

Corporate
Responsibility
Report
2010

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FOREWORD

The 2010 Corporate Responsibility report is an update to the 2009 Corporate Responsibility report and illustrates Thales's leadership in a number of corporate responsibility areas.

An accessible PDF version of the report is available on the dedicated corporate responsibility internet portal at:

<http://sustainability.thalesgroup.com>

In-depth information as well as the latest news and data concerning ethics and corporate responsibility can also be found on the portal. Thales's annual report, which presents the Group and its financial data, can be downloaded from:

<http://www.thalesgroup.com/Group/Investors>

AcceDe 
Accessibilité des documents
au format PDF

A GLOBAL LEADER DEDICATED TO SECURITY.

With operations in 50 countries and 68,000 employees, Thales is a world leader in mission-critical systems. The Group provides integrated solutions and equipment to meet the security requirements of government and private-sector customers in the aeronautics, space, transport, defence and security markets.

13.1 BILLION
EUROS

Revenues in 2010

13.1 BILLION
EUROS

Order intake in 2010

68,000
EMPLOYEES

including 22,500 engineers and researchers

25.4 BILLION
EUROS

Order book at 31 December 2010

2.5 BILLION
EUROS

Research and development
(almost 20% of revenues)



Luc Vigneron
Chairman & CEO of Thales

Ethics and corporate responsibility are central to the transformation strategy I am pursuing at Thales.

With its focus on risk prevention, a proactive ethics and corporate responsibility policy is a crucial plank in our overall risk management strategy. I attach the utmost importance to ensuring that all aspects of the Group's business activities are conducted with absolute integrity.

This policy is also a key driver of the Group's performance. In our globalised environment, customers, shareholders and society at large expect the business practices of companies to be beyond reproach.

Our future success hinges on the performance of the technologies we develop and the quality of

the products and services we sell. But the ethical standards we work to, and the business practices we choose to adopt, are also becoming a crucial success factor - and one that Thales intends to leverage as a competitive advantage in the marketplace.

It is important to remember that corporate responsibility is a collective achievement, a measure of the commitment of each and every Thales employee at all levels of the organisation. This latest edition of the Corporate Responsibility report is both a reflection of the strategic priorities I have set for Thales and an illustration of the wide-ranging actions that individual Thales employees are engaged in on a daily basis.

PRINCIPLES OF RESPONSIBILITY.

Launched in 2000, the United Nations Global Compact is both a policy platform and a practical framework for companies that are committed to sustainability and responsible business practices. It seeks to align business operations and strategies everywhere with ten universally accepted principles. About 6,100 companies around the world have signed the Global Compact. Thales signed up to the Global Compact in 2003 and has adopted its ten principles. In 2009, Thales renewed its commitment to the UNGC and its principles.



Human Rights

- Principle 1** Businesses should support and respect the protection of internationally proclaimed human rights Pages 8, 9, 11, 16, 18, 19, 22, 42, 43
- Principle 2** and make sure that they are not complicit in human rights abuses. Pages 8, 9, 11, 16, 18, 19, 22

Labour Standards

- Principle 3** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining Pages 8, 9, 11, 16, 22, 23, 24, 28, 29
- Principle 4** the elimination of all forms of forced and compulsory labour Pages 8, 9, 11, 16, 22, 24
- Principle 5** the effective abolition of child labour Pages 8, 9, 11, 16, 22, 24
- Principle 6** and the elimination of discrimination in respect of employment and occupation. Pages 8, 9, 11, 16, 22, 24, 29, 30, 31

Environment

- Principle 7** Businesses should support a precautionary approach to environmental challenges Pages 8, 9, 11, 16, 22, 34
- Principle 8** undertake initiatives to promote greater environmental responsibility Pages 8, 9, 11, 16, 22, 34, 35, 37
- Principle 9** and encourage the development and diffusion of environmentally friendly technologies. Pages 8, 9, 11, 16, 22, 36, 38, 39

Anti-Corruption

- Principle 10** Businesses should work against corruption in all its forms, including extortion and bribery. Pages 8, 9, 10, 11, 12, 13, 14, 15, 16, 22, 24, 25



Bernard Rétat

Chairman of the Ethics
& Corporate Responsibility Committee

Throughout 2010, Thales pursued the far-reaching transformation set in motion by the new leadership team, bringing a number of substantive changes to the way the Group is organised. Enshrined in Vision 2015, the changes are a response to the realities of globalisation, the need for clearer, more structured relationships with customers and partners, and the belief that constant innovation - not only new technology but innovation in every aspect of the business - is critical to the Group's continuing leadership in its core businesses of defence, security, aerospace and transportation.

As part of this process of transformation, Thales has reaffirmed and reinforced its commitment to ethical business conduct and corporate responsibility, making the Ethics & Corporate Responsibility Committee one of the three mainstays of corporate governance alongside the Executive Committee and the Risks and Internal Control Committee. The Committee is entirely composed of senior executives and its membership has been reviewed to reflect the international dimension of the Group and better represent the interests of all Thales stakeholders.

To support growth in emerging markets, the Ethics & Corporate Responsibility Committee has reviewed the company's use of commercial intermediaries to reflect changes in the business and economic environment. Company-wide guidelines on Business Advisers and Key Industrial Partners were issued in 2010 as part of a process of continuous improvement that began with the publication of the Good Practices Handbook in 2000 and the Best Practices Handbook in 2007. The directives are intended to ensure that Thales can capture new business effectively while managing risks and ensuring compliance with the highest standards of ethical conduct.

The Committee continued to engage in proactive dialogue with stakeholders, cooperating with numerous NGOs including Transparency International, and took this policy a step further in 2010 by organising Thales's first-ever Corporate Responsibility Investor Day. The event was attended by representatives of the financial and extra-financial communities, including analysts, researchers and socially responsible investment fund managers.

Key sector-wide initiatives in 2010 included the creation, with strong support from Thales, of the International Forum on Business Ethical Conduct (IFBEC) by the ASD¹ in Europe and the AIA² in the United States. The Forum will pursue work on the Global Principles of Business Ethics launched by the two associations in 2009 and prepare for possible adoption by other countries. The first IFBEC conference took place in Berlin in January 2010, with a second event in Washington, DC in June. Further sessions are planned in 2011.

Also in 2010, the Committee stepped up employee training and awareness efforts and republished the Code of Ethics, which is issued to all employees of Thales companies around the world.

This Corporate Responsibility report for 2010 shows how Thales is responding to the key strategic challenges it faces. It is absolutely crucial for Thales to conduct every aspect of its business with complete integrity and transparency and in accordance with strict principles of ethical conduct. The report confirms that the Group is resolutely engaged in an authentic process of continuous improvement aimed at consolidating its relationships of trust and transparency with all its stakeholders.

¹ AeroSpace and Defence Industries Association of Europe

² Aerospace Industries Association of America



ETHICS

ISSUE 1

BUSINESS ETHICS

THE BUSINESS PRACTICES OF COMPANIES HAVE COME UNDER INCREASING SCRUTINY IN RECENT TIMES. STAKEHOLDERS ARE MORE CONCERNED THAN EVER WITH ETHICAL CONDUCT, TRANSPARENCY AND SUSTAINABILITY AND HOW THEY RELATE TO A COMPANY'S BUSINESS PERFORMANCE. COMPANIES IN TURN HAVE REALISED THAT BUSINESS ETHICS GOES WELL BEYOND CORPORATE RHETORIC AND CAN CREATE REAL VALUE FOR STAKEHOLDERS. A STRATEGIC VISION THAT EMBRACES A CULTURE OF INTEGRITY AND COMPLIANCE IS NOW CONSIDERED CRITICAL TO ANY COMPANY'S LONG-TERM SUCCESS.

ETHICS: A CORPORATE STRATEGY.



In 2000, Thales established a formal corporate responsibility policy with a strong focus on the prevention of corruption. The policy enjoys the support of the Group's most senior management and is continuously improved to respond to an evolving and increasingly complex environment. To meet these challenges, Thales maintains a dedicated organisation and is developing a stringent internal control policy, continuously improves its processes and training programmes, and has procedures in place to sanction employees who infringe on the Group's ethics policy.

One important aspect of Thales's continuous improvement process is an active involvement in industry, intergovernmental and non-governmental working groups and task forces. By partnering with the United Nations, Transparency International, the ASD³ and other organisations, Thales stays abreast of regulatory or normative changes, shares best practices with other industry players and anticipates future changes. Through these working groups and task forces, Thales has led or contributed to the development of common industry-wide standards and guidelines such as the OECD⁴'s Best Practices Guidance and the Global Principles of Business Ethics signed by the ASD and the AIA⁵.

A robust organisation

Thales has put in place a robust organisation to help embed a culture of corporate responsibility within the organisation worldwide, develop and implement the ethics policy and monitor its implementation. Confirming that ethics and corporate responsibility are central pillars of Thales's corporate strategy, the Ethics and Corporate Responsibility Committee is one of the three bodies that steer the Group, alongside the Executive Committee and the Risks and Internal Control Committee. It is responsible for staying abreast of developments in ethical standards and for defining the Group's corporate responsibility policy.

The Ethics and Corporate Responsibility Department implements the policy defined by the Committee. The department is headed by a Vice President reporting directly to the Senior Vice President, Audit and Internal Control (who reports to the Chairman & CEO); the Vice President, Ethics and Corporate Responsibility is also member of the Risks and Internal Control Committee. The Senior Vice President, Audit and Internal Control has overall responsibility for risk management, making ethics and corporate responsibility an integral part of the Group's overall risk management system. The department also maintains the Code of Ethics, which lays down the general practices and values that underpinning the Group's operations.

In 2010, Thales reviewed the make-up of its Ethics and Corporate Responsibility Committee. It is now more representative of all the company's stakeholders and better reflects its international dimension.

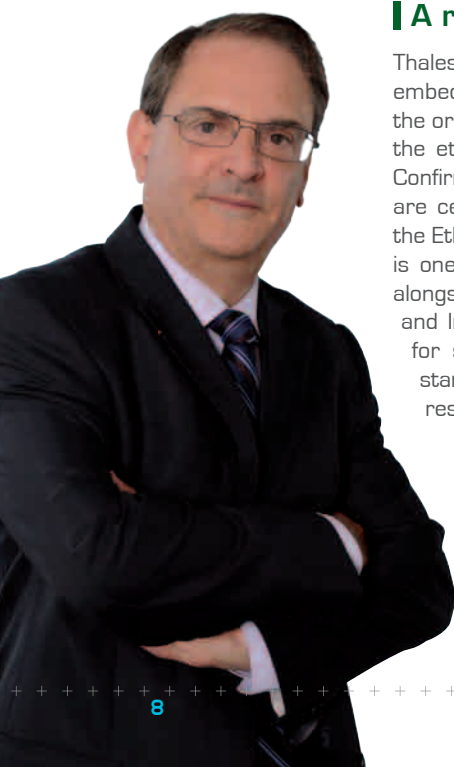
Members of the Committee:

- Chairman: **Bernard Rétat**
- General Secretary: **Dominique Lamoureux**
- Stakeholder representatives:

Sandrine Bouttier-Stref	Environment
Didier Brugère	French institutions
Victor Chavez	United Kingdom
Jean-Claude Climeau	Financial markets
Olivier Conrozier	International customers
Marc Darmon	Audit and internal control
Jérôme Dufour	Media / Communities
Patrick Fournié	Suppliers / Industry
Sylvie Lucot	International customers
Anne de Ravaran	Human resources
Rodney Willis	United States of America

Dominique Lamoureux
VP, Ethics & Corporate
Responsibility

³ AeroSpace and Defence Industries Association of Europe
⁴ Organisation for Economic Co-operation and Development
⁵ Aerospace Industries Association of America





An international network of Ethics Officers is responsible for deploying the ethics policy into Thales units worldwide. They ensure that employees in their respective units receive adequate training and information; they answer questions about compliance with the Thales Code of Ethics; and most importantly, they adapt the ethics policy to local legislation and norms, for example with respect to gifts, hospitality and whistleblowing procedures. It is also the role of the Ethics Officers to respond to and report possible infringements of the Code of Ethics to the Ethics and Corporate Responsibility Committee.

An Ethics Alert system has been set up across Thales to enable every employee to obtain information and advice on the Code of Ethics. Any employee can also confidentially report any infringement of the Code of Ethics that could engage the company's liability.

In 2010, Thales redesigned the Corporate Responsibility section of its corporate website and launched a dedicated portal <http://sustainability.thalesgroup.com>, to increase its visibility. This portal provides visitors with complete information on Thales's policies, access to various reports, and articles and news items covering the Group's initiatives in business ethics and sustainability and highlighting the critical role that corporate responsibility plays for the Group.

Raising awareness

Thales regularly runs awareness campaigns through e-mail messages, intranet news, a dedicated website and articles in the employee magazine. The Group also organises specific training modules, events and publications to provide employees with more in-depth knowledge and a clearer understanding of Thales's ethics policy.

Code of Ethics

To help foster a culture of accountability, Thales maintains a Code of Ethics. The rules published in the Code are not a substitute for the national and international legislation applicable in each country. Rather, the Code lays down the guidelines of behaviour applicable within the Group and covers four areas of particular importance:

- Responsibility towards customers and suppliers
- Responsibility towards the Group's employees
- Responsibility towards shareholders and financial markets
- Responsibility towards the environment, community and company.

The Code of Ethics is published in seven languages (French, English, German, Italian, Spanish, Portuguese and Dutch) and is available to all employees in both print and online (intranet) versions.

Welcome Conventions

Thales runs an induction programme for newly hired professionals and managers. These Welcome Conventions are designed to introduce new hires to the Group's business activities, organisation and values, and provide them with the opportunity to network with colleagues from around the world. Sessions have taken place in France, Australia, Canada, India and Algeria, and ethics and corporate responsibility, along with other important topics for the Group, are covered systematically. The Vice President, Ethics and Corporate Responsibility makes a presentation on Thales's ethics policy and the Group's business environment, and explains the direct correlation between ethics and competitiveness.



E-learning

In addition to face-to-face trainings, Thales offers its employees a wide range of self-paced online courses. In 2009, the Group introduced an e-learning course on ethics and corporate responsibility. Despite the wide availability of off-the-shelf ethics e-learning products, Thales chose to design its own course in order to adapt the content to the company's culture, business activities and environment. Available in French and English, the course comprises three 30-minute modules and includes real-life scenarios, in the form of "serious games", to help employees recognise and deal with potential situations that they could encounter during their work. In 2010, 12,000 employees (which equates to 18.2% of the all employees) completed the three modules.

Intranet

Thales maintains an ethics and corporate responsibility website on the Group intranet, where employees can view the latest news, learn more about Thales's approach and policy and download booklets, tools and other documents. The site also offers employees a chance to learn more about the Ethics Alert system and who to contact for information and advice or to report any infringement of legislation or the Code of Ethics.

All employees can freely download the following guides and booklets on the intranet:

- Thales Code of Ethics (seven languages available)
- Conduct guides (e.g. Gifts & Hospitality Guidelines)
- Reference guides (e.g. Business Ethics)
- Policy highlights (e.g. Thales prevention of corruption policy)
- Selected conventions and legal texts on combating bribery (e.g. OECD)
- Professional standards (e.g. ASD Common Industry Standards, ASD-AIA Global Principles)
- Training toolkits (e.g. RESIST).

Face-to-face training

Face-to-face training themed around business ethics is available at Thales University campuses worldwide. Each course is carefully tailored to the needs of different groups of employees and their roles within the organisation. For instance, customer-facing or supplier-facing employees are required to follow courses on ethical business conduct. Employees working in marketing and sales are encouraged to complete a four-hour class called "Business Ethics and Preventing Corruption". This training, which is conducted by a former sales and marketing director, is themed around the prevention of corruption in everyday business. It helps promote a set of simple but important behaviours that are endorsed by the company as well as providing basic insights into legal aspects of these issues. Between 2008 and 2010, 2,400 employees took the course, which will eventually become mandatory for thousands of employees.

The theme of business ethics is also embedded in the Group's other training programmes. The subject was first introduced in 2000 in training programmes on compliance with export control and anti-corruption regulations. To support the Group's efforts to go beyond compliance and establish ethics and responsibility as a shared corporate value, ethics awareness has also been introduced in several training programmes in areas such as purchasing, marketing and sales, and programme management. In 2010, the subject was also introduced in the customer support services training programme. To deliver a consistent message, Thales has commissioned two multilingual trainers specialised in ethics to conduct the same face-to-face training sessions at Thales University campuses around the world. Ethics Officers also conduct occasional training sessions or make presentations within their country of operations when needed.



Helping to establish global ethics standards

Thales is a leading member of major aerospace and defence task forces on business ethics, and has received international recognition as a responsible company that is committed to the continuous improvement of the way it conducts business. In addition to improving its internal processes, Thales partners with international, intergovernmental and non-profit organisations as well as industry associations to promote the sharing of best practices and develop sector-wide standards.

Summit held at the United Nations in New York.

The Group was credited in the UN Global Compact's 2008 annual review and in the Global Compact for Development report in 2010 for its efforts to extend its corruption prevention policy to its suppliers and subcontractors.

Organisation for Economic Co-operation and Development

Thales collaborates with the OECD, particularly through the organisation's Business and Industry Advisory Committee (BIAC), on issues relating to public

PARTNERSHIPS AND INITIATIVES

Thales works closely with many institutions to promote business ethics, help fight corruption in business, and improve export control mechanisms. These include:

- United Nations
- Organisation for Economic Co-operation and Development (OECD)
- European Commission
- International Chamber of Commerce
- AeroSpace and Defence Industries Association of Europe (ASD)
- BUSINESSEUROPE
- Aerospace Industries Association of America (AIA)
- US-based Defense Industry Initiative on Business Ethics and Conduct (DII)
- UK-based Defence Industry Anti-Corruption Forum, A/DIS Supply Chain 21 Task Force, UK Defence Industry Business Ethics Forum, Institute of Business Ethics
- Ethics Network Australian Defence Industry (ENADI)
- French aerospace industries association (GIFAS)
- International Committee of the French Employers' Organisation (MEDEF)
- French-based Study Centre for Corporate Social Responsibility (ORSE)
- Transparency International.



United Nations Global Compact

Thales has been a proud member and supporter of the United Nations Global Compact since 2003 and has adopted its ten principles in the areas of human rights, labour, the environment and anti-corruption. Each year, Thales voluntarily reports to the organisation on its progress (actions undertaken, performance indicators) in incorporating the principles.



Thales is an active member of the UN Global Compact's 10th Principle Working Group on Supply Chain, whose core objectives are to:

- establish guidelines to help companies extend anti-corruption measures to their supply chain (auditing, selecting and training suppliers; encouraging suppliers to improve their anti-corruption measures)
- provide tools to help small and medium-sized enterprises (SMEs) develop robust programmes to prevent corruption.

In 2010, the Working Group officially launched its Guide for Customers and Suppliers during the Leaders

procurement and the implementation of the OECD Anti-Bribery Convention. The Group worked with the OECD to develop the addendum to the convention, known as Annex II (or Best Practices Guidance on Internal Controls, Ethics and Compliance), aimed at helping companies, especially SMEs, establish measures for preventing and detecting the bribery of foreign public officials in their international business transactions. It also includes guidelines for international organisations and professional associations that provide assistance to companies in these efforts. Although not legally binding, this document can help companies establish effective internal controls and compliance programmes for preventing and detecting the bribery of foreign public officials, and thus support companies in their efforts to comply with existing legislation or future laws such as the UK Bribery Act and its Adequate Procedures provisions.

Thales has also been closely associated with the OECD's work on facilitation payments, which are authorised in some national legal systems but are controversial and should be progressively eliminated from trade practices. Additionally, the Group collaborates closely with non-governmental organisations (NGOs). For instance, Thales is a member of the Defence Against Corruption initiative, which is led by the UK chapter of Transparency International.

AeroSpace and Defence Industries Association of Europe and Aerospace Industries Association of America

Thales is committed to sharing its experience and best practices with industry partners to develop sector-wide guidelines, recommendations and common standards that help to establish a level playing field.

The Group is a founding member of the ASD's Business Ethics Task Force. After comparing the existing corporate responsibility policies and procedures, in 2007 the task force published a set of standards known as the Common Industry Standards. These guidelines address both broad matters of business integrity and issues specific to the aerospace and defence sector. The document has been signed by the ASD's 30 member trade associations and by more than 400 companies in Europe. In 2010, the task force was upgraded to a permanent body called the Business Ethics Committee, which is chaired by Thales and reports to the ASD Board.

The Common Industry Standards are currently being updated to take into account the OECD's Good Practice Guidance on Internal Controls, Ethics and Compliance and the UK Bribery Act. The UK act requires voluntary self-disclosures if a case of corruption is discovered, and the implementation of an appropriate corporate policy to prevent corrupt practices.

Following the establishment of the Common Industry Standards, the ASD and its US counterpart, the AIA, teamed up to develop worldwide standards. The two industry associations signed the Global Principles document in 2009. Developed under Thales's leadership, the Global Principles currently address four issues:

- zero tolerance for corruption
- use of advisers
- managing conflicts of interest
- respecting proprietary information.



These non-binding principles demonstrate the industry's commitment to ethical business conduct and aim to help companies to develop a competitive advantage over those that fail to apply the same criteria of integrity to their business practices.

To encourage continuous exchange between industry players as well as with their customers and civil society, the ASD and AIA held the first International Forum on Business Ethical Conduct for the Aerospace and Defence Industry (IFBEC) in Berlin, Germany, in 2010. Thales is a founding member of the forum and co-chaired the first edition, which brought together representatives of major global aerospace and defence companies and national business associations as well as leaders of major institutions such as the OECD, NATO, the US Air Force, the European Defence Agency and Transparency International. The forum is now set to meet regularly. The second edition took place in Washington, DC in June 2010 and further editions are scheduled for 2011.

THALES SUPPORTS THE UN'S PROPOSED ARMS TRADE TREATY

Thales supports the adoption of a binding and enforceable global Arms Trade Treaty. The Group shares the ASD's conviction that such a treaty could help monitor new challenges relating to the globalisation of the supplier base for conventional arms and to the threat from the emerging proliferation of small arms. An Arms Trade Treaty will help strengthen export control mechanisms and extend them to emerging countries, which have not yet adopted strict policies, and who will, in the near future, become exporters themselves. To ensure the success of the proposed treaty, the threat from small arms proliferation should be addressed, since these are the main weapons used by combatants in civil conflicts and wars.



International Chamber of Commerce

Thales is a long-time member of the International Chamber of Commerce's Anti-Corruption Task Force. The Group actively participated in the development of RESIST (Resisting Extortion and Solicitation in International Transactions), a tool designed to help employees of exporting companies respond appropriately to a variety of solicitations. Launched in 2009, the development of the tool was spearheaded by the International Chamber of Commerce, Transparency International, the United Nations Global Compact and the World Economic Forum.

The RESIST training toolkit complements companies' existing compliance, anti-bribery and corruption prevention programmes, and focuses on solicitations from public officials and foreign customers. RESIST provides 22 real-life scenarios from a range of business processes and proposes mechanisms for coping with solicitations from a business partner or public authority. The scenarios were based on the best practices and experiences of multinational companies, including Thales, and are divided into two categories:

- solicitation in the context of the procurement process (7 scenarios)
- solicitation in the context of the implementation process and daily operations (15 scenarios).

An e-learning course on RESIST is currently being developed and will be available in French and English.

European Commission and European Union

Nations pass export control legislation in order to protect their national security and to help fight against the proliferation of weapons of mass destruction. Many different control mechanisms co-exist, some of them multilateral and others extra-territorial. With the globalisation of production and the emergence of new threats, there is a risk that such national laws will become less effective and less relevant.

There is thus an opportunity to develop a global legal framework that takes into account the increasingly global dimension of companies' production operations, while at the same time, helping to combat new threats such as terrorism, asymmetric warfare and cybercrime.

Thales has pressed the case for the modernisation of export control provisions through the creation of a "Certified Enterprise" standard for companies that manufacture and sell sensitive goods. In 2002, Thales introduced this idea as a way to decrease administrative and legal obstacles to intra-European transfers of defence products and technologies while preserving national sovereignty over decisions on exports of sensitive technologies.

Thales has proposed that nations consider harmonising criteria for issuing export licences while increasing transparency and information-sharing between member countries. This would require the creation of a "general licence" to control internal transfers and exports among democratic countries. Under the proposed arrangements, general licences would allow the free movement of goods and technologies within and between "certified" international companies.

The idea was adopted by the European Commission in 2005 and in 2009 the European Union issued directive 2009/43/EC to simplify the terms and conditions of transfers of defence-related products within the European Union.

PREVENTING CORRUPTION.

In today's global marketplace, Thales's growth is increasingly driven by emerging markets. To better meet the demands of customers based in these markets and to develop long-term relationships with them, Thales has had to adapt its business model to strengthen its local presence both commercially and industrially.

According to Transparency International, the risk of corruption is greater in emerging markets than in mature ones. Successfully doing business in emerging markets thus requires a company to adapt its anti-corruption processes to new environments. Thales adapted its risk management tools in 2010 to further strengthen its corruption prevention programme.

Continuous improvement of the anti-corruption programme

Bribery and corruption are major risks for multinational companies, especially those involved in public procurement contracts. Passive corruption (solicitation, extortion or bribery on the demand side) is still widespread in countries with weak governance. Corrupt practices can expose a company and its officers to criminal and civil sanctions and cause the company to be blacklisted in certain markets.

To mitigate these risks, Thales established a corruption prevention policy in the late 1990s and has since been engaged in a continuous improvement process. The policy is part of the Group's overall risk management strategy and is embedded within the Group's business processes. It enjoys the full support of the Chairman & CEO and the Group's senior management team.

A dedicated organisation, headed by the Vice President, Ethics and Corporate Responsibility, leads the effort to implement and improve processes and to develop tools and training programmes. As part of the Group's Compliance Programme, audits are performed regularly and sanctions apply if any instance of non-compliance with anti-bribery rules and regulations is discovered.

New anti-corruption processes for a new business model

With the implementation of the new business model in 2010, Thales is gradually shifting from a predominantly export-driven company to an organisation built around an "importing model". The Group is developing strategic relationships with Key Industrial Partners⁸ (KIPs) in countries where it has limited industrial presence, helping it not only to operate closer to its customers but also to meet national security requirements such as compliance with export control regulations. In addition, being an importer reduces - although clearly does not completely overcome - the risk of corruption.

Despite the benefits of establishing industrial partnerships, KIPs can also bring reputational, legal or financial risks to Thales if these partners are not carefully selected and managed. These risks are especially significant in countries which do not share the same level of maturity regarding the prevention of corruption of public officials or private parties. A KIP can be held responsible for violating anti-bribery laws and regulations, as can companies and individuals who order, authorise, assist or conspire to help the KIP in committing such a violation.

Thales is aware of this risk and has processes and procedures in place to mitigate it. Its corruption prevention policy is fully in line with the rules and best practices defined by national anti-corruption laws and international conventions, and goes well beyond those requirements in many cases.

In 2010, the Group published a new guideline entitled "Instruction for Qualifying, Selecting and Managing Key Industrial Partners". The document outlines a strict and comprehensive qualification process that includes legal due diligence, operational and technical assessments, and recommended management procedures. Any risk factor identified is referred to senior management for further scrutiny and decision. Certain risk factors, defined as show stoppers, automatically terminate the application process. Show stoppers can include lack of transparency in the ownership of an organisation or potential conflicts of interests.

⁸ Key Industrial Partners are country-specific sustainable industrial companies identified by Thales as critical to business capture. They may act as prime contractors, co-contractors, suppliers, licensors, distributors or members of joint ventures or public-private partnerships with Thales companies



In order to better meet the needs of customers and increase their level of satisfaction, Thales has built a more customer-centric organisation. Internal organisations and processes have been harmonised across the Group to improve the customer experience, and each customer now has one primary point of contact – the Key Account Manager – from the bidding phase through to project completion. The Key Account Manager serves as the customer's ambassador within Thales to ensure that individual customer requirements are fully understood.

Under exceptional circumstances, Thales employs the services of Business Advisers⁷ to support its business development efforts by providing in-depth knowledge of new markets. Because they operate in close proximity to potential or current customers, there is a potential for conflicts of interests or the suspicion of corruption. Business Advisers, as well as other third parties such as Key Industrial Partners, can be held liable for violating anti-bribery laws and regulations.

Thales has established a dedicated procedure and published a new guideline for employing Business Advisers. This document, entitled "Instruction for

Appointing and Managing Business Advisers", describes how to identify, select, appoint and pay these advisers. As part of Thales's risk-based approach, only duly designated, empowered and experienced entities have prerogatives over the selection and payment of Business Advisers. The stringent selection process includes the submission of company registrations and all other official documents, including annual reports, and all the information submitted is systematically double-checked by a third party. Any risk factor identified is referred to top management for further scrutiny and decision. As in the KIP procedure described above, this instruction includes strict definitions of show stoppers and other risk factors.

The two guidelines have been approved by the Executive Committee and submitted to the Board of Directors' Audit Committee. They are regularly reviewed and improved to enhance procedures and internal control mechanisms. The instructions are an integral part of the Group's business processes and are thus deployed throughout the organisation. They provide a clear definition of the roles and responsibilities of Thales entities and managers to ensure the strict separation of powers.

"BUSINESS ETHICS AND PREVENTING CORRUPTION" TRAINING PROGRAMME

Thales has developed a four-hour face-to-face training programme on the prevention of corruption in everyday business. It aims to promote a set of basic but important behaviours that are endorsed by the Group and to provide basic insights into the legal aspects of these issues. As it is impossible to establish a full list of real-life scenarios and solutions, the course aims to provide employees with the tools they need to identify and deal with situations effectively as they arise. The classroom training is conducted by a former sales and marketing director on several of Thales University's worldwide campuses.

A total of 2,000 employees were trained between 2000 and 2001 and 2,500 were trained between 2008 and 2011. A further 3,500 employees from the most exposed job families [Marketing & Sales, Bid and Programme Management and Purchasing] are expected to complete the course between 2010 and 2012, with 4,000 employees from other job families completing it between 2013 and 2014.

⁷ Business Advisers are any individual or legal entity acting as a consultant, expert, lobbyist, sponsor, representative, introducing broker, or any third party.

EXTENDING ETHICS TO THE SUPPLY CHAIN.

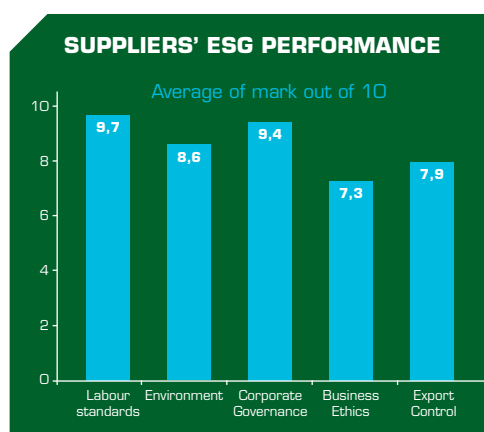
Seeking long-term partnerships

Thales seeks to establish long-term relationships with its suppliers. The Group develops and manufactures integrated solutions comprised of subassemblies, subsystems or complete systems, many of which are purchased from outside suppliers. As a result, suppliers make an substantive contribution to Thales's added value and ability to deliver customer satisfaction.

Thales selects its suppliers according to clear and transparent procedures. All suppliers can access information – including the Group's purchasing policy, supplier selection process, technical data and details of requests for proposals – on its Supplier Online web portal. They can also contact Thales's Purchasing Department online and receive timely responses to their enquiries. In 2010, the Supplier Online internet website was visited 129,332 times.

During the selection process, Thales not only takes into account the quality and cost of the proposal but also carefully reviews each supplier's corporate responsibility policy. As a signatory to the United Nations Global Compact, the world's largest corporate responsibility initiative, the Group requires its suppliers to adhere to the principles of corporate citizenship in respect of the following areas:

- labour standards
- the environment
- corporate governance
- business ethics
- export control.



918 suppliers have signed the Purchasing & Corporate Responsibility Charter and have completed the questionnaire. Average supplier performance is 9.3 (max. = 10).

All suppliers are required to sign Thales's Purchasing and Corporate Responsibility Charter and answer a detailed questionnaire, both of which form an integral part of the supply contract. The questionnaire is designed to assess suppliers' commitment and performance in key areas of corporate responsibility and helps identify related supplier risks. It also aims to help suppliers align their policies and internal processes with the set of principles that Thales has adopted.

The measurement of supplier performance is based on suppliers' self-assessments using a survey comprised of 16 questions: nine on labour standards, three on the environment, two on governance, one on business ethics and one on export control.

Since 2010, a separate questionnaire relating to the environment has also been part of the procurement process. Suppliers are required to complete a self-assessment to analyse the maturity of their environmental management systems and to engage in a process of continuous improvement. During the procurement process, purchasing managers take environmental factors into account and can exclude suppliers who fail to meet certain environmental criteria.

By the end of 2010, more than 900 Thales suppliers had signed the Purchasing and Corporate Responsibility Charter and filled in the assessment questionnaire. This represents 31% of the target. On this basis, suppliers' overall environmental, social and governance performance stands at 9.3 on a scale of 10.

Helping suppliers align their practices with the Thales corporate responsibility policy

Thales is taking steps to help suppliers, especially small and medium-sized enterprises (SMEs), improve their corporate responsibility policies and processes. The Group is an active member of the Global Compact's 10th Principle Working Group on Supply Chain, whose core objectives are to:

- develop guidelines to help companies extend anti-corruption measures to their supply chain (auditing, selecting and training suppliers; encouraging suppliers to improve their anti-corruption measures)
- provide tools to help SMEs develop robust anti-corruption programmes.

In June 2010, the Working Group officially launched its Guide for Customers and Suppliers during the Leaders Summit held at the United Nations. During the summit, the UN Global Compact also released its Global Compact for Development. This report addresses ways for companies to support the development objectives of the United Nations, and

in particular the eight Millennium Development Goals, which UN member states have undertaken to achieve by 2015. Thales and its Purchasing and Corporate Responsibility Charter are featured as an example in the publication, indicating that the Global Compact considers this initiative to be a positive contribution to the achievement of the Millennium Development Goals.

Thales's Purchasing and Corporate Responsibility Charter was also cited in the Global Compact Annual Review in 2009. The report highlights actions undertaken by over 5,900 companies and 1,500 civil society partners to demonstrate their commitment to the principles of the Global Compact.

Supporting innovative SMEs

Thales has long-standing relationships with many innovative SMEs, several of which are considered strategic partners or have expertise deemed critical to Thales's product offering. In France, SMEs account for over 40% of all Group purchasing.

As a result, Thales is engaged in a permanent effort to identify innovative SMEs. France's high-tech clusters, for example, offer excellent opportunities for the Group to develop partnerships with various innovative suppliers. Thales has an active involvement in several regional, national and international competitiveness clusters, including:

- Aerospace Valley
- ASTech Paris area
- Cap Digital Paris area
- Mer PACA and Bretagne
- Pégase
- System@tic Paris-Région.

It is in Thales's interest to ensure that SME partners remain financially healthy, retain their capacity for innovation and pursue their corporate development. In France, for instance, Thales supports innovative suppliers by providing them with information on government aid (e.g. financial aid, tax credits) and helping them with the corresponding application procedures. As an example, Thales has partnered with OSEO, a French government agency that aids small businesses, to provide SMEs with accountable advances. Under this arrangement, SMEs in the aerospace sector can receive accountable advances for commissioned R&D work. In such a case, OSEO would advance 40% of the amount needed for the specific project and Thales would advance the remaining 60%.



Fair relationships with suppliers

Thales seeks to build equitable relationships with its suppliers, formalising this commitment in 2006 with the signing of the *Pacte PME* (SME Pact) in France, in which the Group undertakes to:

- develop fair and balanced relationships
- share best practices by setting up working groups
- provide feedback
- provide support to help SMEs grow and improve their performance
- advise SMEs of available financing opportunities or options.

In 2010, Thales signed a Good Business Practice Charter in France to support the ethical treatment of suppliers. Along with the twenty other large companies who signed the Charter, Thales agrees to:

- create lasting relationships with SMEs
- facilitate collaboration with strategic suppliers
- reduce risks of mutual dependence
- consider the total cost of a purchase, and not only the apparent price, when selecting a supplier
- consider environmental impacts
- take into account the SME's territorial responsibility, by seeking to contribute as much as possible to the economic activity of the geographic area in which it operates
- ensure that purchasing managers are professional and ethical (fairness, objectivity, integrity).

This Charter has been fully integrated in Thales's worldwide purchasing policy. The Group is now establishing a structured action plan for deployment and putting indicators in place to measure performance.

ENCOURAGING INNOVATION BY SMEs

In 2010, Thales created an Innovation Awards contest at UAV Show Europe, the leading exhibition for the UAV (Unmanned Air Vehicle) industry. The purpose of these awards is to encourage and promote innovation by SMEs working in the field of mini- and micro-UAVs.

In addition to an overall innovation prize, the awards recognised two projects specifically for their contribution to sustainable development and system innovation.

Rewards included both a cash prize and publicity for the SMEs and their work.

Although the awardees were not Thales suppliers, the Group recognised them for their dynamism and innovation, and their work is of considerable interest to Thales.

There are plans for the Thales Unmanned Air Systems Innovation Awards to become an annual event.

COMPLYING WITH EXPORT CONTROL REGULATIONS.

■ Potential legal and political risks

Breaching export controls can have serious consequences for a company. Depending on the nature of the violation, sanctions can include heavy fines, imprisonment of company officials and prohibition of future exports or imports by the company.

Two categories of products are regulated under export control laws:

- components, equipment and technologies that are specifically designed, developed or modified for military purposes
- civil components, equipment and technologies that can be used or diverted for military purposes (including nuclear, chemical, biological warfare and missile technology) or for terrorism (dual-use items).

Thales develops electronic systems for both military and civil applications. The export of defence and dual-use items is subject to prior authorisation by the government of the country of operation or country of origin.

Since exports account for over 40% of Thales's revenues, many of the Group's business activities are dependent on obtaining export licences from

various national authorities. In today's fast-paced and highly competitive global market, failing to obtain the required export licence in a timely fashion can have a negative impact on a company's business. It is therefore important to be considered a reliable and trustworthy business partner by the regulatory authorities.

A significant proportion of Thales's products and solutions rely on items that are bought in from outside suppliers. The Group must therefore remain constantly aware of the export constraints on purchased items, with particular reference to those of US or Japanese origin. Every year, the Group purchases well over €1 billion of goods of US origin that may be subject to the extra-territorial export control regulations of the United States. Thales also takes particular care to ensure that items of Japanese origin are not affected by Japan's long-standing prohibition of the use of such items for military purposes.

■ A Group-wide export compliance organisation

Thales has a Group-wide export compliance organisation that has been progressively developed over a number of years. Due to its importance for the Group, export control policy is defined at corporate level and then deployed in business units worldwide. The corporate team coordinates a global network of 250 compliance officers in a combination of full-time and part-time roles. Exporting countries maintain their own national export control departments to provide national expertise at the local level. These local entities work closely with the corporate team to ensure consistent implementation of Group policy and procedures. The Group has also designated an in-house specialist with expertise in US export controls to provide Thales companies with ready access to practical advice on interpreting US controls.

The Group Export Compliance Committee meets quarterly to bring together the export control officers for all major exporting entities, including national representatives from thirteen countries and key corporate stakeholders (e.g. Corporate Responsibility, Purchasing, Internal Audit).



The committee is responsible for the flow-down of information and new tools to the local export compliance officers in their organisations. It also reviews progress against the objectives of the Group's compliance improvement programme, approves proposals for further improvements, shares best practice and addresses any other issues of common concern.

Continually improving the export compliance programme

For the last several years, Thales has been working proactively to enhance compliance across the organisation through a comprehensive export compliance improvement programme. The Group has developed a Standard of Export Compliance instruction that sets out the behaviours expected of Thales employees worldwide. It is based on ten areas of best practices and application is mandatory.

To support local export control officers and provide a consistent Group-wide approach, Thales has developed a series of tools to facilitate export control compliance by local business units. All the guidelines and tools, as well as dozens of links to key official websites, are regularly updated on an intranet site dedicated specifically to export control and compliance.

Thales has also developed a self-assessment risk profiling questionnaire to identify the business units with the greatest potential exposure to the risk of breaching export controls. The questionnaire enables the Group to identify entities with high, low and very low risk and to allocate resources accordingly.

To establish the level of maturity of the export compliance systems in place in the operating units, Thales uses a gap analysis questionnaire based on the requirements of the Standard of Export Compliance. The questionnaire is completed

each year as part of the Thales Group compliance programme, making it possible to track compliance measures and performance on a year by year basis.

Regular export control audits are carried out by the Audit and Internal Control Department to verify the existence and efficacy of appropriate control measures. When appropriate, external audits are also conducted to verify implementation of the various procedures.

Annual self-assessments, coupled with the results of audits carried out by the Internal Audit team, provide improved visibility of the control measures being deployed. Progress is followed by export control officers at both corporate and local level.

Export compliance is becoming increasingly embedded in Thales business processes as employees come to recognise the real business advantages of this integrated approach. Group-wide deployment of new Thales reference system, Chorus 2.0, in which export control is formally recognised as a key support process, is expected to further strengthen compliance performance.

TRAINING IMPROVEMENT

In 2009, Thales introduced an e-learning module on compliance with US export controls. The module, which is accessible to over 50,000 employees worldwide, was updated in 2010. A quiz was added and the module has been broken down into sub-modules to make it easier to track take-up and measure completion rates. Employees who successfully complete the quiz can print a certificate to prove that the course requirements have been met.



TRANSPARENCY AND VOLUNTARY SELF-DISCLOSURES

Thales advocates full transparency towards the regulatory authorities in the event of any instance of non-compliance. Although this approach may be considered counterintuitive, in view of the risk of fines and other potential sanctions, it demonstrates a real determination on the part of the Thales Group to improve its compliance performance and learn from past mistakes. It is also an approach that is strongly recommended by the US authorities, who have stated that voluntary self-disclosures, absent aggravating circumstances, are likely to mitigate any sanctions arising from accidental export control breaches.

This approach is producing positive results. Out of 25 voluntary self-disclosures made to the US authorities since January 2008, 22 have been formally resolved with no fine or other sanction imposed. The remaining three cases are still pending, although nothing in the disclosures is expected to prevent formal resolution.





GOVERNANCE

GOVERNANCE

INADEQUATE GOVERNANCE, NON-COMPLIANCE WITH LAWS AND REGULATIONS AND FAILURE TO PREVENT CORRUPTION, FRAUD OR ANY OTHER FORM OF UNETHICAL BEHAVIOUR CAN HAVE A DIRECT IMPACT ON A COMPANY'S PERFORMANCE AND VIABILITY. THALES IS FULLY AWARE OF THE INCREASINGLY STRINGENT REGULATORY ENVIRONMENT GOVERNING INTERNATIONAL BUSINESS, AND OF THE GROWING NUMBER OF INVESTIGATIONS, PROSECUTIONS AND SANCTIONS. THE GROUP IS COMMITTED TO TRANSPARENT COMMUNICATIONS WITH ITS STAKEHOLDERS AND CONTINUOUS IMPROVEMENT IN ITS INTERNAL ORGANISATION AND PROCESSES.

REGULAR EXCHANGES WITH INVESTORS.

Thales policy is to provide shareholders with regular, clear and transparent information in full compliance with the financial reporting rules and practices applicable to listed companies.

Thales holds briefings for the financial community, particularly when announcing results (full-year financial statements, interim financial statements, quarterly information) and important strategic or financial operations. Regular meetings between Thales executives and institutional investors are held in Europe and North America, typically as part of roadshows or investor days. These include more detailed information about the company's business activities and performance as well as guided tours of operational sites.

The Group maintains permanent dialogue with international financial analysts and institutional investors to provide them with information about business activities and strategy. Additionally, comprehensive financial information is published on the Thales corporate website at www.thalesgroup.com.

Investors and financial analysts are increasingly taking non-financial factors into account in the valuation of a company. Environmental, social and governance (ESG) issues are now taken into consideration to identify and analyse risks that could potentially impact a company and its financial performance.

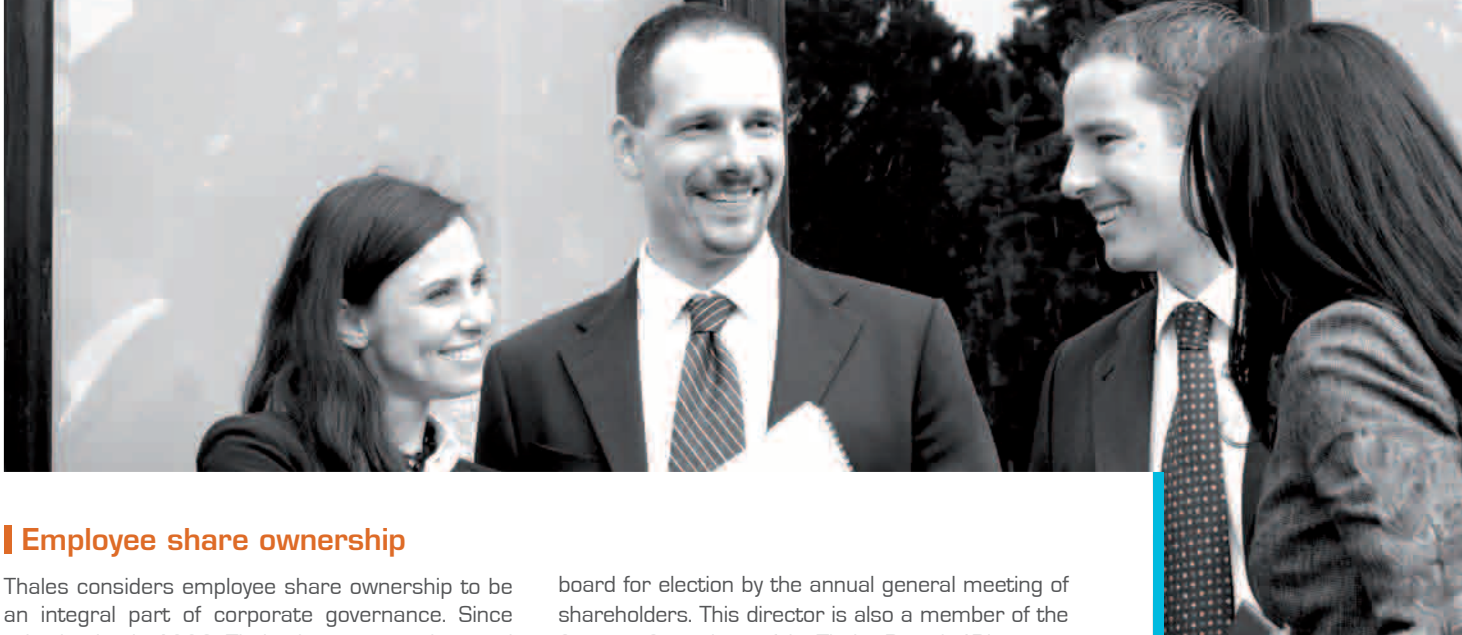
At the end of 2010, Thales organised its first ever Corporate Responsibility Investor Day to provide members of the socially responsible investor (SRI) community with details about its policy on environmental, social and governance matters, and on the prevention of corruption and export control as key issues in business ethics.

Around 20 representatives of the financial and SRI communities attended the event. Presentations were made by various senior executives, including the Chairman & CEO. These meetings are designed to help investors and analysts better understand the Group's ethics and corporate responsibility policy, how it is implemented within the organisation and how it directly contributes to Thales's competitive performance and value creation potential.

THALES'S ENVIRONMENTAL, SOCIAL AND GOVERNANCE STANDARDS

Environmental <i>Proactive policy</i>	Social <i>Leadership in transnational HR policy</i>	Governance <i>Rigorous governance and transparency standards</i>
A comprehensive approach to environmental risk management deployed at three levels: business line, process and product design	Pioneering Europe-wide labour agreements to promote professional development and more transparent employee relations	Government commissioner and external auditors attend Board meetings
Participation in research and development programmes to support environmental monitoring and management and clean technologies	Constant dialogue and constructive relationships with employee representatives	Proactive risk assessment and deployment of an appropriate internal control and compliance programme

Thales is included in the **ASPI Eurozone®** (Advanced Sustainable Performance Indices) index. This index is composed of the 120 listed Eurozone companies that perform best in social and environmental terms. The stocks are selected on the basis of analyses by Vigéo, a French corporate responsibility rating agency.



Employee share ownership

Thales considers employee share ownership to be an integral part of corporate governance. Since privatisation in 1998, Thales has proposed several share purchase offers (in 1998, 2000, 2002, 2004 and 2008) to its employees. A new share purchase offer will be proposed in 2011. As of 31 December 2010, about 29,000 employees in 20 countries held shares in the company, owning the equivalent of 3% of its capital.

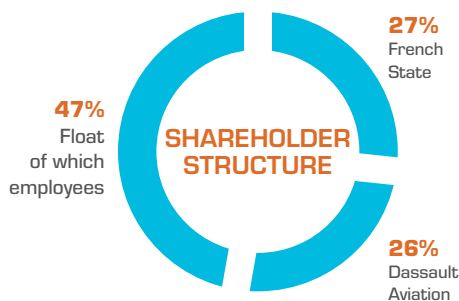
Employee share ownership is structured through company investment funds managed by a joint supervisory board including members elected by employees as well as representatives of Thales management. Employee shareholders are represented on the Thales Board of Directors by a director nominated by the joint supervisory

board for election by the annual general meeting of shareholders. This director is also a member of the Strategy Committee of the Thales Board of Directors.

Long before it became a legal requirement, Thales was one of the few major companies in France to have a representative of employee shareholders on its Board of Directors.

Several shareholder associations, such as APAT (*Association du Personnel Actionnaire de Thales*) in France, have been formed to help promote employee share ownership in 17 countries throughout Europe, North America and Asia-Pacific. The employee shareholder associations are members of FAST (Federation of Associations of Staff Shareholders of Thales).

Governance



BOARD OF DIRECTORS

Public sector (French State)

- Luc Vigneron, Chairman & CEO
- Olivier Bourges
- Didier Lombard
- Bruno Parent
- TSA, represented by Bernard Rétat

Industrial partner (Dassault Aviation)

- Charles Edelstenne
- Loïc Segalen
- Amaury de Sèze
- Eric Trappier

Outside directors

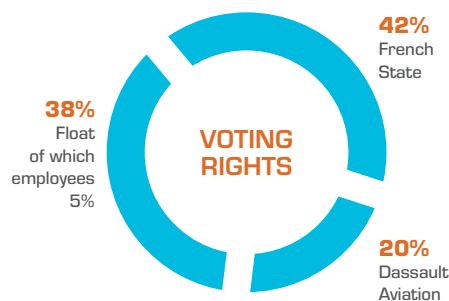
- Yannick d'Escatha
- Roger Freeman
- Stève Gentili
- Pierre Mutz

Representative of employee shareholders

- Philippe Lépinay

Elected by employees

- Martine Saunier
- Dominique Floch



The Thales Board of Directors is comprised of 16 directors, of whom 14 are appointed by the annual general meeting and two are elected by the employees of the Group's French companies. Three of the directors are independent. Thales's major shareholders are committed to having directors whose experience is both diverse and relevant to the Group's business objectives. Current directors

have extensive experience in areas such as the technology industry, banking and security.

The Board of Directors has set up three committees that meet regularly to review specific topics: an Audit & Accounts Committee, an Appointments & Remuneration Committee and a Strategy Committee.

AUDIT AND INTERNAL CONTROL.

In 2010, the Audit and Internal Control Department assumed the additional mission of auditing operational performance by assessing risks relating to contracts, projects and bids. The department's scope of responsibility now also includes risk mapping and management of the 20 unified risks in the COSO⁸ method, and the review of the yearly attestation letters provided by subsidiaries to help Thales to coordinate their internal control processes. The audit plan is approved by the Board of Directors' Audit and Accounts Committee and presented to the Executive Committee.

To support the department's broader mission, the team has been expanded and its members have higher levels of seniority: eight former business unit and project directors, for example, have now joined the department. In addition to its auditing and internal control responsibilities, the department also oversees Ethics and Corporate Responsibility. This relationship with the Senior Vice President, Audit and Internal Control reinforces the Group's policy in this area and makes ethics and corporate responsibility an integral part of the company's overall risk management system.

Strengthening the global compliance programme

Strict compliance with all applicable laws, regulations and international treaties is critical to Thales's ability to conduct its business today and in the future. Non-compliance with regulations could expose Thales and its officers to large fines, criminal or civil sanctions, sales and legal restrictions and reputational damage. The Group established a Compliance Programme in 2007 to incorporate compliance risk management within its business processes.

The objective of the Compliance Programme is to decrease the risk of non-compliance by helping to prevent occurrences, detect issues and limit the consequences of any conduct that may violate the company's commitments and internal policies or could lead to civil or criminal liability or reputational damage.

Thales operates within a far-reaching legal and regulatory framework. The Compliance Programme pays special attention to areas relating to:

- company law and delegation of responsibilities
- anti-trust and competition
- labour legislation
- export control
- prevention of the corruption
- environmental protection
- occupational health and safety
- national security
- intellectual property rights.

⁸ COSO (Committee of Sponsoring Organizations of the Treadway Commission) is a private sector organisation dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence, with a view to improving companies' performance and governance.



Deploying the Compliance Programme across the organisation

The Chief Executives of Thales subsidiaries are responsible for defining, implementing and maintaining a satisfactory risk management and internal control system that encompasses the prevention of legal non-compliance.

To help them cope with the complex and constantly evolving legal and regulatory framework, Thales has appointed a Compliance Officer in each unit. The main roles of the members of this worldwide network of about 150 people are as follows:

- remind staff of the variety of legal risks and the need to manage them
- monitor compliance efforts and consolidate reports on risks and any instance of non-compliance that may be detected
- oversee action plans.

Thales's in-house experts also produce self-assessment questionnaires that complement the internal policies, guidance documents, training programmes and other tools that are already in place. They allow Thales subsidiaries to assess the maturity of measures to prevent legal violations and serve as a baseline for defining improvement plans when such measures are deemed inadequate.

Throughout the year, the Audit and Internal Control Department monitors implementation of improvement action plans by subsidiaries and provides support to better prevent the risk of non-compliance.

Heightening employee awareness of legal risks

Compliance is not the sole responsibility of senior management. Regardless of their role in the organisation, all employees must comply at all times with laws, regulations and other external constraints.

As part of the Compliance Programme, Thales introduced measures in 2009 to increase awareness of legal risks by developing an e-learning programme targeted at employees with no specific legal expertise. The e-learning programme is currently structured as four modules: insider training, anti-trust, intellectual property and export control. The online courses are not intended to teach law to non-lawyers, but to make employees aware of the legal duties involved in conducting their day-to-day activities and the main legal risks incurred by failure to fulfil those duties. It is designed as a practical guide to what employees need to know and do in order to avoid major legal risks. A dedicated steering committee has been set up to ensure the success of the e-learning programme.

The steering committee meets every three months to monitor the worldwide deployment of the e-learning programme, plan communication campaigns to promote the online courses, review usage statistics and propose improvements to individual e-learning modules. The e-learning programme complements existing procedures and processes in place to help employees understand and comply with laws and regulations. Additionally, employees have access to legal experts at all levels of the organisation to seek guidance on compliance issues.

Confirming the effectiveness of prevention

One of the principles of Thales governance is the requirement that all subsidiaries under its control formally report on the measures and resources in place to secure compliance. The Chief Executives of Thales subsidiaries are required to complete a yearly attestation letter in which they disclose their assessments and commitments for improvements. Yearly attestation letters flow up through the organisation and are consolidated in a report that is submitted to the Executive Committee and Board of Directors and provides measurable input for the Governance report submitted to the Board by the Thales Chairman & CEO.



Social

SOCIAL

AS A HIGH-TECHNOLOGY COMPANY, THALES RECOGNISES THAT THE RECRUITMENT AND RETENTION OF HIGHLY SKILLED EMPLOYEES IS VITAL TO SUSTAIN THE GROUP'S LEADERSHIP. THALES CONSIDERS THE DEVELOPMENT AND MANAGEMENT OF PEOPLE AND THEIR TALENTS AS A PRIORITY AND IS ENGAGED IN A PROCESS OF CONTINUOUS IMPROVEMENT OF ITS GLOBAL HUMAN RESOURCES POLICY. PROVIDING A RICH, DIVERSIFIED PROFESSIONAL EXPERIENCE FOR EACH EMPLOYEE IN A RAPIDLY EVOLVING ENVIRONMENT IS ONE OF THE MOST IMPORTANT CHALLENGES THAT THALES FACES TODAY.

DEVELOPING PEOPLE.

Developing human resources and preparing employees for tomorrow's challenges and opportunities

The principles of social responsibility guide and shape Thales's actions and form the basis of the Group's approach to its people and business activities.

With its recognised technological expertise, growing international presence, rich array of skills and long track record of innovation and success in all fields, Thales is in a strong position to meet the challenges of a rapidly changing world.

The distribution of Thales Group employees (over 66,900 people) reflects two basic premises that steer the Group's policy in terms of Human Resources:

- The Group's expanding global footprint (48% of employees based outside France)
- The high degree of technical qualification of its staff (most employees are qualified engineers and technicians).

Today, more than ever, Thales recognises that the recruitment and retention of highly skilled employees are vital to sustain its leadership.

Developing people and anticipating change

Developing human resources is one of Thales's core values. The Group is continuously engaged in developing the knowledge and skills of its employees. As part of this commitment, Thales signed the Anticipation agreement with employee representatives in France in 2006, and the Europe-wide IDEA agreement in 2009, with the aim of improving professional development through effective anticipation.

To anticipate effectively, Thales needs to be able to identify key changes and innovations in advance, and develop associated action plans, while providing training and support to employees to create more career development opportunities and help them have a richer and more diverse professional experience. Thales believes that all employees are entitled to a fulfilling career, regardless of job family and level of responsibility, and that employees have a right to know about the company's plans for their job family. Thales also believes that professional development is crucial to the success of each individual and to the Group's future prosperity.



The purpose of Thales's anticipative approach to professional development is to enable employees to acquire professional qualifications that are relevant to the needs of the company as well as those of the labour market. This approach underscores Thales's commitment to maintaining employee motivation and providing staff members with the opportunity to construct - via a transparent process - a career path that meets their expectations. The overarching objective is to foster a learning environment that enables employees to find fulfilment in their positions and to achieve their full potential. Thales regularly monitors and analyses qualitative and quantitative trends in the business environment and the labour market in order to anticipate key changes and

innovations and develop associated action plans hinging primarily on training and mobility.

For individual employees, the annual Professional Development Discussion (PDD) is a key milestone in the professional development process and an opportunity to:

- review career progress with managers and discuss continued development in their current post
- evaluate career choices and options
- identify the skills that they have acquired or need to develop
- clarify career aspirations for the future
- consider the best ways to achieve them (training, practical experience, etc.).

IDEA and TALK - Innovative Europe-wide agreements

On 11 June 2009, in Paris, Thales and the European Metalworkers Federation (EMF) signed a groundbreaking European agreement - known by the acronym IDEA - to improve professional development through effective anticipation.

The IDEA agreement (Improving professional Development through Effective Anticipation) provides an annual forward-planning process to identify trends in employment and job requirements involving representatives bodies. All Thales's European employees will have access to the professional development tools they need to drive their own careers. The agreement also includes 25 specific measures that are progressively being introduced in the 11 countries concerned.

To support implementation of this European agreement and create an effective Europe-wide network of social partners, Thales held a number of major transnational events in 2009 and 2010. These were attended by over 100 employee representatives, Thales managers and HR managers from nine European countries and have helped foster a real dynamic of social dialogue at European level. In March 2010, for example, Thales held a European convention dedicated to the IDEA agreement. The programme included a series of teamwork between its participants in the context of equal representation and translational workshops focusing on the various measures involved in the European agreement. This proactive approach to social dialogue led to the negotiation of a second European agreement with the EMF called TALK

(Transparent annual Activity discussion for mutual Listening and developing professional Knowledge), signed on 14 April 2010.

The TALK agreement follows the 2009 the evolution of employee appraisal system drawing on existing best practices in the countries concerned.

Reflecting a shared commitment to transparency, TALK establishes a clear framework and practical guidelines to guarantee that the Annual Activity Discussion (AAD) with each Thales employee is conducted in a climate of social responsibility, mutual respect and listening. It also provides a set of basic principles to ensure that AADs take place under the most favourable conditions and that the rights and responsibilities of managers and employees are respected. TALK has the same scope of application as the IDEA agreement.

IDEA and TALK, which cover more than 54,000 Thales employees in 11 European countries, build on best practices identified in the countries concerned. To reach the agreements, an innovative framework for constructive negotiation was put in place, bringing together representatives of Thales's Human Resources directorate at Group level, the Country HR Directors concerned and union representatives from those countries, under the auspices of the EMF.



Understanding job families to secure career development

Thales's global HR policy is based on the principle that individual employees are responsible for driving their own professional development. A better understanding of the Group's job families, how they are evolving and how an employee can move between them is important when putting together a career plan that leverages opportunities for mobility. A complete information toolkit covering Professional Development Discussions, Career Reviews, Thales University training courses and a Job Marketplace is available to support the mobility process.

Managing professional and career development within and across job families is an integral part of Thales's anticipative approach to professional development:

- In the medium term, this prospective view, which takes into account external factors such as economic context, technologies and markets, helps to clarify qualitative developments in the key job families and ensure more effective forward planning

- In the shorter term, Thales actively supports the day-to-day professional development of each employee. All staff members have access to job descriptions, job opportunities and career paths within a given job family or between different families, enabling managers to develop and improve their contribution to the professional development of their employees, in particular by framing career aspirations and opportunities in terms of the company's current and future needs.

The 2006 Anticipation agreement in France and the Europe-wide IDEA agreement in 2009 strongly support the Thales approach to job family management by providing a framework for forward-looking analysis, which is an essential component of any anticipative approach. The results of forward-looking job family analysis are shared with employee representatives, and employees are informed of relevant trends as part of the commitment to transparency, enabling them to prepare more effectively for their Professional Development Discussions.

Promoting equality, diversity and work/life balance

Thales is committed to taking practical actions to promote gender equality and cultural diversity. Indeed, the international nature of the Group's activities requires a special respect for cultural differences within the organisation. In recent years, Thales subsidiaries have adopted an international approach to recruitment and teams are becoming increasingly diverse.

As a high-technology company that has traditionally been more attractive to men than women, Thales today is fully committed to gender equality and making female employees an integral part of its future development. The framework agreement signed in France in 2004, the three-yearly action

plans negotiated within all Thales legal entities in France and the IDEA agreement in 2009 clearly demonstrate this commitment.

In France, as part of Thales's commitment to equal compensation, a special budget equivalent to 0.1% of total payroll costs is set aside to deal with any unjustified differences in salary between men and women within Group companies or to recognise experience by promotion. This budget is also used to offset any discrepancies within job families that specifically employ women, and to recognise experience through promotion. The same desire to preserve and improve the gender balance within the workforce has also prompted a number of communication programmes aimed at encouraging girls to study science subjects at school. Substantive efforts have also been made to ensure gender-balanced recruitment, so that women are not under-represented in the intake of new employees. Training sessions for managers now include an awareness-raising aspect on the issue of gender equality at the workplace. Reflecting its commitment to helping employees achieve a healthy work/life balance, Thales signed an agreement with Crèche Attitude in 2006 enabling Group companies to reserve places at inter-company childcare facilities. So far, over 100 children of employees at a dozen or more Group companies are in day care places near to where their parents work.

At European level, the IDEA agreement also includes a package of measures to support gender equality in the workplace, with commitments encompassing the full range of related areas (recruitment, career development, equal pay and work/life balance). Countries that have signed up to the agreement are required to produce an annual report assessing gender equality against a number of key indicators and to propose an associated action plan to improve performance where necessary. At its first meeting on 21 September 2010, the European Anticipation Committee conducted a comprehensive review of actions undertaken to support gender equality.

Thales will continue to pursue this active policy of gender equality both now and in the future. Implementation of the IDEA agreement and the many practical actions outlined above is a major undertaking. Promoting the recruitment of women, developing mentoring and coaching programmes, introducing specific People Reviews and progressively increasing the number of women on management committees are just some of the key areas where Thales intends to step up its efforts.





Supporting the employment of people with disabilities

In France, Thales has adopted a policy to promote the recruitment and career development of people with disabilities. Indeed, Thales has long championed the cause of disabled people in the workplace, signing a company agreement in 1992 to increase job opportunities and support their professional integration. This policy has been consistently maintained and led to the signing of a Group-wide agreement on the employment of people with disabilities on 13 November 2004. A new agreement was signed in 2007 for the period 2008-11.

Thales takes action at every level of the educational process to help students clear the hurdles that come with their disability and support them in fulfilling their career aspirations. The Group has signed a number of partnerships with primary and secondary schools to coordinate career orientation opportunities, company visits, mentorships, conferences and technical assistance. It also has partnerships with vocational schools, universities, business schools and engineering schools to help disabled students succeed in their studies. At 31 December 2010, some 268 interns had joined the Group since the new agreement was implemented in 2008.

As a high-technology company, Thales has developed a number of proprietary products to help students and workers with disabilities. One of its flagship products in this respect is the Portanum software co-developed with the Montclair Institute and the CRDV rehabilitation centre for the visually impaired. Downloadable free of charge from the internet, Portanum enables a visually impaired person to follow a presentation or view an image on a laptop computer.

In addition to developing technologies to aid the disabled, Thales has helped change national legislation to improve the employability of people with disabilities. Lobbying by Thales and the development of special technology now enable people with motor disabilities to obtain a pilot's license to fly small aircraft. Through the Handi Aero Surveillance programme, pilots with motor disabilities have an opportunity to fly small planes to prevent and monitor forest fires. Thales designed the system that allows the pilots to fly the aircraft and use the surveillance system. In 2009, under the leadership of Thales, the AFNOR standards committee in France drew up a draft standard, published in August 2010, which gives greater visibility to actions conducted by businesses committed to the professional integration of people with disabilities and guidance for those seeking to get involved in this kind of initiative.

Lastly, the number of people with disabilities employed by Thales has risen steadily since the first agreement was signed. At 31 December 2010, the proportion of employees with disabilities stood at 4.86% of the total headcount. This steady progression reflects the Group's long-term commitment to action in this important area.

Promoting quality of life in the workplace

Thales's commitment to make employee health and safety at the heart of its priorities has led to a specific agreement on quality of life in the workplace, signed on 2 July 2009 in France. This agreement, applicable to all Group companies in France, sets out a general framework for health and safety policy and establishes a system for identifying and preventing workplace-related risks. Workplace health and safety specialists play a central role in this system, which is focused on risk prevention. It also covers the prevention of psychosocial risks through individual employee and collective actions. A central quality of life in the workplace committee has been set up in France to monitor and support these initiatives. The agreement was progressively implemented throughout 2010. The quality of life in the workplace committee has met three times to date, to monitor the implementation of planned actions and conduct an initial analysis of indicators stipulated by the agreement. Meetings of the Group's occupational health and safety departments and company medical officers on 18 January and 24 September 2010 looked at ways to facilitate these initiatives and ensure they are as effective as possible. Some Thales sites have held special theme days or weeks to promote the principles of quality of life in the workplace.

Training programmes have also been developed to raise awareness of related issues among managers. In 2010, some 725 French employees received training in psychosocial risk management and a further 239 attended sessions on the social responsibilities of managers, which include a specific section on quality of life at work.



ENVIRONMENT

ISSUE 4

ENVIRONMENT

THALES HAS ADOPTED ENVIRONMENTAL PROTECTION AS ONE OF ITS ETHICAL VALUES. ENVIRONMENTAL MANAGEMENT IS PART OF THALES'S OVERALL MANAGEMENT SYSTEM AND IS THEREFORE INCORPORATED WITHIN BUSINESS PROCESSES SUCH AS PURCHASING, QUALITY ASSURANCE, HUMAN RESOURCES MANAGEMENT, INFORMATION SYSTEMS, FINANCE AND LEGAL AFFAIRS. AS PART OF ITS CULTURE OF CONTINUOUS IMPROVEMENT, THALES IS COMMITTED TO EMBEDDING AN ENVIRONMENTAL DIMENSION INTO ALL LEVELS OF ITS ACTIVITIES, AND TO BUILDING A GENUINE CULTURE OF ENVIRONMENTAL RESPONSIBILITY SHARED BY ALL EMPLOYEES.

A PROACTIVE ENVIRONMENTAL POLICY.



Responsibility towards the environment is one of Thales's core values. Although the majority of the company's activities do not cause significant pollution or other environmental hazards, Thales has been committed to a proactive environmental protection policy since 1997. The company evaluates its environmental impact through a holistic approach incorporating site management, processes and product design.

Site management

In all new building projects, Thales integrates environmental constraints while the projects are still in the earliest design phase, taking into consideration land use, materials, choice of energy and transport requirements. The company also works to decrease the environmental impact of its current buildings.

Activities

Thales has taken substantive measures to generate less waste and consume less energy and water. Reducing its impacts on climate change is also a goal.

Product design

During product design, Thales takes into account the life-long environmental impact of certain products, from the consumption of raw materials, through production and distribution, to end-of-life disposal or recycling.

Reflecting its commitment to environmental protection, Thales has set measurable environmental targets for its facilities and operations.

A worldwide network of environmental managers is responsible for achieving these targets as well as promoting and implementing the company's environmental policy. Other employees, such as purchasing managers, product design engineers, contract managers, quality assurance managers and logistics specialists play an important and direct role in Thales's environmental protection policy.

	KEY DATA	
	Between 2008 and 2010	2010 target
Reduction of energy consumption	-11%	-10%
Reduction of CO ₂ per person from business trips	-14%	-10%
Reduction of CO ₂ from buildings and processes	-18%	-10%
Reduction of the quantity of non-hazardous waste per person	-20%	-10%
Reduction of water consumption since 2000 in France	-72%	
Number of sites certified to ISO 14001	118 (75% of workforce)	
Number of sites certified to OHSAS 18000	78 (45% of workforce)	

A HISTORY OF ENVIRONMENTAL COMMITMENT

2010: HSE* process fully integrated in the Group reference system and also incorporated in other processes such as purchasing, product design and project management

2009: Environment Department integrated with Operations Department

2008: Simultaneous ISO 14001 and OHSAS 18001 certifications for the

entire Aerospace Division

2007: Formal definition of the Group-wide environmental policy

2005: First worldwide environmental targets set

2003: Signing of UN Global Compact; publication of Thales's first annual environment report

2001: Environmental protection established as a core principle in the Code of Ethics

2000: First Thales site certification to ISO 14001 (Hengelo in the Netherlands)

1997: First environmental master plan

*Health, Safety & Environment



CLIMATE CHANGE.

Thales has adopted a policy to help fight climate change by implementing measures affecting its use of energy and certain substances, travel and transport, and product design.

A smaller carbon footprint

Thales is taking steps to reduce its carbon footprint by reducing CO₂ emissions stemming from its activities and from business travel. Indicators for CO₂ emissions have been introduced and emission reduction targets have been set, raising awareness within the Group of the impact of Thales's activities on climate change. The methodology recommended by the Greenhouse Gas Protocol⁹ is used to measure emissions.

In 2010, the Group expanded the scope of its environmental reporting by introducing new indicators such as CO₂ emissions from company-owned vehicles, wastewater, and waste disposal. Analysis shows that the environmental impacts of these activities were much less significant than other activities.

Thales monitors the consumption of substances that deplete the ozone layer – particularly those listed in the Kyoto Protocol, which are mainly used in refrigeration systems – and has put in place a plan to reduce their use. One of the substances, Sulphur hexafluoride (SF₆), accounts for 72% of Thales's greenhouse gas emissions and has a global warming potential of almost 23,000 times that of CO₂.

Thales uses SF₆ primarily to isolate electron tubes during testing under high voltage. It is used by three sites in France, which have committed to ambitious reduction plans since 2007. This has led to a 28% reduction in emissions, despite a release during an equipment failure that took place in 2010.

Monitoring the climate

Thales is a major player in earth observation satellite programmes. The Group is contributing to almost every European climate-related space mission and is a partner to agencies around the world including ESA, Eumetsat, CNES, ASI, NASA, NOAA, JAXA, CSA and KARI.

THALES AND THE CARBON DISCLOSURE PROJECT

Since 2005, Thales has reported to the Carbon Disclosure Project (CDP) on its climate change strategy and its progress in reducing its carbon footprint.

The CDP brings together over 551 institutional investors who manage more than \$71,000 billion in assets worldwide. Its objective is to accelerate solutions to climate change and water management by putting relevant information at the heart of business, policy and investment decisions.

⁹ Created in 1998 by the World Resources Institute and the World Business Council for Sustainable Development, the Protocol is one of world's most widely used methodologies for governments and companies alike.

THALES'S SPACE ACTIVITIES: Over 30 years of leadership in monitoring climate change

- World leadership in operational oceanography based on success of Poseidon radar-altimeters
- Central role in GMES programme (Sentinel 1 and 3 series)
- Prime contractor for meteorological satellites: Meteosat, MSG,

Observing the weather

In 2010, Thales Alenia Space was selected by the European Space Agency (ESA) to develop the third-generation Meteosat system (MTG) and thus ensure the continuity of Eumetsat's geostationary weather monitoring capacity well into the 2030s. The six-satellite system will comprise four imaging satellites carrying imaging and lightning detection equipment and two sounder satellites with infrared and ultraviolet capabilities for both climate and meteorological applications. The MTG will feature the first-ever geostationary infrared sounder. The launch of the system's first imaging satellite is scheduled for 2017 and will be followed by the launch of the system's first sounding satellite in 2019. Multispectral imagery of the globe combined with hyperspectral sounding of the atmosphere will significantly improve the operational services delivered to the European meteorological services. It will also provide unprecedented quantities of information on water vapour and temperature profiling. The increase in the amount of data available will help climatologists better understand how the climate evolves.

Surveying the earth's water

Scientists today agree that the vast oceanic circulation that drives massive exchanges of heat and energy through our atmosphere and seas is one of the main engines of our planet's climate. In 2010, Thales Alenia Space was selected by the French Space Agency (CNES) to build the Jason-3 satellite. The satellite will continue the mission of its predecessors (TOPEX/Poseidon, Jason-1 and Jason-2) by supplying high-precision ocean topography measurements.

Reducing the environmental impact of air transport

Thales is also a partner on the CleanSky and SESAR (Single European Sky Air traffic management Research) programmes, which will help to reduce the environmental impact of air transport.

A HISTORY OF ENVIRONMENTAL COMMITMENT

CLEANSKY

Thales is a founding member of the public-private partnership, which aims to reduce noise pollution from aircraft by 50%, CO₂ emissions by 40% and nitric oxide by 60% by 2020.



SESAR

Thales is a partner on this programme focused on enhancing air traffic management by 2020. Objectives are to increase the capacity of the European air transport system three-fold, halve unit costs, enhance security by a factor of ten and cut unit consumption and associated emissions by 10%.



PRESERVING BIODIVERSITY.

Fourteen percent of the land at Thales sites is protected for its biodiversity or indigenous cultural heritage. As a result, the Group has taken steps to protect the local flora and fauna, and to educate its employees about preservation of natural habitats.

| Land use

When choosing a location for its sites, Thales takes into account environmental criteria including climate-related and geological risks, the impact of its activities on local residents and the environment, and land use factors. The objective is to optimise compatibility between the Group's activities and the natural environment.

Activities such as pyrotechnics require a large buffer zone to be set aside because of the potential risks involved. In these cases, every effort is made to use the areas inside the zone to preserve biodiversity or maintain pastures or cropland.

Potential soil erosion factors are also taken into consideration when relevant.

| Flora and fauna

In protected areas, Thales conducts inventories of animal and plant species either independently or in partnership with local authorities or conservation groups. Specific actions are implemented to protect natural habitats.

Thales's Benalla production site in Australia is surrounded by 1,200 hectares of pasture that contains extremely diverse flora and fauna. New species are discovered each year. In 2010, two new species of endemic birds and a new species of frog were discovered.

To preserve this biodiversity, regular water sampling and analysis from all lakes, ponds and pits is undertaken to monitor the health of the aquatic environments.

The irrigation of a bundled 3 hectare tree plantation with water from the sewage pond resulted in lush grass growth within the bunds, providing kangaroos in particular with a safe feeding and resting area. Their continued existence depends on maintaining the uncontaminated quality of the water in the dams, as well as preventing these dams from drying out for too long.

The site has been extensively planted out with 13 species of native trees and shrubs, and 16 species of native aquatic vegetation. The surrounding tree plantations and open grasslands provide a reasonably safe, protected haven for a huge variety of native plants, trees, fungi and animals.



ECO-DESIGN.

| Green technology research

Science and innovation play a central role in Thales's operations. More than one-third of all employees – 22,500 people – are employed in R&D, which accounts for an investment of around 20% of revenues. The Group's advanced research is carried out by Thales Research & Technology (TRT), which operates a global network of corporate research laboratories, mostly located on university campuses close to the company's research partners.

For several years, TRT has been conducting research and development on a new semiconducting material, gallium nitride (GaN), whose unique properties can help reduce the environmental impact of electrical and electronic equipment compared with the materials and technologies in use today. As well as improving equipment performance, the benefits of GaN include lower power consumption and the use of fewer components to generate the same power level. Thales plans to use this technology first in radars and telecommunications and then in power supplies.

| Designing for the environment

Most of Thales's products require a very high level of security and reliability, and therefore leave little flexibility during product design. Nevertheless, Thales has designed several environmentally responsible products in order to reduce their impact on human health and the environment. Some product lines, such as medical imaging, ticketing systems and simulators, have been successfully designed according to environmental criteria.

Designing for the environment starts with product policy and involves all the players in the product development and delivery phases. It also takes into account decommissioning, disposal or recycling when a product reaches the end of its useful life, sometimes decades later.

Despite the increasing number of recommendations and needs expressed by customers, there are still few standards or regulations on eco-design. To anticipate future needs and regulations, Thales has developed methods and tools to help designers and architects to make environmentally responsible choices.

A network of HSE managers has been created to oversee the implementation of environmental aspects in the early phases of product development.



FLOWCAT:

A more environmentally responsible air traffic flow management (ATFM) system

Managing increasing volumes of air traffic while decreasing its impact on the environment is one of aviation's major challenges. In preparation for the sharp peak in air traffic during the 2010 FIFA World Cup, South Africa adopted Thales's innovative Flowcat ATFM system to handle the 450,000 extra travellers.

The award-winning system harnesses the principles of green technology to ensure optimal routing, reduce airborne holding, fuel burn and greenhouse gas emissions while optimising the utilisation of existing infrastructure. It is the first nationwide system that can cope with air traffic growth and ensure user-preferred routes at the same time as reducing the environmental impact of aviation. Flowcat optimises air traffic by fusing data from several air traffic control systems into a consolidated nationwide view of current and forecast air traffic up to six days in advance. It also optimises airport arrival and departure slots for flights, considering factors such as en-route delays, adverse weather, dynamic runway capacities and runway closures. The Flowcat system will help airlines to cut fuel consumption as well as reducing the overall environmental impact of the air transport sector.

HOMELAND ALERTER 100:

An innovative and environmentally responsible passive radar

Thales offers a range of radars that not only provide better detection performance, but are made from non-polluting materials, have less impact on local residents and the environment, and consume less power.

The Homeland Alerter 100 (HA 100) passive radar relies on proven technology and has already been selected by major customers in Europe. With a range of 100 km, it is designed for air surveillance at both low and medium altitudes and to protect high-value assets, airports and power projection missions. During the official Bastille Day (14 July) ceremony in 2010, it was deployed by the French Air Force to monitor the Paris airspace used for the flypast. Unlike a traditional radar, the passive radar does not emit its own signal: it uses the signals emitted by antennas for radio and television broadcasts that are already present in the environment, making it deployable without a specific frequency allocation. Its low power consumption and the absence of any electromagnetic radiation make it a particularly environmentally responsible choice of radar.

RESOLVING WIND TURBINE INTERFERENCE

Thales has developed an innovative solution that enables wind turbines and radars to operate in the same vicinity. Thanks to a new series of algorithms, the installation of radars near wind farms is now possible and safe for air traffic.

Wind turbines have been known to cause false radar readings and prevent aircraft from being detected or detecting legitimate targets. Wind turbines installed close to airports and military bases can adversely affect air traffic control and the ability to track aircraft and maintain air surveillance. They can disrupt the operation of any type of radar, including primary surveillance radars, secondary surveillance radars, ground-based or ship-borne military radars, weather radars and coastal radars.

This issue has led several countries to postpone wind energy projects involving thousands of wind farms in

order to maintain air traffic safety. Committed to developing solutions that will make radars "windfarm compliant", Thales has developed a series of algorithms that will address the ways in which radars detect wind turbines. The new algorithms will enable radars to determine whether a "return signal" is an aircraft or a turbine, reducing the possibility of false information being presented to air traffic controllers.

Thales first demonstrated the performance of these new algorithms at Scotland's Inverness Airport in 2009, an airport surrounded by 141 wind turbines. After the recent installation of the STAR 2000 primary approach radar and secondary Mode S radar, the new algorithms were successfully shown to help cancel wind turbine echoes while preserving the detection of true aircraft. The Group is now also incorporating this new technology into its new-generation GM400, GS1000 and SMART-S Mk2 radars.

RAIL TRANSPORTATION:

Saving energy with EcoDrive

During a recent pilot of Thales's new EcoDrive solution, train operators using the Lötschberg tunnel in Switzerland saw their energy consumption fall by more than 10%.

EcoDrive is an innovative energy-saving solution that works by smoothing out wasteful braking and acceleration cycles. To achieve this, each train follows an individual speed profile that is constantly updated throughout its journey. Target speeds for each train are calculated centrally and transmitted directly to the driver. The European Train Control System (ETCS) plays a vital role here, providing both track-to-train communications and the means to display target speed information to drivers. The ability to manage live information - known as dynamic data transmission - is a key strength of the Thales EcoDrive solution. Drivers following a continuously calculated optimum speed saved more than 60 kWh on each 34 km journey - enough electricity to meet the needs of an average family home for nearly a week.



COMMUNITY

ISSUE 5

COMMUNITY

WITH ITS GLOBAL STRATEGY AND OPERATIONS IN OVER 50 COUNTRIES, THALES IS VERY MUCH A PART OF THE LOCAL ECONOMIC, SOCIAL AND ENVIRONMENTAL LANDSCAPE OF EACH COUNTRY AND THEREFORE STRIVES TO BE A RESPONSIBLE NEIGHBOUR AND COMMUNITY MEMBER. THALES AND ITS EMPLOYEES AROUND THE WORLD PARTICIPATE IN A RANGE OF ACTIVITIES, UNCONNECTED TO THE COMPANY'S CORE BUSINESSES, TO SUPPORT THEIR LOCAL COMMUNITIES. THIS INCLUDES CHARITABLE GIVING AS WELL AS ACTIVE PARTICIPATION IN LOCAL PROGRAMMES AND EVENTS.

DONATING TIME AND MONEY TO LOCAL COMMUNITIES.

Thales strives to be a responsible member of society and supports a number of community initiatives around the world. Most of these are conducted at the local level and aim to support youth and education.

The Group signed a three-year partnership with La Chaîne de l'Espoir in 2009, a non-profit organisation that provides health services to disadvantaged children in developing countries. Through this partnership, Thales is helping to finance healthcare for sick children in Afghanistan.

In 2010, six member companies of the French aerospace industries association GIFAS, including Thales, established HANVOL, an association to promote training and integration of young people with disabilities.

Also in France, the Group is a member of Fondation Vilette-Entreprises, which provides support to companies wishing to develop partnership projects with museums such as the Cité des Sciences et de l'Industrie as a way to promote a culture of science and technology among the general public, and particularly among young people.

Employees in the United Kingdom have been active in supporting charities for several years, promoting their causes in various ways and providing significant financial support. Employees continued to support the Marie Curie Cancer Care, raising £380,000 in 2010 through sports events and other fund-raising projects.

Through its Charitable Trust, Thales UK continued to support Youthnet, an organisation dedicated to providing 16-24 year olds with the information they need to make informed career choices. The company has a partnership with The Railway Children, a charity that provides shelter, clothes and meals to homeless children. Thales also participated in the development of the Talk, Don't Walk website, a service dedicated to dissuading children from running away from home and providing services to help families overcome relationship problems.

In the Netherlands, Thales sponsors a number of local charities. The company helps finance museums such as the local Museum of Technology and the Nautical Museum. The company also supports the Opkikker Foundation, which organises activities for children suffering from life-threatening diseases.

Thales has a multi-year partnership with Legacy, one of Australia's oldest charitable institutions. The charity currently looks after 115,000 widows, as well as 1,900 children and disabled dependents across the country. Employees also participate in an annual fun run known as Defence Lake Attack, which is part of the Australian Defence Force's annual fund-raising campaign in support of children's causes.





Thales USA supports a number of community organisations through monetary donations and volunteer projects. Through the Charitable Contribution Committee, Thales and its employees support several organisations such as the American Cancer Society, American Heart Association, Breast Cancer Awareness, National Fallen Firefighters Foundation, Pediatric Brain Tumor Foundation, Salvation Army, Christmas Cash For Kids and America's 9/11 Foundation.

In Portugal, Thales organised a Christmas celebration for children from several schools, handed out presents and made a donation to a parish council for distribution to disadvantaged children. The company was also involved in the rehabilitation of a local school. Additionally, Thales donated to an organisation providing orthopaedic equipment to the elderly. Employees also made donations to the residents of the island of Madeira, which suffered severe damage from the weather in 2010.

Thales España continued to support community organisations and charities, especially those in which its employees have a direct involvement, through monetary and material donations. For example, the company recently participated in the construction of a school in Zimbabwe, donated money to the Spanish national cancer association and helped to organise study sessions for struggling students during school breaks.

In Germany, Thales supports Olgäle Stiftung, a children's hospital.

Thales Canada continues to support the Annual Canadian Forces Appreciation Night hosted by the Ottawa Senators hockey team to provide tickets to members of the Canadian Forces and their families.

Thales in Romania supports a local association for parents of children with cancer to help them invest in various hospital equipment.

The 2009 earthquake in L'Aquila, Italy, caused severe damage in the Abruzzo region and resulted in the death of 308 people, including a Thales Alenia Space employee, and the total or partial destruction of many industrial and high-tech facilities. As well as providing immediate assistance to employees, Thales Alenia Space rapidly made an initial contribution of €100,000 for the town's emergency services and opened a special bank account for employee donations. An industrial recovery plan was put in place at the same time. The new site being built in Abruzzo should be operational by mid-2011. In addition to meeting the highest standards of quality and seismic requirements, it is specifically designed to have a low impact on the environment.

FOR FURTHER INFORMATION.

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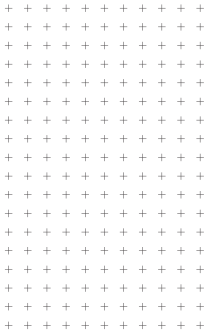
Design and production: MAKASAR – Publication date: June 2011.

Thales also thanks the employees who took part in the photo features.



This document is printed on recycled paper.





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