CORPORATE RESPONSIBILITY REPORT 2006



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INTRODUCTION

This document is the Thales Corporate Responsibility report for 2006.

- The report presents the Group's businesses and key figures and reviews the action taken by Thales in 2006 with respect to the company's corporate responsibility. It reports on substantive measures by the company in the areas of finance, employee relations, employment, and social and environmental protection.
- In accordance with Group's international involvement, supported by its multidomestic strategy, the report provides detailed information of french companies about social and environmental initiatives as well as actions in other countries where Thales has significant operations.

> MESSAGE FROM THE CHAIRMAN



his second edition of the Annual Corporate Responsibility Report confirms Thales's commitment to a rigorous and proactive policy in the area of Corporate Responsibility.

As Thales writes a new chapter in its history, with the incorporation of Alcatel-Lucent's transport, security and space businesses, and the acquisition of an equity interest in DCNS to become that company's industry shareholder and partner, it is important to reiterate this commitment.

The present report shows the determination of Thales corporate management, with the contribution of all employees, to ensure rigorous compliance with the laws in place in all the Group's Countries of operation, and, when the law is vague or incomplete, to deploy an approach of ethical compliance that is appropriate to its areas of business and that revolves around a set of strict standards.

Confidence underpins
the long-term growth and
performance of Thales.

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This system of ethical compliance includes numerous plans and programmes that have been launched by Thales last few years and were pursued throughout 2006. In addition to the company's policy on the ethics of international trade, employment and environmental protection, these plans and programmes include measures to strengthen the organisation's internal control and corporate governance processes.

This commitment to responsibility helps to establish and maintain the confidence of the Group's customers, shareholders, employees and other stakeholders. That trust is crucial to the long-term growth and performance of the entire Thales organisation.

Denis Ranque

Chairman and Chief Executive Officer, Thales

PROFILE

World leader in Mission-critical information systems

- With operations in **50 countries** and **68,000 employees**, Thales is a world leader in Mission-critical information systems for the **Aerospace**, **Defence** and **Security** markets.
- Building on proven capabilities in **large and complex software systems**, Thales steps 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 22,000 high-level researchers.
- 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.

THE NEW THALES



World leader in mission-critical information systems

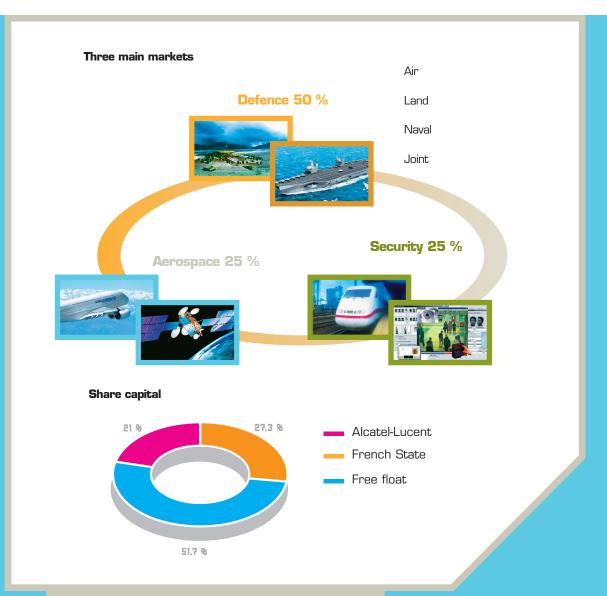
A global player

with **68,000** employees

Revenues of more than

€12 billion

> Operations in **50** countries



AGREEMENTS WITH ALCATEL-LUCENT AND DCNS

Major milestones in the company's development

The agreements signed with these two Thales partners at the end of 2006 and finalised in early 2007 are crucial milestones in Thales's growth strategy.

- > The acquisition of Alcatel-Lucent's rail signalling, security and satellite businesses has strengthened Thales's positions in security markets and its leadership in critical information systems for both military and civil customers.
- > In early 2007, Thales became the industry partner and shareholder in DCNS, with a 25% interest in the company. In return, DCNS acquired Thales's naval businesses in France (excluding naval equipment). The operation strengthens Thales's involvement in the naval industry and reinforces its position in this sector at the European level.

HIGHLIGHTS

CORPORATE GOVERNANCE, ETHICS AND CORPORATE RESPONSIBILITY ORGANISATION

- Network of Compliance Officers launched to consolidate internal risk management organisation – page 13 & 17.
- Internal control system strengthened page 14.
- Network of Ethics Officers launched to support internal ethics organisation – page 20.

A RESPONSIBLE BUSINESS GROWTH

- Proactive export control system deployed page 23.
- Coherent set of directives and dedicated organisation deployed to prevent corruption – page 23.
- Responsible procurement policy defined page 25.

A COMPANY OF CHOICE

Thales signed three innovative employment and employee relation agreements in 2006:

- Development of job profiles for diversified career opportunities.
- New dialogue rules with employee representative bodies.
 - Update social security provisions applying to Thales employees – page 38.

CORPORATE RESPONSIBILITY

THALES

A RESPONSIBLE PLAYER IN ENVIRONMENTAL PROTECTION

- Environmental protection measures incorporated in all Thales management processes and practices – page 62.
- First building designed to the French green building standard (HQE_®) – page 61.
- Pilot study of CO₂ emissions launched in France to measure Thales performance – page 69.

A BROADER VISION OF CORPORATE RESPONSIBILITY

- Technology partnership driving R&D strategy page 50.
- Operation Coup de Pouce
 ("helping hand") helps employees
 launch start-up companies
 or turn around existing businesses

page 53.

- Launch of Thales Academia, a partnership between the Thales Group and the French Ministry of Foreign Affairs to host and support highly-qualified overseas graduate students in France – page 54.
 - Thales joins French standards organisation to define disability awareness requirements for companies – page 57.

ISSUES AND VISION

As an electronics specialist serving defence, aerospace and security markets worldwide, Thales and its business activities are intimately connected with the geopolitical context on a global scale: more than half of the company's 68,000 employees are now based outside France, and international business accounts for three-quarters of its revenues.

Responding to significant changes in the global geopolitical context in recent years, as well as the increasingly international dimension of the company's activities, Thales has deployed a far-reaching operational change programme encompassing the management of its human resources, marketing and sales processes, industrial facilities, and relationships with stakeholders.

New responsibilities

A more complex strategic environment

Throughout its history, Thales has shown its capability of regularly adapting to developments in the strategic environment. At the dawn of the 21st century, the company was one of the first to recognise the major changes taking place in the institutional framework of its sectors of activity, spontaneously introducing a structured Corporate Responsibility programme.

For decades, Thales and the companies it has progressively acquired in the United Kingdom, the Netherlands, Australia and other countries operated within an exclusively national regulatory context under close government supervision. As the company's primary customer, and even shareholder in some cases, the State also influenced strategy, research & development funding, export licensing and other areas.

As a result of the company's multidomestic strategy, Thales's operations now also extend beyond national boundaries. Operating in this broader strategic space brings added complexity in areas such as human resources management and international trade.

Moreover, although Thales now operates within a globalised business, that business continues to depend on sensitive, strategic technologies that are vital to national sovereignty. This structural contradiction brings a range of challenges for transnational companies and supervisory authorities alike, leading to the development of **new management processes** and business models based on innovative concepts of corporate governance.

Better transparency and traceability

This international economic environment is governed by a patchwork of regulations established by international

bodies and the different national legislations, as well as "normative requirements" issued by various players (stakeholders, NGOs, etc.).

In the absence of a global model of governance, the variety and complexity of these different rules and requirements makes the business environment even more incoherent – particularly considering that these "soft law" codes and standards – many of them British or American in origin – sometimes run counter to other countries' legal systems.

In an increasingly globalised business, and a complex legislative and normative environment that features a wide range of specifying bodies, **demand for transparency is growing**, forcing companies to bring a much greater degree of openness and traceability to their business processes.

Ethical management

As pressure on governance practices mounts around the world, public authorities – who possess a monopoly in legislation, or "hard law" – are seeing their sphere of influence gradually reduced as a result of the inability of the law to keep pace with a constantly changing environment. To be precise, the law must operate a stream of update revisions on a regular basis which only serve to make the law obscure. Authorities will therefore increasingly be forced to restrict the law to a series of brief principles.

Industry-wide initiatives

Ethics & Anti-Corruption Task Force within the ASD

In 2006, Thales was involved in the creation of an Ethics and Anti-Corruption Task Force within the Aerospace and Defence Industries Association of Europe (ASD).

This initiative is aimed at developing and fostering anti-corruption practices on a Europe-wide basis by sharing and comparing ASD members' existing policies and procedures. Another of the initiative's key goals is to provide a response to proposals from the United States Aerospace Industry Association (AIA) inviting worldwide industry organisations to contribute to the definition of international standards.

In October 2006, the Task Force began drawing up a set of Common Industry Standards for the prevention of corruption, with the aim, in particular, of defining best practice for the selection and management of commercial consultants and intermediaries.

Defence Industry Anti-Corruption Forum

Leading UK defence companies and industry associations have created the Defence Industry Anti-Corruption Forum to provide an arena for exchanges of experience and expert opinion between members. The forum aims to enhance the policies and reputation of defence companies in the United Kingdom by defining best practice for all players in the sector.

The inaugural meeting of the Forum, held on 18 May 2006, brought together representatives from eleven companies and two industry associations. Thales UK was one of the very first members to join.

Defence Industry Initiative (DII)

In 1986, the major American defence contractors embarked on a proactive industry-wide initiative to establish and promote the principles of ethical business conduct. On the basis of these principles, professional standards have been developed, many of them more stringent than the legal obligations currently in force, and each member company has agreed to implement an established set of best practices.

Through its US subsidiary Thales North America, Thales was the first non-US company to sign the Defense Industry Initiative (in 2002), committing the company to a set of principles of self-governance for players in the US market. During year 2006, Thales North America is actively contributing to the ongoing work of the DII.

Flowing down from this development, companies need to compensate for gaps and inadequacies in the law by defining business practice on the basis of codes, standards and reference systems. The concept of ethical business starts where the law ends.

This changed governance framework places greater responsibility on companies, and directly impacts management processes and business models. In light of such developments, and the changed business environment, Thales decided to implement a comprehensive and sustainable Corporate Responsibility programme.

To meet their financial targets within a highly restrictive legal and normative framework, managers are constantly required to make choices regarding the application of different standards. They have to strike a balance between minimum and optimum effort, with a focus not merely on enabling the company to survive (i.e. continue to make profit), but on ensuring sustained and harmonious growth in the long term. Such ethical choices are a key part of managers' responsibilities, particularly as interests multiply and become more clearly defined, and choices between such interests become increasingly frequent and more difficult to make.

Managers also have to take into account and reconcile the moral expectations of all employees, who, in an increasingly international business environment, originate from a wide range of cultures and traditions. To manage teams effectively in such a globalised environment, managers must develop explicit and written communication at the expense of implicit and oral communication, and implement formal rather than discretionary standards. This leads to a new management paradigm.

Managing risk

Any business undertaking involves a degree of risk. However, worldwide flows of sensitive technologies, growing legal complexity, new societal requirements and ever more intense competition make it more important than ever before to identify and manage risks. In addition, the civil and criminal liability of companies and their leadership teams is being called into question more frequently as the business world becomes more jurisditional.

As a result, and in light of its sectors of activity, **Thales's**Corporate Responsibility policy is based not only on in-depth analysis of the risks of non-compliance but on rules of ethical conduct and integrity that are upheld by the company's most senior management bodies and communicated systematically to all Thales employees.

This approach boosts management awareness of the

issues involved, while enabling existing systems to be developed within a company-wide framework of continuous improvement.

Sensitive business

Thales believes that doing business responsibly means, first and foremost, complying with international trade regulations, and in particular taking measures to avoid exports of sensitive technologies and defence equipment to countries classified as risks, thereby helping address the challenges posed by the proliferation of weapons of mass destruction and global terrorism.

Internal control procedures are being reinforced throughout the company to combat corruption as effectively as possible, in a sector where goods and services represent considerable sums of money and transactions may involve countries with little concern for ethical practices.

Brain power

With open, global markets, Thales must do everything possible to recruit the most highly qualified staff, promote their development and performance, and maintain their qualifications at the highest levels.

Developing best practice

A company is at risk if its competitors are able to meet minimum legal requirements by making less ethical choices. A sector-wide approach is therefore required so that common standards can be developed and adopted as best practice by all companies, thereby **restoring a level playing field**. Thales was involved in launching just such an initiative within the Aerospace and Defence Industries Association of Europe (ASD).

Ethics and Corporate Responsibility were yesterday just trendy, today there are a real trend!

A responsible approach to controversial weapons

Thales is committed to conducting all its business in strict compliance with national laws as well as international regulations and agreements. This commitment falls within the scope of the company's comprehensive ethics and corporate responsibility policy, which itself meets the very highest standards in the sector.

Thales's commitment applies in particular to the production and export of sensitive technologies and defence equipment, in accordance with national regulations and international treaties.

Thales has ceased production of all controversial weapons, in particular cluster bombs, has withdrawn such products from its catalogue and has no plans to market them in the future.

Weapons and sovereignty

"As a democracy, France is keen to promote the idea of greater solidarity between States, not only for the good of humanity, but as a means of enabling the richest countries to support the poorest. Severe poverty is morally unacceptable, as well as being potentially dangerous for all.

France's commitment to solidarity is reflected in its role in the emergence of a strong, united Europe and in its involvement in NATO's efforts to maintain strong transatlantic ties.

Defending peace in today's world means combating international terrorism. As a potential target for terrorist groups in the past, France has made the fight against terror an absolute priority.

France wishes to maintain its influence on the international stage, while preserving its decision-making autonomy as a nation and its freedom to act within international alliances.

France can legitimately promote its vital, strategic and power interests on the international stage provided it remains committed to the values of democracy and universal morality. The country's vital interests lie in

preserving the integrity of its territory and its maritime and aerial approaches, freely exercising its sovereignty, and protecting its citizens at home and abroad. Key strategic interests, meanwhile, include maintaining peace in Europe as well as neighbouring regions, and preserving arenas essential for economic activity, access to resources and free trade.

Finally, France's power interests are linked to its responsibilities on the world stage, and specifically its status as a permanent member of the United Nations Security Council, as well as its position as a nuclear-weapon state."

(Extract from a report issued by France's Defence Communications Agency, entitled "France's Strategic Goals" (French title: "Les objectifs stratégiques de la France"). Source: French Ministry of Defence, 2007.

Thales's commitments to stakeholders

Thales's corporate responsibility policy is based on a transverse approach covering business, environmental and social issues. Consequently, Thales is taking concrete measures in these areas in accordance with its Code of Ethics and core values.

The company's corporate governance practices and internal control procedures, combined with a policy of open and transparent communication, send a powerful signal to employees, shareholders and financial markets about the strength of its commitment to ethical business practices. The company also endeavours to develop responsible commercial relationships with its customers and suppliers, and is constantly mindful of the need to fight corruption and provide a clear procedural underpinning for its ethical practices. Thales's objective is to ensure that its employees perform effectively in an environment that is conducive to their personal and professional development. The company is also taking steps to achieve measurable reductions in the environmental impact of its activities. In addition, Thales aims to practice good corporate citizenship through its commitment to making its technological know-how available to improve the quality of life, serve socially useful projects and support local development.

Shareholders and financial markets

Thales is committed to pursuing its business activities in strict compliance with the principles of good corporate governance, optimising its risk management and internal control procedures, and providing clear and accurate information concerning its financial situation, strategy and management policies. The Code of Ethics includes the same principles of corporate governance that Thales applies in its policy of transparency towards shareholders and support for their ability to exercise their power of control.

Direct outside partners

Thales establishes sustainable relationships with its customers and suppliers, based on mutual trust and respect. As partners, both customers and suppliers have a right to expect Thales to provide truthful and honest information and honour the commitments it has made to them.

Employees

Shaped by the international scope of the company's operations and the high level of qualification of its employees, Thales's company-wide human resources policy hinges on mobility, training and recognition of performance. This hightech culture, with its focus on excellence, innovation and performance, is shared by all employees, and underpins the Group's core values: acting as entrepreneurs and in-

The Thales core values

- Focusing on customers
- Developing people
- Acting as entrepreneurs and innovators
- Enhancing performance through teamwork
- Sharing knowledge

Sharing is the Thales way

- Sharing responsibilities according to a set of clearly defined principles
- Sharing cultures, so that the unique identity, cultural background and expertise of each of the company's 68,000 employees around the world are respected
- Sharing knowledge as the only real guarantee of the company's technology leadership and its ability to consistently deliver best practice solutions to its customers.

novators, enhancing performance through teamwork, sharing knowledge, and developing the people who contribute to the company's outstanding capabilities.

Civil society

As a major player in economies around the world, Thales seeks to participate fully in each local community. Demonstrating this commitment, the company takes part in job creation programmes and pursues a proactive policy of partnership with the academic and scientific communities, as well as an active sponsorship programme.

The environment

As a responsible corporate citizen, Thales is committed to protecting the environment by limiting the environmental impact of its activities, managing any associated health risks, meeting and exceeding applicable legal standards and anticipating future requirements. In addition, Thales has adopted the principle of subsidiarity to national and Unit levels with Group-wide objectives for continuous improvement in the management of the environmental impact and associated risks of its real estate assets and industrial processes.

On 31 January 1999, former United Nations Secretary General Kofi Annan set out the principles of the Global Compact in an address to the World Economic Forum in Davos. The **Global Compact**'s operational phase was launched at UN Headquarters in New York on 26 July 2000. The Secretary General invited business leaders to join this international initiative, which aims to rally companies, UN agencies, professional organisations and civil society around ten universal principles relating to human rights, labour standards, environmental protection and the fight against corruption.

On 10 January 2007, the current United Nations Secretary General, Ban Ki-moon, stressed that the Global Compact is central to the United Nations' engagement with the private sector.

By encouraging companies to incorporate these principles into their strategies and business models, the Global Compact seeks to promote transparency and responsible corporate citizenship to ensure that the business community plays its rightful role in meeting the challenges of globalisation. By applying these principles, the private sector – in partnership with other players in society – can make a tangible contribution to realising the Secretary General's vision of a more viable and open global economy.

Through a letter of commitment from Chairman & CEO Denis Ranque, Thales signed up to the Global Compact in 2003 and has adopted the ten universal principles. The company renews its commitment on a regular basis, particularly by providing Communications on Progress (COPs) for the organisation's database.



Commitments to the international community

- Close cooperation with institutions such as the European Commission on issues relating to the control of dual-use equipment and intra-EU transfers of defence equipment.
- Collaboration in studies carried out by the Organisation for Economic Cooperation and Development (OECD), and particularly its Business and Industry Advisory Committee (BIAC), on the issues of public procurement and the implementation of the 1997 Convention.
- Support for the activities of Business Europe on issues related to export controls.
- Participation in the work of the International Chamber of Commerce, particularly its Anti-Corruption and Business in Society Commissions.
- Chairing the Task Force on Whistleblowing to establish a common policy on the concept of whistleblowing.
- Support for the work of the French National Committee of the International Chamber of Commerce, particularly its Anti-Corruption Working Group.
- Active participation in the UK Anti-Corruption Forum.
- Regular contacts with NGOs and bodies including Transparency International, Amnesty international, Saferworld, etc.
- Ongoing cooperation with the French Study Center on Corporate Social Responsibility (ORSE), and support for the work of the Cercle Éthique des Affaires.

CORPORATE GOVERNANCE, ETHICS AND CORPORATE RESPONSIBILITY ORGANISATION

As an international company listed on the single regulated market, Eurolist by Euronext, Thales is committed to pursuing its business activities in strict compliance with the principles of good corporate governance, optimising its risk management and internal control procedures, and providing clear and accurate information concerning its financial situation, strategy and management policies.

Group governance

Corporate Governance and Board of Directors

Thales subscribes to the principles contained in the AFEP/MEDEF (French employer's organisation) paper on the governance of listed companies, published in October 2003, which the Group applies in full, with the exception of the recommendation concerning Board membership, in light of the shareholders' agreement between the Public Sector and the Industrial Partner (Alcatel-Lucent), under which the number of independent directors may not reach one-third of Board members.

Board administration

Board membership rules

In accordance with the shareholders' agreement, the Board comprises sixteen directors, of whom fourteen are appointed by the General Meeting and two elected by the employees of the Group's French companies according to the law (Article L. 225-27 ff. of the Commercial Code) and the articles of association (Article 10). Of the fourteen directors appointed by the General Meeting, four are "outside directors", one represents employee-shareholders, and the others are submitted to the vote of the General Meeting by the Public Sector (5) and by Alcatel-Lucent (4). Since the General Meeting of 11 May 2004, roughly one-third of directors are appointed or re-elected every two years (the statutory period of appointment remains six years). Salaried Board members are, in any case, elected or appointed for a period of six years. During fiscal 2006, on 4 September, the Board noted the resignation of Denis Samuel-Lajeunesse, the director representing the French State in accordance with Article 139, NRE act.

Benoît Tellier resigned from the Board of Directors on 10 December 2006 to join Thales as Senior Vice President of the Group and CEO of Thales International.

Henri Proglio resigned from the Board on 12 February 2007.

Board of Directors as at April 2007

Denis Ranque, Chairman and Chief Executive Officer of Thales

Jean-Paul Barth, former Senior Executive Vice President of Alcatel-Lucent

Bruno Bézard, French Government Shareholding Agency (APE)

François Bujon de l'Estang, Ambassador of France

Olivier Costa de Beauregard, Managing Director, Groupe Industriel Marcel Dassault (GIMD)

Charles de Croisset, international advisor to Goldman Sachs International

Marie-Paule Delpierre, director elected by employees

Roger Freeman, Consultant and Chairman of the Advisory Panel of PriceWaterhouseCoopers, London UK

Didier Gladieu, director elected by employees

Philippe Lépinay, representative of employeeshareholders

Didier Lombard, Chairman and Chief Executive Officer of France Telecom

Klaus Naumann, Bundeswehr General (ret.)

Serge Tchuruk, Chairman of Alcatel-Lucent

Alcatel Participations, represented by **Laurent Collet-Billon**, advisor to the Chairman of Alcatel-Lucent

TSA, represented by Marcel Roulet, former Chairman of Thomson, Thomson-CSF and France Telecom

> CORPORATE GOVERNANCE, ETHICS AND CORPORATE RESPONSIBILITY ORGANISATION

Director independence

Under the Board's Internal Rules (see below), at the proposition of the Nomination and Remuneration committee, the Board reviews the status of each of its members every year with respect to criteria of director independence.

The Board first determined that the directors appointed by the General Meeting on the proposal of a shareholder or category of shareholders could not be considered to be independent under the AFEP/MEDEF (French employer's organisation) principles of corporate governance mentioned above. Similarly, the Board determined that the two directors elected by employees could not be declared to be independent.

After reviewing in detail the status of the four "outside directors" in light of appointment criteria, the Board agreed with the committee's recommendation that, in 2006, Charles de Croisset, Klaus Naumann and Henri Proglio were independent. Roger Freeman continued to be considered "non-independent", mainly owing to the remuneration he receives for his various positions within the Group in the United Kingdom (see Table of remuneration paid to directors in the Reference Document).

Report on Board activity in 2006

Number and length of meetings and attendance record

The Board of Directors met nine times in 2006. Meetings lasted an average of two and a half hours and the director attendance rate was 84 %.

Under Board internal rules, the statutory auditors were invited to and attended all nine meetings. They received the same information as the directors.

Main topics discussed

In addition to recurring topics for Board meetings (annual budget and updates, annual and half-year financial statements, compensation of the Chairman and Chief Executive Officer, notice of General Meeting and proposed dividend, approval of regulated agreements, dates of non-trading periods, Chairman's responsibilities etc.), the agendas in 2006 included the following points, in some cases with reports from the relevant Board committee:

- renewal of terms of directors, and membership of Board committees
- increased cooperation with Alcatel-Lucent
- convergence with DCN
- allocation of stock options
- R&D policy
- Key HR issues
- evaluation of Board administration.

The Board also made a one-day trip to an Aerospace Division industrial site to allow Directors to meet operational managers and familiarise themselves with the Division's activities.

Preparatory work for Board meetings

Information for directors

Board papers

Directors receive the Notice for Board meetings between five and ten days before the date of the meeting (ten days is the notice required by the shareholders' agreement for certain topics). A provisional timetable of meetings is adopted at the end of each year for the following year.

Board internal rules set the minimum period at three working days, except in emergencies.

With each notice are enclosed the meeting agenda, preparatory material (or at least the main points if not complete in time) and the minutes of the previous meeting. In some cases, further material is sent to directors later, or handed to them during the meeting, if the matter is urgent.

The directors are also sent a press review and a selection of financial analyses relating to the company. Furthermore, Thales press releases, other than those discussed at Board meetings, are e-mailed to them when they are issued.

Training

Senior corporate officers make a presentation about the Group for the benefit of directors appointed during the year. No new Directors were appointed in 2006, and no special information programmes were requested by Board members.

Structure and administration of Board committees

The roles of the different Committees, which are set down in Board internal rules, as well as the members of the Committees on the date of notification of the General Meeting, are detailed in the Reference Document.

Audit Committee

The Audit Committee met four times in 2006, with a 78% attendance rate, for an average of two and a half hours per meeting.

The statutory auditors are invited to all of the Committee's meetings, and take part in all discussions, except for the appointment or reappointment of statutory auditors, as occurred at the 2006 year end in preparation for the General Meeting of 16 May 2007.

In addition to the annual and half-yearly financial statements, in 2006 the Committee reviewed developments in litigation cases, budget updates, the problem of externally funded pension schemes, activation of development costs, financing structure and currency risk management, as well as the budget for the statutory auditors' fees.

During two meetings specifically devoted to auditing, the committee reviewed the reports of the Internal Audit Department, for which it had previously approved the annual work programme, and made recommendations for follow-up to the Department's missions, particularly with respect to information systems.

The Committee also noted changes in the internal organisation for risk management – raised as a suggested improvement in 2006 – and in particular the appointment of a network of Compliance Officers.

At the two meetings on the financial statements, the Committee members had an opportunity to talk to the statutory auditors, after receiving their detailed mission reports. The committee also helped draft the financial press releases and prepared the Board's decision on the proposed dividend.

A written report of each meeting was given to the following Board meeting.

Strategy Committee

The Strategy Committee met once in 2006, with half of its members in attendance, to review the 2006 budget within the scope of the three-year plan. The same budget information was presented at the following Board meeting, held in late January 2006.

During the review by the Board of the proposed increased cooperation with Alcatel-Lucent, it became clear that the Strategy Committee was not the most suitable body to review the proposals, in light of conflicts of interest among its members.

The Board therefore decided, as permitted by Board internal rules, to set up a temporary ad hoc Committee comprising four directors: Henri Proglio (Chairman), François Bujon de l'Estang, Roger Freeman and Marcel Roulet. The ad hoc Committee met three times, and provided a report of its activities to the following Board meeting in each case.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee met five times in 2006, with a 75% attendance rate, for an average of approximately one hour per meeting.

Topics examined by the Committee in 2006 included compensation of the Chairman and CEO (with a review of variable compensation criteria and recommendations for the future), Thales policy on stock options and free shares, and the supplementary optional-contribution pension scheme. At year-end, the Committee also oversaw the annual review of Board administration carried out by an outside consultant in 2006. The Committee also conducted a review of director independence, as laid down in Board internal rules, and presented its recommendations to the Board (see below).

A written report of each meeting was distributed at the following Board meeting.

Evaluation of Board administration

As recommended by the above-mentioned AFEP/MEDEF report, and in accordance with Board internal rules, an evaluation of the Board's administration was carried out in 2006 with the assistance of an outside consultant – the same consultant that carried out the evaluation in 2003, the 2004 and 2005 evaluations having been carried out internally.

The 2006 evaluation, carried out in November, shows that all Directors have observed a very significant improvement in the administration of the Board since the external evaluation carried out in 2003.

While the difficulty was recognised of implementing certain features of corporate governance in a company controlled by shareholders bound by agreement, it was therefore considered that the Board's administration in 2006 was satisfactory overall.

The frequency and duration of Board meetings, the quality of information provided in the normal course of administration of the Board, the chairing of meetings by the Chairman and CEO, the participation of Directors in discussions, and the minutes of meetings, were all considered entirely satisfactory.

Improvements in comparison with 2003 include the broader range of topics discussed, better Division of time between presentation and discussion, and the visit by the Board to an industrial site. Issues still outstanding include the number of independent Directors on the Board, and the composition and role of the Strategy Committee.

Finally, suggestions for improvement concern, as in 2005, regular monitoring of key Board decisions, and a more detailed assessment of risks, as well as information on major contracts.

> CORPORATE GOVERNANCE, ETHICS AND CORPORATE RESPONSIBILITY ORGANISATION

Thales's Internal Control Procedures

Scope and modifications

This section was prepared on the basis of the main conclusions of the work carried out at corporate level in 2006 regarding internal audit and risks management. The results of this work were reviewed by the Risks and Internal Control Committee during the year, and by the Audit Committee on 1 March 2007, in the presence of the statutory auditors.

Internal Control within the Thales Group

Thales applies the internal control principles laid down in the United States COSO framework (Committee of Sponsoring Organizations of the Treadway Commission), and the professional standards of the IIA (Institute of Internal Auditors) and IFACI (Institut Français de l'Audit et du Contrôle Interne).

The COSO model defines internal control as "a process, effected by an entity's Board of Directors, management and other personnel, designed to provide reasonable assurance of the achievement of objectives". This is the definition adopted by Thales.

The company's priority is to implement this internal control in all businesses majority-owned by Thales and/or under Thales operational management, which account for more than 90% of total employee numbers.

Principal modifications to Internal Control procedures in 2006

In line with previous initiatives, Thales continued to focus effort on Internal Control during 2006, implementing the following modifications:

- The role of the Risks Committee was expanded, with the creation of a Group Risks and Internal Control Committee. Chaired by the Senior Vice President, Finance and Administration, and made up of representatives of the functional and operational departments, the new committee reviews actions aimed at improving and fostering Internal Control and reducing risk factors.
- The scope of activities of the Internal Audit Department was also expanded, with the creation of a new section responsible for risk management and internal control. The section works independently of internal Audit teams, in close collaboration with the Risks and Internal Control Committee.
- The professional development efforts of the Internal Audit Department since it was created in 2002 were recognised by IFACI, with two certifications issued in November 2006:
- ISO 9001 certification, demonstrating that the department has achieved the same quality level as the Operating Units.
- IIA certification of professional internal audit standards.

The Internal Control environment within Thales

Thales's operating principles and practices form an integral part of the precepts of Internal Control at Groupwide level. This set of organisational rules, policies and procedures as well as ethical and corporate responsibility rules can be accessed via the Group intranet, and is outlined in the induction booklet issued to new employees when they are hired.

Board internal rules

In July 2004, the Board of Directors adopted internal rules for the administration of the Board and its committees. Section I of the report on Corporate Governance provides more details on the Board and its administration.

Principles and policies behind business processes

Key processes

Thales's activities, based around mission-critical information systems for infrastructures, have led to a focus on certain processes:

- · medium and long-term strategic processes
- bid submission processes, in order to meet customer needs most cost-effectively and profitably, and under conditions of controlled risks;
- continuous improvement of programme management techniques over time, both technically (product/service quality, schedule compliance) and financially (accurate forecasting of revenues, production costs and cashflow).

Operating processes and principles

Documentary reference system

The baseline implemented in 2001 is progressively being replaced by a new reference system, available via the intranet, which contains the following, applicable at Group-wide level:

- Mapping and description of all the 19 key processes, grouped into three categories: management, operational and expertise
- Description of the roles of each function within the company
- A database of policies and procedures.

Internal Control manual

The structure of the Group's internal control manual is based on the 2001 reference system. The Internal Control manual was produced by a major consulting firm after a call for bids, examined by the statutory auditors, and distributed to Operating Units.

Code and behaviour guides

The Code of Ethics aims to ensure strict compliance with local and international regulations via a series of rules relating to compliance and security. It sets out principles for relationships with customers and suppliers, and details requirements for behaviour among employees and in respect of shareholders and markets, the Group's material and non-material assets, and the environment. The Code of Ethics is supplemented by a Code of Conduct concerning insider information, and a Reference Guide on Ethics in International Trade.

The Export Control Reference Guide, issued in 2001, describes key concerns for the company, and lists the international regulations governing export controls of dual-use equipment and defence equipment. It sets out the associated responsibilities as well as the monitoring and control process in place, to ensure that Thales's operations comply with regulations.

Internal Audit Charter

In 2003, the Group produced an Internal Audit Charter, laying down the basic principles of internal control, as well as the mission of Internal Audit, the scope and limits of its responsibilities and the type of controls it conducts in Thales's Units. The Charter was submitted to the Audit Committee and then to the Board of Directors, which approved it.

Under the terms of the Charter, Internal Audit may intervene in any company process to assess the quality of risk management and internal control. In 2006, the Charter was amended with the support of the Audit Committee to allow Internal Audit to self-report if necessary.

Continuous improvement of quality and efficiency

Thales implements a coordinated quality policy at Group level which is adapted by Operating Units according to the nature of their activities and their local environment.

This policy has led in particular to the majority of Thales subsidiaries achieving ISO 9000 certification, demonstrating the existence of ISO procedures in all processes, and their effective implementation within subsidiaries.

Sharing information

Internal communications

Internal communications provide a coherent framework for sharing information on the overall Internal Control system, and are designed to provide personnel with news on Group strategy and events in order to promote employee motivation and buy-in.

Communications reflect Thales's core values through a range of different media:

- Information media aimed at all Group employees, for example the intranet (updated on a daily basis), the inhouse magazines of the different Divisions and Country operations (Login to Thales), and newsflashes distributed via e-mail.
- Induction seminars for new managers, hosted by the senior management team, to provide information on the Group's vision, strategy, culture and values.
- Awareness sessions to foster a strong Internal Control culture across the organisation, structured around a 40-hour dedicated training programme.
- Shared knowledge bases, with open or secure online access depending on content, to enable dissemination of principles and implementation of Internal Control best practice.

Information system

In addition to its communication and exchange functions, the Group's information system supports Internal Control by protecting access to data, and ensuring that data are reliable.

• Consolidation of financial statements

Since 1991, Thales has used consolidation software that has now become an industry standard. The current software was adapted to IFRS standards in late 2004. It requires the reporting Unit to adopt fully standardised formats to ensure consistency of all accounting data. Control is automatic and transfers of accounting entries to Head Office are only authorised after validation. All the Group's accounting and financial staff are experienced in the use of this tool.

• IT operations

In 2005, Thales launched a project aimed at optimising and securing IT operations within the Units by grouping together data processing activities at a limited number of sites.

The Security Solutions & Services Division was responsible for implementing this project.

Internal Control organisation: key players

Corporate management and the Executive Committee

Corporate management and the Executive Committee are the prime agents responsible for the Internal Control system. The Chief Executive Officer, together with Internal Audit and Risk Management, decides on the policy guidelines for Internal Control and ensures that the necessary resources are allocated. This responsibility is directly delegated to Division and Unit senior management, who must ensure that these guidelines are implemented within their own area of responsibility.

> CORPORATE GOVERNANCE, ETHICS AND CORPORATE RESPONSIBILITY ORGANISATION

General organisation by Division and Country

Because of the Group's sector of activity, Thales subsidiaries must comply with a permanent control environment required by its main customers and regulatory authorities (ministries of defence and industry, civil aviation authorities in client countries, etc.), including increasingly stringent certifications and financial controls.

Thales has designed its organisations in order to meet these needs. The Group coordinates initiatives via its Divisions – which have authority at worldwide level over all the Units within their scope of activities – as well as via its Country operations in Australia, Canada, France, Germany, the Netherlands, Switzerland, the UK and the US. Divisions and Country operations are jointly responsible for identifying risks and implementing Internal Control procedures.

Corporate departments

The corporate departments coordinate practices at Group level and ensure consistency. Certain complex or high-risk operations have to be carried out by the corporate departments, which have put in place appropriate Internal Control systems to manage the risks associated with such operations.

Finance and accounting function

Unit Chief Financial Officers, under the authority of the Divisional Chief Financial Officer, are responsible for implementing internal financial control in accordance with Group standards. Unit Chief Financial Officers have teams of management controllers working closely with operational staff. These controllers apply internal control rules on the ground, working with their Unit accounting colleagues.

Finance and accounting operations are coordinated by the Corporate Finance Department, which comprises the following functions:

- accounting and consolidation, responsible for preparing and presenting the Group's consolidated financial statements
- management and budgetary control, responsible for consolidating Group budget data and gap analyses. It utilises periodic reports (monthly, quarterly, half-yearly and annual) from the Group's Units and Divisions, which provide performance assessments in respect of budget targets and comparable periods from the previous year
- fiscal, which provides support to operational entities in respect of legislation and tax inspections. It also monitors fiscal consolidations performed within the Group, and reviews their overall consistency.

Investment and divestment

Group Corporate Management has sole responsibility for the acquisition or divestment, in whole or in part, of any company. It reviews all proposals submitted by the Divisions at the periodic meetings of the Mergers and Acquisitions Committee, which is made up of members from the main Corporate Departments.

Financing

The Group's Corporate Financing & Treasury Department coordinates financial resources and manages currency risks:

• It is responsible for centralised management and optimisation of Group debt and financial resources. It handles financing requirements for all Group subsidiaries. No financing operations are authorised at the level of the subsidiaries themselves. Exceptions arise due to regulatory constraints of a fiscal or other specific nature, and to arrange overdraft facilities needed for a subsidiary to manage its accounts effectively.

Every day, local Units' bank accounts in the Group's main Countries are balanced by transfers from or to the Corporate treasury account. Financial agreements have been arranged with all Group companies to manage these cash pooling and zero balancing operations in compliance with local regulations.

• The Department also manages overall currency risks. Currency risks are monitored within the Operating Units. Foreign currency transactions are analysed before any financial commitment is made, and hedging operations are generally carried out as soon as there is a significant probability of obtaining an order or a contract.

Export financing

Each export finance operation (guarantee, buyer credit or documentary credit, as well as more complex operations) is prepared by local specialists reporting to local financial departments, who report in turn to the International Financial Affairs Department (DAFI) of Thales International. All operations over 10 million euros in value or of a significant degree of complexity are handled solely by this department.

Real estate

All real estate operations worldwide come under the exclusive jurisdiction of the Group Real Estate Department. It may delegate certain operations, especially outside France, to a Country structure, or to a local company, but it retains control of the operations.

Insurance

The Group has a specialist subsidiary, Thales Insurance and Risk Management, which manages all insurance policies for all Group companies. This optimises the cost of Group insurance and also ensures that all subsidiaries are properly covered for all insurable risks exposure.

Litigation and legal compliance

The Group Legal Affairs Department directly handles all subsidiaries' disputes, and the subsidiaries must transfer disputes as soon as they become aware of them.

The Group Legal Affairs Department, as well as Country structures, provide local Units reporting to any Division with support concerning local legislation, in order to manage risks in areas such as taxation, company law, labour law, the environment and the prevention of fraud and bribery.

Business intermediation

The commercial environment for the Group's international operations is handled by a specialised organisation, Thales International. This company possesses the expertise and appropriate procedures for overseeing these operations in compliance with applicable laws and regulations. Only Thales International and its dedicated subsidiaries, therefore, are entitled to sign contracts with external service providers (ESPs) for export operations. For domestic operations, in those Countries where the Group has major manufacturing and sales operations, procedures are laid down to improve customer relations, security and legal compliance.

Control bodies

The Board of Directors permanently monitors the administration of the Group, directly or via its committees. Detailed information on the organisation of the Board's activities and, more generally, its operation and that of its committees, is provided in Section I of the report on Corporate Governance.

Audit Committee

The Board's Audit Committee validates corporate management's internal control guidelines, and liaises with Internal Audit and Risk Management several times a year to verify resource allocation and monitor action plans.

Risks and Internal Control Committee

The Risks and Internal Control Committee, which replaces the earlier Risks Committee, is chaired by a member of the Executive Committee (Senior Vice

President, Finance and Administration) and comprises representatives

of the functional and operational departments. Vice President, Internal Audit acts as secretary to the committee. Its role is to:

- examine audit reports whose conclusions are considered significant at Group level and identify operational consequences
- facilitate the deployment of internal control by supporting transverse initiatives and any other actions required.

Internal Audit and Risk Management Department
Reporting directly to the Chairman and CEO, the Internal
Audit and Risk Management Department works with
the Audit Committee, all Group senior management and
the statutory auditors. It provides support to all operational and functional managers to help them identify the
risk exposures of their activities and set up the means to
manage or reduce these risks. It ensures in particular
that adequate internal control resources are available
in Units. The Department's team, divided into five
major regions (Germany, United States, France, United
Kingdom and Singapore), continues to grow, with
20 employees at the end of 2006.

Network of Compliance Officers

At the initiative of the Risks and Internal Control Committee, the role of Compliance Officer has been created within Divisions and Country operations. Compliance Officers are tasked with coordinating all actions relating to compliance with laws, regulations and internal procedures. The network, set up within the Divisions and main Country operations, is currently being rolled out to all Group subsidiaries.

Risk management and internal control activities

Major risks linked to internal processes

The main external risk factors (financial, legal, environmental and dependency) as well as the Group's insurance policy are detailed in section B of the Reference Document. In Thales's sector of activity, the greatest risks associated with internal processes concern risktaking within the scope of bids and proposals, and overruns in contract execution costs. Given the size of some contracts, these risks can be particularly detrimental to the Group. As a result, the Group has introduced tools and procedures enabling these risks to be identified and managed in the proposal and execution phases. To date, there has never been a significant overrun liable to endanger the Group's financial position, but vigilance in this area must be maintained. This vigilance will be continually strengthened by the actions and tools described in this report.

> CORPORATE GOVERNANCE, ETHICS AND CORPORATE RESPONSIBILITY ORGANISATION

In addition, Thales maps its risks by sector, in order to identify the main risks it would run as a result of any malfunction in the equipment it supplies (flight control and navigation, air, road and rail traffic control, security, detection, etc.), and takes measures to eliminate these risks or reduce their probability and financial impact.

Accounting and financial procedures

Thales has issued a number of manuals of procedures that are mandatory for all Group Units. Unit Chief Financial Officers are accountable to the Group Finance Department for compliance with these procedures.

• Accounting Procedures Manual

This manual details the accounting rules and principles to be applied in producing consolidated accounts. It was updated on the introduction of the new IFRS standards.

In early 2005, all accountancy and financial staff, internal and external, received instructions and training in understanding and applying the IFRS standards within the Group.

• Management Control Procedures Manual

This manual explains the budget process to be applied by Divisions and Units. In particular, it defines the content and format of periodic reports, and contains a glossary designed to standardise financial statements.

• Cash-flow manual

This manual describes the respective roles of central teams and Units in cash-flow and financing operations. It also details the procedures to be applied for short-term cash-flow management, currency risk hedging, and cash-flow reporting.

Financing guide

This guide defines the respective roles of central teams and Units, as well as the methods to be applied for putting together and monitoring financing for bids and proposals. The aim is to optimise the costs associated with financing, and ensure optimum coverage of financial risks.

Budgetary process

Annual budget targets are determined in a three-stage process:

- First, the Strategy Department requests a 10-year strategic plan, with financial details, from each Group Division
- Next, Group Corporate Management receives a detailed 3-year budget plan from each Division, based on revenue projections established with sales teams at Group and Country level.

• Finally, Corporate Management sets targets for each Division, while ensuring overall consistency.

Reporting financier

The key components of the financial reporting system, described earlier in this report, are as follows:

- A set of financial and accounting principles and procedures that are regularly updated and distributed
- A centralised consolidation process, supported by a single IT application
- A control system involving both internal and external audit.

Monthly financial statements are analysed to identify variances and update annual order intake, revenue, profit and cash-flow forecasts. This approach within the Units enables consolidation of Division and Group reporting, and identification of actions required to meet targets, where necessary.

Checking level of Internal Control

Financial monitoring

Each year, Internal Audit reviews the financial audit manual with the statutory auditors. This manual describes the phases of the statutory auditors' work and specifies the topics to be audited.

The consolidated companies are assigned to three categories according to their size and the risks to which they may expose the Group. They may receive an in-depth review, a limited review or a rapid review.

In the first two types of review, in addition to assessing financial statements, the statutory auditors recommend improvements to the unit's internal control. These recommendations are contained in a section of the annual interim summary report issued to the unit and Group management in November each year.

Internal Audit checks with the Units that these recommendations have been taken into account and incorporated in action plans for the following six months.

Internal control self-assessment system

At the end of 2004, internal control self-assessment software was introduced to enable subsidiaries to check that identified risks are covered, and that their procedures, rules and organisation enable them to meet the targets set in the Internal Control Manual.

The programme incorporates the entire contents of the Manual, and is used to assess progress in introducing internal control procedures and their level of documentation. It ensures that the same means of assessing and controlling risks in processes are applied to all Group subsidiaries.

Internal Audit activities

Each year, Internal Audit submits a proposed audit plan to the Audit Committee, covering the various aspects of the Group in terms of compliance with laws and regulations, assessment of Internal Control, and risk identification and response. Recommendations of the external auditors are also monitored.

In particular, Internal Audit in 2006 addressed matters of compliance with contract intermediation, export control and IT security procedures. Analysis of supplementary assessments of the level of internal control at Operating Unit level also continued.

Group Ethics and Corporate Responsibility Policy

Thales's ethics and corporate responsibility policy is based on a transverse approach covering business, environmental and social issues. **Thales proposes and implements concrete measures** in these areas with the sole aim of establishing more rigorous internal systems and procedures, which are the only means of guaranteeing strict compliance with national and international regulations as well as the highest professional standards

The company has a dedicated organisation in place to implement its ethics and corporate responsibility policy. Specific tools have been developed to support this policy by fostering the sharing, integration and application of Thales's core values of ethical conduct by all employees.

A dedicated organisation

Ethics and Corporate Responsibility Committee

To support the Code of Ethics and ensure it is applied, Thales has set up an Ethics and Corporate Responsibility Committee.

Its missions are as follows:

- help define and implement Group policy on ethics and corporate responsibility
- signal developments in ethical standards with respect to commercial transactions, the environment, labour relations and society at large, and propose related action
- ensure the deployment and development of the Code of Ethics within Thales
- define an appropriate training and communications plan
- · coordinate the network of Ethics Officers
- settle issues raised by Ethics Officers
- launch enquiries into possible violations of the Code and make proposals to management about action to be taken or sanctions that should be applied.

The Ethics and Corporate Responsibility Committee

Chairman:

Bernard Rétat.

Honorary Vice Chairman, Thales

Secretary:

• Dominique Lamoureux,

Vice President, Ethics and Corporate Responsibility

Members:

• Sandrine Bouttier-Stref,

Environmental Affairs Manager

• Didier Brugère,

Vice President, Defence Marketing and Sales France

• Sylvie Dumaine,

Senior Vice President, Communications

• John Howe,

Vice Chairman, Thales UK

• Alexandre de Juniac,

Senior Vice President, Air Systems Division

• Jean-Paul Lepeytre,

Deputy Senior Vice President, Security Solutions & Services Division

• Sylvie Lucot,

Vice President, Investor Relations

• Anne de Ravaran,

Vice President, Legal and HR Ethics

• Véronique Silverman,

Vice President, HR and Corporate Affairs, Thales North America, Inc.

> CORPORATE GOVERNANCE, ETHICS AND CORPORATE RESPONSIBILITY ORGANISATION

Any questions about compliance with the principles laid down in the Code of Ethics can be submitted to the Ethics and Corporate Responsibility Committee.

The Ethics and Corporate Responsibility Committee met three times in 2006, under the Chairmanship of Bernard Rétat, Honorary Vice-Chairman of the Thales Group. The meetings covered the following main topics:

- · updating the Code of Ethics
- implementation of a whistleblowing system
- publication of the first Annual Corporate Responsibility Report
- changes in Ethics organisation
- monitoring of initiatives by Divisions, Country operations and functional Departments.

Ethics and Corporate Responsibility Department

To assume its responsibility as a company, Thales has set up an Ethics and Corporate Responsibility Department tasked with implementing policy and providing coordination at Group level.

To perform these roles, the Department's five staff members work first and foremost with the company's functional and operational departments, but also with local structures in the Group's main Countries of operation.

In line with the priorities set by the Ethics and Corporate Responsibility Committee, the department's roles, determined in 2006, are as follows:

- to keep the Code of Ethics up to date, help to define and deploy best practices, and set standards for business ethics (prevention of corruption, export control, etc.)
- to prevent violations of the Code of Ethics and, where necessary, provide assistance in non-compliance enquiries
- to recommend awareness and information campaigns within the Group and develop the tools needed to create a culture of accountability
- to devise and implement training materials on business ethics
- to implement the Group's ethics policy by coordinating the network of Ethics Officers and Compliance Officers
- to represent the Group internationally in professional associations and with governmental or non-governmental organisations in order to promote and defend Thales's image and interests, and also with customers and partners after consultation with Operating Units
- to help monitor any changes in regulations or standards so as to make these as favourable as possible to Thales's development, and circulate the information internally.

Since September 2006, the Ethics and Corporate Responsibility Department has reported directly to the Senior Vice President, Finance and Administration, a member of the Executive Committee.

Ethics Officers

Ethics Officers provide local points of contact at the main entities throughout the Thales organisation.

At operational level, their missions are:

- to disseminate the Code of Ethics along with recommendations on the Group's ethics policy and its implementation at Division/Country level, and monitor application
- to ensure that employees receive the training and information they need
- for Country Ethics Officers, to adapt the Group's ethics policy to local legislation and norms with respect to gifts, hospitality, free travel, etc.
- to answer questions about compliance with the Code of Ethics and the principles it contains
- to respond to complaints by employees who witness or are victims of infringements of legislation (discrimination, harassment, etc.) or violations of the Code of Ethics.

Ethical compliance system

The Thales Code of Ethics was drafted in 2001 as the baseline for the professional conduct of the company's employees with respect to its various stakeholders. The Code sets forth the company's values for all employees, and clearly demonstrates Thales's commitment to compliance with clearly defined principles of ethical business conduct.

The Code is the result of a process of in-depth analysis, surveys and studies, and repeated internal drafting and validation. In producing the Code of Ethics, senior management sought both to summarise existing practice and ensure compliance with new international requirements at economic, social and environmental levels.

A working group was set up in 2006 to update the Code after extensive consultation and comparison with international companies the same size as Thales.

The work incorporated the experience gained in the six years that the Code was first issued and led to a number of additions, including a section on whistleblowing. An updated Code of Ethics, adaptated into six languages, will be issued to all employees in 2007. A comprehensive internal communications package will be deployed in support of the roll-out process.

Training programmes

Various types of training are provided to support dissemination of the Code of Ethics.

In-house training institute Thales Université has incorporated a dedicated module on ethical issues into its core training in each workstream. Ethical issues, or corporate

responsibility in general, are systematically covered in all transverse management training courses.

An online learning programme is currently in development, to ensure that all employees, including those who do not attend Thales Université, are aware of the importance of ethical issues.

Interactive tools

The ThalesWeb intranet has a section on the Group's ethics policy. It provides answers to employees' main questions in this area and helps the ethics network to collect feedback and share experience.

Additional publications

To add practical detail on certain points in the Code of Ethics, "behaviour guides" have been published on ethics in international trade and privileged information. Other guides are planned on topics including information management, end user control, use of the Internet and purchasing.

Thales UK chooses the BITC (Business in the Community) corporate responsibility index to measure its performance

BITC is a unique movement of over 750 companies in the UK committed to taking action to reduce their negative impact on society within a framework of continuous improvement. Through a systemic approach involving definition of targets, implementation of actions and associated reporting, the BITC index evaluates companies' social and environmental impact. Recognised in the UK as the leading cross-comparison tool, it enables companies to assess the effectiveness of their corporate responsibility policies, and helps them incorporate such policies fully into their operations.

Thales UK has chosen the BITC index to analyse and measure its performance in the area of corporate responsibility, and identify areas for improvement.

A RESPONSIBLE BUSINESS GROWTH

Given the nature of Thales activities, guaranteeing the integrity of its sales, marketing and financial operations is a crucial part of its corporate responsibility. In practical terms, this requires exercising rigorous control over the end use of its equipment and technologies, and implementing strict procedures to prevent corruption. In addition, Thales is keen to promote equitable relationships with its suppliers.

Rigorous control of sales and marketing operations

End user control

In the current geopolitical situation, with many local and regional crises and new terrorist threats, Thales is commits to act as a responsible company by a rigorous control of the sale and of transfer of its products. So, Thales not only complies with national, European and international regulations but adopts a proactive approach by implementing its own export control system.

Stringent national and international regulations

The export control systems in Thales's main operating Countries are extremely rigourous as a part of a wide array of strict regulations. Export decisions are always made at the highest political level and in the light of

international agreements (non-proliferation treaties, embargoes, etc.) and, when applicable, European agreements such as the EU Code of Conduct on Arms Exports adopted in 1998. This Code specifies eight criteria for permitting exports of defence equipment by Member States and establishes a mechanism for mutual consultation and notification.

For an international Group such as Thales, whose products virtually all comprise subassemblies, components and technologies from many industrialised countries, not least the United States, compliance with established procedures goes well beyond national regulatory contexts. To ensure strict application of national and international regulations on the export of defence equipment and dualuse goods, Thales has chosen **the responsible and proactive path** of setting up a system that not only helps deliver strict compliance but ensures that the Group achieves the highest standards in this field.

Thales has been called upon by a number of organisations to contribute its expertise to major conferences on international trade regulations, participating in the following events in 2006:

- International Bar Association anti-corruption conference (London)
- Conference on the Foreign Corrupt Practices Act (Washington DC)
- MEDEF anti-corruption seminar: Between regulatory goals and reality on the ground: responsible corporate actions as part of ethical globalisation (Paris)
- SMi conference on Defence Trade Controls (Brussels), and the seminar on the same topic at ComDef 2006 (Washington)
- ICC France seminar (Paris)
- Global Trade Controls, 19th Global Annual Conference (London)
- JETSECC Annual Conference (London).

The Thales export control system

Thales has put in place a comprehensive export control system that is applicable in all Countries and ensures full traceability for all its operations. The system is based on a number of programmes and oversight committees:

Internal programmes for export control

Thales has long ensured compliance with the regulations applicable in each of its Countries of operation. However, the level of maturity of Group Units depends on actual national regulations and differs according to the country in which they are based.

For this reason, Thales has not only defined a "standard of best practices" in twelve areas (such as identification of requirements for export licences, control of purchasing and subcontracting, and audits) applicable to all Group Units, but has also modified its organisation to improve management of export controls.

This organisational change led in 2006 to the appointment of a Group Export Control Director, tasked with ensuring that export, re-export and import operations comply with national and international regulations in all Group Units. The Group Export Control Director reports to the Vice President, General Counsel of the Thales Group.

• Thales export compliance committee

This committee defines Thales Group policy to ensure compliance in the broadest sense with international rules and legislation, and to ensure that in each Country of operation, Thales Units comply fully with local legislation on the transfer of goods and technology. The committee also evaluates improvements in compliance processes, and validates proposals for further improvement efforts. It is chaired by the Group Export Control Director.

Committee for exports to sensitive countries

This committee examines all projects involving countries identified as sensitive, whether or not they are covered by domestic controls, to decide whether a proposed export complies with the international commitments made by the Group as part of its global approach to responsible export control.

Preventing corruption

Thales is aware that all of its business activities must be conducted in strict compliance with commercial ethics rules as part of its corporate values.

Due to its operating domains, the prevention of corruption is particulary stressed within Thales.

The Group has therefore issued a complete set of Directives on this matter, and a dedicated organisation

has been implemented to ensure compliance with national and international legislation.

Dedicated procedures and organisations

Operating Units may not independently enter into a contractual relationship with any agent or external service provider (ESP) for the purposes of an commercial transaction.

All the resources supporting the export sales and marketing efforts of Operating Units are managed by dedicated entities as Thales International. These are the only entities empowered by the Group as having the specialised expertise required to handle such issues within a strict regulatory framework. This policy aims improving Thales's sales and marketing efforts and also guaranting strict control over the compliance of its international commercial transactions. At the same time, the Group has developed procedures and directives applicable to all ESPs (individuals and companies) who support the Group in sales and marketing operations involving government as well as private-sector customers.

In accordance with these procedures, ESPs selected to carry out work for the benefit of the Group must be recognised as expert in their area of activity at regional and/or international level. Stringent selection procedures are applied: a detailed application questionnaire must be completed, copies of company registrations and all other official documents, particularly annual reports, must be provided, and senior management must undertake to apply all legislation relating to international trade.

All this information is analysed and validated by an outside body. Risk factors are flagged when information provides grounds for closer investigation and referral to a higher level of management for a decision. Certain types of information are classified as "show stoppers" and bring the selection process to an immediate halt. Payments for these services are also subject to stringent procedures. For example, no transfer shall be made to a financial establishment located in a tax haven, and all payments must correspond to an actual service and reflect the exact type of service provided.

All these procedures are laid down in the *Best Practice Handbook* developed and approved by Group Corporate Management. A continuous improvement process is in place so as to increase both exhaustiveness and internal control.

Permanent exchange of best practices

Thales aims to be a global leader in each of its core business areas by combining growth and value creation.

> A RESPONSIBLE BUSINESS GROWTH

To achieve this ambition, a number of internal measures have been taken, including the introduction of the company-wide reference system to help drive a process of continuous improvement within Thales procedures, directives and organisation.

This commitment to continuous improvement, based on the principles of transparency and company-wide compliance, also relies on the constant exchange of best practices with industrial partners.

This process is implemented through close cooperation with various professional bodies including the French employers' organisation Medef, the Confederation of British Industry (CBI), the Organisation for Economic Cooperation and Development (DECD), through its Business and Industry Advisory Committee (BIAC), the International Chamber of Commerce (ICC), the AeroSpace and Defence Industries Association of Europe (ASD) and the Observatoire de la Responsabilité Sociétale des Entreprises (ORSE).

Internal control mechanisms have also been improved by committing greater resources to Internal Control and extending its mandate. Employee training and awareness campaigns have been implemented at the same time, and specific modules are currently in development as part of the online learning programme on ethical issues. All these initiatives are monitored and overseen by the Ethics and Corporate Responsibility Committee.

Regular audits

The Group's Operating Units are regularly audited by the Internal Audit organisation, which reports directly to the Thales Chairman and Chief Executive Officer, and by the statutory auditors. Particular attention is paid to compliance with anti-corruption legislation.

Thales International's subsidiaries are subjected to a particularly detailed annual audit of compliance with procedures, one year by the statutory auditors and the following year by the Group's Internal Audit organisation. The auditors make a formal report on their conclusions. Thales International is certified ISO 9001:2000.

The Government Commissioner is kept constantly informed of all issues arising in this area. The Commissioner attends Thales International board meetings.

Specific awareness and training programme

Thales is pursuing a major effort to raise employee awareness and provide training on issues related to all forms of corruption. The company has issued a Reference Guide on Ethics in International Trade and a Behaviour Guide on Ethics in International Trade, both addressing the fight against corruption.

The first conference of the 140 states party to the United Nations Convention against Corruption (UNCAC) was held in Jordan from 10-14 December 2006. The International Chamber of Commerce (ICC) and the Global Compact asked Thales to chair the committee tasked with drafting a declaration by private-sector companies on the implementation of the Convention.

As chair of the committee, Thales reiterated the need to create a level playing field between competing companies while reducing the pressure of "passive" corruption. Private-sector firms, provided with an opportunity to express their views within the scope of an international convention for the very first time, stressed the need for an effective monitoring system and stronger mechanisms to prevent enticement and extortion in order to keep the industry free of corruption.

All the main Thales Université training courses related to sales and marketing also include modules specifically devoted to the fight against corruption.

Responsible supplier relationships

Thales has an ongoing commitment to developing responsible, fair and sustainable partnerships with suppliers for the mutual benefit of all parties.

Genuine commitments

In view of the sums involved, supplier relations are a key issue for Thales. The Group therefore applies competitive purchasing procedures and methods in strict compliance with the principles laid down in its Code of Ethics.

The Code stipulates that cooperative relationships based on mutual good faith must be established with suppliers. All Group purchasing staff are required to apply this requirement, and receive appropriate training to support them in this endeavour.

Selected suppliers

Programmes are managed cooperatively with Thales suppliers. This type of cooperation involves selecting the most appropriate suppliers for each market, and developing relationships that create value for Thales as well as its suppliers, customers and shareholders.

Fair selection of suppliers

Suppliers are selected in accordance with Group purchasing policy, based on objective evaluation of their performance and

Thales has on occasion been named in alleged irregularities and failures to comply with international legislation and national laws. When it has considered these allegations to be unfounded and false, the company has filed official complaints. In all cases, it has cooperated fully with the national legal authorities.

Recently, in a number of legal proceedings overseas, no charges were brought against the Group. In the few isolated cases where the suspected irregularities were found to be true, the company responded in two ways: it sanctioned the employees responsible for breaking the law and contravening its internal rules; and it tightened the procedures already in place.

Steps are also being taken to strengthen internal control procedures, including the appointment of Compliance Officers at all major entities across the company and the creation of a Risks and Internal Control Committee at corporate level.

Measures are also being introduced to make the procedures for delegating responsibilities within the organisation both clearer and stricter. level of commitment. The policy aims to apply fair selection procedures in the best long-term interests of the Group.

Reliability and sincerity

To make effective decisions, Thales's partners must have access to the information they need to optimise their activities with the Group. All Thales employees must therefore endeavour to provide the requisite data and documents in a sincere, reliable and prompt manner.

Realistic commitments

Making a commitment to an outside organisation brings the Group's image and assets into play. Each Group employee must therefore be sure that commitments can reasonably be kept.

Confidential information

Employees must ensure that commercial, technical or financial information that belongs to the supplier is not divulged outside the Group, or even passed on to other Group employees without good cause.

Protection of suppliers' intellectual property rights

It is Thales policy to adhere to the basic rules concerning third parties' intellectual property rights.

Compliance with the Group's supplier policy

Any employee choosing a solution or a supplier must apply the Thales purchasing and supplier policy.

Responsible purchasing policy

Principles

As of 31 December 2006, purchasing accounts for close to ${\in}5.3$ billion in annual expenditures, equivalent to around half of the Group's consolidated revenues. In view of the nature of the Group's businesses, suppliers based in EU countries account for 85% of purchases. French suppliers, meanwhile, account for 62% of EU purchases.

The Thales purchasing policy is aimed at developing a highperformance and reliable supplier base, capable of delivering technically compliant, value-for-money products and services.

The policy promotes and encourages increased competition and fair opportunities for all suppliers, national and global, including smaller businesses.

Finally, the Thales purchasing policy is implemented within all Units on the basis of processes (including purchasing processes) documented in the Group reference

> A RESPONSIBLE BUSINESS GROWTH

system. The policy is implemented in respect of suppliers via the Group's supplier policy.

Thales's expectations

Once they have been selected by competitive procurement processes, suppliers must be able to support Thales in achieving its business goals:

- Providing competitive and innovative technical solutions in a proactive manner
- Ensuring compliance and on-time delivery throughout product/service life cycles
- Guaranteeing reliability by continuously improving performance and optimising total costs
- Complying with export control, environmental, economic and social requirements as well as with national and international regulations.

Thales conducts its business in compliance with local laws and regulations, and requires its suppliers to do likewise.

Thales adheres to the United Nations Global Compact, which aims to define and implement social regulations that "foster a more beneficial relationship between business and society". Consequently, the company requires its suppliers to follow the principles of corporate citizenship promoted by the Global Compact in respect of the following areas:

- International human rights
- Labour standards (abolition of undeclared labour, child labour, etc.)
- Environment
- Corruption prevention.

Suppliers are responsible for applying export control regulations relevant to goods and services supplied to Thales.

Suppliers undertake to supply products that comply with the environmental regulations (including but not limited to RoHS/WEEE) and health & safety regulations of European and associated end-user countries.

Thales's commitments

Thales is committed to mutually beneficial cooperation with its external partners. The Group therefore continuously endeavours to maintain good, sustainable relationships for the benefit of all parties.

Thales also provides ongoing support for businesses that are spun off as separate supplier companies by guaranteeing their workload during the initial years and monitoring their development in terms of competitiveness, resource availability and technologies.

With regard to its subsidiaries outside France, Thales supports the development of local business by using,

whenever possible, suppliers and subcontractors based in regions in which it is the main employer.

Implementation

The Thales Group's businesses involve high-technology products and therefore require special skills and highly qualified employees. This also applies to its suppliers.

The main actions carried out in respect of current and prospective customers in 2006 were as follows:

- Thales's conditions of purchase now require suppliers to provide a sworn statement of compliance.
- Quarterly or annual meetings were held with main suppliers.
- Supplier relations managers were appointed for main suppliers.
- General Purchasing Conditions were amended to incorporate new regulations.
- The content of bids and proposals was modified, in particular for business development in low-cost countries.

In addition, issues of social, environmental and economic responsibility are addressed and monitored during technical audits carried out in respect of suppliers in high-risk countries, and during preparatory actions with strategic suppliers, with the aim of improving performance. Reviews of operating processes are conducted in respect of around one hundred suppliers each year, resulting in improvement plans.

Awareness campaigns

A number of meetings were held in 2006 to raise awareness among specifiers and purchasers of the importance of complying with principles of ethical business as well as labour regulations:

Purchasing Conference, February 2006:

• The new Group purchasing and supplier policies were presented to purchasers, specifiers and certain suppliers, with ethical business principles highlighted as the basis for relationships with suppliers.

Ethics Training:

• Thales Group purchasing staff received training in the Code of Ethics, while 80 purchasers completed specific training in ethical business principles on their induction into the purchasing function.

European/World Purchasing Directors' meeting

• Training for Country purchasing directors and segment heads on issues such as export control, environment and the Code of Ethics.

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This section of the Corporate Responsibility Report, taken from the 2006 Social Report in compliance with the French corporate governance act (NRE), outlines Thales Group policy towards its employees and the range of actions undertaken in 2006.

The full text of the NRE 2006 Social Report is included in the Thales document entitled Annual General Meeting (available on request).

Thales's high-tech culture, with its focus on excellence, innovation and performance, is shared by all employees and underpins the Group's core values: acting as entrepreneurs and innovators, enhancing performance through teamwork, sharing knowledge and developing the people who contribute to our high-level capabilities. In 2006, Thales continued to demonstrate its commitment to innovation — not just in technologies but in employment and employee relations as well. On 23 November 2006, Thales in France signed three Group-level agreements that provide effective ways to:

Develop the skills and expertise of employees

- Anticipate economic difficulties and their possible impact on employment while supporting professional development
- Improve labour relations, in particular by seeking majority agreement
- Harmonise the social provisions applicable to employees throughout the organisation

In addition, Thales continued to pursue a social policy that transcends national borders and goes beyond the basic principles defined by the International Labour Organisation (ILO). Thales has also adopted these principles, which are formally expressed in its Code of Ethics. Thales's social policy, core values and responsible practices — as detailed in its Code of Ethics applicable in France and worldwide — form the basis of the Group's approach to its people and business activities, and testify to its commitment to local development in each of its Countries.

Employment at Thales

At 31 December 2006, Thales employed 56,847 people. The structure of the workforce1 by geographic region and professional category reflects two of the priorities of Thales's human resources management policy:

First, the Group's expanding global footprint. At 31 December 2006, some 26,105 employees were based outside France (45.9%), including 8,713 in the United Kingdom, 3,267 in Germany, 3,335 in Australia, 2,020 in the Netherlands, 1,610 in Spain, 2,864 in the United States and 1,298 in South Korea².

And second, the high degree of technical qualification of its workforce. More than half of Thales employees are qualified engineers and roughly one-third are technicians.

Geographic breakdown of workforce³

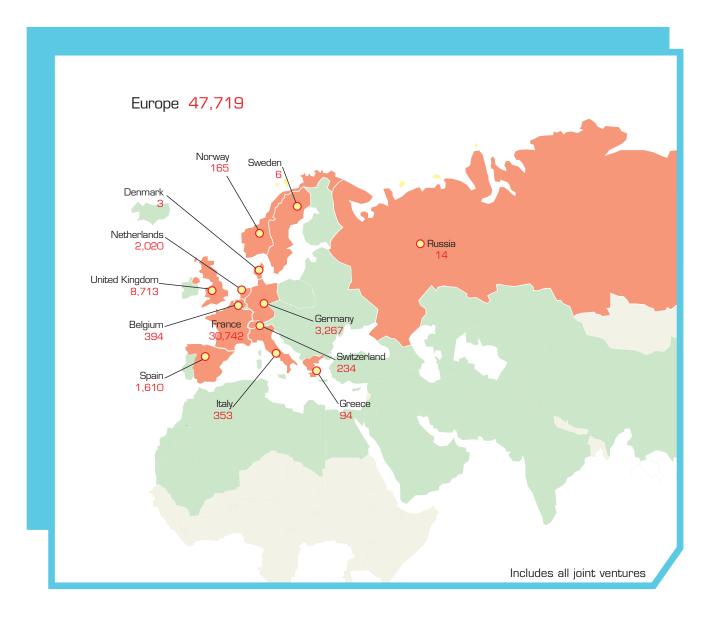
Thales is a resolutely international group with an extensive presence throughout Europe and around the world. The transfer of various businesses from Alcatel-Lucent will enable the Group to pursue this international development in 2007, particularly in countries where it had no prior presence or only minor operations.

- 1. By "employees" or "workforce", Thales refers to all the people on its payroll.
- 2. Local joint ventures have been fully integrated.
- 3. These figures include all employees of joint ventures and of companies that are controlled but not consolidated for reasons related to consolidation criteria.



Europe⁴

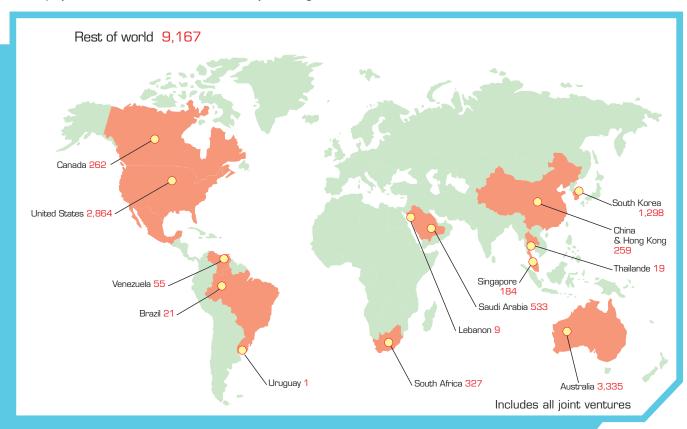
The majority of Thales employees are based in Europe (47,719 people). In 2006, the biggest increases in employee numbers were in Germany and Spain (up 9.5% and 13.3% respectively).



⁴ These figures include all employees of joint ventures and of companies that are controlled but not consolidated for reasons related to consolidation criteria.

Rest of world (excl. Europe)⁵

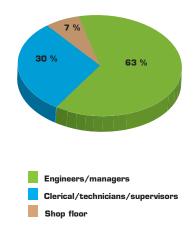
Employee numbers worldwide were virtually unchanged from 2005.



Breakdown of employees by professional category in France

Thales is a high-technology group. Almost 63% of its employees are engineers and managers.

	Year	Engineers/ managers	Clerical/ technician superviso	ns/ rs Shop floor	Total
Group France	2006	18.908	9.153	2.221	30.282⁵
	2005	19.027	9.938	2.353	31.3187
Thales SA	2006	677	180	0	857
	2005	743	219	0	962



- 5. These figures include all employees of joint ventures and of companies that are controlled but not consolidated for reasons related to consolidation criteria.
- 6. Employees excl. joint ventures Helisim (32 people), Odyssée (67 people), Sofradir (290 people) and Ulis (71 people). These figures include Safare employees not included in the e-HR Reporting total.
- 7. Employees excl. joint ventures Helisim, Sofradir, Ulis and Wynid.



Group HR policy: focused on people

At Thales, each and every employee, manager and HR generalist is a vital and valued member of the team. Each team member is expected to maintain a clear vision of their objectives, uphold the Group's core values and conduct themselves accordingly.

Thales provides its employees with high-performance HR management tools, supported by a performance-oriented management system and an exceptional range of opportunities for continued professional development.

Thales HR policy commits the Group to a clear set of principles:

- Each employee is entitled to know what he/she has to do and how work is assessed by manager.
- Each employee is entitled to access information concerning, either directly or through representative organisations, and in as transparent a way as possible.
- Each employee is entitled to know the company's plans for their area of specialisation and activity, to define career paths with management and to benefit from a learning environment, with access to the training he/she needs for continued professional development.
- Each employee is entitled to have performance recognised, without discrimination and based on fair market standards. If professional performance is inadequate, he/she is entitled to a second chance in the form of an action plan.
- No one will be left to cope on own with an employment problem. The Group will propose an alternative, involving mobility inside or outside the Group or another appropriate solution.

Career-management tools: modern applications to support employees

Thales is a high-technology group. For this reason, it is particularly important to provide employees with high-quality IT tools to give them greater autonomy in managing their careers in general and in their choice of mobility options in particular.

HR e-SelfService

In March 2005, Thales launched a new application called HR e-SelfService to encourage closer dialogue between employees, managers and HR generalists, and allow employees to take a more proactive role in their own career development.

The application lets employees update their professional experience, skills and career aspirations.

Each individual employee thus has real-time access to information about their professional development. Shared by employees, their managers and HR managers, this information serves as the basis for all important decisions concerning their professional lives.

Since December 2005, HR e-SelfService has also provided support for the annual activity discussion, which is a key step in the annual cycle of performance management. Constructive dialogue between employees and their managers is the most important part of this process, but the application also supports the other key steps: setting of objectives, self-assessment, assessment and summary report. Before and after the face-to-face discussion, the associated form can now be filled in online (the various people involved in the process add their stamp as each step is completed).

e-Staffing

Successful mobility begins with two things: clear and comprehensive information and effective communication on job vacancies. From any workstation connected to the Thales corporate intranet or the Internet, employees can browse job offers on the Job Marketplace and submit their CVs using their MyThales online candidate space.

The e-Staffing tool is designed to manage internal and external job applications and improve the range of available services to support mobility. It supports internal mobility plans, centralises and facilitates the process of tracking applications and matching candidates to posts, capitalises on applications and enhances Thales's external image as an employer of choice.

On line with Thales's People In Action policy, the e-Staffing tool gives Group employees greater autonomy and ensures that all applications remain confidential. This comprehensive application management process lets each employee create, modify and manage their own "personal space". The tool is highly intuitive and is helping to drive high-quality internal mobility throughout the organisation.

Performance management at Thales: a concerted approach

By implementing a single and formalised performance management process for all its employees, Thales ensures that its approach to human resources management is objective and promotes the values of equality of treatment. The performance management process follows an annual cycle that is identical for each individual employee, from the setting of objectives to the annual assessment and resulting decisions. Thales HR policy is based on a number of principles and rules.

Setting objectives

Employee objectives are both individual and collective. They are defined as part of a proactive process involving employees, their teams and managers.

Employees themselves bring ideas to the table and play a central role in fixing their own objectives.

These objectives must meet a certain number of criteria:

- They must be able to be assessed in a fair and well reasoned manner on the basis of precise and verifiable facts (indicators must also be defined)
- They must be transparent
- A balance must be found between annual and permanent objectives
- Objectives must be demanding, realistic and rewarding
- The resources needed to achieve these objectives must be determined
- The process of defining objectives must take account of the Group's core values

Assessing objectives

Mid-year review: Individual employees and their managers meet to review progress towards objectives. If necessary, they agree on a corrective action plan.

Self-assessment: At the end of the year, employees prepare a self-assessment of their individual objectives, permanent responsibilities and professional conduct.

Assessment: The assessment discussion should be considered as the key to a process of continuous improvement. Managers first listen to the self-assessment made by individual employees, then present their own evaluation of their performance and professional conduct, as well as any professional development actions that need to be implemented. The discussion also provides an opportunity for both parties to express any particular areas of satisfaction or dissatisfaction. All discussions are based on facts and take place in an atmosphere of mutual respect. The employee's strengths are identified and discussed, along with any weaknesses that need to be addressed. The organisation of the team and the general working climate are taken into consideration. Skills and expertise are also evaluated.

Managers and employees use the conclusions of this discussion to define the necessary professional development priorities.

Equality and diversity at Thales

The Thales Code of Ethics sets out the Group's attachment to equality of treatment, which means avoiding any discrimination on the grounds of origins, sex, sexual orientation, age, political or religious opinions, union membership or personal disabilities. Thales takes practical steps to support this policy and ensure that the values of equality and diversity are upheld throughout the organisation.

Gender equality in the workplace

A range of commitments to ensure equal opportunities at work for men and women were presented to the European Works Council meeting on 3 December 2002. A Group-level equal opportunities agreement was signed on 13 January 2004 by all trade union organisations at Group level in France.

This agreement defines the principles of professional equality that Thales intends to guarantee. It also provides a methodology applicable to the Group's French subsidiaries, which are required to implement the agreement and negotiate three-year action plans to support equal opportunities at work for men and women.

- The framework agreement sets forth a range of practical measures including:
- The creation of gender equality committees at each company or site, charged in particular with preparing the annual report on gender equality.
- Equal starting salaries for men and women.
- Salary increases at least equal to the average increases in their category for women on maternity/adoption leave when salary policy is put in place.
- Annual appraisals of the individual performance of female employees for the determination of variable remuneration based on periods of actual activity only, according to the objectives set each year and not subject to any reduction. Objectives are thus adapted to the periods when the employees concerned are present.
- Assessment of training requirements and level of remuneration on return from parental leave.
- Particular attention given to applications from women for positions of responsibility.
- Formalisation of an action plan when unwarranted discrepancies are identified in the respective occupational statuses of men and women in the same professional category (based on comparison of two reference groups).
- Analysis of unwarranted disparities in the level of remuneration between men and women in positions of similar responsibility. This analysis is carried out by the company on the basis of groups of men and women in the same job types or with comparable levels of responsibility in the same job family (with due consideration given to relative experience). If unwarranted discrepancies are found, a three-year action plan is put in place to rectify the situation (but not backdated to the period before the agreement was signed).
- Particular attention given to women who choose to work on a part-time or annualised hours basis.

Implementation of this framework agreement at all companies is supported by a working group at the HR Legal/Ethics Department and including one representative from each Division in charge of gender equality. Representatives of the Group Intercentres were invited to two of the six meetings held in 2006.

During the year, the working group pursued a range of actions to ensure compliance with a proactive policy of equality in the workplace:

 Almost all Group companies signed agreements on gender equality pursuant to the Group-level framework agreement.
 Many of them also implemented three-year action plans with measures adapted to their specific local situations.

> A COMPANY OF CHOICE

- Allocation of a specific budget (equivalent to 0.1% of payroll in 2006) to rectify unjustified collective salary differences between men and women, assessed according to the criteria of expertise, experience and seniority in the post.
- A commercial framework agreement signed by Thales and Crèche Attitude in order to provide places at intercompany childcare facilities in the locality of subsidiaries that have requested them.

At Group subsidiaries, action plans focused in particular on:

- Allocation of the specific budget (O.1% of payroll).
- Revaluation of certain job types. At Thales Microelectonics for example, salary policy included the promotion of 64 women (out of the total 221) in 2006, primarily in the lowest categories defined in the Convention Collective de la Métallurgie (French collective bargaining agreement for metalworkers) sections II.1 to III.3, irrespective of the allocation of the 0.1%.
- Support for the creation of childcare facilities, most notably at ThalesRaytheonSystems.
- Actions aimed at French secondary schools to inform pupils aged 14 to 18 about technical careers at Thales.
 For example, Thales Systèmes Aéroportés has produced a kit presenting the range of technical trades and professions at Thales, aimed in particular at female high school students.

Thales also ensures that these agreements are widely disseminated throughout the organisation and provides regular information for employees. For example, the inhouse magazine Thales Opportunités has included various articles about gender equality in the workplace. Information booklets about these agreements have also been produced.

A scheme to create a seal of assurance for Group companies is envisaged, along with discussions on the subject of the gender equality by the Group at European level.

In the United Kingdom, an audit of unjustified salary differences between men and women was conducted in 2006. A dedicated budget equivalent to 0.1% of payroll was also set aside (according to the same criteria as those applied in France).

In April 2005, Thales UK launched a scheme to provide assistance with childcare costs. Under this scheme, any employee with one or more children at an Ofsted-approved childcare facility receives a payment of $\pounds50$ per child per week towards the fees.

In the Netherlands, Thales Nederland is proactively promoting professional equality in line with the Thales Code of Ethics. Company HR departments in the

Netherlands are committed to ensuring parity between the proportion of female graduates at target schools and the number of women recruited at Thales. The principle of equality also applies to training, most notably for female employees who hold important positions (enrolment on MBA programmes in particular).

A range of measures have been put in place to help employees achieve the right balance between work and family life, including flexible work hours, part-time contracts, parental/extended parental leave, sick leave if a child or other family member is ill and reduced hours due to family circumstances. Male employees are also informed about these measures to help and encourage them to assume their family obligations.

In Germany, legislation on equal opportunities for men and women has been in place for many years. All provisions that create differentiations between men and women have been removed from collective agreements (with the exception of measures to protect the health and safety of the employees concerned). On 1 August 2006, EU anti-discrimination directives were implemented through the German Equal Treatment Act (Allgemeines Gleichbehandlungsgesetz, or AGG). The AGG includes discrimination alert procedures, a system of compensation for victims and provision for collective action in response to infringements of the text. Thales complies fully with all the anti-discrimination measures outlined in the AGG.

In Australia, federal law makes extensive provision to protect and uphold professional equality. The compliance of employment policies and corporate practices with anti-discrimination legislation is monitored by a dedicated agency. Each year, Thales is required to submit a report with performance indicator data to the Equal Opportunity for Women in the Workplace Agency (EOWA). This data is gathered via an annual in-house survey. The various initiatives undertaken by Thales Australia in the area of professional equality were recognised by EOWA in 2005. Key measures include the payment of salary for the first 12 weeks of the 12 month maternity leave entitlement, parental leave entitlement for women and men employed by the company for 12 months or more, an online service to assist families in their search for suitable childminders and Family Biz, an Internet-based service to help employees achieve the right balance between work and family life. Particular attention is paid to the salary levels of female employees.

And lastly, Thales Australia has implemented a policy called Appropriate Workplace Behaviour to reinforce its commitments and provide employees, candidates, visitors and customers with a working environment that is free from all forms of discrimination, harassment and victimisation.

Internationalisation and cultural diversity

Due to the international nature of its business activities and its multidomestic development strategy, Thales is resolutely committed to the preservation and promotion of cultural differences throughout the organisation. In recent years, Thales entities have adopted an increasingly diversified approach to recruitment, with teams becoming more internationalised.

To make the most of this diversity, the Group has launched a dedicated employee awareness and training programme.

As part of this programme, newly hired employees are required to attend the Welcome to Thales Convention, which includes open debate on such topics as national, cultural and workplace diversity. New hires are thus introduced to an open corporate culture in which differences are promoted and valued.

Specific training is also provided to help employees in multicultural environments to work as effectively as possible and benefit from their relationships with other team members.

To encourage HR managers in the pursuit of these values, collective objectives are set and reiterated at international meetings. Personnel reviews also take account of these objectives.

Employment of people with disabilities

In France, Thales implemented a range of actions in 2006 in line with new legislation introduced on 11 February 2005 to promote equal rights and opportunities and the full integration and citizenship of people with disabilities.

Thales has championed the cause of disabled people in the workplace, deciding as early as 1992 to formalise its commitment through a Group-level agreement.

This policy led to the signing of a Group-level agreement on the employment of people with disabilities on 13 November 2004. This agreement was the first companywide undertaking of its kind in France and came into effect ahead of the new legislation introduced in February 2005.

Under this accord, Thales is committed to recruiting 100 people with disabilities (including 10 on work-study contracts) over a four-year period (2004-07). To facilitate their integration, funding is provided for any training needed to help them assume their functions. Thales has also committed to hosting 240 disabled students on work placements over the same period.

Thales is continuing to pursue an ambitious and innovative approach in response to two recurring difficulties. The first is that people with disabilities are typically underqualified in the specialist areas required by a high-tech group. The second is the lack of technical aids to support disabled people in the workplace, which effec-

tively forms a barrier to training and employment. To overcome these obstacles, the Group is pursuing two lines of action:

- Action plans defined under the agreement and designed to promote employment and technological innovation.
- A dedicated structure within the Human Resources Department in France known as Thales Mission Insertion, which provides impetus and coordinates the action of Group companies.

This dual approach has led to some notable achievements. The number of people with disabilities employed by the Group has risen steadily since the first agreement was signed. From 2.91% in 1992, the figure had reached 5.98% by 2006 (calculated according to the criteria stipulated in the 1987 Act on the employment of people with disabilities).

This steady progression reflects the Group's long-term commitment to the employment of people with disabilities in an environment where jobs are in a state of constant change and the necessary skills are rare and highly valued.

More than 1,300 people with disabilities are currently on the Thales payroll. The rising employment rate is a direct result of the new dynamic created with the implementation of the Group-level agreement, whereas the employment situation in general has been largely unfavourable.

In 2006, Thales stepped up its efforts in three areas:

• Employee awareness

Communication actions have aimed primarily to provide practical responses to the specific issues faced by Group companies and disabled employees in their day-to-day work. As well as the brochure on disabilities in the workplace, aimed at all employees in France, a dedicated intranet site has been created and is now on line. This site can be accessed by all Group employees from their workstations. In addition, communication actions have been launched by Group companies at eight sites — Bordeaux le Haillan, Châteaubourg, Cholet, Colombes, Guyancourt, Massy, Toulouse, Valence — to support employment and describe the various technical aids developed to assist disabled people in the workplace.

Continuation of student sponsorship agreements and actions to raise awareness

Thales pursues an active strategy of collaboration with universities and business/engineering schools in order to promote its disability policy and prepare students with disabilities for careers with the Group.

This year, student sponsorship agreements were renewed with Paris VI, Paris VII and Paris XI (Paris Sud)



universities. Support was provided for 10 handicapped students in the 2005-06 academic year.

On 30 June 2005, Thales was awarded the MEDEF prize in recognition of its action in favour of young people with disabilities and was also acknowledged at the 2006 ceremony for its follow-up to this support over the next year. Thales strengthened its ties with France's top business and engineering schools by becoming a corporate partner of the Conférence des Grandes Écoles association and providing support for the Handi-management project and the convention signed by the association and AGE-FIPH (fund for the integration of people with disabilities into the world of work).

Increased support for disabled people in their jobs

In 2005, some 120 people received assistance from Thales Mission Insertion. Mission Insertion's investment budget for this period was approximately 1 million euros. Numerous improvements were made at Group sites to provide full access for people with disabilities, most notably at the Thales Université campus.

In 2006, eight people with disabilities benefited from assistance to maintain their activity within the Group, either in support of a job protection plan (in accordance with the provisions of the Group-level agreement) or in support of their career development.

On 16 October 2006, more than 100 delegates (Group HR managers, healthcare/social welfare specialists, doctors/consultants, political decision-makers, elected representatives, managers responsible for integration at major companies like Total and Alcatel-Lucent, etc.) attended an event called Human Resources & Disabilities at Jouy-en-Josas, near Paris. Two clear conclusions emerged from the discussions. First, a closer understanding of disability in all its forms is the key to a successful HR strategy. And second, exchange of ideas and experience between all players in professional integration will greatly increase the range of opportunities for people with disabilities.

All Group companies with operations in European countries have taken the necessary steps to implement national and EU regulations concerning the employment of people with disabilities.

A safe and healthy workplace

Thales is committed to providing a safe and healthy environment for its employees and attaches particular importance to working conditions.

Working hours

Thales's policy on working hours is designed to allow employees to achieve the right balance between work and family life. France: On 5 July 2000, the Thales consultation-negotiation body (made up of representative union organisations at Group level in France) specified a set of common principles for the implementation of new government legislation on reduced working hours at Group companies, particularly those governed by the French Convention Collective de la Métallurgie (collective bargaining agreement for metalworkers).

In accordance with this framework agreement, most Group companies in France concluded agreements as follows:

- For monthly-paid employees, working hours organised on the basis of 35 hours per week on average over the year, with accumulated hours taken as days off (the most common arrangement being 37.5 hours on average per week with 15 days off).
- For executives, provisions involve a reduction in the total number of hours or days worked over the year, on the basis of 210 working days annually (extra days off being the most popular choice).

Employees have continued to benefit from the option of part-time contracts, concluded on the basis of the agreed standard working week applicable at Group companies (37.5 hours for example) and reduced as 0.8, 0.6, 0.5 contracts, etc. with accumulated hours taken as days off (pro rata). Independent executives are entitled to a pro rata reduction in the number of days worked per year (for example 0.8, 0.6 or 0.5 of 210 days).

New agreements or amendments to pre-existing agreements have been negotiated at Group companies subject to prior accords to bring them into line with the Group-level agreement. In January 2003, Thales Underwater Systems concluded an amendment to the accord signed on 6 July 1998. Thales Avionics concluded an agreement in February 2004. And on 20 June 2006, Thales Optronics signed amendment no. 3 to the ADER accord of 12 June 1998.

Within the Group in France, total paid overtime amounted to 60,551 hours in 2006.

	Executives	Non Executives	Total ⁸
Full time	17 955	10 507	28 462
Part time/			
annualised hours	919	842	1 761

In the United Kingdom, Thales employees work an average of 37 hours per week. Up to a certain salary or reporting level, overtime hours are paid. Overtime rates vary from time-and-a-third to double-time. In addition, Thales UK employees benefit from a system of flexible working hours.

In the Netherlands, Thales employees work an average of 40 hours per week with a provision for extra rest days (13 per year rota free), which equates to 38 hours worked per week over the year. Non-executive employees who work overtime are given time off in lieu or are paid for the extra hours worked. Some 89.5% of employees work full time. Any employee can ask to work on a part-time basis (i.e. less than 40 hours per week, typically 36 hours).

In Germany, unionised units are covered by the collective bargaining agreement for the metallurgy and electronics industries. The standard working week is 35 hours (40 hours for managers). At non-unionised units, the standard working week is 40 hours for all employees.

In Australia, employees work an average of 38 hours per week. Certain employees can however benefit from a working week of between 37.5 and 40 hours. The majority of employees are on full-time contracts.

A safe working environment

Occupational accidents and absences in France in 20069

NAVAL: At Thales Underwater Systems (1,331 employees), 9 occupational accidents were reported in 2006 (6 resulting in sick leave). The number of persondays not worked due to occupational accidents was 426.

AEROSPACE: (9,450 employees): Within the Division, 124 occupational accidents were reported in 2006 (42 resulting in sick leave). 8 cases of work-related illness were declared, primarily musculoskeletal disorders. The number of person-days not worked due to occupational accidents or work-related illnesses was 1,575.

AIR SYSTEMS: At ThalesRaytheonSystems (587 employees), 9 occupational accidents were reported (5 resulting in sick leave). Thales Air Defence and Thales ATM (2,380 employees in total), now combined as Thales Air Systems, reported 35 occupational accidents (21 resulting in sick leave), 1 case of work-related illness and 277 person-days not worked.

SECURITY: At Thales Transportation Systems (784 employees), 9 occupational accidents were reported (3 resulting in sick leave). The number of person-days not worked due to sick leave was 33.

LAND & JOINT SYSTEMS: At Thales Communications France (4,688 employees), 18 occupational accidents resulting in sick leave were reported, equivalent to 283 person-days not worked. A further 28 occupational accidents not resulting in sick leave were reported. 2 cases of work-related illness were declared.

SERVICES: At Thales Services (4,182 employees), 21 occupational accidents were reported (12 resulting in sick leave).

In 2006, the absence rate was 3.35% of total Group employees. The proportion of absences due to illness was 58.2%. Maternity leave accounted for 9.55%. The overall absence rate is thus not excessive.

Employee safety risk management

Guaranteeing safety in the workplace is a major concern for Thales. The Code of Ethics sets out the Group's commitment to provide a safe and healthy working environment for each individual by (as a minimum) implementing the statutory provisions in force, monitoring procedures, preventing health risks and occupational hazards and providing personnel training.

The Reference Guide to practices and procedures applicable within the Thales Group defines the risk management and security process needed to detect, measure and limit possible risks and plan for contingencies. The overriding aim is to avoid any situation that could compromise the safety and/or security of people or property. This process is regularly updated and includes a number of directives adapted to the various phases of product design and manufacture. The Reference Guide is available to all Group employees via the corporate intranet.

Since July 2002, Thales HR managers have been briefed on the need to carry out prior assessments of the risks to which employees are exposed in order to provide a higher degree of health and safety protection and further improve working conditions at each company.

The results of the health and safety risk assessments performed at all Group companies are collated and summarised in a single document.

Thales's risk management policy takes account of four main parameters:

- Management of employment, IT and disaster risks, established in coordination between the Group Security Department, Division executive management and HR Department.
- Management of risks associated with the Group's partners.
- 8. Total employees France according to e-HR Reporting data. Excludes joint ventures Helisim, Odyssée, Sofradir and Ulis. Also excludes Safare.
- 9. Due to the time interval between the NRE Report and the Social Responsibility Report, some subsidiaries have not yet consolidated their accident/illness figures.

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- Responsibility for risk management and implementation of Group procedures placed at company level.
- Information for employees concerning their potential role in safety and security, in particular through delegation of authority.

Four of the Aerospace Division's French sites achieved OHSAS 18000 certification in 2006: Bordeaux-le-Haillan, Brest, Châtellerault CLI and Valence. This proactive initiative will be pursued in 2007.

Among the specific measures included, international travel is covered by a separate directive called Security of Travelling Abroad. This directive sets out the rules applicable to the preparation of travel, business trips themselves, extended stays abroad and conditions of return. Thales has implemented a specific policy concerning the security of personnel on overseas assignments, particularly in countries identified as high risk. Under this policy, if the security measures envisaged cannot be applied or are deemed inadequate to ensure the safety and security of employees, and if no alternative can be found, the Group proceeds with cancellation of the assignment.

The terrorist attacks of 11 September 2001 underscored the importance of a rigorous policy to protect people and property. A crisis management team can be activated at any time in response to any serious situation or event that could adversely affect the Group. Continuity plans have also been prepared.

Thales UK subscribes to the Directors Code of Practice published by the Government Health & Safety Commission (HSC).

Thales UK believes in promoting a culture in which each individual employees knows that have the necessary resources, equipment and training and duly authorised to apply the highest standards of safety and security to protect themselves, their colleagues and any other persons. Thales UK health and safety policy includes:

- Identification of priority areas of action through assessment of the permanent risks associated with its activities.
- Implementation of appropriate and effective practices, in particular through a network of qualified H&S Advisors, whose role is to support H&S managers and management systems.

- A permanent training programme to make employees aware of health and safety issues and their responsibilities in this area.
- Efforts to encourage joint ventures under the operational control of Thales to apply this policy and exert their influence to promote it in other companies.

A team of H&S specialists at corporate level collates statistics and prepares reports on a quarterly basis for submission to the Board of Directors of the UK subsidiary. In addition, a network of H&S professionals has been put in place to ensure that each site has a duly qualified person responsible for health and safety risks.

Thales UK health and safety policy produced some significant results in 2006, following the rollout of the OHSAS programme the previous year. One of the keys to this success has been the commitment to achieve OHSAS 18001 certification at all UK sites. By 31 December 2006, 86% of Thales companies in the United Kingdom had achieved compliance.

Alongside certification, an important project was launched during the year: Thales UK has developed a strategic approach to manage employees health and reduce the amount of sick leave due to occupational accidents or work-related illnesses.

The Health, Safety & Environment (HSE) Department in cooperation with Thales UK Corporate Human Resources conducted a survey of stress in the workplace. Some 800 employees at all UK sites took part in the survey, known as THOR (Thales Healthy Organisation Review). Senior management was closely involved: the project was coordinated by a corporate team supervised by the HSE Manager and supported by the Vice President UK Operations and Vice President HR UK & International Operations.

The results of this study will be used to prepare an action plan in 2007.

In 2006, dedicated resources and services were developed and maintained under the H&S programme in order to bring all UK sites into line with the provisions of the Thales Code of Ethics and provide employees with a safe and healthy workplace. This programme included:

• Health and safety training for employees at these dedicated services to further develop their knowledge and expertise.

Group-wide rate of absence in 2006

	Engineers/ managers	Technicians	Supervisors	Administrative	Skilled workers	Specialised workers	Total
Total absences	2.32%	4.33%	6.43%	5.18%	6.53%	11.92%	3.35%
Due to illness %	1.13%	2.79%	3.75%	3.48%	4.20%	8.92%	1.95%
Due to maternity %	0.34%	0.22%	0.00%	0.43%	0.40%	1.41%	0.32%

Ten employees are preparing for an advanced diploma in health and safety management.

- Continuation of the health and safety coordination network.
- Creation of a Health and Safety Working Group to share best practices in health, safety and wellbeing policy and develop other programmes in this area.
- Creation of common standards applicable at all Thales UK companies.
- Preparation of an HSE scorecard to provide information on proactive and responsive indicators for Thales UK. This scorecard is used to assess HSE performance and conduct internal and external benchmarking.
- Creation of a corporate centre of excellence to advise on best practice and legal compliance.

In the Netherlands, Thales Nederland is committed to the continued development of its occupational health and safety policy. To this end, an internal organisation has been put in place. This organisation is supported by outside professionals with responsibilities in the prevention and management of employee health problems.

At Thales Nederland companies, the rate of absence due to illness fell from 4.17% in 2004 to 3.99% in 2005.

In Germany, occupational health and safety policies are pursued and implemented primarily as part of the mandatory insurance system, particularly in sectors that involve a certain level of work-related risk. In addition, a network of H&S Officers has been put in place. Officers have been appointed at each production unit and have received the necessary training.

In Australia, health and safety at work is governed by specific legislation based on general obligations. Thales meets its health and safety obligations through a policy of involvement of each and every employee. All Thales Australia companies have implemented health and safety systems, procedures and practices. Each site has an Occupational Health and Safety Committee, and all committee members have received specific training through a course approved by a professional organisation (Workcover). Safety is also included in the range of objectives set for managers. The positive results of this policy for both the company and its employees include a reduction in the number of occupational accidents and the duration of sick leave taken as a result.

Employee health at Thales

Thales's activities have evolved considerably over the recent decades, from metallurgy to state-of-the-art technology. Such a profound and large-scale shift in industrial focus has inevitably led to adjustment difficulties among older employees. To address this concern, the Group HR Department in France, in partnership with company medical officers, launched a vast epidemiological survey into the health of Group employees: the THEOREM programme.

This programme served a dual objective:

- Document, quantify and understand how the relationship between age, health and work evolves throughout the professional careers of people in the high-tech sector.
 Help the occupational medicine community to recognise
- Help the occupational medicine community to recognise and guard against the processes that lead to difficulties at work for employees in the last 15 years of their professional lives.

This study involved 30 company medical officers and an epidemiologist recruited specifically for the duration of the programme. The THEOREM programme was jointly funded by Thales and FACT (Fonds d'Aide à l'Amélioration des Conditions de Travail/fund to support the improvement of working conditions).

A summary report was presented to the follow-up committee in December 2004.

The results showed that the work organisations currently in place within the Thales Group have no particular consequences for employees over the age of 50, nor any aggravating effects on the types of disorders most commonly observed in this age bracket (sleep disorders, emotional reactions, nicotine addiction, higher levels of fatigability, etc.).

The study highlighted nonetheless the need for employees over the age of 50 to invest in the support and supervision of younger people in the workplace.

Thales thus decided to foster closer working relationships between the generations, provide continued training for older employees to support their career development prospects and place greater emphasis on the transfer of expertise and experience.

To mitigate the risk of losing certain skills, a skills transfer network has been created at Group level. A dedicated team is tasked with organising reciprocal exchanges of experience, identifying and acting on requirements, supporting awareness-raising actions, encouraging teamwork, assisting with the formalisation of standard approaches and upholding the importance of valuing the more senior members of the workforce. On the basis of a matrix with knowledge importance on one scale (from essential to strategic) and how it is formalised on the other scale (from explicit to tacit), three methods of knowledge transfer were defined: knowledge databases, training and personalised mentoring.

Knowledge transfer procedures have been incorporated into the AVEC agreement (Accord sur la Valorisation de l'Expérience et la gestion des fins de Carrières/valuing experience and managing retirement) as a way of recognising and capitalising on the experience of Thales employees. Mentors and mentees alike benefit from personalised and motivating support.



At Thales Electron Devices in Moirans, the Image Intensifier Tubes and Displays department has implemented a procedure to consolidate its knowledge base. Since 2004, ATMS has focused on the preparation of knowledge transfer in the areas of customers, markets, functional operations and complex engineering. At ThalesRaytheonSystems, mentoring arrangements have been put in place to facilitate succession in each function.

Innovative social security protection for all Group employees in France

For the first time in Thales's history, common social provisions will be applied across all companies within the Group's scope of consolidation in France, thus facilitating internal mobility within the organisation.

As laid down in the agreement of 23 November 2006, which contains six statutes, this new common baseline extends and reinforces existing social provisions on a number of points. From 2007, all Group employees thus benefit from a new and innovative system of social security cover offering a higher level of protection and security.

The main provisions are:

- Harmonisation of measures concerning seniority leave and exceptional leave due to family circumstances, irrespective of professional category.
- Reinforcement of measures allowing exceptional leave of absence for employees with handicapped children.
- Harmonisation of provisions concerning work-related illness, occupational and commuting accidents and complementary compensation, irrespective of socioprofessional category.
- Creation of a retirement saving scheme open to all employees and designed to encourage investment in preparation for retirement.
- Implementation of a new insurance scheme for all employees (healthcare, death, invalidity, incapacity) offering better cover than the previous scheme on all points (hospitalisation, illness, optical, dental/implants, expenses not reimbursed by state social security) and combined with a system of direct payment to pharmacies.
- The agreement also comprises a dependence scheme in the form of a collective contribution-based benefit that is defined and applied on a lifetime basis, including the case of employees who leave the Group. The scheme is designed to take account of the increase in life expectancy, the difficulties encountered in later life and the uncertainties of the future, and will provide all Thales employees with a guaranteed minimum pension.

This new agreement thus constitutes an important step forward, providing an identical and higher level of social security cover for all employees while at the same time reducing contributions and ensuring the long-term sustainability of the contract.

Closer dialogue with employees in France

Thales is committed to constructive dialogue with employees and has continued to develop communication and consultation at different levels. The agreement of 23 November 2006 reaffirms the commitment of Group senior management to provide employee representatives with the resources they need for constructive and effective action, translating into an excellent balance sheet of negotiations in 2006.

Forums for social dialogue adapted to the Group

Group-wide consultation and negotiation

In addition to the negotiation structures already in place, an additional consultation-negotiation body was created in partnership with the various trade union organisations at Group level in 1998.

This new body provided the framework for negotiations in preparation for the Group-level framework agreement on reduced working hours, the AVEC agreement on valuing experience/managing retirement and the framework agreement on gender equality in the workplace, signed on 13 January 2004.

Under French labour law, Group-level agreements now have the same validity as agreements with individual companies. Since 2005, Thales has been negotiating Group-level agreements that are directly applicable to all companies within their scope.

Group-level union coordination structure

Under the terms of an agreement concluded in 1999, Thales recognises the Intercentres trade union coordination organisations at Group level. Intercentres are dedicated structures set up to interface with Group corporate management, identify issues of common concern and proactively prevent labour disputes.

To help trade union organisations coordinate their local sections more effectively, Thales allows each organisation at national level to create a central structure. These structures have one permanent representative per union organisation and their own budget.

Employee relations are necessarily affected by the emergence of new communication media such as the Internet and corporate Intranets. To take account of these developments, an amendment was added to the agreement of 15 November 1999. This amendment included a charter

signed on 26 August 2002 by each union organisation. The charter makes provision for the creation of trade union sites/sections on the Group corporate Intranet. The amendment and the charter were renewed with a second amendment, signed on 21 December 2005.

The agreement of 23 November 2006 includes a number of new provisions for trade union coordinators:

- Intercentres receive a copy of all documents issued to members of Group works councils and European company works councils, as well as the Thales SA central works council.
- As part of Group-level negotiations, the delegation representing each union organisation may comprise four members, each with a union mandate.
- Representatives of each Intercentre are offered four days of training in legal or economic issues, or attendance at seminars.

Group Works Council

The Thales Group Works Council brings together representatives from all French companies within the Group's scope of consolidation. It was renewed on 27 October 2005.

In 2006, four plenary meetings were held, including one extraordinary meeting. A small group meeting was also held.

European Works Council

An amendment to the agreement of 16 November 1993, signed on 1 March 2002, gave significantly extended responsibilities to the European Works Council.

The agreement includes:

- Two ordinary annual meetings.
- Further meetings convened in exceptional circumstances, where justified. In particular, in the case of transfers, mergers, acquisitions, disposals of companies with more than 500 employees or redundancies involving more than 150 people in at least two countries, the European Works Council will be consulted before procedures at national level are completed.
- Communication/consultation with Council members.
- A liaison committee that meets once every two months in order to guarantee regular and high-quality information.
- A meeting between the union organisations of Divisions or groups of companies engaged in similar types of activities, in order to further strengthen social dialogue at European level.

On 5 April 2006, the European Works Committee was renewed and a new secretary was appointed. In 2006, five plenary meetings were held, including three extraordinary meetings.

Renewed rights of association

Thales recognises the essential role of employee representatives.

The agreement signed on 23 November 2006 serves two objectives: increase recognition of rights of association and further develop social dialogue.

The Group thus demonstrated its commitment to pursue any action within a clear framework of social responsibility and to seek new avenues of progress in partnership with social partners and in complete transparency.

The agreement on union membership and labour relations signed on 23 November 2006 aims to promote constructive social dialogue by providing employee representatives with information on all aspects of the economic and employment situation within the Group. A meeting will be convened once per year between Group corporate management and Group-level representatives and companies within each Division to discuss the main economic and social issues.

The text also gives employee representatives easier access to the information they need to pursue their missions (union organisations recognising in return the need to treat confidential information provided by corporate management as such).

The major innovation of this agreement is the Group's commitment to work closely with social partners to seek majority agreement and ensure that each solution represents the broadest possible consensus. To ensure that each Group-level or company-wide agreement has the highest level of legitimacy, Thales is committed to acting on a majority agreement only (with the exception of mandatory annual negotiations and local agreements).

For a three-year period from the date the current agreement was signed, Group management has thus concurred that no Group-level or company-wide agreements will be concluded unless they are first signed by one or more representative union organisations that have gained at least half the votes cast in the first round of the most recent works council elections. At the end of this three-year period, the parties to the agreement will meet to examine the renewal of this provision.

The agreement also calls for the introduction of a right to referral at Group level to allow union organisations to discuss issues of common interest and promote the right of association within the Group by defining the resources that employee representatives need in order to pursue their missions under satisfactory conditions, both at company and Group level.

Thales undertakes to recognise trade union action by facilitating conciliation between employee involvement in the exercise of union representation mandates and the pursuit of their professional missions; by providing



each employee representative with the training they need to maintain their level of professional qualification; and by allowing employee representatives to access professional training on the same basis as other employees.

This agreement complements the various other accords already in place, which also provide a range of innovative measures and resources to support the action of employee representatives.

Thales supports the role of national trade union federations and their action in the areas of social protection, retirement/pensions and industry-wide negotiation.

To this end, the Group in France has allocated an annual budget and has signed bilateral agreements with the various organisations to ensure that this funding is distributed in a transparent manner and according to their respective level of representation within the Group.

Negotiation in 2006

At Group level

Thales is a high-technology group and is also an innovator in terms of employment and employee relations. The three agreements negotiated with the Intercentres at Group level and concluded on 23 November 2006 are the effective implementation of three major advances in employee relations.

The first agreement provides Thales with a method for anticipating changes in employment needs, professional development and training more effectively and offers employees a more diverse range of career options.

The second agreement concerns labour relations and union membership. Thales recognises trade union activity as a service to the broader community and has made every effort through this agreement to promote transparency and avoid any form of discrimination. The commitment to seek majority agreement reflects Thales's broader policy of majority participation and responsibility. The third agreement covers the various social provisions applicable to Group employees. By harmonising the various provisions applicable to different employee categories at Group level, it creates a common baseline that strengthens cohesion throughout the organisation. This harmonised approach will generate economies of scale and create a situation ensuring better protection at lower cost for employees while maintaining a balanced cost structure for the company.

Other agreements have also been signed.

- 21 December 2005: Agreement providing for a single AGIRC-ARCCO representative. Agreement on the support of confederate union organisations. Amendment to the agreement on resources for Intercentres.
- 31 January 2006: Agreement on the membership and functioning of the Inter-company committee.

Agreements in France

As well as the mandatory subjects of negotiation, Group companies in France concluded a series of agreements in 2006.

The negotiation and conclusion of company-wide agreements on gender equality in the workplace, along with associated amendments specifying three-year action plans, continued at companies that do not have the necessary agreements in place: Thales Microelectronics, Thales Underwater Systems, Thales Electron Devices, Thales Communications and Thales Services.

Air Systems Division: As part of the relocation of Thales Air Systems from Bagneux to Rungis, an agreement is currently under negotiation on the conditions concerning the transfer of personnel from one site to the other. This agreement is a continuation of the conditions negotiated in 2006 to support the transfer of part of the Thales Air Systems workforce following the reorganisation of the Surface Radar business line.

At Thales Air Defence, a pilot agreement on Proactive Resource Management was concluded in March 2006 (see box on page 49).

Aerospace Division: Thales Airborne Systems negotiated an agreement on the measures to support the transfer of business activities to Brest and Pessac as part of the competitiveness plan and a second agreement on voluntary participation as part of this transfer.

At Thales Avionics, an agreement on the organisation of working hours was been concluded.

Outside France

Thales UK signed a partnership agreement with two trade unions: Amicus and GBM. This agreement does not cover the activities of the Security Solutions & Services Division. The purpose of the agreement is to propagate Group best practice and in turn create a proactive network to support and promote Thales's dynamic image and positioning in the United Kingdom. The actions undertaken by this network are beneficial for employees and will help to improve the Group's competitive performance and ensure the continuing good health of the aerospace, defence and security sectors.

Commitment to professional development, training and job security

Long-term job/career security is one of the major objectives of the agreement on the anticipation of changes in employment, professional development and training signed on 23 November 2006. In a new approach to providing trade union organisations and employees with advance information on the anticipated evolution of

employment and job families within the Group, various new tools have been implemented to help employees develop their skills and adjust their career and training choices.

Management of job families and specialists

Developing people is one of the Group's core values. This policy serves two key objectives:

- Help each individual employee to thrive and find fulfilment in their work and to broaden their horizons and experience according to current and future opportunities, career aspirations and abilities.
- Increase their future employability in a fast-changing and increasingly complex world.

The efficiency of this policy is the result of adapted processes and a greater emphasis on anticipation, transparency and initiative.

Human Resources development is the responsibility first and foremost of the operational organisation (strategic business lines, Divisions, etc.).

This operational dimension is a natural first avenue of opportunity in human resources development.

The Group's extensive global footprint and broad range of specialist areas (organised into job families) offer two further avenues for development and a more diverse range of career options.

At Thales, jobs are organised into job families to provide a clear framework for career development and forward planning:

- In the medium to long terms, by allowing greater visibility on developments and trends within each broad job type, resulting from forward analysis and taking account of environmental factors (context, technologies, markets, etc.). This open approach makes it easier to understand and anticipate the effects of these developments and trends in terms of qualitative and quantitative changes in HR requirements and to prepare the necessary adjustment plans (training, mobility, recruitment, retirements, etc.).
- In the short to medium term, by supporting professional development, as encouraged by the Group, and increasing the future employability of each employee. This provides employees with better visibility on job types as well as on the access pathways and opportunities to progress within each job family, or move from one job family to another. It also helps management teams to improve their contribution to the professional development of employees, in particular by giving a clearer perspective on the needs of the company and the aspirations and options open to employees.

The job family organisation model took on a key dimension within the Group in 2006, serving as a vital support for both the conclusion and the preparations for implementa-

tion of the Group-level agreement on the anticipation of changes in employment needs, professional development and training. The model thus provides the necessary framework for forward analysis and more effective anticipation of future employment needs.

Thales is a high-technology group renowned throughout the world. Its technological leadership is based on a community of specialists, which are an incredible source of innovation. The Group has introduced an innovative dual career ladder as a way of recognising the value and contribution of specialists in each job family and at all levels of responsibility. With this dual ladder, managers and specialists at equivalent levels of responsibility are managed in exactly the same way. Lateral mobility is encouraged within this dual ladder.

Since specialists represent a competitive advantage for the Group, it is important to be able to identify and recognise them, assist them with professional development and enable them to network effectively, contributing in turn to a better system of knowledge sharing and best practice throughout the organisation. To achieve this goal, specific processes and tools have been put in place, both at Group level and within each Division.

The recognition of specialists is also part of the effective implementation of the Group's core values, translated into objectives.

Thales Missions & Consulting

Thales Missions & Consulting (TM&C) was set up in 1999 to provide senior managers with new opportunities for professional development and mobility, allowing them to apply their professional experience by progressing to consultancy roles within the Group.

TM&C has since gained recognition not only for its services to the Group, but also for the successful professional development of its consultants.

To support their development, the Group offers its senior managers an innovative career option involving training in consultancy followed by an 18-month detachment leading to a more permanent position within the organisation. Hands-on experience in customer relationships through a series of consultancy missions helps to develop their skills, autonomy and ability to manage change.

This is made possible through personalised mentoring, seminars and workshops, which enrich and structure their progress, and through immersion in a multidisciplinary network.

In 2006, TM&C consultancy activities focused on four key areas: programme management, organisational efficiency, customer relationship management and change management.



In each area, TM&C supported the application of Group policy.

Professional development

Developing people is one of Thales's five core values. For this reason, the Group advocates the effective anticipation of requirements through transparent information within the framework of regular dialogue with union organisations and employees. It also places great emphasis on individual initiative.

Professional Development Discussion

For Thales, this annual appraisal is a fundamental part of the professional development process. For individual employees, it provides a key opportunity to review career progress with managers and discuss continued development in their current posts and career options and aspirations for the future. Through an agreement, the Group has committed to extend the Professional Development Discussion to all employees from 2008.

The objectives of the Professional Development Discussion are to identify the skills that employees need to acquired or develop, identify any gaps or underperformance in the current post, clarify career aspirations and consider the best way to achieve them (training, practical experience, etc.).

The discussion provides an open and practical way to approach human resources development. It takes account of the skills and performance of each individual employee, their concerns and expectations (subsequently incorporated into the broader orientations of the company), the consensus of management on the possibilities open to them and the requirements of the company.

Beyond this formal discussion between employees and their managers, provision is also made for a more personalised analysis focused on the individual and his or her career path. This support can take the form of a Career Guidance Review, Career Review or Career Planning Review, provided by Thales Université and open to all Group employees.

Training

Training to support professional development

Being an employer of choice with a strong focus on training and professional development is a key principle for Thales. The Group believes that building a successful career depends on maintaining and developing a specialisation and set of skills as guarantees of future employability. The trend today is towards longer and more demanding careers. In return, Thales is actively committed to the individual development of each employee as a necessary condition for the collective success of the Group.

Thales's resolve to contribute to the development of its people and provide a positive learning environment led to the founding of Thales Université in 1988. TU has since become one of the pillars of the Group's training policy.

The Group-level agreement on the anticipation of changes in employment needs, concluded on 23 November 2006, attaches greater importance to the role of training in professional development:

- Professionalisation and retraining/redeployment schemes combining work and study are proposed. These include practical experience in the workplace, personalised mentoring and training with the support of Thales Université
- Recognising that the experience gained by employees is a vital part of their development, the Group provides support for possible Accreditation of Prior Learning (APL) schemes leading to a certificate, diploma or other professional qualification.
- French statutory training entitlement. From 1 January 2005, all employees with the company on a permanent contract for more than one year are entitled to 20 hours of training per year. Within the Group, this training entitlement is automatically transferred from one company to another in the event of internal mobility. Unused annual entitlement can be carried forward for up to six years (equivalent to 120 hours of training).

Training courses under the French statutory training entitlement scheme (Droit Individuel à la Formation, DIF) are provided through company training plans (as part of actions to retain employees, adapt the workforce to changing requirements, develop skills, etc.), subject to the individual agreement of employees and the company.

This type of training is organised at the joint initiative of the employee and the company. Training provided under this legislation is normally conducted outside work hours. It may however take place during work time if the training is requested by the employee and meets a priority requirement of the company (and is therefore in the interest of both parties).

In the Netherlands, Thales Nederland attaches particular importance to vocational training. Four million euros are invested each year in training actions. Training policy is based on the following principles:

Thales Missions & Consulting

- Revenues of €6 million
- 250 assignments (95% within the Group)
- 50 consultants
- 150 job mobility projects completed since 1999

- Training must be in line with the continuing development of the company
- It must anticipate this development (internal, external, competition, technological change, etc.)
- It must meet the current and future skills requirements of the organisation
- Management must encourage employees to take responsibility for their own personal development

In Germany, a highly developed vocational training system is in place. Thales Université programmes are widely available and are pursued by many employees. Training plans are also in place at most sites. Courses cover all areas of specialisation, from support roles to industrial and commercial functions.

In Australia, Thales has developed a comprehensive training policy. This policy is based first and foremost on numerous partnerships with universities throughout the country and with organisations such as Engineers Australia and the Australian Institute of Project Management in order to develop the knowledge and skills of employees.

In partnership with Thales Université, Australian companies offer a core programme of training in technical and managerial skills. This study programme develops and evolves each year.

Training is also provided at individual sites. This includes general training, for example in workstation security, and specialised training, such as the Bid Management programme, which leads to official recognition equivalent to a diploma.

A new organisation to better meet Group and employee requirements

In 2006, Thales laid the foundations for a new training organisation that will improve the level of service for employees and support the Group's actions to anticipate change. All players in the Human Resources function are involved in this new undertaking.

The Training Council

This new organisation will meet three main challenges:

- Help Thales Divisions to focus their efforts on the key areas, such as preparation of training guidelines, training plans and priority actions.
- Create a mutualised organisation to support Group companies by deploying a joint team and coherent administrative processes, putting in place shared management tools and optimising external training and financing costs.
- Develop expertise in training consultancy to support the Group's Divisions with the implementation of training plans, and to support employees and their professional development by creating an integrated network of training specialists.

Training is now the responsibility of an economic interest

group (EIG). The EIG is organised into two branches: an administration branch and a consultancy branch. This separation of expertise will improve efficiency, operationality and the level of service provided.

The training administration branch is tasked with:

- Optimising budgets by managing sourcing and subsidies.
- Organising logistics and reporting for management and employee representatives.

The network of training specialists is responsible for:

- Providing expert consultancy for employees, particularly concerning professional development action plans, and for HR managers on the design and implementation of training plans.
- Supporting the Group's efforts to anticipate change, further strengthened through the agreement of 23 November 2006.
- Contributing to the definition of training priorities for the Group.
- Coordinating changes to the portfolio of external training providers.

The EIG's training teams will be based at 13 sites in France in order to work as closely as possible with the managers and employees of each Division. Training consultants will thus play a vital role with respect to employees.

Thales Université: sharing knowledge and so much more

The role of Thales Université is to support the professional development of employees, develop a shared corporate culture and strengthen cohesion around the Group's core values.

Thales Université operates in three countries:

- Hengelo (Netherlands)
- Jouy-en-Josas (France)
- Crawley (United Kingdom)

Thales Université is one of the pillars of the Group's training policy in support of employee development and competitive performance, and plays a key role in adapting individual and collective skills to operational requirements in line with the Group's broader strategic objectives.

Thales Université also helps Operating Units to perform better by developing company-wide improvement programmes and supporting employee mobility. Its overriding objective is to facilitate cooperative learning processes that cut across the different Thales businesses, functions and Country operations.

Its training programmes cover all the Group's key competencies in seven main areas:

- Management (Group-level management programmes, individual development, career guidance, team management)
- Finance
- Human resources
- Business development, marketing and sales

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- · Bid and programme management
- Research and development (system engineering, software engineering & management, information technology, integrated logistic support, hardware & production, technologies & techniques)
- Transverse activities (purchasing, supply chain, quality, customer commitment & service, information systems, security)

In each area, training programmes are designed to support and optimise career development and professional mobility. In 2006, Thales Université developed the Passport training concept in the Group's core business areas. These new training courses form key stages in professional development within a job family and also support mobility and transitions to a new job family.

New Passport courses are being developed for 2007:

- Purchasing passport
- System Engineering passport

To support career progression, Thales Université has also developed two other programmes that aim to answer the questions of Group employees concerning their professional development: the Career Guidance Review and the Career Review.

- The Career Guidance Review is designed for employees with five years of professional experience who wish to analyse their choices so far and the possibility of either focusing on key expertise or expanding their skills to support their future career development.
- The Career Review is designed for employees with 20 to 25 years of experience who wish to take time out to gain a clearer picture of their assets and achievements.

In addition to its training programmes, Thales Université also provides coaching as an effective tool to meet the professional development requirements of Group employees.

One of the distinguishing features of Thales Université is the close involvement of Group managers and experts in the definition of training objectives and course content, as well as in teaching. This direct involvement ensures that the training programmes are tailored to the specific skill development requirements of company employees.

In-house teaching staff work alongside external experts, consultants and lecturers from universities and business schools.

In partnership with the Group's Divisions, Thales Université has designed professional development programmes combining on-campus training, mentoring and practical experience at Operating Units. These include

the successful Architects of the Future programme. The first 18-month course is now complete, and another three are well underway.

Key training figures for 2006

In France:

• Key figures for 2006:

TRAINING 2006

	Women	Men	Total
Number of emplo	yees		
trained	4,012	12,703	16,715
Total hours	127,844	451,824	579,668
% of payroll			3,27%

TRAINING PROVIDED BY THALES UNIVERSITE IN 2006

	Women	Men	Total
Number of emplo	yees		
trained	761	3,058	3,819
Total hours	90,541	38,547	129,088

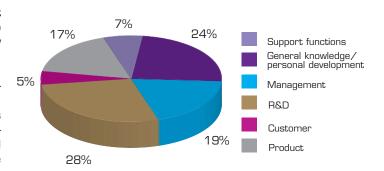
Training of non-executives

Training of non-executives	2006
Proportion of non-executives trained	37,68%
Number of non-executive trainees	6,299
CPC training for promotion to exec. status	36

• Training offering at Thales:

Training at Thales is organised into categories, according to the Group's varying requirements.

TRAINEES PER CATEGORY



The most popular course was R&D: customer software, internal information systems. The second most popular was the Languages & Cultures course, which accounted for 11.8% of trainees.

The popularity of these two courses reflects the Group's constant commitment to innovation and internationalisation.

United Kingdom

The training policy defined by Human Resources aims to attract and integrate new talent, develop their skills, promote internal mobility, increase and disseminate knowledge throughout the organisation and share the benefits of performance.

Thales Université has steadily expanded its actions and activities in the United Kingdom. Almost 50% of Thales UK training budget is allocated to Thales Université, and close to 4,500 employees from the different Thales companies in the UK have received training through TU to date.

This progressive development has led to the opening of regional centres to meet demand for training on a local basis. In addition, the Corporate training programmes such as Programme Management, Systems and Software & Team Management, developed in partnership with the Campus, have grown significantly.

One Key Account Manager per Division has been appointed to established open and direct dialogue between all players involved in training and development. This has given Thales Université a much better understanding of the requirements of its internal clients and employees.

As a result of this dialogue, Thales Université has set up Training Management Services to meet the specific requirements expressed by Group Units, from assistance with the preparation of training plans through the organisation and running of courses.

In 2006, the objective was to ensure that each employee had the opportunity to attend at least one course per year at Thales Université. Employees are encouraged to take this opportunity, but most take the initiative themselves to attend courses.

A specific action has been developed to support employees on temporary contracts. Thales UK has signed a commercial agreement with a UK-based employment contractor with a clear commitment to employee training. Under this arrangement, temporary employees now have access to e-learning courses, either in their place of work or at home (2,200 sessions in three specialist areas: technical, administrative and commercial).

Mobility

Thales has been pursuing a proactive policy of professional and geographic mobility for several years. In 2006, job

mobility was one of the top priorities of Thales Human Resources policy.

In an increasingly competitive marketplace, job mobility and professional development enhance the Group's capacity to adapt and respond to change. This dynamic policy of mobility has been encouraged at both individual and collective levels.

The Group invests actively in the development of its people. This commitment has been translated into the deployment of the People In Action policy, designed to promote internal mobility and professional development. The Group-level agreement on the anticipation of changes in employment needs, concluded in November 2006, provides for professional and geographic mobility according to the following principles:

- Prior definition of the target post at the host structure.
- Prior analysis of any skills gaps (skills assessment completed if necessary) and search for the closest possible match between the target specialisation and the actual skills of the applicant.

Professional mobility is supported by:

- Training (with provision where necessary for skills assessment, accreditation of prior learning and/or further training).
- A mentor in the target specialisation.
- Practical experience in the workplace (duration defined as part of the support for the change of post, minimum six months).

Job mobility

Opportunities Forum

Created by Thales in June 2000, this career support and advice centre provides assistance for any employee wishing to benefit from the Group's mobility policy.

The Opportunities Forum also manages the various mobility tools designed by the Group, such as Job Marketplace in France and internationally (ThalesWeb), the MyThales candidate space and the Thales Opportunités magazine. It thus makes information on vacancies available throughout the Group and puts employees in touch with the right people to ensure that they benefit from the many opportunities for mobility within the organisation.

To date, some 1,700 employees have made use of the *Opportunities Forum* to define their career objectives and reposition themselves. Of these, 1,500 mobility plans have been successfully completed: 18% have moved ahead within the same job family, 16% have chosen to change region or country and 10% have changed job family. In addition, specific mobility initiatives have been developed for employees over the age of 50.

The Opportunities Forum is also in charge of relations with business and engineering schools. In an increasingly competitive environment, attracting the best talent is a difficult exercise. Thales attaches great importance to its recruitment



policy and strives hard to be perceived as a model employer and further establish its reputation with the top business and engineering schools.

Building on the success of the team in France, Thales created the Forum for Opportunities in the United Kingdom to provide UK employees with advice and support for mobility. Similarly, the rollout of the RED network (REDeployment) enables HR managers to exchange information on vacancies and mobility candidates on a monthly basis in order to provide employees with more effective support.

Moving between job families is important and is always

Transition between job families

one of the hallmarks of a successful career. However, each of these disciplines has to develop its own set of professional requirements, and this can limit mobility. Career pathways — from one profession to another, from one specialisation to another within the same profession and/or from one site to another — are mapped out within the framework of the job family organisation model. Since March 2004, Thales has published a comprehensive guide for employees in France describing the company's job families. Within the framework of the job family organisation model, the guide provides comprehensive information about professional development and mobility, including a description of the Group's 62 job families and the pathways that make it possible to move from one family to another. Individual employees can consult the guide via the corporate Internet at each centre.

The guide also provides information about the various practical tools in place within the Thales Group to help employees to achieve their career development aspirations.

The Group has set the objective of achieving a fixed job mobility/recruitment ratio each year.

Opportunities Forum:

 1,500 vacancies published on ThalesWeb each month

Since its creation:

- 1,600 mobility plans successfully completed (78% within the Group)
 - 18% have moved ahead within the same job family
 - 16% have chosen to change region or country
 - 10% have changed job family

Geographic mobility

Countries

To encourage and develop geographic mobility within the Group, the agreement signed in France on 23 November 2006 includes a set of common rules to facilitate procedures, both for changes of post and/or geographic mobility.

Measures cover:

- Removals
- Reconnaissance trip
- · Assistance with search

for accommodation/administrative formalities

- Settling-in grant
- Dual residence allowance
- Assistance with search

for employment for the employee's spouse

Geographic mobility includes provision for an adjustment period. During the first three months (six months in some cases), the employee has the right to return to an equivalent post at their original site.

The Opportunities Forum is charged with informing employees on possible vacancies at companies in the same sector of activity and employment area, and with supporting them throughout the various procedures.

To organise mobility to ensure geographic proximity and meet local requirements more effectively, Thales has created seven employment areas in France and six in the United Kingdom.

This system keeps employees better informed about local opportunities in their chosen employment area and provides other local entities with information about their mobility plans. The grouping of entities into employment areas has also enabled Thales to set up local observatories to gather economic and employment data and provide a closer understanding of the situation in each region.

The various employment areas are coordinated centrally in order to ensure transversality and provide visibility on actions conducted at Group level. Information and coordination meetings are held regularly (via REDeployment) in order to maintain and develop exchange between employment areas (Human Resources and operational networks).

To help companies in each employment area to achieve the right balance between developing mobility within the Group and the need to employ local skills, Thales has put in place a performance indicator that tracks and compares the number of internal geographic relocations with the number of people recruited externally.

For France, 1,370 employees applied for geographic mobility in 2006 (30% more than in 2005). In addition, the system of organisation into geographic employment areas has enabled Thales to develop and maintain a balanced flow of mobility both within and between areas. Monthly reports on employee relocations show that the distribution of mobility within the organisation is consistent with the overall geographic distribution of employees. For the last two years, mobility outside the Paris employment area has accounted for 35% of total movements, with a broad spread of relocations across the other areas.

International

- Young people on international placements:
- The VIE programme (Volontariat International en Entreprise, or international enterprise volunteers) offers placements for 18- to 28-year-olds with French companies overseas for periods of six months to two years. The programme covers all types of jobs and is open to candidates from all backgrounds, provided they can demonstrate real motivation for overseas work.

In 2006, Thales provided placements for 22 people on the VIE programme. A further 17 people between the ages of 23 and 28 were on placements that began in 2004 or 2005.

Most volunteers work in legal, marketing, business development or software departments. The varied range of host countries include the United Arab Emirates, the United Kingdom, India and Belgium.

- The Careers1st programme was created specifically by Thales to help young graduates and professionals with up to five years of significant experience (with the Group or elsewhere) to progress rapidly along international career paths. In 2006, some 50 Thales employees (most of them French) took part in the programme. The main destinations were Australia and the United States. At the start of their careers, most of these employees are at LR7 or LR8 on the Level of Responsibility scale used within the organisation. Since 2005, the programme has focused on the Asian market, aiming to recruit Asian graduates in Europe or Asia. Known as AsianCareers1st, the programme includes training on how Thales teams operate in Europe. After two to four years of experience, candidates are offered positions with Thales subsidiaries in Asia.

• Expatriates:

The Group's expatriation policy applies to all employees with five or more years of professional experience. As part of the Thales Human Resources process, a set of basic skill requirements has been defined in order to facilitate the selection and preparation of candidates for international assignments.

In 2006, some 566 Thales employees were expatriated. The main target countries (in descending order of popularity) were France, the United States, the United Arab Emirates, Australia and Singapore. Most expatriates also came from one of these countries. Expatriates are typically at LR8, LR9 or LR10 on the Level of Responsibility scale used within the organisation.

Thales considers that the selection, preparation, management and professional development of expatriates on international assignments is a vital strategic tool and that adapted organisational resources must therefore be implemented.

A professional development manager is thus assigned to each employee at the start of their overseas mission.

Employees preparing for international assignments must undertake specific cultural training. Potential future opportunities are examined on a regular basis to prepare expatriates for their return. To ensure equal treatment for all expatriates, irrespective of their nationality, Thales provides medical cover at least equivalent to their entitlement in the home country.

The Group also takes steps to facilitate the departure and daily life of expatriates and their families in the host country. Thales is co-founder of the Partnerjob.com association, which manages a dedicated website to assist the spouses of expatriates in their search for employment overseas. The Group also pays the registration fee for the spouses of expatriates who sign up with the Femmexpat.com website. In addition, Thales pays the school fees of expatriate children in the host country to ensure that they can pursue their education in their own language and in accordance with the national curriculum of their home country.

Prospective Employment Management: an approach for the medium term

As a responsible corporate citizen, Thales strives to achieve the right balance between economic considerations (the company, its markets, financial results, etc.) and the future of its employees. Prospective Employment Management offers a structured approach to anticipating change in the medium term and provides employees with the information they need to plan their careers and prepare for the future.

The agreement of 23 November 2006 describes the resources put in place to provide employee representatives with information on Group strategy and its likely impact on employment in the medium and long term. It also describes the range of associated measures put in place.

The accord establishes dialogue with union representatives concerning the strategic guidelines that accompany evolving employment requirements in the medium and long term.

Information sharing with union representatives is based on:
• Information submitted on an annual basis to the European Works Council, including the essentials of Group strategy, review of business portfolio, industrial and organisational decisions, territorial policy and the main challenges faced by each Division.

 Annual consultation with the Works Council of each company concerning Group strategy and the foreseeable effects of its application at company level in terms of employment and qualifications.

A Group-level forward-planning, training and skills committee has also been set up.

This equal-representation body is also informed of Group strategy. Its role is to examine changes in the employment situation and in each broad job type within the organisation, and to identify possible pathways between



job types and the associated resources and training needed to support these changes.

The committee is presented with forward analyses of job families and specialisations for the medium term. These analyses take account of the constant evolution of markets, technologies, Group strategy and the resources that will be needed in the next few years.

They are supported by professional development action plans and are discussed at the Central Committee on the basis of quantitative and qualitative forecasts.

The Group-level forward-planning, training and skills committee is also in charge of discussing proposed action plans and advising management on the anticipation of foreseeable changes in employment.

At each Group company, the Central Training Committee examines changes in job families, specialisations and employment, and works with management to define the necessary training priorities and action plans.

This agreement also sets out the various measures to help individual employees plan their careers and prepare for the future:

- Information available on the corporate Intranet portal to help employees plan ahead and take initiatives to support their professional development
- Career guidance reviews/career reviews, which provide a positive opportunity to build solutions in anticipation of job/employment problems
- Annual professional development discussion for all employees from 2008
- Implementation of new common provisions to support mobility
- Specific assistance for employees planning to set up their own businesses
- Statutory training entitlement
- Professional development periods, retraining/redeployment actions, consolidation of knowledge and skills gained through experience, mentoring, etc.

Proactive Resource Management

The most innovative part of the agreement signed on the 23 November 2006 is Proactive Resource Management. This part of the agreement sets out the conditions, process and associated measures for the implementation of Proactive Resource Management at Group companies facing economic difficulties combined with new skills requirements, or the risk of disruptive technologies likely to have an impact on employment in certain job families.

In partnership with the Central Committee and trade union organisations, Proactive Resource Management aims to anticipate economic difficulties and/or risks affecting job families at the earliest possible stage and to manage workforce changes over a predetermined period, primarily through voluntary participation with no termination of work contracts.

It also ensures that all stakeholders in the company are aware of their respective responsibilities: management, trade union organisations and in particular employees concerning their future.

To this end, employees are informed on company strategy and its possible impact on employment, and on trends and developments in each job type. These provisions are backed by specific structures and appropriate support measures. Proactive Resource Management is based on the dual responsibility of the company and its employees. All company proposals are submitted to the voluntary participation of those concerned. At the same time, initiatives put forward by employees are given due consideration by the company. Proactive Resource Management is implemented at the company after informing and consulting with employee representatives on economic forecasts and their likely impact on employment, and on the possibility of proceeding with this approach. Local negotiations may be engaged if specific requirements or constraints need to be considered.

The company may not implement a job protection plan (under Section III of the French Labour Code) before the end of the Proactive Resource Management period unless a new situation arises that threatens to further compromise the economic equilibrium of the company, or unless application of Proactive Resource Management policy has failed to produce satisfactory results.

In agreement with the trade union organisations concerned, Proactive Resource Management may if necessary involve the creation of an EPPI centre (Espace Parcours Professionnel Individualisé/individual career development assistance centre). EPPI centres are staffed by representatives from the Opportunities Forum, GERIS and (in some cases) an external consultancy to help individual employees to prepare and implement their career development plans.

To support voluntary participation, the Group-level agreement includes:

- Significant training/retraining to support professional redeployment
- Buy-back of study years or incomplete years for the purposes of pension calculation
- · Assisted recourse at the chosen time
- Internal mobility in the form of voluntary transfers to other Group companies
- Exemption from activity (made available without permanent obligation of activity)

In addition, external mobility (outside the Group) may also be proposed to participating employees without the risk of their work contract being terminated. In this case, a three-way agreement between the employee, former employer and new employer is submitted.

External mobility may take one of two forms:

 Professional mobility leave, involving the temporary suspension of work contract for a predetermined period. At the end of this period, the employee can opt to stay with the new company or return to the original company and assume functions equivalent to before.

• A three-way voluntary transfer agreement with continuation of the current work contract at the new company and with the same seniority in the new post. Employees are offered the guarantee of reintegration with the original company within a period of one year (extended to two years if economic difficulties at the host company threaten the new post).

If reductions in employee numbers at certain sites affect the overall balance between employment areas, Thales takes steps to create new jobs in the areas concerned (offered to the employees concerned as a matter of priority).

SUCCESSFUL PILOT

Thales Air Defence was the first Group entity to implement Proactive Resource Management following a company-wide agreement concluded in March 2006:

- Six-month operational period
- 380 employees met with personal career advisors at EPPI centres
- Of these, 212 (56%) successfully turned their career development plans into reality

A BROADER VISION OF CORPORATE RESPONSIBILITY

Some actions carried out by Thales within the scope of its corporate social responsibility programme are aimed at stakeholders other than customers, suppliers, shareholders and employees.

Thales is committed to developing partnerships with the academic and scientific communities, monitoring the local impact of its facilities, helping provide opportunities for young jobseekers, and running an active sponsorship programme for schools and regional associations.

Technology partnership driving R&D strategy

In Thales's areas of activity, technological excellence and innovation are key drivers of competiveness. Research & Development is therefore a vital component of Group strategy. Thales devotes almost 20% of consolidated revenues to R&D (\leqslant 2 billion in 2006).

Over and above its own efforts to maintain its competitive performance, Thales's Research & Development activities are guided by the principles of social responsibility. The Group is committed to sharing its skills and the benefits of its R&D work with public-sector research institutes and universities, as well as with its industrial partners.

This commitment to serving socially useful purposes is manifested in a number of ways.

Mainstay of the scientific and industrial community

In all major Countries, Thales's policy is to maintain a strong presence within the local scientific and industrial communities.

The Group's main research laboratories are usually sited close to leading universities. The TRT-France lab, for example, is located on the Ecole Polytechnique campus alongside other leading laboratories (Institut d'Optique Graduate School, Université Paris-Sud 11, CNRS, CEA, etc.). The company's research centres in the Netherlands and Singapore, meanwhile, are located at Delft University and Nanyang Technological University respectively.

Thales is also an established player in a number of technology clusters, notably in the Netherlands and France, where several Group entities are involved in world-renowned

competitiveness initiatives (including System@tic Paris Region, Aerospace Valley, Mer Bretagne, Mer PACA, Cap Digital Paris Region, etc.).

This strong commitment boosts the profile and dynamism of research and innovation in Thales Countries, helping to attract further high-value businesses.

A collaborative approach to R&D

Thales is also translating its principles of technology partnership into a reality through agreements with research institutes and universities in France (CNRS, CEA, ONERA, INRIA, Ecole Polytechnique, Ecole Supérieure d'Électricité, etc.), as well as across Europe and around the world. These agreements give rise to joint R&D projects encompassing all of the Group's scientific and technological fields. Thales is also closely involved in major European R&D programmes, both military (Euclid and Eurofinder) and civil (6th and 7th EU Framework Programmes, Eureka and Eurofinder).

Recruiting at PhD level

Thales recruits a large number of doctoral students, both in France and elsewhere, for its R&D projects. Almost 50% are kept on at Thales's laboratories or within the Divisions after successfully completing their PhD theses. Thales thereby helps foster research-based training, while also providing employment opportunities for newly qualified PhDs.

Trixell's digital radiology project

Thales launched the Pixium project in 1997 to develop digital radiology equipment that reduces X-ray doses. Wanting medical science to benefit from its expertise, Thales made the new tool available for use in human radiology, resulting in greater efficiency and reduced health risks for patients. Trixell, which developed the process, is a joint venture between Thales Electron Devices (51%), Philips Medical Systems and Siemens Medical Solutions. With almost 350 employees in 2006, Trixell is now a leading supplier of new radiology and medical technologies.

Impact on local and regional employment

Whenever restructuring programmes are required, Thales meets its social responsibilities by implementing job protection plans and offering tailored solutions for affected employees.

The company pursues an active policy of internal mobility, with a strong focus on professional reassignment and retraining for those affected by restructuring measures. The professional reassignment programme relies on an active network of employment managers led by the company's Opportunities Forum and acting within its main employment areas. The Opportunities Forum supports employees throughout restructuring operations.

Support is also available within restructuring programmes to provide business start-up training for personnel involved.

Professional reassignment at local level in France: Géris Consultants

For the past twenty years, a dedicated Thales organisation, Géris Consultants, has supported industrial redeployment activities carried out within the scope of restructuring programmes, notably in economically hard-hit regions. This organisation also works with other industrial companies, as well as SMEs and local authorities.

Géris Consultants plays a public service role in the field of industrial redeployment, working locally to help employees get back to work following restructuring measures, facilitate the divestment of non-strategic assets, and revitalise the local economic fabric in affected areas.

These activities, which fall within the scope of new French legislation on social cohesion, mainly involve the following:

- Local analyses conducted by Géris on behalf of the Group to provide a better understanding on the socio-economic environment around industrial sites
- Industrial project development/management support and advice for business leaders
- Management of industrial development funding for companies creating jobs at local level (low-interest, no-collateral loans, with provision for conversion to grants where former employees affected by a planned redundancy scheme are hired)
- Support for local economic development through optimum use of local assets, communication and development of project proposals
- Through its national network of companies, its professional expertise, and its knowledge of the Group's areas of specialisation, Géris is able to canvas external companies with a view to creating jobs at sites affected by restructuring measures.

> A BROADER VISION OF CORPORATE RESPONSIBILITY

Actions in other countries

For restructuring measures in the United Kingdom, Thales has set up a dedicated task force to help employees with the process of professional reassignment. Support includes career development seminars, early retirement seminars, mobility workshops and financial consultancy services.

In the Netherlands, Thales works closely with the re-employment agency SMEO (Stichting Metalektro Oost), which the company helped to set up in the 1990s with other employers in the metallurgy sector. All employees affected by redundancy receive support from SMEO. The type and duration of the support provided are determined by the job protection plan. SMEO has an 80% success rate in finding new jobs for affected employees.

In Germany, dialogue with employee representative bodies is central to any restructuring measures. Through a range of negotiated agreements, the Group enters into concrete undertakings to help implement reassignment programmes. Training and practical support are provided to ensure rapid reassignment of individual employees.

In Australia, internal reassignment options are considered as a priority and may include retraining opportunities. In the majority of cases, employee reassignment support is provided via individually tailored programmes delivered by external consultants, who support each affected employee in finding a new job in a different company.

Start-up support

For more than 20 years, Géris has provided support for Group employees wishing to launch start-up companies or turn around existing businesses. Even if certain projects do not materialise, this initiative receives strong encouragement at corporate level as part of Thales's commitment to its core value of entrepreneurship. The services are provided free of charge, and all discussions are treated as strictly confidential.

The success rate of companies supported by Géris in France is significantly higher than the national average, with 80% still in business after five years.

Géris attributes this success to three key factors:

Thales employees have the time they need to develop a project, with special leave or part-time working for between nine months and one year.

Employees receive tangible support for their initiatives. Start-ups benefit from a range of measures including financial support and reduced payroll costs, as well as training programmes.

In 2006, Thales employees confirmed their interest in business creation.

	2003	2004	2005	2006
Projects	10	45	22	32
Jobs created	21	50	25	35

Operation *Coup de Pouce* ("helping hand") once again proved popular with employees in 2006. Of the 90 employees who contacted Géris during the year, 77 submitted their ideas, and 32 projects materialised thanks to the subsidiary's specialised logistical and organisational support.

Thanks to the success of Operation *Coup de Pouce* since 2004, the Group and Géris have decided to continue with the initiative in 2007.

Operation Coup de Pouce Prizewinning projects in 2006

• Purchase of a company with 150 employees specialising in the design and manufacture of valves from thermoplastic materials.

The business was established in 1936, and had been struggling to keep its head above water. Turning it around was a real challenge for the young Thales engineer who developed the project. In his delight at winning the prize, he stressed how important it was that the project was given due recognition: "When you take over a company, you're suddenly on your own. Thales's support gave me confidence that I was heading in the right direction."

- Creation of a workshop for restoration and repair of antique clocks and watches. The Thales engineer who set up the workshop from scratch appreciates the importance of having the time to pursue this type of specialist project. "I have always wanted to take my passion to the next level," he says. "The prize will enable me to pursue my investments with greater piece of mind."
- Creation of a traditional saddlery company. "When I realised there was a market, I didn't hesitate", said the former Thales wiring fitter. Operation Coup de Pouce will enable her to invest in a finishing bench. She hopes to hire additional staff later.

Revitalising local employment areas

To meet the requirements of French "social modernisation" legislation, a number of Thales subsidiaries have signed agreements in the past two years aimed at revitalising local economies. The agreements are with local authorities in the Loiret (Thales Air Defence in Fleury les Aubrais and TDA in La Ferté-St-Aubin), Finistère (Thales Underwater Systems in Brest) and Alpes-Maritimes (Thales Underwater Systems in Sophia-Antipolis).

The agreements are now coming to an end, having achieved what they set out to do. They have enabled 384 jobs to be created, compared with the original target of 340.

A similar agreement will be implemented in the Elancourt employment area in 2007 to support the creation of 250 jobs.

Strengthening regional development policy

Under the agreement of 23 November 2006, the Thales Group reiterated its commitment to boosting employment in each of its regions of operation. Whenever possible, measures aim to consolidate existing operations, particularly outside the Paris region, for example by expanding R&D activities.

When necessary, this commitment to job protection in the French regions will lead to partnership agreements between Thales, central government, local and regional authorities, and local economic partners and employee representative bodies.

In each region, a Thales representative will be responsible for developing links with local and regional authorities, economic partners, employee representative bodies, universities, schools and training organisations.

In the United Kingdom, Thales UK maintains close relationships with employee representative bodies in order to communicate effectively with local communities. In Crawley, for example, Thales UK is a member of Crawley LEAG, a local employers' action group which supports local initiatives and provides advice to support growth plans.

Some Thales sites in Australia are located in isolated areas, making Thales the main local employer. As a result, particular attention is paid to the needs of local communities, with concerted efforts at a formal and informal level to establish effective links. Local subcontractors and suppliers are used wherever possible, for example, to support economic activity in the area.

> A BROADER VISION OF CORPORATE RESPONSIBILITY

Supporting young people and education

Following the review of the Thales Group's sponsorship policy in 2006, sports sponsorship was discontinued, and effort was focused on the new challenge of supporting technological development to serve the needs of education systems and young people.

Educational partnerships

The highlight of 2006 was the launch of the **Thales Academia** partnership. On 15 May, the Thales Chairman & CEO and the French Minister of Foreign Affairs signed a public-private partnership agreement to host and support highly qualified overseas graduate students in France. Selection criteria are defined jointly by the partner establishments (ParisTech network, HEC and ESSEC Schools of Management), the Ministry and Thales.

Thales offers each student a Thales Academia grant (at least €10,000 per student per year, depending on the duration of the course), as well as the services of a volunteer mentor and an end-of-study internship with the Group. The first year's intake, sponsored by the head of the Air Systems Division and comprising 21 students from China and India, started the programme on 7 November 2006.

In addition, Thales has joined with other leading industrial groups in supporting the French Ministry of Education's equal opportunities initiative. By signing up to the initiative, Thales has committed to implementing a range of actions including mentoring and sponsorship programmes, educational support, presentations on the Group areas of specialisation, internships for pupils and teachers, and recruitment of young graduates from disadvantaged areas.

In May 2006, Thales sponsored a debate at the Faculty of Economic Sciences in Rennes on the topic "Science and the media: a dialogue of the deaf?" Speakers included Dominique Vernay, head of Research and Technology for the Thales Group.

In Germany, Thales supports the annual Jugend Forscht youth innovation competition for students and interns aged between 15 and 21. Participants have to present a project on general work issues or topics including biology, chemistry, earth and space sciences, mathematics/IT, physics or engineering. Thales has signed a three-year partnership agreement to support this well-known event, which has been held every year since 1965. Under the agreement, the Group provides €10,000 every year in the form of grants or equipment supplies. In addition, Thales provides prizes for competition winners including special demonstrations of high-tech equipment and facilities, for example flight simulators manufactured at its plants.

Partnerships with higher education

Thales attaches considerable importance to passing on specific skills related to its areas of activity in order to safeguard know-how and boost its capacity for innovation. Even in an unfavourable environment for recruitment, Thales remains strongly committed to maintaining good relationships with higher education establishments on an ongoing basis to ensure effective transfer of skills and experience. Initiatives are implemented with a focus on potential recruitment.

As part of this commitment, Thales has run a number of programmes in recent years aimed at boosting the profile of the Group and its activities among students. Examples include the outreach programme with higher education establishments, which was launched in 2001 and is regularly updated.

Thales has appointed Campus Managers to maintain permanent relations with higher education establishments. These Thales staff members, most of them engineers, are alumni of the corresponding schools and act as an interface between the school and the company on matters such as course content, career advice and students' personal development.

Also to maintain close links with the world of higher education, Thales's Opportunities Forum works with Division's HR teams and Campus Managers to partner higher education. Taking part in forums and university workshops, providing support for students seeking jobs and internships, hosting visits to Thales sites, presenting the Group's activities and businesses, involving students in Group projects, Thales is continuing to demonstrate its underlying commitment to the tertiary education system.

In addition to these existing programmes, major initiatives are ongoing with twenty engineering and business schools including Ecole Centrale Paris, Supélec, Ecole Polytechnique, ENSEEIHT, ENST, ISEP, ESSEC and HEC. About 20% of Thales's existing employees and new hires are alumni of these schools, all of which provide a good grounding in the Group's key functions. Thales also works with a range of other higher education establishments, helping to match skill sets and opportunities to meet the remaining 80% of the Group's recruitment needs. Thales recruits an average of 1,000 new employees a year in France, two-thirds of them new graduates or starting their first job. One-third of recruits come from outside the Paris region.

Thales sponsored the 17th year-group (2004-2005) of the graduate degree in Labour Law and Labour Relations run jointly by the law faculties of Paris Panthéon-Assas and Montpellier, which has been sponsored by major law firms and companies since its inception, and is considered a benchmark in the field of labour law.

In 2006, Thales also provided mentoring services for students on the graduate degree course in Human Resources Management and Labour Relations at Paris Panthéon-Assas.

Finally, Thales welcomes an Economics and Social Sciences teacher every year as part of the French Education Ministry's Teachers in Business initiative.

In the United Kingdom, Thales UK is also strongly committed to partnership with local schools and universities, taking part in a range of educational initiatives designed to heighten interest in professional careers among young people and prepare them for the labour market.

Thales Avionics Limited helped Raynes Park High School in Surrey achieve Technology College status. Thales UK also participates in high-profile programmes like SETNET (the Science, Engineering & Technology Network), which brings together local schools and employers through initiatives including Young Engineers, Young Enterprise, Arkwright Scholarships, the Engineering Education Scheme and the School Aerospace Challenge. Thales UK also organises site visits for students and teachers.

In the Netherlands, Thales Nederland has time-honoured links with higher education establishments like Twente University, the University of Delft and Saxion College, supplying equipment and participating in conferences and study programmes. Thales also endows a number of professorships at colleges and universities, as well as sponsoring student associations in technical fields. Every year, around 100 students complete internships with the company.

In the United States, Thales Communications, Inc. (TCI) helps finance a number of educational programmes at Clark School, which was founded in 1978 for high intellectual and creative potential. Under the terms of the partnership, TCI meets with students, teachers and former pupils to review future recruitment openings.

In Spain, Thales has agreements with leading universities and business schools to offer internships to high-achieving students. In 2006, 5% of new recruits came from these partner schools and universities.

ADS, working in partnership with **South Africa's** Department of Education, has offered sixty grants to teachers working in disadvantaged areas in Gauteng province. This sponsorship programme provides opportunities for teachers to study in local universities, complementing their scientific and technical know-how.

Youth employment

As part of its human resources strategy, Thales has developed a special programme to facilitate the integration of young people in a high-tech work environment. The main challenge has been to strike the right balance between tried-and-tested models of integration and more recent patterns of social networking. Thales has thus continued to focus on developing its internship system, while also developing combined work/study programmes. In France, the Group launched a Top Interns programme in 2006 to help Thales managers identify the most promising recruits among the individuals on internship, work/study and voluntary programmes, as well as at postgraduate level. In 2006, more than sixty young people with two to five years' higher education qualified for the initial training programme.

Internships

Thales offers 2,000 internships in France each year and complies with the French government's 2006 internship charter on programme quality, fair compensation, mentoring standards and the organisation of an annual centrepiece event.

For the past six years, Thales has held a special one-day event for interns within different Group entities and students from targeted higher education establishments. The Interns' Forum, organised by the Opportunities Forum as part of the Thales Université programme, is aimed at providing interns with a better understanding of the resources, challenges and diversity that the Thales organisation offers.

In 2006, the Interns' Forum was attended by around 600 people. The programme included workshops on Thales's different business areas, presentations of the Group, and a round-table discussion on career development. In addition, a special forum allowed interns and students to meet with operational staff and human resources teams to gain a better insight into the opportunities available within the Thales Group.

Work/study programmes

Work/study programmes are the second key component of Thales's effort to integrate young people into the work environment as part of its overall HR strategy. The company has set a target of welcoming 1,000 young people onto work/study programmes each year from 2008. As mentors are key to the success of this kind of programme, mentor training is also a key area of focus. As with internships, the best-performing individuals on work/study programmes are offered employment opportunities within the Group.

Thales supports the French government's youth employment policy through two apprentice training centres, one

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specialising in information technology (AFTI), and the other, set up with Air France, promoting careers in aviation (AFMAE).

Four hundred young people were under work/study (apprenticeship and professional development) contracts with Thales in 2006, an increase of more than 60% compared with 2005.

Thales also signed up to the Apprenticeship Charter on 3 April 2006, undertaking to increase the number of apprentices at its sites in France by 20% in the short term.

Integrating people with disabilities

Innovative projects based on Thales technologies offer practical solutions to help people with disabilities to lead active professional lives.

Special tools to support disabled employees

Thales Training & Simulation has developed a CD-ROM for learning French sign language and cued speech to facilitate communication for people with impaired hearing.

Available to the general public, these programmes are used to teach Thales employees to work more effectively with their hearing-impaired colleagues as active team members.

The Soundflyer system was originally designed by a team of Thales executive trainees in 2003 to enable visually impaired pilots to fly aircraft by giving them direct access to flight data. The system has now been donated to *Mirauds Volants*, an association of visually impaired pilots.

Project highlights of 2006

To ensure the sustainability of its efforts in this field, and to retain a continued focus on innovation, Thales monitored and enhanced existing projects in 2006, while also developing new projects.

Portanum*

The Portanum system, developed by engineers from Thales Research & Technology, helps people with impaired vision to read wall and flip charts.

The system comprises a camcorder which is used to film an optimum image of the chart or whiteboard. This image is then transmitted via a WiFi network to a computer, where it can be viewed by the visually impaired individual. Special software processes the images to provide viewers with clear information in a format that suits their individual vision.

New trials took place in different classroom environments in 2006, notably at the rehabilitation centre in Clermont-Ferrand. Thales also continued its involvement in a joint experiment with the *Institut National des Jeunes Aveugles* (a national organisation for young blind and visually impaired people). Under an agreement with the Nicebased organisation FNDV (National federation of associations of parents of visually impaired children), Portanum equipment has been made available for two classes at a primary school and two classes at a middle school, an institute for the visually impaired, and for two university students and a high-school student.

The Thales Group received a gold award in the CIREC international contest for educational research at the 2004 EDUCATEC exhibition for its work on the Portanum project. Driven by the conviction that there is a clear link between successful integration at school and successful integration in the workplace, Thales is continuing its efforts to distribute its software, which is regularly updated and freely available via the Internet.

Handi Aero Surveillance 2006

This programme, now in its fifth year, is designed to prevent and monitor forest fires by transmitting infrared images from aircraft to the ground. It is unique in that people with motor disabilities can operate the entire system, from flying the aircraft to using the surveillance system. The Handi Aero Surveillance system is made up of specially adapted Thales components. System assembly and pilot training in use of the equipment also fell within the scope of the project.

Initial trials conducted in the summer of 2002 and 2003 in partnership with the local fire and emergency services (SDIS) of the French administrative department of the Lot delivered extremely positive results. As a result, a ministerial decree was passed on 24 November 2003, allowing disabled individuals the opportunity to obtain a professional pilot's licence for the first time ever in France.

In the summer of 2004 and 2005, the system was put through its paces in operations in the Lot, Bouches du Rhône and Var departments (France administrative subdivisions). One of the disabled pilots involved has since joined the pilot training school at Salon-de-Provence to train as a navy pilot.

Operations in the same departments in 2006 provided paid employment for four pilots with motor disabilities. This success spurred Thales, working in partnership with the French Aerospace Industry Association (GIFAS) and AFMAE, to set up the Saint-Exupéry apprentice training centre at Cuers-Pierrefeu, thereby providing access to new professional training opportunities for disabled people.

^{*} For further information visit www.portanum.com

Two of the disabled pilots received their professional pilot's licences at a special ceremony at Agefiph attended by the French employment minister. Both went on to sign their first professional contracts the very same day.

Access Learning

Access Learning is an e-learning project developed jointly by Thales and the Garches hospital institute for people who need to change careers after suffering an injury or developing a vision or hearing impairment.

In operation since 2004, the system provides custom-tailored distance learning via the Internet, enabling users to learn multimedia and Web design skills.

Thales was nominated for a gold CIREC award at the 2004 Educatec exhibition for its work on the Access Learning project.

In 2006, over a hundred people made use of the Access Learning platform, either directly on the Internet, or via the Raymond Poincaré Hospital in Garches. This project develops skills in the use of Web-based knowledge access tools, providing a valuable window on the world for people with a disability.

Access Learning is one of the flagship projects of the Garches Foundation¹². Thanks to Thales's support, it is now available via the public Internet access point for disabled people set up in Paris's 19th district.

Exoskeletal orthosis

In 2006, Thales set up a team to work in partnership with the French Myopathy Association on the design of an upper-limb exoskeletal orthosis. The project, now well established, should lead to the development of an operational prototype within two years.

In 2007, the Thales Group will review its disability policy with a view to providing further professional opportunities for disabled employees within the Group and achieving a tighter focus on areas covered by new legislation (technology projects, training, and stronger relationships with specialist companies).

Integration standard for the disabled

In conjunction with a group of ten companies and the French standard agency Afnor, Thales has set a working group to define a corporate integration standard for the disabled. The resulting standard should bring greater visibility to corporate policies for integration of disabled employees, while ensuring that such policies become established on a sustainable basis. It should also serve as a baseline for companies looking to develop and implement policies in this area.

Relationships with local and national charities

The Thales Group's commitment to fully assuming its role as a socially responsible corporate citizen also underpins its work on behalf of numerous charities.

In 2006, Thales again supported Unicef by choosing its cards for the Group's corporate New Year good wishes (55% of the purchase price of the cards is donated to the charity).

In France, Thales's campus managers supported the 4L Trophy by sponsoring a team from the ENSIETA defence engineering school. In 2006, more than 40 metric tons of educational materials and sports equipment were delivered by the 1,000 or so teams of higher-education students taking part in the competition, providing a vital boost to the schooling of over 5,000 children in Morocco. As well as being a genuine sporting adventure, the 4L Trophy competition has a clear humanitarian dimension.

In the United Kingdom, Thales UK supports Childnet International, a charity which provides training for parents and children in safe use of the Internet.

Thales UK's main charity partner, the National Deaf Children's Society (NDCS), receives sponsorship money raised by employees participating in sporting events. The Three Peaks Challenge, for example, in which teams climb the highest mountains in England, Scotland and Wales within 24 hours, provides the charity with sufficient funds to cover 10% of its annual running costs. In 2005, the Thales team raised £100,000 (€150,000) in posting the fastest time. In 2006, 19 cyclists from Thales rode the 190 miles (300 km) between London and Paris, raising over £16,500 (€25,000) for the NDCS.

Thales North America is extensively involved in charity work for victims of war and their families, providing support for organisations like Helping Our Heroes Foundation and Our Military Kids, Inc.

In the aftermath of Hurricane Katrina, Thales supported the recovery effort by supplying radios and GPS equipment.

Thales Australia donated AUD15,000 to the Starlight Children's Foundation in 2006. The foundation's aim is to brighten the lives of seriously ill and hospitalised children and their families around Australia. RPLSS (Repair Planning Logistic Support Services) held two charity golf days to raise these funds.

12 Garches Foundation: registred charity.

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Thales also sponsored the Australian Defence Force charity ball, which raised AUD77,000 for the Starlight Children's Foundation and Brisbane Legacy, a charity that supports the families of soldiers killed in combat.

Finally, Thales sponsors organisations including Re-engineering Australia and Young Engineers, which use the funds provided to develop projects for the benefit of disadvantaged communities.

In South Africa, the AIDS virus is spreading rapidly, and the number of people falling ill is on the increase. ADS sponsors COTLANDS, an NGO which looks after AIDS orphans.

ADS also funds repairs and improvements at a hostel run by the charity ABH, which provides accommodation for around 100 homeless and disabled elderly people.

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As a responsible corporate citizen, the Thales Group has made the environment one of its ethical values and is committed to limiting the environmental impact of its activities, managing any associated health risks, meeting and exceeding applicable legal regulations and anticipating future requirements.

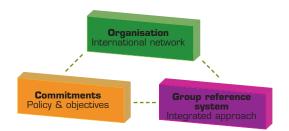
Except for a few sites, the Group's activities involve fewer and fewer industrial processes. Nonetheless, for more than 10 years now the Group has been taking a proactive approach and establishing an environmental management system appropriate to its businesses and its organisational structure. Combined with the principle of subsidiarity, this system makes it possible to modulate the pace of application in line with particular constraints such as:

- The diversity of Thales's products and services
- The wide range of applications (civil, military, public services, space)
- Sites configuration
- The history of each company (recent acquisitions or long-standing subsidiaries, reconfigured sites, shared sites, etc.)
- Local conditions

The aim is to rally all Group entities to common improvement paths by building the environmental dimension into every level of its activities and every level of the organisation. This approach rests on foundations that are common to the entire Group and can thus underpin an integrated, company-wide system.

Thales and the environment: the foundations

The Group is investing in very practical ways in an environmental management system that has three overarching components.



Commitments

Thales has considered all the activities conducted by all its entities worldwide and has defined its environmental priorities in consequence, with three core commitments:

- Protect the environment by controlling the impact of sites and activities
- Attenuate and control environmental risks and the associated health risks
- Comply with legal requirements and anticipate future regulations

These commitments apply to all Thales's activities and are assessed in terms of the same improvement paths for all Group entities:

- Reduce energy and natural resource consumption
- Limit waste output and promote **waste** recycling
- Control emissions and effluent release into the environment
- Integrate health risk management into environmental improvement plans

Quantitative targets have been set for these commitments, as appropriate for each of the Group's businesses.

Dedicated structure

Reflecting its international scope and the diversity of its businesses, the Group has set up a three-level organisation, as follows:

- A central structure, reporting to the Operations department, is in charge of overall environmental risk management and initiates and coordinates international actions. It defines common improvement paths, objectives and associated Group actions, and the reporting system. It operates Group-wide in support of other departments such as Legal, Quality, Insurance, etc.
- A Country structure in each of Thales's main Countries. An
 environment manager coordinates in Country actions and
 collects the information needed to complete the environmental reports. The Country manager has a site correspondent at each operating unit. In France, a correspondent

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is appointed for each Division, with the same responsibilities as the Country managers.

 A local correspondent at each site, who implements environmental management on the ground.

Group reference system

To control impacts, attenuate risks and improve performance, environmental concerns must be fully integrated into the company's processes and practices, and can no longer be treated as a separate issue.

The Thales Group is convinced of the benefits of environmental management. It has incorporated environmental concerns into its corporate reference system, impacting on different processes and interfacing with different functions (Legal, Finance, Purchasing, etc.).

Apart from specific environmental directives, the reference system requires that an **environmental management system (EMS)** is established at each entity, on a scale appropriate to the entity's activities (see page 66).

The company's Quality, Environment & Continuous Improvement process shows that the Group is fully committed to promoting an integrated system.

The Group's Quality Manual includes a chapter on the environment, further demonstrating Thales's determination to pursue its environmental goals successfully and over the long term.

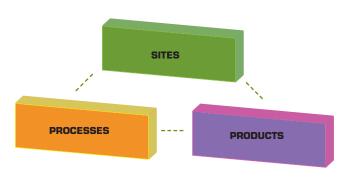
What is the Group internal reference system?

Thales has developed a practical governance tool common to all its entities: this is the Reference System. It is structured by process. For each process, it defines the organisation, rules, practices and methods to be applied.

This system helps to improve collective and individual efficiency by promoting the use of optimised processes throughout the Group. Accessible on the Intranet, it helps entities to adopt a common language, work together and share best practice.

Thales and the environment: a cross-functional approach

The Group approaches environmental management crossfunctionally, examining the whole range of its constantly interacting activities (real estate, processes, products).



Sites

Since 1997, Thales has included an environmental protection programme in the management of its buildings. This programme:

- Ensures continued compliance of buildings, plant and equipment
- Ensures that industrial activities can expand while risks are controlled
- Provides healthy workplaces and guards against risks to health and the environment
- Limits the environmental impact of buildings and sites compliance with the French green building standard [HQE_®].

Each Country defines its own programme, applying the rules laid down by the Group Real Estate department and depending on particular local features, sometimes going beyond the regulatory requirements. For example, not all national regulation systems make site remediation and asbestos removal compulsory.

Thales's real estate correspondents and environment correspondents in the Countries concerned have been issued with specific environmental rules.

The Maxwell Building in Limours, built in 2006 and with a floor area of 10,000 m^2 , was designed to the French green building standard (HQE_®).

HQE_® combines resource and energy management criteria with health and eco-building criteria.

Key measures include:

- Earth tubes to help warm the building in winter and cool it in summer.
- Wide sun-shades on the south and east-facing facades to protect the building from heat, including rays falling at 45°.
- Insulating material incorporated in the prefabricated concrete slabs, which are assembled onsite using a screw system. Result: no transport of raw materials to the site, no on-site concrete production and none of the associated noise, dust or other pollution.
- Facades of self-cleaning Pyrenean stone, chosen so that the building blends well with the landscape.

The building blends all the better into its surroundings for the environmentally oriented choice of trees planted in the grounds. These are deciduous trees, which provide shade in summer but lose their leaves in winter, letting sunlight through their bare branches.

Special attention has also been paid to working conditions for the office staff: as well as recyclable carpets, the offices have false ceilings with optimum acoustic properties. The lighting is low-energy and low-intensity.

Processes

Since 2000, Thales has progressively introduced measures whereby all its production units, first in France and then in the rest of the world, systematically take environmental factors into account in accordance with a multi-year plan:

- Ensuring that all facilities and activities comply with regulations and technical standards;
- Limiting consumption of energy and natural resources and managing risks in connection with solid waste, liquid effluent and atmospheric emissions;
- Conducting environmental audits to identify and quantify the environmental impact of each activity and setting up the necessary actions;
- Implementing an environmental management system (EMS) tailored to the specific characteristics and constraints of each activity. The EMS ensures that facilities comply at all times with regulations and technical standards, that risks are properly managed and that improvement programmes are implemented.

The chemicals used are analysed and replacement technologies adopted as soon as they have been tested and validated. One aspect of this process is to do away with the use of chlorinated solvents.

Products

RoHS and **WEEE** Directives

Few of Thales's products and equipment fall within the scope of the RoHS and WEEE directives. The Group has already adopted replacement technologies and appropriate purchasing procedures, so that all Thales products are now marketed in full compliance with the regulations. Thales products that do not fall within the scope of these directives are mostly intended for aeronautical and defence applications or for fulfilling the basic security needs of nation states and major institutional and private customers. As such, they must ensure extremely high levels of reliability over very long life spans and in harsh operating conditions. Replacement technologies can therefore only be adopted once they are shown to provide the required level of reliability.

To avoid making systematic use of the exclusions and exemptions provided for under the regulations, and in order to apply an efficient, consistent environmental management approach right across its product range, Thales is working with the rest of the aerospace and defence industry to design and implement replacement technologies as needed.

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Waste electrical and electronic equipment (WEEE) is a waste category defined under European regulations (Directive 2002/96/CE) as "equipment which is dependent on electric current or electromagnetic fields in order to work properly, and equipment for the generation, transfer and measurement of such currents and fields, designed for use with a voltage rating not exceeding 1,000 Volt for alternating current and 1,500 Volt for direct current", in categories that are detailed in each country's legislation (in France, decree no. 2005-829 of 20 July 2005).

The aim of the directive is to make recycling WEEE compulsory and to establish the principle of the producer's responsibility.

The full title of the European **RoHS** directive is selfexplanatory: "**R**estriction of the use **o**f certain **H**azardous **S**ubstances in electrical and electronic equipment".

The REACH regulation

Thales is committed to proper environmental management of hazardous chemicals and preparations. The Group is looking ahead and anticipating the measures that will be required under the REACH regulation (Registration, Evaluation, Authorisation of Chemicals).

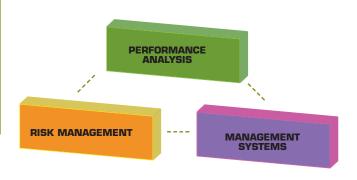
The aim is to monitor the chemicals included in products and plant (called "articles" in REACH) throughout their life on the market. This means redesigning the product development process and the associated data management tools.

The forthcoming regulations must also be anticipated in dealings with suppliers and subcontractors. The French aerospace industry association (GIFAS) is conducting a thorough examination of the question, to make sure that practices are consistent throughout the aerospace and defence supply chain.

REACH is an EU regulation for identifying and gradually doing away with the most dangerous chemicals. REACH is a direct-application regulation. REACH stands for Registration, Evaluation and Authorisation of Chemicals.

Thales and the environment: an integrated approach

To fulfil its environmental commitments, Thales has adopted tools and methods that are laid down in the Group reference system, applied in all Group entities and regularly reassessed. Staff are fully informed about these tools and methods, and are trained in their use.



Risk management

Risk mapping

Thales's risk mapping programme is implemented throughout the organisation worldwide. It starts with identifying the risks (non-compliance with administrative and technical requirements, potential pollution risks, asbestos, legionella, hazardous substances, etc.) and continues with a more precise characterisation of the risks. The next step is action to manage and attenuate risks.

For risks deriving from accident situations (pollution, fires, etc.), specific procedures are drawn up by each entity.

Environmental management systems are established in order to identify these risks and ensure that each entity is in compliance with local regulations.

Thales also has environmental audits carried out by specialist firms.

Incidents/accidents

In 2006, nine incidents/accidents caused by Group activities and having an environmental impact were recorded.

NUMBER OF INCIDENTS/ACCIDENTS*

Australia	3
France	3
Netherlands	1
United Kingdom	2

* None had any major impact on human health or the environment. The incidents were managed at site level and corrective and preventive action plans were implemented immediately. Only in one case (in Australia) was it necessary to inform the local authorities of the accident

Complaints, claims and disputes

In 2006, only one neighbourhood complaint was recorded, at a French site, owing to noise generated by a groundwater treatment plant during remediation work. Acoustic protection measures were taken immediately.

To the Group's knowledge, Thales paid no compensation in 2006 as a result of environmental claim proceedings in any of the Countries reviewed.

Guarantees

Special environmental provisions are made for acquisition or divestment operations. This covers compliance with regulations, obtaining operating licenses and authorisations, ensuring there are no outstanding injunctions, complaints or claims and no pollution or, if there is pollution, no responsibility for same.

In more and more country, environmental legislation framework makes increasingly exacting demands on operators and owners. Consequently, site purchasers now ask for more environmental guarantees to protect themselves as far as possible from claims by employees or third parties.

The guarantees demanded are usually based on current legislation but sometimes refer to forthcoming legislation or to expected changes in the use of the land or buildings divested. Thales's methods limit the type, amount and duration of the guarantees it grants.

At 31 December 2006, Thales's commitments under the heading of environmental guarantees amounted to a total of €218 million.

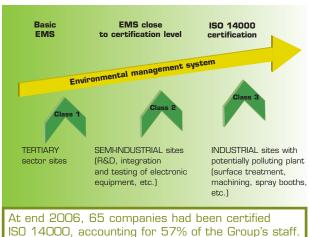
Provisions

At 31 December 2006, provisions for environmental risks stood at €4.8 million.

Environmental management systems and ISO 14000 certification

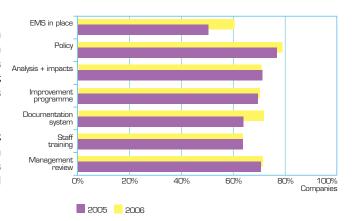
Thales's approach to EMS (Environmental Management Systems) and certification is as follows:

This approach is adopted in all countries where Thales operates, and many Class 2 companies have opted for certification.



ISO 14000, accounting for 57% of the Group's staff.

The chart below shows the percentage of companies (office work included) that have introduced an Environmental Management System and action to protect the environment.



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Communication and training

An integrated, cross-functional approach requires communication at every level of the corporate command chain.

Information comes in two forms:

- Generic: about environmental problems in general and the way the Group addresses issues
- Professional: targeted at those directly in charge of environmental issues or occasionally having to deal with such problems.

Two tools have been introduced to convey information:

- An Intranet site accessible to all staff in the Group.
 This site, which was restructured in 2006, encourages
 discussion and feedback. Staff can post opinions and
 suggest improvement measures. Some measures
 suggested by staff have already been introduced.
- An environment portal, also accessible on the Intranet.
 This is a collaborative workspace mainly intended for the environment correspondents in France. It provides information about working tools developed in-house, official regulations, in-house directives, directories, environmental news, etc.

The Country Intranets also have special pages on environmental issues.

There are regular Country-level seminars and conventions on the environment.

Training courses are held on sites as part of the introduction of environmental management systems or ISO 14000 certification.

In 2006, nearly 15,000 people received training on environmental issues.

Training will be increased in 2007.

Performance analysis

Thales's environmental approach is applied in every entity and is evaluated by internal or external audits or by periodic reports submitted by each entity, Division or the Group.

Because the Group operates in so many countries, because its work involves so many disciplines and because regulations vary from place to place, Thales has laid down principles for analysing performance and communicating the results.

Scope of environmental data

Environmental data mainly concern the countries where Thales has significant business and covers companies that are majority-owned by Thales.

The Group's scope of consolidation varies in line with its acquisitions and divestments. Rules have therefore been defined for choosing the companies to be included in the scope of environmental data, with criteria such as type of business, number of employees, etc.

In 2006, 124 entities contributed to the Group's environmental reporting, accounting for nearly 90% of the Group's staff.

Variations in the scope of consolidation since 2005 increased the occupied surface area by 2.5% and staff numbers by nearly 4%.

Reporting procedure

The Group reference system includes an environmental reporting procedure, laying down the rules for each stage of data entry, validation and consolidation.

The reporting procedure also defines the role of each staff member involved and encourages data recording (traceability, archiving, etc.).

Indicators

Environmental concerns change over time, and the indicators have to keep pace with these concerns and with Group priorities as well. Some of the indicators are not easy to grasp, so different Countries may produce incompatible reports.

In 2006, the Group therefore set about updating and adapting its indicators to make reporting more consistent and efficient, with:

- More precise definitions
- Calculating rules that can be applied whatever the activity concerned
- · Consistency tests for values and units of measurement

In 2006, the response rate (number of indicators for which data were submitted) was over 96%, showing that Thales entities are actively involved in improving the Group's environmental performance.

The reporting tool

In 2004, the Group introduced a reporting and management tool for the entire scope of consolidation, available on the intranet.

This tool consolidates the data from each unit, Division and Country, and for the Group as a whole. It is configured to verify data consistency and to suggest adaptations depending on the specific features of each Country (units of measurement, conversion factors, etc.). It can be used with the rules for data entry, validation and consolidation defined in the reporting procedure.

Performance

Focused as they are around R&D and the integration and testing of electronic equipment and systems, Thales's activities generally have little effect on the environment. There are exceptions, however: areas such as pyrotechnics, shipbuilding and the manufacture of mechanical parts and components have more environmental impact.

To facilitate analysis and interpretation of the environmental results, the Group reporting system incorporates the following principles:

- Year-to-year variation in the scope of consolidation, mainly due to acquisitions and divestments. For each family of indicators (energy, natural resources, noise, etc.) a gross figure is given (e.g. water consumption in m³) and a ratio is added to take account of variations in scope (e.g. per capita water consumption).
- Because **France** represents nearly half of worldwide results, its results are shown alongside the Group results.
- Australia, with its four industrial sites, receives special treatment; its performance cannot properly be consolidated with the rest of the Group.

Thales cares about health and environmental risks

Thales's commitment to environmental risk management includes proper management of the associated health risks. The Group fulfils this side of its commitment as follows:

- Locally, each site identifies the risks inherent in its activities and takes the necessary steps to attenuate and manage them.
- At Group level, precise targets are defined that often go beyond current legal requirements, as with pollution, asbestos, cooling towers, CMRs (carcinogenic, mutagenic and reprotoxic chemicals), etc.

Soil, subsurface and groundwater

The Group has launched a programme of site audits to make sure their condition threatens neither the health of staff nor the health of local residents and does not endanger ecosystems in sensitive areas.

All French and British sites have been audited, and soil studies have been carried out wherever necessary.

In Australia, the sites purchased from the Commonwealth of Australia were given an environmental audit at the time of purchase.

Other site audits have been conducted in the Netherlands and North America.

Few sites have shown significant signs of contamination. Where contamination has been identified, it is usually due to earlier industrial practices, sometimes dating from before Thales's presence on the site.

Pollution (% of sites compared to number of sites consolidated)	2006	Corresponding surface area
Phase 1* sites	71%	53%
Sites having required		
a Phase 2*	47%	48%
Sites having required		
a risk assessment*	30%	35%
Sites remediated		
or undergoing remediation*	8%	26%

<u>Phase 1:</u> survey to identify areas of potential pollution (historical or current) and analyse targets (geology, hydrogeology, neighbourhood, protected species, etc.).

<u>Phase 2:</u> investigations of soil and water if Phase 1 findings so indicate. <u>Risk assessment:</u> survey to identify and assess health or environmental risks if the findings of Phase 2 so indicate.

At end 2006, no new health risk due to contamination had been revealed. However, on the Group's initiative and in agreement with local authorities, rehabilitation work has been undertaken on some sites even though neither regulations nor the local authorities require it.

This policy continues worldwide. In addition, an audit is now conducted before each new land purchase and each new building lease.

^{*}These figures do not include sites outside the scope of consolidation.

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Asbestos

Asbestos audits were carried out on a number of sites, depending on their date of construction.

Depending on the state of the asbestos, either it is removed or its condition is monitored. Asbestos management plans are underway on sites where this is needed.

Although asbestos audits are not compulsory in all Countries, the Group has resolved to either carry out audits or obtain certificates from owners of premises.

Cooling towers

In 2002, to reduce the risk of legionella, Thales decided to replace wet cooling towers with dry air cooling systems on all sites. This programme was first carried out in France (76 towers) and is now being pursued worldwide. As well as eliminating the risk of legionnaire's disease, the programme has considerably reduced water consumption on the sites in question (see "Natural resources" below).

At 31 December 2006, 31 cooling towers remained, including four in France. Replacement work is underway on these four, and for the rest, technical and economic studies for replacement are underway.

Sanitary logs

Special maintenance logs for air and water networks have been distributed to all French sites. The aim is to identify the risks associated with these networks and take all necessary preventive measures.

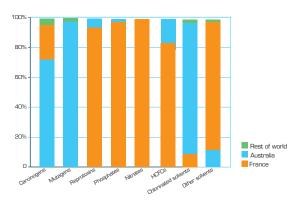
Chemicals used in processes

Given Thales's types of business, few of its entities use significant amounts of hazardous chemicals and products. The indicator introduced in 2004 concerns the quantities of carcinogenic, mutagenic and reprotoxic substances and chemical nutrients purchased, with special focus on nitrates, phosphates and solvents (chlorinated or not).

To use this indicator, measurement tools have had to be introduced. At most sites, this has greatly increased the reliability of the data available.

As the chart shows, France (mainly five French entities) and Australia (one main entity) are almost the only significant consumers of hazardous chemicals in the Group.

Two other entities are concerned to a lesser extent, one in the Netherlands and one in Germany. Several entities in France and the United Kingdom use chemicals such as solvents, but in minimal quantities (a few kilograms per year) for occasional activities such as grease removal, either in small vats or on work surfaces.



The action plans introduced to reduce the amount of solvents used at sites bore fruit in 2006, with a drop in consumption of nearly 15%. More surveys are being conducted, particularly in France and the United Kingdom, to further reduce or eliminate the use of solvents. The amount of carcinogenic substances used also declined by nearly 7%. Many sites have conducted studies of exposure to chemical risks so as to identify and introduce individual and collective protection measures. These studies are regularly updated.

Thales: an environmentally responsible player

Conserving natural resources and the countryside

Natural resources

The reduction in water consumption stabilised between 2005 and 2006 despite an increase in the scope of consolidation.

Water consumption* 000s m³* 3 500 2,500 1,500 France 1,000 Australia France 10003 2003 2004 2005 2006 Total

*The indicator used includes mains water, groundwater from on-site boreholes and surface water, which is mainly pumped from rivers. Worldwide, groundwater accounts for 33% of total consumption. Thales's policy of reducing water consumption continues to bear fruit:

• 11% for sites worldwide (excluding France and Australia). Reductions were very significant in Italy, the Netherlands and Germany, where the Ulm site has reduced consumption by introducing a recycling system for its process water.

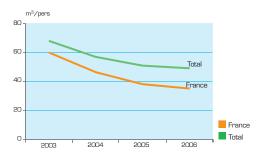
• 3% in France, which means a drop of over 40% since 2000 - not far short of the 50% reduction target for water consumption.

In Australia, despite plans to reduce consumption at the most industrial sites, water consumption increased owing to the temporary modification of a process at the Mulwala site. Corrective measures are now being identified.

To allow for changes in the scope of consolidation, water consumption is given on a per capita basis, except for the Australian sites where this is inappropriate owing to the industrial nature of the business.

Based on this measurement, the reduction since 2005 is over 3% worldwide (nearly 8% for France and more than 9% for the other countries except Australia).

Per capita consumption*



These results were achieved by applying to all sites a policy that mainly includes running plant on closed circuits and reducing the use of plant that is heavily demanding of water. Examples of water-saving measures include the introduction of water recycling and re-use systems at Palaiseau (France) and Ulm (Germany), rainwater harvesting at Bendigo (Australia) and the elimination of wet cooling towers.

Other important factors have been the practice of keeping staff properly informed, and the collective efforts invested.

Energy

Electricity, gas and oil are the main sources of energy for lighting, office equipment, heating and running process plant. In a few cases (in Australia), steam and coal are used for heating.

The table below shows the breakdown of energy types in tonne oil equivalent (TOE).

ENERGY TYPE	2006	2005
Consumption		
(000s T0E)	156.4	156.2
France	54.3%	53.8%
Australia	20.3%	21%
BREAKDOWN		
Electricity	78%	81.6%
Gas	18.6%	14.12%
Oil	0.8%	1.05%
Coal	0.8%	2.36%
Steam	1.8%	0.88%

Energy consumption is relatively stable (despite an increase in the scope of consolidation). Electricity is the most commonly used energy type; France is the biggest user, with 59% of the total.

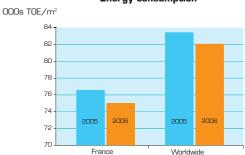
In Australia, the use of coal was reduced by replacing coal-fired boilers with gas-fired boilers.

The decrease in oil consumption reflects the Group's decision to no longer depend on this form of energy, except for backup systems (generators for critical uses such as sprinklers). Many sites have started action plans to reduce energy consumption in line with Group targets, improving building insulation, optimising management of lighting and heating, modifying plant, etc.

New buildings incorporate energy-saving design, as at Limours in France (see box on page 61) and Crawley (UK).

The results of these actions can be seen in the figures for energy consumption per m², which is nearly 2% down on 2005 worldwide. Per capita consumption is down by almost 4%.

Energy consumption



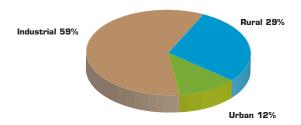
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Land use

Most Thales sites around the world are located in industrial areas or business districts.

The pie chart below excludes the sites at Mulwala (Australia) and La-Ferté-Saint-Aubin (France), since these two sites account for 73% of the total surface area of all sites in the scope of consolidation.

Site environment (of 101 sites in scope of consolidation)



The Mulwala site is on the edge of a small town and La-Ferté-Saint-Aubin is in a rural area.

Group policy on site pollution, as described above, also applies to land use management.

The Group has made sure to use the best methods available on these remediation sites. The environmental impact of the work is limited (keeping to a minimum the amount of liquid effluent, atmospheric emissions and solid waste produced, etc.) and the pollution is treated in situ to avoid transferring it elsewhere.

The Group is convinced of the value of these eco-friendly techniques and is taking part in a Lausanne University research programme on natural degradation of solvents by bacteria in anaerobic conditions.

Another aspect of land use is the way sites blend into the landscape. This is always a consideration when new buildings are to be constructed. For example, when the Group's new research centre was built on the campus of the École Polytechnique in Palaiseau, France, special care was taken over the choice of trees and shrubs to plant. The architectural design is also tailored to its surroundings.

The site audits conducted at La-Ferté-Saint-Aubin revealed the presence of chlorinated solvents in the ground and groundwater (historical pollution). Although no particular risk was identified, the Group preferred to treat the areas concerned.

The solvents were found in several places, in different geological strata and at very variable concentrations.

Two types of treatment were carried out:

- Injection of molasses to stimulate biodegradation of the solvents
- Injection of sodium permanganate to produce chemical oxidation in situ

These techniques are not yet widely used in France, but have the advantage of acting directly, in situ, without having to move the polluted material to another site. They produce no solid waste, liquid effluent or gas emissions. There is no noise, odour, vibration or other pollution. The substances injected are entirely risk-free for the environment.

The La-Ferté-Saint-Aubin site is one of the largest sites in France to have employed these methods.

Biodiversity

Given the geographical distribution of the sites, only three of the 104 sites in the scope of consolidation are located in areas in particular need of protection.

Natura	Fauna	Flora	Monuments
2000	& habitat		& archaeology
Thonon-	Thonon-	Thonon-	
les-Bains	les-Bains	les-Bains (France)	
(France)	(France)	et Brétigny (France)	
	Crawley (UK)	Crawley (UK)	Crawley (UK)

The Hengelo site (Netherlands) is in a sensitive area as regards noise.

Some entities have taken local initiatives to protect biodiversity. The Mulwala site in Australia has conducted a survey of terrestrial ecosystems revealing that part of the site is a favourite habitat of the endangered *Superb Parrot* on its migration route. To protect the area, and the parrot, there are no plans for industrial development on this part of the site.

Management of environmental impacts

Waste

Solid waste is produced through the general activity of a site, whether tertiary sector or industrial. It includes paper, paperboard, wood, metal, etc. Building waste is also included in this category.

Hazardous waste mainly derives from the industrial processes implemented at entities and includes chemicals, hydrocarbons, batteries, etc.

The total amount of waste decreased in 2006.

Many entities introduced local action plans to identify the best reprocessing chains, improve waste sorting and raise staff awareness. This type of action plan has been running in France for several years, and the results obtained confirm their usefulness: in France, 68% of solid waste was sorted in 2006 (57% in 2005). The decrease in the percentage of solid waste sorted worldwide is mainly due to a considerable decrease at the Lithgow site in Australia. In 2005, major demolition and rebuilding work on the site generated large quantities of building waste that was sent for recycling.

WASTE	2006	2005
Output	20,985	23,398
(OOOs tonnes)		
France as % of total	42%	35%
Australia as % of total	30%	34%

BREAKDOWN

Solid waste	88%	89%
(tonnes)		
% of waste		
sorted, world	49%*	67%
% of waste		
sorted, France	68%	56%
Hazardous	12%	11%
waste (tonnes)		

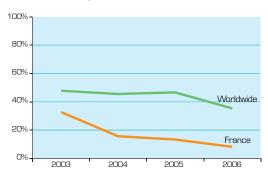
^{*}Without Australia, this figure rises to 57%.

Efforts were also made in the Netherlands and Korea, and in Poland, where waste management actions resulted in a recycling rate of over 90%. Worldwide, the rate of landfill disposal of ordinary waste remained appreciably steady.

In France, this percentage has been cut by 75% since 2003 and is nearing the "zero landfill" goal, except where lack of local facilities makes this impossible.

Excluding Australia, the landfill disposal percentage is 30%. Sites in Australia mainly use landfills because they are located far from any reprocessing and recycling centres. Sites in Greece and South Africa have the same kind of problem due to a lack of waste reprocessing facilities.

Percentage of solid waste sent to landfills



Atmospheric emissions

In 2006, a pilot study of CO_2 emissions in France assessed the Thales Group's contribution to greenhouse gas emissions and identified the most significant sources as being energy consumption, sulphur hexafluoride (SF6) and pure CO_2 produced by processes, as well as transport (business and home-to-work journeys).

Energy-related emissions give a ratio of 146 kg/m 2 in France, appreciably the same as in the United Kingdom (145 kg/m 2). In Australia, because of its industrial processes, 40% of emissions are from energy, compared to 22% in France.

ENERGY-RELATED CO ₂ - EQUIVALENT EMISSIONS*	2006
CO ₂ emissions	
(OOOs tonnes)	278
BREAKDOWN	
Electricity	69%
Gas	25%
Oil	1.4%
Steam	3.3%
Coal	1.1%

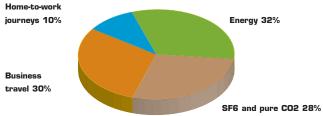
^{*}Using the calculation rules of the Green House Gas (GHG) Protocol.

 ${\rm CO_2}$ emissions from business travel and home-to-work journeys were also evaluated. However, some Countries had difficulty supplying information about transport. Action will be taken in 2007 to alleviate these difficulties. Because of this, the figures for energy-related greenhouse

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gas emissions, SF6 and pure CO_2 are given for the entire scope of consolidation, but emissions deriving from business and staff travel are given for France only. CO_2 -equivalent emissions in France amounted to 187k tonnes. NB: 1 kg of SF6 has a greenhouse effect equivalent to that of 24,000 kg of CO_2 . This explains the high proportion of SF6 and pure CO_2 in the pie chart showing the breakdown of CO_2 -equivalent emissions in France.





This study is being continued in 2007 in order to design action plans and identify other individual activities that emit CO_2 , in connection with particular processes in use in other Countries.

Various awareness-raising actions have been undertaken to further reduce CO_2 emissions. The main aim is to promote cleaner transport, both individual and corporate. These actions go hand in hand with measures to reduce energy consumption.

Liquid effluent

Most industrial effluent is cooling water and process water treated before discharge.

INDUSTRIAL WASTEWATER Quantities released (000s m³)	2006 1,435*	2005 1,474
Compared to consumption	57.1%	59.1%
OUTLET:		
Surface water	68.7%	68.9%
Natural environment	0.2%	0.1%
Public sewage system	30.3%	29%
Other	0.8%	2%

^{*}Value adjusted to take account of the redefinition of this criterion in 2006.

These figures concern only four countries (France, Australia, Netherlands and United Kingdom), with just five sites producing 84% of effluent. 39% of water extracted is returned to the natural environment.

In the space of a few years, all Thales sites have invested in appropriate effluent management methods,

e.g. recovering polluted effluent in containers to process it more easily, improving existing treatment plant and repairing defective sewerage pipes. Effluent released into surface waters is from four sites that are far from public sewerage networks: three in France and one in Australia.

All these sites have wastewater treatment systems so that the treated effluent can be released into the environment in compliance with existing regulations. Local authorities have approved the steps taken to improve effluent quality with suitable treatment and controls.

Noise

Given the nature of the Group's activities, few of its sites have activities that generate noise. The few sites that do are equipped with sound attenuation systems (covers on refrigeration units, etc.).

At the Garden Island shipyard (Australia), which is located near residential areas, noise sensors have been installed throughout the site. If noise reaches excessive levels, the local authorities are immediately informed. There is also a round-the-clock telephone hotline for local residents to call in. All calls are answered, and the authorities are informed of all claims.

Environmental indicators

	Unit	2005*	2006**
Energies			
Electricity consumption	TOE	129,092	122,326
Electricity consumption per employee	TOE/pers.	2.63	2.39
Fossil fuel consumption	TOE	27,081	34,491
Fossil fuel consumption per employee	TOE/pers.	0.5	0.68
Total energy consumption	TOE	156,173	156,430
Total energy consumption per employee	TOE/pers.	3.18	3.06
Water			
Water consumption	m³	2,495,293	2,512,553
Water consumption per employee	m³/pers.	50.9	43.27
Wastes			
Output of non-hazardous waste	tonne	20,753	18,365
Output of non-hazardous waste per employee	kg/pers.	420	426
Non-hazardous waste reprocessed (1)	%	52	52
Output of hazardous waste	tonne	2,648	2,620
Output of hazardous waste per employee	kg/pers.	53	51
Hazardous waste reprocessed (1)	%	79	58
CO ₂			
Energy-related CO ₂ emissions	tonne CO ₂	na	278,026
Miscellaneous			
Entities with ISO 14001 certification	no.	50	65
Population concerned as % of all Group staff	%	44	57
Entities having introduced an EMS	no.	59	73
Population concerned as % of all Group staff	%	55	62

^{*}Scope: 84% of Group staff
**Scope: 90% of Group staff
[1] Neither landfill nor incineration without energy recovery.

A GLOBAL LEADER RECOGNISED AS A RESPONSIBLE PLAYER

Ratings

In 2006, several rating agencies and organisations assessed the Thales Group's performance against social and environmental responsibility benchmarks.

Distinctions

The company was formally recognised in 2006 for a number of specific actions, particularly outside France:

- As part if the Global Monitoring for Environment and Security system, the European Commission selected Thales to develop the first Earth observation service specifically designed to improve our understanding of environmental phenomena such as flooding, changes in land use and atmospheric pollution, while contributing to civil security in Europe (OSIRIS project).
- Thales received the **MENA-OECD** award for best investment in the Middle East and North Africa zone in 2006 for a project with Raytheon to establish an environment-friendly fish farm employing women in Saudi Arabia.
- In May 2006, the French defence procurement agency (DGA) awarded its **Quality Trophy for best industrial** prime contractor to Thales's Air Systems Division.

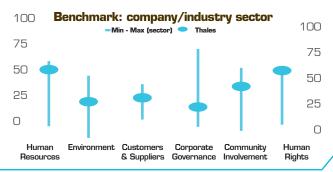
Vigeo

Rating: May 2006 - Market sector: Aerospace

(companies in panel sector: 10)

Criteria (min -/max ++)	Rating 2006/05	Score 2006/05
Human Resources	+	58
Environment	=	35
Customers & Suppliers	=	39
Corporate Governance	-	30
Community Involvement	+	50
Human Rights	+	65

Score scaling: O to 100.



CM-CIC Securities

Source: "Business as usual - A financial and extra-financial analysis of the aerospace & defense industry", February 2006

- 2. State support (Export) ////////*
- 4. Dual Applications //////////*
- 5. Systems Providers /////////******
- 7. Multi Domestic Approach //// ***
- 8. Low Dependance on Exports to Risky Countries //////////⊀⊀
- **Qualitative Scoring** ///////// 2.63

Guide: 1. Share of National Defence Budget/2. Level of State support and/or prevalence of State to State contracts. 3. Likely targets for M & A. 4. Capacity or possibility for reusing defence technologies for civil uses & vice versa. 5. Share (direct or indirect) of turnover. 6. Share (direct or indirect) of turnover 1 = 10%, 2 = 10 - 20%, 3 = 20% + 7. Repartition of turnover & sites. 8. Share of turnover from regions or zones with current or potential high level of political instability.

Qualitative Scoring: 3 = 50% + 2 = 20-50%, 1 = below 20%.

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