



# THALES

## Corporate Responsibility

Customers  
Suppliers  
Employees  
Shareholders  
Environment  
Society

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## \_Foreword

Thales has decided to publish this new **Annual Corporate Responsibility Report** as a proactive response to the major strategic issues the company faces. Thales's company profile and **financial data** are presented in the Annual Report, which can be downloaded from <http://www.thalesgroup.com/Investors> section. In addition, **social and environmental data** are available at [http://www.thalesgroup.com/Corporate Responsibility](http://www.thalesgroup.com/Corporate%20Responsibility) section.



# \_Chairman's message



**Luc Vigneron,**  
Chairman & Chief Executive Officer, Thales

In our complex and constantly changing global environment, I consider it top priority for Thales to act with integrity and to demonstrate the strictest standards of ethical conduct in every aspect of its business activities. I see this not only as a way to comply with tougher legislation, tighter rules and the legitimate demands of civil society, but as a strategic choice of the utmost importance.

Ethical practices must be embedded in the company's decision-making processes at every level, guiding not only our major policy decisions but the choices made by individual employees on an everyday basis as they manage the complexity of the regulatory context.

This is a commitment we make to all of our stakeholders — customers, shareholders, suppliers, civil society and, of course, employees.

Thales's proactive approach to ethics and corporate responsibility is more than a way to mitigate risk. Above all it helps to secure the company's future performance by building our reputation as a responsible player and a trustworthy partner.

€12.7

billion

**2008 revenues**

68,000

**employees**

**Operations in**

50

**countries**

# A GLOBAL LEADER DEDICATED TO SECURITY

With operations in 50 countries and 68,000 employees, Thales is a global technology leader for the aerospace, space, defence, security and transportation markets.

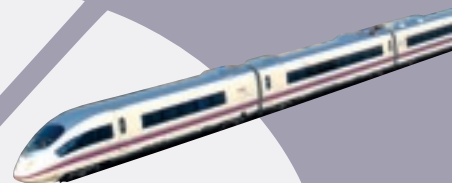
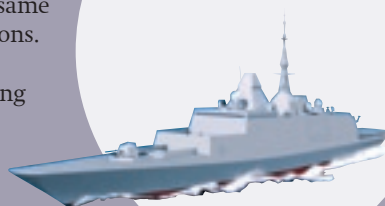
Building on proven capabilities in large-scale software systems, Thales is stepping up to the security challenges of its customers in an increasingly interconnected, technology-driven world.

Civil and military systems benefit from many of the same technologies and innovations. Developing these dual technologies has been a long tradition for Thales, with its global network of 25,000 high-level researchers and engineers.

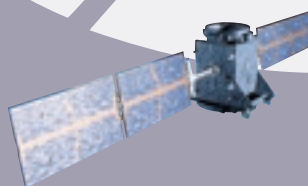
Leveraging a global presence and spanning the entire value chain, from prime contracting to equipment, Thales plays a pivotal role in making the world a safer place.



50% Defence



25% Security



25% Aerospace and Space





# \_Introduction

In 2008, unethical practices and weak governance were held up, to varying degrees, as the root causes of the global economic and financial crisis.

Judgement calls like this validate Thales's ethics policy and its broader strategy of corporate responsibility as a factor in the company's performance.

The Thales ethics and corporate responsibility strategy was set in motion by senior management and is now part of the system of values shared by all Thales employees. Hinging on mature processes and collective intelligence, it is driven by individual engagement and deployed as a coordinated set of action plans that are implemented methodically and regularly updated.

The Ethics and Corporate Responsibility Committee has thus taken substantive measures to ensure that the company's principles of integrity, particularly with respect to corruption prevention, are understood and rigorously applied by all Thales employees.

The deployment of robust compliance procedures continued in 2008, for example with the introduction of a Purchasing and Corporate Responsibility Charter to be signed by the company's suppliers.

Based on the highest standards in the profession, these compliance procedures were developed and tested within international working groups and industry task forces set up by the United Nations Global Compact and the ASD (AeroSpace and Defence Industries Association of Europe), for example, in which Thales plays an active part.

With respect to human rights, the Committee continued to ensure strict compliance with Thales's undertaking not to manufacture, sell or maintain cluster munitions.

Also at the initiative of the Ethics and Corporate Responsibility Committee, a new type of training programme combining in-class and e-learning modules was deployed throughout the year.

This year's annual Corporate Responsibility Report is organised as a series of answers to the main strategic questions that Thales faces. It confirms the company's continuing engagement in a set of rigorous processes and its commitment to building relationships based on trust and transparency with all its stakeholders.

**Bernard Rétat,**

Chairman, Ethics and Corporate Responsibility Committee, Thales



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 5,200 companies around the world have signed the Global Compact.

Thales signed up to the Global Compact in 2003 and has adopted its ten principles.



## Principles

## Relevant pages

### Human Rights

**Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and

Pages 9, 17, 23, 24

**Principle 2:** make sure that they are not complicit in human rights abuses.

Pages 9, 17, 24

### Labour Standards

**Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Pages 9, 17, 27, 28

**Principle 4:** the elimination of all forms of forced and compulsory labour;

Pages 9, 17

**Principle 5:** the effective abolition of child labour; and

Pages 9, 17

**Principle 6:** the elimination of discrimination in respect of employment and occupation.

Pages 9, 17, 27, 28

### Environment

**Principle 7:** Businesses should support a precautionary approach to environmental challenges;

Pages 9, 17, 31, 32, 33

**Principle 8:** undertake initiatives to promote greater environmental responsibility; and

Pages 9, 17, 31, 32, 33

**Principle 9:** encourage the development and diffusion of environmentally friendly technologies.

Pages 9, 17, 31, 32

### Anti-Corruption

**Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.

Pages 9, 10, 17, 19, 20, 21

The Global Compact's color codes are used in the relevant pages to highlight Thales's actions in the support of the ten principles.

# A GLOBAL RESPONSIBILITY

**B**y the very nature of its businesses, Thales is engaged in the societal, environmental and economic challenges of our times. The technological excellence and engineering expertise that the company has cultivated for more than a century, mainly to serve the armed forces, now play a crucial role in keeping our homelands secure and our civilian populations safe. With its strategic positioning in the new defence and security continuum, Thales has a **unique responsibility** to its stakeholders and to society at large. As an industry leader, the company also has a unique opportunity to set new standards of excellence in transparent governance, ethical practices and business integrity across the entire sector.

In earlier times, anti-competitive forces and poor transparency plagued the business world, and public procurement in particular. With a worldwide customer base largely composed of governments and institutions, Thales naturally has not escaped public scrutiny or shirked its duty of accountability.

In the modern era, major international companies have taken a long, hard look at the way they conduct aspects of their business ranging from marketing and sales to manufacturing and human resource management. They have come to recognise that a corporate responsibility policy is not a public relations exercise but the key to sustainable business performance. **A strategic vision that incorporates a culture of integrity and compliance is now considered critical to any company's long-term success.**

When it adopted its corporate responsibility policy in 2001, Thales was one of the first European companies to formally embrace this new reality.

## A NEW MANAGEMENT PARADIGM

Thales operated for decades in a strictly national framework and under close State control. Today, as an international company, Thales and the businesses it has acquired in various countries no longer operate within a single, clearly defined national framework but rather in a strategic space of global dimensions. As a result, tasks such as managing human resources or international business transactions have become exceptionally complex.

Global as its businesses now are, the company's value proposition still relies on technologies that are sensitive, strategic and central to the national sovereignty of each State. This structural contradiction presents challenges to both the company and its regulators, and calls for **innovative concepts** of corporate governance and a different set of management methods.

Management also has to embrace the moral expectations of all members of the workforce, reconciling cultural backgrounds and traditions that grow more diverse as the company's international footprint expands.

## SUSTAINABILITY IS DRIVEN BY PEOPLE

In a heavily regulated global industry, managers are constantly required to make choices about the applicability of different standards. These choices are a key part of the manager's responsibility, and they become more difficult as the number of stakeholders increases and as their demands become more specific. As a result, responsible managers are moving from the implicit to the explicit, from word of mouth to written requirements, from discretionary decision-making to behaviours governed by accepted best practices.

Supporting this **new management role**, the Thales governance and ethics organisation is designed first and foremost to ensure strict, verifiable compliance with laws and standards. Beyond this rule-based approach, however, real success hinges on employee engagement — in other words on the company's ability to embed the principles of ethical conduct within the very system of values that makes Thales unique.

Supported by large-scale information and training campaigns, our employees and subcontractors are engaged in a process of **continuous improvement** as they assume full ownership of the Thales values of ethical conduct, integrity and accountability.



## \_CHALLENGE #1

# IS BUSINESS ETHICS COMPATIBLE WITH BUSINESS PERFORMANCE ?



→ Angel Gurría  
Secretary General  
OECD

“ The current global economic crisis is costing the world trillions of dollars [...]. It is the result of the combination of several failures. A failure of business ethics is one of them, one that lies at the epicentre of this financial and economic earthquake.

In the coming months, the rules of the global financial and economic system will be rewritten. The incentives to proper behaviour have to be included in those new rules. A new balance between governments and markets will also be established. The crisis will give us the opportunity to build the foundations of a new business culture [one that is] more ethical and responsible. ”



# \_CHALLENGE #1

In light of the current global economic and financial crisis, companies, particularly those with a global reach, are realising that their business practices are increasingly being scrutinised by their stakeholders. The recent string of insolvencies, bankruptcies, accounting and investment frauds have markedly eroded the public's confidence in both multinational corporations and the organisations that rate them. Stakeholders — from government officials to the public at large — are more than ever concerned with ethics, transparency, performance and sustainability. Companies around the world are starting to realise that **business ethics goes well beyond corporate rhetoric and can create real value** for all stakeholders. Violation of laws, corruption, lack of governance, fraud and other forms of unethical behaviour can directly affect a company's performance and viability.

## EMBEDDING SHARED VALUES AND CORPORATE RESPONSIBILITY

Thales has taken steps to embed behaviour and collective intelligence that respects the Thales Code of Ethics. The company's employees and partners are required to respect published guidelines describing the appropriate commercial, environmental and social behaviour to be adopted by all in order to conduct business in a fair and legal manner. Thales has adopted a **two-fold strategy** that integrates both rule-based and value-based approaches in order to develop a strong culture of responsibility.

The rule-based approach involves setting up specific internal organisations, internal measures and procedures to deploy the company's ethics and corporate responsibility policy on a worldwide basis. Formal procedures help ensure compliance with laws and regulations. However, the potential risk of discrepancy between the rules and standards laid down by multiple stakeholders (intergovernmental organisations, non-government organisations, stakeholder groups and national governments) suggests

that mere compliance may not be enough to prevent corruption in today's complex and fast-changing business environment. Complementing rule-based management with a value-based approach is becoming increasingly vital to help managers weigh up different, sometimes contradictory standards in order to make ethical decisions. This approach involves **developing a shared value of ethics and responsibility** among employees through information and internal communication campaigns, awareness and training programmes. Thales has put in place tools such as e-learning modules and training courses to support this value-based approach, and clear procedures for employees to speak up about ethical issues or possible infringements of the Code of Ethics.

## SUPPORTING AND PROMOTING BUSINESS ETHICS

The Thales Ethics and Corporate Responsibility Committee meets on a quarterly basis to define and cascade the company's ethics policy, as well as to settle issues raised by employees worldwide. Members of the Committee include senior executives from headquarters and the main international subsidiaries, and members of the Thales Executive team.

**The Committee stays abreast of developments in ethical standards with respect to commercial practices, the environment, labour relations** and society at large, and proposes relevant actions such as dedicated training and communication plans. Major themes discussed by the Committee in 2008 include:

- development of common **business ethics standards** in the aerospace and defence sector
- **human rights** (e.g.: Oslo Convention on cluster munitions)
- development of e-learning courses and face-to-face training on Thales's ethics policy
- purchasing and corporate responsibility policy
- non-financial ratings
- **UN Arms Trade Treaty**
- **working group on the UN Global Compact's 10th principle**
- tracking continuous improvement in ethical business conduct.

The members of the Committee also have the responsibility to settle issues raised by Ethics Officers, launch enquiries into possible infractions of the Code of Ethics and subsequently make proposals to management about actions to be taken or sanctions to be applied.

**A dedicated Ethics and Corporate Responsibility department** was put in place in 2005 to implement the policy defined by the Ethics and Corporate Responsibility Committee. The department is in permanent contact with the company's worldwide functional and operational departments, and the head of the department reports directly to the Senior Vice President, Finance and Administration, a member of the Executive team.



The department's staff is responsible for keeping the Code of Ethics up to date, and makes recommendations to the Ethics and Corporate Responsibility Committee on best practices, standards for business ethics (including export control and the prevention of corruption), and training and information campaigns.

The head of the department regularly attends working groups and task forces organised by professional associations, intergovernmental and non-governmental organisations, helping to develop and promote best practices that overcome imprecision in the legal and regulatory framework on ethical issues related to commercial methods, environmental stewardship or human resources management.

An international network of Ethics Officers, appointed in the main countries and divisions, promotes the Code of Ethics and its principles in the respective subsidiaries, ensures that subsidiary employees receive adequate training and information, answers questions about compliance with the Code, and most importantly, adapts the Thales ethics policy to local legislation and norms (for example, with respect to gifts, hospitality and business trips).

It is also the Ethics Officers' role to respond to and report infringements of the Code 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 when needed and to confidentially report any infringement of the Code that could incur the company's liability. This system requires a high level of employee accountability and personal integrity, and its success depends on information being provided in good faith.

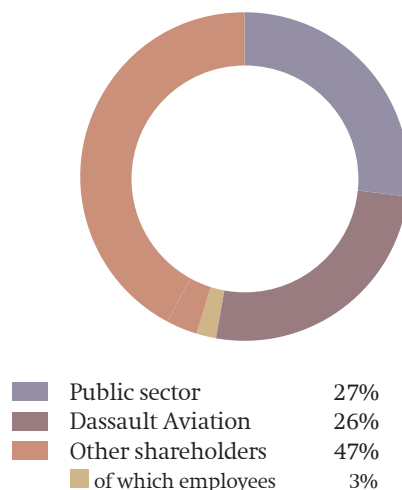
## ENSURING TRANSPARENCY IN CORPORATE GOVERNANCE

As a company engaged in technological research and long-term industrial projects, Thales is committed to building long-lasting relationships with its stakeholders through **timely, transparent and reliable communication**.

Particularly after the recent financial difficulties that have affected some of the world's largest financial institutions and industrial companies, stakeholders — particularly investors — place more emphasis than ever before on corporate governance and the accuracy and timeliness of financial disclosures by listed companies. All stakeholders are directly affected by the financial difficulties of a company: employees can end up losing their source of income, and, in some countries, their health and pension plans as well; shareholders could lose all or part of their investment; and customers and suppliers could see their revenues drop or even post losses.

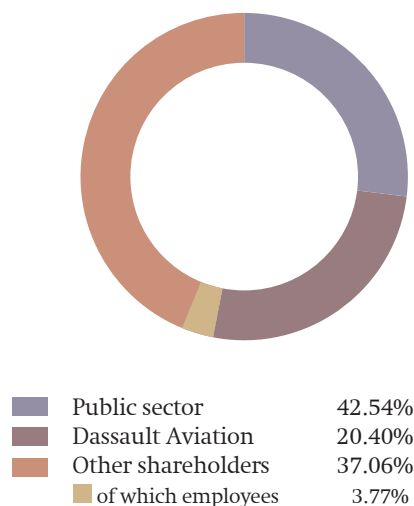
## Shareholding structure

as of 31 May 2009



## Voting rights

as of 31 May 2009





Thales's shares are listed on the regulated market, NYSE Euronext Paris, and Thales thus complies with national and European laws and regulations applicable to listed companies. Thales regularly provides the financial markets with clear and transparent information concerning its financial situation and strategy, in accordance with generally accepted rules and practices. Comprehensive financial information is published on the Thales corporate website at [www.thalesgroup.com](http://www.thalesgroup.com). In addition, in line with common industry practice, Thales organises dedicated information meetings to present yearly, half-yearly and quarterly financial performance. Thales senior management, and more particularly the Chairman and CEO and the SVP, Finance and Administration, also regularly meet international institutional investors and financial analysts, as part of roadshows, conferences and "investor days", to enable investors to strengthen their understanding of the Group's business and strategy.

American business magazine Institutional Investor recently recognised the quality of the Group's financial communications with the award of the **"2008 Best Investor Relations Professional for European companies"** in the Defence and Aerospace category.



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

The Thales **Board of Directors** in 2008 comprised 16 directors, of whom 14 were appointed by the Shareholders General Meeting, and 2 were elected by the employees of the Group's French companies. Of the 14 directors appointed by the Shareholders General Meeting, 4 were independent directors, 1 represented employee shareholders and the others were submitted to the vote of the Shareholders General Meeting by Thales's two largest shareholders: the Public Sector and the Industrial Partner . The Board of Directors reviews the work of an Audit Committee, a Nomination and Remuneration Committee and a Strategy Committee. Since 2003, the Board of Directors has published a report on the Group's risk exposure, in compliance with the French corporate governance act (NRE) of 15 May 2001. Each year, the Chairman publishes a report on Board administration and internal control procedures, in accordance with the French financial security act of 1 August 2003.

#### To the best of Thales's knowledge:

- there are no family ties between the members of the Board of Directors
- no Board member has been found guilty of fraud over the past five years
- no Board member has been involved over the past five years as a senior manager in a bankruptcy, receivership or liquidation, or been incriminated or penalised publicly and officially by the statutory or regulatory authorities
- no Board member has been forbidden by a court over the past five years to act as a member of a body dedicated to the administration, management and surveillance of a company, or to be involved in the management or running of such a company's affairs
- no conflict of interests exists between the Board members' private interests and their duties to Thales.

#### In addition to its legal obligations, Thales has adopted the following two policies to strengthen its governance:

- participation of non-voting statutory auditors at Board meetings
- the presence on the Board of a director representing the employee shareholders.

Thales concedes that there is room for improvement concerning the number of independent Board members, while recognising that this issue is directly related to the Group's capital structure and the agreement between the two major shareholders (the Public Sector and the Industrial Partner).

### BOARD OF DIRECTORS

as of 19 May 2009

#### Nominated by the Public Sector:

- **Luc Vigneron**, Chairman & Chief Executive Officer of Thales
- **Bruno Bézard**, Managing Director of the French government shareholding agency (APE)
- **Didier Lombard**, Chairman & Chief Executive Officer of France Telecom
- **Bruno Parent**, Inspecteur Général des Finances, former Director of Competition Policy, Consumer Affairs and Fraud Control at the Ministry of the Economy, Industry and Employment
- **TSA**, represented by Bernard Rétat, Chairman of the Defence Commission of the ASD (AeroSpace and Defence Industries Association of Europe)

#### Nominated by the Industrial Partner:

- **Charles Edelstenne**, Chairman & Chief Executive Officer of Dassault Aviation
- **Loïc Segalen**, Executive Vice-President, Economic and Financial Affairs of Dassault Aviation
- **Amaury de Sèze**, Chairman of the Board of Carrefour
- **Éric Trappier**, Executive Vice-President, International of Dassault Aviation

#### Outside Personality:

- **Yannick d'Escatha**, President of the French space agency (CNES)
- **Roger Freeman**, Consultant and Chairman of the Advisory Panel of PriceWaterhouseCoopers, London UK
- **Stève Gentili**, Chairman of the board of BRED Banque Populaire
- **Pierre Mutz**, Former préfet of the Ile de France region

#### Representatives of employees and employee shareholders:

- **Marie-Paule Delpierre**, representative elected by employees
- **Dominique Floch**, representative elected by employees
- **Philippe Lépinay**, representative elected by employee shareholders

- encourage risk mapping to help reduce the company's exposure
- review audit reports and draw the relevant operational conclusions.

The Risk and Internal Control Committee monitors the compliance programme, company law and delegations of responsibility, self-evaluation of internal control and risk-mapping.

Thales has identified a number of risks that can significantly affect its activities, financial position or results. Some of these risks are external in nature (e.g. developments in financial markets and the political environment) while others are internal (e.g. programme management, legal compliance).

Details of the key financial, legal, and activity risks that Thales is exposed to, and of the policies in place to mitigate those risks, are available in the 2008 Annual Report. Below is a summary of those risks:

### → Financial risks

#### Liquidity risk

Thales's liquidity risk corresponds to its level of exposure to changes in the main market indicators that could lead to an increase in the cost of credit or even temporarily limit access to external sources of financing. These risks are mitigated by Thales's short and long-term financial resources: stakeholders' equity, gross debt, and undrawn confirmed credit facilities granted by banks as backup for the commercial paper programme and representing, as such, a financing reserve.

#### Interest rate risk

The Group is exposed to the volatility of interest rates through the evolution of its variable rate funding. To limit the risk, Thales operates an active policy of interest rate hedging, particularly through swaps, and optimise its funding and banking transactions by consolidating and pooling all units' cash surpluses and requirements.

### MANAGING RISKS AND STRENGTHENING INTERNAL MEASURES

Thales strives to continually improve and optimise its risk management and internal control procedures. The Executive team, which is responsible for the entire chain of internal control, is assisted in these tasks by the Risk and Internal Control Committee, whose role is to:

- facilitate the deployment of internal control across the organisation



### **Foreign exchange risk**

With operations around the world, Thales is inevitably affected by the evolution of foreign exchange rates. Nevertheless, the Group's exposure is relatively limited as nearly half of its revenues are made in the euro zone and its international presence allows it to manufacture and bill in local currencies.

### **Off-balance sheet risk**

Some current, former and retired Thales employees, mainly in the United Kingdom and the Netherlands, benefit from defined-benefit pension schemes which are externally funded by the company under the provisions of the corresponding national legislation. New employees in the UK no longer have access to these pension plans. However, the plan assets that cover the pension schemes currently have an unfunded status of 320 million euros. The Group has introduced quarterly reporting on its pension plan positions and makes regular deterministic and stochastic projections measuring the sensitivity of the unfunded status to possible changes in market parameters and incorporating correlation factors.

## **→ Legal risks**

### **Risk of non-compliance in the management of commercial activities**

Non-abiding with laws and regulations (i.e. OECD conventions, national laws) governing business practices can expose Thales to litigation and reputational damage. Thales has set up a specific internal organisation, developed and published its own internal processes, and allows independent agencies to conduct internal audits.

### **Export control risk**

A significant part of Thales's activities involves the export of defence or dual-use products and integrated systems. Thales is

under the strict obligation of complying with export control laws and therefore must possess required authorisation or allow controls before exporting many of its products and systems. Non-compliance can expose the Group to large fines, sales restrictions or bans. Thales has implemented formal procedures and systems to ensure compliance with applicable controls, and continually reinforces its employee awareness programmes. Operational units work in conjunction with a network of Export Control Officers who provide assistance on compliance and to secure the required authorisations.

### **Competition (antitrust) risk**

Thales's activities are subject to national and international competition (antitrust) laws, which if not abided by, can expose the Group to large fines, sales and legal restrictions, in addition to reputational damage. Thales has initiated awareness programmes to ensure that its employees are informed about these rules.

### **Intellectual property risk**

Thales is exposed to two specific risks: the dependence on third party-owned technologies, and third party actions against Thales by for alleged infringement of their intellectual property rights.

With a portfolio of 14,000 patents, Thales undertakes a large part of its R&D and controls critical technologies required for its activities. Nevertheless, the Group has set up, and continually updates, a formal policy framing the mastering of technologies and critical provisioning to decrease the risk of dependence on third-party technologies.

## **→ Risks linked to Thales's activities**

### **Programme management risk**

Answering to client requirements, Thales develops highly complex, state-of-the-art products and systems that require high reliability in harsh environments. As a result, the actual cost of design, development and manufacture may therefore exceed original cost estimates and adversely impact the Group's financial results and position. To minimize the risk, Thales has implemented a risk management approach covering the period from bid stage to full implementation of the project. In an effort to further improve its operations, the Group launched, in 2008, a three-year plan called "Optimum 2011" to improve its programme management, engineering, and supply chain.

## Political risks

Government entities, mainly those in charge of Defence, Interior, or Transport, make up a significant portion of Thales's worldwide client base. For that reason, the Group's profitability and financial situation can be negatively affected by political instabilities or the deterioration of relations between nations which could cause governments to modify or cancel contracts or restrict the movement of capital. Where appropriate, the company hedges these risks with government and private-sector insurers.

## Risk of depending on government spending

Thales conducts most of its business with government customers, particularly in its defence markets and in France and the United Kingdom. In these markets, public spending is dependent on political and economic factors. A significant medium-term reduction in French or UK defence budgets, however, particularly as part of a more restrictive budgetary policy, could adversely affect the company's future business and revenues.

## Export control risk

As an exporter of mostly defence or dual-use products and systems, Thales is subject to export control laws. The Group is exposed to the risks of changes of export control laws by countries, of heavier regulations or geopolitical factors which can make it impossible to obtain export authorisations. Reduced access to defence markets could negatively affect the Group's financial position and activities.

## Supplier default risk

By moving up the value chain, Thales's purchasing share of services or equipments has increased. This exposes Thales to the risk of supplier default, which can negatively impact the Group's profitability and financial position. To mitigate this risk, Thales has implemented a two-fold policy based on the control of the supply chain and individual monitoring of suppliers.

## Strategic investment risks

Thales regularly acquires new businesses to round out its portfolio of technology and to strengthen its presence in certain markets. Integrating these businesses within Thales may prove more difficult than expected and therefore require a more significant involvement of senior management and the teams concerned and, in turn, negatively affect the Group's results and financial position.

## SUSTAINING CAPACITY FOR RESEARCH AND DEVELOPMENT

Thales's competitiveness and growth is heavily dependent on its long-term capacity for research and development (R&D). In order to successfully position itself as a leader in the aerospace & space, defence and security markets, the Group must master increasingly sophisticated technologies incorporated within



1 Investing heavily in R&D.

2 Improving internal organisation and processes.

3 Opening up research programmes to external scientists and engineers.

large software-driven electronic systems. As a company with a **history and culture spanning over 100 years**, one of Thales's key challenges in terms of innovation is to transform its culture from an "inventing for the sake of inventing" mindset to a more customer-centric approach in which innovation is driven by customer demand and the need to anticipate future needs.

To tackle these challenges, **Thales has placed innovation at the centre of its corporate strategy** for a number of years. The company's innovation strategy consists of investing heavily in R&D, improving internal organisation and processes, and opening up research programmes to scientists and engineers from academia, outside laboratories and partner companies. Illustrating its commitment to research and innovation,





€2.4

billion

**2008 R&D investment**

22,500

**Engineers and technical staff**

Thales currently employs over 22,500 highly-skilled professionals in research and technology alone, and allocated 19% of its revenues to R&D in 2008. The Group firmly believes that a high technology company not only needs to hire top researchers but also needs open access to an international network of outside scientists and engineers capable of understanding and evaluating the findings of the world's best research centres.

Thales's approach to securing its future capacity for R&D is to strengthen **its presence in transnational industrial and scientific ecosystems and to develop long-term partnerships with the actors in these communities**. Thales has established durable and mutually beneficial partnerships with leading universities, public research laboratories, other high-tech companies, and innovative small and medium-sized enterprises in its countries of operation. In 2006, Thales opened its own research programmes to outside scientists and engineers, launching an international network of corporate research laboratories. These **Thales Research & Technology (TRT)** research centres are located on university campuses near the Group's research partners. TRT laboratories host more than 500 researchers, 80 PhD students and around 100 scientists from partner organisations. Already established in France, the United Kingdom, the Netherlands and Singapore, the laboratories develop disruptive technologies, attract talented science graduates, create intellectual property for Thales, and forge links with leading scientific bodies. To better align inventions with current and

future customer needs, TRT scientists and engineers spend 80% of their time responding to requirements emanating from Thales divisions. Thales strongly supports experimentation and a bottom-up approach to innovation, and expects researchers to spend the remaining 20% of their time trying out new ideas that can ultimately lead to breakthrough or disruptive technologies.

## INCREASING CUSTOMER SATISFACTION

Thales values its relationship with its customers and is committed to improving their satisfaction. The company's long-term value proposition lies in its ability to provide customers with solutions that meet their current and future needs. Thales's customers require systems and products that meet stringent specifications in terms of performance, security and on-time delivery and are supported by high-quality services. As part of a long-term approach to continuous improvement, Thales has deployed organisations, processes, and employee training to support **the Group's ambition to reliably meet customer requirements, enhance customer care and offer improved service**. Through its international presence, the company has the opportunity to partner locally with its customers and to build the strong relationships needed to effectively anticipate future customer needs.

**A four-step customer feedback loop** has been set up to measure customer satisfaction, based on the following methodology:

1. Capturing customer feedback
2. Analysing that feedback
3. Developing a corrective action plan
4. Formally presenting remedial actions to each customer

Supported by all levels of management this policy allows Thales to measure customer satisfaction against a set of key performance indicators (KPIs) and to systematically introduce substantive measures to improve it. To ensure the success of the customer feedback loop, Thales is focusing on leadership, training and awareness to instil a **customer-centric culture** at all levels of the organisation. The customer feedback policy entails a dialogue based on transparency and trust between Thales and its customers,

the ability for Thales managers to accept and resolve problems, and a commitment to inform customers of the measures taken to better satisfy their needs.

### ENHANCING SUPPLIER RELATIONS

Thales seeks to establish long-term relationships, based on mutual respect and trust, with its suppliers. Over recent years, the Group has moved up the value chain and is now a major provider of integrated solutions comprised of subassemblies, subsystems, or complete systems, many of which are purchased from outside suppliers. With this new positioning, suppliers are **active contributors to Thales's added value and customer satisfaction**.

In 2008, the annual procurement costs for the Group amounted to nearly €6 billion, the equivalent of close to half of total revenues.

Thales has implemented a **worldwide purchasing policy** to select high-performing and innovative suppliers capable of developing competitive products and services to help the company:

- provide competitive and technically innovative solutions
- meet deadlines and comply with specifications for goods and services
- guarantee the reliability of products and components by continuously improving performance and optimising total costs
- comply with export control rules and with national and international regulations on environmental protection, business practices and labour standards.

Thales has introduced **clear procedures** to select suppliers in a fair, transparent and respectful manner, and to guarantee equal opportunities for all national and international suppliers and subcontractors. In 2007, Thales launched its **Supplier On Line web portal**, which gives suppliers ready access to information such as the Group's purchasing policy and supplier selection process, as well as technical data and details of requests for proposals. Guidelines on responsible and ethical practices with respect to suppliers are laid out in the Thales Code of Ethics, which is distributed to company employees worldwide.

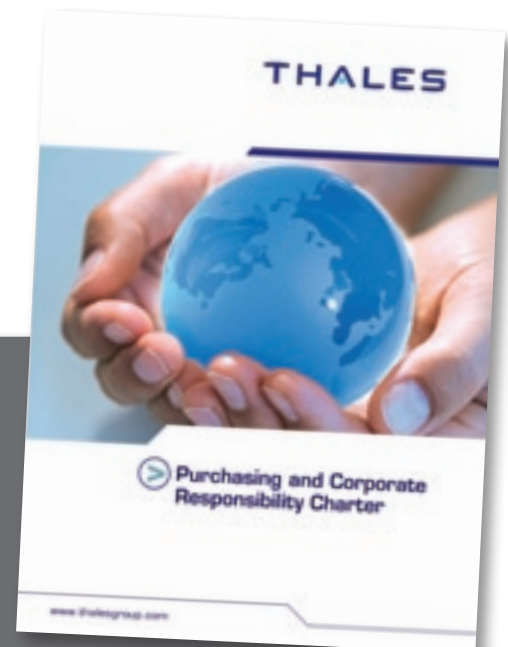
Thales strictly complies with national and international laws and expects its suppliers and subcontracts to follow the same principles.

## PURCHASING AND CORPORATE RESPONSIBILITY CHARTER

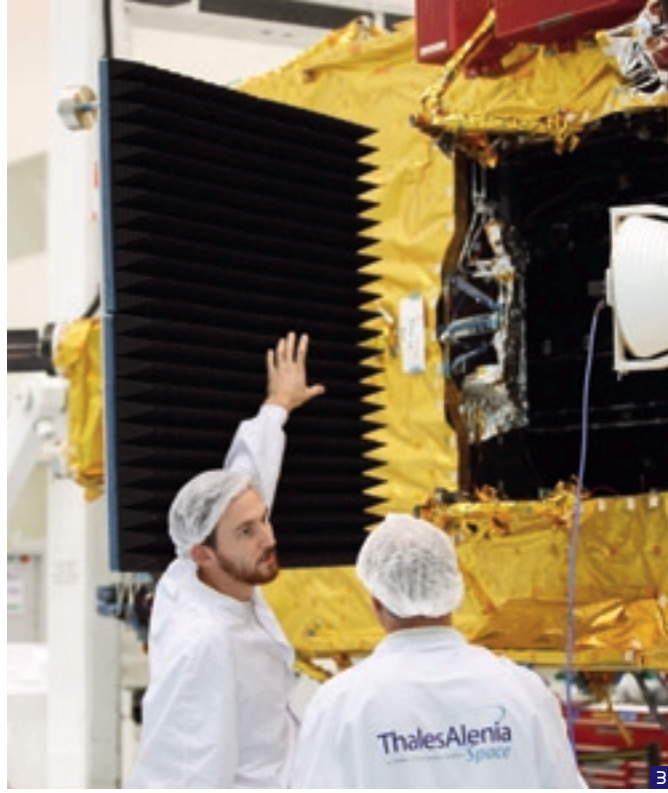
In 2008, Thales began sending out an Assessment Questionnaire, along with the Charter, to help suppliers benchmark their internal policies and processes against the requirements listed in the Charter.

A total of 120 target suppliers have already completed the questionnaire. Thales expects its suppliers to continuously enhance the measures and processes in place to meet the Charter requirements on an ongoing basis.

Thales's goal by 2011 is to deploy its Charter to 3,000 suppliers, which represent around 80% of the Group's purchasing volume.







- 1 Customer satisfaction: a continuous improvement approach.
- 2 Suppliers: long-term relationships based on mutual respect and trust.
- 3 Suppliers are active contributors to Thales's added value.

€5.9

billion

**External purchase volumes**

Moreover, as part of its commitment to extend its ethics and corporate responsibility policy to its suppliers, **Thales requires its suppliers to sign the Group's Purchasing and Corporate Responsibility Charter**. An integral part of the supply contract, the Charter refers to the principles of the United Nations Global Compact and stipulates that suppliers should respect the outlined principles on **human rights, labour standards, the environment, corporate governance, business ethics and export control**.

**The UN Global Compact has recognised Thales's efforts to extend its corruption prevention policy to its suppliers, specifically mentioning the Group's policy in the 2008 United Nations Global Compact Annual Review.**

Over

14,000

**suppliers**

(4,000 represent 95% of external purchase volumes)

**Sourcing footprint:**

- 80% in Europe
- 10% in North America
- 5% in Australia
- 4% in Asia
- 1% in the rest of the world

## \_CHALLENGE #2

# HOW CAN THALES EXPORT WORLDWIDE WITH INTEGRITY?



→ Mark Pleth  
Chairman  
OECD Working Group on Bribery  
in International Business Transactions

“ How can business hope to remain both competitive and honest in an uncertain environment? The answer, it seems, is to be found in cooperative initiatives on the micro-level.

Major players in specific sectors or regions may simply decide to stop paying. Or, they may work with governments and specialized organisations, like the World Customs Organization, to ‘officialise’ payments as levies or taxes, which then can be used to pay essential salaries.

Finally, businesses may demonstrate their commitment to resisting extortion through initiatives like the World Economic Forum Partnering against Corruption Initiative or the United Nations Global Compact. ”



# \_CHALLENGE #2

**D**omestic and cross-border corruption is a **key issue** in international business and a major risk for multinational companies, in particular for those involved in public procurement contracts. According to Transparency International, an international non-governmental organisation engaged in the fight against corruption worldwide, corruption in business deals and transactions is still widespread among exporting companies. Requests for solicitation, extortion or bribery on the demand side are still widespread in countries with weak governance. Over recent years, a growing number of companies engaged in export and international trade have begun to address international corruption, and a large number of nations have signed and ratified the United Nations Convention against Corruption (UNCAC) and the OECD Anti-Bribery Convention, making international corruption a punishable criminal act in several countries. Today, non-compliance with international and national anti-corruption laws and regulations can expose a company and its officers to criminal and civil sanctions as well as cause reputational damage to the company.

## COMPLYING WITH BOTH SOFT AND HARD LAWS

With a customer base comprising both governments and businesses worldwide, **Thales places a premium on the prevention of corruption and bribery in domestic and international business deals and transactions.** With the Group's revenue streams and long-term financial success dependent upon large-scale and often multi-year industrial projects, lasting customer relationships based on integrity and the rule of law are crucial for Thales's reputation and financial stability. The company is fully aware of the increasingly stringent regulatory environment governing international business, and of the growing number of investigations, prosecutions and sanctions. As a result, **Thales is engaged in a process of continuously improvement of its internal organisation and processes, and in the ongoing education of the Group's employees on ethics and compliance with anti-corruption laws.**

In addition to the hard laws enacted by countries, multinational corporations must

also take into account "soft" laws when conducting international business. Over recent years, NGOs have become increasingly influential in the fight against corruption and regularly release recommendations and best practices to help companies combat bribery, or publicly denounce companies suspected of corruption. In addition to NGOs, intergovernmental organisations, such as the United Nations through the UN Global Compact, and industry associations are actively engaged in defining best practices and soft laws. Although soft laws are not legally binding, NGOs have gained influence in international regulation over the years and are now considered fully-fledged players in an evolving system of global governance. Other key players include the media, rating agencies, investment banks and competitors, who closely monitor companies' business practices and performance. These stakeholders may not have the authority to pass laws but they certainly have the power to boost or damage a company's reputation. A company's image is one of its most precious assets: a negative press campaign stemming from allegations of corruption can cause greater long-term harm to a company than prosecution and financial penalties. Even the suspicion of corrupt practices can erode the confidence of investors, banks, customers, suppliers and employees, and undermine the company's success. Thales works with some of the world's leading NGOs to incorporate best practices into Thales's worldwide policies.

## STRENGTHENING ORGANISATIONS AND INTERNAL PROCEDURES

As a multinational company, **Thales is exposed to the risk of corruption and has therefore developed a strong and global commercial strategy to help preventing this risk.**

**Thales has established specific procedures and guidelines to support its corruption prevention policy throughout the company.** The Ethics and Corporate Responsibility Committee, comprising Executive team members and senior executives, issues internal codes of conduct, guidelines and directives for the entire Group. The Ethics and Corporate Responsibility Committee monitors developments in ethical standards. It is advised by the Ethics and Corporate Responsibility department, which works with organisations such as the United Nations and Transparency International to stay abreast of the continuously evolving framework of soft and hard laws.

In order to develop its international business, the Group not only primarily employs its extensive country industrial presence, but also calls on local partnerships with major industrial concerns with recognised domestic or regional footprints.

Nevertheless, in some cases when the Company does not have the necessary infrastructure or capabilities, the Group may seek the expertise of External Service Providers (ESPs), as consultants or commercial intermediaries,



NOTE: THE COLOR CODES USED IN THESE PAGES HIGHLIGHT THALES'S ACTIONS IN SUPPORT OF THE UN GLOBAL COMPACT'S TEN PRINCIPLES. (SEE PAGE 6).

Thales has specifically designated entities, such as Thales International, as the only organisation recognised as having the expertise to manage ESPs. These organisations have been given the necessary resources and skills, and are empowered to manage all procedures related to them.

**The Group's policy prohibits operating units from independently and directly entering into a contractual relationship with any agent or ESP for the purposes of a commercial transaction, except in certain strictly defined and pre-agreed cases.**

As an ESP can be in direct contact with the customer, Thales applies a stringent selection process. Individuals or companies must submit a detailed application, copies of company registrations and all other official documents, including the most recent annual reports all these data being checked by a relevant third party. A written undertaking to comply with international trade legislation is also requested. **The Best Practice Handbook details Thales's policy for selecting, evaluating, assessing, monitoring and paying ESPs.** Any identified risk factor must be referred to top management for further scrutiny and decision. Certain risk factors, known as show stoppers, automatically terminate the application process. Thales strictly forbids payments to companies located in tax havens. **The Best Practice Handbook is approved by the Executive team and submitted to the Board's Audit Committee. The handbook is continuously reviewed and improved to enhance procedures and internal control mechanisms.**

In addition and to ensure strict compliance with national and international anticorruption legislation, the Group and its subsidiaries are audited once a year by statutory auditors and the following year by the Group's Internal Audit. The auditors write a formal report on their findings. Action plans are put in place to address any issue that may rise from the findings.

### PARTNERING WITH INTERNATIONAL ORGANISATIONS AND INDUSTRY TRADE GROUPS

**Thales actively participates in task forces and working groups with NGOs, intergovernmental organisations and industry trade groups to stay abreast of the current situation, anticipate developments and contribute to the industry-wide fight against corruption.** This involvement gives Thales the opportunity to spot impending changes in soft laws and plan for new internal measures and processes in a timely fashion. As declarations, resolutions, codes of practice and principles could ultimately become binding laws, anticipating changes in standards and legislation is an integral part of Thales's effort to maintain a robust corruption prevention policy. In 2003, **Thales signed the United Nations Global Compact and adopted the initiative's 10 basic principles relating to human rights, labour standards, environmental protection and the fight**

**against corruption.** The 10 principles are based on the same values as the Universal Declaration of Human Rights, the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development and the United Nations Convention Against Corruption (UNCAC). Close to 5,000 companies around the globe have now signed up to the Global Compact, the world's largest voluntary corporate responsibility initiative. As part of its commitment to the Global Compact, Thales voluntarily reports, each year, on its progress in incorporating the principles by detailing practical actions undertaken and releasing performance indicators.

In its 2008 annual review, **the UN Global Compact recognised Thales's efforts to extend its corruption prevention policy to its suppliers.**

**Thales is actively contributing to the development of industry-wide best practices and codes of conduct to help strengthen existing international and national governance systems.** As well as enhancing its own corruption prevention policy, the Group is engaged in a broader effort to establish best practices for the entire industry. Corruption in international business distorts the market, creates unfair competition, and can prompt a customer to select inferior quality products in exchange for expensive gifts, favours or money. The NGO Transparency International is one of the organisations that has helped bring international business corruption near the top of the list of the world's most pressing issues. As part of its commitment to continuous improvement in its business management, Thales has been part of Transparency International's Preventing Corruption in Official Arms Trade programme as a member of the steering committee. Thales also plays a proactive role in other initiatives at the national, regional and international levels. As a founding member of the Ethics & Anti-Corruption Task Force within the AeroSpace and Defence Industries Association of Europe (ASD), set up in 2006, **Thales has been committed to the development of a set of Common Industry Standards (C.I.S) on corruption**

**prevention for ASD members.** The Common Industry Standards for the European aerospace and defence industry were approved by the Council in 2007 and have been signed by the ASD's 30 member trade associations and is being signed by an increasing number of member companies.

## STRENGTHENING TRAINING & AWARENESS PROGRAMMES

Recognising that guidelines, processes and organisations are difficult to implement without employee support and awareness of the Group's corruption prevention policy, Thales continues to take decisive action to embed the prevention of corruption within the Group's corporate culture. As part of a continuous information campaign, **Thales maintains an intranet site dedicated to ethics and corporate responsibility. A global network of Ethics Officers and Compliance Officers is available to employees seeking compliance advice, and the Thales Code of Ethics is systematically issued to new employees.** In-depth training, including classroom training sessions, e-learning courses, and detailed guides and handbooks, are available to all employees wishing to improve their knowledge of the Group's anti-corruption measures.

Thales publishes the following reference guides for all employees:

- **Behaviour Guide: Ethics in International Trade**, describing Thales policy regarding gifts and gratuities to help employees detect and prevent corruptive behaviours
- **Reference Guide: Business Ethics - Prevention of Corruption**, an in-depth description of Thales policy and the international legal framework

The Best Practice Handbook, aimed specifically at Business Trade Company staff, details Thales's policy on selecting, monitoring and paying External Service Providers.

Thales University, which trains Thales employees and develops their leadership, business and technical skills, provides a

## PARTNERSHIPS AND INITIATIVES

**Thales participates in the work of many institutions, including:**

- The European Commission
- OECD, particularly through the organisation's Business and Industry Advisory Committee (BIAC) on issues relating to public procurement and the implementation of the 1997 Convention
- The International Chamber of Commerce (ICC) through the organisation's committees on Anti-Corruption (e.g. RESIST - Resisting Extortion and Solicitation in International Transactions, working group on Intermediaries) and Business in Society
- The French-based Study Center for Corporate Social Responsibility (ORSE) and the Institute of Business Ethics
- The International Committee of the French Employers' Organisation (MEDEF)

**Thales chairs** the working group on Ethics and Corporate Responsibility of the Association of French Aeronautical and Space Industries (GIFAS) and the Ethics & Anti-Corruption Task Force within the Aerospace and Defence Industries Association of Europe (ASD).

In **the United States**, Thales was the first non-US company to sign the Defense Industry Initiative (DII) in 2002. In **the United Kingdom**, Thales's subsidiary was one of the very first members to join the Defence Industry Anti-Corruption Forum, created by the leading defence companies and industry associations.

Lastly, Thales has regular contact with **NGOs** and other bodies including Transparency International, Amnesty International and Saferworld

four-hour face-to-face course on ethics. The course is compulsory for all employees working in sales and marketing and is highly recommended for all other employees.

**Between 2000 and 2001, over 2,000 employees received training in business ethics, and over 3,000 employees are expected to receive training between 2008 and 2011.**

**In 2008, Thales launched three e-learning courses aimed at all employees in France.**



## \_CHALLENGE #3

# HOW CAN THALES CONTROL SENSITIVE TECHNOLOGIES IN A GLOBAL MARKET?



→ Ambassador Sune Danielsson  
Head of Secretariat  
Wassenaar Arrangement\* on export  
controls for conventional arms and dual-use  
goods and technologies

“ Our focus today on the globalised marketplace of the 21st century commits us to consider the ever-growing complexity of operating in a world where rapid industrialisation and expanding networks of international commercial interactions are the norm.

The challenges associated with implementing national controls on sensitive exports seem to become ever more daunting. [...] Advancing technology, intensifying commercial pressures, and evolving national priorities are important elements of the environment. ”

\* Established in 1995 in the Dutch city of Wassenaar, the 'Wassenaar Arrangement' is a multilateral agreement on export control for conventional arms and dual-use goods and technologies, which brings together 40 major exporting countries.

# \_CHALLENGE #3

**D**efence is Thales's historical core business and half of the company's revenues are generated in defence markets. With its combined expertise in mission-critical information systems, command, control and communication systems, weapon systems and force protection solutions, Thales is one of the world leaders in defence systems. Thales strives to make the world a safer place by providing **a comprehensive range of integrated solutions to meet three sets of objectives: make reliable and secure, monitor and control, protect and defend**. As the European leader in high-tech products and systems tailored to the requirements of air, land, naval and joint forces, Thales is currently the largest defence contractor in France and the Netherlands, and the second-largest in the United Kingdom.

## OPERATING IN A TIGHTLY REGULATED BUSINESS ENVIRONMENT

**Thales manufactures defence and civil products and systems in democratic countries with strong governance and strict control over the manufacturing processes and technologies.**

As signatories of international laws and conventions regulating the production, sale, export, re-export and import of defence or dual-use technologies, **these countries enforce strict anti-corruption and export control laws on all companies with defence activities.**

Defence activities are among the most heavily regulated businesses in many countries, and non-compliance with the different laws can expose Thales to heavy fines, imprisonment of company officials, denial of future export privileges, and reputational damage. Accordingly, Thales strictly adheres to all rules and regulations aimed to protect national security, trade and foreign policy interests.

**The Group does not produce or sell products that are forbidden under national or international laws, and does not export to countries under UN, European and national embargos.**

**In line with its proactive approach in anticipating impending laws and standards, Thales stopped manufacturing and selling cluster munitions in 2004, well before these activities became illegal with the adoption by several countries of the Oslo Convention on Cluster Munitions in 2008.**

Thales's product catalogue mainly comprises electronic systems for both military and civil applications. Two categories of products are strictly regulated under export control laws:

- Components, equipment and technologies that are specifically developed for military purposes.
- Civil components, equipment and technologies that can be used or diverted for military purposes (dual-use items).

**The export of defence and dual-use items are subject to prior authorisation from the highest government authority of the country in which they are currently located or the countries of origin.** In today's fast-paced and highly competitive global market, any delay or failure in getting the required export licence can have a negative impact on Thales's revenues.

## STRENGTHENING INTERNAL MEASURES AND PROCEDURES

In an increasingly regulated world marketplace, strict compliance with export control regimes is critical to Thales's continued success and the preservation of the Group's corporate assets. **To ensure compliance with the various national and international export control laws and regulations,**

**Thales has, several years ago, put in place a robust worldwide export control organisation and continuously strengthens its internal measures and processes to successfully adapt to the major changes in its business environment:**

- the increasing diversity and complexity of the company's operations within its core business areas.
- the increase in transfers of technology between countries of operation resulting from the company's international strategy.

Due to its sensitive nature, export control policy is defined and managed at the corporate level and then deployed in all Thales units worldwide.



The Corporate Export Control department, headed by the Group Export Control Director, defines the company's worldwide export control policy, oversees the implementation of the Group's export compliance improvement programme, monitors compliance by operating units with applicable domestic and international legislation, determines process improvements and provides expertise to all units as required.

The Group Export Compliance Committee, comprising senior export control practitioners from all Divisions and from thirteen countries, as well as other senior corporate stakeholders, meets every quarter to review progress against the Group's compliance improvement programme, approve proposals for further improvements, share best practice and address issues of common concern. Successful implementation of this policy in an organisation with such an extensive portfolio of products requires **a multi-level approach and regular auditing** by the corporate internal audit organisation and, when required, by external specialists.

In addition to the corporate department, the Thales divisions maintain their own operational body to ensure that the units in their division are in full compliance with both national and international laws.

Also, each country where the Group has operations, maintains a dedicated Export Control department to provide national expertise at the local level. These departments work closely with the corporate department to ensure coherent implementation of Group policy and procedures.

### CONTRIBUTING TO THE PROTECTION OF DEMOCRATIC NATIONS

**All over the world, Thales's defence systems contribute to the protection of democratic nations and their citizens.**

The new millennium has brought new security challenges and threats, including terrorism, the proliferation of weapons of mass destruction, failed states and asymmetric conflicts. To meet national governments' new defence requirements, Thales has developed a full range of solutions, from early warning to neutralisation, to help them counter new threats as they emerge. As a global company,

**Thales has an extensive industrial and commercial presence in democratic nations with strong governance.**

This local presence allows the company to build solid relationships with national governments and to anticipate their defence needs while fully addressing national security and sovereignty concerns.



1



2



3

**1** Liberty, the first software-defined radio for US Security forces.

**2** FREMM multimission frigate.

**3** Thales provides a communication system to the Nato forces in Afghanistan.

**4** SCCOA air command and control system.

**5** SICF command information system for land forces.

**6** Watchkeeper.





4



5



6

**Thales is actively involved in the flagship national defence programmes of several countries:**

#### • France

- > Main supplier of onboard electronics for the *Rafale* fighter aircraft and *Mirage* multirole combat aircraft.
- > Prime contractor for many of the large-scale defence programmes of the future: *BOA* cooperative fighting system, *SICF* command information system for land forces, *Syracuse 3* milsatcom system and *SCCOA* air command and control system.
- > Prime contractor for the preliminary study for the future *Socrate NG* network, which will provide the French military with end-to-end telecommunication services for peacetime, crisis and conflict.

#### • United Kingdom

- > Prime contractor on the *Watchkeeper* Tactical Unmanned Air Vehicle (TUAV) system to provide British forces with an intelligence, surveillance, target acquisition and reconnaissance (ISTAR) capability.
- > System of systems integrator on the high-profile *Future Rapid Effects System* (FRES) programme to develop new network-enabled armoured vehicles to support the British Army's enduring peacekeeping and peace enforcement operations as well as major combat missions.
- > Prime contractor for the assessment phase of the *Future Infantry Soldier Technology* (FIST) programme to provide improved situational awareness, lethality and survivability.

#### • The Netherlands

- > Manufacturer of integrated multisensor masts for the four ocean patrol vessels under construction for the Royal Netherlands Navy.
- > Supplier of thirteen *CV9035 NL* infantry fighting vehicle simulators to be interconnected with the *TACTIS* training system, also supplied by Thales.

#### • United States

- > Supplier of interoperable tactical communication systems to all branches of the US military.
- > Through its joint-venture with DRS Technologies, manufacturer of *AN/AQS-22* Airborne Low-Frequency Sonar (ALFS) for the US Navy's *MH-60R* multi-mission helicopters; this dipping sonar will be the *MH-60R*'s primary anti-submarine sensor system.

#### • Australia

- > Australian market leader in simulation, providing simulators for the *F-111C* strike aircraft, *Wedgetail* reconnaissance aircraft and *Australian Light Armoured Vehicle* (ASLAV).
- > Manufacturer of the *Bushmaster* protected mobility vehicle deployed by Australian forces in Iraq and by Australian and Dutch forces in Afghanistan.

#### • Italy

- > Major contributor to Franco-Italian *FREMM* multimission frigates programme.

#### • Spain

- > Supplier of messaging systems, radios and tactical communication networks for joint forces, tactical command information system for the Army, and surveillance radars for anti-aircraft artillery.

Thales is a **key partner of NATO** as the leading supplier of C4ISTAR systems (command, control, communications, computers, intelligence, surveillance, target acquisition and reconnaissance). Thales is also in charge of the most extensive communication infrastructure programme ever implemented by NATO: the strategic network for the International Security Assistance Force (ISAF) in Afghanistan.

## \_CHALLENGE #4

# HOW CAN THALES ANTICIPATE AND PREPARE ITS WORKFORCE FOR TOMORROW'S OPPORTUNITIES AND CHALLENGES?



→ **Fernando Vázquez**  
Deputy Head of Unit  
DG for Employment and Social Affairs  
European Commission

“ Companies are at the centre of the adaptation to change. A key element of any successful strategy of anticipation consists in building a culture and practices of permanent adaptation to change, by creating and pursuing on a permanent basis the instruments that will facilitate smoother adaptation.

This implies, first of all, that the strategic dimension is integrated in corporate management. Secondly, it is crucial that human resources, employment and skills considerations are put at the heart of companies' strategic planning. This should translate in[to] a concrete policy of forward-looking employment and skills planning. It seems also important to underline the role that the companies can play concerning the employability or [adaptability] of their workforce. The development of the workers' competences is crucial for the success of the company and for the capacity of the workers to manage their working life. ”

# \_CHALLENGE #4

**H**uman resources are undoubtedly one of the most valuable assets of a company. As an international company with core competencies in research and engineering, Thales recognises that the recruitment and retention of highly skilled employees is vital to sustain the Group's leadership. **Thales considers talent development and management as a priority** and is engaged in a process of continuous improvement of its global human resources policy. With the increasing global competition for highly skilled employees and the large number of "baby boomers" reaching retirement age, Thales is adapting its human resources policy to secure its continued leadership. Providing a rich, diversified professional experience for each employee in this context of permanent change is thus one of the most important challenges Thales faces today.

## BUILDING A GLOBAL CORPORATE CULTURE

In recent years, Thales has acquired several outside businesses to help build up its portfolio of technologies and to reinforce its presence in certain markets. Thales now has employees on every continent. The cultural diversity of Thales's workforce brings opportunities and benefits that include creativity and innovation as well as more effective marketing to local customers. **To better leverage this diversity, Thales is actively engaged in building a coherent global corporate culture.** To accelerate this process and develop collective intelligence, five key values are promoted to all of the Group's employees worldwide: focusing on customers, developing people, acting as entrepreneurs and innovators, enhancing performance through teamwork, and sharing knowledge.

## DEVELOPING PEOPLE AND ANTICIPATING CHANGE

Developing human resources is one of Thales's five key values. To be an employer of choice, Thales 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 outlining the Group's policy for maintaining employability through professional development.**

Thales is currently extending the Anticipation agreement to its employees in Europe through a **Europe-wide agreement signed in 11 June 2009 (see box).**

Thales's long-term success is directly dependent on its employees' motivation and ability to acquire and enhance the knowledge and skills required to sustain the company's leadership in the aerospace and space, defence and security markets. Thales is taking a proactive approach in ensuring that all its employees maintain or develop the level of qualifications required by the company and



## FIRST EUROPE-WIDE HR AGREEMENT

**Thales and the European Metalworkers' Federation (EMF) have signed on 11 June 2009 an innovative European agreement to improve professional development by anticipating job requirements more effectively.**

The IDEA agreement (Improving professional Development through Effective Anticipation) is the first transnational agreement on human resources management signed by Thales and applies to 56,600 employees in 11 European countries. It is based on existing best practices in the countries concerned on each of the topics involved, which include anticipation, professional development, training, gender equality, diversity and integration of new employees.

To reach the agreement, an innovative framework for constructive negotiation was put in place, bringing together union representatives from the various countries under the aegis of the EMF. The European agreement provides for employee representation in an annual forward-planning process to anticipate changing employment and job requirements. All Thales's European employees will also have access to the professional development tools they need to drive their own careers.

The agreement also includes 25 specific measures that will be introduced over the next three years in the 11 European countries concerned.

Sponsored by Jacques Delors, former president of the European Commission, the IDEA agreement was signed on 11 June 2009 in the presence of Thales Chairman and CEO Luc Vigneron by Yves Barou, SVP Human Resources at Thales, and Bart Samyn, Deputy Secretary General of the EMF.

the broader labour market. Thales strongly believes that professional development is key for the success of each individual and for the development of the Group. The Anticipation agreement sets down Thales's strategy to better bridge existing or potential gaps between employees' skills and aspirations and Thales's needs and expectations.

This approach underscores the Group's commitment to maintaining employee motivation and providing staff members with the opportunity to continuously improve their expertise, creativity and leadership qualities. The overarching objective is to foster a learning environment that enables employees to be more effective in their current and future positions and to develop their full potential. Thales regularly monitors





and analyses qualitative and quantitative trends in the business environment and the labour market to better assess potential changes or impacts on the Group's skill sets.

*This analysis allows Thales to prepare both collective and individual development plans, which include training and mobility. Through annual professional development discussions with their managers, employees can gain insight into the skills and knowledge required as well as career development opportunities in their country of residence or abroad.*

### MANAGING JOB FAMILIES TO SECURE CAREER DEVELOPMENT

Since Thales's global human resources policy is based on the principle that each employee is personally responsible for his or her own professional life, the company attaches a great deal of importance to the expectations of its employees. A clear 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 toolkit including professional development discussions, training discussions with management, career reviews, Thales University training courses and a job marketplace is in place to support the mobility process.*

Managing professional and career development through 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 and quantitative developments in key Thales job families and to prepare collective or individual adaptation plans when necessary.
- In the shorter term, the Group actively supports the professional development and employability 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, supporting managers efforts to develop and improve their contribution to the professional development of their employees.
- The 2006 Anticipation agreement in France, which focuses on job evolution, professional development and training, strongly supports the Thales approach to job family management. The agreement endorses the company's policy of visibility and annual analysis of trends, technological impacts and skills requirements in each job family. It also provides assurances to employees that they will have the opportunity to understand the changes affecting their job family before their annual professional

development discussion, and underscores the company's commitment to providing training in professional development tools and practices.

### PROMOTING EQUALITY AND DIVERSITY

*The Code of Ethics reflects the Group's belief in "equality of treatment, namely the refusal to accept any kind of discrimination on the grounds of ethnic origin, customs, gender, age, political or religious opinions, trade union membership or personal disability".*

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

To take full advantage of synergies based on this diversity, the Group has launched an employee awareness raising and training scheme. New recruits, who are required to participate in the 'Welcome to Thales Convention', are invited to discuss topics like national, cultural and workplace diversity. In this way, new hires are integrated into a **corporate culture** where differences are valued and promoted.

Finally, *Thales is one of the corporations that has helped to drive progress to promote the employment of people with disabilities.*

As early as 1992, a company-level agreement was signed to encourage the employment of disabled individuals. In 2008, Thales continued to support the projects for people with disabilities that it has launched over recent years.

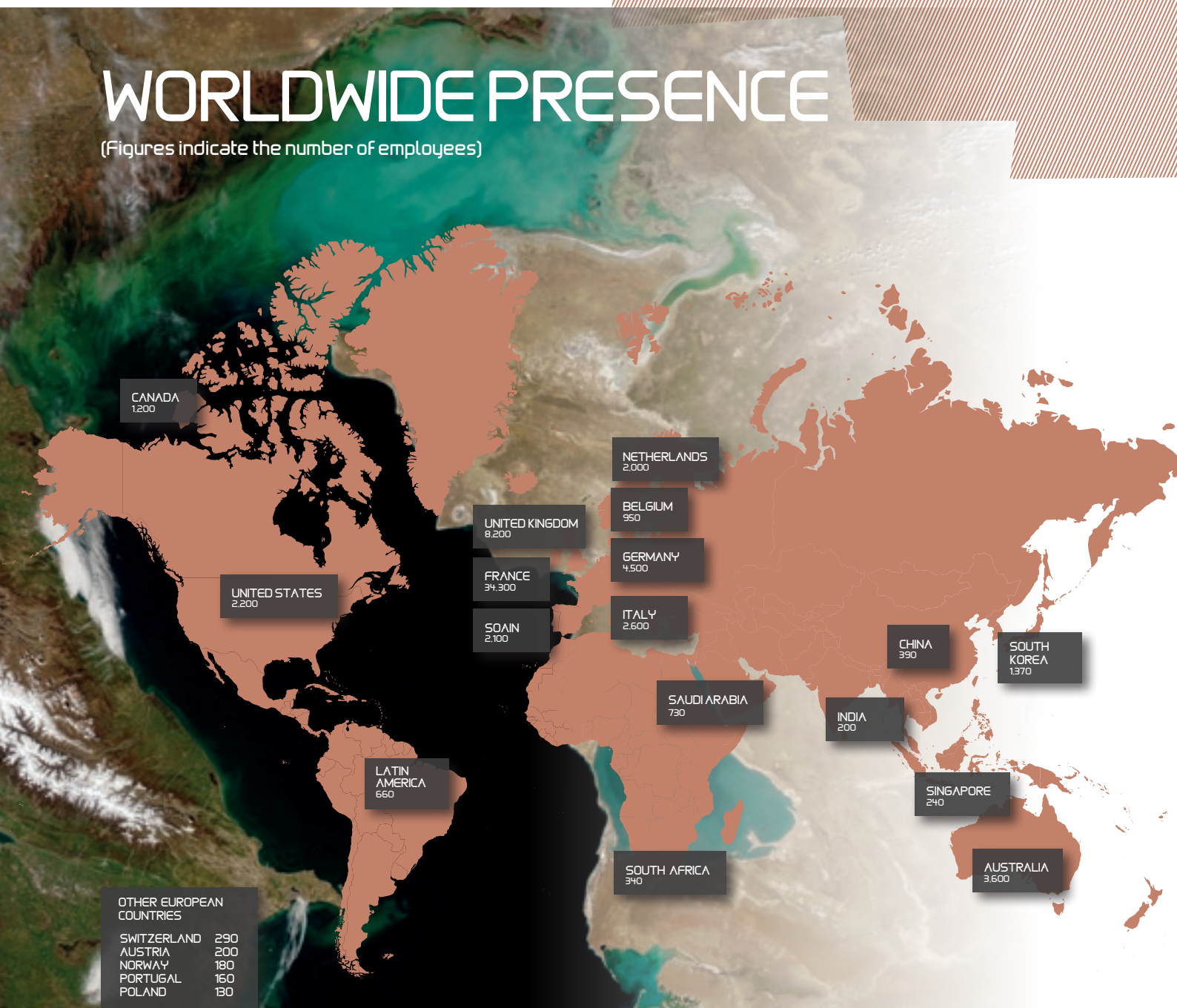
### THALES UNIVERSITY

Thales employees are further empowered by the human resources management system and the training programmes provided by Thales University, the company's transnational training centre.

Thales University has **the dual mission to provide training and help build a common corporate culture**. Thales University currently has campuses in seven countries — Australia,

# WORLDWIDE PRESENCE

(Figures indicate the number of employees)



France, Germany, Italy, Netherlands, the United Kingdom and the United States — and offers a broad range of learning opportunities and integration programmes for employees around the world. The University plays a pivotal role in the induction of newly hired professionals and managers through its two and a half day Welcome Conventions. These sessions, which take place in Europe, Asia, the Americas, Australia and the Middle East, help new recruits understand Thales's businesses, strategy, organisation and values, and most importantly, provides them with the opportunity to network with colleagues from around the world.

To increase knowledge-sharing and intercultural work experience, Thales encourages eligible employees to take up positions outside their home countries. The **Career1st programme** for young professionals with up to five years of professional experience

supports this objective, with a particular focus on Australia, Canada, the United Kingdom, France, Singapore, the Middle East and Latin America. Professional or management-level employees with over five years of work experience may also be eligible for expatriate assignments. In 2008, 660 Thales employees were sent on overseas assignments in Europe, the Middle East, Asia, North America and Australia.

Thales University is at the forefront of the Group's human resources development programmes, designing and providing training courses tailored to the needs of each employee and the Group's major strategic challenges.

## \_CHALLENGE #5

# AS A GLOBAL COMPANY, HOW DOES THALES CONTRIBUTE TO ENVIRONMENTAL PROTECTION AND LOCAL COMMUNITIES?



→ Corporate environmental responsibility according UN Global Compact . May 2009.

“ The world is today facing unique and daunting environmental challenges.

These include climate change; an emerging global crisis in water availability and water pollution; record loss of biodiversity and long-term damage to ecosystems; pollution of the atmosphere; waste production and disposal; impacts of chemicals use and toxic substance disposal; damaged aquatic ecosystems; and deforestation and land degradation. [...]

While more and more companies have embraced environmental sustainability as a management imperative, it is also clear that even more comprehensive strategies and actions will be required if business is to reach its full potential with respect to global and local challenges. ”



# \_CHALLENGE #5

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 Group's core businesses, to support their local communities and to manage their impact on the environment. These activities include donations to charities and organisations as well as active participation in local programmes and events.

## CONTRIBUTING TO ENVIRONMENTAL PROTECTION

Thales has adopted environmental protection as one of its ethical values. Although most of the company's operations do not cause significant levels of pollution or other environmental hazards, the Group has been implementing an environmental protection policy since 1997 to help preserve the natural environment, control environmental health risks and exceed legal requirements.

Today, 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.

A 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.

To support its proactive approach to environmental stewardship, Thales has set up a **dedicated organisation** and an international network of Environmental Officers to promote and implement the Group's policy. A dedicated Environmental Management department operating at corporate level was created in 2003 and is responsible for defining

and implementing the Group-wide policy. The department also manages environmental risks and initiates and coordinates international actions to help the Group meet its environmental targets.

An Environmental Officer in each of Thales's Divisions implements the Group-wide policy, develops strategies to meet the Group's targets, and deploys environmental management systems to mitigate environmental risks linked to each division's activities. In Thales's major countries of operations, an Environmental Officer works closely with local site managers to coordinate local actions, and reports the results to the Environmental Management department.

**The objectives of the Thales environmental policy and action plans are as follows:**

- contribute to climate protection by reducing greenhouse gas emissions
- reduce consumption of energy and natural resources
- limit waste output and promote recycling and re-use
- manage atmospheric emissions and liquid effluent
- ensure workplace health and safety.

## GREEN IT

In its continuous effort to reduce energy consumption, Thales has embraced Green IT\*. Two of the Group's six datacentres have already shown positive results.

### In Elancourt, France:

- New generation inverters have decreased electricity consumption by 10%
- The replacement and optimisation of cooling systems have decreased electricity consumption by an additional 10%
- In-row cooling systems have cut energy spending by 15% to 30%.

### In Doncaster, UK:

- The free-cooling system has slashed the energy bill by 13% and the investment has paid for itself in less than 2 years
- The optimisation of IT resources and the virtualisation of over 2,000 servers has decreased the number of servers by 25% and their usage by 20%.

\* Green IT refers to the good practices implemented to reduce the environmental footprint of IT technology and systems.



NOTE: THE COLOR CODES USED IN THESE PAGES HIGHLIGHT THALES'S ACTIONS IN SUPPORT OF THE UN GLOBAL COMPACT'S TEN PRINCIPLES. (SEE PAGE 6).

Awareness of environmental issues and impacts is key to achieving these objectives.

Thales is engaged in a continuous effort to raise awareness and engage employees, partners, subcontractors and suppliers in the environmental approach.

In 2008, several of Thales's long-term initiatives and actions started to yield positive results:

### > Sustained actions to contribute to the fight against global warming

The rearrangement and renovation of a number of buildings, use of cleaner energy and employees' efforts to reduce energy consumption have led to a 3.8% decrease of energy-related CO<sub>2</sub> emissions from buildings. Changes in employee behaviour and the use of travel options with less carbon emissions helped reduce the carbon footprint per employee by 2% in 2008.

### > Reduction of environmental impacts during production

The increasing usage of cleaner energy has led to a 10% reduction of fossil fuel consumption and, since 2006, the Group has decreased CO<sub>2</sub> emissions from sulphur hexafluoride (SF<sub>6</sub>) by 40%.

### > Environmentally-conscious employees

Increased employee awareness of environmental issues has led to a 4.5% decrease of energy consumption per employee and a 17% decrease of water consumption.

### > Design of greener products

Thales has started to design more environmentally-friendly products and systems.

For instance, Thales has developed and introduced a new motion system, eMk2, for flight simulators. eMk2 delivers 80% savings in power consumption compared to existing full flight simulators.



**Thales is actively involved in developing solutions to help monitor and manage environmental resources. Thales is a leading player in a number of strategic global initiatives including:**

#### **SESAR**

This programme is the operational implementation of an EU directive to improve air traffic management in Europe for 2020 and beyond. The aim is to increase the capacity of the European air traffic system three-fold, halve unit costs, enhance security by a factor of ten and cut unit consumption and associated emissions by 10%. The project will directly reduce the environmental impact of flights in Europe. For example, trajectory management and optimisation (both vertical and horizontal) could reduce in-flight CO<sub>2</sub> emissions by close to 50 million tonnes from 2008 to 2020.

#### **Clean Sky**

Clean Sky is a joint initiative by industry and the European Commission aiming to significantly reduce the air transport sector's environmental impact (targets include a 60% reduction in NO<sub>x</sub>, 40% less CO<sub>2</sub> and a 50% reduction in noise). The programme is in line with the European aerospace industry's commitment to sustainable development. As a founding member of the Clean Sky initiative, Thales is leading an effort to develop the "Systems for Green Operations" Integrated Technology Demonstrator (ITD), which will enable aircraft to achieve greener performance by optimising management of aircraft energy and aircraft mission and trajectory. Thales is also coordinating the "Technology Evaluator", which a simulation tool to help ITD leaders make technology choices and assess the environmental impact of Clean Sky.

**Fossil energy  
consumption\***

**-10%**

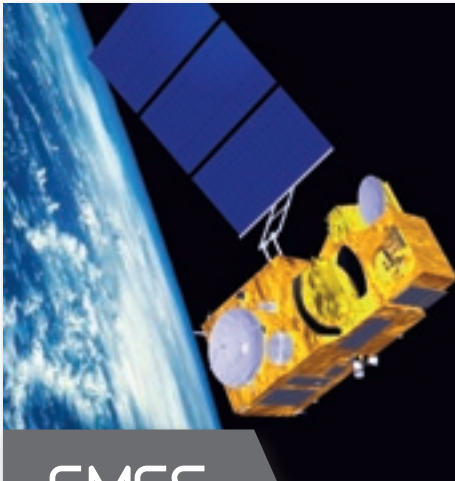
**CO<sub>2</sub> emissions  
from energy use\***

**- 4%**

**CO<sub>2</sub> due to SF<sub>6</sub>\***

**-17%**

\* Between 2007 and 2008



## GMES

For the Global Monitoring for Environment and Security (GMES) programme, Thales is supplying the *Sentinel-3* satellite to monitor ocean currents, coastal pollution, temperature changes, vegetation and marine wildlife.

Other example: the *GM 400* is a multimission air defence radar. Built with a system of building blocks, the time needed for physical and functional integration has been halved, and the radar can be transported in a single insulated container, compared with the four required for earlier-generation systems. Air cooling, digital technology and remote maintenance also reduce energy consumption, and the basic components of the new radar system are made from less-polluting products.

### > Selection of more eco-friendly suppliers

In its request for proposals for office supplies, Thales included environmental factors (e.g. eco-friendly products, products with less packaging, among the criteria for selecting a supplier. As a results of this initiative, the penetration rate of green office supplies now stands at 30%.

As part of its contribution to the global fight against climate change, Thales has been voluntarily reporting its greenhouse gas emissions to the Carbon Disclosure Project each year since 2005, and is continuously improving its processes in an effort to further decrease its carbon footprint.



In new building projects, Thales routinely analyses the design of the building, its integration into the landscape and the choice of site (land use, transport). Technological choices are made with a view to optimising energy use and ensuring efficient management of wastewater, water supply and utilities in general. Periodic assessments ensure that buildings continue to comply with regulations.

**Water consumption\***

**-17%**

**Non-hazardous waste recovered\***

**68%**

**Sites certified ISO 14 001\***

**+13**

from a total of 82 sites



### SUPPORTING CHARITIES AND COMMUNITIES

Thales supports a range of charities and organisations in most of its countries of operation.

For several years, the company has supported **UNICEF** by entrusting the children's relief organisation with the production of Thales's annual greeting cards sent out by employees worldwide. Thales pays for all the costs and donates the equivalent of 55% of the production costs to UNICEF.

In cooperation with the French Ministry of Foreign Affairs, Thales has created **Thales Academia**, a scholarship programme for talented

international students. Each year, top students from India, China, Russia and Brazil are selected to the programme and are given the opportunity to attend France's leading engineering and business graduate schools.

Thales has also supported **4L Trophy**, a French student-led car racing charity event to help collect supplies for schools in Morocco. Through its sponsorship of the team from the INSA Lyon engineering school, Thales has helped to provide education to 500 Moroccan schoolchildren.



### MOBILISATION FOR L'AQUILA

A violent earthquake hit central Italy on 6 April 2009. Its epicenter was near the town of L'Aquila, where is located one of the main facilities of Thales Alenia Space. The management of Thales Alenia Space mobilised immediately to **support employees**. Sadly, one of the company's employees was among those who lost their lives in the disaster.

The L'Aquila facility, one of the region's biggest employers, with 290 employees and close to 70 contract workers, is closed and operations have been transferred to other sites.

On 21 July, Thales Alenia Space presented the industrial project for the **construction of a new 30,000 m<sup>2</sup> plant** in L'Aquila. Construction is expected to begin within the last semester of the year and the plant will be completed in the following 24 to 36 months. For this purpose, the project, 'Joint Research Lab' was designed. It is a programme designed and created in collaboration with the University of L'Aquila to stimulate the development of students' specific skills, to attract the best resources to the territory, and to face future challenges in the space industry.

Thales Alenia Space employees, customers such as Space Systems/Loral (SS/L), and the parent companies, Thales and Finmeccanica, are also in the process of providing **financial support**.

Thales's **Australian** subsidiary recently announced a multi-year partnership with Legacy, a national organisation dedicated to caring for the widows and dependents of Australia's war veterans. The organisation currently looks after 120,000 widows, as well as 1,800 children and disabled dependants across the country. Thales Australia donates both time and monetary resources to the charity.

The Group's employees in the **United States** support a range of social initiatives through monetary donations, community outreach projects, and other charitable activities. America's 9/11 Foundation, American Heart Association, Breast Cancer Awareness, National Fallen Firefighters Foundation, Pediatric Brain Tumor Foundation and the Salvation Army - Christmas Cash for Kids are just some of the organisations that Thales and its employees were proud to have contributed to.

A long-term supporter of Marie Curie Cancer Care, Thales and its employees regularly raise funds for one of the **UK's** largest charities. The charity provides free nursing care to cancer patients and those with other terminal illnesses in their own homes. Employees organise and participate in numerous fund-raising activities such as **Back to the Shop Floor**, sponsored walks and races, gift sales, sweepstakes and raffles.

Through its **Canadian** subsidiary, Thales is a proud sponsor of the Ottawa Senators, an ice hockey team that supports Canadian armed forces, by purchasing game tickets and donating the tickets to armed forces in the Ottawa region.

## FOR FURTHER INFORMATION

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