75.3	(0.5)	(104.0)	11.1	0.3	(92.6)
Current operating liabilities	(13,697.7)	178.4	(42.4)	(13,561.7)	114.2	206.5	(13,241.0)
Restructuring provision^(a)	210.3	(22.0)	(4.3)	184.0	(37.7)	0.5	146.8
DECREASE (INCREASE) IN WCR AND RESERVES FOR CONTINGENCIES		(12.8)			274.5		

(a) To be excluded from reserves for contingencies.

b) Construction contracts

Balances presented in the balance sheet are analysed as follows:

	31/12/2013	31/12/2012
Construction contracts: assets	2,004.9	2,082.6
Construction contracts: liabilities	(1,131.2)	(1,345.0)
NET	873.7	737.6

This balance is analysed as follows:

Work-in-progress on construction contracts	962.8	1,087.6
Unbilled receivable on construction contracts	1,316.8	1,337.4
Reserves for losses at completion on construction contracts ^(a)	(607.3)	(737.7)
Other reserves on construction contracts	(798.6)	(949.7)
TOTAL	873.7	737.6
Advances received from customers on construction contracts	3,693.6	3,546.3

(a) The variations of reserves for losses at completion between 2012 and 2013 are mainly explained by the utilisation of reserves booked during the previous years.

c) Current receivables and payables

Balances presented in the balance sheet are analysed as follows:

	31/12/2013			31/12/2012
	Total	< 1 year	> 1 year	
Accounts and unbilled receivables gross	3,516.0	3,421.3	94.7	3,618.4
Provisions on accounts & notes receivable	(113.0)	(78.5)	(34.5)	(111.2)
Accounts and unbilled receivables net	3,403.0	3,342.8	60.2	3,507.2
Other tax receivables (excluding income tax)	987.3	694.2	293.1	860.7
Other debtors and prepaid expenses, gross	449.9	386.4	63.5	470.5
Related provisions	(6.7)	(6.7)	-	(6.6)
Net	1,430.5	1,073.9	356.6	1,324.6
ACCOUNTS, NOTES AND OTHER CURRENT RECEIVABLES	4,833.5	4,416.7	416.8	4,831.8
Accounts and notes payable	2,638.2	2,628.8	9.4	2,699.6
Accrued holiday pay and social	1,333.7	1,327.2	6.5	1,286.5
Other tax payables (excluding income tax)	658.2	654.2	4.0	766.0
Other creditors and accrued liabilities	999.7	901.9	97.8	986.1
ACCOUNTS, NOTES AND OTHER CURRENT PAYABLES	5,629.8	5,512.1	117.7	5,738.2

Changes in depreciations:	31/12/2012	Net depreciation (reversal)	Utilisation	Scope, exch. rate and other	31/12/2013
Depreciation on accounts & notes receivable	(111.2)	(2.8)	10.1	(9.1)	(113.0)
Depreciation on other receivables	(6.6)	(0.6)	-	0.5	(6.7)

d) Reserves for contingencies (excluding construction contracts)

	31/12/2012	Increase	Utilisation	Reversal	Scope, exch. Rates and other	31/12/2013
Restructuring ^(b)	184.0	70.8	(103.8)	(4.7)	0.5	146.8
Litigation	137.0	56.7	(22.0)	(2.9)	(9.7) ^(a)	159.1
Guarantees	275.9	93.3	(69.6)	(26.4)	(9.9)	263.3
Losses at completion	85.3	50.3	(52.1)	(11.0)	1.5	74.0
Provisions on contracts	193.7	31.7	(24.2)	(8.4)	(52.2) ^(a)	140.6
Other ^(c)	330.6	85.9	(68.6)	(17.1)	(12.9)	317.9
TOTAL	1,206.5	388.7	(340.3)	(70.5)	(82.7)	1,101.7

(a) Reclassified to WCR.

(b) Refer to note (b) of the following page.

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

	31/12/2011	Increase	Utilisation	Reversal	Scope, exch. Rates and other	31/12/2012
Restructuring ^(b)	210.3	67.1	(80.7)	(8.4)	(4.3)	184.0
Litigation	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

(a) Reclassified to WCR.

(b) The net restructuring costs are as follow:

	Increase in reserves during the period	Reversal in reserves during the period	Expenses during the period	Restructuring costs net
2013	(70.8)	108.5	(156.6)	(118.9)
2012	(67.1)	89.1	(139.8)	(117.8)

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

NOTE 17 CHANGE IN NET CASH (NET DEBT)

a) Change in net cash (net debt)

	2013	2012
Net cash (debt) at 1 January	1,527.9	905.8
Net cash flows from operating activities	1,414.5	1,346.0
Changes in WCR and reserves for contingencies	(274.5)	12.8
Pensions recurrent contributions, interest and taxes paid	(241.1)	(275.4)
Net operating investments	(432.7)	(414.9)
Acquisitions of subsidiaries	(81.3)	(99.2)
Disposals of subsidiaries	8.9	244.2
Reduction of UK pension deficits	(64.3)	(63.5)
Variation of loans	(16.1)	10.5
Dividends paid	(180.7)	(155.4)
Treasury shares and exercise of subscription options	90.5	18.0
Net cash (debt) of acquired/disposed companies	28.1	23.8
Exchange rate variation - Translation	(36.2)	(4.7)
Exchange rate variation - Financing operations	(49.3)	48.6
Debt/investments in shares (available-for-sale)	(11.3)	(42.8)
Other	(16.1)	(25.9)
NET CASH (DEBT) AT 31 DECEMBER (NOTE 11)	1,666.3	1,527.9

b) Operating investment

Only acquisitions and disposals of tangible and intangible assets that resulted in a cash flow are presented in the cash flow statement. This may include capitalisation of development costs (note 6-a).

c) Net financial investment

► ACQUISITIONS OF SUBSIDIARIES^(a)

	2013	2012
OpenHydro (via DCNS) ^(a)	(45.6)	-
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%), paid-up share	-	(12.5)
Recapitalisation of a real estate company	(16.1)	-
Capital increase of Air Tanker	(7.1)	-
Other	(12.5)	(5.6)
TOTAL^(a)	(81.3)	(99.2)

► DISPOSALS OF SUBSIDIARIES^(a)

	2013	2012
Simulation activities of UK	-	103.8
Diehl Aircabin GmbH (49%)	-	100.0
Navsol (cash in of the transfer price in January 2012)	-	29.4
Other	8.9	11.0
TOTAL^(a)	8.9	244.2

(a) Before deduction of cash from acquired/disposed companies.

NOTE 18 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.

a) Transactions with related parties

Because of its positioning in the domestic market, Thales's sales with the French State amount to €3.1bn in 2013 (€3.1bn in 2012) and are mainly related to its customer DGA ("Direction Générale de l'Armement") in the Defence business.

The volume of transactions with joint-ventures (and their joint shareholders, excluding the French State) amounts to:

	2013	2012
Sales	249.4	223.9
Purchases	365.9	385.3
Net current operating assets/liabilities	(49.0)	27.5
Loans and financial assets	224.1	318.2
Financial debts	225.3	255.0

Transactions with other related parties are not significant.

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 the 2013 registration document.

c) Agreements signed with DCNS

Since December 2011, Thales has a 35% stake in the company DCNS, a subsidiary jointly controlled with the 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:

	2013	2012
Short-term benefits		
■ Fixed compensation	4.0	4.9
■ Variable compensation	2.8	3.2
■ Employer's social security contribution	3.1	2.6
■ Contract termination benefits resulting from contract commitments	3.1	0.9
■ Employer's social security contribution/contract termination benefits	1.0	0.2
■ Compensation for attendance at Board meetings	0.6	0.5
Other benefits		
■ Post employment benefits	1.2	0.6
■ Share-based payments	0.5	1.2

NOTE 19 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 2013, bid bonds issued amounted to €57.9m (€67.4m at 31 December 2012).

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 2013, performance bonds amounted to €1,844.8m (€1,905.8m at 31 December 2012).

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 2013, advance payment bonds amounted to €1,904.9m (€1,957.7m at 31 December 2012).

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 2013, warranty retention bonds amounted to €203.3m (€108.8m at 31 December 2012).

The maturity dates of these commitments are:

	< 1 year	1 to 5 years	> 5 years	Total
Bid bonds	31.9	3.4	22.6	57.9
Performance bonds	704.7	998.1	142.0	1,844.8
Advance payment bonds	968.5	774.1	162.3	1,904.9
Warranty retention bonds	96.7	52.5	54.1	203.3
Other bank bonds	116.8	45.6	141.7	304.1
TOTAL	1,918.6	1,873.7	522.7	4,315.0

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 2013, these "corporate" guarantees amount to €10,885.3m (€10,253.7m at 31 December 2012).

b) Lease commitments

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 2013 are analysed below:

31 December 2013	Rent payable			
	Total	< 1 year	1 to 5 years	> 5 years
Financial leases ^(a)	16.1	3.2	6.9	6.0
Operation leases	1,152.2	207.4	535.9	408.9

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	200.3	528.1	525.0

(a) Including interest (€2.1m and €2.2m respectively). The corresponding debt is recognised in the consolidated balance sheet for an amount excluding interest (note 11).

c) 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 20 LITIGATION

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

To prevent disputes or limit their impact, Thales policy is to systematically seek alternative methods of settlement. This policy is reviewed on a regular basis to take 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 criminal litigation and claims. 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. Industrial partners 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. This procedure is still in process.

NOTE 21 FINANCIAL RISKS

Thales covers foreign exchange and interest rate risks by using over-the-counter derivatives subscribed with first-ranking banks. The book value of derivatives used in the management of financial risk is presented below:

	31/12/2013		31/12/2012	
	Assets	Liabilities	Assets	Liabilities
Non current derivatives:				
■ foreign exchange derivatives	-	-	-	-
■ interest rate derivatives	16.6	2.6	23.5	-
Current derivatives:				
■ foreign exchange derivatives	178.7	84.3	124.1	93.4
■ interest rate derivatives	-	8.3	-	10.6
Foreign exchange derivatives, net	94.4		30.7	
Interest rate derivatives, net	5.7		12.9	

a) Foreign exchange

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.

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

Regarding the derivative instruments documented in the cash flow, 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 €103m at 31 December 2013 compared to €118m at 31 December 2012.

Regarding the derivative instruments matched with portfolios of sales offers, which are not eligible for hedge accounting, 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 €2m at 31 December 2013, compared to €5m at 31 December 2012.

At 31 December 2013 and 2012, the Group holds the following derivative instruments:

	2013					2012	
	USD	GBP	Other	Total	Market value	Total	Market value
Negotiations and trade operations hedges							
Hedge accounting							
Forward currency sales	3,346.7	406.0	1,455.2	5,207.9	95.0	6,220.6	36.5
Forward currency purchases	1,308.9	441.0	1,035.8	2,785.7		3,518.6	
Currency sales (call and put options)	141.3	-	-	141.3	1.4	334.4	4.1
Currency purchases (call and put options)	-	-	11.5	11.5		71.8	
Not qualified for hedge accounting							
Forward currency sales	4.9	0.1	-	5.0	(1.8)	20.3	0.5
Forward currency purchases	59.7	0.8	32.5	93.0		33.3	
Currency sales (call and put options)	308.5	32.3	61.4	402.2	3.9	113.5	0.7
Currency purchases (call and put options)	226.0	57.7	90.2	373.9		75.4	
Hedges related to cash pooling (not qualified for hedge accounting)							
Currency sales: foreign exchange swaps	-	-	100.1	100.1	(4.3)	113.9	(12.7)
Currency purchases: foreign exchange swaps	170.5	485.9	345.1	1,001.5		946.9	
Hedges related to net foreign assets (hedge accounting)							
Currency sales: foreign exchange swaps	-	39.4	-	39.4	(0.4)	40.2	0.4
Other						0.6	1.2
Net asset						94.4	30.7

Nominal amounts are translated into euros at the closing rate.

The maturity of the derivatives used to hedge commercial contracts is consistent with the average payment deadlines of these contracts. This maturity is usually less than 5 years.

Other derivatives have a maturity of less than one year.

b) Interest rate

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.

At 31 December 2013 and 2012, the Group holds the following derivative instruments:

	31/12/2013		31/12/2012	
	Nominal	Market value	Nominal	Market value
Fair value hedge (fixed-rate bonds swapped to variable-rate)				
■ swap related to bond with maturity 2021	300.0	(2.6)	-	-
■ swap related to bond with maturity 2018	300.0	0.1	-	-
■ swap related to bond with maturity 2016	400.0	16.5	400.0	23.5
		14.0		23.5
Cash flow hedge (financing of projects at variable-rate swapped to fixed-rate)	70.6	(7.5)	66.6	(9.8)
Swaps not documented as hedge				
■ Borrower swap maturity 2014	200.0	(0.3)	-	-
■ Lender swap maturity 2019	13.3	(0.5)	15.5	(0.8)
Net asset		5.7		12.9

The table below summarises the Group's exposure to interest rate risk before and after hedging these risks. Based on the average debt for 2013 (taking into account hedging instruments), a 1% rise in interest rates would decrease financial expense by €12.0m (€11.1m in 2012).

	< 1 year		> 1 year		Total	
	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate
31 December 2013						
Gross financial debt	(70.0)	(387.2)	(1,447.1)	(77.9)	(1,517.1)	(465.1)
Financial assets, cash at bank and equivalent	-	3,648.5	-	-	-	3,648.5
NET EXPOSURE BEFORE IMPACT OF DERIVATIVE INSTRUMENTS	(70.0)	3,261.3	(1,447.1)	(77.9)	(1,517.1)	3,183.4
Hedging derivatives	(20.6)	20.6	950.0	(950.0)	929.4	(929.4)
NET EXPOSURE AFTER IMPACT OF DERIVATIVE INSTRUMENTS	(90.6)	3,281.9	(497.1)	(1,027.9)	(587.7)	2,254.0

	< 1 year		> 1 year		Total	
	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate
31 December 2012						
Gross financial debt	(665.4)	(331.8)	(724.1)	(103.1)	(1,389.5)	(434.9)
Financial assets, cash at bank and equivalent	-	3,352.3	-	-	-	3,352.3
NET EXPOSURE BEFORE IMPACT OF DERIVATIVE INSTRUMENTS	(665.4)	3,020.5	(724.1)	(103.1)	(1,389.5)	2,917.4
Hedging derivatives	(15.2)	15.2	348.6	(348.6)	333.4	(333.4)
NET EXPOSURE AFTER IMPACT OF DERIVATIVE INSTRUMENTS	(680.6)	3,035.7	(375.5)	(451.7)	(1,056.1)	2,584.0

c) Client credit

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

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.

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 2013 and 2012, the ageing of these accounts and notes receivable is as follows:

31 December 2013		Accounts and notes receivables overdue:		
		< 3 months	3 to 6 months	> 6 months
Overdue accounts & notes receivables not depreciated	Total			
State and assimilated	127.4	40.8	30.5	56.1
Others	344.9	200.3	55.4	89.2

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 2013, only two customers accounted for annual sales in excess of €500m: the French government (approx. €3bn, of which 33% is related to DCNS) and the British State (approx. €1bn). At 31 December 2013, these two countries still have first-class or high quality ratings (France AA by Standard & Poor's and Aa1 by Moody's – UK AAA par Standard & Poor's et Aa1 by Moody's).

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

c. Credit risks related to banking counterparts

Financial investments are diversified. They relate to senior debt and are negotiated with leading banks.

Thales group has OTC derivatives with first class banks under agreements which provide offset amounts owed and to receive in case of failure of one of the contracting parties. These conditional compensation agreements do not meet the criteria of IAS 32 to allow clearing of derivative instruments assets and liabilities on the balance sheet. However, they fall within the scope of disclosures under IFRS 7 on compensation.

At 31 December 2013	Gross book value (before netting)	Offset amounts on Balance Sheet	Net balances presented in Balance Sheet	Impact of other netting agreements		Net
				Netting agreements	Financial collaterals	
Derivatives - assets	195.3	-	195.3	(69.0)	-	126.3
Derivatives - liabilities	95.2	-	95.2	(69.0)	-	26.2

At 31 December 2012	Gross book value (before netting)	Offset amounts on Balance Sheet	Net balances presented in Balance Sheet	Impact of other netting agreements		Net
				Netting agreements	Financial collaterals	
Derivatives - assets	147.6	-	147.6	(62.0)	-	85.6
Derivatives - liabilities	104.0	-	104.0	(62.0)	-	42.0

d) Liquidity

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

Thales manages this risk by anticipating its liquidity requirements and by maintaining committed, undrawn credit facilities granted by banks as backup for the commercial paper programme, representing a financing reserve. This risk is hedged by Thales's short- and long-term financial resources:

- equity (note 14);
- gross debt (listed by date of maturity in note 11);
- committed, undrawn credit facilities granted by banks (€1,500m maturing in 2015) as backup for the commercial paper programme and representing, as such, a financing reserve.

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 as well as to 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 2013, the cash recorded under consolidated assets amounts to €3,023.8m (compared to €2,518.3m at 31 December 2012) and includes:

- €2,051.7m held by the parent company and available for immediate use (€1,721.8m in 2012). These amounts include €1,610.1m (€1,587.2m in 2012) of term deposits, euros market funds, negotiable debt securities, other investments with maturities of less than 3 months;
- €501.8m 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 (€392.8m in 2012);
- €470.3m in cash invested directly by joint ventures (prorated by Thales's interest in each joint venture), of which €218.5m related to DCNS since cash pooling is not applicable to joint ventures (€403.7m in 2012, of which €191.3m related to DCNS).

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	positive outlook
Commercial paper & short-term loans	Prime-1	A2

The decrease of Thales's credit risk rating does not 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⁽¹⁾ 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; by contrast, an increase of Thales's credit risk ratings would lead to an improvement of the margin (with a minimum threshold). Other fundings do not provide "covenants" based on financial ratios.

NOTE 22 EVENTS AFTER REPORTING PERIOD

No significant events after reporting period.

NOTE 23 ACCOUNTING POLICIES

a) Presentation of the financial statements

Consolidated Profit and Loss account

Expenses in the income statement are presented analytically by destination.

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 (note 23-c);
- impact of curtailments/settlements of pension plans and other long-term benefits;
- 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.

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.

Consolidated statement of Cash Flows

The statement of the cash flows enables the analysis of the balance sheet items "Cash at bank and equivalents", as defined in the note 23-j. The statement of cash flows is prepared using the indirect method, starting with the consolidated net income and is broken down into three categories:

- net cash flows from operating activities (including interest and taxes);
- net cash flows from investing activities, including net operating investment (acquisition and disposal of tangible and intangible assets, capitalisation of development costs) and net financial investment (acquisition and disposal of shares);
- net cash flows from financing activities including dividends paid, capital subscriptions in the context of the exercise of options by employees, purchase/sales of treasury shares, issuance and repayment of financial debts, changes in bank overdrafts, etc.

The Group also presents the changes in its net cash, which is a non-GAAP balance and includes gross financial debt, net of cash at bank, cash equivalents and investments immediately available. The change in net cash is presented in note 17.

⁽¹⁾ EBITDA, as defined in the funding agreements, is the sum of operating income, depreciation of movable and immovable assets and any impairment of intangible assets, net of amortisation of goodwill. This aggregate is determined in accordance with French accounting principles.

Segment information

The Group is organised along four Business Sectors that operating performances, from internal reporting, are regularly reviewed by the Chairman and Chief Executive Officer, together with the Senior Executive Vice-President Chief Finance Officer, in order to allocate resources on this basis.

In accordance with IFRS 8, the Group has decided to present these four Business Sectors as operational sectors to the extent that they are the basis of the Group strategy development:

- the **Aerospace** operating segment combines the "Avionics" and "Space" Global Business Units that develop on-board systems, solutions and services both with governmental (states, civil security organisations, Space agencies) and non-governmental (aircraft manufacturers, airlines, satellite operators) customer bases;
- the **Transport** operating segment comprises the "Ground Transportation Systems" Global Business Unit that develops systems and services for an exclusively civil customer base of ground transportation infrastructure operators;
- the **Defence & Security** operating segment combines the "Secure Communications and Information Systems", "Land and Air Systems" and "Defence Mission Systems" Global Business Units that develop equipments, systems and services for the armed and security forces as well as the protection of networks and infrastructures, with an almost exclusively governmental customer base (States, public agencies);
- the **DCNS** operating segment corresponds to the 35% stake of Thales in DCNS; Thales jointly participates with the French State in the governance of the company, that develops above and under water naval systems and services in energy.

The indicators regularly reviewed by the Group's executives follow the same accounting policies as those used for the consolidated financial statements, with the following exceptions:

EBIT corresponds, up to 2013, to income from operations excluding the amortisation of intangible assets acquired (purchase price allocation PPA) recorded when significant businesses are combined.

The **adjusted net income** is regarded as relevant by the Group because it enables non-recurring items to be excluded. It corresponds to the consolidated net income attributable to shareholders of the parent company, less the following elements, net of the corresponding tax impacts:

- amortisation of intangible assets acquired (PPA);

- disposal of assets, changes in scope of consolidation and other;
- changes in fair value of derivative foreign exchange instruments, recognised in "other financial income";
- actuarial gains and losses on long-term employee benefits, included in "financial income on pensions and other employee benefits".

The **adjusted net income per share** corresponds to the adjusted net income attributable to shareholders of the parent company, divided per the average number of outstanding shares during the considered period.

b) Foreign currencies

Presentation currency for the consolidated financial statements

The Group's consolidated financial statements are presented in euros.

Functional currency

The functional currency of an entity is the currency of the economic environment in which it primarily operates. In most cases, the functional currency is the local currency. However, for certain entities the functional currency may be different from the local currency since it reflects the currency of the main tradings and of the economic environment of the entity.

Financial statements translation of foreign subsidiaries which functional currency is different from euro (presentation currency)

The financial statements of companies which functional currency is different from euro are translated using the following methods:

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

Main closing and average exchange rates used for translation purposes:

Euros	31/12/2013		31/12/2012		31/12/2011	
	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
Australian Dollar	1.5423	1.3936	1.2712	1.2447	1.2723	1.3438
Sterling Pound	0.8337	0.8501	0.8161	0.8119	0.8353	0.8718
US Dollar	1.3791	1.3308	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.

Translation of transactions in foreign currencies

Transactions in foreign currencies are translated at the exchange rate prevailing at the transaction date. At each accounting closing date:

- non-monetary assets and liabilities denominated in foreign currencies are recorded at the historical rate prevailing on the date of the transaction;

- monetary assets and liabilities denominated in foreign currencies are translated at the closing rate. The resulting exchange differences are recognised in exchange profit or loss account.

The Group uses derivative instruments to hedge the foreign exchange risk associated with its activities. 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.

c) Scope of consolidation and changes in scope

Scope of 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.

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.

Business combination

Business combinations completed before 1 January 2010 were accounted for under IFRS 3 standard before revision. According to the transitional arrangements of IFRS 3 revised, these business combinations have not been restated. Since 1 January 2010, the Group applies the acquisition method as described in the new standard. Under this method, the Group recognises assets acquired and liabilities taken identifiable at their fair value, at their date of takeover, and any non-controlling interest in the acquiree.

Those non-controlling interests are measured either at fair value or at the proportionate share of the identifiable net assets. The Group determines case-by-case the option they wish to apply.

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.

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. 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.

Step acquisition and changes in a parent's ownership interest in a subsidiary

In the context of a step acquisition, 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.

d) Revenues

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

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

Sales of goods and services

Revenues from the sales of goods and services together with royalty and licence income are recognised when the future economic benefits

will likely flow to the Group and when the amount of revenues can be measured reliably. The following specific criteria must also be satisfied in order for sales to be recognised:

- revenues 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;
- revenues 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

Construction contracts

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

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

Revenues and expenses on construction contracts are recognised in accordance with the technical percentage of completion method. However, when there is no significant 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 revenues. In the balance sheet, provisions for penalties are deducted from assets related to the contract.

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

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

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

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

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

e) Inventories and work-in-progress

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.

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.

When significant, the cost of debt incurred during the construction of a qualifying asset is incorporated in the value of the asset. When the funding is specific, the loan rate is used, otherwise the Group's rate is used.

f) 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 which meet the criteria below. In this case, the development costs are capitalised in the balance sheet:

- the product or process is clearly defined, and costs are separately identified and reliably measured;
- the technical feasibility of the project is clearly demonstrated, and the Group's experience in this area is established;
- 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. Profitability is assessed on the basis of prudent commercial assumptions in order to reflect contingencies inherent to the long cycles of the Group's activities, in particular Aerospace. Minimum internal rates of return are required in the case of projects deemed risky.

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.

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

Assets are also subjected to impairment loss tests. The terms and assumptions taken into account to conduct these tests are described in notes 7 and 23-i. 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 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 the 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.

g) 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.

h) Tangible and intangible fixed assets

Intangible assets

The Group's intangible assets mainly include:

- goodwill (note 23-c);
- 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. - note 23-f);
- capitalised development costs (note 23-f).

Intangible assets are submitted to impairment tests (see note 23-f).

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.

i) 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 three-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 three-year strategic plans and the growth is limited to 2%).

Impairment tests of capitalised development costs (note 23-f) are performed, project-by-project, on the basis of discounted future operating cash flows related to the project.

j) Financial assets, financial liabilities and derivatives

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. As the Group held no listed companies on regulated market, the fair value is determined using valuation models provided by independent third parties, or by reference to the net equity contribution held by the Group. Failing this, 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, and interest rates products (certificates of deposit, term deposits, medium-term negotiable notes...);
- “cash at bank and equivalents” includes cash at bank and in hand as well as cash equivalents (short-term and liquid investments that are easily converted into a known amount of cash and exposed to negligible risk of a change in value).

Financial liabilities

Borrowings and other financial liabilities are measured at amortised cost using the effective borrowing rate of interest. Upon initial recognition, premiums, redemption and issuance costs are recorded as an increase of the nominal value of the loans concerned. These premiums and issuance costs are included in the calculation of effective interest rate and are recognised in the income statement on an actuarial basis over the life of the loan.

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 23-b. 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.

k) 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.

l) 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.). 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.

Under the defined benefit plans, the Group measures and recognises the corresponding commitments as follows:

- 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 financial discounting, inflation, mortality, staff turnover rates, etc.;
- 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 fully recognised in “Other comprehensive income”, and not subsequently taken to P&L. Where appropriate, adjustments from the ceiling to net assets relating to overfunded plans follow the same method.
For other long-term benefits, actuarial gains and losses are recognised immediately in the financial result (note 15);
- past service cost and reductions/settlements of plans are fully recognised in the profit and loss accounts in the period in which they occurred, within the operating income (note 4);
- net interest expense, determined based on the discount rate of obligations, is recognised in the financial result.

m) 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. Thus it has no effect on the overall amount of equity.

n) Summary of transition options IFRS 1

As a first-time adopter of IFRS for the year ended 31 December 2005, the specific rules for first time adoption, as defined in IFRS 1 have been applied. Options chosen that still have an impact on the financial statements are:

- translation differences: the Group has chosen to reclassify within consolidated equity, in the consolidated reserves, the cumulative amount of translation differences at 1 January 2004;
- business combinations: the Group has chosen not to restate acquisitions prior to 1 January 2004.

NOTE 24 FEES PAID TO AUDITORS

Fees paid to auditors in 2013 and 2012 are detailed below^(a):

	Mazars				EY			
	Amount pre-tax		%		Amount pre-tax		%	
	2013	2012	2013	2012	2013	2012	2013	2012
Audit								
Auditing, certification, examination of individual and consolidated accounts ^(b)								
■ Issuer	689	752	13%	13%	804	790	16%	15%
■ Subsidiaries fully consolidated	3,868	4,158	73%	73%	3,328	3,289	65%	60%
Other efforts and services directly associated with the assignment of auditor ^(c)								
■ Issuer	256	229	5%	4%	140	352	3%	6%
■ Subsidiaries fully consolidated	506	512	9%	9%	380	428	7%	8%
Sub-total	5,319	5,651	100%	99%	4,652	4,859	91%	89%
Other services rendered by the networks subsidiaries fully consolidated^(d)								
Legal, tax-related, social-security-related	11	20	-	1%	436	612	9%	11%
Other (if > 10% of audit fees)	-	-	-	-	-	-	-	-
Sub-total	11	20	0%	1%	436	612	9%	11%
TOTAL	5,330	5,671	100%	100%	5,088	5,471	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 25 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 2013 by reference to section 264 paragraph 3 German Commercial Code.

NOTE 26 LIST OF MAIN CONSOLIDATED COMPANIES

(excl. Thales SA, the parent company)

	Country	% Stake	
		31/12/2013	31/12/2012
1. Consolidated subsidiaries			
TDA Armements SAS	France	100%	100%
Thales Australia Ltd	Australia	100%	100%
Thales Air Defence Ltd	United Kingdom	100%	100%
Thales Air Systems SAS	France	100%	100%
Thales Air Systems & Electron Devices GmbH	Germany	100%	100%
Thales Austria GmbH	Austria	100%	100%
Thales Avionics SAS	France	100%	100%
Thales Avionics Inc.	United States	100%	100%
Thales Avionics Ltd	United Kingdom	100%	100%
Thales Avionics Electrical Systems SAS	France	100%	100%
Thales Canada Inc.	Canada	100%	100%
Thales Communications & Security SAS	France	100%	100%
Thales Components Corporation	United States	100%	100%
Thales Defense & Security, Inc. (ex Communications Inc.)	United States	100%	100%
Thales Electronic Systems GmbH ^(a)	Germany	100%	100%
Thales Espana Grp, SAU	Spain	100%	100%
Thales Electron Devices SAS	France	100%	100%
Thales International Saudi Arabia	Saudi Arabia	100%	100%
Thales Italia SpA	Italy	100%	100%
Thales Naval Ltd	United Kingdom	100%	100%
Thales Nederland BV	Netherlands	99%	99%
Thales Norway AS	Norway	100%	100%
Thales Optronique SAS	France	100%	100%
Thales Optronics Ltd	United Kingdom	100%	100%
Thales Transportation Systems GmbH	Germany	100%	100%
Thales Rail Signalling Solutions Ltd	United Kingdom	100%	100%
Thales Security Solutions & Services Company	Saudi Arabia	100%	100%
Thales Services SAS	France	100%	100%
Thales Solutions Asia Pte Ltd	Singapore	100%	100%
Thales Systèmes Aéroportés SAS	France	100%	100%

(a) Previously Thales Defence & Security Systems GmbH.

	Country	% Stake	
		31/12/2013	31/12/2012
Thales Transport & Security Ltd	United Kingdom	100%	100%
Thales Training & Simulation Ltd	United Kingdom	100%	100%
Thales Training & Simulation SAS	France	100%	100%
Thales Underwater Systems Ltd	United Kingdom	100%	100%
Thales Underwater Systems SAS	France	100%	100%
Thales UK Ltd	United Kingdom	100%	100%
2. Accounted for under the proportionate method			
Air Command Systems International SAS (ACSI)	France	50%	50%
Amper Programas de Electronica Y Comunicaciones SA	Spain	49%	49%
Citylink Telecommunications Holding Ltd	United Kingdom	33%	33%
DCNS	France	35%	35%
Diehl Aerospace GmbH	Germany	49%	49%
Junghans Microtec GmbH	Germany	45%	45%
Samsung Thales Co. Ltd	South Korea	50%	50%
Sofradir SAS	France	50%	40%
Thales Alenia Space SAS	France	67%	67%
Thales Alenia Space Italia SpA	Italy	67%	67%
Telespazio SpA	Italy	33%	33%
Thales Raytheon Systems Company LLC	United States	50%	50%
Thales Raytheon Systems Company SAS	France	50%	50%
Trixell SAS	France	51%	51%
3. Accounted for under the equity method			
Aviation Communications & Surveillance Systems	United States	30%	30%
Airtanker Holdings Ltd	United Kingdom	13%	13%
Cloudwatt	France	22%	— ^(a)
Elettronica SpA	Italy	33%	33%
ESG Elektroniksystem- und Logistik GmbH	Germany	30%	30%

(a) First consolidation in 2013.

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, 2013, 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 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, 2013 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention to the note 1.a to the consolidated financial statements regarding the new applicable standards, and in particular IAS 19 revised "Employee Benefits".

II - Justification of our assessments

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

As stated in note 1.c "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 1.c "Main sources of estimates" 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, deferred tax assets valuation, provisions for pension plans and related contingency, litigation and contingency provisions.

Customers' contracts

Thales recognizes income on its contracts, and in particular on its construction contracts in accordance with the methods set out in note 23.d "Accounting policies - Revenues" 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 checking that the notes to the financial statements provide appropriate information.

Acquisition goodwill

Acquisition goodwill, which appears in the balance sheet as at December 31, 2013 for a net amount of M€ 3,454, was subject to impairment tests in accordance with the methods set out in note 23.i "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 forecast data taken from the strategic plans drawn up for each of the business activities under the group's control and checked that notes 5 "Goodwill" and 7 "Impairment of non-current operating assets" provide appropriate information.

Deferred tax assets

As stated in notes 23.k "Accounting policies - Deferred taxation" and 1.c "Main sources of estimates" to the consolidated financial statements, the recoverability of net deferred tax assets amounting in the balance sheet as at December 31, 2013 to M€ 493 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 notes 23.k and 1.c 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 23.l "Accounting policies - Pensions and other employee benefits" and 15 "Provision for pensions and other employee benefits" to the consolidated financial statements. The impact of the first application of IAS 19 revised is detailed in note 1.a "Basis of preparation of the 2013 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.a, 23.l and 15 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 notes 20 "Litigation" and 21 "Financial Risks".

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

III - Specific verification

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

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

Courbevoie and Paris-La Défense, February 19, 2014

The statutory auditors French original signed by

ERNST & YOUNG Audit

Michel Gauthier

Philippe Diu

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 Activity and results

Operating income amounted to **€544m**, compared with €541m in 2012. Sales came to €206m, compared with €175m in 2012.

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 change in sales is due to the increase in invoicing for the full year for the site of Gennevilliers.

Other operating income amounted to €322m, compared with €315m the previous year. This was made up of fees paid by operating subsidiaries and rents re-billed to those subsidiaries, including general and specific services rendered by the parent company to the subsidiaries.

Net operating income was **-€82m**, compared with -€46m in 2012.

Net financial income amounted to **€409m**, compared with €313m in 2012. Provisions for investments and risks on subsidiaries totalled -€39m in 2013 compared with -€114m in 2012. Reversals on provisions for investments represented €15m in 2013, having totalled €110m in 2012.

Income from investments totalled €452m in 2013, compared with €395m in 2012.

Extraordinary items represented a net charge of **-€12m**, compared with -€8m in 2012. Capital gains of €8m are the result of the transfer of goodwill to Sofradir for €2m and the sale of treasury shares as part of the liquidity contract for €6m.

Corporate income tax represented a net gain of €86m (compared with a net gain of €48m in 2012), almost all of which is due to the tax consolidation applied by Thales and its subsidiaries. In 2013, expenditure excluded from tax-deductible expenses (pursuant to Articles 223 quarter and 39.4 of the French General Tax Code) amounted to €0.2m, the same as in 2012.

A **net profit** of **€401m** was recorded in 2013, compared with €307m in 2012.

1.3.1.2 Balance sheet at 31 December 2013

The **balance sheet total** stood at **€12,450m** at the end of 2013, a rise of €479m from €11,971m at the end of 2012.

Non current assets of €8,970m compared with €8,992m in 2012 mainly reflected long-term financial assets. The decline in equity securities of -€10m is mainly due to provisions of -€35m - given the

depreciations in shares of la Société de Marchand de Biens Pour l'Électronique, Cloudwatt, Amper Programas, Thales Microelectronics and Avimo Group Ltd - superior to the capital increases in la Société de Marchand de Biens Pour l'Électronique for €16m and Thales Global Services for €10m. Treasury shares increased by €8m following acquisitions of treasury stock and appreciation during the year.

Other long-term investments declined by -€13m, mainly due to the repayment of loans by subsidiaries for €20m.

Current assets were up by €500m to total €3,480m at yearend 2013: "Other receivables and prepayments" increased by €167m due to tax receivables from the State and foreign exchange revaluation operations.

The balance of amounts due to and from Group companies represented a net debt of €4,114m at the end of 2013, compared with €4,237m at the end of 2012.

"Other financial debts" rose to €1,524m at the end of 2013, compared with €1,360m at the end of 2012. This mainly included:

- €600m for the bonds issued at a fixed rate of 2.750% in October 2010 and maturing in October 2016;
- €500m for the bonds issued at a fixed rate of 1.625% in March 2013 and maturing in March 2018;
- €300m for the bonds issued at a fixed rate of 2.250% in March 2013 and maturing in March 2021.

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 €109m, compared with €137m at the end of 2012. Net debt to Group companies stood at €4,223m at the end of 2013, compared with €4,374m at the end of 2012.

At the end of 2013, net cash flow of the parent company, Thales, excluding debts to Group companies, amounted to €637m, compared with €461m at the end of 2012.

At 31 December 2013, share capital stood at €617m.

At 31 December 2013, shareholders' equity totalled €5,461m, compared with €5,136m at the end of 2012.

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 31/12/2013			Trade payables at 31/12/2012		
	Group	Non-group	Total	Group	Non-group	Total
France						
Due in less than two months (not due)	32.9	12.5	45.4	21.3	6.4	27.7
Due in two to four months	0.6	0.1	0.7	0.6	1.2	1.8
Due after four months	0.4	0.5	0.9	0.3	0.4	0.7
	33.9	13.1	47.0	22.2	8.0	30.2
International						
Due in less than two months (not due)	1.0	0.4	1.4	0.2	0.1	0.3
Due in two to four months	0.4	0.1	0.5	0.6	–	0.6
Due after four months	–	–	–	–	0.1	0.1
	1.4	0.5	1.9	0.8	0.2	1.0
Sub-total	35.3	13.6	48.9	23.0	8.2	31.2
Charges payable, not due			18.6			43.0
TOTAL TRADE PAYABLES			67.5			74.2

Main shareholders

	31/12/2013	31/12/2012	31/12/2011
TSA	26.63%	27.08%	27.08%
French State (including one golden share)	–	–	–
Public Sector ^(a)	26.63%	27.08%	27.08%
Dassault Aviation ^(b)	25.53%	25.96%	25.96%
Thales ^(c)	1.21%	1.38%	1.75%
Employees	2.13%	3.05%	3.14%
Other shareholders	44.50%	42.53%	42.07%
Total	100%	100%	100%
NUMBER OF SHARES COMPRISING SHARE CAPITAL	205,744,500^(d)	202,339,674	202,328,457

(a) Under the terms of the shareholders' agreement with Dassault Aviation (the "Industrial Partner", cf. AMF 27-11-2008), the "Public Sector" is represented by the Company TSA, excluding the State directly. All Thales shares held directly and indirectly by the French State have been in registered form for more than two years and thus have a double voting right on 31 December 2013.

(b) Dassault Aviation has held 34,654,349 shares in directly registered form for more than two years, and thus double voting rights on 31 December 2013, and 17,877,082 shares in bearer form.

(c) Treasury shares totalled 93,300 bearer shares under a liquidity contract, and 2,396,877 directly registered shares.

(d) During 2013, 3,404,826 shares were created by the exercise of stock options, bearing rights from 1 January 2013.

1.3.1.3 Summary statement of share transactions carried out in 2013 by directors, non-voting directors and related persons

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

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

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

Under Article L. 621-18-2 c) of the French Monetary and Financial Code, related persons are persons who have close personal ties, as defined in a decree by the French Council of State (*Conseil d'État*), 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>):

Director's name	Financial instrument	Type of transaction	Total amount of transaction (in €)	Unit price (in €)
Patrice Caine	Other financial instruments	Exercise of stock options	51,400	25.70
	Shares	Sale	65,220	32.61
	FCPE investment fund units ^(a)	Subscription	5,000	31.96
Alex Cresswell	Other financial instruments	Exercise of stock options	11,063	29.50
	Shares	Sale	13,865	36.97
Marc Darmon	Other financial instruments	Exercise of stock options	247,800	29.50
	Other financial instruments	Exercise of stock options	102,030	34.01
	Shares	Sale	370,440	44.10
	Shares	Sale	135,000	45.00
Jean-Pierre Forestier	FCPE investment fund units ^(a)	Subscription	2,500	30.08
	FCPE investment fund units ^(a)	Subscription	5,000	31.96
Jean-Loïc Galle	Other financial instruments	Exercise of stock options	128,500	25.70
	Shares	Sale	151,500	30.30
	FCPE investment fund units ^(a)	Subscription	1,000	30.08
Philippe Lépinay	FCPE investment fund units ^(a)	Subscription	9,850	30.08
	FCPE investment fund units ^(a)	Subscription	150	31.96
Hervé Multon	FCPE investment fund units ^(a)	Subscription	5,000	30.08
	FCPE investment fund units ^(a)	Subscription	5,000	31.96
Pierre-Éric Pommellet	Other financial instruments	Exercise of stock options	88,500	29.50
	Shares	Sale	98,580	32.86
	FCPE investment fund units ^(a)	Subscription	5,000	30.08
Pascale Sourisse	FCPE investment fund units ^(a)	Subscription	20,000	30.08

(a) Within the framework of the employee shareholders plan 2013.

1.3.1.4 Reversal of general expenses following tax audit

None.

1.3.1.5 Outlook for the current year

Results for 2014 should reflect the dividends paid by some subsidiaries in respect of the 2013 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 2014.

1.3.1.6 Proposed allocation of earnings^(a)

The General Meeting notes that distributable earnings, made up of the net profit for the 2013 financial year	€400,635,922.38
Less allocation to the legal reserve	(€1,021,447.80)
Plus the amount of the interim dividends of €0.27 paid on 13 December 2013	€54,824,368.88
Plus the credit balance brought forward	€418,687,558.11
AMOUNTS TO A TOTAL OF	€873,126,401.57

(a) Subject to the approval of the Annual General Meeting of Shareholders on 14 May 2014. The dividend will be paid entirely in cash and will total €0.85 per share, after deducting the interim dividend of €0.27 per share already paid on 13 December 2013.

The General Meeting resolves to allocate this profit as follows:

Distribution of a unitary dividend of €1.12 to 205,744,500 shares bearing rights as from 1 January 2013	€230,433,840.00
Balance carried forward	€642,692,461.57
TOTAL EQUIVALENT TO DISTRIBUTABLE EARNINGS	€873,126,401.57

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 2013 dividend is approved by the Annual Meeting on 14 May 2014, it will be detached on 27 May 2014 and paid out on 30 May 2014. 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 2010, 2011 and 2012 qualified for a possible tax credit of 40%.

Year	Dividend per share
2010	€0.50
2011	€0.78
2012	€0.88
2013	€1.12^(a)

(a) Subject to the approval of the Annual General Meeting of 14 May 2014, which will vote on the 2013 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 2013, the number of treasury shares decreased due to the following transactions:

- 1,582,469 shares were purchased under a liquidity contract;
- 1,624,034 shares were sold under a liquidity contract;
- 306,130 shares were assigned as free shares;
- 8,900 were assigned as stock options allocations;
- 473,653 shares were sold to employees under the 2013 employee shareholding scheme;
- 524,861 shares were purchased directly.

Treasury shares thus amounted to 1.21% of the capital, i.e. 2,490,177 shares, at 31 December 2013.

1.3.1.10 Trading in Company shares during 2013

In 2013, 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 15 May 2012 for transactions performed between 1 January 2013 and 24 May 2013, and in accordance with the authorisation given by the Annual General Meeting on 24 May 2013 for transactions performed between 25 May 2013 and 31 December 2013.

At 1 January 2013, Thales held 2,795,564 treasury shares, representing 1.38% of the capital, compared with 2,490,177 treasury shares at 31 December 2013.

The net balance of 2013 trading was the disposal of 305,387 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	(263,822)
b) Regulation of the market price by a liquidity contract drawn up in accordance with the AFEI Code of Conduct	(41,565)

Breakdown of treasury shares by objective at 31 December 2013

The total number of shares held at that date was 2,490,177, representing 1.21% of Thales' 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	2,396,877
b) Regulation of the market price by a liquidity contract drawn up in accordance with the AFEI Code of Conduct	93,300

Market value of the portfolio at 31 December 2013

€116,540,284 at the closing price on 31 December 2013, i.e. €46.80.

	Cumulative gross flows from 1 January 2013 to 31 December 2013		Positions open on the date of the programme description					
			Positions open to purchase			Positions open to sale		
	Purchasing	Sales	Call bought	Put sold	Futures purchases	Call bought	Put sold	Futures sales
Number of securities	2,107,330	2,412,717						
Average maximum maturity								
Average transaction price (<i>in €</i>) <i>including possible discounts and free shares</i>	36.52	30.41						
Average exercise price								
Totals (<i>in €</i>)	76,968,423	73,361,805						

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

1.3.1.11 Authorisations granted at General Meetings with delegation of powers to the Board of directors

General Meeting Authorisations	Board of directors	Observation
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 the Chairman & Chief Executive Officer, the only company representative). Board meeting of 20 December 2012: decision to no longer allocate purchase or subscription options.	Balance: 1,564,700 options. Due to the abandon of stock options by the Company, noted opposite, the General Meeting of 14 May 2014 will not be asked to renew this authority.
General Meeting of 15 May 2012		
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 (fifteenth resolution) applicable in each case: max 15% of issuance, subject to the aforementioned limits. Valid for 26 months, <i>i.e.</i> 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>i.e.</i> until 14 July 2014 .	No utilisation.	Overall ceiling (seventeenth resolution) for operations under resolutions 13 to 16: 50 million shares and 2€bn 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>i.e.</i> until 14 July 2014 .	No utilisation.	Employee shareholding operations - the last one being in 2013 - are now conducted using existing shares, which have previously been bought back by the Company under a current share repurchase programme.
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 . Minimum vesting period = 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 until 14 July 2015 .	Board meeting of 20 December 2012: allotment of 718,290 existing shares to 5,522 employee beneficiaries; 230,350 shares have performance conditions over three years for 336 beneficiaries of NR 12 (A, B, C). Board meeting of 17 September 2013: allotment of 724,290 existing shares to 4,502 employee beneficiaries; 299,460 shares have performance conditions over three years for 341 beneficiaries of NR 12 (A, B, C).	Validity of the authorisation: 1,557,420 shares.
General Meeting of 24 May 2013		
Cancellation of shares (thirteenth resolution) representing up to 10% of the share capital at the date of cancellation. Authorisation valid for: 24 months until 23 May 2015 .	No utilisation.	
Share repurchase programme (twelfth resolution) for up to 10% of the capital. Maximum purchase price: €50. Valid for 18 months until 23 November 2014 .	Delegation of the Board of directors to the Chairman & Chief Executive Officer. Information not public.	

1.3.1.12 Key factors likely to have an impact in the event of a public offering (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 155.
- B. 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 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 2013

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))	4,144,065	94.74%	2.01%	2.76%
Netherlands (three dedicated funds ^(b))	87,074	1.99%	0.04%	0.06%
Italy (one dedicated fund ^(c))	4,247	0.10%	0.00%	0.00%
United Kingdom (SIP trust ^(d))	101,072	2.31%	0.05%	0.03%
Shares held directly in the employee savings plan (2002, 2008 and 2013 offers)	37,497	0.86%	0.02%	0.01%
Total Article L. 225-102 of the French Commercial Code	4,373,955	100.00%	2.13%	2.86%
Total number of shares held by employees	4,373,955	100.00%	2.13%	2.86%
Total share capital	205,744,500			

(a) "Thales Actions", "World Classic", "Action Protect 2011" and "Action Protect 2013" funds.

(b) "Netherlands Classic", "Netherlands Action Protect 2011" and "Netherlands Action Protect 2013" funds.

(c) "Italy Classic" fund.

(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, available in the Company's "2013 registration document":

- included below with the parent company financial statements for 2013 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 2013,
 - table of company results in the last five financial years;
- included in the 2013 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 21 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;
 - a chapter on shareholder information, which includes:
 - a description of the share repurchase programme adopted by the Annual General Meeting of 24 May 2013,
 - information on Executive Directors and corporate officers (offices, positions, compensation, commitments made by the Company, stock options granted),
 - 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,
 - societal information, 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, consumer health and safety 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)	2013	2012
Operating income (note 3)		
■ Re-billing of rent	190.8	160.6
■ Research	15.1	14.3
Total sales	205.9	174.9
■ Royalties	187.2	185.8
■ Re-billing of expenses	134.6	129.1
Total other operating income	321.8	314.9
Reversal of provisions	6.6	42.4
Transfer of expenses	9.7	9.0
Total operating income	544.0	541.2
Operating expenses		
Purchases and changes in inventories and work-in-progress	(14.9)	(13.4)
Other external charges	(403.8)	(382.3)
Taxes other than on income or payroll-related	(8.8)	(7.3)
Personnel expenses	(177.1)	(161.6)
Depreciation and amortisation	(15.6)	(17.1)
Provisions	(6.1)	(5.7)
Total operating expenses	(626.3)	(587.4)
Income (loss) from operations	(82.3)	(46.2)
Net financial income/(expense) (note 4)		
Net interest expense	(14.0)	(40.7)
Income from investments	452.4	395.3
Other financial income	29.5	138.0
Other financial expenses	(58.6)	(179.4)
Total net financial income (expense)	409.3	313.2
Income (loss) before income tax	327.0	267.0
Net extraordinary items (note 5)		
Restructuring costs	(8.8)	(4.0)
Capital gains and losses on disposals and similar	(3.4)	(4.3)
Total net extraordinary items	(12.2)	(8.3)
Profit (loss) before income tax	314.8	258.7
Income tax	85.8	48.1
NET INCOME	400.6	306.8

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

1.3.2.2 Balance sheet

(€ million)		31/12/2013	31/12/2012
ASSETS			
Non current assets:			
Intangible assets, gross	(note 7)	18.8	18.7
Less: depreciation & amortisation	(note 7)	(18.7)	(18.7)
Intangible assets, net		0.1	0.0
Property, plant and equipment, gross	(note 7)	198.1	190.4
Less: depreciation & amortisation	(note 7)	(146.3)	(132.1)
Tangible assets, net		51.8	58.3
Non current investments:			
Equity investments	(note 7)	8,797.4	8,807.3
Other fixed investment (treasury shares)	(notes 7 & 11)	24.0	15.9
Other non current investments	(notes 7 & 8)	97.2	110.2
Long-term investments, net		8,918.6	8,933.4
Total non current assets		8,970.5	8,991.7
Current assets:			
Inventories and work in-process		19.5	15.0
Advances to suppliers		0.3	-
Trade receivables	(note 8)	145.8	151.0
Group companies accounts	(note 8)	631.3	614.0
Other receivables and prepayments	(notes 8 & 9)	574.0	407.0
Marketable securities		57.4	70.9
Cash and cash equivalents		2,051.7	1,721.8
Total current assets		3,480.0	2,979.7
TOTAL ASSETS		12,450.5	11,971.4
LIABILITIES			
Equity:			
	(note 10)		
Share capital		617.2	607.0
Additional paid-in capital		3,826.6	3,731.6
Reserves and retained earnings		616.9	490.7
Net income for the period		400.6	306.8
Total capital and reserves		5,461.3	5,136.1
Reserves for contingencies	(note 12)	154.0	138.3
Financial debt:			
Debt of Group companies	(note 8)	4,745.1	4,850.7
Other financial debt	(note 8)	1,524.3	1,360.1
Total financial debt		6,269.4	6,210.8
Operating and other liabilities:			
Advances received on contracts in progress		14.2	15.8
Trade payables	(note 8)	67.5	74.2
Other creditors and accrued liabilities	(notes 8 & 9)	484.1	396.2
Total operating and other liabilities		565.8	486.2
TOTAL LIABILITIES		12,450.5	11,971.4

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)	2013	2012
Net profit	400.6	306.8
Net depreciation charges on tangible and intangible assets	15.6	17.1
Net depreciation provisions on non current assets, provisions for pensions and regulated provisions	40.2	(2.5)
Loss (gain) on disposals of assets	(6.6)	17.3
Operating cash flow	449.8	338.7
Change in non-operating provisions	2.7	(0.7)
Change in working capital requirements	(83.0)	(94.3)
CASH FLOW FROM OPERATING ACTIVITIES	369.5	243.7
Acquisitions of tangible and intangible assets	(10.8)	(11.2)
Proceeds from disposal of tangible and intangible assets	2.8	0.0
Net operating investment	(8.0)	(11.2)
Disposals of other investments	1.1	14.9
Investments in subsidiaries and investee companies (note 7)	(26.4)	(83.3)
Other net financial investment	(3.0)	25.2
CASH FLOW FROM INVESTING ACTIVITIES	(36.3)	(54.4)
Increase (decrease) in shareholders' equity ^(a)	(83.3)	(155.2)
Acquisition/disposal of treasury shares	-	12.5
Increase in financial debt	797.4	69.8
Repayment of financial debt	(677.3)	(15.7)
Increase (decrease) of debt with Group companies	(41.2)	500.7
CASH FLOW FROM FINANCING ACTIVITIES	(4.4)	412.1
Increase (decrease) in cash at bank before transactions in investment securities	328.8	601.4
Decrease (increase) in investment securities	1.1	1.4
TOTAL INCREASE (DECREASE) IN CASH AT BANK AND EQUIVALENTS	329.9	602.8
Cash at banks and equivalents at beginning of period	1,721.8	1,119.0
CASH AT BANKS AND EQUIVALENTS AT END OF YEAR	2,051.7	1,721.8

(a) For 2013, primarily represents dividend payments (-€125.8m of dividends 2012, -€54.8m interim dividend 2013), capital increase (+€10.2m), increase in issue premium (+€94.9m) and for 2012 the distribution of dividends (-€105.6m of dividends 2011), -€49.9m interim dividend 2012.

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 2012 TO 31 DECEMBER 2013

(€ million)	Number shares in circulation (thousands)	Share capital	Paid-in surplus emission	Retained earnings	Net income for the period	Revaluation reserve	Total shareholders' equity
At 1 January 2012	202,328	607.0	3,731.4	470.6	175.4	0.0	4,984.4
Allocation of the 2011 result	-	-	-	175.4	(175.4)	-	-
Distribution of 2011 dividends	-	-	-	(105.6)	-	-	(105.6)
Distribution of 2012 interim dividends ^(a)	-	-	-	(49.8)	-	-	(49.8)
Capital increase	12	-	0.2	-	-	-	0.2
2012 earnings	-	-	-	-	306.8	-	306.8
At 31 December 2012	202,340	607.0	3,731.6	490.7	306.8	0.0	5,136.1
Allocation of the 2012 result	-	-	-	306.8	(306.8)	-	-
Distribution of 2012 dividends ^(a)	-	-	-	(125.8)	-	-	(125.8)
Distribution of 2013 interim dividends ^(a)	-	-	-	(54.8)	-	-	(54.8)
Capital increase	3,405	10.2	95.0	-	-	-	105.2
2013 earnings	-	-	-	-	400.6	-	400.6
AT 31 DECEMBER 2013	205,745	617.2	3,826.6	616.9	400.6	0.0	5,461.3

^(a) See note 10 – Equity in the notes to the parent company financial statements.

1.3.2.5 Notes to the parent company financial statements

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All 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 2013 were performed using an initial discount rate assumption of 8.5% (the Group's average cost of capital at the end of 2013). A 2% increase in the discount rate would not result in the Company recognising additional impairment losses on the gross value of its investments.

h) Inventories and work in-process

Inventories and work-in-process are carried at the lower of cost (determined using the FIFO or weighted average cost method) and net realisable value. Work-in-process, 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.

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) Pension and other employee benefits

The Company grants its employees postemployment 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 postemployment 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 as well as 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 2013**

No significant operations took place in 2013.

b) 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 year-end 2011).

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

Thales now holds 22% of Cloudwatt following a capital increase subscribed in the amount of €50m and paid up for €12.5m in September 2012.

NOTE 3 OPERATING INCOME**Sales by geographic distribution**

Thales' total sales break down as follows:

	2013	2012
France	205.7	174.7
Europe	0.2	0.2
TOTAL	205.9	174.9

NOTE 4 NET FINANCIAL INCOME/(EXPENSE)**Financial interest, income and expense**

	2013	2012
Interest and financial income:		
■ on financial receivables ^(a)	27.7	28.6
■ on interest rate swaps	14.3	8.6
	42.0	37.2
Interest and financial expense:		
■ on financial debt ^(b)	(52.0)	(72.6)
■ on interest rate swaps	(4.0)	(5.3)
	(56.0)	(77.9)
TOTAL	(14.0)	(40.7)

(a) Including related companies for €4.9m compared with €7.7m in 2012.

(b) Including related companies for €14.7m compared with €26.9m in 2012.

Other financial income and expenses

	2013	2012
INCOME FROM INVESTMENTS^(a)	452.4	395.3
Foreign exchange gains	8.8	9.9
Reversals of financial provisions ^(b)	16.6	122.7
Amounts recovered on clawback provisions ^(c)	1.2	0.2
Others	2.9	5.2
OTHER FINANCIAL INCOME	29.5	138.0
Foreign exchange losses	(0.2)	(0.3)
Increases in financial provisions ^(d)	(53.7)	(122.4)
Write-offs of receivables granted to subsidiaries ^(e)	-	(52.3)
Others	(4.7)	(4.4)
OTHER FINANCIAL EXPENSES	(58.6)	(179.4)

(a) Income from investments are detailed in the table of subsidiaries and equity associates on pages 121 and 122.

(b) In 2013, capital increases in la Société de Marchand de Biens Pour l'Électronique SAS and Thales Global Services SAS simultaneously led to a reversal of provisions for subsidiaries' risks of €14.2m for la Société de Marchand de Biens Pour l'Électronique SAS and €0.5m for Thales Global Services SAS and an increase in financial provisions (see (d)). In addition, this item includes a reversal of provisions on treasury shares (€1.1m).

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

(c) Including in 2013, SAS Pessac (€0.8m), SAS Chatelleraut (€0.2m) and Thales Belgium (€0.2m).
Including, in 2012, Thales Belgium for €0.2m.

(d) Including in 2013, provisions on investments of €35.2m: Société de Marchand de Biens Pour l'Électronique €16.0m, Cloudwatt €7.4m, Amper Program SA €3.5m, Thales Microelectronics SAS €3.2m and Avimo Group Ltd €2.4m and provisions for subsidiaries' risks (€3.5m).

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

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

NOTE 5 NET EXTRAORDINARY ITEMS

	2013	2012
Restructuring costs	(8.8)	(4.0)
Capital gains or losses on disposals ^(a)	6.6	(17.3)
Other ^(b)	(10.0)	13.0
TOTAL	(12.2)	(8.3)

(a) Including in 2013, gains related to the transfer of goodwill to Sofradir (+€2.5m) and the sale of treasury shares as part of the liquidity contract (+€5.5m).

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

(b) In 2012, writeback of €12.4m following the execution of the judgement on 17 October 2012 in the arbitration proceeding between Thales and the Chinese government (Taiwan).

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 2013 was determined on the basis of:

- the standard tax rate of 33.33%;

Income tax can be analysed as follows:

	2013	2012
Income from tax consolidation	95.9	67.4
Deferred tax on results of EIGs	-	8.7
Income tax expense	(17.6)	(36.6)
Other taxes ^(a)	7.5	8.6
TOTAL	85.8	48.1

(a) Including, in 2013, (€0.5m) of adjustments in respect of 2012 income tax and (+€8.1m) in research tax credit.

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

The main temporary differences are as follows:

	31/12/2013	31/12/2012 ^(a)
Net asset temporary differences:		
■ Provisions for holiday pay	18.1	17.4
■ Provisions for restructuring	3.9	3.4
■ Reserves for contingencies	73.3	59.2
■ Others	22.1	5.6
NET ASSET BALANCE	117.4	85.6

(a) Deferred tax is not recognised, with the exception of deferred taxes related to the liquidation of the EIG at year-end 2012.

Expenses excluded from deductible charges (Articles 223 *quater* and 39.4 of the French General Tax Code) represented €0.2m in 2013, the same as in 2012 (corresponding to the surplus amortisation of the vehicles).

NOTE 7 FIXED ASSETS**a) Fixed assets at cost**

	Amounts at 31/12/2012	Increases	Decreases	Amounts at 31/12/2013
INTANGIBLE ASSETS	18.7	0.3	(0.2)	18.8
Buildings	128.3	7.1	–	135.4
Industrial plant, equipment and machinery	43.2	1.3	(1.2)	43.3
Other property, plant and equipment	18.9	0.6	(0.1)	19.4
PROPERTY, PLANT AND EQUIPMENT	190.4	9.0	(1.3)	198.1
Equity investments ^(a)	10,262.6	26.4	(1.1)	10,287.9
Other fixed investment (treasury shares)	17.0	78.4	(71.4)	24.0
Receivables from equity interests and other non current financial assets ^(b)	115.1	33.5	(47.2)	101.4
NON CURRENT INVESTMENTS	10,394.7	138.3	(119.7)	10,413.3

(a) The increase in equity investments corresponds to the capital increases for Société de Marchand de Biens Pour l'Électronique SAS €16.1m and for Thales Global Services SAS €10.3m.

(b) Loans to subsidiaries, deposits and guarantees and others.

b) Amortisation and depreciation

	Amounts at 31/12/2012	Increases	Decreases	Amounts at 31/12/2013
INTANGIBLE ASSETS	18.7	0.2	(0.2)	18.7
Buildings	79.5	11.6	–	91.1
Industrial plant, equipment and machinery	38.1	2.3	(1.1)	39.3
Other property, plant and equipment	14.5	1.5	(0.1)	15.9
PROPERTY, PLANT AND EQUIPMENT	132.1	15.4	(1.2)	146.3
Equity investments ^(a)	1,455.3	35.2	–	1,490.5
Other fixed investment (treasury shares)	1.1	–	(1.1)	0.0
Receivables from equity interests and other non current financial assets	4.9	–	(0.7)	4.2
NON CURRENT INVESTMENTS	1,461.3	35.2	(1.8)	1,494.7

(a) The increase in impairment of equity investments corresponds to the provisions for impairment including Société de Marchand de Biens Pour l'Électronique SAS €16.0m, Cloudwatt €7.4m, Amper Programas SA €3.5m, Thales Microelectronics SAS €3.2m and Avimo Group Ltd €2.4m.

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

NOTE 8 SCHEDULE OF RECEIVABLES AND PAYABLES

Headings and items	Gross amount	Payment dates		
		Less than one year	One to five years	More than five years
Receivables				
Receivables from affiliates	77.2	62.5	12.1	2.6
Other non current investments	20.0	9.8	-	10.2
Subtotal	97.2	72.3	12.1	12.8
Current receivables				
Inventories and work-in-process	19.5	19.5	-	-
Advances to suppliers	0.3	0.3	-	-
Trade and other accounts receivable	145.8	145.8	-	-
Receivables from Group companies	631.3	631.3	-	-
Other receivables	574.0	308.7	265.3	-
Cash and cash equivalents	2,051.7	2,051.7	-	-
Subtotal	3,422.6	3,157.3	265.3	0.0
TOTAL RECEIVABLES	3,519.8	3,229.6	277.4	12.8
Borrowings				
Other financial debt ^(a)	1,524.3	109.3	1,115.0	300.0
Subtotal	1,524.3	109.3	1,115.0	300.0
Debt of Group companies	4,745.1	4,745.1	-	-
Advances on orders	14.2	14.2	-	-
Trade creditors and other accounts payable	67.5	67.5	-	-
Other debts	484.1	343.6	140.5	-
Subtotal	5,310.9	5,170.4	140.5	0.0
TOTAL PAYABLES	6,835.2	5,279.7	1,255.5	300.0

(a) Including a 2016 bond with a nominal value of €600m maturing October 2016, issued at a fixed rate of 2.75% (€400m swapped for a variable rate), a 2018 bond with a nominal value of €500m maturing March 2018, issued at a fixed rate of 1.625% and a 2021 bond with a nominal value of €300m maturing March 2021 issued at a fixed rate of 2.25%.

At 31 December 2013, 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 2013, 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 three, clauses providing for accelerated repayment would apply.

(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.

The breakdown by currency for long-term investments and other financial debt at 31 December 2013 is as follows:

	Long-term investments	Other financial debt
Euro	58.0	1,464.4
Saudi riyal	18.5	-
South African rand	18.0	-
Swiss franc	-	29.7
Singapore dollar	-	30.2
Other currencies	2.7	-
TOTAL	97.2	1,524.3

NOTE 9 OTHER RECEIVABLES AND PAYABLES

	31/12/2013		31/12/2012	
	Assets	Liabilities	Assets	Liabilities
Tax and employee-related receivables and payables	18.7	75.9	14.7	73.9
Government, income tax	399.4	1.6	293.5	1.5
Premiums on foreign exchange option/swaptions	11.4	7.9	7.9	4.2
Foreign exchange revaluation	115.3	158.4	68.4	115.8
Tax receivables and payables on tax consolidated companies	2.3	225.0	4.1	184.2
Others	26.9	15.3	18.4	16.6
TOTAL	574.0	484.1	407.0	396.2

NOTE 10 EQUITY

a) Share capital

Thales' share capital, totalling €617,233,500 at 31 December 2013, is composed of 205,744,500 shares with a nominal value of €3 each.

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

► DISTRIBUTION OF CAPITAL

	31/12/2013		31/12/2012	
	In number of shares	In %	In number of shares	In %
Public ^(a)	95,934,178	46.63	92,223,965	45.58
French State ^(b)	54,788,714	26.63	54,788,714	27.08
Dassault Aviation	52,531,431	25.53	52,531,431	25.96
Thales ^(c)	2,490,177	1.21	2,795,564	1.38
TOTAL	205,744,500	100.00	202,339,674	100.00

(a) Including shares held by employees, directly or through collective investment funds (2.14% which amounts to 4,373,955 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

	31/12/2012	Allocation of the 2012 result	Dividends paid ^(a)	31/12/2013
Legal reserve	60.7	-	-	60.7
Blocked reserve	8.3	-	-	8.3
Ordinary reserve	128.9	-	-	128.9
Other reserves	0.3	-	-	0.3
Retained earnings	292.5	306.8	(180.6)	418.7
TOTAL	490.7	306.8	(180.6)	616.9

(a) For 2012, Thales paid €175,681,663.25 including €49,884,712.25 in interim dividends in December 2012 and €125,796,951.00 in May 2013.

For 2013, Thales paid €54,824,368.88 in interim dividends in December 2013.

Dividends paid during 2013 can be analysed as follows:

- Distribution of remaining dividend payment 2012 -€125.8m
- Distribution of 2013 interim dividend -€54.8m
- €180.6m**

NOTE 11 TREASURY SHARES

At 31 December 2013 Thales held 626,717 freely transferable treasury shares (0.30% of the capital) and 1,863,460 treasury shares reserved for employee free share allotments (representing 0.91% of the capital).

The distribution by plan is as follows:

- 23 September 2010 plan: 567,740;
- 15 September 2011 plan: 591,640;
- 20 December 2012 plan: 704,080.

Changes in transferable shares were as follows:

	31/12/2012	Acquisition	Transfer	Allocation to plan allotment	Transfer Shareholders Employee	Valuation at average ^(a)	31/12/2013
Number of shares	583,419	2,107,330	(1,624,084)	43,005	(482,953)	-	626,717
Value (in € million)	15.9	77.0	(56.5)	1.4	(13.8)	-	24.0

(a) The average price for the month of December 2013 was €44.45.

The average price for the month of December 2012 was €27.30.

Schedule of outstanding options at 31 December 2013

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 2013, the following were outstanding:

- 117,800 share purchase options at a weighted average exercise price of €42.76;
- 8,186,261 share subscription options at a weighted average exercise price of €35.58, of which 825,550 were performance-based shares;
- 2,583,600 free shares, of which 789,140 were performance-based shares.

1- Outstanding share purchase option plans

Date of Board decision	Period of exercise	Price of exercise	Number of options outstanding at 31/12/2012	Options granted in 2013	Options exercised in 2013	Options cancelled in 2013	Number of options outstanding at 31/12/2013
25/11/2008	from 25 November 2012 to 24 November 2018	€38.50	46,700	-	(8,900)	-	37,800
04/07/2007	from 4 July 2011 to 3 July 2017	€44.77	80,000	-	-	-	80,000

2- Outstanding subscription option plans

Date of Board decision	Period of exercise	Price of exercise	Number of options outstanding at 31/12/2012	Options granted in 2013	Options exercised in 2013	Options cancelled in 2013 ^(b)	Number of options outstanding at 31/12/2013
15/09/2011 ^(a)	from 15 Sept. 2015 to 14 Sept. 2021	€26.34	403,000	-	-	(18,800)	384,200
23/09/2010 ^(a)	from 23 Sept. 2014 to 22 Sept. 2020	€26.34	469,250	-	-	(27,900)	441,350
25/06/2009	from 25 June 2013 to 24 June 2019	€32.88	1,506,000	-	(378,906)	(69,213)	1,057,881
01/07/2008	from 1 July 2012 to 30 June 2018	€38.50	1,578,600 ^(c)	-	(191,890)	(64,350)	1,322,360
04/07/2007	from 4 July 2011 to 3 July 2017	€44.77	1,414,170	-	(9,160)	(42,760)	1,362,250
09/11/2006	from 09 Nov. 2010 to 08 Nov. 2016	€36.47	1,965,825	-	(400,470)	(42,700)	1,522,655
30/06/2005	from 30 June 2009 to 29 June 2015	€34.01	1,775,043	-	(528,610)	(29,013)	1,217,420
01/07/2004	from 1 July 2008 to 30 June 2014	€29.50	1,850,727	-	(946,277)	(26,505)	877,945
01/07/2003	from 1 July 2007 to 30 June 2013	€25.70	1,331,897	-	(949,513)	(382,184)	200 ^(d)

(a) Performance-based plan.

(b) Including, for the involved plans, written-off 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.

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

(d) Due to an on-going succession dossier.

Conditions of exercise

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

Stock purchase and subscription stock options granted between 1 July 2003 and 25 June 2009 can already be exercised in full.

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, 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 allotment 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. Since 2012, only the Chairman & Chief Executive Officer is excluded from these plans.

The Board of directors approved a new plan on 17 September 2013. This plan has 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.

Shares subject to performance conditions

The allotment of shares under this programme is contingent upon the achievement of internal performance targets over the three financial years following the allocation date. 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 cannot exceed the number of shares initially allotted.

For shares allocated in 2010, 2011 and 2012:

- the three criteria used are EBIT, operating cash flow and order intake, each of these criteria having a 60%, 25% and 15% weighting respectively;
- all designated beneficiaries of the plan will be granted vested shares at the end of a four-year period subject to compliance with the employment conditions stipulated under the plan's rules.

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.

For shares allocated in 2013:

- the three criteria used are EBIT, operating cash flow and order intake, each of these criteria having a 60%, 15% and 25% weighting respectively;
- all designated beneficiaries of the plan will be granted vested shares at the end of a four-year period subject to compliance with the employment conditions stipulated under the plan's rules. Following developments in French legislation, this two-year lock-in period no longer applies to beneficiaries who are French tax residents.

Date of Board decision	Vesting period	Share price at allotment date	Number of free shares at 31/12/2012	Adjustments post year-end	Shares granted in 2013	Shares cancelled in 2013 ^(b)	Shares delivered in 2013	Number of free shares at 31/12/2013
17/09/2013	from 17/09/2013 to 17/09/2017	€39.16	-	-	424,830	(2,390)	(400)	422,040
			-	-	299,460 ^(a)	(1,360)	-	298,100
20/12/2012	From 20/12/2012 to 20/12/2016	€27.47	487,890	-	-	(11,670)	(640)	475,580
			230,350 ^(a)	-	-	(1,850)	-	228,500
15/09/2011	from 15/09/2011 to 15/09/2015	€25.20	470,370	-	-	(12,810)	(1,210)	456,350
			136,840 ^(a)	-	-	(1,550)	-	135,290
23/09/2010	from 23/09/2010 to 23/09/2014	€26.40	452,930	-	-	(11,640)	(800)	440,490
			130,100 ^(a)	-	-	(2,850)	-	127,250
25/06/2009	from 25/06/2009 to 25/06/2013	€31.93	303,665	-	-	(585)	(303,080)	-

(a) Shares subject to performance conditions.

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

Options granted and exercised in 2013

	Number of options allotted/shares subscribed or purchased	Exercise Price	Expiration date	Date of plan
1 – Directors				
Options granted in 2013				
Jean-Bernard Lévy	None			
2 – The 10 biggest awards of options allotted to employees				
Options granted in 2013				
None				
3 – The 10 biggest exercises of options by employees^(a)				
Options exercised in 2013	80,000	€25.70	– 01/07/2003	
	39,964	€29.50	– 01/07/2004	
	30,000	€34.01	– 30/06/2005	
	30,000	€25.70	– 01/07/2003	
	25,000	€25.70	– 01/07/2003	
	25,000	€25.70	– 01/07/2003	
	16,500	€36.47	– 09/11/2006	
	20,000	€29.50	– 01/07/2004	
	20,000	€29.50	– 01/07/2004	
	20,000	€29.50	– 01/07/2004	

(a) For all Group companies combined.

NOTE 12 RESERVES FOR CONTINGENCIES

	Amounts at 31/12/2012	Increase	Reversal Utilisation	Amounts at 31/12/2013
Restructuring	6.0	8.6	(5.9)	8.7
Subsidiary risks	39.9	3.5	(14.7)	28.7
Retirement benefits and similar ^(a)	52.4	10.7	(3.8)	59.3
Others	40.0	20.2	(2.9)	57.3
TOTAL	138.3	43.0	(27.3)	154.0

(a) Breakdown of post-employment benefits and similar: see following table.

	Post-employment benefits	Others ^(a)	Total
Balance sheet position at end of 2012	49.5	2.9	52.4
Normal cost	3.0	0.2	3.2
Interest costs	2.8	0.1	2.9
Expected return on plan assets	0.0	0.0	0.0
Amortisation of actuarial gains and losses	2.6	0.1	2.8
Amortisation of plan amendments	1.7	0.0	1.7
Liquidations and curtailments	0.0	0.0	0.0
Total financial component	7.1	0.2	7.3
Impact on profit and loss	10.2	0.4	10.5
Benefits paid by employer	(2.0)	(0.4)	(2.4)
Employer contributions	(2.6)	0.1	(2.6)
Transfers	1.2	0.1	1.3
BALANCE SHEET POSITION AT END OF 2013	56.3	3.0	59.3

(a) Long service awards and exceptional week at 35 years seniority.

Actuarial gains and losses still to be amortised are reported under off-balance sheet commitments (note 13 a). These totalled €29.5m in 2013, compared with €5.9m in 2012.

a) Legal risks

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

To prevent disputes or limit their impact, Thales policy is to systematically seek alternative methods of settlement. This policy is reviewed on a regular basis to take 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 criminal litigation and claims. 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 \$260 million. 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 €226 million. Industrial partners 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

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 aims at:

- ensuring that employees and surrounding residents are not exposed to health and environmental risks (pollution, asbestos, etc); through their activities or work environment, including outside of Thales sites and in production units;
- ensuring the compliance of activities and products (substances, waste, etc);
- analysing the impact of new regulations, including on product design;
- analysing the impact of the environment on activities (water stress, climatic events, etc.);
- specifying an appropriate organisation and associated action plans, either at Group level or locally, according to the results of this analysis.

In support of this analysis, an Environmental Management System has been deployed at all sites in order to ensure the control and limitation of the products' and activities' environment impacts in accordance with the Group's environmental commitments.

At 31 December 2013, 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**

	Total	< 1 year	1 to 5 years	In more than 5 years
Operating leases	541.2	118.8	275.0	147.4

		31/12/2013	31/12/2012
Actuarial gains and losses still to be amortised	(note 12)	29.5	5.9
Commitments given			
■ Guarantees and pledges		11,182.4	10,262.0
Of which related companies	(a)	10,851.6	10,077.8
(a) The main companies concerned are:			
Thales Holdings UK Ltd		1,377.7	503.5
Thales Canada Inc		815.6	840.3
Thales Communications & Security SAS		809.3	771.4
Thales Nederland BV		632.7	661.5
Thales Transport & Security Inc		600.7	630.1
Thales Australia Ltd		577.1	700.1
Thales Avionics Inc		510.8	533.9
Thalisa		431.2	396.8
Thales Rail Signalling Solutions Ltd		373.4	427.2
Thales Rail Signalling Solutions Ag		363.5	369.7
Thales Alenia Space SAS		322.4	291.5
Thales Norway AS		288.0	288.0
Thales Underwater Systems UK Ltd		286.7	223.6
Thales Systèmes Aéroportés SAS		274.2	56.9
Thales Transportation Signalling & Security Solutions AS		219.5	219.5
Thales Alenia Space France SAS		219.2	788.7
Thales Solutions Asia Pte Ltd		173.7	184.6
Thales Portugal SA		170.0	141.5
Thales Deutschland GmbH		165.7	165.0
Thales Security Solutions & Services Company		156.0	176.8
Thales Transport & Security (Hong Kong)		139.0	71.6
Thales Raytheon Systems Company SAS		122.5	97.5
Thales Polska		114.2	80.4
Thales Training & Simulation Ltd		111.6	115.5
Thales International Middle East Sal		105.7	4.0
Thales Espana Grp SA		105.0	116.4
TRS Prime SAS		100.0	13.0
ACSI (Air Command Systems International) Company		99.0	99.6
Thales Missile Electronics Ltd		98.8	107.0
Thales Underwater Systems SAS		92.4	158.2
Thales Transport & Security Ltd		88.8	90.7
Thales India Pvt Ltd		85.3	20.5
Thales Transportation Systems GmbH		26.9	152.2
DCNS		7.3	27.1
Commitments received:			
■ Debt write-offs granted to related companies with return to better fortune clause		179.2	180.4

b) Financial instruments

Thales uses various financial instruments to reduce its interest rate and foreign exchange risks.

Interest rate risk management

At 31 December 2013 and 2012, 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:

	2013		2012	
	Buyer/lender	Seller/borrower	Buyer/lender	Seller/borrower
Interest rate swaps	1,000.0	213.3	400.0	15.5

The corresponding market values are as follows:

	2013		2012	
	Buyer/lender	Seller/borrower	Buyer/lender	Seller/borrower
Interest rate swaps	14.0	(0.9)	23.5	(0.8)

The duration of these contracts is as follows:

	2013				2012			
	< 1 year		1 to 5 years		< 1 year		1 to 5 years	
	Lender	Borrower	Lender	Borrower	Lender	Borrower	Lender	Borrower
Interest rate swaps	-	200.0	700.00	-	-	-	400.0	-

Currency risk management

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

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.

Thales mainly held forward foreign exchange contracts at 31 December 2013 and 31 December 2012.

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.

	2013				2012
	U.S. dollar	Pound sterling	Others	Total	Total
Hedging of bids and sales operations					
Futures currency purchases	(3,090.0)	(406.0)	(1,455.0)	(4,955.0)	(5,873.0)
Futures currency sales	994.0	441.0	1,036.0	2,494.0	3,132.0
Call and Put selling options	(141.0)	-	-	(543.0)	(448.0)
Call and Put purchase options	-	-	11.0	384.0	147.0
Hedging linked to centralisation of cash flows					
Foreign exchange selling swaps	-	-	(100.0)	(100.0)	(114.0)
Foreign exchange purchase swaps	170.0	486.0	333.0	990.0	930.0
Net foreign investments' hedging					
Foreign exchange selling swaps	-	(39.0)	-	(39.0)	(40.0)

	2013	2012
	Total	Total
Hedging of bids and sales operations		
Sales/Purchasing futures	106.4	41.8
Currency options (Call/Put)	5.2	4.9
Hedging linked to centralisation of cash flows		
Foreign exchange swaps	(5.4)	(13.9)
Net foreign investments' hedging		
Foreign exchange swaps	(0.4)	0.4

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

	31/12/2013		31/12/2012	
	Sales	Purchasing	Sales	Purchasing
U.S. dollar	872.0	2,967.3	1,250.4	3,649.5
Pound sterling	342.6	300.3	406.7	398.4
Canadian dollar	296.9	110.0	294.9	125.5
Australian dollar	153.6	111.3	140.7	97.3
Singapore dollar	51.7	86.9	44.6	108.8
Saudi riyal	40.5	93.6	46.1	59.6
Japanese Yen	32.0	70.1	24.1	62.9
Danish krone	31.8	240.2	32.9	244.1
Swiss franc	28.4	55.1	59.8	76.5
Qatari rial	17.4	103.3	13.3	121.8
UAE dirham	10.2	38.4	20.2	51.9
Other currencies	105.4	266.9	103.3	182.7
TOTAL	1,982.5	4,443.4	2,437.0	5,179.0

NOTE 14 HEADCOUNT

Average number of employees	2013	2012
Engineers and managers	726	711
Technical and supervisory staff	107	113
TOTAL	833	824

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.

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 identical to those described in part 3 of this registration document.

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:

	2013	2012
Short-term benefits:		
■ Fixed compensation	4.0	4.9
■ Variable compensation	2.8	3.2
■ Employer's social security contribution	3.1	2.6
■ Contract termination benefits resulting from contract commitments	3.1	0.9
■ Employer's social security contribution/contract termination benefits	1.0	0.2
■ Compensation for attendance at Board meetings	0.6	0.5
Other benefits:		
■ Post employment benefits	1.2	0.6
■ Share-based payments (IFRS 2)	0.5	1.2

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

1.3.2.6 Results of the Company for the last five years

<i>(in millions of euros, except for per share data)</i>	2009	2010	2011	2012	2013
1. Share capital at year-end					
Share capital	597.1	597.2	607.0	607.0	617.2
Number of ordinary shares issued	199,023,932	199,082,027	202,328,457	202,339,674	205,744,500
Maximum number of shares to be created in future:					
■ By exercise of subscription options	17,669,210	17,860,559	15,056,223	12,294,262	8,186,261
2. Operations and results for the period					
Sales excluding tax	139.0	133.0	143.9	174.9	205.9
Earnings before taxes, employee profit-sharing, depreciation, amortisation and provisions	123.1	152.6	(224.2)	222.0	379.7
Income tax	87.9	87.4	78.9	48.1	85.8
Employee profit-sharing during the period	-	-	-	-	-
Earnings after taxes, employee profit-sharing, depreciation, amortisation and provisions	(29.2)	192.3	175.4	306.8	400.6
Net income distributed	97.7	97.7	155.2	175.7	54.8 ^(a)
3. Earnings per share					
Earnings after tax and employee profit-sharing but before amortisation, depreciation and provisions	1.06	1.21	(0.72)	1.34	2.26
Earnings after taxes, employee profit-sharing, depreciation, amortisation and provisions	(0.15)	0.97	0.87	1.52	1.95
Net dividend per share	0.50	0.50	0.78	0.88	1.12 ^(b)
4. Personnel					
Average employee headcount during the year	1,009	987	985	824	833
Total wage and salary costs for the period	132.4	120.8	138.4	113.7	123.9
Social charges and benefits paid during the year (Social security, welfare)	51.8	45.6	50.5	47.9	53.2

(a) Interim dividend.

(b) Subject to the approval of the Annual General Meeting of Shareholders on 14 May 2014.

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 capital increase.

2013: Capital increased from €607,019,022.0 to €617,233,500.0 following capital increase.

1.3.2.7 Table of subsidiaries and equity affiliates

► POSITION AT 31 DECEMBER 2013 (€ thousand)

	Share capital (local currency)	Sh. equity other than capital (local currency)	Quote-part du capital détenus en %	Carrying amount of investments held		Loans and advances made by Thales not yet repaid given by Thales (€)	Amounts of deposits and guarantees by Thales (€)	Prior year sales exc. VAT (local currency)	Share in income (loss) for last year ended (local currency)	Dividends received by Thales during the year (€)	Receivables	Liabilities
				Gross (€)	Net (€)							
A. Detailed disclosures concerning subsidiaries and investee companies where the gross value exceeds 1% of the Company's share capital												
1.Subsidiaries												
Thales Holdings UK PLC	GBP	726,848	878,595	100%	2,571,704	1,700,000			3,204			549,817
Thales Avionics SAS	EUR	175,000	340,633	100%	936,797	936,797		1,146,524	79,144	150,325		298,079
Thales Alenia Space France SAS	EUR	1,530,035	[89,458]	67%	724,106	724,106	322,386		96,766	64,789		
Thales Systèmes Aéroportés SAS	EUR	93,152	147,816	100%	706,108	706,108	274,167	901,891	79,222			1,048,234
Thales Deutschland GmbH	EUR	27,124	425,813	100%	644,958	644,958	165,650		[5,524]			3,859
Thales North America Inc.	USD	118,103	575,807	100%	603,196	603,196	21,800		9,595			176,145
Thales Communications & Security SAS	EUR	163,950	57,162	100%	590,752	590,752	360,859	1,769,481	101,571	75,417	62	482,881
Thales International SAS	EUR	313,000	11,083	100%	398,542	398,542	6,000		12,584	12,520	165,046	26,616
Thales Air Systems SAS	EUR	126,348	234,043	88.88%	314,100	314,100	22,582	546,495	[23,936]	5,002		340,649
Avimo Group Ltd	SGD	22,104	35,401	100%	250,690	52,226			235			
Thales Nederland BV	EUR	29,510	89,993	99%	235,174	235,174	632,681	392,335	25,139			148,615
Thales Underwater Systems NV	EUR	4,538	4,096	100%	129,206	8,503			18			
Thales Services SAS	EUR	1,479	44,393	100%	126,368	126,368	800	363,595	14,250	5,546		12,068
Silelec SAS	EUR	38,304	465	100%	111,755	38,671			19			28,076
Thales Optronique SAS	EUR	56,244	112,406	77.24%	106,287	106,287	18,481	354,966	21,700	15,530		134,979
Thales Underwater Systems SAS	EUR	15,253	9,118	100%	96,473	96,473	92,447	367,759	30,137	28,327	6	226,066
Thales Holding Norway AS	NOK	419,845	[186,756]	100%	77,157	77,157			[15]			
Thales Corporate Ventures SAS	EUR	15,000	12,462	100%	73,347	16,675			123			11,435
Thales Microelectronics SAS	EUR	500	8,489	100%	65,633	6,100	70	55,305	[2,824]		23,967	
Thales Suisse SA	CHF	57,200	4,482	100%	56,092	56,092		64,439	7,610	4,780		
TDA Armement SAS	EUR	306	19,700	100%	51,678	51,678		106,657	23,142	29,468		12,660
Thales Europe SAS	EUR	43,182	[25,133]	100%	43,182	43,182			13,602		203,259	
Thales Belgium SANV	EUR	3,408	659	100%	41,416	3,516	18,556	19,099				6,606
Thales Electron Devices SAS	EUR	30,999	46,154	100%	39,227	39,227	40,343	294,576	13,857	17,979	21,324	1
Sofradir SAS	EUR	6,000	70,664	50%	26,439	26,439	1,680	129,896	17,844	8,950		
United Monolithic Semiconductors Holding SAS	EUR	33,898	7,179	50%	24,268	19,268			670			
CMT Medical Techno Ltd	USD	1,048	32,896	100%	21,788	21,788		16,186	[136]			8,004
Thales Canada Inc	CAD	6,802	56,938	55.46%	19,670	19,670	815,565	418,981	25,001			
Thales Avionics Electrical Systems SAS	EUR	6,851	15,592	100%	18,599	18,599		113,522	[13,149]		27,856	948
SMB pour l'Électronique SAS	EUR	41	2,542	100%	16,165				[5,658]			
Thales Seso SAS	EUR	449	2,399	100%	14,607	14,607		12,451	1,856	912	3,659	
Thales Global Services SAS	EUR	453	11,891	100%	12,361	10,300		397,927	137		5	9,613
SAS Châtelleraut-Ireland SAS	EUR	2,000	2,509	100%	10,013	8,224		2,135	[114]	178		1,323
Thales Communications Ltda	BRL	14,580	[14,244]	100%	9,199	0	2,208		[800]			
Thales Angenieux SAS	EUR	2,717	9,502	100%	8,136	8,136	4,893	87,502	6,039	2,935	1	7,050
TOTAL SUBSIDIARIES					9,175,192	7,722,919				422,658	445,185	3,533,724

	Share capital (local currency)	Sh. equity other than capital (local currency)	% of share capital held	Carrying amount of investments held	Loans and advances made by Thales not yet repaid given by Thales (€)	Amounts of deposits and guarantees given by Thales (€)	Prior year sales exc. VAT (local currency)	Share in income (loss) for last year ended (local currency)	Dividends received by Thales during the year (€)	Receivables Liabilities
				Gross (€)	Net (€)					
2. Other shareholdings										
DCNS	EUR 563,000	431,082	35.00%	833,688	833,688	7,335	3,359,511	114,127	17,143	
Telespazio SpA	EUR 50,000	191,286	33.00%	81,634	81,633	4,710	605,701	21,864	1,020	
Thales Systems Ireland Ltd	EUR 7,620	(2,127)	22.50%	56,330	56,330			19,811	450	
Cloudwatt	EUR 224,997	(2,949)	22.23%	49,999	42,629			(30,218)		
Eletronica SpA	EUR 54,040	54,040	33.33%	26,724	26,724			25,072	4,200	
Apec Amper Programas SA	EUR 3,005	5,212	49.00%	11,190	0		21,743	(3,075)		
TOTAL INVESTEE COMPANIES				1,059,565	1,041,004				22,813	0

	Share capital (local currency)	Sh. equity other than capital (local currency)	% of share capital held	Carrying amount of investments held	Loans and advances made by Thales not yet repaid given by Thales (€)	Amounts of deposits and guarantees given by Thales (€)	Prior year sales exc. VAT (local currency)	Share in income (loss) for last year ended (local currency)	Dividends received by Thales during the year (€)	Receivables Liabilities
				Gross (€)	Net (€)					
B. General disclosures concerning other subsidiaries and investee companies										
1. Subsidiaries not listed in section A.										
French subsidiaries				35,472	23,965				4,996	30,861 14,556
Foreign subsidiaries				3,995	90					
Total				39,467	24,055				4,996	30,861 14,556
2. Investee companies not listed in section A.										
in French companies				7,556	7,338				1,851	6,479
in foreign companies				4,122	69				115	36,805
Total				11,678	7,407				1,966	36,805 6,479
TOTAL				10,285,902	8,795,385				452,433	512,851 3,554,759

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

POSITION AT 31 DECEMBER 2013 (€ thousand)

Number of securities	Value	% of interest	Net amount of inventory
1. Equity interests and marketable securities with net asset value of €15,244 or more			
3,500,000	Thales Avionics SAS	100.00%	936,797
19,704,997	DCNS	35.00%	833,688
41,005,675	Thales Alenia Space France SAS	67.00%	724,106
5,822,010	Thales Systèmes Aéroportés SAS	100.00%	706,108
10,929,987	Thales Communications & Security SAS	100.00%	590,752
20,866,670	Thales International SAS	100.00%	398,542
10,208,364	Thales Air Systems SAS	88.88%	314,100
147,889	Thales Services SAS	100.00%	126,368
2,715,001	Thales Optronique SAS	77.24%	106,287
1,089,516	Thales Underwater Systems SAS	100.00%	96,473
2,000	TDA Armements SAS	100.00%	51,678
2,698,875	Thales Europe SAS	100.00%	43,182
2,066,595	Thales Electron Devices SAS	100.00%	39,227
2,503,550	Sifelec SAS	100.00%	38,671
5,000,961	Cloudwatt	22.22%	42,629
200,000	Sofradir SAS	50.00%	26,439
1,129,920	United Monolithic Semiconductors Holding SAS	50.00%	19,268
449,400	Thales Avionics Electrical Systems SAS	100.00%	18,599
937,500	Thales Corporate Ventures SAS	100.00%	16,675
28,064	Thales Seso SAS	100.00%	14,607
30,269	Thales Global Services SAS	100.00%	10,300
181,158	Thales Angenieux SAS	100.00%	8,136
33,334	Thales Microelectronics SAS	100.00%	6,100
21,625	Eurotradia International SA	16.53%	3,099
299,999	Odas SA	10.00%	3,000
35,250	Thales University SAS	100.00%	2,578
100,000	Thales Cryogénie SAS	100.00%	2,116
20,000	GIE III-Vlab	40.00%	2,000
166,026	Thales Geodis Freight & Logistics SA	50.00%	2,072
2,500	Thales Assurances et Gestion Des Risques SAS	100.00%	1,567
7,181	SOFEMA SA	9.57%	897
4,295	Geris Consultants SAS	100.00%	443
11,017	Sofresa SA	11.02%	236
5,000	Gerac SAS	100.00%	79
429	IRDI Midi Pyrénées	0.21%	71
3,700	188CENTELEC SAS	100.00%	37
3,700	187CENTELEC SAS	100.00%	37
1,300	Vigeo SAS	0.75%	25
3,700	Syracuse Services SAS	100.00%	23
3,700	184CENTELEC SAS	100.00%	23
3,700	182CENTELEC SAS	100.00%	20
2. Equity interests and marketable securities with net asset value of less than €15,244			23
3. Investments in property companies			23,181
4. Investments in foreign companies			3,587,127
TOTAL			8,797,385

1.3.2.9 Investments made and thresholds crossed in French companies in 2013

	Amount of investment (€ thousand)	Percentage owned									
		At 31/12/2012					At 31/12/2013				
		>5%	>20%	>33%	>50%	>66%	>5%	>20%	>33%	>50%	>66%
1. Increases											
Thales Global Services SAS	-	8.97	-	-	-	-	-	-	-	-	100.00
	-	-	-	-	-	-	-	-	-	-	-
2. Decreases											
	-	-	-	-	-	-	-	-	-	-	-

1.3.3 Statutory auditors' report on the 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, 2013, on:

- the audit of the accompanying financial statements of Thales;
- the justification of our assessments;
- the specific verifications and information required by law.

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

I – Opinion on the financial statements

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

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2013 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, 2013 for a net amount of M€ 8,797 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 forecast 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 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 the 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 has been properly disclosed in the management report.

Courbevoie et Paris-La Défense, February 19, 2014

The statutory auditors French original signed by

ERNST & YOUNG Audit

Michel Gauthier

Philippe Diu

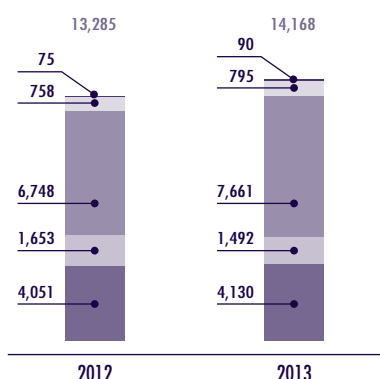
MAZARS

Jean-Marc Deslandes

Anne-Laure Rousselou

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

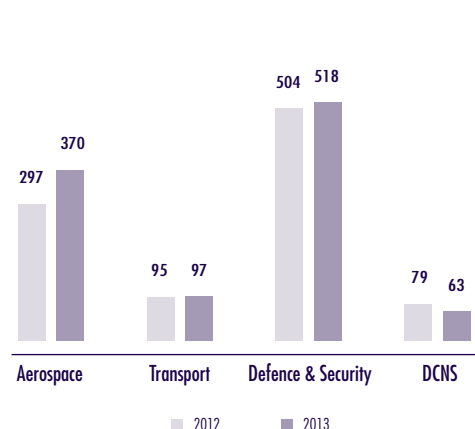
► ORDERS



► SALES

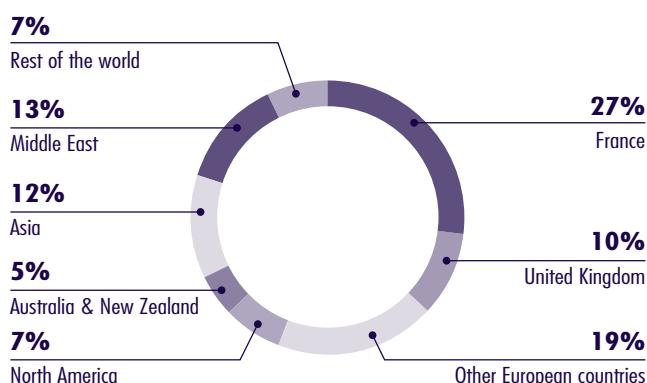


► EBIT⁽¹⁾

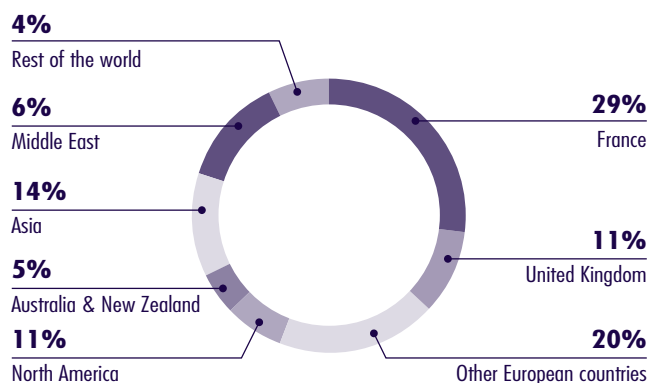


A strong international presence

► ORDERS BY DESTINATION 2013



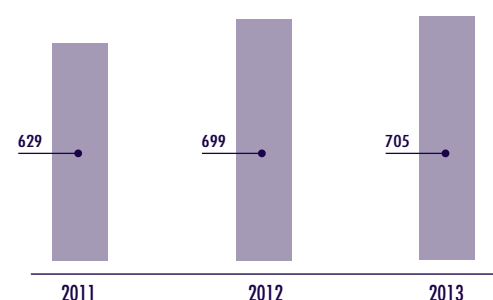
► SALES BY DESTINATION 2013



Innovation at the heart of the strategy

- Total R&D represents approximately 20% of sales.
- An increase of over 23% in self-funded R&D over the past three years.
- A portfolio of 15,000 patents, almost 400 new applications filed in 2013.
- 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.
- Five Thales Research & Technology research centres worldwide: France, the United Kingdom, the Netherlands, Singapore and Canada.
- Thales, a major player in the competitive clusters in France and the United Kingdom.

► TOTAL SELF-FUNDED R&D



(1) Non-GAAP measure, see Group Management Report, page 8.



BUSINESS REVIEW

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2.1 KEY DATA

		Aerospace	Transport	Defence & Security	DCNS (at 35%)	Others	Total
2013	Order book at 31 December	7,274	3,411	14,140	4,631	71	29,527
	Order intake	4,130	1,492	7,661	795	90	14,168
	Consolidated sales	4,451	1,481	6,988	1,176	98	14,194
	EBIT ^(a)	370	97	518	63	(45)	1,003
	Consolidated headcount	16,578	6,055	33,595	4,917	5,302	66,447
2012	Order book at 31 December	7,580	3,513	13,792	4,905	59	29,849
	Order intake	4,051	1,653	6,748	758	75	13,285
	Consolidated sales	4,417	1,535	7,081	1,027	98	14,158
	EBIT ^(a)	297	95	504	79	(48)	927
	Consolidated headcount	16,371	6,379	33,045	4,754	5,443	65,992

(a) Income from operations (EBIT) after restructuring adjusted for entries relative to the amortisation of purchased intangible assets (purchase price allocation, "PPA"). Cf. presentation of financial information in the Group management report on page 8.

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 4,917 for the 35% stake in DCNS at the end of 2013, 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 65,192 **employees were under Group management** at 31 December 2013. Employees under management include employees working for fully consolidated companies and companies

consolidated under the proportionate method as well as employees of controlled companies that are not consolidated because they are below the required 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 France, DCNS; in the US, Thales Raytheon Systems LLC and Advanced Acoustics Concept; in Germany, Diehl Aerospace GmbH, Junghans Microtec GmbH, and Helicopter Training Media International; in Italy, Telespazio; in Spain, Amper Programas; in the UK, City Link Communications Limited.

Employees under management, by business segment, were as follows at end-2012 and end-2013:

Employees under management at 31 December	Aerospace	Transport	Defence & Security	Others	Total
2013	17,915	6,407	35,306	5,564	65,192
2012	17,212	7,213	35,109	5,604	65,138

The breakdown of employees under management which now occurs within three Thales operating segments, remained broadly unchanged. The minor movements between the various segments (in particular

Transport) were largely due to reclassifications as a result of the implementation of the new Global Business Units structure.

The main programmes in the order book at 31 December 2013 break down as follows:

Value	Programme
More than €600m	Iridium (United States) Mirage 2000 upgrade (India) Rafale (France) Contact – software-defined radios development (France) Cockpit avionics for commercial aircraft
Between €400m and €600m	In-flight entertainment systems Service support for naval sensor systems – SSOP (United Kingdom)
Between €200m and €400m	Observation satellite (Africa) Defence communications network (France) FREMM Frigates (France/Italy) Rail signalling Fjernebanen West (Denmark)

2.2 RESEARCH AND INNOVATION

Thales needs to acquire increasingly sophisticated technologies, particularly in detection, analysis and decision-making fields, in order to design and develop critical information systems. These innovative solutions serve customers in the aeronautics, space, ground transportation, defence and security markets.

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 Group'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 2013 Thales spent almost €2,500m on R&D alone, an area which is vital for its competitiveness, including €705m⁽¹⁾ self-funded by the Group, representing around 28% of the total.

A significant part of this budget is dedicated to upstream research, conducted both at Thales Research & Technology (TRT) laboratories and the Group's centres of expertise, in order to develop:

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

2.2.2 Four key technical domains

Governance of research and development of key technologies is split into four domains:

- hardware technologies: 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;
- systems focused on architectural system design, this area provides support for methodology, processes and expertise.

Focus 1 - 3D printing: mechanical revival

3D printing has all the hallmarks of a disruptive technology. 3D printing, or additive manufacturing, is a process that allows objects to be manufactured layer by layer using digital model data.

This process is currently being explored for the mass production of parts with complex shapes and textures, using a range of polymers, metals and ceramics that are difficult to produce using traditional manufacturing methods such as machining, smelting, forging, plastic injection, etc. As well as being innovative in design terms, such parts are also resource efficient as no waste is generated in their production.

The Group's research teams have launched a number of pilots in this area. Thus, in 2013, complex operating parts were produced for a range of applications in three of the four domains: ground, space, airborne.

(1) Of which €32m of capitalised R&D.

2.2.3 Thales at the heart of innovation ecosystems

Wherever it has an industrial presence, Thales seeks to build partnerships within innovation ecosystems, with academic partners, design centres and industrial groups so as to jointly innovate on applications, business models and technologies.

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 laboratories, is responsible for building relationships with academic partners.

TRT has facilities in France, the UK, the Netherlands, Singapore and Canada. They are often located on university campuses, which facilitates interaction with the academic world. In France, the Palaiseau laboratory, located on the campus of the École Polytechnique, is part of a unique environment of world-class research networks, “Digiteo” (information technologies) and “Triangle de la Physique” (Physics Triangle). It is also heavily involved in the programme to build up 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 has a number of strategic partnerships with (but not limited to) the CNRS, ONERA, École Polytechnique, Université Pierre et Marie Curie (UPMC – 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 for artificial vision and with UPMC in data mining.

Thales is positioned as a major player in numerous high-tech clusters (including System@tic Paris-Région, Aerospace Valley in the southwest, the Maritime clusters in Brittany and Provence-Alpes-Côte d’Azur, the *Images et Réseaux* – images and networks – Telecommunications cluster in the Brittany region, etc.) and more recently the IRT (Institut de Recherche Technologique, technological research institute) “Saint Exupéry”, of which it is a founding member.

In the United Kingdom, the Reading site works closely with major British universities, including Cambridge and Bristol. Thales is an active member of a number of centres of excellence: the MVCE (Mobile Virtual Centre of Excellence) in mobile communications; the CSIT (Centre for Secure Information Technologies) based at Queen’s University Belfast; the IVHM (Integrated Vehicle Health Management) at Cranfield University, not to mention the CSIC (Centre for Smart Infrastructure and Construction) based at Cambridge University.

In Canada, the Group regularly works 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 and Laval University.

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

In emerging countries, Thales is looking to spur its growth by establishing innovation platforms locally, using the tried and tested principles of joint innovation with local players, and in that way building close long-term relationships.

Focus 2 - Avionics 2020: unveiled in June at the Le Bourget Air Show, won an award in October in Singapore

The new human-system interface concept “Avionics 2020”, looking ahead to cockpits a decade from now, enjoyed a promising inaugural year in 2013.

First unveiled at the Le Bourget Air Show in June, this human-system interface won the “Red Dot Award” in October 2013, a prestigious award in the field of interaction design and was selected as one of the 50 “best-of-the-best” from the 5,000 applications submitted.

This open cockpit, which can be configured by aircraft manufacturers, is built around a large touch screen display from which the flight and systems can be managed. Interaction is natural, with a very low learning curve, and reduces the workload while improving situational awareness. This cockpit has an augmented reality interface enabling normal piloting, even in poor visibility, on the ground and in the air.

Synergies between the fields of avionics and air traffic control mean that the cockpit is compatible with the most advanced air traffic management functions, in a transparent way for the crew.

This innovative solution is the outcome of a structured approach by a multi-disciplinary team comprising engineers, technologists, cognitive science specialists, pilots and designers.

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 200 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 engineering systems. This was extended to ENSTA ParisTech, Telecom ParisTech, DGA, DCNS and Dassault Aviation in 2011. In 2010, with Supelec, the Group launched a chair in analog electronics. In the domain of innovation, Thales supports the "Theory and Methods of Innovative Design" chair at Mines ParisTech. In 2012, two chairs were established, one in cybersecurity with the French military academy

of Écoles de Saint-Cyr Coëtquidan, and the other in environmental monitoring with the Versailles Saint-Quentin-en-Yvelines University. The policy to support chairs was continued and expanded in 2013 with four new chairs: radiofrequency technologies with the University of Limoges; defence economics with the IHEDN (Institut des Hautes Etudes de Défense Nationale); space industry economics with Toulouse Business School; major contemporary geostrategic issues with University of Paris I.

Thales also supports foundations (Fondation Télécom, Fondation Nationale de la Recherche en Aéronautique et Espace) that work to support training, research and innovation programmes that are in keeping with its goals.

Focus 3 - Thales positions itself for "Big Data"

Both in our personal and professional lives we are now on the receiving end of a massive amount of information every day, from a wide variety of sources – what we call "Big Data".

The scientific and technical theory behind "Big Data" is complex and consists of two axes. Firstly, intense research on new physical and logical storage architectures. Secondly, "Big Analytics" which brings together all the new methodologies and algorithms for analysing this data mountain so as to add value by identifying unexpected hidden causalities. In this way, decision-making is not only facilitated but also triggered.

Adjusting to these data mountains notably means mathematically modelling algorithm complexity in order to identify the most efficient solutions in computational terms with a view to generating results within a reasonable timeframe.

The Group's research teams are working on both aspects and are sharing their findings with customers in a host of fields: rail transport, space, IT security, air traffic control, maritime surveillance, etc.

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 around 400 new applications in 2013, 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. Thus,

for the second year running, Thales was named in the Thomson Reuters 2013 Top 100 Global Innovators, which recognises the 100 most innovative companies worldwide, emphasising the Group's commitment to innovation, the protection of ideas and the marketing of inventions.

The Thales portfolio included more than 15,000 patents and patent applications at the end of 2013 and is regularly adapted as operational requirements evolve, particularly to protect Thales's market share.

Focus 4 - Telecommunications satellites: high-speed broadband for everyone

Telecommunications satellites are launched, just like ground communications networks, as part of the high-speed broadband race. However, the radio spectrum needed to enable transmission from Space is a limited natural resource. The only way to grow the capacity of satellite systems is to expand the available radio spectrum by reusing the same frequencies tens or even hundreds of times. This involves dividing the region covered into multiple areas (or spots) separated from each other. In the past, reusing frequencies across areas required a complex set of four to eight large antenna on a large satellite.

Following years of research, Thales Alenia Space introduced a patented breakthrough solution, reducing the size of the satellite and the number of antenna for equivalent service.

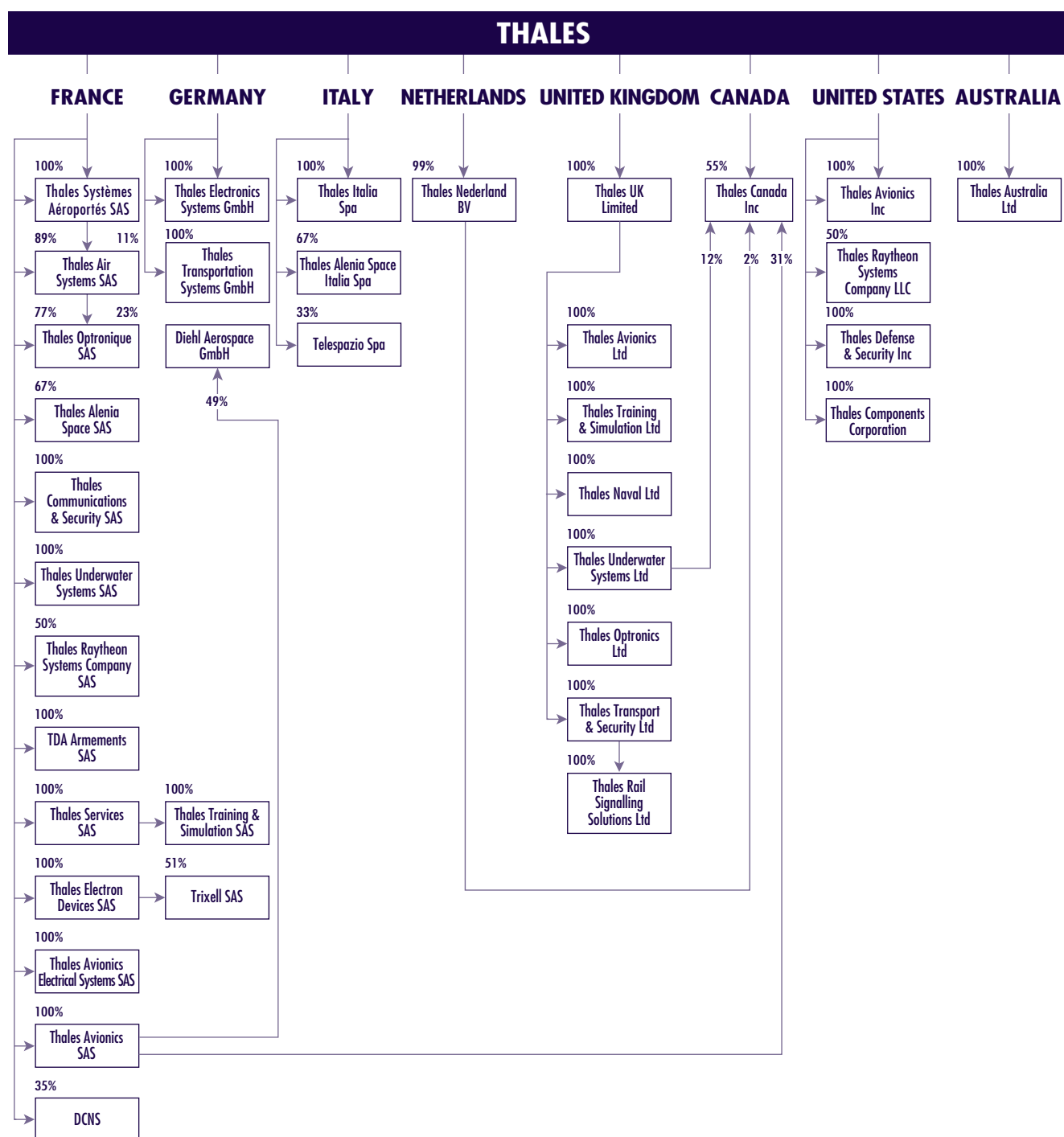
Gigabit no longer means "giga" satellite and "giga" investment because this solution can now be placed on board a small satellite.

2.3 RELATIONS BETWEEN THALES AND ITS SUBSIDIARIES

2.3.1 Simplified organisational chart of Thales at 31 December 2013

This simplified organisational chart includes, in the countries accounting for more than 1.5% 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 129 et seq. 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.

2.4 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 26 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
TDA Armements SAS	La Ferté Saint-Aubin	France	100%	100%
Thales Australia Ltd	Potts Point	Australia	100%	100%
Thales Air Defence Ltd	Belfast	United Kingdom	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	Saint-Laurent	Canada	100%	100%
Thales Communications & Security SAS	Gennevilliers	France	100%	100%
Thales Components Corporation	Totowa	United States	100%	100%
Thales Defence & Security Inc ^(a)	Clarksburg	United States	100%	100%
Thales Electronic Systems GmbH ^(b)	Stuttgart	Germany	100%	100%
Thales Espana Grp SAU	Madrid	Spain	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 AS	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 Security Solutions & Services Company	Riyadh	Saudi Arabia	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 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 UK Ltd	Weybridge	United Kingdom	100%	100%

(a) Formerly Thales Communications Inc.

(b) Formerly Thales Defence & Security Systems GmbH.

Information about major operational subsidiaries and manufacturing sites

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 Electronica Y Comunicaciones SA	Madrid	Spain	49%	49%
Citylink Telecommunications Holding Ltd	London	United Kingdom	33%	33%
DCNS	Paris	France	35%	35%
Diehl Aerospace GmbH	Uberlingen	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	51%	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%
Cloudwatt ^(a)	Boulogne-Billancourt	France	22%	22%
Elettronica SpA	Rome	Italy	33%	33%
ESG Elektroniksystem & Logistik GmbH	Fürstentfeldbruck	Germany	30%	30%

(a) First-time consolidation in 2013.

2.4.2 Major manufacturing sites

At 31 December 2013, 13 sites with over 1,000 employees accounted for around 43% of the global workforce under Thales management⁽¹⁾.

At 31 December 2013	Headcount	Owned	Size (m ²)
France			
Bordeaux (South-west)	2,133	Leased (Le Haillan), and Owned (Pessac)	59,000
Brest (Brittany)	1,418	Leased	55,055
Cannes (Provence)	1,961	Owned-Leased	86,000
Gennevilliers (Île-de-France)	3,508	Leased	86,920
Élancourt (Île-de-France)	2,914	Leased	104,980
Massy (Île-de-France)	1,086	Leased	31,000
Meudon-la-Forêt/Vélizy (Île-de-France - 8 sites)	4,624	Leased	122,800
Rungis (Île-de-France)	1,167	Leased	31,200
Toulouse (South-west)	3,796	Owned-Leased	52,855
United Kingdom			
Crawley	1,881	Leased	34,000
Netherlands			
Hengelo	1,384	Owned	100,000
Australia			
Sydney	1,020	Leased	60,000
Germany			
Stuttgart	1,000	Leased	18,600

(1) See definition on page 206.

2.5 OPERATING SEGMENTS

In early 2013, the Group has set up a new matrix organisation based on:

- six Global Business Units, grouped into three operating segments: Aerospace (Avionics, Space), Transportation (Ground Transport Systems) and Defence & Security (Secure Communications & Information Systems Land and Air Systems, Defence Mission Systems), in addition to DCNS, in which the Group has a 35% interest and which was accounted for under the proportionate method until 31 December 2013;
- an international organisation split into the major industrial countries (Germany, France, the Netherlands, the UK, Canada, the United States and Australia & New Zealand), other European countries and emerging markets.

2.5.1 Aerospace segment

The Aerospace segment encompasses the Avionics and Space Global Business Units.

The Avionics Global Business Unit offers a wide range of on-board capabilities and equipment for piloting, navigating and controlling aircraft systems, electrical power generation and conversion and in-flight entertainment systems. This unit also includes simulation and training solutions for military aircraft and civil and military helicopters, as well as microwave and imaging subsystems. Having partnered up with major aircraft manufacturers and airlines, Thales is positioned throughout the whole aviation industry value chain, in addition to its space and air traffic management activities.

The Space Global Business Unit offers space systems and solutions, in particular in the fields of telecommunications, optical and radar Earth observation, satellite navigation and space exploration. The strategic Space Alliance between Thales and Finmeccanica is tackling the major environmental, scientific, security and information society development challenges and is based on the complementarity of the solutions offered by Thales Alenia Space (67% owned by Thales) in satellite solutions and by Telespazio (33% owned by Thales) in services.

2.5.1.1 Avionics

2.5.1.1.1 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 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.

2.5.1.1.2 Competitive position

As one of the leading players on the avionics market, Thales is a supplier for the civilian and military aircraft manufacturers AgustaWestland, Airbus, Airbus Defence & Space, Airbus Helicopters, ATR, Bell, Boeing, Bombardier, Dassault Aviation, Embraer, Gulfstream, NHIndustries, Sikorsky and Sukhoi. The other major players in this field are the US companies 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.

2.5.1.1.3 Significant events in 2013

At the 2013 Le Bourget Air Show, Thales unveiled the Avionics 2020 demonstrator, a next generation cockpit built around interaction and direct and natural human-machine interfaces, designed to provide pilots with the latest heads-up and heads-down display technologies. The demonstrator, following on from the ODICIS demonstrator unveiled in 2011, won the prestigious Red Dot Award, given annually by Design Zentrum Nordrhein Westfalen⁽¹⁾.

(1) See focus 2 - Avionics 2020 of the Research and Innovation chapter in page 130.

In civil avionics, 2013 notably saw the successful inaugural flight of the Airbus A350 XWB, on 14 June 2013, for which Thales developed an integrated modular Avionics suite. This first flight kicks off a test programme with a view to bringing the first A350 XWB into service before the end of 2014.

Early in the year, Thales signed a deal with the aircraft manufacturer ATR to provide new capabilities for the ATR 600 series. The main development goals are improved operational efficiency and less environmental impact. These capabilities are scheduled for 2014.

Thales was also selected by Dassault Aviation to supply the on-board electrical-starter-generator and power conversion solution for its new business jet, the Falcon 5X. The electrification of this new business jet represents a major milestone toward a "greener airplane".

Amongst the deals signed with airlines, the decision taken by Philippine Airlines to use a wide range of Thales systems to equip its 44 A321 and 20 A330 stands out. The equipment ordered includes the TopFlight flight management system (FMS), with updated software being delivered for these aircraft. The Singapore company SilkAir opted for the BFE (Buyer Furnished Equipment) avionics package from Thales to equip its 23 Boeing 737NG. Thomas Cook (UK) selected Thales to provide a set of avionics solutions to equip its new Airbus A320 and A321. These solutions notably include a flight management system, surveillance products and the new on-board airport navigation system (OANS). Finally, Thales and the Airberlin group signed a seven-year Avionics-By-The-Hour agreement for Avionics component maintenance services for the German group's 64 A320.

In simulation and training, Thales announced the opening of a Helicopter Training Centre in Norway, scheduled for 2015. The Thales training centre will serve the growing demand for training services for local oil and gas operators. As part of its ever-expanding presence in the Chinese aeronautics market, Thales has partnered with the local operator Sichuan Haite to provide training solutions for civil helicopters in China. Thales will supply Sichuan Haite with its latest generation Reality H Level D Full Flight Simulator.

In In-Flight Entertainment, LAN Airlines and Thales have started the first operational trials of the new TopSeries AVA In-Flight Entertainment and Connectivity (IFEC) system. The system was installed on one of the company's Airbus A320. The TopSeries AVA IFEC enables portable electronic devices, regardless of brand or operating system, to access content over wifi (streaming video, music albums, games, moving camera) by installing a dedicated app. At the Aircraft Interiors Expo, Thales won the Crystal Cabin Award for its "Eye Tracking and Gesture Control" system, which utilises eyetracking and hand gestures to control the in-flight entertainment and Connectivity (IFEC) system, freeing passengers from traditional remote controls and touch-screens.

In terms of airline support, Thales has, for the seventh year running, been ranked highly in the Airbus Supplier Support Ranking, coming fifth out of the 38 systems suppliers. For the second year running, Thales also won a BASE (Bombardier Achieving Supplier Excellence) award from

Bombardier Aéronautique, in recognition of its high quality, delivery and competitiveness standards in 2013.

In avionics for helicopters, Airbus Helicopters confirmed its confidence in Thales, announcing the signing of a major deal (Meghas LIFEX - Life Extension - deal) for Thales and Airbus Helicopters marketed programmes. In addition, Turbomeca selected Thales to supply the Full Authority Dual-channel Engine Control (FADEC) for the Arrius 2R engine in Bell Helicopter's new short light single-engined five-seater helicopter.

In the military segment, the A400M transport plane was granted full civil certification by the European Aviation Safety Agency (EASA), prior to the delivery of the first A400M to the French Air Force on 1 August 2013. In addition, the UK Ministry of Defence awarded the A400M Atlas training contract to Thales and Airbus Defence & Space. Once more in the military segment, the first flight of the very first modernised Indian Mirage 2000 took place on 5 October 2013, three weeks ahead of schedule. Dassault Aviation awarded Thales the first phase in the development of a new standard for the Rafale France "F3R". This new software upgrade for the aircraft will notably enable integration of the Meteor missile as well as of the new generation laser targeting pod (PDL-NG). This segment was also marked by the success of the Critical Design Review of the high-performance inertial system and GPS designed to equip the Embraer KC-390 transport aircraft. Thales is supplying the HPIRS (High Performance Inertial Reference System) for this aircraft, developed by Embraer under contract from the Brazilian Air Force. The first test flights are scheduled for 2014, with the first deliveries following in 2016.

In UAV systems, Thales played a successful role in the test programmes for the demonstrator of the Barracuda reconnaissance and combat UAV, which contains the TOTEM inertial navigation system, designed and supplied by Thales. Congratulations were moreover received from Dassault Aviation for the contribution by Thales to the nEUROn stealth combat drone (UCAV) demonstrator programme. On board this precursor to the European combat drone, Thales notably supplied a very high-performance military-grade hybrid GPS-SBAS (Satellite-Based Augmentation System) inertial system, that helped ensure the drone could take off and land unassisted.

In 2013, Thales also consolidated its global leadership in microwave sources and X-ray detectors and continued to grow the subsystems business, winning large export orders, in particular in Asia.

2.5.1.2 Space

2.5.1.2.1 General overview

Thales Alenia Space is a joint venture between Thales (67%) and Finmeccanica (33%) and a partner in the Space Alliance, along with Telespazio.

Thales Alenia Space has more than forty years of experience in the design, integration, testing, operation and commissioning of

innovative space systems. These cutting-edge systems meet the needs of commercial, government, scientific, defence and security customers from around the world. The satellites and payloads designed by Thales Alenia Space have become the global standard for space systems that provide communications and navigation services, monitor our environment and the oceans, help us better understand climate change and drive scientific progress. Thales Alenia Space is also a leading supplier to the International Space Station, and a pivotal player in space systems designed to explore the Universe.

Thales Alenia Space is one of the world's leading designers of telecommunications satellites, platforms and payloads, a market that accounts for 50% of its business. The company offers a wide range of solutions, from supplying high-performance equipment to turnkey systems. The Spacebus family of geostationary platforms meets the needs of operators from around the world. The payloads designed by Thales Alenia Space have proven their performance, reliability and competitiveness on satellites made by all leading space industry manufacturers. Thales Alenia Space is one of the world's foremost players in low/medium earth orbit mobile communications constellations, with a total of 117 satellites on order (81 Iridium NEXT, 12 O3b and 24 Globalstar Second Generation).

In the military segment, the company operates in the design and production of extremely secure telecommunications systems and observation systems and high-resolution radar and optical payloads. It offers space segments and ground telecommunications systems (Syracuse, Sicral, Comsat-BWV) 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 the Franco-Italian cooperation with the Sicral and Athena Fidus programmes.

In Earth observation, Thales Alenia Space enjoys a leading position in high or very high resolution radar and optical payloads (sub-metre) for military, dual or civilian applications: information gathering, target acquisition, crisis management and mapping, meteorology, oceanography and climatology, etc.

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 (Siral on CryoSat, Poseidon on Jason). This altimetric product line is now a leader for exports to China, Russia and the United States (SADKO, SWIM and GFO-RA).

Thales Alenia Space is now also prime contractor for Exomars, ESA's most ambitious Mars mission, following the success of Herschel and of Planck, the largest space observatories ever developed in Europe. On the ground, it deploys radioastronomy antennae on the Atacama Plateau in Chile under the ALMA programme for the European Southern Observatory.

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 ESA and Cygnus for NASA, which will supply the ISS. In addition, the company is developing the IXV atmospheric re-entry demonstrator for 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.

2.5.1.2.2 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), Airbus Defence & Space, 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 Airbus Defence & Space and OHB, which may also be partners depending on the programme.

2.5.1.2.3 Significant events in 2013

In constellations, the first batch of four satellites from the O3b equatorial constellation, designed to provide high-speed Internet access, was launched whilst the Iridium NEXT programme successfully passed system CDR⁽¹⁾. Iridium also launched its Iridium PRIME programme designed to provide opportunities for hosting payloads other than mobile telephony. Thales Alenia Space signed a contract with the operator Arabsat for the BADR7 satellite, in partnership with Airbus Defence & Space, and with Visiona a contract to build the SGDC dual communications satellite for Brazil, thereby giving it access to the ambitious space programme drawn up by the Brazilian Space Agency. In addition to the latter contract, Thales Alenia Space also signed a Memorandum of Understanding with the Brazilian Space Agency concerning a transfer of technology.

In the defence segment, Thales Alenia Space signed the KALB (standing for Kit Aero Large Bande, i.e. Wide Band Airborne Kit) study contract with the DGA⁽²⁾ with the aim of enhancing communication between the ground and military mission aircraft through a communications satellite and preserving the connection regardless of what the aircraft does (attitude, tight turns, landing, etc.).

In Earth observation, Thales Alenia Space was chosen by the United Arab Emirates to provide the high-resolution optical systems for two Falcon Eye satellites. A contract was also signed with EUMETSAT⁽³⁾ to supply the ground segment of the Meteosat Third Generation Programme.

In the field of science, cooperation between ESA (European Space Agency) and Roscosmos (Russian Federal Space Agency) on the Exomars programme to explore Mars, for which Thales Alenia Space is prime contractor, made it possible to sign the contract to finalise the 2016 mission and to make progress on the 2018 mission. The Euclid contract to study dark energy was signed with ESA as was the contract

(1) Critical Design Review.

(2) DGA: French defence procurement agency.

(3) European Organisation for the Exploitation of Meteorological Satellites.

with the Italian Space Agency for METIS, an instrument that will fly on board the Solar Orbiter to study the solar corona.

In space transport, Thales Alenia Space launched the first Cygnus cargo module built with Orbital Sciences on behalf of NASA and delivered the second module. Seven other models are currently being integrated at the Turin site.

In satellite navigation, Thales Alenia Space signed a contract with Telespazio within the framework of the overarching Egnos service provision contract signed by ESSP⁽¹⁾ and Telespazio. This overarching contract covers Egnos support and maintenance operations for a period of 8 years.

In order to expand its market opportunities, Thales Alenia Space established Universum Space Technologies in 2013, a joint venture with

its long-standing partner in Russia, ISS Reshetnev. Based in Krasnoyarsk, it will focus on the production of equipment for Russian communications satellites to the highest international standards. It will then work on the development of new products for satellites, enabling it to more completely address the requirements of both Russian and international markets in the future.

Furthermore, Thales Alenia Space decided to expand its operations in Belgium with the opening of a new facility in Leuven. This new structure will develop novel avionics technologies and products for satellites and launchers. Thales Alenia Space also opened the new facility in Aquila, which had been destroyed in the 2009 earthquake. This facility will focus on the development and production of electronic equipment and antenna for telecommunications, remote sensing, and radar and military applications.

2.5.2 Transport segment

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 passenger experience, and managing the growing complexity of transport systems. Thales solutions help increase the capacity of transport infrastructures and promote highest safety in the transport of people and goods, rapidly and cost effectively.

2.5.2.1 Ground Transportation Systems

2.5.2.1.1 General overview

The Group is one of the world's foremost players in rail signalling and control and supervision systems for urban and mainline transport networks. The Group is also a key player in the fare collection and toll segment.

In rail signalling, Thales provides systems for conventional and high-speed mainline networks, 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 passengers, network and personal safety.

Thales is also a global player in passenger payment collection solutions, particularly for public transport operators with a strong expertise in multimodal and multi operators ticketing systems, as well as in the Intelligent Transport Systems segment (tolls and car parks).

2.5.2.1.2 Competitive position

Thales addresses the ground transportation business with a portfolio of solutions and services dedicated to the operation, security and safety of rail and highway infrastructures. Specialised in intelligent critical systems and services Thales differentiates from "generalist" competitors, whose offer is dominated by rolling stock, as well as from single-domain players. Its key capabilities make Thales a recognised leading player with strong positions in these markets.

The competitive landscape varies significantly depending on the segment targeted by Thales. In signalling, Thales main competitors are Siemens, Alstom, Ansaldo STS, Bombardier and GE Transportation. In terms of supervision and communications, the major generalist players are also present, as well as more local and/or specialist providers such as HollySys, Indra and STE. In Revenue Collection, the main Group's competitors are Cubic, Parkeon, Scheidt & Bachmann and Xerox.

2.5.2.1.3 Significant events in 2013

2013 was a very successful year for Thales, with strong demand both for the development of new transport infrastructures and for the modernisation of existing infrastructure.

In urban rail signalling, in Canada, the SelTrac® CBTC solution was chosen to equip the new Vancouver (Evergreen) and Ottawa (Confederation) metro lines. In Brazil, Thales signed a contract to provide the signalling and telecommunications systems for the new Light Rail Transit system in the city of Santos. In Chile, Thales, as part of a consortium with CAF, was chosen to provide the SelTrac® CBTC system for lines 3 and 6 of the Santiago metro, as well as system maintenance for a period of 20 years. In Dubai, Thales won a maintenance contract and will provide the technical support for the signalling, telecommunications and ticketing systems on the red

(1) European Satellite Services Provider.

line. This contract covers 29 stations spread over 52km. In mainland China, the Thales SAIC Transportation System Ltd joint venture won four new contracts to equip the Nanjing (line 4), Guangzhou (line 9) and Nanchang (Phase 1) metros. Also in China, Hong Kong's metro operator, MTR Corporation, awarded Thales the signalling contract for phase 1 of the SCL line using the SelTrac® CBTC system. The contract also includes an upgrade option and a switchover to an automatic driverless mode on the MOL and WRL lines.

In mainline railway signalling, Thales won a contract in South Africa to upgrade the signalling on a suburban rail network serving the Western Cape province. This project involves some 250km of track and 46 stations in what are heavily populated areas, with residents ultimately enjoying a more reliable and comfortable service. In Egypt, Thales will upgrade the signalling on the line linking Cairo and Alexandria (208km). Following this upgrade, the line's capacity will rise from 25 to 32 million passengers per annum. In Bulgaria, Thales will equip the Sofia-Plovdiv line with an electronic signalling and telecommunications solution including the European Train Control System (ETCS) standard. In Poland Thales will provide passenger information and signalling systems, including ETCS level 2 on the 350 km E65 line linking Warsaw and Gdynia. The line linking Radom and Warsaw Okęcie will also get Thales designed advanced signalling systems.

In India, the Thales passenger information system was chosen to equip an extension to line 6 on the Delhi metro as well as the new Jaipur

metro which, once completed, will be one of the largest metro systems in India.

In France, Thales won the contract to maintain the fare collection system for the whole SNCF Transilien network. This contract covers almost 400 stations.

In Saint-Domingue, metro line 2, equipped with Thales communication, supervision, signalling and ticketing systems, which crosses the city from east to west, came into operation. In the United Kingdom, the Northern line upgrade in London passed a major milestone. Between Highgate and High Barnet stations it is now controlled by the Thales SelTrac® CBTC signalling system. Elsewhere in the United Kingdom, in Manchester, Transport for Greater Manchester (TfGM) opened the extension to the Metrolink tramway line between Droylsden and Ashton-under-lyne a number of months ahead of schedule. This extension brings the total length of the line to 76.8km with 73 stations.

In ticketing, Thales unveiled M-TOPUP, a new travel card top-up system developed by its global centre of competence based in Brétigny-sur-Orge. This solution allows passengers to top up their travel cards via their mobile phones without having to stop at a ticket machine.

In Malaysia, Thales signed a memorandum of understanding with MIGHT (Malaysian Industry-Government Group for High Technology) to create a rail centre of excellence in order to develop local expertise.

2.5.3 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: land, air, naval, space 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, cyber-attacks, natural disasters, etc.

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

2.5.3.1 Secure Communications and Information Systems

2.5.3.1.1 General overview

At the heart of the defence-security continuum, Thales offers interoperable and secure information and telecommunications systems for military and security forces. These businesses, which encompass telecommunications, information systems and security, are positioned in growth markets and benefit from the boom surrounding new technologies in these fields, such as 4G mobile communications and cloud computing. Thales 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), force protection and 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 defined radio solutions, and in particular builds on the CONTACT programme in France, the European consortium ESSOR and RIFLEMAN in the United States;

(1) Identification Friend or Foe.

- **Network and Infrastructure Systems.** Ensuring the security, integrity, service continuity and resilience of deployable or mobile infrastructure and telecommunications networks are major challenges for governments, armed forces and essential businesses. The solutions designed by Thales, including logistical support and related services, meet the most demanding needs worldwide. For instance, 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⁽¹⁾ in Afghanistan. In France, the Group manages the construction and deployment phases, through to operation of the information, communication and security systems of the future Ministry of Defence site;
- **Information Technology Security.** Notably through its strong expertise in cryptography, Thales is one of the global leaders in cybersecurity products and solutions for critical government and military infrastructure, satellite networks, industrial and financial firms. Present throughout the security chain, Thales offers a full range of solutions and services from security consulting, intrusion testing and architecture design, to system certification, the development of products and services and their management throughout their lifespan and security monitoring (Security Operation Centres in France and the UK);
- **Protection Systems.** Thales has developed C4I systems for the armed forces, 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;
- **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 fifteen IT service centres and its five highly secure data centres, Thales has the capacity to guarantee very high service levels, working closely with customers whether they are public organisations or major companies. The offering covers managed services for critical infrastructure, dedicated or cloud computing based, the development and integration of high-performance, high-integrity software, the maintenance and development of critical IT systems as well as their permanent security management.

2.5.3.1.2 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, General Dynamics and Raytheon. In Europe, Rohde & Schwarz has a strong presence in naval communications and electronic warfare.

In protection systems, Thales's competitors are mainly in the Aeronautics & Defence sector (Boeing, Northrop Grumman, Honeywell, Airbus

Group, etc.) or information systems (IBM, Atos, Capgemini, etc.). The latter are also competitors of Thales in critical information systems.

Finally, in information system security, Thales competes with companies such as RSA and Safenet in the civil market and BAE Systems, Ultra Electronics, Airbus Group, Rohde & Schwarz and Secunet in the defence market.

2.5.3.1.3 Significant events in 2013

In France, the signing of the second phase of the CONTACT contract reaffirms the positioning of Thales in **software radio solutions** for all branches of the armed forces (land, sea, air). With the first deliveries expected in 2018, the solutions will see the replacement of existing sets, with performance meeting the needs of modern combat (higher data rates, greater protection). Similarly, Thales continues to enjoy a strong position in the United States with over 200,000 MBITR software radios delivered to the US armed forces. In 2013, Thales introduced new innovations with the MBITR 2, the first two-way portable software defined radios on the market, which will wholly satisfy the high-speed transmission requirements of dismounted operations. This new radio is currently being tested by the US armed forces.

In **aeronautical communications**, Thales has a comprehensive offering for theatres of operations in response to the operational needs of armed forces. This system was deployed as a central part of the operations undertaken by the French armed forces in Mali, providing communications between the aircraft (Rafale, Mirage), the tactical command centre in Chad and mainland France.

In 2013, Thales was awarded the contract to upgrade the **naval communications** system on the Charles de Gaulle aircraft carrier. This upgrade will provide the aircraft carrier with secure Internet access for phone and data services. Similarly, Thales won the contract to revamp the telecommunications systems on the Saudi Arabian Sawari frigates.

Communications **electronic warfare** remains very active, with in particular the signing of a major contract with a Middle Eastern country. Thales will provide the COMINT⁽²⁾ payload for a surveillance aircraft, enabling the interception and location of the communications of adversaries.

In **secure networks and infrastructure**, NATO renewed for an additional year the secure communications and information services contract for ISAF (International Security Assistance Force) in Afghanistan. In the United Kingdom, Thales was chosen to provide secure communications services for a number of UK government agencies.

In France, Thales was awarded the contract to upgrade a strategic transmission network destined for the armed forces. Thales announced the launch of NEXIUM Wireless, its new network solution based on LTE (4G) technology to provide security forces with secure, resilient, high-speed communications.

In **security**, Thales signed a major contract in the Middle East to secure critical infrastructure. In Australia, Thales will provide an event management system for the G20 summit to be held in Brisbane in November 2014.

(1) 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.

(2) COMINT: COMmunications INTelligence.

Following new national and international regulations on digital command and control system security, Thales and Schneider Electric signed a cooperation agreement in 2013 for the marketing of **cybersecurity** solutions and services, in order to protect critical infrastructure from the risk of cyber-attack. At the end of 2013, Thales opened a new integration and innovation centre in the UK wholly devoted to cybersecurity. A number of other cybersecurity-related cooperation agreements were signed in the Middle East, most notably with the University of Qatar to establish a training centre and with Injazat in the United Arab Emirates.

TEOPAD, a security solution for smartphones and tablets received CSPN certification (first level security certification) from the French Network and Information Security Agency (*Agence Nationale de la Sécurité des Systèmes d'Information* – ANSSI). This vote of confidence shows that TEOPAD meets its security targets and that no exploitable vulnerabilities were identified during the evaluation.

The nShield Hardware Security Modules (HSM) developed by Thales were also chosen by Microsoft to strengthen the security of its Microsoft RMS⁽¹⁾ data protection technology for Windows Azure, Microsoft's cloud offering.

Finally, Thales is a major supplier of security products to NATO: tactical and infrastructure network encryption devices, key distribution and management system. In 2013, Thales launched the development of an Electronic Fill Device to round off its range and thereby make it even more comprehensive and coherent.

In military **C4I systems**⁽²⁾, a number of customers reiterated their confidence in Thales, in particular the Canadian army for the Land Command Support System, Australia for the "Command & Intelligence Support Organisation" programme and France for the support and maintenance of the SICF (army) and SIC 21 (navy) systems. The German manufacturer Krauss-Maffei Wegmann chose Thales to equip mobile command systems for new platforms, as part of the modernisation and digitisation of the armed forces of a Middle Eastern country.

In **critical information systems**, Thales strengthened its position as a trusted information security provider in France and the UK following the winning of a number of new outsourcing contracts in 2013. These contracts bring to over twenty the number of customers – essential businesses, banking groups, major industrial groups, public bodies – for which Thales provides cybersecurity, in particular monitoring security from its operational centres. Thales won two managed services contracts to roll out its new hybrid managed service solution, built around dedicated IT platforms and private cloud-computing type platforms, for a major private investment bank and a major aeronautical equipment manufacturer. Finally, the French Space Agency (*Centre national d'études spatiales* – CNES) awarded Thales the development of its critical information system, the ISIS – CNES Initiative for Space Innovative Standards.

Cloudwatt, a French provider of cloud computing infrastructure established in 2012 by Thales, Orange and Caisse de Dépôts et des

Consignations, launched its service offering. The Cloudwatt platform security solution was defined and supplied by Thales, which is also responsible for monitoring.

2.5.3.2 Land and Air Systems

2.5.3.2.1 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.

The Group thus has a key role in the modernisation of this sector, as architect and integrator for the air traffic management of the future, mainly through initiatives such as ICAO's⁽³⁾ Aviation System Block Upgrades, SESAR⁽⁴⁾ in Europe and the NextGen programme in the United States. Thales remains the leading Industrial Partner of the SESAR project.

In the military domain, Thales and Raytheon each own 50% of Thales Raytheon Systems, a leading international air defence company. Since its creation in 2001, Thales Raytheon Systems has sold air defence radars, including the GM200 and GM400 built by Thales, and command and control centres for military airspace throughout the world, ensuring the protection and security of forces and resources deployed in over 60 countries. Thales Raytheon Systems is notably prime contractor for NATO's Air Command and Control System (ACCS).

Moreover, Thales offers one of the broadest lines of civil and military, ground and sea surface radar on the market, particularly with the ground radars Ground Master 60, 200 and 400, the mortar and rocket detection radar Ground Alerter 10, the coastal radars Coast Watcher 10 and 100 and the air traffic control radars STAR 2000, TRAC 2000N and RSM 970S.

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 RAPIDDefender) and very short-range markets (RAPIDFire). The Group also specialises in multirole weapons systems based on the new lightweight multirole missile (LMM). Thales is also a major player in the munitions sector: 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.

(1) Microsoft Rights Management Service.

(2) C4I: Computerized Command, Control, Communications and Intelligence.

(3) International Civil Aviation Organization (ICAO).

(4) Single European Sky ATM Research.

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 open architecture systems of vehicles provide highly standardised “plug and play” capability for on-board sub-systems and products, increasing vehicle capability and performance whilst reducing size, weight and operator workload and whole life system costs.

2.5.3.2.2 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.

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

In the military segment, Thales's main competitors are the US groups Lockheed Martin, Northrop Grumman, and Raytheon, and Finmeccanica, Airbus Group, BAE Systems, Indra and Saab in Europe.

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, Thales created with Safran, one of the other major European player in the domain, a 50:50 joint venture commercial company called Optrolead, which markets future optronics systems, especially to armies. 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 Dutch governments. This market segment is dominated, on an international level, by BAE Systems, General Dynamics, Rheinmetall, Krauss-Maffei Wegmann (KMV) 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 Talisman, Foxhound and Warthog.

2.5.3.2.3 Significant events in 2013

In air traffic management, Thales finalised the acquisition of Egis Avia's ITS business thus strengthening its expertise across several key areas, most notably arrival/departure flight sequencing synchronisation

systems. Thales is now positioned in the provision of air traffic control and control tower training systems (Scansim simulators) for civil aviation schools. In France, on the back of the 4-Flight contract, signed in 2011, the French Department of Air Navigation Services (*Direction des Services de la Navigation Aérienne* – DSNA) reaffirmed its choice of Thales by undertaking functional development with initial roll-outs at 2 of the 5 en-route control centres in France (Reims and Aix-en-Provence). A number of contracts for civil air traffic control systems and radars were signed in Europe (Belarus, France, Estonia, Hungary, Serbia and COOPANS⁽¹⁾), in the Middle East (United Arab Emirates), in Asia (China, Indonesia, Philippines, Turkmenistan), in Africa (South Africa, Democratic Republic of the Congo and ASECNA⁽²⁾) and in Central and Latin America (Colombia). Regarding navigational aids, the main contracts were signed in the UK, the United States, Kazakhstan and Kuwait.

In ground radars, the Ground Alerter 10 demonstrated its capabilities in Afghanistan and has been deployed by the French army in other external theatres of operations. Thales also delivered 15 radars from the Ground Master family to air forces in a number of countries, along with 11 Coast Watcher 100 coastal radars in Asia. Thales Raytheon Systems signed contracts for 20 GM400 and GM200 radars with France, Finland, a central Asian country and a Middle Eastern country. In weapon locating radars, Thales signed two major contracts with customers in Middle Eastern countries for a number of Cobra radars, via the Euro-Art International EIG. Various important milestones were successfully completed in the demonstration of the operational capabilities of the NATO Air Command and Control System (ACCS), including system tests and on-site tests. The deployment phase is currently under way. The contract for the additional theatre missile defence capability for the ACCS was also signed with NATO.

In the sphere of advanced weapons systems, 2013 was marked by the opening of the Advanced Air Defence Ops Centre, designed to support business development, proposals and projects involving advanced air defence solutions. The last SAMP/T section was delivered to the French Air Force in November and Thales won major support and services contracts for the Crotale in 2013. Training of the Royal Thai Army has been completed and all STARStreak equipment have been successfully delivered. The UK MoD continued acceptance of STARStreak and signed an additional contract for additional missiles. Development of the Lightweight Multirole Missile (LMM) continued with further tracking trials successfully completed. Further surface attack activities included contract signature in Indonesia for NLAW Combat Weapon system and 20,000 NLAW launch system deliveries completed worldwide. Development of the Lightweight Multirole Missile (LMM) continued with the first firing of the SAL variant of the missile with various missile and launcher trials successfully completed both in UK and overseas.

In 2013, the Optronics domain significantly increased its international footprint and positioning on export markets with the creation of maintenance centers in Russia and Pakistan, by winning significant contracts in the Middle East or the selection of Thales optronics for the

(1) COOPANS: air traffic management system involving Austria, Croatia, Denmark, Ireland and Sweden.

(2) ASECNA: Agency for Air Navigation Safety in Africa and Madagascar, involving 17 African countries.

new fleet of Canadian Tactical Armoured Patrol Vehicles, as well as the successful integration of Artemis on the French Multi-Mission Frigate (FREMM). Thales also successfully launched its Sophie lite thermal camera, received Airbus Defence & Space qualification for its Enhanced Vision system (EVS) on the A400M, as well as completed successfully the pre-development phase of the new-generation laser targeting pod (PDL-NG) and a contract for a new standard of RECON-NG pod for the French Air Force. In the field of lasers, Thales confirmed its market position on intense laser intended for scientific research with the notification of contracts in Romania, Germany, Japan and China.

For Protected Vehicle systems, Thales marked the delivery of the 1,000th Bushmaster protected vehicle from its Bendigo facility in Australia. Thales also marked the opening of its dedicated vehicle maintenance facility at Eagle Farm in Brisbane (Australia). Thales successfully delivered six Hawkei prototypes to the Australian Defence Force for testing. The program is progressing well with all milestones met. For the UK Ministry of Defence, a new vehicle-mounted surveillance capability was delivered, additional mission systems for Foxhound patrol vehicles were ordered and further quantities of rifle sights were supplied through the Future Integrated Soldier Technology (FIST) programme.

2.5.3.3 Defence Mission Systems

2.5.3.3.1 General overview

Thales has recognised global positions in airborne combat, intelligence, surveillance and reconnaissance electronic systems as well as in naval surface and underwater combat systems.

For **airborne combat missions**, Thales manufactures radar systems and equipment for the Rafale and Mirage 2000, as well as radar electronic warfare systems, used in threat detection and platform protection.

For **airborne intelligence, surveillance and reconnaissance missions**, 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. Thales also designs complete intelligence, surveillance, target acquisition and reconnaissance systems for UAVs.

In **surface naval warfare**, the Thales offering covers all combat systems with the integration of equipment (radar, electronic warfare, infrared sensors, etc.), weapons systems, communications and command equipment, as well as naval engineering capabilities.

In **underwater warfare**, the Group offers a broad line of products including the submarine sonar suite, hull-mounted and towed array sonar for surface ships, anti-mine systems incorporating multiple sonars, including using unmanned underwater vehicles, as well torpedo acoustic heads.

2.5.3.3.2 Competitive position

In **electronic combat systems**, Thales is one of the leading European players, competing with Finmeccanica, BAE Systems, Lockheed Martin, Raytheon and Northrop Grumman in addition to Airbus Group, General Atomics and Elbit in the sphere of **intelligence, surveillance and reconnaissance systems**.

In **surface naval systems**, Thales is one of the leading European players with of Selex, Saab and BAE Systems and is in competition with Lockheed Martin. In **underwater warfare**, Thales is one of the main European player with Atlas Elektronik and Ultra and is in competition with the US firms Lockheed Martin, Raytheon and L3 Communications.

2.5.3.3.3 Significant events in 2013

Electronic Combat Systems. Deliveries of the RBE2 radar with active electronically scanned array (AESA) continued: the Rafale remains the only European combat aircraft in service to have this technology. The DGA⁽¹⁾ awarded the contract for the development of the "F3R" standard for the Rafale France. Finally, as scheduled, the first flight of the first modernised Indian Mirage 2000 was a success.

Airborne surveillance and intelligence systems. The French Ministry of Defence awarded the contract to refurbish 15 Atlantic 2 maritime patrol aircraft. The contract for the CERES (space-borne electromagnetic intelligence capability) system was awarded by the DGA⁽¹⁾. The first Falcon 50M maritime surveillance aircraft was delivered to the French customer. In the UK, the Watchkeeper tactical UAV system received a Statement of Type Design Assurance, opening the way for initial Release to Service. Finally, as part of the Meltem programme in Turkey, the customer, after having taken delivery of the last maritime surveillance aircraft, accepted the first maritime patrol aircraft as final.

Surface naval systems. A number of contracts were signed in 2013, in particular in Poland for the delivery of a full combat system and in Indonesia to equip four PKR vessels. As part of existing programmes, the APAR radar performed to the satisfaction of the Danish Navy in missile test-firing. Similarly, test-firing was completed on three export programmes. In Saudi Arabia, Thales will work alongside DCNS in refurbishing four frigates and two tankers (LEX Sawari I contract).

Underwater warfare systems. The Malaysian Navy signed a contract to equip its new SGPV vessels with Captas towed array sonar. In Korea, a contract was awarded to equip eight helicopters with dipping sonar. In the UK, a major 10-year in-service support contract (SSOP⁽²⁾) was agreed for sensor systems used by the Royal Navy. Under this agreement, Thales will provide in-service support for the sonar, electronic warfare systems and visual systems of the Royal Navy's submarines, as well as the major surface sonar and electronic warfare systems. With respect to programmes, the fourth and final Karwar-class minehunter was delivered to the Indian Navy. The NH90 helicopter successfully completed the first test flights using the Flash sonar. Deliveries of the ALFS sonar to the US Navy continued at a steady pace; the 115th sonar was delivered at the end of 2013. Morocco's FREMM frigate successfully completed sea trials while the Australian Navy officially commissioned the MU90 torpedo.

(1) DGA: French defence procurement agency.

(2) SSOP: Sensors Support Optimisation Project.

2.5.4 DCNS

Thales owns 35% of the share capital of DCNS and enjoys joint control together with the French State. This interest was accounted for under the proportionate method at 35% until 31 December 2013. Further information about DCNS can be found on the website www.dcnsgroup.com.

2.5.4.1 General overview

DCNS is one of the global leading players in naval defence and an innovator in the energy sector. The company designs, builds and supports submarines and surface combatants as well as associated systems and infrastructure. DCNS also provides services for naval shipyards and bases. In addition, the company 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 multi-mission 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 Triomphant 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;
- Combat Management Systems (CMS), integrated into vessels built by DCNS or added when vessels are being modernised, that combine information from different sensors, display the tactical situation and propose action in the form of the use of weapons systems or countermeasures;
- 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.

2.5.4.2 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 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 (France) to develop its business in this domain.

2.5.4.3 Significant events in 2013

In **Surface naval systems**, DCNS started training Malaysian engineers in corvette design as part of an innovative partnership involving the supply of six Gowind® front-line corvettes to the Royal Malaysian Navy. In collaboration with STX France, the first projection and command ship for Russia, for which DCNS acted as prime contractor, was launched. In frigates, DCNS launched the second FREMM multi-mission frigate (FREMM *Provence*) for the French Navy and completed sea trials on the FREMM *Mohammed VI* in preparation for delivery to the Royal Moroccan Navy in January 2014. In patrol vessels, DCNS and its local partners delivered the sixth and final Skjold patrol vessel to the Royal Norwegian Navy. In maritime security and surveillance, DCNS launched a major sea exercise to demonstrate to the European Commission the advantages of a common maritime surveillance system between Member States for the purposes of detecting suspicious activities at sea. Finally, DCNS and the French company Piriou set up Kership, a joint venture specialising in maritime security ships built to civilian shipbuilding standards.

In **Submarines**, DCNS's industrial programmes in India, Brazil and France are ongoing. In France, DCNS successfully passed the eleven milestones of the Barracuda nuclear-powered attack submarine programme for the French Navy scheduled for 2013. In Brazil, the company opened the industrial facility in Itaguaí at which the Scorpène® submarines will be built for the Brazilian Navy. The front section of the first Scorpène® submarine completed in Cherbourg was delivered to this facility. Other materials are in the process of being delivered, thereby enabling the submarine to be fully built. In India, Mazagon Dock Limited (MDL) continues to work on the construction of six Scorpène® submarines as part of a transfer of technology agreement and DCNS delivered a first batch of equipment to the shipyard for the second Scorpène submarine®.

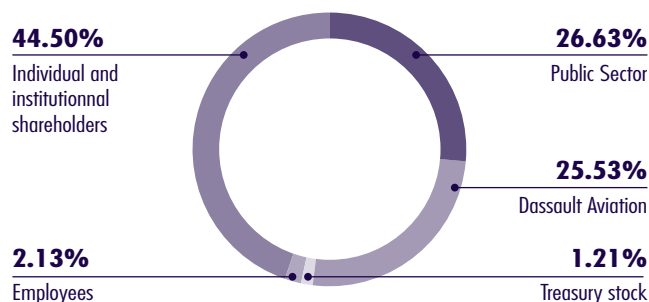
In **Services**, DCNS won the contract for the complete modernisation of four Al Medinah class frigates and two Boraida class oil tankers for Saudi Arabia (LEX Sawari I contract). In France, DCNS successfully completed the intermediate refit of the Charles de Gaulle aircraft carrier. DCNS is also working on the programme to refit and adapt French ballistic missile nuclear submarines to the M51 missiles.

In **Civil Nuclear**, DCNS continued work on existing projects for EDF on the EPR (France, China, Finland) and on behalf of the CEA at the Cadarache facility (Jules Horowitz reactor). The company is positioned on engineering, supply and construction contracts. At the same time, DCNS is continuing proof-of-concept studies on Flexblue®, a small underwater nuclear power plant.

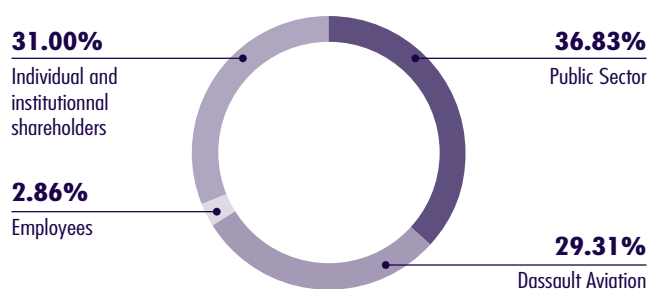
In **Marine Renewable Energies**, DCNS took control of the Irish company OpenHydro, specialised in tidal energy systems. DCNS also signed an agreement with Ocean Thermal Energy plc (OTE plc) to jointly develop and build Ocean Thermal Energy Conversion (OTEC) and SWAC

(Sea Water Air Conditioning) systems. In addition, DCNS, Fortum and AW-Energy, supported by the Brittany Region, signed a development agreement in the marine renewable energy sector in France.

► DISTRIBUTION OF CAPITAL - 31 DECEMBER 2013



► DISTRIBUTION OF VOTING RIGHTS - 31 DECEMBER 2013⁽¹⁾



(1) Exercisable at that date.

Shareholding in concert by the "Public Sector" and the "Industrial Partner"

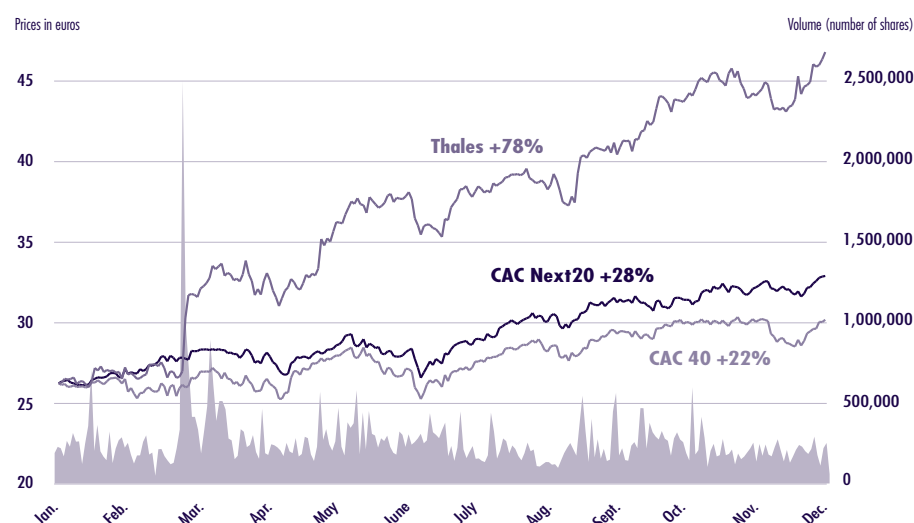
- Three agreements: the shareholders' agreement, the agreement on the protection of strategic national interests and the specific agreement;
- Principal provisions:
 - Definition of corporate governance and members of Thales corporate governing bodies,
 - Veto right and commitments of the "Industrial 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 five years.

Board of directors

- 16 members, including 14 elected by the General Shareholders' Meeting, one representative of employee shareholders, and two employee representatives;
- Four independent members and five women on the Board of directors in 2013;
- Reduction from six to four years in the length of the terms of directors, approved by the General Shareholders' Meeting of 24 May 2013;
- Board met seven times in 2013, with an attendance rate of 92%;
- Three Committees:
 - Strategic Committee (four meetings in 2013 with an attendance rate of 100%),
 - Audit & Accounts Committee (five meetings in 2013 with an attendance rate of 95%),
 - Selection & Remuneration Committee (five meetings in 2013 with an attendance rate of 100%).

Market information

► THALES SHARE PRICE COMPARISON WITH CAC 40 AND CAC NEXT 20



The Thales share (HO FP) is listed on the regulated market Euronext Paris (Compartment A) of NYSE-Euronext.

Closing price of the Thales share:

- 2 January 2013: €26.240
 - 31 December 2013: €46.800
- TSR⁽²⁾: +82.47%

(2) TSR 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.



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

Initially constituted on 11 February 1918 for 99 years, the Company saw its term extended by the Annual General Meeting of 24 May 2013. The expiry date is now set to 23 May 2112.

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. the research, obtention, acquisition, disposal, exchange, supply, hire or use of all concessions or enterprises, whether private or public, 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. and 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 the Company can be consulted at the head office through the Company Secretary.

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 the French official bulletin of legal notices (*Bulletin des annonces légales obligatoires*) 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' 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 accountholder 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.

Pursuant to the applicable regulations, every month, the Company publishes on its website the number of shares comprising the share capital and the total number of voting rights - based on all threshold excesses (statutory and legal).

3.1.3 Information on the distribution of capital issued

At 31 December 2013, the share capital stood at €617,233,500, divided into 205,744,500 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 – France).

The share capital is fully paid-up. It includes a golden share resulting from the conversion of an ordinary share belonging to the French State, as decided by decree no. 97-190 of 4 March 1997, implementing the law on privatisation of 6 August 1986 (see page 157).

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 December 2008		3,648,150,096			596,174,427	198,724,809
Fiscal year 2009	Exercise of stock options	7,486,024	299,123	897,369		
31 December 2009		3,655,636,120			597,071,796	199,023,932
Fiscal year 2010	Exercise of stock options	1,459,014	58,095	174,285		
31 December 2010		3,657,095,134			597,246,081	199,082,027
Fiscal year 2011	Exercise of stock options or payment of dividend in shares	74,304,866	3,246,430	9,739,290		
31 December 2011		3,731,400,000			606,985,371	202,328,457
Fiscal year 2012	Exercise of stock options	220,794	11,217	33,651		
31 December 2012		3,731,620,794			607,019,022	202,339,674
Fiscal year 2013	Exercise of stock options	94,942,634	3,404,826	10,214,478		
31 DECEMBER 2013		3,826,563,428			617,233,500	205,744,500

3.1.3.2 Changes in the distribution of capital and voting rights over the last three financial years

At 31 December 2013, the total number of exercisable voting rights was 297,485,044. 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 151).

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 December 2013			31 December 2012			31 December 2011		
	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(a)	54,786,654	26.63%	36.83%	54,786,654	27.08%	37.01%	54,786,654	27.08%	41.73%
French State (inc. 1 golden share)	2,060	–	–	2,060	–	–	2,060	–	–
Public Sector ^(a)	54,788,714	26.63%	36.83%	54,788,714	27.08%	37.01%	54,788,714	27.08%	41.73%
Dassault Aviation ^(b)	52,531,431	25.53%	29.31%	52,531,431	25.96%	29.50%	52,531,431	25.96%	20.40%
Thales ^(c)	2,490,177	1.21%	–	2,795,564	1.38%	–	3,542,173	1.75%	–
Employees	4,373,955	2.13%	2.86%	6,169,074	3.05%	3.99%	6,362,998	3.14%	4.64%
Other shareholders	91,560,223	44.50%	31.00%	86,054,891	42.53%	29.50%	85,103,141	42.07%	33.23%
TOTAL	205,744,500^(d)	100%	100%	202,339,674	100%	100%	202,328,457	100%	100%

(a) Under the terms of the shareholders' agreement with Dassault Aviation (the "Industrial Partner", cf. AMF 27-11-2008), the "Public Sector" is represented by the company TSA, excluding the State directly. All Thales shares held directly and indirectly by the French State have been in directly registered form for more than two years and thus have a double voting right on 31 December 2013.

(b) Dassault Aviation has held 34,654,349 shares in directly registered form for more than two years, and thus double voting rights on 31 December 2013, and 17,877,082 shares in bearer form.

(c) Treasury shares totalled 93,300 bearer shares under a liquidity contract, and 2,396,877 directly registered shares.

(d) During 2013, 3,404,826 shares were created by the exercise of stock options, bearing rights from 1 January 2013.

3.1.3.3 Major changes in share ownership over the last five years

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.

During 2013, the number of treasury shares was reduced due to the following transactions:

- 524,861 shares were purchased directly;
- 1,582,469 shares were purchased under a liquidity contract;
- 1,624,034 shares were sold under a liquidity contract;
- 306,130 shares were assigned as free shares;
- 8,900 shares were assigned as stock options allocations;
- 473,653 shares were sold to employees under the 2013 employee shareholding scheme.

Treasury shares thus amounted to 1.21% of the capital, *i.e.* 2,490,177 shares at 31 December 2013.

3.1.3.4 Notification of legal thresholds exceeded in 2013

During 2013, the Company was notified of share ownership thresholds being crossed on several occasions by the following company:

- on 12 February 2013, Bestinver Gestion S.A. (Madrid, Spain), 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 10,184,193 shares giving an equal number of voting rights, representing 5.03% of the capital and 3.44% of voting rights;
- on 6 March 2013, Bestinver Gestion S.A. (Madrid, Spain), 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 10,103,796 shares giving an equal number of voting rights, representing 4.99% of the capital and 3.41% of voting rights.

3.1.4 Potential capital

3.1.4.1 Maximum potential capital at 31 December 2013

	In number of shares with par value of €3
Share capital at 31/12/2013	205,744,500
Current stock option plans	8,186,261
1 July 2003 plan: 200 options at €25.70	
1 July 2004 plan: 877,945 options at €29.50	
30 June 2005 plan: 1,217,420 options at €34.01	
9 November 2006 plan: 1,522,655 options at €36.47	
4 July 2007 plan: 1,362,250 options at €44.77	
1 July 2008 plan: 1,322,360 options at €38.50	
25 June 2009 plan: 1,057,881 options at €32.88	
23 September 2010 plan: 441,350 options at €26.34	
15 September 2011 plan: 384,200 options at €26.34	
Maximum potential capital (+3.98%)	213,930,761

3.1.4.2 Securities in circulation that provide access to capital (bonds, warrants and options)

At 31 December 2013, 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 111 and after).

Stock options

At 31 December 2013, the following options and shares were outstanding:

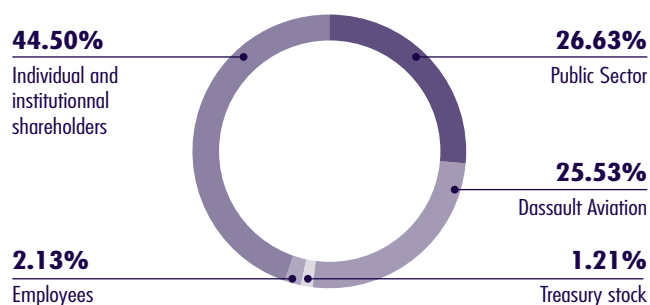
- 117,800 share purchase options at a weighted average exercise price of €42.76;
- 8,186,261 share subscription options at a weighted average exercise price of €35.58, of which 825,550 performance-based shares.

Thales decided to stop granting options in 2012.

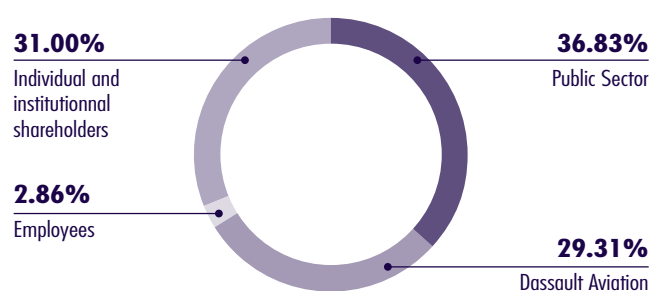
3.1.5 Shareholders

3.1.5.1 Breakdown of shareholders at 31 December 2013

► CAPITAL



► VOTING RIGHTS⁽¹⁾



(1) Exercisable at that date.

At 31 December 2013, 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 152 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 by TSA in 2012 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⁽¹⁾ described on page 157).

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 25.53% of Thales's share capital, *i.e.* 52,531,431 Thales shares at 31 December 2013.

Dassault Aviation is 50.55% owned by Groupe Industriel Marcel Dassault.

3.1.5.3 Shareholders' agreement, agreement on the protection of strategic national interests and specific agreement

By signing an “adherence convention” with the French State and Alcatel-Lucent, Dassault Aviation assumed in 2009 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⁽²⁾.

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⁽³⁾. This agreement essentially reproduces the terms of the shareholders' agreement signed on 14 April 1998, which it replaced⁽⁴⁾.

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.

(1) Pursuant to Article 3 of decree no. 97-190 of 4 March 1997.

(2) See Decision no. 207C0013 of 2 January 2007, published in the French official bulletin of legal notices (*Bulletin des annonces légales obligatoires*) on 5 January 2007.

(3) Published in the Official Journal of the French Republic on 12 December 2006 (see website of Official Journal: www.journal-officiel.gouv.fr) in accordance with Article 1-1 of decree no. 93-1041 of 3 September 1993 and pursuant to law no. 86-912 of 6 August 1986.

(4) 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).

However, Dassault Aviation has expressly undertaken to forego the exercise of the veto right which it has, by virtue of the agreement, over some strategic operations of Thales; this decision concerns a series of potential acquisitions or disposals; in return, the Public Sector has foregone its right to terminate the agreement in the event of persistent disagreement regarding a strategic operation likely to have an adverse impact on its strategic interests⁽¹⁾.

Should Dassault Aviation exercise its right of veto over the appointment of the Chairman & Chief Executive Officer, after a consultation period of three months, either of the parties may terminate the agreement.

Shareholder interests

Dassault Aviation shall hold at least 15% of the share capital and voting rights in Thales and remain the largest private shareholder in Thales. The Public Sector shall take all measures enabling Dassault Aviation to comply with this undertaking.

The Public Sector undertakes to restrict its shareholding to 49.9% of Thales' share capital and voting rights.

Term of the shareholders' agreement

In the absence of termination at the contract expiration on 31 December 2011, the agreement was tacitly renewed for a period of five 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' 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⁽²⁾ has undertaken to maintain, after the agreement reaches its normal expiry date, a shareholding in Thales which gives it at least 10% of the voting rights, until the sooner of: (i) 31 December 2014, (ii) three years from the termination of the agreement, (iii) the date at which Dassault Aviation ceases to own at least 15% of Thales' 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' 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' share capital, the French State may proceed with the aforementioned undertaking to sell.

3.1.5.3.3 Exceeding thresholds and declaration of intent

Following the substitution of Alcatel-Lucent Participations by Dassault Aviation, within the Goup 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.

(1) 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.

(2) TSA and Sofivision within the meaning of AMF decision no. 208C2115. Sofivision was absorbed by TSA during the second half of 2012.

It is available for consultation on the AMF's website at <http://www.amf-france.org/inetbdif/viewdoc/affiche.aspx?id=43671&txtsch=> or on the BALO website at <http://balo.journal-officiel.gouv.fr/html/2008/1201/200812010814709.htm>.

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 at that date.

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 no. 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 2013, Thales held 2,490,177 treasury shares (1.21% 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 2014, it held 2,516,636 treasury shares, including 115,764 bearer shares under the liquidity contract.

Treasury shares are not subject to any restrictions and may be freely disposed of.

(1) Pursuant to Article 3 of decree no. 97-190 of 4 March 1997.

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;
- **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. 285,025 shares were transferred as part of a free share delivery;
- **in 2013**, 1,582,469 shares were purchased and 1,624,034 shares sold under a liquidity contract. Purchase of 524,861 shares in the market and transfer of 473,653 shares to Thales employees as part of the 2013 employee shareholding scheme. 315,030 shares were transferred as part of a free share and stock options 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 twenty-four months under the same conditions. It expired on 17 May 2013 without having been used. This authorisation was renewed by the General Meeting of 24 May 2013 for a period of 24 months under the same conditions (expiry 23 May 2015).

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 seventh free share allotment plan.

The Chairman & Chief Executive Officer (the only company representative) is not entitled to benefit from this plan.

The allotment on 17 September 2013 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.

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 EBIT, the operating cash flow and order intake, each of these criteria having a 60%, 15% and 25% 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.

SHAREHOLDER INFORMATION

Company and share capital

Date of Board decision	17/09/2013		20/12/2012		15/09/2011		23/09/2010		25/06/2009	01/07/2008
	Free shares	Performance shares	Free shares	Performance shares	Free shares	Performance shares	Free shares	Performance shares	Free shares	Free shares
Number of beneficiaries at allotment date	4,161	341	5,186	336	5,178	314	5,355	327	3,848	3,624
Share price at allotment date	€39.16	€39.16	€27.47	€27.47	€25.16	€25.16	€26.40	€26.40	€31.93	€35.72
Number of shares allotted	424,830	299,460	487,940	230,350	485,690	145,300	487,680	144,050	334,980	317,705
Number of free shares at 31/12/2012			487,890	230,350	470,370	136,840	452,930	130,100	303,665	-
Cancellation of allotments during the financial year ^(a)	2,390	1,360	11,670	1,850	12,810	1,550	11,640	2,850	585	10,865
Early allotments during the financial year ^(b)	400	-	640	-	1,210	-	800	-	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	N/A	303,080	284,355
Number of beneficiaries of delivery at expiration	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3,439	3,246
Balance of free shares net of cancellations and early allotments at 31/12/2013	422,040	298,100	475,580	228,500	456,350	135,290	440,490	127,250	-	-
Number of beneficiaries remaining at 31/12/2013	4,127	339	5,044	333	4,853	290	4,756	284	-	-
Vesting period	From 17/09/2013 to 17/09/2017		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 25/06/2009 to 25/06/2013	From 01/07/2008 to 01/07/2012

(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 2013

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	100%
15 September 2011	2012	100%	2013	100%	2014	-
20 December 2012	2013	100%	2014	-	2015	-
17 September 2013	2014	-	2015	-	2016	-

Share allotments in financial year 2013

The ten largest allotments of shares to employees during the year	Number of shares allotted	Share price at allotment date	Plan date
Free shares	2,950	€39.16	17/09/2013
Shares subject to performance conditions	48,000		

During the 2013 financial year, between 300 and 6,000 shares were allotted subject to performance conditions to employees of the Company or its subsidiaries, excluding Thales company representatives.

Between 70 and 250 free shares were allotted to employees of the Company or its subsidiaries, excluding Thales company representatives.

3.1.5.4.4 Description of the share buy-back programme adopted by 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: 20,574,450.
- Maximum amount of the programme: 1,028,722,500.
- 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 has been submitted to the General Meeting of 24 May 2013, *i.e.* no later than 23 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:

(in thousands of shares)	01/01/2014	01/01/2013
French institutional investors and investment funds	28,842	25,251
Non-resident institutional investors	55,467	53,709
Employee shareholders	4,374	6,169
Individual shareholders and associations ^(a)	6,020	5,945
Not identified	1,231	1,150
Entire public	95,934	92,224
TOTAL NUMBER OF SHARES	205,745	202,340

(a) Mainly French residents.

SHAREHOLDER INFORMATION

Company and share capital

	As % of the total capital		% of free float (exc. treasury shares)	
	01/01/2014	01/01/2013	01/01/2014	01/01/2013
French institutional investors and investment funds	14.0%	12.5%	30.0%	27.4%
Non-resident institutional investors	27.0%	26.5%	57.8%	58.2%
Employee shareholders	2.1%	3.1%	4.6%	6.7%
Individual shareholders and associations	2.9%	2.9%	6.3%	6.5%
Not identified	0.6%	0.6%	1.3%	1.2%
ENTIRE PUBLIC	46.6%	45.6%	100%	100%

To the Company's knowledge, and on the basis of the TPI survey carried out on 31 December 2013 and the number of shares registered at that date, the number of shareholders of the Company can be estimated at approximately 49,300 at the end of 2013. This figure represents 99.4% of the total capital identified, and includes 39,200 bearer shareholders and 10,100 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	28,842	14.0%	96
Continental Europe (exc. France)	19,736	9.6%	153
North America	17,863	8.7%	95
United Kingdom & Ireland	15,800	7.7%	55
Rest of the world	2,068	1.0%	29
TOTAL	84,309	41.0%	428

3.1.5.6 Employee shareholders

At 31 December 2013, Group Employees, as defined by Article L. 225-102 of the French Commercial Code, held 4, 373,955 Thales shares, representing 2.13% of share capital (and 2.86% 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 2013, more than 70% of the Thales shares held by employees were freely transferable (compared with 50% at 31 December 2012 and 60% at 31 December 2011).

3.1.6 Information on regulated agreements

3.1.6.1 Agreements authorised since year-end

On 19 February 2014, under the suspensive condition of the renewal of his appointment as director by the General Meeting of 14 May 2014 and his nomination as Chairman & Chief Executive Officer by the Board the same day, the Board of directors authorised three regulated commitments governed by Article L. 225-42-1 of the French Commercial Code. These three commitments were previously approved during the Board meeting on 1 February 2013 and the General Meeting on 24 May 2013. The new Board authorisation following the renewal

of the appointment of Mr Jean-Bernard Lévy at the General Meeting of 14 May 2014, was renewed under the conditions described as follows. These commitments relate 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 AFEF-MEDEF code, compensation may be paid to Mr Jean-Bernard Lévy if his term of office should be terminated.

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 (fixed + variable) received during the last 24 months of employment.

Payment of this compensation will be subject to the Board's assessment as to whether the performance criteria set by the Board have been met under the following conditions:

- 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 applicable to Mr Jean-Bernard Lévy, since his appointment as Chairman & Chief Executive Officer (20 December 2012) and under the conditions respecting the recommendations of the AFEP-MEDEF Code (seniority, performance conditions, gradual vesting and capped total).

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. 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 2013

Board of directors meeting on 17 September 2013

With Mr Didier Lombard, Director serving on the Boards of both Thales and Technicolor.

Transfer of patents from Thales to Technicolor

On 17 September 2013, the Board of directors approved the transfer of general public use patents for a total of €3.1 million from Thales (and its subsidiaries, Thales Avionics SAS and Thales Avionics LCD SAS) to Thomson Licensing, subsidiary of Technicolor, with their royalty-free and irrevocable use being granted in return to Thales.

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 2013 have been disclosed to the auditors in accordance with the applicable regulations. They are also described in a special report presented to the General Meeting called to approve the 2013 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 2012 to 27 October 2013, Thales invoiced Air Tanker in the amount of £312,668, pursuant to letters of credit in force.

Board of directors meeting on 29 September 2009

Assistance agreement between Thales and TSA

For 2013, 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 €474,041.66 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.

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

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.

Transfer of patents to Technicolor (member of the Board of directors involved: Mr Didier Lombard)

The meeting of Board of directors on September 17, 2013 authorized the transfer of patents identified by Thales (and its subsidiaries Thales Avionics SAS and Thales Avionics LCD SAS), to Thomson Licensing (a Technicolor subsidiary) for € 3,100,000.

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 Levy, 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 authorized the commitment pertaining to the compensation payments likely to be payable to Mr Jean-Bernard Levy upon discontinuation of his duties as representative of the Company ("mandataire social"). This commitment was authorized by the shareholders' meeting on May 24, 2013.

In accordance with the renewal of mandate of Mr Jean-Bernard Levy, the Board of directors on February 19, 2014, upon the proposal of the committee on selection of directors, authorized the renewal of the commitment according to the conditions described below.

Subject to the fulfilment of the performance condition set out by the Board of directors and upon the Board's decision, compensation may be paid to Mr Jean-Bernard Levy, if his term of office should be discontinued, except for serious misconduct or gross negligence.

The amount of this compensation is maintained 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 authorized the subscription of a private unemployment insurance scheme in favour of Mr Jean-Bernard Levy. This commitment was authorized by the shareholders' meeting on May 24, 2013.

In accordance with the renewal of mandate of Mr Jean-Bernard Levy, the Board of directors on February 19, 2014, upon the proposal of the committee on selection of directors, authorized the renewal of the commitment according to the conditions described below.

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 CEO, Mr Jean-Bernard Levy, since his appointment as Chairman and CEO on December 20, 2012. This commitment was authorized by the shareholders' meeting on May 24, 2013.

In accordance with the renewal of mandate of Mr Jean-Bernard Levy, the Board of directors on February 19, 2014, upon the proposal of the committee on selection of directors, authorized the renewal of the commitment according to the conditions described below.

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 CEO, 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 engagements approved in prior years 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 in prior years continued during the year.

Paris-La Défense and Courbevoie, February 19, 2014

The Statutory Auditors French original signed by

ERNST & YOUNG Audit

Michel Gauthier

Philippe Diu

MAZARS

Jean-Marc Deslandes

Anne-Laure Rousselou

With Thales UK, a wholly-owned subsidiary of Thales

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 in 2013.

With TSA (shareholder of 27.08 % of Thales)

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 2013 under this agreement amounted to €474,041.66 excluding taxes.

3.2 CORPORATE GOVERNANCE

3.2.1 Members of the Board of directors at 31 December 2013

3.2.1.1 Directors

Jean-Bernard Lévy (58)

Chairman & Chief Executive Officer

Chairman of Strategic Committee

Career:

Born on 18 March 1955, Jean-Bernard Lévy, a French citizen, is an alumnus of the École Polytechnique (1973) and Telecom ParisTech.

Mr Lévy began his career at France Telecom in 1979 as an engineer based at the Angers site, before moving to the Corporate Office Personnel Department in 1982.

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 served as 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. He also chairs the Strategic Committee.

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.

His wife also owns 250 shares in the Company.

Appointments held:

In France: Chairman of the Supervisory Board of Viroxis SAS, Chairman of JBL Consulting & Investment SAS and President of the Institut Mines-Télécom, director of Vinci⁽¹⁾ (and Chairman of its Compensation Committee), of Société Générale⁽¹⁾ (and member of its Compensation Committee and its Appointments Committee), of DCNS (and Chairman of its Compensation and Appointments Committee) and of the Pasteur Institute (and member of its Compensation and Appointments Committee), Vice Chairman of GIFAS, member of the Business Policy Council of A.T. Kearney Paris.

Abroad: none.

Other positions held by Mr Lévy over the last five years:

In France: Chairman of the Board of directors of Vivendi⁽¹⁾, 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. ⁽¹⁾ (USA), of GVT (Brazil), Vice Chairman of the Supervisory Board of Maroc Télécom⁽¹⁾ (Morocco), director of NBC Universal Inc. (USA).

David Azéma (53)

Member of the Strategic Committee

Member of the Appointments & Remuneration Committee

Career:

Born on 22 November 1960, a French citizen, David Azéma holds a law degree from the Institut d'Études Politiques de Paris and is an alumnus of the École Nationale d'Administration.

He began his career in 1987 as an auditor with the French Court of Auditors, before later becoming a public auditor (*conseiller référendaire*). From 1991 to 1993, he was an advisor with the National Police Board (*Direction Générale de la Police Nationale*), before holding a series of posts in the Office of the French Minister for Labour, Employment and Vocational Training, Martine Aubry.

In 1993, he joined SNCF as advisor to the Strategy Department, before becoming advisor to the Chairman and director of Subsidiaries and Associates of the SNCF Group.

In 1998, he moved to the UK, where he chaired the InterCapital and Regional Rail Ltd. consortium which won the contract for management of Eurostar UK. He later served as Chairman and Chief Executive Officer of Eurostar Group Ltd., the jointly owned subsidiary of SNCF, SNCB and Eurostar UK, in charge of the high-speed service of the same name.

In 2002, he joined the Vinci Group as Chief Executive Officer of Vinci Concessions, before being appointed to the Executive Committee of the Vinci Group in 2006.

In June 2008, David Azéma joined SNCF as Executive Vice President Strategy & Finances, before being appointed as Deputy Chief Executive Officer of the SNCF Group in October 2011.

In June 2012, while remaining on the Executive Committee of the SNCF Group, he became Chairman of the Management Board of Keolis, the subsidiary specialising in public passenger transport in France, Europe and worldwide.

On 1 September 2012, he was appointed Commissioner of State Holdings (APE) at the French Ministry of the Economy and Finance.

First appointed: 26 March 2013.

Current term expires: 2016 OGM.

(1) Listed company.

Number of shares held: no Thales shares held (representative of the French State as defined by Article 139 of the New Economic Regulations (NRE) law).

Appointments held:

In France: director of Bpifrance (BPI-Groupe - Banque Publique d'Investissement), Bpifrance Participations (formerly FSI - Fonds Stratégique d'Investissement) and Bpifrance Investissement, EDF⁽¹⁾, and Renault SA⁽¹⁾; member of the Supervisory Board of Areva⁽¹⁾ (term expires on 26 March 2013).

Abroad: none.

Other positions held by Mr Azema over the last five years:

In France: Chairman of the Management Board of Keolis, Chairman & Chief Executive Officer of SNCF Participations, Chairman of the Supervisory Board of Seafrance, director of Geodis and of Air France-KLM⁽¹⁾.

Abroad: none.

Charles Edelstenne (75)

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 of Dassault Aviation.

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⁽¹⁾, Chief Executive Officer (since 8 January 2013) and member of the Supervisory Board of the Groupe Industriel Marcel Dassault SAS, Chairman and Chief Executive Officer of Dassault Aviation SA⁽¹⁾ (until 8 January 2013), Honorary Chairman of Dassault Aviation SA⁽¹⁾ (since 9 January 2013), director of Dassault Aviation SA⁽¹⁾, Carrefour SA⁽¹⁾ and Sogitec Industries SA, Honorary Chairman of Gifas, General Manager of Arie and Arie 2, Nili and Nili 2.

Abroad: director of SABCA⁽¹⁾ (Belgium), Chairman of Dassault Falcon Jet Corp. (United States) (until 8 January 2013), director of Dassault Falcon Jet Corp. (United States), Chairman of Dassault International Inc. (United States) (until 29 April 2013).

Other positions held by Mr Edelstenne over the last five years:

In France: Chairman of GIFAS and CIDEF.

Abroad: none.

Yannick D'Escatha (65)

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 the CEA (French Atomic Energy Commission), 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 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 the holding company 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 Centre for Space Studies (CNES), and renewed his appointment in February 2010, until he reached the age limit of 65 in 2013.

Since May 2013, he has been advisor to the Chairman of Sofinel (*Société Française d'Ingénierie Electronucléaire et d'assistance pour l'exportation*).

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 the Technology University of Troyes, member of the *Académie des technologies*.

Abroad: none.

Other positions held by Mr d'Escatha over the last five years:

In France: Chairman of the National Space Research Centre (CNES), Chairman of the Board of directors of the École Polytechnique, member of the Board of directors of RATP and EDF⁽¹⁾, 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.

Abroad: none.

(1) Listed company.

Dominique Floch (55)

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 SAS), where he held various positions, including milling machine operator and then mechanical controller, before being promoted to buyer Industrial Segment in March 2004.

First appointed: 19 January 2008.

Current term expires: 8 December 2016.

Number of shares held: 564 Thales shares (including shares in the Thales employee shareholding FCPE/investment fund).

No appointments or positions in other companies.

Stève Gentili (64)

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 in 1974 with the French Ministry of the Economy and Finance.

He then moved into the private sector, joining the senior management of a major food company.

Since 1997, he has been Chairman of Bred Banque Populaire.

Since January 2014, he has been Chairman of the Supervisory Board of BPCE.

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 the Supervisory Board of BPCE, Chairman of Cofibred, the BRED financial company, member of the Board of directors of Natixis⁽¹⁾, director of Coface, Bercy Gestion Finances +, BRED Cofilease, the insurance company Prépar 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 (BICEC Cameroun) and Banque Carige (Italy).

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 Société Marseillaise de Crédit, Natexis 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 Lépinay (60)

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. Since 2010, he has been International Relations Director at Thales.

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: 2,644 Thales shares (41 bearer, 200 registered and 2,403 in the Group savings plan, 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.

Didier Lombard (71)

Career:

Born on 27 February 1942, a French citizen, Didier Lombard is a graduate of the École Polytechnique and École Nationale Supérieure des Télécommunications.

(1) Listed company.

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: director of Technicolor⁽¹⁾, member of the Supervisory Board of Radiall⁽¹⁾.

Abroad: Chairman of the Supervisory Board of ST Microelectronics⁽¹⁾ (Netherlands).

Other positions held by Mr Lombard over the last five years:

In France: Chairman of the Board of directors of France Telecom⁽¹⁾, Chairman & Chief Executive Officer of France Telecom⁽¹⁾, Senior Executive VP of France Telecom⁽¹⁾, Chairman of the Board of directors of Orange, and member of the Supervisory Board of AII (Agency For Industrial Innovation).

Abroad: Chairman of Europeanissuers (Belgium).

Bruno Parent (60)

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.

Number of shares held: no Thales shares held (representative of the French State as defined by Article 139 of the New Economic Regulations law (NRE).

Appointments held:

In France: 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 (55)

Member of the Audit & Accounts Committee

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.

Number of shares held: no Thales shares held (representative of the French State as defined by Article 139 of the New Economic Regulations (NRE) law).

Appointments held:

In France: member of the Supervisory Board of Aéroport de Strasbourg-Entzheim, as representative of the French State, and of the Fonds de Consolidation et de Développement des Entreprises, director representing the French State on the Board of directors of Semmaris (a joint public/private company which owns the Rungis market in Paris).

Abroad: none.

Other positions held by Ms Prost in the last five years:

In France: none.

Abroad: none.

Martine Saunier (56)

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 SAS) as screen development

(1) Listed company.

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 (53)

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 International (USA) Inc, Dassault Procurement Services (USA), Midway (USA), SABCA⁽¹⁾, 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⁽¹⁾ on the Board of Corse Composites Aéronautiques.

Abroad: none.

Anne-Claire Taittinger (64)

Independent director

Chairman of the Audit & Accounts Committee

Career:

Born on 3 November 1949, of French nationality, Anne-Claire Taittinger is a graduate of the Institut d'Études 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 des Consignations, as manager for urban operations at Villepinte, Sevrans, 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⁽¹⁾, Club Méditerranée⁽¹⁾, Chairman of SAS Le Riffay. Until October 2013: director of FinanCités and the IFA (French Institute of Directors) and the PlanetFinance Foundation, member of the Supervisory Board of Planet Finance.

Abroad: none.

Other positions held by Ms Taittinger in the last five years:

In France: none.

Abroad: none.

Ann Taylor (66)

Independent director

Career:

Ann Taylor, 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 from 1990 to 1997, as Under Secretary of State for Education and Under Secretary of State for the Environment. 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.

(1) Listed company.

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.

Appointments 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 (53)

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 as 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.

In 2006, Éric Trappier became 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⁽²⁾, first Vice Chairman of GIFAS, Chairman of 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: none.

Abroad: none.

Marie-Françoise Walbaum (63)

Career:

Born on 18 March 1950, Marie-Françoise Walbaum, a French national, is a graduate in economics and sociology from Paris X University.

Marie-Françoise Walbaum began her career at BNP Paribas in 1973 and held various posts in retail banking and credit analysis until 1981. From 1981 to 1994, she served as Senior Auditor of BNP's Inspectorate General, Chief Executive Officer for mutual funds and Chief Executive Officer of the brokerage firm Patrick Dubouzet S.A. In 1994, Marie-Françoise Walbaum became Head of Listed and Unlisted Equity Investments and Private Equity Portfolio Manager at BNP Paribas, a firm she left in the summer of 2012 after a career spanning 39 years.

First appointed: 17 September 2013.

Current term expires: 2014 OGM.

Number of shares held: 500 Thales shares.

Appointments held:

In France: independent director of Esso (and Chairman of the Audit Committee), FFP (and member of the Audit Committee and Investment and Shareholdings Committee), Imerys (and member of the Audit Committee) and Vigeo.

Abroad: none.

Other positions held by Ms Walbaum in the last five years:

In France: none.

Abroad: none.

To the knowledge of Thales:

- there are no family ties between members of the Board of directors;
- no Board member has been convicted of fraud in the past five years;
- no Board member has been involved in the past five years as a senior executive in a bankruptcy, receivership or liquidation, or has been charged and/or officially disciplined by statutory or regulatory authorities;
- no Board member has been barred in the past five years by a court from acting as a member of a body dedicated to the administration, management or supervision of an issuer, or from being involved in the management or running of such a company's affairs;
- no conflict of interest exists between the Board members' private interests and their duties to Thales.

On 9 January 2012, the Commercial Court in Paris ordered the compulsory liquidation and winding up of the company Seafrance, where David Azéma had been Chairman of the Supervisory Board since 2008.

(1) A Thales group company.

(2) Listed company.

3.2.1.2 Other persons attending Board meetings (without voting rights)

In addition to the secretary of the Board of directors 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, 63 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 no. 97-190 of 4 March 1997 concerning the French State's golden share (see 157 and pursuant to Article 10 of the Company's Articles of Association).

Government commissioner

Marc Gatín, 64 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, 61 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.

3.2.2 Chairman's report to the General Meeting of 14 May 2014 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 on 19 February 2014, 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

Under the law of 3 July 2008 transposing Directive 2006/46/EC, the Company decided in 2008 to refer voluntarily, when preparing the Chairman's report, to the Corporate Governance Code for Listed Companies published by the AFEP and MEDEF – the latest update of which was released in June 2013.

Application of the "comply or explain" rule

The Company complies with the recommendations contained in the AFEP-MEDEF code as revised in June 2013, except for those concerning:

Heading	AFEP-MEDEF	Thales 2013	Explanation
Ratios of independent directors:			The terms of the shareholders' agreement (see below) do not allow compliance with the ratios of the AFEP-MEDEF code.
■ Board of directors	1/3 (controlled companies)	31%	
■ Audit & Accounts Committee	2/3	1/3	
■ Appointments & Remuneration Committee	>1/2	1/3	

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 composed of 16 directors, 14 of whom are appointed by the General Meeting and two elected by employees of the French companies, in accordance with the law (Article L. 225-27 et seq. of the French Commercial Code) and Articles of Association (Article 10).

(1) The Appointments & Remuneration Committee for the part relating to corporate governance, the Audit & Accounts Committee for the part concerning internal control and risk management.

Of the 14 directors appointed by the General Meeting, four 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 joint 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.

At 31 December 2013, 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
David Azéma	26/03/2013	26/03/2013	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
Loïc Segalen	19/05/2009	15/05/2012	2018 OGM
Éric Trappier	19/05/2009	15/05/2012	2018 OGM
Marie-Françoise Walbaum	17/09/2013	17/09/2013	2014 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	08/12/2016
Martine Saunier	09/12/2010	09/12/2010	08/12/2016
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⁾ in France and abroad.

The term of office of directors was reduced from six to four years by the General Meeting of 24 May 2013, effective from the 2014 General Meeting.

The average age of directors was almost 61 at the end of 2013. 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 over 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 increasing the number of women on the Board of directors, the targets 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 reason as before) 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 that was 25% composed of women on that date and to achieve (and exceed) the objective of 20% women a year ahead of AFEP-MEDEF and two years ahead of the legal deadline. Due to the co-opting during the year of Marie-Françoise Walbaum, the number of female directors was increased from four to five out of a total of 16 at 31 December 2013.

(1) Cf. pages 165 to 170 of this document.

Independence of directors

On the recommendation of the Appointments & Remuneration Committee, the Board of directors has decided to retain the strict approach used in previous years: directors appointed by the General Meeting on the recommendation of a shareholder ("Public Sector" or "Industrial Partner") or a category of shareholders (employees), or even elected by employees, cannot be considered independent within the meaning of the aforementioned AFEP-MEDEF code.

With respect to investment bank directors, the Board also wished, in March 2008, to specify the rules of conduct that apply to them on the Thales Board of directors:

- no involvement by the persons concerned in the preparation or solicitation of bids for banking services with the Company;
- no participation by the same persons in banking activities involving the performance of a mandate;
- no participation in the vote on any resolution concerning a project in which the bank concerned would or could be involved as an advisor.

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.

In total, the Board of directors therefore has four independent directors, or 30.8% of members (excluding employees and the employee representative – as stipulated by the revised AFEP-MEDEF code of June 2013). The proportion is however less than the one third recommended in 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 Appointments & Remuneration Committee is in charge of periodic updates and of sending the Board the revisions it deems necessary. The following concerns the version in force for the whole of 2013.

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 approved the following statement:

"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.

On 9 January 2012, the Commercial Court in Paris ordered the compulsory liquidation and winding up of the company Seafrance, where David Azéma had been Chairman of the Supervisory Board since 2008.

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 senior executives. 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 2013.

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, 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 six months is published on the Company's website after the third quarter financial press release (including the date of the General Meeting). The calendar is updated for the whole year when the previous year's annual results are published.

Directors may, if they wish, consult the Company Secretary prior to dealing in any shares. However, 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 much 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 <https://www.thalesgroup.com/en/investisseurs/annual-general-meeting>. 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 2008-649 of 3 July 2008, with regard to the information required under Article L. 225-100-3 of the French Commercial Code, the two major shareholders, who together hold more than the majority of the capital

and voting rights, have declared that they are acting in concert under a shareholders' agreement and that 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.

Remuneration and benefits of all types granted to directors

Attendance 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 based on attendance at meetings amounting to €2,500 per meeting;
- for services to the committees, remuneration (entirely variable), based on attendance, of €1,250 per meeting, with the Chairman of each committee receiving an additional €2,000 per annum (prorated based on the number of meetings chaired, if applicable).

If, on account of the high number of meetings (variable remuneration being paid first), the total amount of €600,000 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%), but not for 2012 and 2013.

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 2013, the attendance fees due (gross amount before any deduction or levy) total €560,000 (compared with €566,250 for 2012); partial payment was made in July 2013, with the balance being settled in January 2014. The total of €560,000 was predominantly composed of variable compensation, as recommended by the AFEP-MEDEF code (paragraph 21.1), the fixed portion being €224,000 (40%).

As a guide, the gross amount (before any deduction or levy) paid during fiscal year 2013 (excluding any waiver) totalled €552,500 (compared with €447,200 in 2012). The AFEP-AMF tables relating to executive compensation (Table 2 – Company representative and Table 3 – Non-executive corporate officers) give details of names (cf. pages 189 and 190).

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, as well as the recommendations of the AFEP-MEDEF code on remuneration (see AFEP-AMF Table 2):

- fixed remuneration remaining unchanged over a period of at least three years;
- permanence of the quantitative criteria for variable remuneration.

Jean-Bernard Lévy was granted neither stock options (which Thales discontinued in 2012) nor performance shares. In accordance with the “say on pay” rule, a table summarising the components of his compensation package will be given to shareholders with the meeting documents for the first time in 2014.

The 10 AFEP-AMF tables contained in the registration document also provide details of the compensation of the Chairman & Chief Executive Officer, which is consistent with the recommendations of the revised AFEP-MEDEF code.

Summary of director share dealing in 2013

The summary statement (stipulated in Article 223-26 of the AMF General Regulations) of share dealing in 2013 by persons required to file a declaration (directors, non-voting directors, members of the Executive Committee and related persons can be found on page 30 of the registration document). No such dealing took place in 2013 by directors co-opted during the period, one being exempt (Mr David Azéma) from holding shares (director representing the French State in accordance with Article 139 of the NRE law), the other already holding the requisite number of shares prior to her appointment (Ms Marie-Françoise Valbaum). Mr Philippe Lépinay acquired shares in connection with the employee share offering. No other director was involved in share dealing in 2013.

3.2.2.1.2 Report on Board activity in 2013

Number/duration of meetings and attendance rate

The Board of directors met seven times in 2013. The average attendance rate by directors was 92%. Two meetings (one in France) were held outside the head office at the Group’s industrial sites, attended by the operational management of the Global Business Units/countries concerned.

As stipulated in the Board’s rules of procedure in force in 2013, 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 2013, in some cases with reports from the relevant Board committee:

- oversight of strategic decisions and review of projects in progress;
- introduction of an annual LTI (“Long Term Incentives”) plan: allotment of bonus or performance shares (with performance conditions over three years) according to the level of responsibility of the beneficiaries;
- UK pension review;
- Group real estate policy;
- bid and project management;
- presentation of the performance programme;
- annual assessment of the Board’s performance;
- 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 five and ten calendar days prior to the date of the meeting (ten 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 no later than 30 days after 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 are also sent to them in real time by e-mail.

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;
- 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, committee members decided in 2010, in accordance with the final AMF audit committee report of 22 July 2010, to schedule a discussion with the statutory auditors at the end of each meeting without Thales representatives being present.

On 31 December 2013, the members of the committee were:

- Anne-Claire Taittinger, Chairman and independent director;
- Jeanne-Marie Prost;
- Martine Saunier;
- Loïc Segalen.

The composition of the Audit & Accounts Committee is consistent with the Executive Order of 8 December 2008: the committee members are all directors and one director, in addition to being classed as an independent director, has the requisite financial and accounting expertise (see biography of Ms Anne-Claire Taittinger on page 169).

Conversely, the committee is only one-third composed of independent directors, and not two-thirds, as recommended by the AFEP-MEDEF code (the employee director is not included in this calculation). As previously mentioned, this is due to the terms of the shareholders' agreement, which stipulates that one representative from each of the two shareholders in the agreement must sit on each committee.

The committee met five times in 2013, with an average attendance rate of 95%.

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 Senior Executive Vice President, Finance and Information Systems, Company Secretary and Director of Audit & Internal Control are invited to all meetings, as is the Group Director of Financial Control and, periodically and depending on the agenda, the Director of Treasury and Financing and the Group Legal Director.

In addition to the annual and interim financial statements, in 2013 the committee also examined:

- the performance of difficult contracts and their accounting implications;
- the follow-up to the main disputes;
- the external audit plan and statutory auditors' fees;
- the organisation of internal control, updates to risk mapping and assessment of the implementation of the 2012 audit plan;
- the implementation of the 2013 audit plan and feedback on the most critical audit findings;
- the internal audit plan for 2014, adopted at the end of 2013;
- the application of IFRS 10 and 11 on consolidation methods and their estimated impacts;
- the capitalisation of R&D expenses;
- the main public-private partnerships existing within the Group;
- UK pensions;

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 2012 financial statements, the committee acknowledged the memorandum on the Group's risk exposure and major off-balance sheet commitments, in accordance with 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 to all directors at the next Board meeting. Pursuant to the AMF recommendation in its audit committee report of 22 July 2010, this report is systematically included or attached to the minutes of the next Board meeting and is approved prior to that meeting. 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 or share purchase plans, or the grant of free shares, in addition to the related performance conditions;
- employee share ownership schemes;
- candidates for directorships belonging to the category of external directors regarding which there was consultation between the two major shareholders pursuant to the provisions of the aforementioned shareholders' agreement;
- at least once a year, the independence of directors.

The committee is also responsible for preparing the Board's assessment of its own performance (see section 3.2.2.1.4) and reporting to the Board in order to facilitate debate.

Furthermore, the Chairman & 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 2013, the members of the committee were:

- Yannick d'Escatha, Chairman and independent director;
- David Azéma;
- Éric Trappier.

It met five times in 2013 with an attendance rate of 100%.

The ratio of independent directors recommended by the AFEP-MEDEF code (at least half) is not satisfied for the reasons mentioned earlier: because of the shareholders' agreement, the ratio is actually one third.

The Senior Executive Vice President Human Resources and Company Secretary were invited to all Committee meetings, the Senior Executive Vice President, Finance and Information Systems to some of them, and the Chairman & Chief Executive Officer, depending on the agenda, was invited to those meetings where his presence could be of particular value to the discussion.

The items reviewed by the committee in 2013 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 remuneration package of the Chairman & Chief Executive Officer, and in particular the qualitative criteria applicable to his variable remuneration;
- corporate social responsibility and the NRE (French new economic regulations) social report;
- the independence of directors;
- the terms for the annual assessment of the operation of the Board of directors;
- as well as the reduction in the term of office of directors, from six to four years, to comply with the AFEP-MEDEF code, adopted by the General Meeting in 2013 and applied for the first time to appointments made at the General Meeting on 14 May 2014;
- as well as this section of the Chairman's report on corporate governance.

For all of these items, the committee presented its recommendations to the Board: each meeting was systematically recorded in minutes issued to all directors at the following 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 asset disposal plans (in excess of €1.50m), as well as proposed strategic agreements or partnerships.

On 31 December 2013, the members of the committee were:

- Jean-Bernard Lévy, Chairman;
- David Azéma;
- Charles Edelstenne;
- Dominique Floch;
- Stève Gentili, independent director;
- Philippe Lépinay.

No independence criterion is imposed for directors on this type of committee by the AFEP-MEDEF code or by the law.

The committee met four times in 2013, with a 100% attendance rate, mainly to examine the 2013 budget, strategy for each of the Global Business Units/countries and the strategic plan, to follow up on strategic decisions, to present the dashboard of M&A operations, to review various M&A projects and Thales' strategy in the United Kingdom, to present the Group's performance plan, and to prepare the annual strategy seminar.

In 2013, the Senior Executive Vice President, Finance and Information Systems, the Company Secretary, the Executive Vice President Strategy and the Senior Executive Vice President Operations & Performance were invited to meetings. Minutes of each meeting were presented at the following Board meeting by the Chairman & Chief Executive Officer, as committee Chairman, either verbally or accompanied by a report.

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 Board meeting agenda each year is dedicated to a discussion about its performance.

In 2011, the Board had called on an external consultant for this purpose. In 2012 and again in 2013, it was decided that this exercise would be carried out using a pre-prepared internal questionnaire. In addition, at the end of 2013, the Company Secretary conducted personal interviews with each director to improve dialogue and allow an in-depth assessment, as recommended by the Appointments & Remuneration Committee.

From this assessment, it emerged that Thales directors consider the Board to function satisfactorily on the whole and to be improving year-on-year.

The Board found that the implementation of earlier recommendations had been of benefit and should be continued, particularly with regard to following up on Board decisions, extending the work of certain committees, and continuing to hold two Board meetings outside the head office whenever possible (one in France at a Global Business Unit, and the other elsewhere in Europe to address the "country" dimension of the Group). Based on a committee recommendation, a follow-up table was introduced in 2014 to chart the progress of Board decisions.

In its report in early 2014, the committee also recommended that a director elected by employees should be appointed to the Appointments & Remuneration Committee, as "counselled" by the revised AFEP-MEDEF code of June 2013 (paragraph 18.1). This appointment became effective on 19 February 2014.

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.

(1) French Institute of Audit and Internal Control (Institut français de l'audit et du contrôle interne).

3.2.2.2 Internal control and risk management

This section was submitted to the Audit & Accounts Committee at its meeting of 17 February 2014, 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 2013. The results of this work were 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 2013.

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 2013, as it has done every year since 2006, the Audit & Internal Control Department submitted voluntarily to verification and certification by IFACI⁽¹⁾ that its practices comply with the international standards of the profession. The certification was renewed on 5 February 2013 for a further three-year period.

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 international standards of COSO (Committee of Sponsoring Organizations 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

For most of its operations, the Group is subject to a control environment imposed by its customers and regulatory authorities (ministries of defence and industry, authorities in its customers' countries, civil aviation authorities, etc.) which require strict certification and controls.

These specific constraints are in addition to its statutory obligations and are an integral part of the Group's audit environment.

a) The main parties in risk management and internal control

Since 2013, Thales has been organised according to a matrix structure: Global Business Units, corresponding to six major strategic business areas, and countries.

- The **Global Business Units** are organised into Business Lines, which cover a coherent range of products, solutions and services. The Business Lines may be divided into Business Segments.
For the products, solutions and services entrusted to them, the Business Lines are responsible worldwide for strategy, product policy and marketing, competitiveness, customer access, contractual commitments, engineering, development, production, integration, quality and services, industrial organisations, optimisation of resources, and economic performance (contribution to EBIT and cash flow).
- In the region assigned to them, **country** managers are responsible for the successful implementation of every aspect of Group policy and handle relations with customers and local partners.

The major countries share responsibility with the Global Business Units for local bids and projects. Country managers are involved in all decisions taken by the Global Business Units in terms of organisation and appointments, or relating to bids, projects and centres of excellence of any kind. They are responsible for HR development and the optimisation of industrial resources. They are also responsible for Thales' institutional relations and communication.

In each of the six countries (excluding France), where Thales has significant industrial operations, a member of the Executive Committee acts as the "Non-Executive Chairman". The Country Manager reports to the Non-Executive Chairman. The Non-Executive Chairman acts as an interface between the country and head office and liaises between the Country Manager and Executive Committee.

For countries in Europe (apart from those with a Non-Executive Chairman, see above), the Country or Regional Manager reports to the Europe and International Operations Department, which in turn reports to the Senior Executive Vice President, Operations and Performance.

In all other cases, the Country or Regional Manager reports to the International Development Department.

The countries are grouped as follows:

- **main countries in which the Group is based:** Germany, Australia & New Zealand, Canada, United States, France, Netherlands and United Kingdom;
- **other European countries;**
- **emerging markets:** all countries not in the previous two categories: Africa, Latin America, Asia and Middle East.

The Group defines common processes, provides units with the corresponding tools and sets up umbrella departments to implement these.

The rules on delegation reflect this sharing of responsibility and are implemented in legal entities coordinated at national level.

The Group's managing bodies

These consist of Global Business Units, countries and functional departments and are ultimately responsible for the Group's entire internal control system, relying in particular on the Risks & Internal Control Committee.

Company representatives

The Group's governance is founded on the key principle of the responsibility of the directors of Group companies, who are charged with establishing and maintaining the risk management and internal control system within their legal entities.

The corporate risk assessment 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 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. On this occasion, financial forecasts for the current half-year and financial year are reviewed and discussed 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 and interim financial statements, the chief executives and their Finance Directors issue a representation 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 seeks to guarantee the support and motivation of all employees by providing them with the necessary information on Group strategy and the events taking place. 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 newswatches circulated by e-mail;
- welcome seminars bring together new executives and the management team to share the Group's vision, strategy, culture and values;

- shared knowledge bases that are freely accessible online, or protected depending on their content, and designed to facilitate dissemination of the principles adopted and the implementation of 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, sub-divided into 26 processes. These processes, which are closely 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 is also aimed at organisational alignment within each country/company across the Group.

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, which was updated by the Audit & Accounts Committee and approved by the Board of directors on 21 November 2013, defines the basic principles of internal control and internal audit, the scope and limits of its responsibilities and its interaction with the 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

The Group has mapped its major operational, financial and compliance risks, which are updated each year.

These risks are prioritised based on three analysis criteria: financial impact, likelihood of occurrence, and perceived ability of the procedures in place to control the risk.

In the spring of 2013, the Group Audit & Internal Control Department, in association with the Group's risk sponsors, updated the map in order to:

- monitor changes in the COSO model by identifying three risk categories – operational, financial and compliance;

- clearly define the main scenarios leading to each risk.

The Group has assigned each of these risks to a risk sponsor, who is in charge of coordinating the management of this risk at Group level under the supervision of the Risks & Internal Control Committee. This consists of defining the risk management mechanisms, overseeing their deployment, monitoring major incidents, and continuously improving the system.

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 Global Business Units 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.

Internal control questionnaire

The internal control questionnaire and the accompanying instructions provide an additional framework and help to improve the reliability of financial reporting while at the same time preventing the risk of fraud. 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 Global Business Units draw up a strategic plan over a minimum period of four years, which can be adjusted depending on their business models; this is then presented to and approved by Group general management;
- each Global Business Unit, each major country, the Europe and International Operations Department and the International Development Department then present a detailed three-year budget plan to the Group's general management. This plan is based on the sales forecasts and assumptions prepared by the marketing and sales departments, in accordance with the strategic plans prepared by the Global Business Units;
- finally, the general management sets targets for the main countries and for the Europe and International Operations Department and the International Development Department, ensuring the overall consistency of these. 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 Global Business Unit 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 opted for the international CMMI® (Capability Maturity Model Integration) model, which is suited to its operations and recognised by many customers as a tool for improvement and assessment of the maturity of operational processes: using different models (Development, Acquisition and Services) covers aspects such as bid and project management, system engineering, hardware and software, supplier management and support activities.

CMMI® assessments carried out by auditors accredited by the Software Engineering Institute (SEI), enable improvements in the maturity of organisations to be measured according to a progressive tiered system: the 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 the aerospace industry;
- 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 corporate 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 operational directors. 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 deemed insufficiently mature.

These reports are collected, reviewed and signed by the directors of the operational entities, in all countries including France. This system relies on the mapping of the Group's major risks.

As in previous years, an analysis by entity, country and risk has enabled 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.

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 Group has geared this questionnaire towards the reliability of financial processes and the prevention of fraud. It has based it on the AMF recommendation entitled "Reference framework for risk management and internal control systems".

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.

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 Senior Executive Vice President, Finance and Information Systems 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 2013, this committee met five times.

Risks & Internal Control Committee

This committee, chaired as of 31 December 2013 by the Group Audit & Internal Control Director, is composed of representatives of functions and GBUs.

In 2013, this committee supervised the analysis of the Group's main risks and the definition of strategies to manage operational risks. It then updated the risk mapping and re-evaluated all potential risks based on the same prudential framework. It also monitored action plans resulting from the 2012 self-assessments on internal financial control and legal compliance. In 2013, this committee met once.

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 2013, this committee met once.

Group Internal Audit & Internal Control Department

Reporting to the Group General Secretary, the Internal Audit & 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 Internal 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. Detailed recommendations are presented to the Group management during the closing of the accounts at 31 December, and the main recommendations presented to the Audit & Accounts Committee.

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 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 2013.

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, February 19, 2014

The Statutory Auditors French original signed by

ERNST & YOUNG Audit

Michel Gauthier
Philippe Diu

MAZARS

Jean-Marc Deslandes
Anne-Laure Rousselou

3.2.4 General management

3.2.4.1 Executive Committee at 1 April 2014

A committee with 13 members in charge of the main operational and functional responsibilities is responsible for the general management of the Company and the Group, under the authority of the Chairman and Chief Executive Officer.

At 1 April 2014, the members of the Executive Committee were as follows:

- Jean-Bernard Lévy, Chairman & Chief Executive Officer;
- Pascal Bouchiat, Senior Executive Vice President, Finance and Information Systems;
- Patrice Caine, Senior Executive Vice President, Operations and Performance;
- Philippe Logak, Company Secretary;
- Pascale Sourisse, Senior Executive Vice President, International Development;
- David Tournadre, Senior Executive Vice President, Human Resources;
- Hervé Multon, Executive Vice President, Strategy, Research and Technology;
- Alex Cresswell, Executive Vice President, Land & Air Systems;
- Marc Darmon, Executive Vice President, Secure Communications and Information Systems;
- Jean-Pierre Forestier, Executive Vice President, Ground Transportation Systems;
- Jean-Loïc Galle, Executive Vice President, Space;
- Michel Mathieu, Executive Vice President, Avionics;
- Pierre-Éric Pommellet, Executive Vice President, Defence Mission 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 senior executives. The Board of directors of Thales decided on the components of the Chairman's compensation package after taking into account salary surveys and market information.

Jean-Bernard Lévy was appointed Chairman & Chief Executive Officer on 20 December 2012.

Decisions concerning Jean-Bernard Lévy's compensation for 2013 were taken at the Board of directors' meetings of 1 and 28 February 2013.

Components of compensation	Board decisions on 1 February 2013	Comments	Due for 2013
Fixed compensation	€450,000	The Board of directors, its meeting of 1 February 2013, on the recommendation of the Appointments & Remuneration Committee, set the fixed and variable compensation of Jean-Bernard Lévy for fiscal year 2013. If the quantitative targets are exceeded, the variable compensation may be increased to a maximum of €713,750, which would represent total maximum annual compensation (fixed + variable) of €1,163,750 (limited to 146% of the target for quantitative criteria and 100% for qualitative criteria). The criteria for setting variable compensation are as follows, based on a weighting determined by the Board of directors at its meeting on 28 February 2013: Quantitative criteria representing a total of 75% of variable compensation (in decreasing order of importance): ■ 22.50% based on adjusted net income per share; ■ 22.50% based on EBIT; ■ 15% based on operating cash flow; ■ 15% based on order intake. The targets are set by the Board of directors during the budgetary process but are not made public for reasons of confidentiality. Qualitative criteria make up the remaining 25% of variable compensation. For 2013, the Board decided to apply the following qualitative criteria: ■ resumption of social dialogue; ■ introduction and functioning of the new organisation; ■ preparation of the 10-year strategic vision; ■ introduction of CSR targets and their inclusion among the qualitative criteria for variable compensation with effect from 2014 for Thales senior managers in France; without this list necessarily being exhaustive.	€450,000
Variable compensation	Target: €530,000 Maximum: €713,750		€558,039
Total annual compensation	Target: €980,000 Maximum: €1,163,750		€1,008,039
Attendance Fees		Attendance fees paid to Jean-Bernard Lévy	€38,500

Components of compensation	Board decisions on 1 February 2013	Comments	Due for 2013
Exceptional compensation	-	None	-
Deferred or multi-year variable compensation	-	None	-
Grant of stock options and/or performance shares	-	None	-
Gradual and conditional retirement ^(a)		The company representative of Thales is eligible for a supplementary pension scheme, the amount of which is determined based on an identical scoring method to the collective supplementary pension scheme in operation within Thales at the date of the Board meeting for Group executives whose compensation exceeds the contributions ceiling set by AGIRC, the French executive pension fund association. The company representative's entitlement to these rights, calculated on a points basis in the same way as the AGIRC scheme, is not contingent on employment with the Company upon retirement. It is deemed vested from 1 January 2015, but remains subject to the fulfilment of the following performance condition: achievement of an average of at least 80% of the targeted annual operating margin set by the Board for the company representative over the previous three financial years. The increase (doubling) in pension is contingent on the Chairman & Chief Executive Officer remaining in office for three years from the date of joining the Group.	annual pension of €2,136 or 0.47% of fixed compensation
Severance pay ^(a)		Compensation may be paid, following a decision of the Board of directors and under the conditions envisaged by the AFEF-MEDEF code which the Company has declared it applies, to Jean-Bernard Lévy owing to the termination of his appointment. This compensation is set, after one year's employment, or from 1 January 2014, at €225,000, increasing by €100,000 each quarter to reach a maximum amount of compensation of €1,500,000 (this ceiling will be reached on 30 March 2017). 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. This compensation is subject to fulfilment of the performance condition set by the Board of directors, namely the achievement of an average of at least 80% of the targeted annual operating margin set by the Board for the Company representative over the previous three financial years.	
Private unemployment insurance ^(a)		Jean-Bernard Lévy is entitled to private unemployment insurance subject to fulfilment of the same performance conditions as those envisaged for severance pay.	
Private healthcare		Jean-Bernard Lévy is eligible for the private healthcare scheme of French employees and receives an annual health check in common with other Thales executives.	
Directors' liability insurance		Jean-Bernard Lévy is covered by directors' liability insurance, including criminal liability.	
Chauffeur-driven car		Jean-Bernard Lévy has the use of a chauffeur-driven car for his business travel.	€3,985
Independent legal and tax advice		Jean-Bernard Lévy is entitled to a maximum of 50 hours per year of independent legal and tax advice.	€17,430

^(a) Regulated agreements (Articles L. 225-42-1 and R. 225-34-1 of the French Commercial Code).

The Board of directors, at its meeting on 19 February 2014, confirmed that the components comprising the Chairman's compensation as described above remained unchanged for 2014.

► COMPLIANCE WITH THE RECOMMENDATIONS OF THE AFEP-MEDEF CODE

Recommendations of the AFEP-MEDEF code	Thales provisions
Severance pay	
Only in the event of forced departure	Yes
Performance conditions over two years	Performance conditions over the last three financial years
Maximum amount: two years' compensation (fixed and variable)	Amount gradually increasing after one year of employment Ceiling of €1,500,000 reached in March 2017 (less than two years' projected salary)
Supplementary pension	
Minimum length of service	Minimum of two years' service
Performance conditions over a minimum of two years	Performance conditions over the last three financial years determined by the Board of directors
Gradual vesting Vesting capped at 5% per annum, with a cumulative maximum of 45% of the relevant income achievable after a minimum of nine years	Vesting capped at approximately 1.2% per annum of maximum salary Estimated cumulative amount vested (including bonus) after nine years: 20% maximum
No windfall effect linked to an increase in final salary	Impossible since vesting capped at 32 annual social security thresholds and the maximum salary of the Chairman & Chief Executive Officer is below this threshold

► TABLE 1: REMUNERATION, OPTIONS AND SHARES GRANTED TO THE EXECUTIVE COMPANY REPRESENTATIVE

(€ thousand)	2013	2012
Luc Vigneron, Chairman & Chief Executive Officer until 19 December 2012		
Remuneration due for the year (detailed in Table 2)	–	1,423.3
Value of options granted during the year (detailed in Table 4)	–	–
Jean-Bernard Lévy, Chairman & Chief Executive Officer since 20 December 2012		
Remuneration due for the year (detailed in Table 2)	1,067.9	16.8
Value of stock options granted during the financial year	–	–
Value of performance shares granted during the financial year	–	–
TOTAL	1,067.9	1,440.1

► TABLE 2: REMUNERATION OF THE EXECUTIVE COMPANY REPRESENTATIVE

(€ thousand)	2013		2012	
	Due for the period	Paid during the financial year	Due for the period	Paid during the financial year
Luc Vigneron, Chairman & Chief Executive Officer until 19 December 2012				
Fixed compensation	–	37.3 ^(b)	678.8	700.0 ^(a)
Variable compensation	–	704.6 ^(c)	704.6	790.4 ^(b)
Exceptional compensation	–	94.0	–	–
Attendance Fees	–	24.3 ^(c)	36.8	32.7
Benefits in kind	–	–	3.1	3.1
Total Luc Vigneron	--	860.2	1,423.3	1,526.2
Jean-Bernard Lévy, Chairman & Chief Executive Officer since 20 December 2012				
Fixed compensation	450	426.3	13.8	–
Variable compensation ^(d)	558	–	–	–
Exceptional compensation	–	–	–	–
Attendance Fees	38.5	14.2	2.9	–
Benefits in kind ^(e)	21.4	19.2	0.1	–
Total Jean-Bernard Lévy	1,067.9	467.7	16.8	--
TOTAL	1,067.9	1,327.9	1,440.1	1,526.2

(a) The excess paid in December 2012 was remedied in January 2013.

(b) December salary paid in January (deferred payment).

(c) Paid for the previous period.

(d) The Board of directors, at its meeting on 28 February 2013, decided that the target amount of variable compensation was €530,000, with a maximum of €713,750 if targets were exceeded (limited to 146% of the target for quantitative criteria and 100% for qualitative criteria). The criteria for setting variable compensation were, based on a weighting determined by the Board of directors, 75% quantitative (in decreasing order of importance): 22.50% based on adjusted net income per share, 22.50% based on EBIT (excluding DCNS), 15% based on operating cash flow (excluding DCNS), and 15% based on order intake for 2013 (excluding DCNS). The targets are set by the Board of directors during the budgetary process but are not made public for reasons of confidentiality. For the remainder, or 25% of variable compensation, the Board decided to use, as qualitative criteria for 2013, the resumption of social dialogue, the introduction and functioning of the new organisation, the preparation of the 10-year strategic vision, and the introduction of CSR targets and their inclusion among the qualitative criteria for 2014 variable compensation for the senior managers of Thales in France, without this list necessarily being exhaustive.

At its meeting on 19 February 2014, the Board reviewed the results obtained, based partly on the quantitative criteria set previously, i.e.:

- adjusted net income per share for 2013;
- EBIT (excluding DCNS) for 2013;
- operating cash flow (excluding DCNS) for 2013;
- order intake (excluding DCNS) for 2013;
- and partly on qualitative criteria.

This review led the Board of directors to decide, upon the proposal of the Appointments & Remuneration Committee, that the gross amount of variable remuneration payable in 2014 to Jean-Bernard Lévy for fiscal year 2013 would be €558,039.

(e) The company representative is entitled to use a chauffeur-driven car and to receive independent legal and tax advice.

► **TABLE 3: ATTENDANCE FEES AND OTHER REMUNERATION RECEIVED BY NON-EXECUTIVE CORPORATE OFFICERS IN 2013 AND 2012 (GROSS AMOUNTS BEFORE ANY DEDUCTION AT SOURCE OR OTHER LEVY)**

Beneficiary (in euros)	Paid in 2013	Paid in 2012	Notes
R. Freeman	5,664	110,256	(a)
Ph. Lepinay	36,500	30,700	(b)
D. Lombard	31,500	24,450	
Inter CFDT (D. Floch + M. Saunier)	74,250	57,650	
State treasurer – Art. 139 NRE (D. Azéma - O. Bourges + B. Parent + J.-M. Prost)	97,336	57,650	
Ch. Edelstenne	36,500	30,700	
Y. d'Escatha (before waiver)	37,250	26,450	(c)
S. Gentili	32,750	26,950	
P. Mutz	5,164	26,950	
L. Segalen	37,750	31,950	
A. de Sèze	21,500	14,450	
A.-C. Taittinger	33,586	2,500	
A. Taylor	23,836	38,833	
E. Trappier	35,250	31,950	
Société TSA	5,164	19,450	
TOTAL	514,000	530,889	
including attendance fees (excl. company representative ^(d))	514,000	414,500	
see table 2	38,500	32,700	
TOTAL GROSS AMOUNT OF ATTENDANCE FEES	552,500	447,200	

(a) Including the gross amount of £65,000 due to the duties performed by Roger Freeman in the Group in the UK in 2012 (which represents, at the average exchange rate for the period, €80,056 in 2012), the remainder corresponding to Thales attendance fees.

(b) Philippe Lépinay has informed the Company that he paid €4,500 in 2012 and €4,800 in 2013 to the 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) M. Yannick d'Escatha decided not to receive the attendance fees due to him in 2012 and in January 2013 for 2012 (€26,000). Consequently, the only amount received by him in 2013 was €11,250 before tax.

(d) Attendance fees paid to the Company representative are shown in AFEF-AMF Table 2 (Remuneration of the company representative).

► **TABLE 4: STOCK OPTIONS AND SHARE PURCHASE 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	Valuation of total options granted to the company representative based on method used for consolidated accounts	Exercise Price	Exercise period
Jean-Bernard Lévy	None			None			

► **TABLE 5: STOCK OPTIONS OR SHARE PURCHASE OPTIONS EXERCISED DURING THE YEAR BY THE COMPANY REPRESENTATIVE**

Name of company representative	Plan date	Number of options exercised during the period as company representative	Exercise price
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
Jean-Bernard Lévy						None

On 17 September 2013, the Board of directors decided to implement a free share plan (existing shares) or performance share plan (existing shares), depending on the level of responsibility of the beneficiaries (cf. page 111 and following pages).

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
Jean-Bernard Lévy			None

► **TABLE 8: HISTORICAL RECORD OF STOCK OPTIONS AND/OR SHARE PURCHASE OPTIONS ALLOTTED TO THE COMPANY REPRESENTATIVE**

None

► **TABLE 9: STOCK OPTIONS OR SHARE PURCHASE 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 2013**

	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	306,464	€28.33

The Company has not granted stock options or share purchase options since 2012.

► **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
Jean-Bernard Lévy – Chairman & Chief Executive Officer from 20 December 2012		X	X		X			X

Supplementary pension

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 entitlement to these rights, calculated on a points basis in the same way as the AGIRC scheme, is not contingent on employment with the Company upon retirement. It is deemed vested from 1 January 2015, but remains subject to the fulfilment of the following performance condition: achievement of an average of at least 80% of the targeted annual operating margin set by the Board for the company representative over the previous three financial years. The increase (doubling) in pension will be contingent on the Chairman & Chief Executive Officer remaining in office for three years after joining the Group.

The vesting of these rights is consistent with the recommendations of the AFEP-MEDEF code and specifically the annual vesting and cumulative thresholds (see table on page 188).

In 2013, Jean-Bernard Lévy potentially acquired 4,909 points under this plan, which represents €2,136, or 0.47%, of his basic salary.

Benefits and rights upon the termination of office of the company representative

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 applied by the Company (see table on page 188), to Jean-Bernard Lévy on account of the termination of his office as Chairman & Chief Executive Officer, except in the event of resignation or 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.

Pursuant to the 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. They were approved by the General Meeting of 24 May 2013 following a special report from the statutory auditors.

Subject to the condition precedent of the renewal of his directorship, and his appointment as Chairman & Chief Executive Officer, these

agreements will be submitted for the approval of the General Meeting on 14 May 2014 for the term of his office.

Fiscal year 2014

On the recommendation of the Appointments & Remuneration Committee, the Board of directors decided for fiscal year 2014 at the meeting of 19 February 2014:

- to maintain the gross basic salary of Jean-Bernard Lévy, Chairman & Chief Executive Officer, at €450,000;
- to maintain the amount of target variable compensation at €530,000, with a maximum of €713,750 in the event of the targets being exceeded;
- that the criteria for setting 2014 variable compensation would be, based on a weighting determined by the Board of directors, 75% quantitative (in decreasing order of importance: 22.5% based on adjusted net income per share, 22.5% based on EBIT, 15% based on operating cash flow, and 15% based on order intake). The targets are set by the Board of directors during the budgetary process but are not made public for reasons of confidentiality. For the remaining 25% of variable compensation (target and maximum), the Board decided to apply qualitative criteria which have not been made public.

3.2.4.2.2 Compensation of other Group executives

The Group's Executive Committee had 12 members at 31 December 2013, in addition to the Chairman & Chief Executive Officer.

Total compensation paid in 2013 to Executive Committee members (proportionate to the time spent on the committee), excluding the Chairman & Chief Executive Officer, was €7,018,000, including 28.3% in variable compensation for 2012⁽¹⁾ and 20.2% in non-recurring extraordinary compensation. 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 2012 AND 2013

(€ thousand)	2013	2012
	Paid during the financial year	Paid during the financial year
Executive Committee (excl. Chairman & Chief Executive Officer)		
Fixed compensation	3,582	4,105
Variable compensation	1,988	1,842
Exceptional compensation	1,414	-
Benefits in kind	34	34
Total before contributions	7,018	5,981
Employer contributions	3,057	1,872
TOTAL EXPENSE	10,075	7,853

In addition, at the end of December 2013, the 12 members of the Executive Committee, other than the Chairman, together had a total of 484,513 stock options and 83,050 performance shares. The breakdown by allotment date and the detailed features, as well as any options exercised, are shown in the tables on pages 30 and 92 of the summary of operations carried out by directors, non-voting directors and related persons.

(1) Variable compensation for 2013 was paid in 2014.

3.2.4.2.3 Share-based payments

Description of the different plans allotted by the Group

Thales regularly allots its employees and directors stock options, share purchase options (until 2011) and/or free shares (since 2007), as part of its standard management policy for the performance of the Group's employees. These different plans are described below.

Outstanding options at 31 December 2013

At 31 December 2013, the following were outstanding:

- 117,800 share purchase options at a weighted average exercise price of €42.76;
- 8,186,261 share subscription options at a weighted average exercise price of €35.58.

► OUTSTANDING PURCHASE OPTIONS PLANS

Date of Board decision	25/11/2008	04/07/2007
Allotment discount	None	None
Performance conditions	No	No
Exercise period	From 25 Nov. 2012 to 24 Nov. 2018	From 4 July 2011 to 3 July 2017
Exercise price	€38.50	€44.77
NUMBER OF OPTIONS OUTSTANDING AT 31/12/2013, NET OF OPTIONS CANCELLED^(a) AND EXERCISED	37,800	80,000^(b)
of which exercisable options at 31/12/2013	37,800	80,000
of which outstanding options at 31/12/2013 held by:		
■ Chairman, Jean-Bernard Lévy	–	–
■ Other members of the Executive Committee	15,000	–
NUMBER OF BENEFICIARIES OF OUTSTANDING OPTIONS	8	1
of which members of the Executive Committee (excluding Chairman) at 31/12/2013	1	–
Total allotted to top 10 beneficiaries (at plan date)	72,200	80,000

(a) Notably due to termination of the employment contract between the beneficiary and the Group since the allotment date.

(b) Because the former corporate officer 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
Allotment discount	None	None	None	None
Performance conditions	Yes	Yes	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 July 2012 to 30 June 2018
Exercise price	€26.34	€26.34	€32.88	€38.50
NUMBER OF OPTIONS OUTSTANDING AT 31/12/2013, NET OF OPTIONS CANCELLED^(b) AND EXERCISED	384,200	441,350	1,057,881	1,322,360
of which exercisable options at 31/12/2013	–	–	1,057,862	1,322,360
of which outstanding options at 31/12/2013 held by:				
■ Chairman, Jean-Bernard Lévy	–	–	–	–
■ Other members of the Executive Committee	89,900	99,900	86,600	62,600
NUMBER OF BENEFICIARIES OF OUTSTANDING OPTIONS	105	114	934	1,025
of which members of the Executive Committee (excluding Chairman) at 31/12/2013	9	9	9	9
Total allotted to top 10 beneficiaries (at plan date)	124,000	161,500	222,000	230,000

Date of Board decision	04/07/2007	09/11/2006	30/06/2005	01/07/2004	01/07/2003
Allotment discount	None	None	None	None	None
Performance conditions	No	No	No	No	No
Exercise period ^(a)	From 4 Jul. 2011 to 3 Jul. 2017	From 9 Nov. 2010 to 8 Nov. 2016	From 30 June 2009 to 29 June 2015	From 1 Jul. 2008 to 30 Jun. 2014	From 1 Jul. 2007 to 30 Jun. 2013
Exercise price	€44.77	€36.47	€34.01	€29.50	€25.70
NUMBER OF OPTIONS OUTSTANDING AT 31/12/2013, NET OF OPTIONS CANCELLED^(b) AND EXERCISED	1,362,250	1,522,655	1,217,420	877,945	200
of which exercisable options at 31/12/2013	1,362,250	1,522,655	1,217,420	877,945	200 ^(c)
of which outstanding options at 31/12/2013 held by:					
■ Chairman, Jean-Bernard Lévy	–	–	–	–	–
■ Other members of the Executive Committee	56,500	37,500	32,413	4,100	–
NUMBER OF BENEFICIARIES OF OUTSTANDING OPTIONS	1,119	1,315	1,079	1,266	1
of which members of the Executive Committee (excluding Chairman) at 31/12/2013	9	7	6	3	–
Total allotted to top 10 beneficiaries (at plan date)	240,000	235,000	275,000	285,000	280,000

(a) Applicable to France for plans awarded prior to 2009 and to all countries since 2010.

(b) 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.

(c) Due to an on-going succession dossier.

Conditions of exercise

All Thales stock options are granted for a 10-year period, at no discount to the market price.

Stock purchase and subscription stock options granted between 1 July 2003 and 25 June 2009 can already be exercised in full.

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 FINANCIAL YEAR 2013

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	100%
15 September 2011	2012	100%	2013	100%	2014	–
20 December 2012	2013	100%	2014	–	2015	–
17 September 2013	2014	–	2015	–	2016	–

► OPTIONS GRANTED AND EXERCISED IN 2013

	Number of options allotted/ shares subscribed or purchased	Exercise Price	Expiration date	Date of plan
1 – Directors				
Options granted in 2013				
Jean-Bernard Lévy	None			
2 – The 10 biggest awards of options allotted to employees				
Options granted in 2013				
3 – The 10 biggest exercises of options by employees^(a)				
Options exercised in 2013	80,000	€25.70	–	01/07/2003
	39,964	€29.50	–	01/07/2004
	30,000	€34.01	–	30/06/2005
	30,000	€25.70	–	01/07/2003
	25,000	€25.70	–	01/07/2003
	25,000	€25.70	–	01/07/2003
	16,500	€36.47	–	09/11/2006
	20,000	€29.50	–	01/07/2004
	20,000	€29.50	–	01/07/2004
	20,000	€29.50	–	01/07/2004

^(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 France in 2013, for fiscal year 2012, in the payment of profit-sharing rights totalling €22.56m. 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.

30 French Group companies paid incentives in 2013 for fiscal year 2012 totalling €42.38m.

► GROSS AMOUNTS PAID OUT IN INCENTIVES AND PROFIT-SHARING IN RECENT YEARS

(€ million)	2013	2012	2011	2010	2009
In the Group^(a) in France					
Profit share paid	22.56	24.29	36.52	39.15	51.30
Incentives paid	42.38	45.15	23.99	15.13	16.92
By Thales (parent company)					
Incentives paid	3.83	4.80	–	–	2.77

(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 24 May 2013 and expiring with the audit of the 2018 financial statements.

Ernst & Young Audit

1/2, place des Saisons
92400 Courbevoie – Paris-La Défense 1
represented by Michel Gauthier and Philippe Diu.

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

Hervé Hélias

61 rue Henri Regnault
92400 Courbevoie

Current term approved by the General Meeting of 24 May 2013 and expiring with the audit of the 2018 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 Fees paid to auditors

Fees paid to auditors in 2013 and 2012 are detailed below^(a):

	Mazars				Ernst & Young			
	Amount (pre-tax)		%		Amount (pre-tax)		%	
	2013	2012	2013	2012	2013	2012	2013	2012
AUDIT								
Auditing, certification, examination of individual and consolidated accounts ^(b)								
■ Issuer	689	752	13%	13%	804	790	16%	15%
■ Fully consolidated subsidiaries	3,868	4,158	73%	73%	3,328	3,289	65%	60%
Other work and services directly associated with the assignment of the auditor ^(c)								
■ Issuer	256	229	5%	4%	140	352	3%	6%
■ Fully consolidated subsidiaries	506	512	9%	9%	380	428	7%	8%
Sub-total	5,319	5,651	100%	99%	4,652	4,859	91%	89%
Other services provided by the networks to fully consolidated subsidiaries^(d)								
Legal, tax and employee-related	11	20	–	1%	436	612	9%	11%
Others (if >10% of audit fees)	–	–	–	–	–	–	–	–
Sub-total	11	20	–	1%	436	612	9%	11%
TOTAL	5,330	5,671	100%	100%	5,088	5,471	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 shares

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

At 31 December 2013, Thales stock was included in the following main indices:

- NYSE Euronext Paris indices: CAC Next20⁽²⁾, SBF 120⁽³⁾, SBF 250, CAC Large60² 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⁽⁴⁾ and not on the total number of shares outstanding.

For information, based on the 2013 closing price, Thales's total market capitalisation was €9,629m, which is 4.88% of the CAC Next20 market capitalisation. Thales's free float market capitalisation, as defined by the NYSE Euronext Indices Steering Committee, was €4,490m;

- International indices: DJ Euro Stoxx, FTSEurofirst 300.

(1) International Securities Identification Number.

(2) Since 20 December 2013.

(3) Since 31 December 1990.

(4) In accordance with the definition used by the NYSE Euronext Paris Indices Steering Committee, the free float represents the total capital less treasury shares, shares held directly or indirectly by founders and/or by the State, controlling interests, as well as shares tied up under a shareholders' agreement not falling into one of 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 2012 to December 2013 (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
2013								
January	22	5,547,010	148.08	252,137	26.695	27.765	25.750	26.515
February	20	3,912,205	105.53	195,610	26.975	27.840	26.300	26.985
March	20	10,878,404	349.28	543,920	32.107	34.340	29.525	32.995
Q1 2013	62	20,337,619	602.88	328,026	29.644	34.340	25.750	32.995
April	21	4,881,907	157.88	232,472	32.339	33.845	30.900	32.980
May	22	6,822,412	245.89	310,110	36.041	38.430	32.510	37.570
June	20	5,446,647	201.56	272,332	37.006	38.290	35.145	35.875
Q2 2013	63	17,150,966	605.32	272,238	35.294	38.430	30.900	35.875
July	23	5,435,171	203.77	236,312	37.492	39.000	35.075	38.750
August	22	3,787,403	146.55	172,155	38.693	39.945	37.100	37.280
September	21	5,398,917	217.34	257,091	40.256	41.400	36.965	40.635
Q3 2013	66	14,621,491	567.66	221,538	38.823	41.400	35.075	40.635
October	23	6,781,171	293.50	294,834	43.281	45.200	40.610	45.200
November	21	3,984,013	178.35	189,715	44.767	45.990	43.715	44.925
December	20	3,876,958	172.33	193,848	44.450	46.800	42.800	46.800
Q4 2013	64	14,642,142	644.18	228,783	43.995	46.800	40.610	46.800
TOTAL 2013	255	66,752,218	2,420.04	261,773	36.254	46.800	25.750	46.800
2012								
January	22	4,957,213	124.00	225,328	25.014	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	26.615	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	24.493	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	26.356	27.510	25.180	25.485
August	23	3,473,191	91.43	151,008	26.324	27.190	25.340	26.420
September	20	3,400,416	91.35	170,021	26.864	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	27.835	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

3.3.1.3.2 Annual data from 2012 and 2013 (share prices in euros)

► PRICE AND PERFORMANCE

	2013	2012
Closing price	46.800	26.245
Session high	46.800	28.905
Session low	25.750	23.070
Weighted average price	36.254	26.329
Net dividend in respect of the previous year	0.88	0.78
Total shareholder return (TSR) ^(a)	+82.47%	+10.76%
Change in Thales share over the period (%)	+78.32%	+7.56%
CAC 40 performance over the period (%)	+22.23%	+15.25%
CAC Next 20 performance over the period (%) ^(b)	+27.69%	+21.00%

(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.

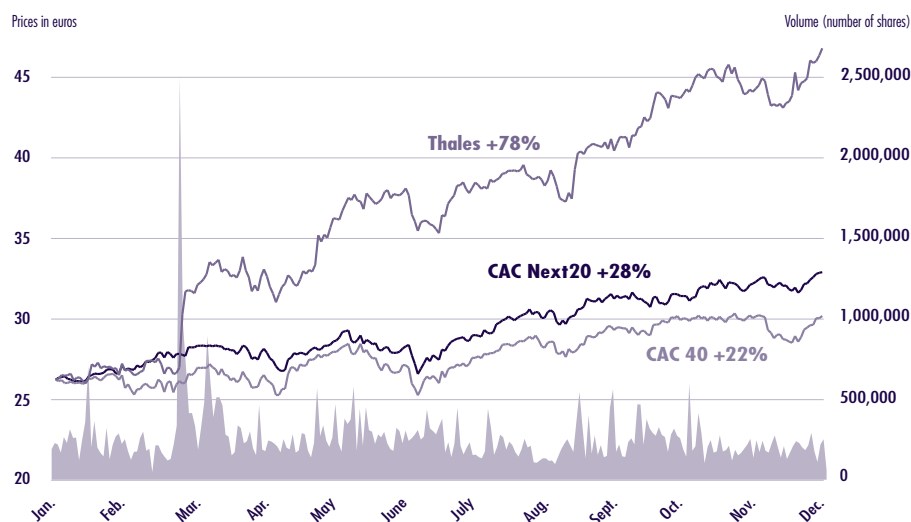
(b) Thales reinstated in the CAC Next20 index on 20 December 2013.

	2013	2012
Average number of shares traded daily (thousands)	262	242
Total number of shares traded over the period (millions)	67	62
Total value traded over the period (€m)	2,420	1,630
Average number of shares traded per month (thousands)	5,563	5,158
Average value traded per month (€m)	201.67	135.81
Total number of shares in capital (period-end - millions)	205.7	202.3
Total number of shares in free float (period-end - millions) ^(a)	95.9	92.2

(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 2013 to 31 December 2013

► SHARE PRICE AND TRADED VOLUME FROM 1 JANUARY 2013 TO 31 DECEMBER 2013



Closing price of the Thales share:
 ■ 2 January 2013: €26.240;
 ■ 31 December 2013: €46.800.

2013 high: €46.800.

2013 low: €25.750.

a) Comments on share price in 2012 and 2013

- **In 2013**, the Thales share price increased by 78%, compared with 22% for the CAC 40 and 28% for the CAC Next20, on the back of a continued recovery in European equity markets, a rerating in "Defence & Aerospace" stocks and the Thales stock "catching up" on industry peers.
- **In 2012**, the Thales share price increased by 8% over the year, compared with 15% for the CAC 40 and 17% for the SBF 120 – the Thales benchmark index at 31 December 2012 – in the context of a recovery in European equity markets.

b) Comments on traded volumes in 2012 and 2013

- **In 2013**, daily traded volumes reached an average of 261,773 shares, up on 2012. Volumes traded recorded a number of significant peaks during the year: the first in the context of the publication of the annual earnings at the end of February and the investor roadshows during the first half of March, the second surrounding the Annual General Meeting and the ex-dividend date at the end of May, the third surrounding the half-yearly roadshows in September and the final one following the publication of Q3 sales and order intake at the end of October.
- **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.

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 24 May 2013 approved the payment of a dividend of €0.88 per share for 2012, entirely in cash. As an interim dividend of €0.25 per share had been paid on 14 December 2012, the balance of the dividend for 2012 of €0.63 per share was paid after the Annual General Meeting.

On 17 September 2013, the Board of directors of the Company decided to pay an interim dividend of €0.27 per share for 2013. This interim dividend was paid on 13 December 2013.

For 2013, the dividend recommended by the Board of directors to shareholders at the Annual General Meeting on 14 May 2014 will be paid entirely in cash. As an interim dividend of €0.27 per share was paid on 13 December 2013, this payment will represent the balance of the dividend for 2013 of €0.85 per share, subject to the approval by the shareholders at the Annual General Meeting on 14 May 2014 of the dividend recommended by the Board of directors of €1.12 per share for 2013. 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 2010, 2011 and 2012 qualified for a possible tax credit of 40%.

► DIVIDENDS PAID FOR THE LAST FIVE YEARS

(euros)	2013 ^(a)	2012	2011	2010	2009
Dividend before tax credit	1.12	0.88	0.78	0.50	0.50

(a) Subject to the approval of the Annual General Meeting of 14 May 2014, which will vote on the 2013 financial statements. The ex-dividend date is 27 May 2014 and the payment date is 30 May 2014.

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 a corporate activity report with key information about the Group, a corporate social responsibility report and a social 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.

At the Financial Transparency Awards in October 2013, Thales was rewarded for the quality of its financial communications, coming second in the “Industrial Goods and Services” categories and eighth in the SBF 120. Organised annually under the auspices of a scientific committee⁽¹⁾ which includes 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 2014

19 Feb.	2013 consolidated results
10 April	Investor Day
29 April	Q1 2014 financial information
14 May	Annual General Meeting of Shareholders
30 May	Payment of 2013 dividend (ex-dividend date 27 May 2014)
24 July	2014 interim consolidated results
23 Oct.	Q3 2014 financial information

3.3.2.3 Contacts

Investor Relations Department

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e-mail: ir@thalesgroup.com

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).

2012 annual results

In the “Investors” section, under the heading “Releases and publications”:

- Press release – 28 February 2013: 2012 annual results;
- Presentation – 28 February 2013: 2012 annual results;
- 2012 consolidated annual results.

Quarterly information at 31 March 2013

In the “Investors” section, under the heading “Releases and publications”:

- Press release – 25 April 2013: order intake and sales at 30 March 2013;
- Presentation – 25 April 2013: order intake and sales at 30 March 2013.

2013 Annual General Meeting of Shareholders

In the “Investors” section, under the heading “Annual General Meetings”:

- Notice of AGM – Balo [French legal gazette] 1 April 2013;
- Publication in Les Echos on 2 April 2013;
- Number of shares and voting rights as of the date of the notice of AGM – Article R.225.73-1 (2);
- Articles of Association – 7 January 2013;
- Registration Document 2012;
- Notice to attend AGM (Balo [French legal gazette] 1 May 2013);
- Notice of availability of documents;
- Meeting brochure – AGM 24 May 2013;
- Brochure specified in Article R.225-83 – AGM 24 May 2013;
- 2013 Combined Annual and Extraordinary Shareholders’ Meeting – Presentation;
- AGM 24 May 2013 – Press release;
- AGM 24 May 2013 – Quorum and voting results;
- Articles of Association – 24 May 2013.

2013 first-half results

In the “Investors” section, under the heading “Releases and publications”:

- Press release – 24 July 2013: 2013 first-half results;
- Presentation – 24 July 2013: 2013 first-half results;
- 2013 interim condensed consolidated financial statements.

⁽¹⁾ Members of the scientific committee: NYSE Euronext, Paris Europlace, SFAF - Association of French Financial Analysts (Société Française des Analystes Financiers), AFG - Association of Asset Management Professionals (Association Française de la Gestion Financière), IFA - French Institute of Directors (Institut Français des Administrateurs), the Léonard de Vinci School of Management and investor associations such as APAI - Association of Retail Shareholders (Association pour le Patrimoine et l’Actionnariat Individuel) and F2IC - Federation of retail shareholders and investment clubs (Fédération des Investisseurs Individuels et des Clubs d’Investissement).

Quarterly information at 30 September 2013

In the "Investors" section, under the heading "Releases and publications":

- Press release – 24 October 2013: order intake and sales at 30 September 2013;
- Presentation – 24 October 2013: order intake and sales at 30 September 2013.

2013 annual results

In the "Investors" section, under the heading "Releases and publications":

- Press release – 19 February 2014: 2013 annual results;
- Presentation – 19 February 2014: 2013 annual results;
- 2013 consolidated annual results.

3.3.3 Other market securities

3.3.3.1 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.

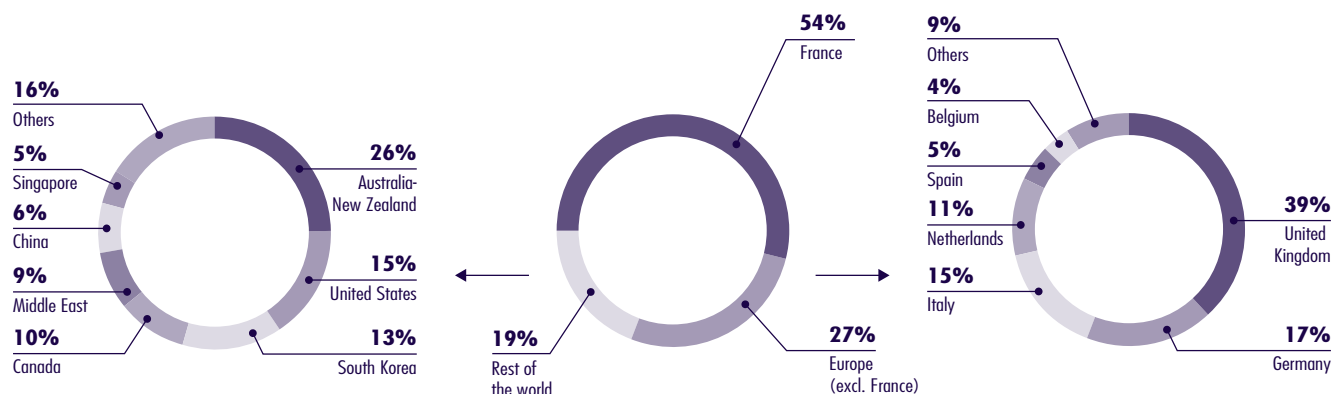
3.3.3.2 Bond maturing in 2018 and 2021

In March 2013, Thales issued a €800m bond, structured in the form of a 5-year €500m tranche with a coupon of 1.625% (including €300m swapped to variable rate) and an 8-year €300m tranche with a coupon of 2.25% (wholly swapped to variable rate), in order to refinance the €600m bond maturing in April 2013.

Thales, a responsible employer

- High-quality social dialogue: 87% of the Group's employees in the world are covered by collective conventions or agreements;
- Anticipation to support professional development: around 90% of employees had a professional development discussion with their manager in 2013;
- Continuing training programme: 76% of the Group's employees received training in 2013;
- A salary policy that enables employees to share in the Group's results, primarily through employee savings and employee shareholding plans;
- A concrete and committed social policy for gender equality (women representing 22% of the Group's workforce and 28% of new hires in 2013). 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.

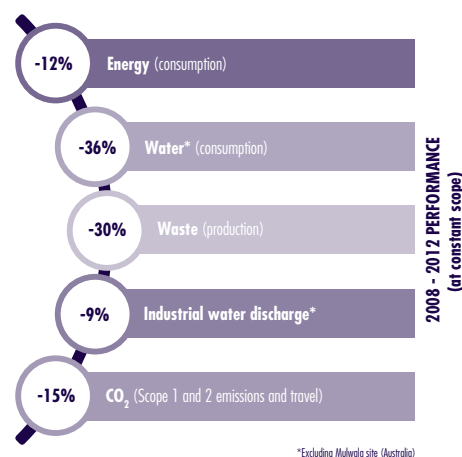
► DISTRIBUTION OF EMPLOYEES BY GEOGRAPHIC REGION



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" eco-design network;
- 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 (noise and smells). ISO 14001 certification includes the environment in products and services (tenders, projects, design, development);
- A key player in combating climate change, whether in transport, innovation in green technologies, eco-design of products or the Group's involvement in the dissemination of best environmental practice;
- An ambitious environmental policy delivering results.

► PERFORMANCE 2008-2012 (AT CONSTANT SCOPE)



A broad view of corporate social responsibility



- A long-standing policy of fair business practices, in particular to prevent corruption, that has been incorporated in a continuing improvement process;
- Thales, a leading player in the international effort to promote best practices with professional associations in the Aerospace and Defence sector, international organisations and non-governmental agencies. To this end, Thales has been a member of the United Nations Global Compact since 2003 and in 2012 qualified for "Global Compact Advanced" status;
- A responsible approach with suppliers: more than 2,900 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.

CORPORATE RESPONSIBILITY

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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

Note on methodology

Social reporting method

The data presented in this registration document are taken from the Thales 2013 social report, which provides a more detailed description of the social actions undertaken by the Group. 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 2013. The social report is available to download from the Group's website www.thalesgroup.com, under the heading "Corporate responsibility".

Organisation and methodology

To ensure that the data collected are accurate and reliable, a dedicated organisational structure and suitable methodology have been implemented. Accordingly, in continuation of the process initiated in 2011, and thanks to the deployment of the computerised "e-Social Responsibility Reporting" tool, the information contained in the social report is specifically provided by the contributors and approved by the HR Directors of each country. These have to complete a qualitative and quantitative questionnaire covering indicators that, while satisfying current legislative requirements, are also based on the indicators proposed by the Global Reporting Initiative⁽¹⁾ or negotiated with

social partners, particularly at the European level. Other indicators can also be used to gather information necessary for preventing the Human Resources risk. The data reported by each country are consolidated by the Group HR Department, which checks for consistency before drafting the report.

Scope

The definition of "Employees under Thales management" used to prepare the social report and the registration document is strictly identical to the definition used last year. Accordingly, the total number of employees reported at 31 December 2013 in principle includes all employees working for fully consolidated and proportionally consolidated companies, and 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 France, DCNS; in the United States, Thales Raytheon Systems LLC and Advanced Acoustics Concept; in Germany, Diehl Aerospace GmbH, Junghans Microtec GmbH, UMS GmbH, Eurofighter Simulation Systems GmbH and Helicopter Training Media International; in Italy, Telespazio; in Spain, Amper Programmas; in the United Kingdom, City Link Communications Limited, Network Information Systems and UAV Tactical Systems Limited.

⁽¹⁾ The Global Reporting Initiative (GRI) is a non-profit organisation which has developed a common framework for sustainable development reporting. Established in 1997, the GRI published its first guidelines in 1999. Compliance with these guidelines is voluntary for companies.

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.

While employee data is collected based on a definition which is strictly identical to the one used in 2012, the scope was changed slightly in 2013 in view of the acquisitions and disposals made⁽¹⁾.

Details

- “Employees under management” in the registration document does not take apprenticeship and training contracts into account. However, these contracts have been accounted for under the recruitment section.
- 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 entered in the HR Department’s and Environment Department’s reporting tools.

4.1.1 A 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 2013 demonstrate the stability of the Group’s social dimension.

4.1.1.1 Employment in the Group

The breakdown of Thales group’s⁽²⁾ 65,192 employees worldwide by geographic area and by level of responsibility reflects the Group’s key features, which also shape its social policy:

- its international footprint, with 30,147 employees working outside France at the end of 2013, representing 46.2% of the global workforce;
- its highly skilled workforce, 74.7% of which hold a position equivalent to engineer, specialist or manager;

- the presence of women, who make up 22% of the global workforce;
- the proportion of long-term jobs, i.e. permanent contracts (97.4%);
- and the volume of full-time jobs (93.5%).

In 2013, employees under management were stable compared with the previous year (65,138 in 2012). In addition, Thales recruited 5,863(3) employees this year, which reflects the Group’s high levels of employment.

4.1.1.1.1 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 Group’s multinational dimension is illustrated by the diversity of its locations. Most of the Group’s workforce is still in Europe, with 52,668 active employees, or 80.7% of the workforce, based there. The countries that have seen the highest growth in terms of headcount are the United States, China and Germany.

(1) In the United Kingdom, the integration of 15 employees (acquisition of the Company XPI Simulation), in Portugal the integration of 53 employees following the increase from 33% to 65% of the stake in Edisoft, and in France the integration of 21 employees following the acquisition of the Information Technology Solutions business of Egis Avia. Disposals concerned 17 employees in Italy (disposal of the CIS-SAP business) and five employees in the Netherlands (Laktechniek division).

(2) In this chapter, the term “employee” means all staff under management by Thales (excluding in particular DCNS, see definition page 206).

(3) This includes the recruitment of apprentices during 2013, but does not include the conversion of fixed-term contracts or apprenticeship contracts into permanent contracts.

		Headcount
Major industrial countries	Germany	3,089
	Australia - New Zealand	3,155
	Canada	1,255
	United States	2,049
	France ^(a)	35,045
	Netherlands	1,888
	United Kingdom	6,796
Other European countries	Austria	301
	Belgium	688
	Spain	891
	Greece	32
	Hungary	20
	Italy	2,746
	Latvia	22
	Norway	205
	Poland	188
	Portugal	238
	Romania	215
	Switzerland	198
	Other ^(b)	106
Emerging markets	South Africa	247
	Saudi Arabia	596
	Brazil	195
	Chile	23
	China/Hong Kong	882
	South Korea	1,705
	India	272
	Israel	97
	Japan	49
	Malaysia	115
	Mexico	244
	Middle East (excl. Saudi Arabia) ^{(c)(d)}	367
	Russia	26
	Singapore	573
	Taiwan	25
	Thailand	20
	Turkey	114
	Venezuela	23
	Other ^(b)	492
WORLD (2013)		65,192

(a) Active employees, including those of the companies Helisim (47), Sofradir (526), Ulis (143) and Sysgo SAS (12). The registered headcount at 31 December 2013 including the previous companies was 37,724 employees.

(b) Other countries with fewer than 20 employees and permanent establishments from European companies:: Algeria, Argentina, Cameroon, Colombia, Denmark, Egypt, India, Indonesia, Kazakhstan, Morocco, Panama, Peru, Czech Republic, Dominican Republic, Sweden, Vietnam.

(c) The headcount in these countries also includes the permanent establishments of Thales Communications & Security SAS.

(d) The Middle East includes UAE, Egypt, Jordan, Kuwait, Lebanon, Oman, Pakistan and Qatar.

4.1.1.1.2 Breakdown of active employees by operating segment

The breakdown of employees, which now covers three Thales operating segments, remains broadly unchanged. The minor movements between the various segments (in particular Transport) were largely due to reclassifications as a result of the implementation of the new Global Business Units structure.

	Defence & Security	Aerospace	Transport	Others	Total
2013	35,306	17,915	6,407	5,564	65,192
2012	35,109	17,212	7,213	5,604	65,138
2011	38,176	17,767	6,986	4,050	66,979

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 countries in which it is based. Worldwide, 97.4% of staff members have a permanent job. In addition, the vast majority of Group employees (93.5%) have a full-time job. Lastly, temporary employment is relatively limited, and has even fallen compared with the previous year, since the Group only employed 2,123 temporary staff worldwide in 2013, compared with 2,707 in 2012. In France, there were 720 temporary staff members (794 in 2012).

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 2013, 74.7% of Thales employees held a position equivalent to engineer, specialist or manager level (LR 7 to 12).

4.1.1.1.5 Breakdown of employees by age bracket

Thales, in common with peer groups in the sector, reports data related to length of time with the Company and average age, which are relatively high but stable. Many employees remain with Thales throughout their career. This favours both the employment of "overfifties" (almost 35% of employees are aged 50 or over) and the integration of young people (34% of employees are under the age of 40).

In France, the average age of employees was 45 at 31 December 2013, with an average of 17 years' service with the Company.

4.1.1.2 Recruitment

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 hired 5,863 new employees in 2013 (compared with 5,985 in 2012). The majority of new recruits were offered permanent employment (open-ended

contracts). In addition, between 1 January and 31 December 2013, the Group signed 1,076 apprenticeship contracts, mainly in France (896), Germany, Canada and Australia. This demonstrates the Group's increased commitment towards integrating young people.

It should be noted that 2,837 employees were hired in France in 2013, 896 of them on an apprenticeship contract and 408 on a fixed-term contract.

Relative to the total number of new hires, this figure includes apprenticeship contracts signed in 2013, but does not include the conversion of fixed-term contracts or apprenticeship contracts into permanent contracts during the year, neither does it include current apprenticeship contracts, internships, volunteers on the VIE (International Business Volunteers) scheme and CIFRE (industrial research-based training) agreements.

4.1.1.3 Departures

In 2013, 4,574 employees left the Group, excluding disposals (compared with 4,212 in 2012). Departures are mainly due to resignations (1,591) and retirement (1,180), which represent 60.6% of departures. However, the number of resignations has fallen compared with 2012 (when it stood at 1,955), even in countries where staff turnover is generally high (notably Canada and Australia).

Across the board, redundancies represent 33.6% of departures (1,538 redundancies in 2013, versus 1,081 in 2012). The proportion of redundancies for economic reasons (1,160) is largely due to the decline in activity in certain areas, the completion of certain projects (Middle East), or budget cuts, particularly in defence (United Kingdom).

The number of departures in France – excluding the expiry of fixed-term contracts and apprenticeship contracts – stood at 1,537, mainly due to retirement (870) and resignations (429).

4.1.1.4 Attractiveness policy

To support its international growth, the Group is continuing and stepping up its search for new talent by recruiting employees with a wide range of profiles in terms of training, experience and knowledge. Thales' success and performance effectively depend on its ability to recruit employees from different labour markets (both in France and abroad), the quality of core competencies, and the commitment of its employees. The expansion of the Group's international operations also depends on its ability to manage talent globally.

4.1.1.4.1 An attractive recruitment website

Thales has increased its online presence to allow job candidates to find the latest information about the Group and to apply online for vacancies. Partnerships with several recruitment sites (such as Monster, Regionjob, Jobtic, etc.) were renewed at the end of 2013. The steady rollout since 2011 of the "Multiposting" solution within the Group means that vacancies are "multicast" to around 50 job sites. A significant number of applications are now received via social networks and recruitment sites. In France, this accounts for 58% of applications (or over 142,000 applications).

Lastly, the Group has developed a mobile app called "Thales World 4U" through which users can learn about job vacancies, career opportunities and recruitment events, as well as a selection of products. Available in the 56 countries in which Thales operates, "Thales World 4U" helps to reinforce the Group's employer brand.

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 the sharing of experience and knowledge between students and businesses. The Group is keen to foster an interest in science and technology careers among young people in secondary education. To encourage young people to choose this career path, Thales invites its employees to take part in events organised by their children's schools and to introduce them to the various aspects of the business. The Group's French companies also host secondary school students on work placements. In France, the Group took part in an operation in 2013 entitled *Premier stage en entreprise* (My first internship) in partnership with the organisation *Elles Bougent* to propose

internship offers to girls in their fourth year of secondary school. More than 150 initiatives were completed with schools and the Group was involved in around 50 forums.

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, taking into account its own needs but also its commitment to help young people integrate into the world of work. Thales sees work and study programmes as a prime means of integrating young people. In 2013 for example, the Group signed 1,076 apprenticeship contracts worldwide notably in France (896), Australia, Canada and Germany.

In France for example, 1,134 apprentices (896 of whom began their apprenticeship during the year), 362 young people on training contracts and 113 people on research-based training (CIFRE) contracts were working for the Group in 2013.

Pursuing its efforts to integrate young people into the workplace, Thales signed a Group-wide "Generation Contract" in France on 23 July 2013⁽¹⁾. This agreement reinforces the Group's work-study policy by targeting an increase in the number of work-study students to 5% of the average annual workforce at the end of the agreement. It also supports the policy to recruit young people by aiming for:

- 30% of Group recruitment in France from the under-26 age bracket (with 2,000 young people under 30 to be hired on permanent contracts by the end of 2016);
- the launch of diversity initiatives, by setting up a Thales Education Scholarship and building partnerships with NGOs.

4.1.2 High-quality social dialogue

The Thales group supports and encourages high quality social dialogue.

4.1.2.1 Collective bargaining

By involving employee representatives at a transnational level, Thales has endeavoured to strengthen social dialogue at European level since 2009.

4.1.2.1.1 Collective bargaining at European level

In June 2009, Thales signed its first European agreement with the European Metalworkers' Federation (EMF, now IndustriAll) on improving professional development through effective anticipation. IDEA (Improving Professional Development through Effective Anticipation) affects more than 52,000 employees and applies to the main European countries where Thales is based. It is based on sharing existing best practices in the countries within its scope and, as such, 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 dynamic created at the European level by the IDEA agreement led to the signing of a second European agreement with the EMF in April 2010: TALK (Transparent annual Activity discussion for mutual Listening and developing professional Knowledge). This new agreement establishes 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 the basic principles designed to ensure that discussions are held in optimal conditions and that the rights and responsibilities of all parties are respected.

European conferences attended by staff representatives and human resources managers took place in 2012 in order to share new best practices within the framework of the IDEA agreement and to conduct an initial review of the application of the TALK agreement.

⁽¹⁾ Group agreement on "Thales' commitment towards the employment of young people and senior workers and support for knowledge transfer".

4.1.2.1.2 Collective bargaining in countries around the world

At the end of 2013, 87% 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. The main bargaining themes in 2013 concerned pay increases (Australia, South Africa, Brazil, Netherlands, etc.), working time (Austria), skills development (Germany), data protection (Germany), change management and restructuring (Germany, Belgium). As a reminder, collective bargaining in previous years covered other themes, such as the organisation of working time, health care and social security, particularly in Europe.

4.1.2.1.3 Collective bargaining in France

In France, Group agreements, such as those relating to trade union rights and social dialogue, labour regulations, the employment of people with disabilities and gender equality (amendment of 27 June 2012), have helped to build a common social framework for all employees in France, irrespective of which company they work for. To give company agreements and French Group agreements added legitimacy, in 2010 the Group made permanent its 2006 commitment only to enter into agreements based on a significant majority, barring exceptional cases. Three Group agreements were signed within the framework of this constructive social dialogue in 2013:

- the Group "Anticipation"⁽¹⁾ agreement, signed unanimously with the Group's trade unions on 26 April 2013, follows on from the November 2006 agreement on workforce planning. The text maintains and reinforces the shared and transparent approach towards prospective employment and skills management. It also includes the active employment management system which saw the implementation of a collaborative process and measures based on a twofold aspiration (that of the business and the employee) in order to deal with foreseeable economic difficulties linked to new skills requirements or even risks linked to technological breakthroughs;
- the Group collective agreement "Generation Contract"⁽²⁾, signed on 23 July 2013 following unanimous agreement with the trade unions representing its employees, demonstrates Thales' commitment towards employing young people and senior workers, and encourages the transfer of knowledge and skills between generations. Alongside the increased use of work-study placements and support for professional integration of young people, including the least qualified, the agreement encourages senior workers to remain in employment through a package of special measures. It also effectively takes into account the physical strain that can be caused through work;
- the Group framework agreement⁽³⁾ of 26 April 2013 governs the use of remote working for Group companies looking to implement this kind of arrangement.

Apart from compulsory annual negotiations, the Group's French subsidiaries entered into several agreements in 2013. The main areas under negotiation were:

- gender equality;

- profit-sharing agreements;
- the adaptation of active employment management measures to the Company concerned;
- home-office working.

4.1.2.2 Appropriate social dialogue bodies

4.1.2.2.1 European Works Council

Created by an anticipation agreement, the European Works Council (EWC) 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.

In 2013, two plenary meetings and four meetings of the EWC Select Committee took place.

Negotiations are under way to make further revisions to the founding agreement.

4.1.2.2.2 European Anticipation Commission/ National Anticipation Commissions

The European IDEA agreement stipulates that a European Anticipation Commission should be set up to conduct a forward-looking analysis of job families and discuss the annual training priorities of Thales University. 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 a "consultation/negotiation" body comprising all of the trade union organisations representing Group employees in France. Thales recognises the existence of Intercentres, dedicated structures set up to liaise with the management of representative union organisations at 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.

(1) Group agreement aimed at promoting professional development and employment through anticipation.

(2) Group agreement on "Thales' commitment towards the employment of young people and senior workers and support for knowledge transfer".

(3) Group framework agreement on remote working.

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 players in their own right as part of a new, significant involvement in their own career development and who 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

Managing job families forms an integral part of development and forward-looking approaches:

- in the short and medium term, to ensure a fulfilling professional life for all employees and enhance their employability;
- in the medium and long term, by allowing increased visibility of career development resulting from forward-looking analysis.

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 technical skills, for all of its job families.

By strengthening skills management and identifying expertise in fifteen job families, 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 supports employees in their day-to-day work, in the context of their career plans and in the development of their skills. To date, 29,000 employees have listed their skills 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. In France, the Group collective agreement of 23 April 2013 forms part of the approach instigated by the agreement of 23 November 2006 aimed at developing workforce planning and skills management. It also defines the conditions, procedure and measures associated with active employment management in the case of foreseeable economic difficulties linked to new skills requirements, or even in the case of technological breakthroughs that could have an impact on the future of certain job families.

This active employment management, based on the two-fold aspiration of the Company and employees, was implemented in several Group companies in 2013 after staff representatives had been informed and consulted about the economic forecasts, their effects on employment and the timeliness of implementing the initiative in many of the Group's companies.

4.1.3.4 Support for professional development

Thales believes that each employee should be an active player in his/her career. Each year, during their 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 thus intends to provide employees with all the information they need to have a clear 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 Professional Development Discussion is also an opportunity for the employee and his or her line manager to draw up an action plan which includes training as well as other professional development measures.

In 2013, around 90% of Thales employees in Europe and worldwide had a Professional Development Discussion with their manager.

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. Active career management is encouraged.

Mobility is also a means of upskilling in a matrix organisation where the "market" vision must work alongside the "product" vision of the Global Business Units. This means that mobility, whether professional or geographical, helps to deliver Thales' strategy of expanding in emerging countries.

Professional mobility is integral to each job family and business segment in order to strengthen and enhance skills. In addition, "career gateways" (from one job family to another, from one business line to another in the same job family, and/or from one establishment to another) are identified by the job family list applicable to the Group as a whole. In this respect, Thales regularly updates the guide given to employees, which contains a description of the Group's 15 generic job families (62 job families) and new ways of switching between them.

Facilitating the geographical mobility of employees is also a key issue. The Group has therefore adopted measures to help employees, mainly by harmonising support measures within each European country, such as helping partners find work in new regions or covering relocation costs. Thales guarantees its employees the ability to access information about job vacancies on a confidential basis in the context of internal mobility.

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 two-fold aim:

- meeting the needs of the Group's companies by implementing performance improvement and change management projects;
- taking into account employees' individual aspirations in terms of skills development as part of their job or professional mobility.

In order to encourage and develop geographical mobility in France, common rules have been drawn up to facilitate this practice, whether it be a move to a new job and/or new region (payment of relocation expenses, assistance with house-hunting, furniture allowance, etc.). In France, 975 employees opted for geographic mobility in 2013.

Several mechanisms are in place within the Group to encourage international mobility:

- young people and international schemes: In 2013, the French international business volunteer scheme (Volontariat International en Entreprise) enabled around 50 young people from the European Economic Area aged between 18 and 28 to go on foreign work placements for periods of six to 24 months. The "Career1st" programme offered around 25 young graduate employees or young professionals with less than five years' experience the chance to work abroad for a determined period of time. Around 40 employees benefited from the "Career Plus" scheme, a specific programme set up to match local operational requirements with the preferences stated by employees for a temporary post in another country;
- expats: the Group's expat policy is mainly aimed at employees with more than five years' professional experience. Overseas secondments depend on the requirements of the various countries. In 2013, some 600 Group employees worldwide had expat status (in 66 countries, at the latest count).

4.1.3.6 Career management tools deployed throughout the Group

As a high-technology group, Thales offers its employees several IT tools, via web applications, so that they can identify and update their experience, skills and professional development goals (Thales e-HR Together service, deployed in 49 of the Group's countries), browse job vacancies in the internal employment section, post their CVs online in their candidate space (e-staffing), view training that has been approved and register for available sessions (e-training).

4.1.4.1 Thales University: "sharing knowledge and transforming Thales"

Present in ten countries⁽¹⁾ (representing around 85% of the global headcount), Thales University contributes to the professional development of employees in the Group's different countries while ensuring a shared culture which builds cohesion around the Group's core values.

(1) Germany, France, Italy, Netherlands, United Kingdom, Canada, United States, United Arab Emirates, Australia and Singapore.

Thales University adapts individual and collective competencies to the business while supporting the Group's strategic approach. In 2012, Thales University was approached to support the deployment of several major transformation programmes, including the Group's new quality management system, Chorus 2.0. Since this deployment is now at an advanced stage, the number of employees who have received training at Thales University in France has fallen by 33% compared with 2012 (10,718 hours in 2013 compared with 16,019 hours in 2012) and is at a similar level to 2011. For the same reasons, the number of training hours delivered by Thales University in France in 2013 has fallen by 20% compared with 2012 (206,348 hours versus 257,044 hours).

Thales University is also continuing the international expansion that began in 2012 with the deployment of numerous key international programmes. For 2013/2014, these programmes are being tailored to the Group's new strategic vision and to the new Thales Leadership model. Finally, at the end of 2013, Thales University set up a teaching department with various responsibilities, including the development of new teaching methods for employees and professional development for the University's trainers.

4.1.4.2 Training programmes to meet the needs of the Group and its employees

As well as the university, 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 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 2013

In total, 76.3% of Group employees received training in 2013. This figure demonstrates the Group's commitment to invest in training its employees, who on average received 21.7 hours of training this year. Overall, the total number of training hours in the Group stood at 1,323,063 hours in 2013.

Compared with 2013, the average number of training hours has increased in Australia/New Zealand (35 hours compared with 30 hours in 2012), Romania (24 hours compared with 18 hours) and the United States (11.4 hours compared with 9.7 hours in 2012).

In France, the average number of training hours per employee is 20.5 hours. The increase in the number of training hours recorded in 2012 (21.9 hours) is mainly linked to the deployment of training on the Group's new quality management system, Chorus 2.0. Training costs represent 3.72% of wage and salary costs.

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. Worldwide, 92% of employees benefited from this discussion.

4.1.5.1 Remuneration and salary progression

Individual pay rises depend on the length of employment, attainment of annual targets, market positioning and allocated budget. 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 2013, 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 unions.

Based on the data reported in the 2013 consolidated financial statements relating to the consolidated headcount, wage and salary costs (excluding DCNS) came to €5,323 million for 2013, compared with €5,273 million for 2012.

<i>(in millions of euros)</i>	2012	2013
France	2,952	3,005
Europe excluding France	1,445	1,446
USA, Canada, Australia	637	631
Rest of world	239	241
TOTAL	5,273	5,323

NB: the performance of wage and salary costs for France shown in the table differs from the performance of average remuneration for these employees, since it takes into account changes in the workforce structure and age pyramid.

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 2013 for 2012 came to €22.56m.

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 2013, 30 of the Group's companies in France paid incentive rights for 2012 totalling €42.38m (the amount paid in 2012 for 2011 incentives was €45.15m). The parent company paid €3.83m in incentives in 2013 for 2012. For the record, €4.80 million in incentives had been paid in 2012 for 2011, whereas no incentives had been 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).

At 31 December 2013, the total savings generated by Group schemes amounted to €644.7m (compared with €536.3m in 2012), 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 2013, assets under management in the Group savings scheme stood at around €475m, including over €282m 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 employee share offer in 1998, the fund holds shares acquired during the offers in 2000, 2002, 2004, 2008, 2011 and more recently in 2013.

At 31 December 2013, assets under management consisting of Thales company shares managed within the Thales group savings plan on behalf of around 25,000 shareholders amounted to approximately €192m. Employee shareholding in Thales (irrespective of the type of holding) amounted to 2.13% of Thales capital at 31 December 2013.

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 that set up the PERCO made two important changes to the agreement. 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.

At 31 December 2013, assets under management as part of the PERCO scheme amounted to €176m, on behalf of 26,691 holders.

4.1.5.4 Allotment of free shares or performance shares

On 17 September 2013, the Board of directors of Thales approved the introduction of a free share plan and a performance share plan. The free share plan has 4,161 beneficiaries who are managers, specialists and technicians, as well as other key personnel, in 28 countries of the Group. The performance share plan, which is intended for the Group's executives, had 341 beneficiaries. For the record, Thales decided to stop granting stock options following the decision of the Board of directors of 28 June 2012.

4.1.6 Promoting social responsibility

As part of its human resources policy, Thales is committed to fostering a set of flagship common values that will drive its performance. By relying on dialogue and corporate social responsibility throughout its operations, Thales seeks to build Group cohesion while respecting the specific needs of each country. Employees are linked by values that are an integral part of the corporate culture, such as: "one team, one Thales", "developing our people", and "responsible and committed to excellence".

Recognising the importance of the Group's CSR commitment, the Group's Chairman and senior executives in France have included a CSR criterion in their targets for 2014 which encompasses the following three areas: promotion of women, professional development and quality of life at work.

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' CSR performance level from "active" to "advanced".

The desire to promote social responsibility led to the creation of an e-learning "Social Responsibility" programme in 2012 for all Group employees. This module, deployed again in 2013, sets out the commitments and concrete actions put in place by Thales. It is available in English and French in order to be 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 and 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 designed to prevent risks to health and safety at work. This organisation has been in place for three years and applies to all countries.

Within the Group, the Human Resources and HSE-Operations Departments share the vast domain of health & 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 injury" risks, monitors the risks that could affect employees around the world (discriminatory practices, sexual and psychological harassment, threats to health, accidents at work, professional risks and work-related stress).

From 1 July 2012, each Group company in France appointed a two-person team, composed of an HR and an HSE representative to assist the employer and the occupational health services in preventing risks to health and safety at work. The HR and HSE representatives have been appointed at each company level, and HR and HSE managers have also been appointed at company level to pass on information within establishments.

4.1.6.1.2 Concrete procedures and measures

Concrete procedures aimed at anticipating and managing 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. These included:

- a permanent medical unit responsible for health monitoring;
- a crisis centre in the event of a major international health risk;
- a management procedure for assignments in countries with a major health risk.

In France, the "Quality of life at work" agreement signed on 2 July 2009 defined a general framework for Thales' health and safety policy and established a system for identifying and preventing occupational risks. The agreement was based on a preventive approach involving all players in occupational health. It was mainly aimed at preventing the occurrence of psychosocial risks through collective action and individual monitoring of each employee. A Central Quality of Life at Work Committee supported all of these initiatives. As the agreement was due to expire, new negotiations took place with trade unions representing employees at Group level in 2013 to continue and step up the actions developed to support the quality of life at work. These negotiations led to a new Group agreement being signed on 4 February 2014.

Several actions have also been initiated in other countries to improve the health and safety of Group employees. In the United Kingdom and Australia, Thales launched a "safety culture" initiative in 2013. Audits are also carried out to assess working conditions on sites, as well as within international projects (Australia and Belgium). Various training sessions are also held (Italy, Spain, Saudi Arabia, etc.). An e-learning module to improve safety awareness has also been launched on the Group's online platform. In addition, the Group has developed several tools for monitoring workplace accidents and assessing occupational risks.

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 (95 certificates issued, representing 65% of the global workforce), marking a significant increase over the last two years (57% in 2011).

4.1.6.1.3 Data on accidents at work and absenteeism

Around the world, the overall absenteeism⁽¹⁾ rate is 2.96%.

In France, the overall absenteeism rate⁽¹⁾ (excluding maternity and paternity leave) is 2.71% for 2013 (3.07% if we add maternity and paternity leave to other recorded absences). This latter rate has been stable for the last three years (3.06% in 2012, 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.

For accidents at work, the overall frequency rate⁽²⁾ worldwide is 2.53 for 2013 and the severity rate⁽³⁾ is 0.07. The rates differ substantially for each country, depending in particular on the activities carried out there. However, in the majority of countries, the frequency and severity rates are relatively low. In France, for 2013, the frequency rate of accidents at work was 3.33 and the severity rate was 0.09.

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, 1,619 working days were lost due to occupational illness in 2013.

4.1.6.1.4 Solid welfare cover

Giving employees solid welfare cover helps protect their health. Some countries have brought in specific 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 companies and identical welfare cover, whatever the legal entity concerned.

In Germany, various sites also offer employees additional cover for medical costs, especially for preventive medical care.

4.1.6.1.5 Working time

For the Group, the organisation of working time should allow a balance between professional and personal life, with each country adapting working time according to the applicable legislation, agreements and regulations. 93.5% of Group employees are employed full time. Part-time work is therefore of little importance in the Group and tends to be the personal choice of the employee concerned.

Overall, 89.2% of Group employees are covered by regulations on working time. In many countries (France, Spain, Germany, the Netherlands, etc.), working time is also regulated by collective agreements. In total, 74.7% 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, Italy, Norway, Austria, the Netherlands, Poland, Portugal, Switzerland, China (including Hong Kong) and South Korea operate a 40-hour week. 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 a 38-hour week). In the United Kingdom, the "UK Alignment project" set up in 2012 seeks to harmonise working time in all Thales companies based on a 37-hour week by January 2015. In Germany, collective branch agreements give a working time of 35, 38 or 40 hours per week, depending on the region.

Most Group companies in France have entered into agreements implementing the framework agreement on working time signed in 2000, which had the following provisions:

- for non-managerial staff, working time of 35 hours per week on average over the year, with reduced working time days granted;
- for managerial staff, a flat-rate system in hours or days over the year based on 210 working days a year (excluding solidarity day).

The total amount of overtime worked in France totalled 55,781 hours in 2013, compared with 80,393 hours in 2012.

4.1.6.2 Gender equality

The Group has maintained its commitment to ensure that women are even more involved in its development, based on a committed, concrete policy supported by constructive social dialogue. At 31 December 2013, women represented 22% of the global and European workforce and 23.2% in France (24.3% of registered employees). In addition, most women working for the Group are under permanent contracts and are highly qualified: 96.8% of them hold a permanent post and 60.5% a post equivalent to engineer, specialist or manager level (levels of responsibility 7 to 12).

(1) The overall absenteeism rate corresponds to the percentage of the number of days off for any reason, work-related or otherwise, relative to the number of days theoretically worked in the various countries. Authorised leave such as annual leave, sabbatical leave, maternity/paternity leave or personal leave is excluded.

(2) The frequency rate represents the number of lost-time accidents in 2013, multiplied by 1 million, as a proportion of the number of hours theoretically worked during the year.

(3) The severity rate represents the number of days of lost time due to a work-related accident, multiplied by 1,000, as a proportion of the number of hours theoretically worked during the year.

4.1.6.2.1 Commitments

In France, since 2004, the Group has undertaken concrete actions in support of equality (action plans negotiated based on comparative status reports) in cooperation with trade unions representing its employees. 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 an anticipating process in all its companies.

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 should be prepared on the comparative position of male and female employees in each signatory country so that action plans can be developed as necessary. In general, the IDEA agreement represents commitments in all areas of gender equality: recruitment, career development, equal pay and work/life balance.

4.1.6.2.2 Concrete achievements

■ **Recruitment:** actions undertaken in favour of recruitment enabled Group companies to hire 875 women in 2013, representing 27.52% of recruitment worldwide (compared with 27.4% in 2012) and 28.3% in Europe (27.4% in 2012). This year, women represented 31% of recruitment in France (against 28.5% in 2012). In Spain, the recruitment rate of women in 2013 stood at almost 40%.

In France, on National Women's Day on 8 March 2013, Group companies welcomed almost 1,000 young women (high school or college students) at all of its sites. The aim was to encourage them to enter science and engineering professions by learning more about the Group's products and businesses.

■ **Career:** supporting equal career development between men and women is one of the goals of the latest Group framework agreement on equality signed in France in 2012. To that end, the Chairman has included a target for the promotion of women within his own targets and those of his senior management. In addition, work has begun with ANACT⁽¹⁾ to identify whether any glass ceilings exist within the Company.

■ **Compensation:** since 2006, Thales has set aside an annual budget in France equal to 0.1% of wage and salary costs specifically for dealing with any unjustified pay differences between men and women. In 2013, 951 women benefited from the measure, which alone brought them an individual average pay rise of 2.49%. In Austria and the United States, a pay gap analysis has been carried out to check that there was no differences.

■ **Work/life balance:** Thales is committed to supporting working parents and improving their work/life balance. In France, Thales has been involved since 2010 in setting up company crèches, which look after more than 200 children at around a dozen sites. Since January 2013,

the Group has offered an emergency childcare service in France – Solu'Crèche – ensuring that employees whose regular childcare solution is unavailable can benefit from a place at a crèche run by its preferred partner. Thales also supports paternity leave.

In Italy, Thales contributes to its employees' childcare costs.

4.1.6.3 Diversity and non-discrimination

4.1.6.3.1 Promoting cultural diversity

As a multinational, Thales embraces different cultures. The Group respects and encourages a range of cultures in the workplace. It pays particular attention to recruiting employees in the countries in which it is based. In the context of an increasingly globalised employment market, cultural diversity emerges as a source of wealth and contributes to the Group's strength.

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.

In addition, the long-term strategic vision seeks to integrate a more global dimension of the Group by promoting greater diversity within teams.

In France, the "Generation Contract" also aims to support equal opportunities in education and to encourage diversity; this is demonstrated in particular by the partnership between Thales and the charity Nos Quartiers ont des Talents signed on 27 November 2013.

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.

(1) Agence nationale pour l'amélioration des conditions de travail (National Agency for Improved Working Conditions).

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 5.5% at the end of 2013, compared with 5.1% in 2011.

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.

In order 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 2013, the Group also stepped up 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 strong commitments made by the Group and formalised in its Code of Ethics demonstrate its willingness to act responsibly and fight all forms of discrimination.

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. As this agreement was due to expire, a Group agreement referred to as the "Generation Contract" incorporates many of the provisions aimed at preventing discrimination against senior workers, anticipating career progression and developing the skills of senior workers, improving their working conditions and taking into account situations which employees are ill-suited to the work or under physical strain, planning for the latter stage of their career and smoothing the transition between work and retirement. Quantifiable objectives have also been set, aimed at increasing the proportion of new hires over the age of 57 to 2% and increasing the proportion of employees over the age of 55 to 15% of the official workforce by 2016.

► SCOPE OF DATA VERIFICATION

Indicators	2013 data	Scope	Data verification	
			Registration document	Social report
Total headcount^(a) at 31 December 2013	65,192	100%	✓	✓
Headcount by country				
Headcount France	35,045	100%	✓	✓
Headcount Europe (including France)	52,668	100%	✓	✓
Headcount outside France	30,147	100%	✓	✓
Headcount by gender				
% of women	22%	94.1%	✓	✓
% of men	78%	94.1%	✓	✓
% of women in France	23.2%	97.9%	✓	✓
Headcount by type of contract				
% of permanent contracts	97.4%	94.1%	✓	✓
% of full-time contracts	93.5%	94.1%	✓	✓
Headcount by age group				
< 30	10.5%	94.1%	✓	✓
30-39	23.9%	94.1%	✓	✓
40-50	30.8%	94.1%	✓	✓
> 50	34.8%	94.1%	✓	✓
Headcount by LR				
LR 1 to 6	25.3%	94.1%	✓	✓
LR 7 to 12	74.7%	94.1%	✓	✓

(a) Headcounts shown are active headcounts.

✓ Indicators that have been verified by Mazars for 2013.

Indicators	2013 data	Scope	Data verification	
			Registration document	Social report
Number of temporary staff	2,123	94.3%	✓	✓
Departures by type				
Number of departures	4,574	94.3%	✓	✓
% Resignations	34.8%	94.3%	✓	✓
% Redundancies	33.6%	94.3%	✓	✓
% Retirement	25.8%	94.3%	✓	✓
% Other departures (including death)	5.8%	94.3%	✓	✓
Recruitments				
Total number of recruitments	5,863	94.3%	✓	✓
% of women	27.5%	94.3%	✓	✓
Number of apprenticeship agreements signed in 2013	1,076	94.3%	✓	✓
Training				
% of employees benefiting from a PDD ^(a)	90%	91.5%	✓	✓
% of employees trained	76.3%	92.3%	✓	✓
% of women trained	79.3%	92.3%	✓	✓
Average number of hours' training per employee	21.65	93.7%	✓	✓
Total number of hours' training	1,323,063	93.7%	✓	✓
% of employees covered by a collective bargaining agreement	86.9%	96.6%	✓	✓
% of employees covered by a regulation on work time	89.2%	95.2%	✓	✓
Health and safety				
Global absenteeism rate World	2.96%	91.6%	✓	✓
Global absenteeism rate France	2.71%	97.9%	✓	✓
Global absenteeism rate France including maternity/paternity leave	3.07%	97.9%	✓	✓
Severity rate of accidents at work World	0.07	91.6%	✓	✓
Severity rate of accidents at work France	0.09	97.9%	✓	✓
Frequency rate of accidents at work World	2.53	91.6%	✓	✓
Frequency rate of accidents at work France	3.33	97.9%	✓	✓
Number of days off due to occupational illness in France	1,619	97.9%	✓	✓
Others				
Staff costs World	€5.323bn ^(b)	100% financial consolidation ^(b)	✓	✓
Employment rate of people with disabilities in France	5.5%		✓	✓
Number of jobs created by G�ris in 2013	434		✓	✓
Number of new business creation or takeover projects supported by G�ris in 2013	48		✓	✓
Proportion of purchases from EU suppliers	70%		✓	✓
% of purchases from suppliers in France	41%		✓	✓
Volume of industrial subcontracting services in France	�5.7bn		✓	✓

(a) Professional Development Discussion.

(b) Excluding DCNS.

✓ Indicators reviewed by Mazars for the 2013 reporting period and included in moderate assurance conclusion.

4.1.7 Statutory Auditors' independent third-party report on consolidated social information published in the management report

This is a free translation into English of the original 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,

As independent third-party, members of statutory auditor's network, whose accreditation application was accepted by the French National Accreditation Body (COFRAC), we hereby present our report on the consolidated social information provided in the management report prepared for the year ended December 31, 2013, (hereinafter referred to as "Social Information"), pursuant to Article L.225-102-1 of the French Commercial Code (Code de commerce).

Responsibility of the Company

The Board of directors of Thales is responsible for preparing a management report including the Social Information required under Article R. 225-105-1 of the French Commercial Code, in accordance with the reporting criteria used by Thales (the "Reporting Criteria") and available on request at the Social Responsibility Direction.

Independence and quality control

Our independence is defined by regulatory texts, the profession's Code of Ethics and by the provisions of Article L. 822-11 of the French Commercial Code. Furthermore, we have set up a comprehensive quality control system that includes documented policies and procedures designed to ensure compliance with deontological rules, professional standards and applicable legal texts and regulations.

Responsibility of the Statutory Auditors

Based on our work, our role is to:

- attest that the required Social Information is disclosed in the management report or, that an explanation has been provided if any information has been omitted, in accordance with the third paragraph of Article R. 225-105 of the French Commercial Code (Attestation of completeness);
- provide limited assurance that, on the whole, the Social Information is fairly presented, in all material respects, in accordance with the adopted Reporting Criteria (Fairness report regarding Social Information).

Our work was carried out by a team of 5 people between October 2013 and mid-February 2014. We requested the assistance of our CSR experts to conduct this verification work.

We conducted the work described below in accordance with the professional standards applicable in France and the legal order dated May 13, 2013 determining the methodology according to which the independent third party body conducts its mission and, regarding the fairness report, in accordance with ISAE 3000⁽¹⁾.

(1) ISAE 3000 – Assurance engagements other than audits or reviews of historical information.

1. Attestation of completeness of the Social Information

We got acquainted with the direction that the Group is taking in terms of sustainability, with regard to the social consequences of the company's business and, where appropriate, the actions or programs that stemmed from it.

We compared the Social Information presented in the management report with the list set forth in Article R. 225-105-1 of the French Commercial code.

In the event of omission of certain consolidated information, we verified that explanations were provided in accordance with the third paragraph of the article R. 225-105 of the French Commercial code.

We verified that the Social Information covers the consolidated scope, which includes the Company and its subsidiaries within the meaning of Article L. 233-1 of the French Commercial Code (Code de commerce) and the companies that it controls within the meaning of Article L. 233-3 of the French Commercial Code (Code de commerce), subject to the limits set forth in the methodological note presented in the reference document (chapter 4.1).

Based on our work and taking into account the limitations mentioned above, we attest that the required Social Information has been disclosed in the management report.

2. Fairness report with respect to Social Information

Nature and scope of procedures

We conducted about ten interviews with about ten persons responsible for the preparation of Social Information from departments in charge of the process of gathering information to:

- assess the appropriateness of the Reporting Criteria in terms of its relevance, completeness, neutrality, clarity and reliability, by taking into consideration, when relevant, the sector's best practices;
- verify the set-up within the Group of a process to collect, compile, process and check the Social Information with regard to its completeness and consistency. We familiarized ourselves with the internal control and risk management procedures relating to the compilation of the Social Information.

We determined the nature and extent of tests and controls depending on the nature and importance of Social Information in relation to the characteristics of the Company, the social issues of its operations, its strategic priorities in relation to sustainable development, and the Industry best practices.

Concerning the Social information that we considered to be most significant⁽¹⁾:

- at Group level, we consulted source documents and conducted interviews to corroborate the qualitative information (organization, policies, actions), we implemented analytical procedures on the quantitative and verified, on the basis of sampling techniques, the calculations and consolidation of the information and we verified its consistency with the other information contained in the management report;
- at the level of a representative sample of entities⁽²⁾ that we selected based on their activity, their contribution to consolidated indicators, their location and a risk analysis, we conducted interviews to verify the proper application of procedures and conducted substantive tests, using sampling basis, to verify the calculations performed and reconciled data with supporting evidence. The selected sites contribution to Group data equals to 20% of headcount.

Regarding the other consolidated Social Information, we assessed its fairness and consistency based on our knowledge of the Group.

Finally, we assessed the relevance of the explanations relating to, where necessary, the omission of certain information.

We deem that the sampling methods and sample sizes we have learned by exercising our professional judgment allow us to formulate a conclusion providing limited assurance; a higher level of assurance would have required more extensive work. Because of the use of sampling techniques, and because of other limits inherent to any information and internal control systems, the risk of not detecting a material misstatement in the Social Information cannot be completely eliminated.

Conclusion

Based on our work, we did not identify any material misstatements that cause us to believe that the Social Information, taken as a whole, has not been fairly presented, in all material respects, in accordance with the Reporting Criteria.

Courbevoie, 19 February 2014

One of the Statutory Auditors

MAZARS

Emmanuelle Rigaudias
Sustainable development Partner

Anne-Laure Rousselou
Partner

(1) Global headcount and breakdown by gender, pyramids by age, number of recruitments, number of redundancies, absenteeism rate, number of training hours.

(2) Thales SA, Thales Avionics SAS, Thales Optronique SAS, Thales Air Systems SAS, Thales Systèmes Aéroportés SAS and Thales UK Limited.

4.2 ENVIRONMENTAL INFORMATION

4.2.1 General policy on environmental issues

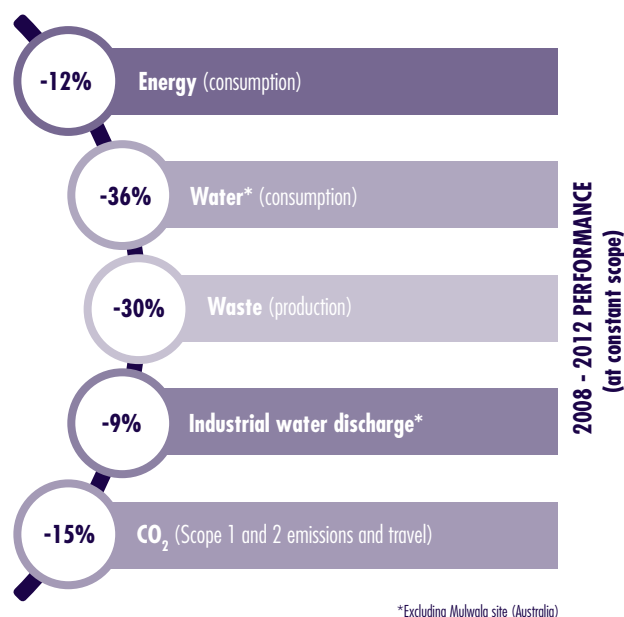
4.2.1.1 Long-standing commitments

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 reinforce this commitment, the Group has set performance targets for all of its entities since 2007. In 2010 these were extended to Purchasing employees, and in 2012 to staff involved in product policy.



► 2013-2015 TARGETS

	2012-2013 performances	2015 target
Natural resources		
energy consumption	- 6	- 10 ^(a)
water consumption		
CO ₂ emissions		
energy and substances by sales (scopes 1 and 2)	- 5	- 10 ^(a)
business travel by sales (scope 3)		
Non-hazardous waste		
quantity per person	6 ^(b)	10 ^{(a)(b)}
recycling rates		
Responsible purchasing		
evaluation of class A suppliers ^(c)	32%	100%
buyer training	23%	80%
Eco-design		
product policies integrating environmental criteria	Unknown	20%
training for product line	50%	100%

(a) Average index for both indicators of the same topic.

(b) In absolute terms.

(c) Suppliers representing 80% of purchasing volumes.

4.2.1.2 Environmental organisation

In a bid to steadily improve its environmental performance and prevent risks, the Group has set up a two-tier organisation: a Corporate environmental team – responsible for defining the strategy, policy and processes and supervising their implementation throughout the Group – and a global network of Environmental officers responsible for the application of Group policy at country and entity level, particularly for site-related aspects (buildings, infrastructure, energy, etc.) and operations (industrial processes, substances, waste, etc.). In addition, to apply the environmental approach to products, the organisation has been extended to a network of “Environment-Product managers”, first in France and then in Europe.

At the end of 2013, the sites/operations environment network involved 340 people and the environment product network 127, either full time or by 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 advertised in the Thales University brochure. These modules are designed for environment managers as well as for different

job families (Purchasing, Design, Sales, etc.). Some of these have their own specific environmental modules. In 2013, 260 buyers (or 23% of the population concerned) and 150 Product Line Managers (or 50% of the population concerned) in charge of product policy were trained on how to take the environment into account in their day-to-day work.

Given that an environmental approach necessarily requires the commitment of all employees, the aim is to shed fresh light on this theme and take it into account in day-to-day business practices. Thales offers various communication tools and forums for all employees: dedicated intranet, notices, competitions, events, articles in the Group's quarterly magazine, etc.

Online e-learning modules are also available to educate Group employees on the basic aspects of environmental risk control, general themes such as “Eco-responsibility” or specific issues such as the REACH (Registration, Evaluation and Authorisation of CHemicals) regulation or the new labelling system for hazardous chemicals.

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.

4.2.1.3.2 Involving suppliers

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 2013, 2,935 supplier sites around the world had made this commitment, representing year-on-year progress of over 63%.

Moreover, within the framework of the selection process, potential suppliers identified are requested to complete a self-assessment enabling them to measure the maturity of their environmental management and commit to a process of continuous improvement. This self-assessment may subsequently be verified during supplier audits, which may also lead to a request for an improvement plan, or even to Thales deciding to remove the supplier from its list if certain essential criteria are not met.

To reinforce this approach, the Group Purchasing Department has set the target of assessing the environmental maturity of all of its class A suppliers (representing 80% of purchasing volumes). At the end of 2013, 977 supplier sites underwent this assessment, of which 444 (32% of the panel concerned) were class A.

In the call for tenders phase, the environment is now included in the purchasing requirements, as well as in the weighted criteria for supplier selection, based on their commitment as well as their responses to various environmental requirements established by the Group.

Thales has also maintained very close partnerships over many years with certain suppliers to work together on shared actions for progress.

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.

Where there are particular operational requirements, sites will be proactive and volunteer information such as when certain activities are going to be exceptionally noisy, when emissions have exceeded the authorised threshold, or when a pollution incident occurs. Procedures are also in place to deal with complaints swiftly and to 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 using 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

► EMPLOYEES WORKING AT ISO 14001 CERTIFIED SITES



In view of the environmental issues at stake, Thales offers more visibility on the subject of controlling environmental impacts and risks in its Group management system, which is available to all employees and in all entities worldwide.

An Environmental Management System has been implemented at all sites as part of a dedicated process. This seeks to ensure the control and limitation of environmental risks and impacts of operational activities (buildings, industrial plant, equipment, sites) and products delivered (design, bids, projects).

It supplies best practice, methodological guides and rules applicable at all levels of the organisation. The new process has been integrated into various functions, such as Bids, Projects, Purchasing, Quality and Real Estate, 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.

At the end of 2013, 125 entities were ISO 14001 certified, representing 82% of the Group's workforce. Among these sites, 82 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:

- ensure that employees and local residents 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;
- analyse the impact of new regulations, including on product design.

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 a local improvement plan in collaboration with Group experts. Audits are conducted by the internal audit teams as well as by external auditors for ISO 14001 certification or prevention visits.

In 2013, Thales continued this process with its prevention engineering partner in order to evaluate exposure to natural disasters at Group sites. This analysis consists not only of identifying the potential risks of flooding, storms and earthquakes, but also of identifying the consequences of these events: environmental, property damage, impact on the business, etc. In a further analysis of these vulnerable areas, the assessment and audit process has focused on 38 sites since 2011.

Thales has also mapped its water risks at around 160 sites worldwide. The analysis of existing and future risks included the social dimension (access to water and sanitation, availability of water for local inhabitants), economic (conflict of use) and environmental (water consumption relative to the level of water stress in the river basin). The risk was scored based on a series of indicators, using international data to ensure a uniform assessment. From this mapping process, it emerged that ten sites were located in vulnerable zones. The majority of them are offices, whose low water consumption only has a very minor impact. For three of the more industrial sites, a more detailed analysis of water stress at the local level will allow their impact to be assessed in terms of water usage.

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.

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 2013, six accidents occurred, with no significant impact on health and the environment as corrective measures were immediately taken.

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 asset disposals in 2013.

At 31 December 2013, the amount of reserves for environmental contingencies at Group level amounted to €7.8m.

4.2.2 Pollution and waste management

4.2.2.1 Limiting discharges

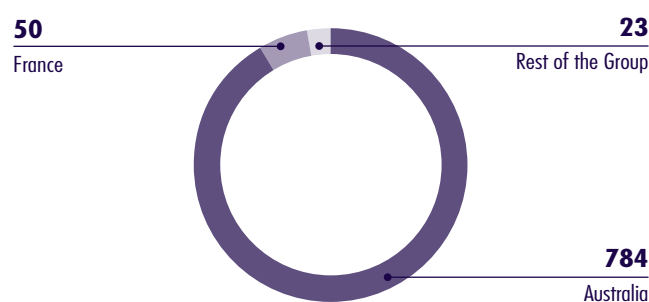
4.2.2.1.1 Industrial atmospheric discharges

In general, Thales' activities do not generate atmospheric discharges, except for those linked to site operation (in particular heating). A few sites discharge industrial atmospheric emissions which are channelled and treated where necessary (filters, scrubbers, etc.) and regularly checked. These mainly consist of solvents.

4.2.2.1.2 Solvent discharges to the atmosphere

► GEOGRAPHICAL SPLIT FOR SOLVENT EMISSION

(in tonnes)



With the exception of the Mulwala propellant manufacturing plant in Australia, the use of solvents is mainly linked to isolated individual activities such as paintwork detailing or small-capacity component degreasing baths. The quantities used are therefore limited. However, it is difficult to measure atmospheric emissions, since the emanations are not systematically collected.

Although 67 entities purchase solvents, 90% of these purchases are made by only four of them (and 85% by the Mulwala site). The Australian sites alone represent 91% of total emissions.

It should be noted that several sites have stopped using solvents or replaced them with detergents.

4.2.2.1.3 Industrial wastewater discharge

Thales' activities generate little in the way of industrial wastewater: 90% of these are discharged from six sites, and 60% from the Mulwala site alone (Australia).

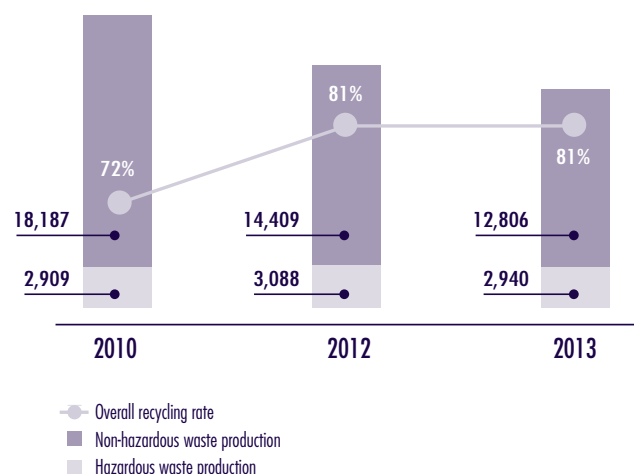
Despite the increases in production at certain sites, these discharges have fallen by 14% compared with 2012, as a result of ongoing plant optimisation and modernisation measures.

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)



Since 2007, in view of its waste targets, Thales has sought to reduce the quantity of waste it produces, as well as the amount sent to landfill. In order to strengthen this process, the target for 2015 is again aimed at reducing the quantity of waste per person as well as improving the recycling rate.

Having reduced the quantity of non-hazardous waste per person by 11% between 2010 and 2012, Thales has achieved an additional 5% reduction in 2013.

To achieve this, various measures associated with waste recycling, the search for optimum treatment streams and changes in behaviour have been introduced: printing policy, reusing cardboard and other packaging that will help reduce waste production and improve waste treatment.

For example, the quantities of paper and packaging waste continued to fall by 10% compared with 2012.

The recycling rate for non-hazardous waste increased from 31% in 2007 to 56% in 2013.

Hazardous waste has also been a particular target. Dedicated areas for collection and storage have helped to manage this type of waste.

As a result of measures taken since 2007, 82% of all waste is now recovered.

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. The redevelopment under way at this site will modernise the facility concerned and eliminate these odours.

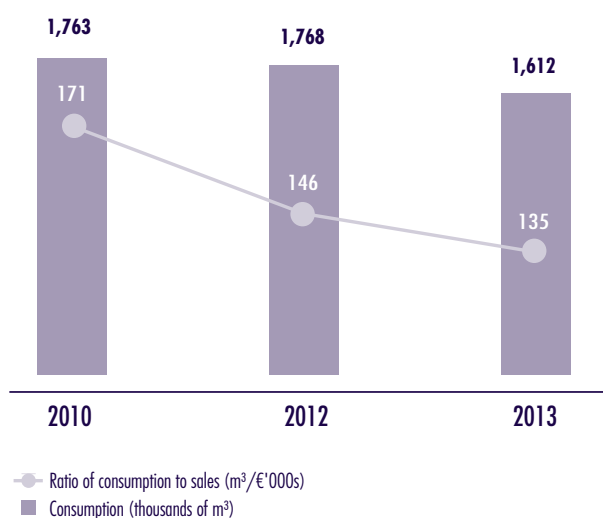
In addition, immediate measures have been taken to limit odours at both sites where complaints have been received from the neighbourhood.

4.2.3 Sustainable use of resources

For several years, Thales has developed a strategy dedicated to natural resources and has launched various schemes to help manage and reduce consumption, including in relation to the energy efficiency of buildings and industrial processes, and optimisation of water use. To support these measures, it is crucial to raise employee awareness of best practices. Various initiatives have been undertaken alongside awareness campaigns launched by the Group, such as the UK campaign entitled "10 for 10" (ten actions to reduce energy consumption by 10%). Throughout the year, employees are reminded of the simple things they can do to reduce energy consumption, while particularly motivated individuals can go on to become "Green champions". In Spain, an identical initiative, "DesconéscThales", has been launched, also aimed at reminding staff of what they can do to improve energy efficiency.

4.2.3.1 Consumption of water and measures to improve its efficient use

► TREND IN WATER CONSUMPTION



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 energy-intensive equipment, optimised industrial processes and re-used water, as well as raising employee awareness.

In 2013, water consumption fell by 9% following a significant rise in 2012 linked to redevelopment work at the Mulwala site in Australia. As this site alone accounts for 33% of Thales' water consumption, any change has a substantial influence on the Group's consumption.

Excluding the Mulwala site, the Group's total water consumption has fallen by 41% since 2008.

The Group's water consumption in France has halved since 2007.

These achievements are due to the exploitation and widespread application of best practices.

4.2.3.2 Consumption of raw materials and measures to improve their efficient use

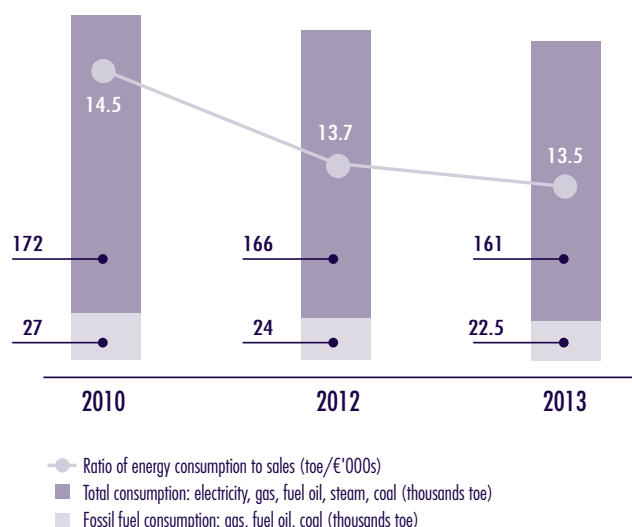
Thales designs, develops and supplies equipment, systems and services in aeronautics, space, transport, security and defence. The raw materials consumed by Thales are natural resources (see sections 4.2.3.1 and 4.2.3.3) and various materials used in the manufacture of products by Thales and its subcontractors.

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



Thales has defined targets for reducing energy consumption since 2007 in a bid to address the energy issue.

After reducing its energy consumption by 12% between 2008 and 2012, the Group is continuing its efforts to reduce consumption by an extra 3% in 2013.

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 redoubling its efforts to manage parameters such as heating temperature, plant operating schedules and the replacement of energy-intensive equipment. The Group's carbon footprint has also been reduced by restricting the use of fossil fuels (gas, fuel oil, coal), the consumption of which continued to fall in 2013 (-6% compared with 2012). The percentage of electricity from renewable sources now represents more than 13% of electricity consumption.

New energy-efficient buildings help to reduce consumption. In Austria for example, the relocation of 350 employees to a new site in Vienna yielded a 22% fall in energy consumption (see section 4.2.4.1.2). Green IT is also used to reduce the environmental footprint of IT equipment and of information systems in general. 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.

4.2.3.4 Land use

The Group considers environmental criteria when choosing location 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 78% 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 (58% 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 soil and groundwater (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.

	2013	2012	2010
Scope 1 ^(a)	87,824	99,200	124,028
Scope 2 ^(b)	160,471	167,749	167,576
Sub-total (1+2)	248,295	266,949	291,605
Scope 3 ^(c)	107,076	107,395	111,441
TOTAL (IN TONNES)	355,371	374,344	403,046

The scopes group together CO₂ emissions related to:

(a) Gas, coal, fuel oil, substances, mobile energy sources;

(b) Electricity and steam;

(c) Business travel.

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 and equipment (architecture, materials, technical building management, comfort, access, car parks specifically for car pooling, vehicle recharging stations, etc.) contribute to the fight against climate change. The new Thales sites incorporate environmental criteria in the provision of the premises.

Cristal, the new Secure Communications and Information Systems site in Gennevilliers (near Paris), uses the latest technology to reduce energy consumption: high-insulation façades and roofs, triple-glazed windows, reversible heat pumps, dynamic low-energy lighting, and a building management system (BMS).

The headquarters of Thales Austria, "Rivergate", houses the greenest offices in Austria and has already obtained the EU Green Building certificate and LEED (Leadership in Energy and Environmental Design) Platinum certification on account of various measures taken on water, energy and materials use, for example. The site is well served by public transport, offering fast access to the city centre and airport, and is close to an extensive cycle network. The site joins the headquarters of Thales USA, which was certified LEED Gold (in 2009) and Platinum (in 2012) due to various measures taken to reduce energy consumption and CO₂ emissions, recycle waste and use recycled and/or locally sourced construction materials.

Beyond reductions in energy consumption (see section 4.2.3.3.), substances that deplete the ozone layer are monitored and reduced, especially those cited in the Kyoto Protocol, mainly used in refrigeration systems. Of these, SF₆ accounts for more than 40% of Thales' CO₂ emissions linked to Protocol substances. This gas, used in a specific industrial process to insulate electronic tubes during high-voltage tests, has a global warming potential of 23,600kg CO₂ per kg. It is used by very few sites, which have been implementing ambitious plans to reduce emissions by 82% since 2007, such as manufacturing tubes without using SF₆ or changing installations functioning with this gas.

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). After reducing CO₂ emissions from transport by 14% per person during business travel between 2007 and 2010, efforts have continued: incentives to use videoconferencing or conference calls, car pooling, leasing of fuel-efficient or electric cars.

Overall, CO₂ emissions have decreased since 2010. This decrease has been driven by focusing efforts on company cars and vehicle leasing, where emissions have decreased respectively by 41% and 14% since 2010. This is the result of actions implemented with partners managing the car fleet and individual sites.

In France, some 20 sites have analysed the commuting journeys made by their staff. This analysis is part of the Business Travel Plan, which is aimed at encouraging the use of public transport (subsidised season tickets, provision of bus stops, carpooling, etc.).

4.2.4.2 Contribution to fighting 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 aviation, 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.

For example, the green solution SelTrac® CBTC reduces a train's energy consumption by 15% by loading efficient speed profiles into the train's on-board system. Algorithms are used to limit energy-intensive stop/start cycles and to switch off power so that trains run on their accumulated power whenever possible. For a standard metro line, CO₂ emissions are reduced by around 14,000 tonnes per year, equivalent to taking 6,000 cars off the road. The "ATS soft Energy Saving" solution takes advantage of interactions between trains to save energy by optimising real-time traffic management: use of slow speed profiles when the operating circumstances allow this and optimisation of current recovery from train braking by synchronising the acceleration of some trains with the braking of others.

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 in this 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.

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 radars by creating a masking effect and triggering false alarms. This problem has led many countries to defer their plans to build 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 for climate prediction and monitoring of the general status of plant life: 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.

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 French aeronautics and space industry group GIFAS 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 and the French scientific research agency (CNRS), while industrial partners include Veolia Eau and Thales Alenia Space.

Since 2005, Thales has opted for complete transparency on its climate change strategy and changes in CO₂ emissions on the Carbon Disclosure Project (CDP) website. This association brings together more than 722 institutional investors with \$87 billion in assets under management worldwide. Its aim is to inform the investment decisions of its members by making them aware of the consequences of climate change for companies. In 2012, Thales scored 87 out of 100 for climate change performance.

4.2.5 Preservation 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 in France 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 the ecological services provided by nature.

At the same time, Thales embarked on biodiversity risk mapping at 140 sites in 26 countries in order to obtain, as part of a macroscopic approach, a homogeneous overview of Group sites situated in the most vulnerable zones in terms of biodiversity. Indicators were defined with a view to comparative risk analysis, based on international databases. They were also designed to factor in ordinary biodiversity and to understand the constraints for any future developments within a 2km radius around the sites. The indicators were examined with a view to producing a shortlist: size of natural zones in percentage terms; size of protected areas in percentage terms; consideration of their importance and proximity to the site; number of species present in a 2km radius around each site.

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. An internal competition is open to all Group employees to find the three best projects selected by a panel of judges. In 2013, the winning projects were a pond reclamation scheme to encourage wildlife, the planting of a wildflower meadow and orchard, and the installation of bird boxes and insect hotels.

Locally, a variety of initiatives have been taken worldwide to encourage flora and fauna. Inventories are carried out at some sites by volunteers or in partnership with local authorities or biodiversity protection agencies, and ad hoc management measures are 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 will focus on outdoor features to preserve the natural habitat and encourage fauna (bird boxes, feeders, species survey by an expert, etc.) or to re-establish native species by offering a relatively safe and protected habitat 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 with local authorities and organisations. For example, in Mexico, Thales employees and their families took part in a planting day in a park in Mexico City, organised in cooperation with the Ministry of the Environment. Thales also funded an expedition by an employee who is a keen ornithologist, in aid of the charity Go South. This charity, which celebrated its ten-year anniversary in 2013, was set up to share and disseminate information about birds and nature in Morocco. The study covered vast, relatively unknown areas between Agadir and the Mauritanian border, with a view to producing a report on birds in the Western Sahara on Morocco's Atlantic coast.

4.2.6 Products and environment

The Group's environmental system factors the environmental dimension into all relevant processes. These include improving the analysis of environmental risks when tendering for projects, as well as product policies and the development, design, maintenance and dismantling phases. To anticipate future regulations and requirements in this area and to guarantee traceability during the life cycle by looking ahead to dismantling, Thales is developing methods and tools to help product designers and architects make environmentally responsible choices and to leverage environmental information. These include guides, questionnaires, checklists, computers and dedicated software such as the database on hazardous substances in components, regularly

updated following regulatory changes or impact analyses. In order to supervise the incorporation of environmental aspects upstream and during the product development phase, a permanent dedicated network of environment product managers has been set up (see also section 4.2.1.2).

To underpin this approach, 150 product line managers and engineering managers received training that included an environmental module in 2013. This represents 50% of the target for 2015. Thales has also set itself the target of 20% of product lines with improved environmental performance by 2015.

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. In order 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 energy consumption, limiting the amount of on-board equipment as well as making it more compact so that it is easier to transport, thereby cutting CO₂ emissions. These innovations were showcased at the R&T Days organised by Thales and open to customers and the press (trade fair on developing technologies). Of these, 23 demonstrations had green initiatives.

Thales is also careful to identify replacement products if a substance presents a risk or is threatened with being banned. Conscious of the issue of prohibiting the use of certain chemicals in its processes and products, Thales has launched a program to control these. 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 product will be maintained. In some cases it is necessary to redesign products and interfaces and rescope industrial tools.

Thales also uses technological innovation to benefit the environment: in partnership with the French Natural History Museum in Paris, the Design Center of Thales University and Thales Brazil have begun to use the BABEL software developed by Thales Research & Technology to analyse archaeological and prehistoric data unearthed at the Cidade de Pedra (or "City of Stone") in Mato Grosso, Brazil, dating from around 10,000 years BC and amassed over the past 30 years. This highly innovative solution, allowing navigation through complex representations in terms of cybersecurity, satellite configuration, network architecture and similar, combined with a Design Thinking approach, plays a key role in the search for the prehistoric identity of the Brazilian people through their archaeological heritage.

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.

In that connection, Thales has sought to transform the new constraints into opportunities: identification of hazardous substances during the design phase; search for alternative solutions for prohibited or discouraged substances; replacement of materials, improved energy efficiency, reduction in mass, etc. All of this means that the environment is taken into account in the methods, processes and thinking used to drive innovation.

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. Although the majority of Thales products are subject to severe constraints, allowing little flexibility in terms of design, a certain number of product lines already have environmental criteria which have been assessed during the life-cycle analysis.

One example of this is the GAIA laser used in the semiconductor industry for cutting silicon components, which the customer uses continuously (24/7). After completing the eco-design course run by Thales University, the team carried out a life-cycle analysis before redesigning the product. This analysis involved defining the scope of the analysis, preparing the life-cycle inventory, quantifying the negative impacts on the environment of the laser, identifying areas for improvement and verifying the reduction in impacts. The result was a 20% reduction in energy consumption and the preparation of a future version targeting a reduction of 50%.

Thales has also developed an innovative energy hybridisation solution which aims to provide, for on-board systems in military vehicles and shelters, a comprehensive energy management system for energy production, storage and consumption. Known as DYON, this solution uses the latest technologies from the commercial sector, such as lithium batteries, and adds numerous operational benefits, for example increased battery life, reduced noise and emissions, and absence of a heat signature. It also reduces the logistical footprint by cutting fuel consumption and thus the number of convoys needed to transport the fuel. In environmental terms, it reduces the quantities of CO₂ emitted by tens of thousands of tonnes, and addresses the constraints linked to lead batteries.

In e-ticketing systems and automatic doors in public transport, the "DreamGate" automatic door represents an innovative approach and a technological breakthrough by offering more security and safety for operators and passengers. It also improves operating efficiency while reducing the environmental impact: more compact, lightweight and energy-efficient, with fewer components (3D camera, intelligent motors) make installation and maintenance easier.

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.

Facing increasing climatic and environmental risks, the industrial and scientific community are working to find solutions. Thales is one of the key players in space-based Earth observation programmes, promoting a better understanding of climate change and more effective environmental monitoring through its high-resolution optical and radar imaging systems.

For example, the Poseidon altimeter identifies the circulation mechanisms of surface and deep ocean currents to try to understand more about the driver behind Earth's "climate machine", while each day the MERIS camera delivers breathtaking views of the planet, its oceans and the perpetually changing face of its biosphere, a testimony to the efflorescence of plankton and changes in vegetation cover.

As part of the European programme GMES (Global Monitoring for Environment and Security), the European Space Agency has chosen Thales Alenia Space to build the Sentinel 3 satellite, whose mission is to study the topography and status of the oceans, ice caps and

land mass. It will also provide information on the general status of plant life in order to manage its development and to provide data on the surface temperatures of the oceans and land mass. Meanwhile, the third-generation Meteosat (MTG) system ensures continuity of the geostationary meteorological surveillance capability.

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 where this is possible, and to optimise the consumption of kerosene thanks to a better exchange of information between the control tower and the cockpit crew, or even to limit on-ground waiting times before take-off, another source of fuel savings.

4.2.7 Environmental indicators

The table below contains a number of items for assessing trends in the Group's environmental performance on a comparable basis. In 2013, 29 countries and 158 sites were in-scope. This scope represents 91% of sales and 91% of the Group's workforce.

2012 is now the baseline year for 2013-2015 targets.

		Units	2007-2010 change	2010-2012 change	2012	2013	Trend
ENERGY							
Electricity consumption	✓	'000s toe	-5%	-4%	139	136	-2%
Per sales electricity consumption	✓	toe/€k		-5%	11.5	11.4	-1%
Fossil energy consumption	✓	'000s toe	-42%	-11%	24	23	-6%
Per sales fossil energy consumption	✓	toe/€k		-13%	2	1.9	-5%
Total energy consumption	✓	'000s toe	-11%	-5%	166	161	-3%
Per sales total energy consumption	✓	toe/€k		-6%	13.7	13.5	-2%
WATER							
Water consumption	✓	'000s m ³	-21%	-1%	1,768	1,612	-9%
Per sales water consumption	✓	m ³ /€k		-2%	146	135	-8%
WASTE							
Total waste production	✓	tonnes	-14%	-20%	17,463	15,746	-10%
Total production of waste per sales	✓	kg/€k	-9%	-21%	1.45	1.32	-9%
Ratio of non-hazardous waste	✓	%			83	81	-1%
Non-hazardous waste per person	✓	kg/pers	-20%	-11%	199	189	-5%
Recycling rate of non-hazardous waste	✓	%	39%	8%	52	56	8%
Recycling rate of hazardous waste	✓	%	10%	-8%	29	33	11%
INDUSTRIAL DISCHARGE							
Industrial wastewater discharge	✓	'000s m ³	-57%	47%	782	672	-14%
Air emissions		tonnes		-30%	694	857	23%
CO₂							
CO ₂ emissions from energy use	✓	'000s t CO ₂	-18%	-5%	227	217	-5%
Per sales CO ₂ emissions from energy use	✓	kg CO ₂ /€k	-33%	-6%	19	18	-4%
CO ₂ emissions linked to Kyoto Protocol substances	✓	'000s t CO ₂	-10%	-49%	19.1	16.1	-15%
o/w CO ₂ emissions linked to SF ₆	✓	'000s t CO ₂	-28%	-56%	11.4	6.7	-42%
CO ₂ emissions from business travel (company-wide)	✓	'000s t CO ₂	-15%	-4%	107	107	-
Per sales CO ₂ emissions from transport	✓	kg CO ₂ /€k	-	-5%	8.9	8.9	-
CO₂ SCOPES ACCORDING TO GHG PROTOCOL							
Scope 1 (gas, fuel oil, coal, substances)	✓	'000s t CO ₂	-31%	-21%	99	88	-11%
Scope 2 (electricity, steam)	✓	'000s t CO ₂	-6%	-1%	168	160	-4%
Scope 3 (business travel by air, rail, road)	✓	'000s t CO ₂	-15%	-4%	107	107	-
Total scopes 1, 2 and 3	✓	'000s t CO ₂	-16%	-8%	374	355	-5%
Total scopes 1, 2 and 3 per sales	✓	kg CO ₂ /€k			31	30	-5%
OTHER							
ISO 14001 certified entities	✓		70%		124	125	
Staff concerned as percentage of total workforce	✓	%	15%		80%	82%	

✓ Indicators reviewed by Ernst and Young for the 2013 reporting period and included in moderate 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.

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 not meeting the above criteria are not included in Thales' environmental reporting
Activity/Workforce	■ "company/site" involved in an industrial activity (surface treatment, painting, pyrotechnics, shipbuilding, etc.) irrespective of the number of employees ■ "company/site" involved in a semi-industrial activity only (testing, integration, R&D, etc.) with more than 50 employees ■ "company/site" involved in a tertiary activity only (head office, service facility, sales office, etc.) with more than 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.
- New business: company to be included as soon as one full calendar year has been completed and if the company meets the scope selection criteria.
- Inter-site transfers: data taken into account in 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.

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.

4.2.8.2 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

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 specifically related 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 Statutory auditors' independent third-party report on consolidated environmental information published 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 Shareholders,

In our quality as an independent verifier of which the admissibility of the application for accreditation has been accepted by the COFRAC, under the number n° 3-1050, and as a member of the network of one of the statutory auditors of the company Thales, we present our report on the consolidated environmental information established for the year ended on the 31 December 2013, presented in chapter 4.2 of the management report, hereafter referred to as the "Environmental Information," pursuant to the provisions of the article L.225-102-1 of the French Commercial Code (Code de commerce).

Responsibility of the Company

It is the responsibility of the Board of directors to establish a management report including CSR Information referred to in the article R. 225-105-1 of the French Commercial Code (Code de commerce), in accordance with the protocols used by the Company (hereafter referred to as the "Criteria"), and available on request at the Company's headquarters.

Independence and quality control

Our independence is defined by regulatory requirements, the Code of Ethics of our profession as well as the provisions in the article L. 822-11 of the French Commercial Code (Code de commerce). In addition, we have implemented a quality control system, including documented policies and procedures to ensure compliance with ethical standards, professional standards and applicable laws and regulations.

Responsibility of the independent verifier

It is our role, based on our work:

- to attest whether the required Environmental Information is present in the management report or, in the case of its omission, that an appropriate explanation has been provided, in accordance with the third paragraph of R. 225-105 of the French Commercial Code (Code de commerce) (Attestation of presence of Environmental Information);
- to express a limited assurance conclusion, that the Environmental Information, overall, is fairly presented, in all material aspects, in accordance with the Criteria;

Our verification work was undertaken by a team of 5 people between November 2013 and February 2014 for an estimated duration of 8 weeks.

We conducted the work described below in accordance with the professional standards applicable in France and the Order of 13 May 2013 determining the conditions under which an independent third-party verifier conducts its mission, and in relation to the opinion of fairness, in accordance with the international standard ISAE 3000⁽¹⁾.

1. Attestation of presence of Environmental Information

We obtained an understanding of the Company's environmental issues, based on interviews with the management of relevant departments, a presentation of the Company's strategy on sustainable development based on the environmental consequences linked to the activities of the Company, as well as, where appropriate, resulting actions or programmes.

We have compared the information presented in the management report with the list as provided for in the Article R. 225-105-1 of the French Commercial Code (Code de commerce).

We verified that the information covers the consolidated perimeter, namely the entity and its subsidiaries, as aligned with the meaning of the Article L.233-1 and the entities which it controls, as aligned with the meaning of the Article L.233-3 of the French Commercial Code (Code de commerce) with the limitations specified in the Methodological Note in chapter 4.2.8 "Environmental Reporting Rules" of the registration document.

Based on this work, we confirm the presence in the management report of the required Environmental Information.

2. Limited assurance on Environmental Information

Nature and scope of the work

We undertook seven interviews with the people responsible for the preparation of the Environmental Information in the Environmental Health & Safety department, in charge of the data collection process and the people responsible for internal control processes and risk management, in order to:

- assess the suitability of the Criteria for reporting, in relation to their relevance, completeness, reliability, neutrality, and understandability, taking into consideration industry standards;

(1) ISAE 3000 – Assurance engagements other than audits or reviews of historical information.

- verify the implementation of the process for the collection, compilation, processing and control for completeness and consistency of the Environmental Information and identify the procedures for internal control and risk management related to the preparation of the Environmental Information.

We determined the nature and extent of our tests and inspections based on the nature and importance of the Environmental Information, in relation to the characteristics of the Company, its environmental issues, its strategy in relation to sustainable development and industry best practices.

For the Environmental Information which we considered the most important⁽²⁾:

- at the level of the consolidated entity and sites, we consulted documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions, etc.), we implemented analytical procedures on the quantitative information and verified, on a test basis, the calculations and the compilation of the information, and also verified their coherence and consistency with the other information presented in the management report⁽³⁾;
- at the level of the representative selection of sites that we selected, based on their activity, their contribution to the consolidated indicators, their location and a risk analysis, we undertook interviews to verify the correct application of the procedures and undertook detailed tests on the basis of samples, consisting in verifying the calculations made and linking them with supporting documentation. The sample selected therefore represented on average between 9% and 42% of the quantitative Environmental Information⁽⁴⁾.

For the other consolidated Environmental Information, we assessed their consistency in relation to our knowledge of the Company.

Finally, we assessed the relevance of the explanations provided, if appropriate, in the partial or total absence of certain information taking into account, if relevant, professional best practices.

We consider that the sample methods and sizes of the samples that we considered by exercising our professional judgment allow us to express a limited assurance conclusion; an assurance of a higher level would have required more extensive verification work. Due to the necessary use of sampling techniques and other limitations inherent in the functioning of any information and internal control system, the risk of non-detection of a significant anomaly in the Environmental Information cannot be entirely eliminated.

Conclusion

Based on our work, we have not identified any significant misstatement that causes us to believe that the Environmental Information, taken together, has not been fairly presented, in compliance with the Criteria.

Paris-La Défense, the 19 February 2014

French original signed by

ERNST & YOUNG et Associés

Partner, Sustainable Development

Christophe Schmeitzky

Partner, Sustainable Development

Bruno Perrin

(2) 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 Wastewater Discharges (thousands of m³), Annual Water Consumption (thousands of 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, actions taken for the development of Biodiversity, and to prevent noise and local nuisance. Have also been reviewed, the importance of subcontracting, and the integration of environmental challenges in the procurement policy and in the relationship with suppliers and subcontractors.

(3) Turin (Thales Alenia Space SpA), Toronto (Thales Rail Signalling Solutions), Tubize (Thales Communication), Glasgow (Thales Optronics Ltd), Thales Thales Air Systems SAS/Thales Raytheon Systems Company SAS (covering Limours, Massy, Ymare, Fleury and Rungis).

(4) The 9% and 42% 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 corporate social responsibility policy target stakeholders other than its own employees.

4.3.1 Territorial, economic and social impact of the business

4.3.1.1 Territorial policy and programme by G ris 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 seeks to engage all actors concerned in the various labour markets in order to develop regional strategic workforce planning. This strategy takes into account the specific characteristics of the regions targeted and the local issues faced by Thales. The Group "Anticipation" Agreement, signed on 26 April 2013, actively supports local actions by creating a regions committee and appointing a Group "Anticipation" representative in association with "employment/anticipation" representatives present locally and "Anticipation" representatives appointed by each trade union that signs the agreement to monitor local actions. 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.

Thales also has a dedicated company, G ris Consultants, which offers its expertise to groups and local authorities to provide support in the form of advice and funding for SMEs that are in the process of being set up or developed, creating long-term employment in areas affected by job losses from the manufacturing sector. The revitalisation carried out by G ris Consultants since 2009 has created over 3,400 jobs in France – including 434 in 2013 alone – at around 500 SMEs.

With an open and confidential approach, G ris Consultants also assists individuals who have plans to set up or buy a company. In 2013, 48 new projects were supported, taking the number of active projects to 117.

G ris Consultants also conducts HR engineering experiments in a bid to develop the skills of SMEs in its business sectors or the regions in which it is based. To that end, it runs the Pass'Comp tences scheme, aimed at galvanising the development of SMEs by assigning them experts working for blue-chip companies (e.g. Thales, Alcatel-Lucent, Schneider Electric, etc.) on secondments of between 12 and 18 months. In total, ten secondments took place between October 2012 and 1 January 2014. This scheme will be rolled out nationwide in 2014. G ris Consultants also works with Thales' HR teams on the Parcours Partag  d'Apprentissage scheme, the aim of which is to organise sandwich courses partly with blue-chip companies and partly with SMEs in order to facilitate professional integration.

4.3.1.2 Group initiatives to support people with disabilities

In 2013 in France, the Group broadened the scope of its partnerships aimed at providing training and careers guidance for young people with disabilities:

- partnership with universities to provide mentoring and careers guidance for disabled students at Universit  Pierre et Marie Curie (UPMC Paris), Universit  Nice Sophia Antipolis (UNICE), Bordeaux 1, P le de Recherche de l'Enseignement Sup rieur (PRES Toulouse), and Universit  de Bretagne Occidentale (UBO Brest);
- signing of an agreement with the Vice Chancellor's Office at Toulouse and Nice Universities aimed at arranging support from companies in the region to encourage high-school students with disabilities to enter higher education and college students to enter employment;
- partnership with the Universit  Paris-Descartes for the introduction of a bachelor's degree in supportive care and attention for people suffering from autism;
- development of the Hanvol Association whose mission is to help people with disabilities find work in the aerospace sector.

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; in 2013 this scheme was rolled out under an agreement with the French Ministry of Education, in four regions ( le-de-France, Pays de Loire, Provence-Alpes-C te d'Azur and Midi Pyr n es) to help 400 visually impaired or dyslexic pupils;
- the "GUIDEO" system which, working through a smartphone, helps visually impaired people find their way around a building (this system has been introduced in Thales' buildings in Gennevilliers and will be installed at ESSEC's campus in Cergy in 2014);
- "a smart wheelchair guidance system" using artificial intelligence technologies with the participation of the Fondation Garches within the framework of the three-year partnership with ISEN. This system, which became operational in 2012, was the subject of a thesis on automation at Lille University and was adopted by the technology cluster.

Thales continued its cooperation with Afnor in 2012 by implementing a tool called “OK Pilot”, which businesses can use to assess their own performance against the requirements of this standard for disabled-friendly

employers, and then draw up the necessary action plans for improvement. In 2013, 18 Thales sites were audited and action plans put in place so that its sites can be fully compliant by the end of 2014.

4.3.2 Stakeholder relations

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, and specifically the United Nations Global Compact. In 2013, Thales achieved for the second consecutive year Global Compact Advanced level in the Global Compact programme which, by adhering to 21 specific criteria, is the highest reporting and performance standard in terms of sustainable development. Of the 8,000 companies that are members of the Global Compact, only 360 have so far obtained Global Compact Advanced level – 26 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 set up by leading UK companies in the defence sector, such as: Defence Industry Anti-Corruption Forum, ADS Supply Chain 21 Task Force, UK Defence Industry Business Ethics Forum, Institute of Business Ethics;
- the Ethics Network Australian Defence Industry (ENADI);
- the Groupement des Industries Françaises Aéronautiques et Spatiales (GIFAS);
- the Mouvement des Entreprises de France (MEDEF – the French employers’ confederation); International Committee, CSR Committee, Ethics and Guiding Principles Committee, Economic Intelligence Committee, Internationalisation Committee;
- the Association Française des Entreprises Privées (AFEP);

- the Observatoire sur la Responsabilité Sociétale des Entreprises (ORSE);
- Afnor⁽¹⁾ and the ISO⁽²⁾ in drafting international standards on compliance programmes and anti-corruption programmes.

In the context of this policy of dialogue, Thales chairs the ethics and corporate responsibility working group within the Groupement des Industries Françaises Aéronautiques et Spatiales (GIFAS – the French aerospace industries association) and the Business Ethics Committee of the AeroSpace and Defence Industries Association of Europe (ASD).

The Group is also a founding member of the International Forum on Business Ethical Conduct in the aerospace and defence industry (IFBEC⁽³⁾), which held its most recent global forum in Washington in September 2013.

In the same month, Thales signed the recommendations of the Chairmen and CEOs of members of the Transparency and Anti-corruption Task Force of the B20 intended for Heads of State of the G20, which calls on them to step up the fight against corruption by facilitating the emergence of new approaches (industry actions, public/private-sector dialogue, etc.).

Thales was also chosen by the French Ministry of Foreign Affairs to present its anti-corruption policy at the Fifth Conference of the States Parties to the United Nations Convention against Corruption. This conference, which was held in November in Panama, was attended by 1,600 representatives from 132 countries, as well as all governmental or non-governmental organisations concerned by these issues. The choice of the French government illustrates the reputation of the Group for business ethics and corporate social responsibility.

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, 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.

(1) Association française de normalisation (French standards institute).

(2) International Organization for Standardization.

(3) International Forum on Business Ethical Conduct.

4.3.2.2 Thales' initiatives with charitable organisations

In the 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 central to 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. In 2013, through its Charitable Trust, Thales UK made a donation to the UKESF (UK Electronics Skills Foundation) so that it could set up a residential summer school for students who are about to apply to university. Thales actively supported a host of scientific initiatives in 2013: the "Big Bang Young Scientists and Engineering" fair which had 65,000 visitors; "Women into Science and Engineering", a competition to encourage young women to pursue a career in science; or ten scholarships for science students through the "Arkwright Scholarship" programme;
- the partnership with the Railway Children has 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 2013, thanks to contributions from employees and Thales, a cheque for £170,000 was presented to the Alzheimer's Society, chosen as a key "charity partner" by employees;
- 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 2013, Thales collaborated on ten projects run by different foundations or associations;

- in Italy, Thales renewed its partnership with UNICEF for Christmas cards;
- in the United States, Thales sponsors several charities that provide support to veterans and families of armed services personnel, with local initiatives to help disadvantaged families. In 2013, Thales USA raised \$60,000 for the victims of Hurricane Sandy, through contributions from its business divisions and employees. IFEC⁽¹⁾ staff also raised money for victims in the Philippines;
- in Switzerland, Thales made a donation to the Swiss Red Cross for the victims of Typhoon Haiyan in the Philippines;
- in Germany, Thales has donated to around 30 charity events mainly in aid of children, healthcare and the arts;
- in France, Thales pursued its commitments in 2013 to support schools and universities and had sponsorship schemes in place at around 20 universities (Supelec, Polytechnique, ESCP Europe, ISAE, ESSEC, ISEP, etc.).

Under a corporate sponsorship agreement, Thales also supported events to mark 60 years of Patrouille de France, the French equivalent to the Red Arrows. As a partner of the charity Replic'Air, Thales has helped to build an exact replica of a two-seater aircraft used by Roland Garros 100 years ago; the challenge paid off, since the plane successfully re-enacted the crossing of the Mediterranean in 2013.

In order to organise its commitment to society better and to give it more structure, the Group plans to create a Thales Foundation. To that end, several studies were carried out and working groups set up in 2013.

4.3.3 Relations with suppliers: a responsible approach

At 31 December 2013, the annual volume of Group purchasing remained stable compared to 2012 at €5.7bn, which represents nearly 45% of consolidated sales (excluding DCNS). In view of the nature of the Group's operations, more than 70% of its purchases are with suppliers based in EU countries, while French suppliers account for 41%.

In 2013, the Group's industrial sub-contracting services represented a volume of nearly €1.5bn. Sub-contractors are treated in the same way as suppliers when it comes to respect for the principles of "corporate citizenship" (Human Rights, working standards, environmental protection and business ethics).

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 customers and SMEs entitled the Charte des Relations Fournisseur Responsables ("Responsible Supplier Relations Charter"). This charter represents

a commitment on the part of the Group, defining ten 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. Following another audit carried out by an independent body, Thales was awarded this label again in 2013.

A member of the "Global Compact Network", which seeks to define and implement practices "fostering a more positive relationship between companies and society", Thales also requires its suppliers to respect Thales principles on corporate citizenship, as advocated by the Global Compact, especially in the following areas: working standards, corporate governance, environmental protection, business ethics and export control.

(1) IFEC : In-Flight Entertainment and Connectivity.

Throughout 2013, Thales' commitment to respect for corporate responsibility by its suppliers was conveyed by the continued deployment:

- of the Purchasing and Corporate Responsibility Charter, whereby Thales requires its suppliers to join its Corporate Responsibility initiative and comply with both the principles contained within its Code of Ethics and those of the Global Compact and the OECD, in particular regarding Human Rights, working standards, environment and corporate governance;
- of an annual self-assessment questionnaire in view of the adoption of the principles of the Purchasing and Corporate Responsibility Charter, based on 16 questions: nine on working standards, three on environmental protection, two on governance, one on business ethics, and one on export control. By the end of 2013, more than 2,900 of Thales' suppliers (an increase of 160% on 2012) had signed the Purchasing and Corporate Responsibility Charter and filled in the questionnaire. On this basis, suppliers' overall environmental, social and governance performance (ESG) stands at 9.3 on a scale of one to ten;

- of 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.

In keeping with this principle of corporate responsibility, Thales signed a bilateral agreement with the French Ministry of Defence in 2013, mainly aimed at improving access to defence markets for SMEs and establishing a balanced partnership between SMEs and prime contractors such as Thales.

At the end of 2012, Thales launched its first survey of the quality of its supplier relations among a panel of around 250 SMEs and ISEs. Following a feedback session to discuss the results in early 2013, the Group, demonstrating its willingness to listen to its suppliers, pledged to tackle the issues raised by the survey. At the end of 2013, having applied a continuous improvement process to its supplier relations, Thales unveiled the solutions adopted in terms of best practice with regard to each of these issues, while at the same time outlining its plans to develop these. Suppliers expressed their satisfaction with this large-scale initiative, welcoming Thales' active commitment at a meeting where the emphasis continued to be on close interaction.

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 assessed and adjusted in light of changes in constraints and external risks (new legislation, country risks, etc.), internal risks (areas for improvement identified by internal audit, 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 implementing the systems and procedures necessary to prevent corruption;

- the integration of procedures to prevent the risks of corruption within the Company's operational processes, in particular during commercial transactions involving third parties;
- employee whistleblowing procedures;
- a robust internal control and audit process;
- programmes to inform, raise awareness and train Group employees, especially those potentially in the most exposed categories (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 "Good Practice Guidance on Internal Controls, Ethics, and Compliance" of the OECD and – more specifically for the aerospace and defence sector – the Common Industry Standards in Europe, and the Global Principles of Business Ethics, published by IFBEC⁽¹⁾, a joint structure for the AeroSpace and Defence Industries Association of Europe (ASD) and the Aerospace Industries Association of America (AIA).

Thales is also a stakeholder in international standardisation work carried out within the ISO on compliance and anti-corruption programmes.

(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 steering committees. Its task is to define Thales policy in this area, to flag up and recommend ethical guidelines for standards and procedures relating to commercial, environmental, social and community issues, to monitor changes in the Code of Ethics and its deployment within the Group, to set training targets and draft the relevant communications, and to coordinate and monitor the ethics structure. The committee is also in charge of resolving the issues referred to it.

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 headed by a Vice President, a member of the Risks and Internal Control Committee, who reports directly to the Thales Company Secretary, responsible for legality, compliance and governance best practice within the Group. The scope of responsibility of the Risks and Internal Control Committee, which integrates ethics and corporate responsibility, 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⁽¹⁾. This scheme allows them 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.

In order to facilitate the uptake of this tool, employees have been issued with a user guide.

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. Designed by the Group's Ethics and Corporate Responsibility Department, this procedure, updated in early 2013, is regularly revised in consultation with the Group Legal Department and Sales and Marketing Department. To underpin its strategy of strengthening its presence internationally and its establishment in target countries, Thales vets and selects local key industrial partners (KIP). The vetting 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 scheme is part of the policy of deploying tailored and reasonable prior due diligence procedures for third parties.

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.

Since 2012, Thales has been ranked by TI - an NGO working to combat corruption worldwide - as one of the top 10 companies of the Defence sector. The Transparency International report⁽²⁾ published

(1) Commission nationale de l'informatique et des libertés (French National Commission for Information Technology and Civil Liberties).

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

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.

In 2013, the Group's corruption prevention programme was also recognised by the French government's anti-corruption unit (SCPC), an interministerial department operating under the aegis of the French Attorney General and Minister of Justice. The chapter of the SCPC report on "French companies and risks of corruption" ranks Thales top for anti-corruption reporting out of 22 major French companies, and considers the Group as one of the eight leading multinationals.

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 ten principles, 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 Fundamental

Principles and Rights at 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 was awarded "Global Compact Advanced" level of the COP Differentiation Programme for the second consecutive year. Based on 21 specific criteria, this is the highest reporting and performance standard for sustainable development: among the 8,000 corporate members of the Global Compact, only 360 have so far obtained Global Compact Advanced level – 26 of them are French and only one is 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 robust commitment seeks to protect the national security of democratic nations and helps to fight against the proliferation of weapons of mass destruction. In this regard, Thales and European aerospace and defence companies have endorsed the Arms Trade Treaty adopted by the United Nations General Assembly on 2 April 2013.

Since 2004, Thales has also ended all activities in cluster munitions, choosing to respond proactively to the demands of NGOs working in Human Rights and to 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, primarily through its Purchasing and Corporate Responsibility Charter, in order to share a common foundation of values and principles, in particular 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 Development Goals and notes this in a publication entitled The Global Compact for Development.

4.3.5 Societal indicators

Performance indicators	Description	2013 data	Scope ^(a)	Comments/References
G4-SO3	Total number and percentage of sites assessed for risks related to corruption and the significant risks identified	156 legal entities	100%	The risk of corruption, like the other major risks of the Group's risk mapping, is an integral part of the Thales global risk management system. See paragraph on Risk factors\Legal risks\Regulatory compliance\ Management of commercial activities. See also the paragraph on Fair practices\Preventing corruption\ An internal compliance programme.
G4-SO4	Communication and training on anti-corruption policies and procedures	1,360 employees ^(b)	100%	Provided by two multilingual trainers specialising in business ethics, this four-hour course takes place at the various international campuses of Thales University. It is mainly intended for employees in the Purchasing, Sales and Marketing, Bids and Projects categories. An e-learning course consisting of three 30-minute modules (available in French, English and German) is also offered to all Group employees. See paragraph on Risk factors\Legal risks\Regulatory compliance\ Management of commercial activities.
G4-SO5	Confirmed incidents of corruption and actions taken	No case reported	100%	In order to control the risks of corruption, Thales manages its local entities through a dedicated international organisation comprised of seven Regional Holdings, responsible for guaranteeing the integrity of selected partners. These Regional Holdings are the only entities within the Group that have been duly designated and have the proper authorisation and experience, and which therefore coordinate the partner vetting process, which specifically includes third-party verification. See also the paragraph on Fair practices\Preventing corruption\ An internal compliance programme. In parallel, Thales has a global whistleblowing procedure approved by the French Commission for Information Technology and Civil Liberties in 2011. This allows any Group employee to report accounting, financial and banking irregularities or other issues linked to the prevention of corruption or competition, as well as discrimination, harassment or non-compliance with health and safety legislation. In 2013, none of the cases reported were linked to corruption. See also the paragraph on Fair practices\Preventing corruption\ An internal compliance programme.

(a) The scope consists of all companies consolidated by the Group.

(b) Between 2008 and 2013, 5,670 employees were trained worldwide, including 1,360 of them in 2013.

4.3.6 Statutory Auditors' independent third-party report on consolidated societal information published in the management report

This is a free translation into English of the original 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,

As independent third-party, members of statutory auditor's network, whose accreditation application was accepted by the French National Accreditation Body (COFRAC), we hereby present our report on the consolidated societal information provided in the management report prepared for the year ended December 31, 2013, (hereinafter referred to as "Societal Information"), pursuant to Article L.225-102-1 of the French Commercial Code (Code de commerce).

Responsibility of the Company

The Board of directors of Thales is responsible for preparing a management report including the Societal Information required under Article R. 225-105-1 of the French Commercial Code, in accordance with the reporting criteria used by Thales (the "Reporting Criteria") and available on request at the Social Responsibility Direction.

Independence and quality control

Our independence is defined by regulatory texts, the profession's Code of Ethics and by the provisions of Article L. 822-11 of the French Commercial Code. Furthermore, we have set up a comprehensive quality control system that includes documented policies and procedures designed to ensure compliance with deontological rules, professional standards and applicable legal texts and regulations.

Responsibility of the Statutory Auditors

Based on our work, our role is to:

- attest that the required Societal Information is disclosed in the management report or, that an explanation has been provided if any information has been omitted, in accordance with the third paragraph of Article R. 225-105 of the French Commercial Code (Attestation of completeness);
- provide limited assurance that, on the whole, the Societal Information is fairly presented, in all material respects, in accordance with the adopted Reporting Criteria (Fairness report regarding Societal Information);

Our work was carried out by a team of 3 people between October 2013 and mid-February 2014. We requested the assistance of our CSR experts to conduct this verification work.

We conducted the work described below in accordance with the professional standards applicable in France and the legal order dated May 13, 2013 determining the methodology according to which the independent third party body conducts its mission and, regarding the fairness report, in accordance with ISAE 3000⁽¹⁾.

1. Attestation of completeness of the Societal Information

We got acquainted with the direction that the Group is taking in terms of sustainability, with regard to the societal consequences of the company's business and, where appropriate, the actions or programs that stemmed from it;

We compared the Societal Information presented in the management report with the list set forth in Article R. 225-105-1 of the French Commercial Code;

In the event of omission of certain consolidated information, we verified that explanations were provided in accordance with the third paragraph of the article R. 225-105 of the French Commercial Code;

We verified that the Societal Information covers the consolidated scope, which includes the Company and its subsidiaries within the meaning of Article L. 233-1 of the French Commercial Code (Code de commerce) and the companies that it controls within the meaning of Article L. 233-3 of the French Commercial Code (Code de commerce), subject to the limits set forth in the methodological note presented in the reference document (chapter 4.1);

Based on our work and taking into account the limitations mentioned above, we attest that the required Societal Information has been disclosed in the management report.

2. Fairness report with respect to Societal Information

Nature and scope of procedures

We conducted 4 interviews with 4 persons responsible for the preparation of Societal Information from departments in charge of the process of gathering information to:

- assess the appropriateness of the Reporting Criteria in terms of its relevance, completeness, neutrality, clarity and reliability, by taking into consideration, when relevant, the sector's best practices;
- verify the set-up within the Group of a process to collect, compile, process and check the Societal Information with regard to its completeness and consistency. We familiarized ourselves with the internal control and risk management procedures relating to the compilation of the Societal Information.

We determined the nature and extent of tests and controls depending on the nature and importance of Societal Information in relation to the characteristics of the Company, the societal issues of its operations, its strategic priorities in relation to sustainable development, and the Industry best practices.

(1) ISAE 3000 – Assurance engagements other than audits or reviews of historical information

Concerning the Societal information that we considered to be most significant⁽¹⁾, we have, at Social Responsibility Direction and Ethic and Corporate Responsibility Direction level :

- consulted source documents and conducted interviews to corroborate the qualitative information (organization, policies, actions) ; we implemented analytical procedures on the quantitative and verified, on the basis of sampling techniques, the calculations and consolidation of the information and we verified its consistency with the other information contained in the management report;
- conducted interviews to verify the proper application of procedures and conducted substantive tests, using sampling basis, to verify the calculations performed and reconciled data with supporting evidence. The selected sample represents 100% of societal quantitative information.

Regarding the other consolidated Societal Information, we assessed its fairness and consistency based on our knowledge of the Group

Finally, we assessed the relevance of the explanations relating to, where necessary, the omission of certain information.

We deem that the sampling methods and sample sizes we have learned by exercising our professional judgment allow us to formulate a conclusion providing limited assurance; a higher level of assurance would have required more extensive work. Because of the use of sampling techniques, and because of other limits inherent to any information and internal control systems, the risk of not detecting a material misstatement in the Societal Information cannot be completely eliminated.

Conclusion

Based on our work, we did not identify any material misstatements that cause us to believe that the Societal Information, taken as a whole, has not been fairly presented, in all material respects, in accordance with the Reporting Criteria.

Courbevoie, 19 February 2014

One of the Statutory Auditors

MAZARS

Emmanuelle Rigaudias
Sustainable Development Partner

Anne-Laure Rousselou
Partner

(1) Number of employment creation in France in 2013 in the context of the revitalization missions conducted by G ris Consultants, number of new projects in 2013 accompanied by G ris Consultants, overall performance of suppliers in environmental, social and governance responsibility (ESG) in 2013, *communication and training on policies and procedures in the fight against corruption* in 2013

4.4 CROSS-REFERENCE TABLE IN ACCORDANCE WITH ARTICLE R.225-105-1 OF THE FRENCH COMMERCIAL CODE

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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 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 2013 on pages 88 and 89 of this document and the parent company financial statements for 2013 on page 125 of this document have been issued without reservation and include some observations. The reports on the consolidated financial statements for 2011 and 2012, included by reference in this 2013 registration document, were issued without reservation and they include some observations.

Neuilly-sur-Seine, 1 April 2014

Jean-Bernard Lévy
Chairman & Chief Executive Officer

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