

# THALES

customers  
suppliers  
employees  
shareholders



## Corporate Responsibility

ethics  
environment  
society



# SUMMARY

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## Foreword

### Introducing the Thales 2007 report on Corporate Responsibility

- The report presents an overview of Thales activities and key statistics for 2007 and highlights the Group's achievements in terms of corporate responsibility.
- The structure of the report is largely based on Group initiatives in the financial sector, employee relations, environment and society.
- Given the Group's significant international presence, which is part of its multi-domestic strategy, the report strives to provide as much information as possible on the countries where Thales is present.
- Finally, the section on corporate governance is an extract from the Annual Report 2007. It can be accessed through <http://www.thalesgroup.com/Investors.html>

## PROFILE

2007 revenues:

**12.3**  
billion euros

Headcount:

**68,000**  
employees

Operations in

**50**  
countries

**02**



Thales is a leading defence contractor and a major player on civil and commercial markets around the world. Its businesses are organised by market segment – Aerospace and Space, Defence and Security – and operate as a single organisation, sharing advanced technologies and drawing on complementary capabilities across the company to meet the specific requirements of each customer.

### AEROSPACE AND SPACE

**Aerospace** markets offer a vivid illustration of the benefits of dual civil/military technologies. Thales is also the only company in the world with leadership positions in both onboard equipment and ground equipment. The company equips **all types of aircraft** – commercial airliners, military aircraft and helicopters – and is a first-tier partner of the world's leading manufacturers, including Airbus, Boeing, Sukhoi and ATR, on all of their major programmes.

In air traffic management, Thales's capabilities span the **entire flight plan surveillance and security chain**, from departure gate through en-route control to arrival gate in complex and saturated air transport environments. It is one of the few companies in the world with the know-how and experience to provide complete and effective support for air traffic controllers.

The company has also emerged as a major player in **Space** programmes around the world through a structural alliance with Finmeccanica of Italy. With a 67% interest in the satellite systems specialist Thales Alenia Space and a 33% interest in Telespazio, a leading provider of satellite services, Thales is now the **European leader** in satellite systems and services for a broad range of applications: commercial telecommunications, navigation, radar and optical observation, meteorology and oceanography, scientific research and military communications and observation. Together, the company's Aerospace and Space divisions employ 20,500 people.

### DEFENCE

Thales is the European leader in defence systems, providing high-tech products and systems to meet the requirements of air, land, naval and joint forces, and developing the interoperable solutions, ISTAR, C4ISR and UAV systems needed to **counter new threats** as they emerge. Thales has completely renewed its radar product portfolio and unveiled next-generation product families such as the software-defined radio sets.

A unique multidomestic development strategy has brought Thales local-player status in numerous European countries, as well as in North America and high-growth markets in Asia and the Middle East. More than 23,000 people from the Aerospace, Air Systems, Naval and Land & Joint Systems divisions work in the Defence sector.

### SECURITY

As civil security markets restructure to meet burgeoning demand, Thales has carved out **strong strategic positions** in several key segments: security and safety systems for **ground transportation** (rail, urban, road), **supervision and protection for infrastructures** (airports, harbours, land and maritime borders, energy supply and transport infrastructures), solutions and services providing **personal data protection** for the civil administration (encryption, detection, localisation, simulation), and providing **management and control of critical information systems** for industry and finance. The Thales Security Solutions & Services division employs more than 20,000 people in 35 countries.



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Going forward, the Group's mission will be to leverage its technology to contribute to the security of a globalised world.”

knowledge that helps further our pursuit of excellence. **This standard of excellence is in and of itself the definition of our corporate ethics. It could be considered the foundation and rationale of the company.**

The Corporate Responsibility Annual Report reflects our strategy. It is based on a double approach. Internally, it involves a process of continuous improvement. Externally, it is based on the sharing of best practices at the sector level and on the need for all competitors to create a more level playing field through shared standards.

Going forward, the Group's mission will be to leverage its technology to contribute to the security of a globalised world through aerospace, transport, civil security and defence.

**DENIS RANQUE,**  
Chairman and Chief Executive Officer

**T**hales has enjoyed consistent growth in recent years and strengthened its position as a major international player in critical information systems.

The Group's mission is crucial both to long-term development and to the benefits that Thales can generate for its stakeholders, whether they are customers, employees, shareholders or other players involved in the development of a globalised world.

It is clear that our growth strategy must be maintained. Nevertheless, it must remain strictly compliant of corporate laws and regulations. In addition, because of the growing complexity and globalisation of the Group's activities, it must be based on a systematic approach to corporate responsibility that is also answerable to emerging social needs.

The Thales approach, initiated by senior management and shared by all employees, is based on corporate responsibility and a new collective

# HIGHLIGHTS

## ▲ SUSTAINABLE PARTNERSHIP WITH CUSTOMERS AND SUPPLIERS

- Strengthening and deployment of anti-corruption measures (Best Practice Handbook) – *page 17*
- Active participation in an industry-wide initiative together with European defence and aerospace groups – *page 18-19*
- Updating of the mechanisms implemented by Thales to ensure strict export controls – *page 15-16*
- Extension of Thales corporate responsibility commitments to include suppliers – *page 20*

## ▲ EXEMPLARY HUMAN RESOURCES POLICY

- Integration of 11,000 new employees from Alcatel-Lucent's space, control and security command solution activities – *page 25*
- Continued harmonisation of Group employee relations practices with the incorporation of employees from Alenia Space and Thales Rail Signalling – *page 37*
- Signature of job mobility charters with DCNS and Alcatel-Lucent to encourage employee mobility within the new enlarged scope of the Group – *page 31*
- Creation of a Group employee retirement savings plan known as PERCO – *page 27*
- International development of Thales University – *page 29*

## ▲ STEADFAST APPROACH TO CORPORATE GOVERNANCE AND BUSINESS ETHICS

- Updating of the Code of Ethics, translation into eight languages and dissemination to all 68,000 employees – *page 10*
- Improved clarity for the 'alert system' procedures contained in the Code of Ethics – *page 10*
- Creation of a Thales UK Ethics Committee – *page 46*
- Deployment of a Group-wide compliance programme – *page 49*

## ▲ WELL-DEFINED ENVIRONMENTAL FRAMEWORK

- Formalisation of Thales's environmental commitments – *page 54*
- Active participation in a range of environmental programmes, notably Cleansky – *page 60*
- Reduction of the environmental footprint of certain products – *page 59*
- Reduction in global water consumption: -23% from 2006 to 2007 – *page 56*

## ▲ BROAD VISION OF RESPONSIBILITY

- Strengthening of educational partnerships and measures to foster youth employment – *pages 63 & 64*
- Development of a proactive policy of partnerships with SMEs – *page 66*
- Participation in the GMES programme of the European Space Agency – *page 67*
- Development of new projects for people with disabilities – *page 70*

THALES

## A prestigious past...

**1893** Creation of Compagnie Française Thomson-Houston (CFTH) to exploit the patents of the US Thomson-Houston Electric Corp. in France.

**1919** Founding of Compagnie Générale de Télégraphie Sans Fil (CSF).

**1968**

Formation of Thomson-CSF through the merger of the professional electronics businesses of Thomson-Brandt (previously CFTH) and CSF.

**1970-1980** First major export contracts in the Middle East. Diversification into telephone switchgear, silicon semiconductors and medical imaging.

**1982** Nationalisation.

**1983-1987**

Portfolio refocused on professional and defence electronics.

**1998** Privatisation.

**1998-1999**

Multidomestic expansion in Defence markets: South Africa, Australia, South Korea, Singapore, etc.

**2000** Acquisition of the British company Racal Electronics. Creation of the first transatlantic joint venture in the Defence sector with Raytheon. Thomson-CSF becomes Thales.

**2001-2005**

Strengthening of international dimension, development of a balanced portfolio of civil and defence businesses.

**2007**

Acquisition of Alcatel-Lucent's transportation, security and space businesses: Thales becomes the world's leading supplier of integrated transportation systems, and, through Thales Alenia Space, the European number one in satellites. Convergence with DCNS: Thales becomes the main private shareholder and industry partner of France's premier naval shipbuilder. The Group is organised into three business areas: Aerospace and Space, Defence, Security.

## ...and a focus on the future





# Corporate Responsibility according to Thales

Thales lies at the heart of changes in world geopolitics and globalisation as a result of its specialisation in electronics for the defence, aerospace and security markets. Security facilitates the mobility of individuals, capital, goods and services, and information.

The result is a more dynamic world, but one that is also more volatile. Modern societies are particularly vulnerable to failures in large-scale infrastructure: transport networks, energy grids and information systems. They are equally exposed to the new threats of trafficking, terrorism, cyber attacks and asymmetric warfare.



**T**he mission of Thales is to contribute to a safer world by providing a complete range of integrated solutions that address three major challenges:

- **reliability and security,**
- **surveillance and control,**
- **protection and defence.**

In this complex global environment national and international regulatory frameworks tend to overlap and can sometimes be contradictory. They tend to leave **certain areas undefined, obliging companies to address issues on the basis of their own ethical standards.** Faced with such legal inconsistencies, and further constrained by the limitations of hard law, Thales relies on its own vision of corporate responsibility to develop and implement best practices.

## The Group's new responsibilities

### A changing world

The environment in which Thales does business has been undergoing major shifts in the last 15 years. In geopolitical terms, the bipolar world of the Cold War has been replaced by an **environment that is increasingly complex and potentially more unstable.** New threats include the proliferation of weapons of mass destruction, terrorism and financial crime. Economic globalisation is another phenomenon affecting the Group's day-to-day activities. This has led to a radical rethink at aerospace companies, which are responsible for some of the most sensitive technology at the core of national security.

Moreover, the continuous blurring of national borders, an epiphenomenon of globalisation, has been further accentuated by the boom in New Information and Communication Technologies (NICT).

### New stakeholders

The Group has a growing number of stakeholders in countries in which it has a significant presence. These include employees, customers, suppliers and, more recently, the general public, grassroots analysts and NGOs. The emergence of new stakeholders from society can be a challenge to any industrial group. Extremely sensitive to issues regarding sales, employee relations and the environment, they expect companies to carry out their activities in a responsible manner.

### Increasing corporate responsibility

In a constantly evolving and globalised world, the regulatory frameworks of national governments are no longer sufficient to regulate company activities. Legislation is no longer able to take into account the

## Transparency International UK

From the outset, Thales has participated in a programme titled "Preventing Corruption in Official Arms Trade" that is sponsored by the Management Committee of Transparency International UK. Financed by the British and Swedish governments, the programme was launched in 2000 and seeks to promote best practices in the defence and security industries. In addition, it provides support to countries with weak governance. •

diversity and complexity of situations faced by economic actors. Moreover, laws and regulations do not always coincide with the full range of expectations by the different stakeholders, who apply soft laws that may be perceived as restrictive.

There has also been a **shift in responsibility** towards companies themselves, which now define the standards, practices and specific rules that, alongside existing rules and regulations, govern company operations on a daily basis. Corporate responsibility is an inherent part of this process.



### Global Compact

Launched by the United Nations, the Global Compact seeks to align the operations and strategies of all signatory companies through 10 basic principles relating to human rights, labour standards, environmental protection and the fight against corruption.

The Compact has led to the establishment of a forum of learning and exchange of best practices. This forum is tasked with promoting corporate ethical behaviour in a proactive manner.

About 5,000 companies around the world have signed the Global Compact, including 520 in France. This makes France the world leader in terms of signatories.

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. •

### The basis for corporate responsibility at Thales

#### Ethics at the core of Group culture

Although the processes of corporate responsibility can be demanding, Thales is fully committed to them, particularly as the Group's own culture and history are naturally aligned with this approach.

Due to its area of activity, Thales has developed a **corporate culture based on long-term objectives and excellence**. As specialist in critical information systems, the Group has always met stringent standards of quality and reliability. **Its status as an industry leader also entails a constant aspiration to perfection in all fields of activity.**

Due to its multi-domestic profile, **the Group has been able to take account of different national and international rules and regulations from its earliest days**. The strength of its multicultural teams have also helped Thales to appreciate **the importance of diversity as an asset**.

As a result, Thales was one of the first companies in the industry to implement a structured, consistent approach to corporate responsibility.



## Security and mission-critical information systems

### Mission-critical information systems

These are complex software platforms that combine different functionalities and are used in fields of activity that require absolute reliability. These include the military and aerospace sectors, public transportation and financial transactions. Any system failure could have dramatic impact on the security of individuals, companies or goods.

### Critical infrastructure

According to the European Commission (memorandum of 20 October 2004), critical infrastructure consists of *"physical and information technology facilities, networks, services and assets the destruction of which would have a serious impact on the health, safety, security or economic well-being of citizens, or even the operations of Member State governments"*.

### Security and safety

The term 'security' is generally used to refer to the protection of individuals or goods against deliberate and malicious attacks. The term 'safety' refers more often to the reliability of an installation or system. Thales favours an end-to-end integrated approach that incorporates both security and safety:

- the Group's security offering covers the implementation of surveillance, analysis and alert solutions, and personnel, data and infrastructure protection systems, that prevent malicious activities by third parties.
- the Group's safety offering aims to ensure the reliability of infrastructure or critical systems which could disrupt the regular provision of services were internal malfunctions (technical glitches, breakdowns or accidents) to occur. •

## The Thales approach to ethics and corporate responsibility

The Group's approach to ethics and corporate responsibility addresses commercial, environmental, social and societal issues in order to take the needs of all its stakeholders into account. This approach has **two major axes**.

**The first enhances the Group's internal measures and procedures** in order to guarantee compliance with national and international regulations. This "rule-based" approach is regularly monitored by the Group's Risk and Internal Control Committee. This Committee ensures that procedures, internal control self-evaluations and risk mappings are carried out correctly.

**The second seeks to deploy the highest professional standards throughout the Group** to ensure that appropriate solutions are applied in situation where the law is either insufficient or imprecise. This "value-based" approach prioritises behaviour and collective intelligence that respects certain rules. It is formally laid down in the Thales Code of Ethics and is implemented by a dedicated organisation that reports to the Ethics and Corporate Responsibility Committee.



## Ethics alert

At its most basic level, ethics alert enables every employee to obtain information and advice whenever they have questions or doubts regarding the application or interpretation of the Code of Ethics.

The ethics alert also allows Thales employees to report any incidents where the non-respect of regulations or of the Code of Ethics could put the Group in a position of liability or damage the Group's reputation and/or image.

To report infringements, employees are encouraged to contact their line manager or the Ethics Officer in their division or country or, if necessary, the Ethics and Corporate Responsibility Committee. Employees must identify themselves when reporting an incident but are protected by a confidentiality agreement. The identity of the person implicated in the case is also kept confidential. These provisions are adapted to the practices and regulations in force in each country. The implementation of the alert system requires a high level of employee accountability and personal integrity. Its success depends on information being provided in good faith. •

## Formalising the approach to corporate responsibility

Deployed since 2001, the **Code of Ethics defines the best practices to adopt** in business transactions with customers, suppliers, employees, shareholders and the community. It reflects the Group's desire to **apply clear principles in its day-to-day business activities**.

The Code of Ethics is **the result of sustained reflection, research, analysis and validation**. It was drafted following consultations with all internal stakeholders and takes account of the latest international, economic, social and environmental constraints.

The Code of Ethics was updated in 2007. It has been translated into eight languages, is published on the Group's intranet, being thus available to all employees. The main changes made in 2007 relate to:

- strengthening the principles that apply to suppliers and the environment,
- updating the Group's ethical structure,
- giving greater visibility to the ethics alert system.

Thales has set up a **dedicated organisation** to ensure that all employees are aware of and committed to the rules laid down in the Code of Ethics.

The **Ethics and Corporate Responsibility committee** helps define and implement Group policy regarding ethical standards and corporate responsibility. It also arbitrates on issues submitted by Ethics Officers and directs investigations into cases of non-respect of the Code; the Committee can suggest appropriate actions or sanctions to management.

The **Ethics and Corporate Responsibility department** has five members. It implements the policy defined by the Ethics and Corporate Responsibility committee and coordinates the various activities undertaken in this field at Group level.

In accordance with the priorities set by the committee, the department's main responsibilities are to:

- define and implement best practices,
- set ethical standards for business practices,
- recommend information, awareness raising and training approaches,
- contribute to the creation of a culture of accountability,
- monitor and contribute to changes in regulations and standards.

Finally, **Ethics Officers** are appointed at the main Group levels (country and division). They are responsible for disseminating the Code of Ethics, making recommendations on the application of the



## Thales's five core values

### 1. Focusing on customers

Thales strives to listen to all its customers, to understand their needs and to provide tailored solutions that address their requirements (in terms of budgets, deadlines and performance).

### 2. Developing people

The Group's employees are its main asset. For that reason, Thales has set up a human resource management system that empowers employees and helps them to develop their skills. Employees benefit from training schemes and opportunities for geographic and professional mobility.

### 3. Acting as entrepreneurs and innovators

To ensure the growth of the Group, Thales encourages its employees to take calculated risks and be proactive. Courage, personal dedication, quick decision-making and rapid action are essential.

### 4. Enhancing performance through teamwork

Thales seeks to promote a high level of interaction with its customers, partners and suppliers, in particular through effective team work. The goal is the rapid development of solutions that are well adapted to multinational and multicultural environments. With this in mind, Thales encourages diversity within its teams.

### 5. Sharing knowledge

Formalising and sharing knowledge is essential to the success of Thales. The Group encourages intellectual curiosity and professional networking while ensuring that security and confidentiality are respected. •

Group's ethical policies in divisions and countries, and monitoring their implementation.

They are equally tasked with raising awareness among employees about ethical challenges and adapting the Group's ethical standards to local legislation and practices. Finally, Ethics Officers answer employees' questions about the application of the Code of Ethics.

## Thales's commitments

Thales takes a cross-cutting approach to corporate responsibility that includes all of the Group's stakeholders. Thales is, therefore, committed to proposing **a set of concrete measures**, that take account of the Group's values and Code of Ethics.

For each group of stakeholders, **Thales has developed a range**

**of awareness-raising and training tools** to promote a deeper understanding of the Code of Ethics. In particular, Thales University, an institution that contributes to the professional development of employees, is responsible for spearheading this cultural evolution and has integrated a number of modules dedicated to ethical issues into its training curriculum. The Group has also published guidelines and reference guides on employee behaviour. And an e-learning programme is being developed to raise awareness about ethical issues among the entire workforce.





## Specific commitments towards...

### > ...external partners:

Thales seeks to establish long-term relationships, based on mutual respect and trust, with its customers and suppliers. Customers and suppliers are considered as industrial partners in their own right and can count on the Group for honest and reliable information and a full commitment to promised results.

Thales has developed a Purchasing and Corporate Responsibility Charter, which asks suppliers to adopt the Group's approach and show the same respect for the principles contained in the Group's Code of Ethics as they do for those laid down by international treaties and standards.

### > ...employees:

In terms of human resources, Group priorities include the geographic and professional mobility of employees, the right to suitable training, the recognition of employee performance and the struggle against inequalities, notably those based on gender or disability.

### > ...shareholders and markets:

Thales strives to improve its risk management and internal control tools and to provide clear and reliable information on its financial situation and strategic decisions. The principle of transparency guides the Group's relations with its investors

### > ...the environment:

The Group's operations do not, generally, generate much pollution. Even so, Thales has implemented an ambitious environmental protection policy. For a number of years, the Group has been

working to limit the health and environmental impact of its activities to the greatest extent possible and raise awareness about these issues among employees.

### > the society:

Thales's commitment to civil society is reflected in its employment policy, its proactive corporate philanthropy and its close partnership with universities and scientific institutions. ●

## Thales and cluster munitions: an ethical and legal challenge



Thales is committed to carrying out its activities in strict compliance with the national legislation of the countries where it is present, as well as with any relevant international regulations or conventions. This policy is in line with the Group's overall approach to ethics and corporate responsibility, which is itself aligned with the highest industry standards.

The Group is no longer involved in the manufacture of cluster munitions and has removed these products from its catalogue. In this respect, the Group has taken a proactive stance by anticipating the principles and definitions of the future Convention on cluster munitions, also known as the Oslo Convention.

It should be noted that Thales has never manufactured anti-personnel landmines or other so-called 'controversial' weapons.

Finally, while Thales is involved as a sub-contractor in the design of certain ballistic missiles, its role is limited to the supply of non-nuclear electronic components and systems. It is important to emphasize that this type of defence system is central to the policies that guarantee the security and independence of democratic states. ●



## A closer look at force transformation...

### The capability-based planning

The fall of the Berlin Wall and the end of the Cold War mark a geostrategic shift that led many countries to rethink their defence doctrine. The end of a 'bipolar' world order and the emergence of new threats – especially terrorism – resulted in changes to the mission and organisation of defence forces. Resources are now thought of and optimised in terms of military capacity. This 'capacity revolution', or 'transformation of armed forces', is an ongoing, ever-changing evolution.

The capacity approach originated in the United States and was initially adopted by NATO countries before spreading to other partners with a similar level of development (Australia, Japan). It now includes many Asian countries (China, Singapore) and even countries in the Persian Gulf. In each case, the objective is the same: to develop defence tools that are more efficient, better adapted, and cost effective.

The concept of capacity encompasses a wide area that includes personnel, military command, programmes, operations, logistics and operational maintenance, doctrine and costs.

Applied over the long term, this approach implies the development of new models for armies and defence systems, as well as new operational and technical specifications. Comparisons with existing resources makes it possible to identify capacity shortfalls and overlaps. This is the principle underlying the European Union's ECAP procedures and NATO's ACT scheme.

The increasing costs of capacity are also helping to drive the process. The capacity approach often includes inter-army cooperation, and is heavily dependent on information and communication technology (Network Centric Warfare, Network Enabled Capability, etc.). Within the European Union and NATO, this approach has encouraged closer cooperation and resource-sharing. Examples include the intervention forces defined at Helsinki, the European Gendarmerie Force, European Air Transport and

the NATO Defence Force. Bringing together national forces will also depend on achieving military coordination among allies, which is necessary for all multinational interventions.

Finally, the inter-army capacity approach has a direct structural impact on the organisation of armies and defence systems. It has already led to significant changes, notably the focus on structures able to promote an inter-army approach through a focus on both the mission and the operational challenge. This is particularly the case for the United Kingdom (1998: Defence Strategic Guidance), Belgium (2000: disbanding of three armed forces), Sweden (2001: creation of a single army), Germany (2004: integration of forces), France (2005: creation of an Inter-Army Centre for design, doctrine and experimentation) and the Netherlands (a single army). •

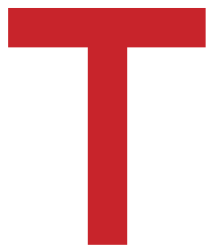
<sup>1</sup> ECAP: European Capabilities Action Plan.

<sup>2</sup> ACT: Alliance Command for Transformation.



# A sustainable partnership with customers and suppliers

Given the nature of its activities, the integrity of sales, marketing and financial operations is a key component of corporate responsibility at Thales. To address these issues, the Group has established a system of rigorous control over the end use of its equipment and technology, as well as strict anti-corruption procedures. Thales also strives to promote even-handed relationships with its suppliers.

o that end, the Group seeks to further best practices among stakeholders, both customers and suppliers, with a view to developing a more secure business environment.

**For Thales, growing in a responsible manner is necessary both in ethical terms and as a guarantee of the performance and sustainability of the Group.**

## Secure business transactions

### Control of end use of equipment and technology

Today's geopolitical situation is characterised by a string of local and regional crises as well as new terrorist threats. To address these risks, many countries, and particularly those in which Thales is active, have drafted a rigorous legal framework regulating the exports of defence equipment and technology. This legislative framework varies from country to country, both in the way it is implemented and the export flows that have been authorised.

Over the years, the Group has developed a wealth of know-how about the different regulatory regimes based on a combination of expertise in technical, geopolitical and institutional terms.

Differences in legislation also raise specific problems. Virtually all defence equipment and technology contains components and sub-assemblies from many different countries. Thales is required to comply

with regulations applicable in countries that manufacture and export components and sub-assemblies, as well as those applicable in countries that import and integrate final products.

To ensure compliance with this complex system of legislation, the Group has developed **its own internal programme for export control**. The programme allows Thales to guarantee strict compliance with different regulatory regimes and **to meet the highest international standards**. Thales is thus able to honour its commitments as a global player in security.

### Export control bodies

Given its particularly sensitive nature, export control is managed at the Group's executive level.

The measures adopted by Thales apply to all units and to all countries where the Group is active. **They ensure compliance with regulations on traceability as required by various**

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public authorities, and also ensure that transactions between suppliers and customers are secure. These export control measures are based on a series of best practices developed by Thales in 10 areas (identification of required export licences, control over purchasing and sub-contracting, audits, etc.), as well as on the Group's management of its different business lines and corporate structures.

### > Thales Export Compliance committee

The committee is responsible for missions that cut across a range of Group activities. It is in charge of **defining export policy to ensure compliance with international rules and regulations**. The committee is also tasked with:

- ensuring that units in each country are perfectly compliant with local legislation on the transfer of goods and technology,
- evaluating improvements in compliance processes,
- approving proposals for further improvements,
- studying all export projects for countries deemed sensitive, thus ensuring compliance with the Group's international commitments.

The Export Compliance committee is made up of export control directors from the Group, and its divisions and countries. It is chaired by the Group Export Control Director. The committee reports directly to the Vice President and General Counsel of the Group, who in turn reports to the Senior Vice President, Finance and Administration, a member of the Thales executive committee.

### > Export Control department

The Group has appointed an Export Control Director responsible for broad-based initiatives that ensure compliance with domestic and international regulations in terms of exports, re-exports and imports. A Deputy Director provides expertise to the Group and its subsidiaries.

### > Export Control departmental divisions

In addition to the Group's export control department, each division is endowed with an operational body that ensures compliance of exports with both domestic and international regulations.

### > Country Export Control departments

Every country in which Thales is active has an expert body dedicated to export control. Together with the Group's export control department, these bodies are responsible for addressing issues related to domestic regulations.

As part of its risk management programme, Thales audits the export control policies of all its entities.

## Prevention of corruption

Thales believes that all business activities must be carried out in strict compliance with the ethics enshrined in its corporate values. Given its scope of operations, the prevention of corruption is a top priority at Thales. **The Group has issued a complete set of directives and has set up a dedicated organisation** 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 a commercial transaction, except in certain strictly defined cases.

Thales International, a dedicated organisation, is responsible for managing the exports sales and marketing of all Operating Units. It is the only entity recognised by the Group as having the expertise required to handle issues of compliance within a strict regulatory framework. Thales International not only strives to improve the Group's sales and marketing, but also to **guarantee control over the compliance of all its transactions**.

At the same time, the Group has developed procedures and directives that apply to all ESPs. These now apply to both individuals and companies supporting the Group in the management of its contracts with governments or private sector customers.

Stringent selection procedures apply to consultants hired by the Group: their





expertise must be recognised at the regional or international level. Selection procedures include a detailed application survey, copies of company registrations and all other official documents, including the most recent annual reports. In addition, senior management must agree to comply with international trade legislation. All of this information is studied and approved by an external body. Only senior management, upon a specific order extended by Thales, is entitled to confirm the choice of a consultant and sign the relevant contract.

The selection process can be brought to a halt by a variety of reasons, referred to as show stoppers. Risk factors that provide grounds for closer scrutiny are flagged and referred to a higher level of management in addition to the usual signatory.

Payments for consulting services are also subject to strict procedures. For example, no money transfers are made to financial establishments located in so-called tax havens. In addition, all payments must correspond to an actual service and reflect the exact type of service provided.

All these procedures are laid down in the *Policies and Procedures for Business External Service Providers – Corporate Best Practice Handbook* written by the Ethics and Corporate Responsibility department. This document has been approved by the Executive Committee and presented to the Board's Audit Committee. A continuous improvement process has been launched to enhance procedures and internal control mechanisms.

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The Group has issued a complete set of directives and has set up a dedicated organisation to ensure compliance with national and international legislation regarding the prevention of corruption.”

Similarly, **awareness raising and training sessions** have been set up for Thales employees. In addition to existing courses, a specific training programme on transparency was designed by Thales University in 2007 for all employees directly or indirectly involved in sales and marketing. More generally, an awareness raising e-learning course for a wide range of employees was developed in 2007.

#### **Regular audits**

The Group's Operating Units are regularly audited by the Internal Audit organisation, which reports directly to the 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 submitted to a particularly detailed annual audit of procedural compliance, 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. The Government Commissioner, in turn, is regularly updated on all issues arising in this area.

#### **A continuous improvement process**

As global leader in its field of activity, the Group seeks to **combine value creation with business ethics**. To that end, a number of internal measures have been adopted, including a company-wide benchmarking system that helps drive the continuous improvement of Thales procedures, directives and organisation.

This commitment to continuous improvement, based on principles of transparency and company-wide compliance, also relies on the

constant exchange of best practices with the Group's industrial partners.

Thales maintains close relations with a number of professional bodies, including the French employers' organisation (MEDEF), the Confederation of British Industry (CBI), the Business and Industry Advisory Committee of the OECD (BIAC), the International Chamber of Commerce (ICC), the AeroSpace and Defence Industries Association of Europe (ASD) and the French-based Observatory of Corporate Social Responsibility (ORSE).

Thales participates actively in the work of national, regional and international organisations, as reflected by the Group's joint work with the OECD and the United Nations, especially through the Global Compact. One of the aims is to strengthen the mechanisms that help prevent solicitation and extortion in industry, helping it to remain free of corruption.

### Implementation of best practices

Best practices are sector-specific behaviour and standards that emerge directly from the relevant players (industrial groups, associations, non-governmental organisations, etc.). They complement any lack of precision in the legal and regulatory framework, providing solutions that are adapted to concrete issues related to commercial, environmental or HR management ethics. Thales actively contributes to the development and spread of best practices by participating in several industry-wide initiatives, both regionally and internationally.

### > The ASD Ethics & Anti-Corruption Task Force

In 2006, Thales was involved in the creation of an Ethics & Anti-Corruption Task Force within the Aerospace and Defence Industries Association of Europe (ASD). After comparing existing policies and procedures relating to business transparency, the Task Force developed a set of common industry standards for its members.

### > Defence Industry Anti-Corruption Forum

The leading defence companies and industry associations in the UK have created a Forum to share experiences and expert opinions. The goal is to enhance the image of UK-based defence companies by identifying the best practices in the field. The launch meeting for the Forum was held on 18 May 2006 and brought together representatives from 11 companies and two industry associations. Thales UK was one of the very first members to join.

## Thales commitments in action

- Close cooperation with institutions such as the **European Commission** in areas relating to business ethics.
- Participation in **OECD** studies, particularly through the organisation's Business and Industry Advisory Committee (BIAC) on issues relating to public procurement and the implementation of the 1997 Convention.
- Participation in the work of the **International Chamber of Commerce (ICC)** through the organisation's committees on Anti-Corruption and Business in Society.
- Chairmanship of the ICC's Task Force on Whistleblowing aimed at defining a joint position regarding the ethics alert concept.
- 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 **Anti-Corruption Forum for British industry**.
- Regular contact with **NGOs** and other bodies including Transparency International, Amnesty International and Saferworld.
- Ongoing cooperation with the French-based **Study Center for Corporate Social Responsibility (ORSE)** and support for the work of the Institute of Business Ethics.
- Chairmanship of the Working Group on Ethics and Corporate Responsibility of the **Association of French Aeronautical and Space Industries (GIFAS)**.
- Ongoing participation in the International Committee of the **French Employers' Organisation (MEDEF)**.



### > Defense Industry Initiative (DII)

In 1986, the major US defence contractors embarked on a proactive industry-wide initiative to establish and promote the principles of ethical business conduct. Professional standards and best practices, many of them more stringent than the legal obligations currently in force, were adopted on a voluntary basis.

Through its US subsidiary, Thales was the first non-US company to sign the DII in 2002. Ever since, Thales North America has been actively contributing to the initiatives of the DII.

## European business ethics standards

The AeroSpace and Defence Industries Association of Europe (ASD) launched a major initiative in 2007 when it issued a set of Common Industry Standards for its sector. Drafted by an ASD Committee, the Common Industry Standards<sup>1</sup> laid out a number of principles deemed essential in the fight against corruption. They defined the standards applicable to gift-giving, invitations and various types of donations and contributions. They also set out detailed directives for the responsible management of agents, consultants and intermediaries, as well as for the introduction of transparency programmes.

These standards help strengthen market transparency and corporate security. The ultimate aim is to extend them to industrial exporters worldwide.

The standards were adopted by the ASD Council in June 2007 and were later presented to all national organisations in the aerospace and defence sectors during their annual convention in October 2007. The goal is for each organisation, representing a full range of European industrial groups, to subscribe to the standards and facilitate their adoption among its members.

Thales has played a leading role in the drafting and adoption of these ethics standards. •

<sup>1</sup> For further information visit: [www.asd-europe.org](http://www.asd-europe.org)

### Deploying our commitments with suppliers

#### Group purchasing policy

As of 31 December 2007, annual procurement costs for the Group amounted to close to **€6 billion**, equivalent to about half of its turnover. Given the nature of the Group's activities, close to 80% of Thales purchases are made through suppliers located in EU countries, 50% of whom are based in France.

The Group purchasing policy is aimed at developing a **high-performance and reliable supplier base** that is capable of delivering technically apt and competitive goods and services. Selected on the basis of market competition, suppliers and sub-contractors undertake to:

- provide competitive and technically innovative solutions,
- respect deadlines and expectations about specifications for goods and services,
- guarantee the reliability of products and components by continuously improving performance and optimising total costs,
- comply with export control rules and with national and international regulations on environmental, economic and social aspects.

The Thales procurement policy also strives to:

- select suppliers and sub-contractors in an even-handed manner and according to sustainability, quality and cost criteria,
- reduce costs by relying on a limited number of suppliers that can respond to the recurring and day-to-day needs of the Group and its affiliates,
- guarantee equal opportunities for all national and international suppliers, as well as sub-contractors and the innovation-driven SME sector.

The Thales procurement policy applies to all Group's units and is backed by the Group Referencing System, known as Chorus. The procurement process is inherent to this system.

#### Improving joint performance

In order to satisfy existing customers and capture new markets, Thales has invited its suppliers to work toward greater innovation and competitiveness. The Supplier Development programme was launched by the Aerospace division in 2005. It was extended to the Land and Joint Systems division in 2007. In that same year, over 35 Thales suppliers, mostly SMEs, benefited from the programme. Supplier Development was also

deployed by certain key suppliers whose failure to reach expected performance levels posed a threat for the Group's performance as a whole.

The Supplier Relationship Management programme was launched in 2007 to ensure a more cooperative relationship with suppliers and thus improve performance. The programme is intended for suppliers (SMEs and subsidiaries of major groups) that are considered strategic because of their high potential for innovation, differentiation and competitiveness in the long term.

As part of the performance improvement process, **about 100 technical audits** were carried out in 2007 with suppliers and sub-contractors in countries with a degree of risk. The audits included economic, environmental, labour and social aspects and the results were used to develop optimisation plans.

#### Extending the Group's commitments to suppliers

Thales does business in compliance with local laws and regulations. It expects its suppliers and sub-contractors to do the same.

As a signatory to the United Nations Global Compact, Thales requires its suppliers and sub-contractors to follow the principles of corporate responsibility set out in the Compact. These include:

- internationally recognised human rights,
- labour standards (the banning of illicit work and child labour, the right of association for employees, non-discrimination policies, etc.),
- environmental protection.



Thales also requires its suppliers and sub-contractors to:

- comply with export control regulations for goods and services supplied to Thales,
- provide goods and services that conform to the safety, health and environmental regulations of European countries, as well as those of exporting countries.

Several meetings were held in 2007 to **raise awareness among buyers and controllers about the importance of complying with laws and regulations:**

- The Procurement conference, held in June, brought together 250 buyers, programme managers, programme officers and quality assurance officers.
- Thales University provided further training sessions on the Code of Ethics.
- The Passeport Achats training programme showcased ethics principles and sound purchasing policies.
- European and global procurement directors held quarterly meetings.
- Procurement committees, which raise awareness about ethics, export control, the environment and sustainable development, brought together country purchasing directors.

Various measures have been adopted with respect to current or prospective suppliers:

- Quarterly or annual business and performance review meetings are organised with targeted suppliers to reiterate the Group's expectations.

- Officers dedicated to each strategic supplier and sub-contractor are nominated to manage all aspects of the relationship.
- The Supplier On-line internet portal was launched in June 2007. It lays out the Group's procurement policy to suppliers, providing access to a wide range of documents (selection process, technical data, public tenders, etc.). ●

## The Purchasing and Corporate Responsibility Charter

/// The Purchasing and Corporate Responsibility Charter, launched in 2007, reflects the importance that Thales grants to corporate responsibility in its relations with suppliers.

The Charter clearly states the Group's will to have suppliers adopt its approach to Corporate Responsibility by complying with the Code of Ethics, as well as with the principles enshrined in the Global Compact and the OECD. In particular, the Purchasing Charter refers to human rights, labour standards, environmental protection and good corporate governance. The Purchasing and Corporate Responsibility Charter forms an inherent part of the contractual documents that govern the entire purchasing process. •



# An exemplary Human Resources policy

The Thales Human Resources policy is based on the Group's core values and reflects its desire to contribute to regional development in countries where it has a presence.





breakdown of the Group's 68,000 employees<sup>1</sup> by geographical area and professional category highlights two fundamental characteristics that guide HR policy:

- **A growing global presence:** at end-2007, 49% of Group employees were located outside France (32,769 persons, including 8,199 in the United Kingdom, 4,464 in Germany, 3,581 in Australia, 2,623 in Italy, 2,212 in the United States, 2,133 in Spain, 2,040 in the Netherlands and 1,370 in South Korea<sup>2</sup>).
- **A high level of technical expertise:** over half of all Thales staff are engineers and one-third are technicians.

This strong culture of technology is driven by the pursuit of excellence, innovation and performance and is shared by all Group employees. It is based on shared values that promote corporate spirit and the pursuit of innovation in addition to team work, knowledge-sharing and the continuous professional development of highly-skilled employees. In 2007, the Group continued to implement human resources policies that go beyond the principles defined by the International Labour Organisation.

The founding principles of Thales's Human Resources policy are set out in its Code of Ethics, a document that was drawn up in 2001 and is given to all employees. The Code, which was revised and re-published in 2007, is available on the Group's intranet site and has been the subject of a number of employee training sessions. The following values drive the Group's HR policy:

- *"equality of treatment, which means avoiding discrimination..."*,
- *"respect for the individual, which means rejecting behaviour that runs counter to this principle as well as any unsolicited interference in the private life of the individual..."*,

- *"provision of a safe and healthy working environment for each individual..."*,
- *"adherence by all members to the Group's commitments"*,
- *"transparency...of information"*,
- *"loyalty"*,
- *"Group advocacy of cooperation with its employees and their representatives on all matters of common interest and provision of high-quality information"*.

The HR policy implemented at Group level is also based on the commitments that Thales has made with respect to its employees:

- everyone has the right to know what they are expected to do and how their work is assessed by their manager,
- everyone is entitled to access information related to them, either directly or through a representative organisation, and in as transparent a way as possible,
- everyone is entitled to know the company's plans for their business line and activity, to define career paths with management and to benefit from a learning environment which offers access to the training they need for their continued professional development,
- everyone is entitled to have their performance recognised, without discrimination and based on fair market

<sup>1</sup> Employees are defined as the whole of the Thales workforce.

<sup>2</sup> Joint ventures have been wholly included, except for Telespazio in Italy and ThalesRaytheonSystems in the United States.

standards; if professional performance is not satisfactory, employees are entitled to a second chance by way of a special action plan,

- no one will be left to cope with a workplace problem alone; the Group will propose an appropriate solution involving internal or external mobility.

**Each employee and each manager is a vital member of the Thales team.**

Each of them is expected to have a clear vision of their objectives, to uphold the Group's core values and to conduct themselves accordingly. The Group, in turn, strives to be **an employer of choice** which enables its employees to develop their careers and work in an ethical and stimulating environment.

## Employment statistics for 2007

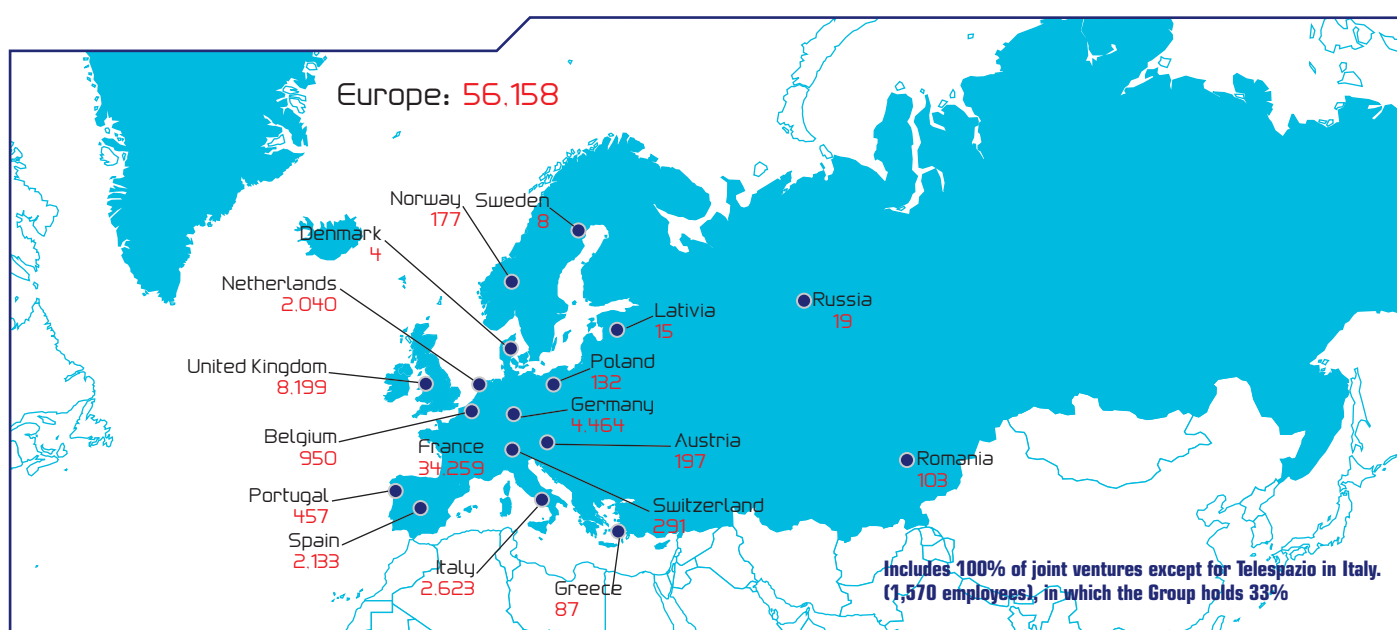
2007 was a particularly important year for the Group, with the conclusion of two strategic projects that are critical for its future: the acquisition of the space, control and security solution command activities of Alcatel-Lucent, and the finalisation of a partnership agreement with the DCNS Group. As a result of these operations, two new divisions have been created within the Group: the Security Solutions and Services division and the Space division.

## Location of employees in Europe<sup>3</sup>

55,858 employees, the majority of the Group's active workforce, are based in Europe. The integration of Alcatel-Lucent's activities has allowed the Group to develop in countries where it was not previously present (Austria, Latvia, Portugal, Poland, Romania) and to strengthen its position in others (Germany, Belgium, Spain, Italy). It should be noted that 2,515 permanent contracts were signed in France in 2007, an increase of 1,143 over 2006.

## Breakdown of employees by country<sup>4</sup>

New business activities have significantly expanded the Group's global presence.



**3-4** These figures include staff at joint ventures as well as those at controlled companies that are otherwise not taken into account by the consolidated figures because they do not reach the required thresholds.



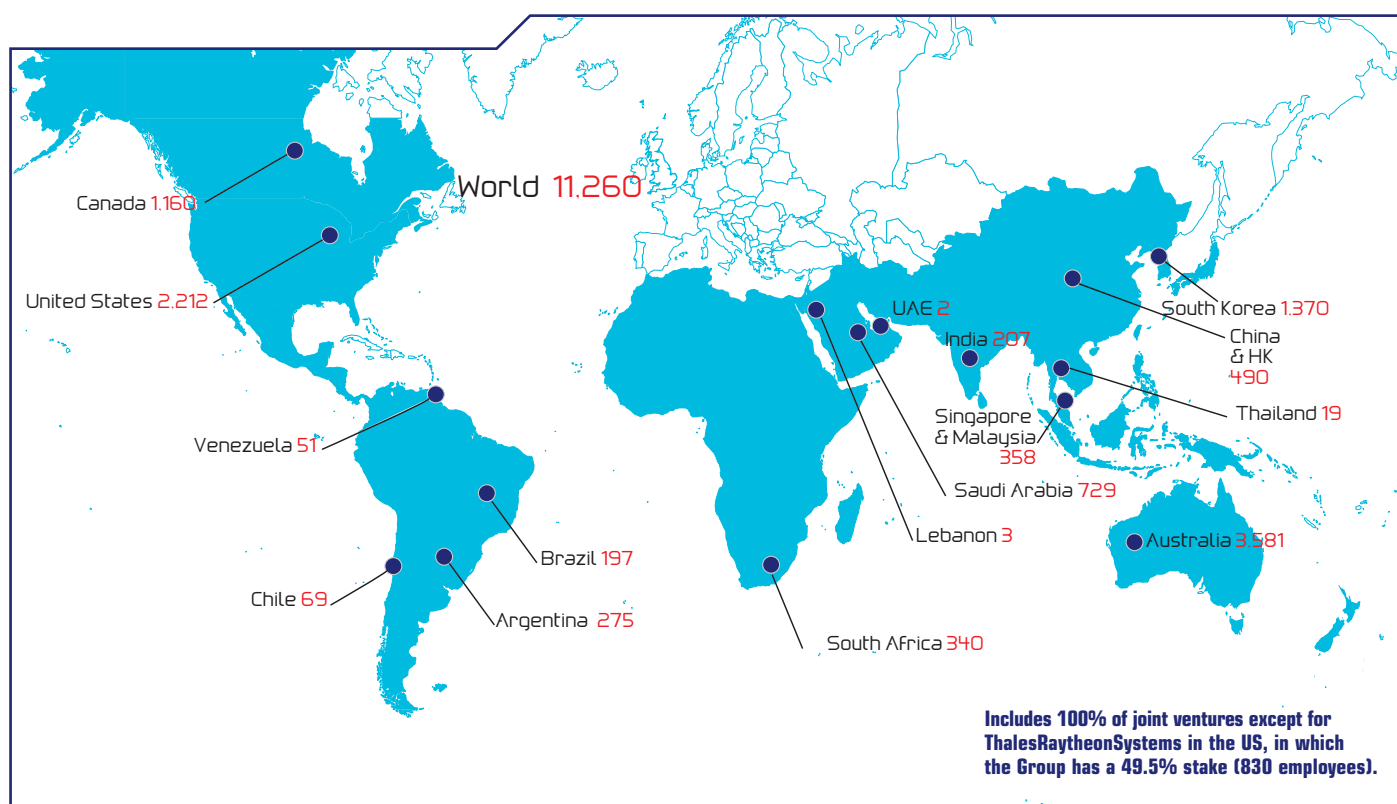
### Completion of two major strategic operations

As part of the merger of the naval defence activities of Thales and DCNS, Thales acquired a 25% stake in DCNS at end-2006. In return, the Group transferred shares in Thales Naval France (319 persons) and its subsidiary Armaris (previously a 50-50 joint venture between Thales and DCNS, with 216 employees) to DCNS. Thales is now a partner of choice for DCNS.

2007 also saw Thales finalise the acquisition of Alcatel-Lucent's space,

control, and security solution command activities. As a result, almost 11,000 employees have joined the Group, of which 9,100 are based in Europe. This operation has strengthened the Group's global presence. Thales is now present in countries such as Austria, Portugal, Poland and Romania. In addition, the Group has expanded its activities to Germany, Belgium, Canada, Spain and Italy.

Of the 11,000 new employees, 7,000 are former employees of Alcatel Alenia Space (now Thales Alenia Space),



Europe's leading provider of satellite solutions.

Most of the employees issuing from Alcatel-Lucent's Transport activity (about 3,000 people) have joined Thales Rail Signalling Solutions.

### Sharing the benefits of performance

#### Worldwide variable remuneration plan

The Group's employment policy is based on key concepts of performance management and professional development.

Over the years, these principles have led to the implementation of a variable remuneration plan for engineers and executives around the world. The plan sets out the criteria for the award of variable remuneration and the methodology for its calculation, based on the level of job responsibility. Remuneration takes account of the Group's financial results as well as individual performance. The worldwide variable remuneration plan has been rolled out progressively in companies that join the Group.

As part of ongoing efforts to improve career management and employee skill sets, a computerised

personnel management system was launched in 2006 to help manage the careers of all Group managers. This tool facilitates interaction between employees and their managers in the areas of performance and professional development.

#### Performance management: a joint approach

By implementing a consistent, formalised performance management process for all employees, Thales ensures that its approach to human resources management is objective and ensures equal treatment.

The performance management process follows an annual schedule that is the same for every employee. The schedule lays down the different stages that must be followed, from the setting of objectives to the annual assessment and results review.

#### > Setting objectives

Employees have both individual and collective objectives. These objectives are defined during a proactive process that involves the employee, their team and their manager. Employees are expected to play a central role in setting their objectives, which must meet a certain number of criteria:

- They must be evaluated in a fair and well-reasoned manner on the basis of precise and verifiable facts. Relevant 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 motivating.
- The resources needed to achieve these objectives must be determined.
- The process of defining objectives must take account of the Group's core values.

#### > Evaluations

- **Mid-year review:** the employee and their manager meet to review the progress made toward reaching the objectives. If necessary, they agree on a corrective action plan.
- **Self-evaluation:** at the end of the year, the employee prepares a self-evaluation of their objectives, ongoing responsibilities and professional performance.
- **Evaluation:** the evaluation is a key step in the continuous improvement process. Managers listen to the employee's self-evaluation and then provide feedback.

#### Remuneration and benefits

##### > Changes in remuneration

In 2007, remuneration levels rose by 3%. This increase is mainly due to individual raises based on improved performance, as judged by managers during the evaluation process. Wage increases also take account of changes in the market.

The Group's salary policy also reflects action plans aimed at promoting gender equality. For the third consecutive year, money was allocated to



address any possible salary discrepancies between men and women for equivalent positions and performances.

#### > Participation

A Group-wide agreement on employee participation was signed on 23 December, 2004, by all trade unions represented at Group level. The value of shares covered by the scheme on 31 December, 2007 was valued at €31.6 million.

This agreement strengthens professional solidarity at Thales because all employees in France now receive shares.

#### > Profit-sharing

Each of the Group's companies can negotiate a profit-sharing agreement on the basis of indicators linked to its key objectives. The Group's profit-sharing agreement sets an upper threshold on payroll (total of share incentives plus profit-share) that must be respected.

#### > Company savings plan

The Group's company-wide savings plan includes a Group Savings Plan (PEG) created in 1998 and a Group Retirement Savings Plan (PERCO) created in 2007.

In 2002, the international subsidiaries in countries where Thales has a significant presence joined the Group Savings Plan. Since then, the Plan has acted as a framework for the company shares held by international employees of the Group. On 31 December, 2007, Group schemes managed savings worth €406 million that are held by 41,900 employees (or former employees) of the Group. It should be noted that at the end of 2007, 8,560 employees had signed up for PERCO. The Plan was valued at €13 million, including employer contributions.

## PERCO



PERCO is a French employee savings scheme set up by companies to help their employees prepare for retirement.

It consists of an employer contribution, which can be either a percentage of the employee's contribution or the account-holding fees.

PERCO is generally paid out in the form of a lump sum payment or a life annuity once the employee reaches retirement age.

If certain conditions are fulfilled, funds can be paid out before retirement. PERCO offers a number of fiscal advantages.

At Thales, PERCO is made up of eight different funds, with annual yields depending on the associated risk. This ensures a wide range of options for employees, who can opt for an open formula or one of two managed formulas. The level of employer contribution is determined by Thales on the basis of seniority. •



One of the key objectives of the agreement on forward planning, professional development and training, signed in November 2006, is to ensure the professional development of employees. The agreement is the result of constructive dialogue with trade unions and focuses on the need to plan ahead for career development.

Forward planning is only possible when trade unions and employees are well-informed about the jobs and professions that are available within the Group. A number of planning tools have been introduced. They enable employees to chart their career path choices and training strategies in line with their personal preferences and the changes that can be expected to occur in their professional field.

### Career management, professional development and job security

#### Management of job families and specialists

The 2006 Group-wide agreement on forward planning, professional development and training has, since its implementation in 2007, improved the management of professional specialisations.

The Group recognises the contribution made by specialists in each job category and at all levels of responsi-

bility through **parallel career management system**. Specialists and managers with the same levels of seniority are managed in exactly the same way. Lateral mobility within this parallel career system is highly encouraged.

#### Professional development

The development of human resources is one of the Group's five core values. For Thales, it can only be achieved by **anticipating needs**. The required level of anticipation is achieved by promoting transparent information and ongoing interaction with trade unions and employees and by leaving ample space for individual initiative.

#### HR e-SelfService

Thales provides employees with quality IT tools that help them to be more independent in the management of their career and, particularly, of their mobility options. •

#### e-Staffing

The success of professional mobility depends largely on access to information about job opportunities. Thales employees can access job vacancies from any workstation connected to the Group's intranet or internet. They can submit their CV and apply for jobs online via their MyThales account. •

## Welcome to Thales Convention

Organised by Thales University, the 'Welcome to Thales Conventions' are career sessions aimed at new recruits. The objective is to present the Group and its activities, as well as its multicultural environment. The number of employees attending these conventions increased by 250% in 2007 (1,311 employees compared to 524), and the percentage of non-French participants grew from 35% to 44%. •

### > Professional development review

At Thales, the annual professional development review is an **important stage** in the career development process. For employees, this review is an opportunity to take stock with managers about skills development in their current position and about future strategies. Employees can identify the skills they have acquired or need to develop, put their professional trajectory in perspective and define the best way to achieve career goals (training, work experience, etc.).

In the framework of the French November 2006 agreement on forward planning, professional development and training, Thales has pledged to extend the professional development review process to all employees by 2008.

### > Thales University

Thales's human resources policy relies on training as a way to ensure the professional development of employees. **The Group believes that to build a successful career and long-term employability, employees must maintain a high level of professional expertise in a chosen field.**

Thales University plays a central role in employee training. **Its mission is to support employee career development and foster a shared**

**corporate culture that reinforces Group cohesion.** The institution also adapts individual and collective skills to meet operational requirements and support the Group's strategic decisions. Thales University is present in six countries: Germany, the United States, France, Italy, the Netherlands and the United Kingdom.

Thales University also helps operational units enhance their performance by implementing improvement programmes and assisting them in the management of employee mobility programmes. The goal of the institution is to facilitate interaction and mobility across the Group.

The curriculum of Thales University is built around individual training courses known as '**passports**'. They are used to equip employees with the essential knowledge and know-how that is required to succeed in their professional job category. In 2008, six new 'passport' training sessions were offered.

To promote career advancement, Thales University has also introduced two other programmes that address career development issues raised by employees: the 'Career Guide' and the 'Career Review'.

#### • The Career Guide

The Career Guide is aimed at employees with around five years of work experience in the Group who may be interested in evaluating their career track or expanding their skill set as a way to further their career.

#### • The Career Review

The Career Review is aimed at employees with 20 to 25 years of experience who are interested in gaining a clearer view of their professional assets.

### > Mobility

For a number of years, Thales has been developing a policy of voluntary career mobility that covers both professional and geographic aspects. In 2007, **mobility was one of the major pillars of the forward-looking approach adopted in the Group's human resources policy.**

In an increasingly competitive marketplace, mobility and professional development enhance the Group's capacity to adapt. Proactive career mobility is encouraged at both the individual and group level.

#### • Professional mobility

Established by Thales in June 2000, the **Opportunities Forum** is a centre for career support and advice. It provides assistance to employees who are interested in benefiting from the Group's mobility policy.

The Opportunities Forum also manages various career mobility tools developed by the Group, such as the Bourse de l'Emploi ('job market') in France and abroad, the MyThales web space and the *Thales Opportunités* magazine. It ensures that job postings are publicised



## Thales Missions & Conseil

Thales Missions & Conseil (TM&C) was set up in 1999 to provide managers with new opportunities for professional development and mobility. TM&C allows them to apply their professional experience by advancing to consultancy roles within the Group. Today, TM&C has gained recognition not only for its services to the Group, but also for the successful professional development of its consultants. Since its inception, TM&C has contributed to 170 cases of employee career advancement. •

throughout the Group and puts employees in touch with advisors to help them benefit from mobility opportunities within the Group.

To date, the Opportunities Forum has worked with around 2,000 employees on the definition and implementation of their career objectives. Of these, 1,700 have carried out their mobility plans. It should be noted that almost 50% of applicants who used the Forum in 2007 (about 350 employees) did so in the framework of forward-looking schemes within their division.





## • Geographic mobility

### Mobility in France

To encourage geographic mobility within the Group, a set of common rules for France were defined in an agreement signed on 23 November, 2006. They cover:

- relocation,
- reconnaissance trips,
- assistance with finding accommodation and paperwork,
- an allowance for moving house,
- an allowance for dual residence,
- assistance with finding employment for spouses.

The Opportunities Forum is responsible for alerting employees to job openings at other companies in their sector, and for assisting them in all the necessary formalities.

In addition, Thales has signed a French mobility charter with DCNS and Alcatel-Lucent. This charter seeks to encourage career mobility within the three groups by defining favourable transfer conditions, particularly with regard to:

- the seniority of the employee,
- accrued paid holidays and holidays linked to seniority,
- any outstanding training allowance.

## International mobility

### International opportunities for young people

- In 2007, Thales offered 46 positions with Volontariat International en Entreprise (VIE), a volunteering programme for young professionals. The VIE enables young people aged 18 to 28 to go abroad on a mission lasting from six to 24 months. The programme covers all professions and is open to applicants of all backgrounds.
- Careers 1st is a programme set up by Thales. It helps young graduates and young professionals with up to five years of relevant experience within or outside the Group to find work abroad. In 2007, this programme benefited 76 Thales employees, most of whom were French. The main destinations are Australia, Canada, China, France, the United States, the United Kingdom and Singapore.

### Expatriates

All Thales employees with at least five years of professional experience are entitled to participate in the Group's expatriate policy. A set of basic skills has been defined to facilitate the selection and preparation of applicants who are sent on international assignments. In 2007, 680 Thales employees resettled in another country.

## Career management: a medium-term approach

The Group takes a socially responsible approach which involves striking a balance between economic imperatives and the future of its employees. Forward-thinking career management based on a medium-term approach enables employees to pilot their career in a coherent fashion.

The agreement concluded on 23 November, 2006, introduced a structure whereby strategic decisions that affect the workforce over the



medium and long term are discussed with trade union representatives. Information-sharing with union representatives is based on:

- an annual meeting of the European Works Council, at which information including Group strategy, a review of the business portfolio, industrial and organisational decisions, territorial policies areas and the challenges faced by each division is presented,
- an annual consultation with the works council of each company to determine the impact that the Group's strategy will have on employment and training at company level,
- the creation of a Group Planning Committee. This joint body is responsible for studying the evolution of jobs and professional categories within the company and for identifying possible links between them. The Group Planning Committee then determines the measures and training programmes required to address these changes.

Forward-looking studies of professional categories and specialisations are also submitted to the Group Planning Committee. These studies take account of changes in markets and technology, the Group's strategy and expected resource requirements for the coming years. For example, the Software professional category, which needs to address the growing pace of technological change, will not require the same skill sets over the medium term as it does at present. In order to develop new skills and support employees during this transition, the Group informs employees in advance of changes that will affect them and helps them to adapt by providing training, career mobility and work experience.

### Promoting equality and diversity at Thales

The Code of Ethics reflects the Group's belief in "equality of treatment, namely the refusal to accept any kind of discrimination on the grounds of ethnic origin, customs, gender, age, political or religious opinions, trade union membership or personal disability". In France and abroad, the Group is committed to taking practical actions that support its equality and diversity policies.

### Gender equality in the workplace

In France, the Group's initiatives in favour of workplace equality were formalised in a framework agreement signed on 13 January, 2004, by all trade union organisations represented at Group level.

The agreement sets out the principles of professional equality between men and women that are guaranteed by the Group. It also provides a **methodology** that applies to all Thales companies: they are required to implement the agreement and negotiate three-year action plans that promote workplace equality.

As a result, **concrete steps** for gender equality, covering both salaries and career development, have thus been taken at all companies. These measures also support efforts to achieve a balance between professional and family life.

The key commitments made under the framework agreement relate to:

- the creation of Professional Equality committees at each company or site. Among other things, these committees are responsible for drafting an annual report on gender equality,
- equal starting salaries for employees with equal responsibilities,
- pay rises for women on maternity or adoption leave that are at least equal to the average raise accorded to employees in the same job category,
- variable pay awards for women on maternity or adoption leave that are based on their individual performance during the time that they are present in the workplace. Objectives are thus adapted on the basis of the

time they spend in the workplace and salaries are not affected by absence,

- evaluation of training requirements following maternity/paternity leave and a salary evaluation,
- special attention given to applications from female candidates for positions of responsibility,
- formalisation of an action plan when unjustified disparities emerge in the professional status of men and women in the same professional category,
- a study of income disparities observed between men and women in positions of similar responsibility, and a three-year action plan to address them,
- special attention given to women who choose to work part-time or reduced hours.

To support the deployment of these measures, a special committee has been created within the Group. Moreover, a Group-wide working group

which brings together one representative from each division and the HR Legal/Ethics Department has also been formed.

The actions initiated in 2004 continue to be pursued in 2007. They have resulted in a number of specific initiatives.

**> Since 2006, the Group has allocated a special budget to address unjustified income disparities between men and women**

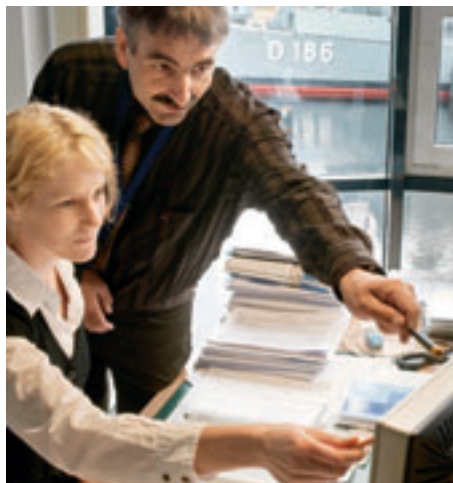
This budget represents 0.1% of the payroll at each company. 2,384 women across all of the Group's divisions and professional categories have benefited from this measure since 2006. With respect to this factor, the average pay rise for women in 2007 was 2.8%. This budget provision has been renewed in 2008.

**> Activities undertaken in recruitment**

Thales operates in a male-dominated scientific and technological sector. To promote greater diversity, the Group has implemented a number of measures to increase the number of women hires. For example, several companies have set recruitment targets for women that reflect the number of women graduating in these fields and with the necessary qualifications.

**> Measures designed to encourage young women into careers in science and technology**

Thales has launched a mentoring programme that involves sending Group employees to local schools. The objective is to **raise awareness about careers in science among young women, and young people in general**. A kit containing presentations aimed at young people, films



and personal accounts can be downloaded from the Group's intranet.

In 2007, Thales also participated in Sci Tech Girls, which was held for the first time on the sidelines of the Women's Forum. This project is aimed at encouraging young girls to pursue careers in science and engineering by showcasing the wide range of possible career paths. About 100 girls from secondary schools, preparatory classes, universities and scientific or engineering schools were able to meet female professionals who are active in these fields.

### > A novel scheme for career enhancement

Thales Microelectronics has adopted innovative measures to promote greater diversity in the workplace. As well as using its dedicated budget of 0.1%, it promoted 125 women in 2006 and 2007 (of which 93 in operational categories).

### > The creation of inter-company day-care centres

In France, Thales has signed a business framework agreement with Crèche Attitude. This agreement enables companies to participate in the creation of inter-company day-care centres. For example, since 1 January, 2008, employees of Thales Electron Devices, Thales Security Systems, Thales Avionics and ThalesRaytheonSystems based in Palaiseau and Vélizy have been able to access a number of reserved spaces at inter-company day-care centres.

### Globalisation of teams and promotion of cultural diversity

The international nature of the Group's activities and its multi-domestic

## Comparison report on gender equality

In late December 2007, the Human Resources Legal Director at Thales chaired a working group on professional gender equality. This working group was set up by Xavier Bertrand, Minister for Labour, Labour Relations, Family and Social Welfare. It brought together delegates from five employee trade unions, representatives from MEDEF (the French employers' union), the CGPME (the French employers' union for small and medium-sized Enterprises) and HR directors from other groups. •

nature require a special respect for cultural differences within the Group. In recent years, Group subsidiaries have adopted an international approach to recruitment and teams are becoming increasingly diverse. To take full advantage of synergies based on this diversity, the Group has launched an employee awareness raising and training scheme. New recruits, who are required to participate in the 'Welcome to Thales Convention', are invited to discuss topics like national, cultural and workplace diversity. In this way, new hires are integrated into **a corporate culture where differences are valued and promoted.**

Training is also provided for employees in multicultural environments to help them optimise their work and social relations.

The importance of the actions undertaken by HR professionals in favour of diversity has regularly been confirmed at international meetings. Shared objectives have fixed and are taken into account during employee reviews.

## Workplace safety

### Promoting the employment of people with disabilities

In France, a law for "the equal right to opportunities, participation and empowerment of people with disabilities" passed on 11 February, 2005, has helped to raise social awareness about people with disabilities.

Thales is one of the corporations that has helped to drive progress in this respect. As early as 1992, a company-level agreement was signed to encourage the employment of disabled individuals. On 13 November, 2004, a Group-wide agreement was signed to further promote the hiring of people with disabilities. This agreement was the first of its kind in France and it is considered a precursor to the law of 11 February, 2005.



## Equality worldwide

### United Kingdom

An audit was carried out in 2006 on unjustified income disparities between men and women. A dedicated budget equivalent to 0.1% of the Group's payroll was set aside to reduce these disparities. A training session was also organised to raise awareness among managers about the legal and social challenges linked to gender equality.

### The Netherlands

In the Netherlands, Thales is committed to promoting professional gender equality in line with the Group's Code of Ethics. Its human

resources department is seeking to ensuring parity between the proportion of women graduating from selected schools and the number of women recruited by Thales. The principle of gender equality also applies to training, especially for female employees holding positions of responsibility (enrolment in MBA programmes, etc.).

A number of measures have been adopted to help female employees strike a balance between their professional and family lives, including part-time work, educational leaves of absence, sick leave in the event of child or family illness, part-time options for family reasons, and flexible working hours. •

## Risk management policy related to personal safety

Thales has linked its safety and environment policies to its quality assurance procedures. The Group's safety policy seeks to protect Thales's employees, as well as its material and immaterial assets. It rests on three elements:

- a dedicated organisation with a central structure and people responsible for safety at each division and in each country structure,
- a continuous improvement programme based on the General Safety Policy (GSP), which is rolled out in the divisions in the form of Special Safety Procedures (SSPs), the objectives of which are adapted by area (people, sites and locations, information),
- a section of the Group's Reference System dedicated to safety management.

Thales has obtained **certification that attests its ability to implement and maintain efficient risk management policies**. As at 31 December, 2007, 33 Group companies, representing 30% of assets, had received OHSAS 18 000 global certification.

Thales continues to deploy information and awareness-raising campaigns for personnel and managers in the area of workplace health.

## Innovative and protective social coverage for all Group employees based in France

The new social coverage plan outlined in the agreement of 23 November, 2006, enables all of the Group's employees to benefit from **a new and innovative social coverage plan** from 2007 onwards. This coverage is common to all Group employees since 1 January, 2008. Key provisions include:

- the harmonisation of provisions related to healthcare schemes and major risk categories (death, disability, incapacity), irrespective of socio-professional category,
- the deployment of an insurance scheme for all employees (covering healthcare, death, disability, incapacity) that offers superior coverage to the previous plan in all respects (hospital



stays, illness, eye problems, dental care/implants and expenses not otherwise reimbursed by the state social security system), and the introduction of top-up payments for pharmaceutical products,

- the implementation of a dependents' scheme based on a Group-wide contribution-based payment that is defined and applied on a lifetime basis, even when employees leave the Group. This scheme takes account of increases in life expectancy, age-related difficulties toward the end of life and future uncertainties. It provides a guaranteed minimum pension for all Thales employees.

These provisions are an important social advancement that provides improved social security coverage and is the same for all employees.

### Improved employee relations in France

Strongly committed to ongoing quality interaction with its employees, the Group continues to develop communications and consultation strategies at different levels. In the framework agreement of 23 November, 2006 on employee relations and association rights, the Group restates its willingness **to provide employee representatives with the resources they need for constructive and effective action.**

#### Renewed labour union rights

Thales recognises that trade union representatives are an important partner. Two of the objectives of the framework agreement of 23 November, 2006, which was signed by the majority of trade union organisations represented at Group level, are **to raise awareness of the right to union membership and promote dialogue with staff representatives.**

This agreement seeks to promote social dialogue by sharing information with staff representatives on all aspects of the Group's economic and social situation. Every year, meetings are held between senior management, union representatives and the companies within each division. These meetings facilitate exchanges of opinion on major economic and employment challenges.

In addition to these meetings, the major innovation in the framework agreement of 23 November, 2006, is the Group's commitment to work closely with union representatives so that all decisions reflect a real consensus and are accepted as legitimate. For the next three years, Thales will only conclude agreements that benefit from majority support, with the exception of mandatory annual negotiations and local agreements.

The framework agreement of 23 November, 2006, has also resulted in the introduction of a right of referral at Group level so trade union organisations can discuss issues of common interest. The agreement also promotes the right to trade union membership within the Group by defining the resources that staff representatives require both at company and Group levels.

Thales recognises labour union activities by allowing employees who exercise a trade union mandate to reconcile that commitment with their professional duties. To that end, the Group has pledged to provide all employee representatives with the training they need to maintain their professional qualifications on the same basis as other employees.

#### Consultation forums adapted to the Group

##### > Group-wide consultation and negotiation

Under French law, Group-level agreements have had the same validity as individual company agreements since 2005. It is on this basis that Thales is committed to negotiating Group-level agreements with staff representatives. Three major agreements of this kind were signed in November 2006.

##### > Group Works Council

The Group Works Council brings together representatives from all of the Group's French companies.

##### > European Works Council

The European Works Council at Thales was set up in 1993 as part of a forward-looking agreement. Its responsibilities were significantly extended in 2002 by an amendment to its mandate,



which prioritised its duties according to the following guidelines:

- two ordinary annual meetings,
- additional meetings in exceptional circumstances. In particular, it has been agreed that in the case of transfers, mergers or acquisitions, sales of companies with more than 500 employees, or layoffs involving more than 150 employees in at least two different countries, the European Works Council will be consulted before measures are taken at the national level,
- consultations and informational sessions with members of the European Works Council,
- a liaison committee meeting every two months to guarantee regular and high-quality information,
- a meeting between labour unions represented within the Group and carrying out similar activities, in order to further strengthen dialogue at the European level.

A new amendment to the 1993 agreement was signed by a majority of French labour unions on 18 December, 2007 to integrate recently acquired companies and provide further resources to enable the European Works Council to fulfil its mission. Provisions will be made for an annual consultation at the company division level.

### **Progress in French labour relations**

Thales is a high-technology group which drives social innovation as well as technological progress. Three major Group-level agreements were signed on 23 November, 2006. They address the following areas:

- forward-planning of changing employment needs, professional development and training. The objective is to provide the Group with a system for anticipating changes in the job market, enabling it to offer employees a wider range of career options,
- relations with trade unions and trade union membership rights,
- social security provisions applicable to all Group employees.

These three agreements have made it possible to implement and harmonise a genuine labour and employment policy across all of the companies within the Group. This policy defines the rules that Thales applies in the areas of employment, social security coverage and trade union membership rights.

Highlights in 2007 included:

- the desire to implement a labour and employment policy as outlined by the three Group-level agreements,
- continued harmonisation of the Group's labour and employment policies. In particular, this will facilitate the extension of Group-wide agreements to Thales Alenia Space and Thales Rail Signalling Solutions as of 1 January, 2008. ●



# A steadfast approach to corporate governance and business ethics

Thales, an international company listed on the Euronext exchange in Paris, is committed to all its stakeholders on a day-to-day basis. This includes customers, shareholders, investors and suppliers.

**T**o that end, the Group has drafted and enforced strict principles of corporate governance that enhance its core values of transparency and excellence.

One area in which there is room for improvement is the number of independent members of the Board. This aspect should be viewed in relative terms as it is the outcome of the Group's capital structure and the result of the agreement between the two major shareholders (the public sector and Alcatel-Lucent).

Corporate governance at Thales is characterised by transparency and by the quality of information provided to shareholders, investors and markets. Additionally, two particular elements of Group policy should be highlighted:

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

These two elements do not rest on any legal obligations, but on the Group's efforts to ensure good governance.

## Ensuring good governance

### Board of Directors

Under the terms of the Shareholders' Agreement, the Thales Board of Directors is composed of 16 people, 14 of whom are appointed by the General Meeting of Shareholders and two of whom are elected by employees of the Group's French companies, in compliance with French legislation and the company's own status. Of the 14 directors appointed at the General Shareholders' Meeting, four are external directors and one represents employee shareholders. The French State can propose up to five directors and Alcatel-Lucent can propose another four.

Since the General Shareholders' Meeting of 11 May 2004, one-third of all directors are renewed every two years (their terms are limited to six years under the company's status). In all cases, employee members of the Board are elected or appointed for 6-year terms.

# Board of Directors

(as of 1 June 2008)

**Denis Ranque,**  
Chairman and CEO, Thales

**Alcatel-Lucent Participations,**  
represented by **Hubert de Pesquidoux,**  
Chief Financial Officer  
of Alcatel-Lucent and Head of Alcatel-  
Lucent's Enterprise business

**Jean-Paul Barth,**  
Advisor to the Chairman, Alcatel-Lucent

**Bruno Bézard,**  
Managing Director, French Government  
Shareholding Agency (APE)

**Robert Brunch,**  
Managing Director, Compagnie Générale de  
Géophysique-Veritas

**François Bujon de l'Étang,**  
Chairman, Citigroup France

**Joseph Cornu,**  
Chairman and CEO, Agfa-Gevaert

**Charles de Croisset,**  
International Advisor  
to Goldman Sachs International

**Marie-Paule Delpierre,**  
Director elected by employees

**Dominique Floch,**  
Director elected by employees

**Roger Freeman,**  
Consultant, PriceWaterhouseCoopers

**Philippe Lépinay,**  
Director representing employee  
shareholders

**Didier Lombard,**  
Chairman and CEO, France Telecom

**Klaus Naumann,**  
Bundeswehr General (ret.)

**Serge Tchuruk,**  
Chairman of the Board of Directors,  
Alcatel-Lucent

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



In addition to the members of the Board, other people can participate in Board meetings. The aim is to ensure a high level of transparency in the discussions and decisions of this forum.

The following individuals are invited to attend all Board meetings in their entirety, but are not endowed with voting rights:

- **French State representative:**

Patrick Auroy, senior armament engineer, appointed by decree of the Ministry of Economy, Finance and Industry on 23 November 2006

- **Government Commissioner:**

Denis Plane, General Army Inspector on special assignment, appointed to serve as Government Commissioner to Thales and its subsidiaries by decree of the Minister of Defence on 25 July 2003. The appointment was made under the legal provisions and regulations binding defence contractors and companies active in the manufacture and sales of defence equipment.

- **Representing the Company Central Works Council:**

Alain Desvignes, Trade Union Delegate, or Sylvain Delaître, Secretary of the Company Central Works Council.

- **The Statutory Auditors:**

In accordance with the Board's internal rules, the statutory auditors are also invited to attend all Board meetings:

- Ernst & Young Audit, represented by Christian Chiarasini, partner of the firm.
- Mazars & Guérard, represented by Jean-Louis Simon, partner of the firm.



## Structure and role of Board committees

The Board of Directors is divided into a number of committees: the Audit and Accounts Committee, the Strategy Committee, and the Nomination and Compensation Committee. The duties of each committee are set out in the internal rules.

### > Audit and Accounts Committees

The Committee met four times in 2007, with a 80% attendance rate, for an average of two and a half hours per meeting.

The statutory auditors, invited to attend each Committee meeting, took part in all discussions, except where conflicts of interest occurred (for example, the review of the appointment of the auditors or the renewal of the terms of office).

In 2007, in addition to the annual and quarterly financial statements, the Committee examined the following issues:

- developments in major litigation cases,
- execution of the annual budget,
- externally funded pension schemes, especially in the United Kingdom,
- the budget for auditors' fees,
- purchase accounting related to acquisitions made during the year.

During the two annual meetings specifically devoted to internal auditing and control, the Committee reviewed the reports of the Internal Audit Department, for which it had previously approved the annual work plan. It laid out its recommendations as to the continuation of assignments.

The Committee also recognised changes in internal organisation with respect to risk management, paying special attention to actions related to compliance.

At the meeting devoted to the annual financial statements, the Committee read the memorandum from the Finance Director on the Group's exposure to risks and on major off-balance-sheet commitments. In that same meeting, the Committee members discussed the report submitted by the auditors.

The Committee also helped draft financial press releases and prepared the Board's decision on the proposed dividend to the General Meeting.

A report was written after each meeting.

## Audit and Accounts Committee (as of 1<sup>st</sup> July 2008)

### Chairman:

Charles de Croisset

### Members:

Jean-Paul Barth, Dominique Floch, Roger Freeman, Marcel Roulet

## > Strategy Committee

This Committee met four times in 2007, in particular to review the 2007 Budget in relation to the 3-year plan, the strategy of the Security Solutions and Services and Space divisions and the DCNS strategy.

With the Committee's consent, one of its yearly meetings was open to three outside directors who are not Committee members.

Each meeting lasted an average of three hours and had a participation rate of 92%.

## Strategy Committee (as of 1<sup>st</sup> July 2008)

### Chairman:

Denis Ranque

### Members:

Marie-Paule Delpierre, Philippe Lépinay,  
Didier Lombard, Klaus Naumann, Serge Tchuruk

## > Nomination and Compensation Committee

The Committee met five times in 2007, including one meeting via telephone conference, with an attendance rate of 88%. The average time of each meeting was about an hour and a half.



Topics examined by the committee in 2007 included:

- the fixed and variable compensation of the Chairman and Chief Executive Officer,
- the stock options policy and the policy for granting free shares,
- the employee shareholding scheme to be launched in 2008,
- the process of selecting an independent director with the assistance of an outside consultant,
- the annual assessment of the Board's performance,
- the independence of directors, as laid down in the Board's internal rules.

A written report of each meeting was submitted to the following meeting.

## Report on Board activity in 2007

In addition to recurring topics at Board meetings (annual budget and updating of forecasts, annual and quarterly financial statements, compensation package for the Chairman and Chief Executive Officer, announcement of the General Shareholders' Meeting and proposed dividend, the various responsibilities of the Chairman, etc.), the following items were on the agenda in 2007:

- co-opting of directors and independent directors of the Board, as well as the composition of different committees,
- conclusive agreements with Alcatel-Lucent and DCNS,
- strategy for the Security Solutions and Services and Space divisions as well as for Thales UK,
- the granting of stock options and free shares,
- the employee shareholding scheme to be launched in 2008,
- research and development policy,
- HR issues,
- evaluation of Board performance,
- merger and acquisition plans.

In addition, the Board made a one-day visit to one of the Group's industrial sites in the United Kingdom to gain a closer understanding of the Group's activities there and to meet with British managers.

## Independence of Board members

As provided by the Group's internal rules and upon the recommendation of the Nomination and Compensation Committee, the Board of Directors undertakes an annual review of each member of the Board to assess their level of independence.

The criteria for the review is set out in the AFEP/MEDEF (French employers organisation) report of October 2003, entitled *The Corporate Governance of Listed Companies*, to which the Group subscribes. The rules are aimed at establishing a level of independence that ensures the reliability of decisions taken by the Board of Directors.

Upon the recommendation of the Nomination and Compensation Committee, the Board of Directors has decided to pursue the strict

## Nomination and Compensation Committee (as of 1<sup>st</sup> July 2008)

### Chairman:

Robert Brunnck

### Members:

François Bujon de l'Estang,  
Joseph Cornu, Marcel Roulet

approach used in recent years, namely:

- any director appointed by the General Shareholders' Meeting upon the recommendation of a single shareholder (whether representing the French State or an industrial partner), or recommended by any category of shareholder (including employee shareholders), will not be considered independent,
- the same applies to the two directors elected by employees.

With regard to corporate bank officers or advisors, the Board also specified the rules that apply to them as members of the Board of Directors at Thales:

- no participation in the preparation or solicitation of bids for banking services with the Group,
- no active participation in the banking process while their banking institution is carrying out a mission with the Group,
- no right to vote on resolutions that affect a project in which the bank may be involved.

After a detailed examination of the situation of the four external directors under the Shareholders' Agreement, the Board decided to declare Messrs Robert Brunck, Klaus Naumann and Charles de Croisset as independent members. Mr Roger Freeman will continue to be regarded as non-independent due to the positions he holds in the Group in the United Kingdom and the compensation he receives there.

## Information for members of the Board

### > Board papers

The directors generally receive notice for each Board meeting between five and ten days before they take place. A temporary meeting schedule is drafted at the end of each year for the year to come.

According to the Board's internal rules, there will be a minimum of three working days' notice before a meeting takes place. The three days' notice also applies to the delivery of all necessary documents ahead of a meeting, except in emergencies.

With each notice, the members of the Board receive the agenda for the meeting as well as the draft minutes of the previous meeting.

### > Training

Senior management provides newly appointed Board directors with an information session about the Group. In 2007, one of the new directors underwent external training upon his request.

## Evaluation of Board performance

### > The guiding principles for Board evaluation

As recommended by the above-mentioned AFEP/MEDEF report, and pursuant to the Board's internal rules, an assessment of the Board's performance was undertaken at the end of 2006 with the support of an external consultant.

Late in 2007, the Board decided that its annual performance evaluation would take place with the help of a questionnaire sent to all directors and always under the supervision of the Nomination and Compensation Committee.

### > Board evaluation results

After considering the survey results, the Board observed that they were mostly positive in regard to:

- the average participation rate among directors (87%),
- the quality of information provided to directors,
- the way in which the Board operates,
- information and discussions regarding the financial situation or financial disclosure.

The only topics worthy of further consideration included:

- managerial succession,
- operations of the Strategy Committee, even though extended membership is likely to improve the situation,
- monitoring of Board decisions on acquisitions or sales after a period that ranges from 18 months to two years.

In general, the Board considers that the number of independent directors,



which it deems insufficient, is an inherent weakness stemming from the provisions of the General Shareholders' Agreement. Nevertheless, the Board considers that the corporate governance system at Thales is sound and is even improving in certain areas. Overall, it is satisfactory when compared to similar companies.

### Ethics and corporate responsibility at the heart of the organisation

The Thales approach to ethics and corporate responsibility encompasses commercial, environmental, labour and societal issues and allows the Group to address the expectations of stakeholders. It involves:

- rigour in the Group's internal measures and procedures to ensure strict compliance with national and international regulations,
- enforcement at Group level of the highest professional standards, even in grey areas where legislation is ambiguous. A key aspect of ethics and corporate responsibility involves the laying down standards through best practices in daily operations,
- creation of an organisation solely dedicated to corporate responsibility, comprising an Ethics and Corporate Responsibility Committee as well as an Ethics and Corporate Responsibility Department.

An action plan has been outlined at Group level and within the subsidiaries and countries in which Thales is active.

### Ethics and Corporate Responsibility committee

The role of the Ethics and Corporate Responsibility committee is to ensure adherence to the Group's core values and principles as stated in the Code of Ethics. Its chairman, newly appointed to the Thales Board of Directors, reports directly to the Group's CEO.

The Ethics and Corporate Responsibility committee is responsible for:

- defining and implementing Group policy on ethics and corporate responsibility,
- monitoring the enforcement and evolution of the Code of Ethics within Thales,
- outlining a training and communications strategy for all Thales employees,
- coordinating a network of Ethics Officers,
- arbitrating issues raised by Ethics Officers,
- expediting enquiries into possible infringements of the Code and make proposals to management about any measures taken or recommended.

Employees have the right to raise questions to the Ethics and Corporate Responsibility committee regarding compliance with the Code of Ethics.

Conscious of the constraints of any prescriptive approach, this is a way of empowering employees. To that end, a number of awareness raising and training measures are being implemented.

The empowerment of employees reflects the high level of confidence that the Group has bestowed on its staff and the desire to provide them with the necessary tools to succeed in an increasingly complex world.



## 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,**

Directeur des Affaires France

**Sylvie Dumaine,**

Senior Vice President, Communications

**John Howe,**

Vice Chairman, Thales UK

**Alexandre de Juniac,**

Executive Vice President, Asia, Africa, Middle East, Latin America

**Jean-Paul Lepeyre,**

Senior Vice President, Operations

**Sylvie Lucot,**

Vice President, International Operations for Australia, New Zealand, Canada, UK and USA

**Anne de Ravaran,**

Vice President, Legal and HR Ethics

**Véronique Silverman,**

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

It works first and foremost with the other departments in the Group, as well as with local institutions in countries where the Group is present.

The department's missions are as follows:

- **to keep the Code of Ethics up to date** by defining and implementing best practices, especially by setting standards for business ethics (prevention of corruption, etc.),
- **to prevent infringements of the Code** of Ethics and, if necessary, provide assistance in investigating non-compliance,
- **to recommend awareness and information campaigns** within the Group and develop tools contributing to a culture of accountability,
- **to implement the Group's ethics policy** by coordinating the network of Ethics Officers,
- **to represent the Group** internationally in professional bodies and with governmental or non-governmental organisations in order to promote the image and interests of Thales, with customers and partners after consultation with operating units.

### Ethics Officers

Ethics Officers have been appointed at each of the Group's main subsidiaries. They are responsible for **applying the ethical principles of Thales**. Their mission is to:

- disseminate the Code of Ethics, along with recommendations on the Group's ethics policy, enforce it at the division/country level and monitor its application,
- ensure that employees receive sustainable training and information in ethics-related issues,

### Thales UK

Being aware of a need for an ethics and corporate responsibility forum within its organisation, Thales UK has created an Ethics and CR committee in 2007. Integrating legal aspects and British specificities, this committee will contribute not only to strengthen the Group's corporate

responsibility policy but also to support its implementation in all operating units in the United Kingdom. The Secretary of Thales's Ethics and Corporate Responsibility committee is member of the Thales UK Ethics committee and ensures the link between the two bodies.

### Ethics and Corporate Responsibility Department

In 2005, Thales set up an Ethics and Corporate Responsibility department that reports directly to the Senior Vice President of Finance and Administration, who is a member of the Executive Committee. The department, which has five members, implements the Group's approach to corporate responsibility strategy and coordinates it at Group level.

- adapt the Group's ethics policy to local legislation and norms (gifts, hospitality, business trips, etc.),
- answer questions about compliance with the provisions of the Code of Ethics,
- respond to employee complaints if they witness, or are themselves victims of, discrimination, harassment or any conduct contrary to the Code of Ethics.

## Risk management<sup>1</sup>

### Identifying and studying major risks

#### > Identifying risk

The business of Thales relies on critical information systems for infrastructure projects. The major risks associated with internal processes pertain to:

- the bidding process: enabling the Group to meet customer demand in a cost-effective manner, while maintaining the Group's profit goals and reducing risk,
- the management of long-term contracts, both technically (product/service quality, timeliness) and financially (quality of forecasting, cash flow).

The Group has devised **procedures and tools to identify and mitigate risk during the bidding phase, as well as during the execution of contracts**. To date, no significant deviation from the Group's financial position has been identified. Nevertheless, close monitoring will continue and will be reinforced in this area.

### Measures taken jointly by the Ethics and Corporate Responsibility Department and Thales stakeholders in 2007

#### **International Chamber of Commerce (ICC):**

*Awareness campaigns for SMEs on corruption prevention*  
Lyon, France

#### **Security and Defence Agenda (SDA):**

*Cutting through the transatlantic tangle of defence equipment and export controls*  
Brussels, Belgium

#### **French Council of Investors in Africa (CIAN):**

*Company sectoral initiatives to address corruption*  
Paris, France

#### **Foreign Corrupt Practices Act:**

*Implementing anti-corruption compliance programmes*  
New York, US

#### **Paris University-Dauphine:**

*Ethics and globalisation (Master's in International Affairs)*  
Paris, France

#### **American Conference:**

*Creating a corporate ethics and compliance culture*  
London, UK

#### **HEC Sustainable Development Conference:**

*Ethics and CSR, a new paradigm*  
Paris, France

#### **The Anti-Corruption Summit:**

*How to effectively manage corporate ethics and compliance*  
Amsterdam, Netherlands

#### **SMI Defence Export Conference:**

*Export controls, a challenge for global companies*  
Brussels, Belgium

#### **20<sup>th</sup> Annual Conference on Global Trade Controls:**

*Co-chairman*  
London, UK

#### **ANVIE:**

*Lawyers as major players in company performance*  
Paris, France

#### **Franco-British Student Alliance:**

*Corporate responsibility, what is at stake?*  
Breteuil, France

#### **French Association for Investor Relations (CLIFF):**

*Compliance, in which new environment?*  
Paris, France

#### **UBIFRANCE:**

*Ethics and international trade*  
Paris, France

#### **HR Congress:**

*Ethics at the intersection of culture and performance*  
Paris, France

<sup>1</sup> This information is based on the "Corporate Governance" section of the 2007 Annual Report, which can be downloaded at <http://www.thalesgroup.com/Investors.html>

### > Risk mapping

Some of the Group's divisions have been employing risk mapping techniques since 2002.

In 2007, the Executive Committee reiterated its goal of mapping risk at the Group level.

### > Self-evaluation of internal control

During 2007, additional studies were carried out by the Group's divisions and Internal Audit. The studies identified risks related to control activities reported as non-operational in the self-evaluations. They also recommended an action plan.

A new self-evaluation questionnaire was drafted, largely based on the recommendations of the French Financial Markets Authority (AMF) addressed by a document published early in 2007: *Internal control framework: a reference guide*. This new questionnaire, focused on the reliability of financial reporting, was deployed at Group subsidiaries in the first half of the year.

### Control framework

In most of the Group's business lines, Thales must comply with the constraints of its customers, as well as with regulatory authorities (ministers of defence, industry, civil aviation authorities). These, in turn, are subject to stringent certification and financial control.

These specific constraints are in addition to the Group's overall legal obligations and are an integral part of the Group's control environment.

### > The main agents in internal control

The Group has opted for a matrix-type organisation based on (a) six divisions, structured by product lines, and (b) an international organisation that regulates country institutions. The divisions are responsible for product/market issues and for optimising long-term earnings. They are also responsible for the development of different product lines. Countries are responsible for the relationship with government and national customers and, depending on specific departmental agreements, with private customers. They are also expected to optimise their structures to make it easier for local subsidiaries to attain their goals.

In 2007, the rules of delegation that specify the respective responsibilities of the departments and countries were reconfirmed in all major markets (Australia, Canada, Germany, Italy, Netherlands, Singapore, Spain, Switzerland, United Kingdom, United States) through **the signature of a framework agreement between division directors and local managers, and country directors**. In countries not covered by these provisions, the rules of delegation in favour of local subsidiaries are drawn up by the departments. Thales plans to extend a three-way agreement to additional markets as part of the Group's multi-domestic development strategy.



### > Executive Committee

Group divisions, countries and operations are represented by the Executive Committee, which is responsible for the entire chain of internal control. The Executive Committee is assisted by the Risk and Internal Control Committee, chaired by the Senior Vice President of Finance and Administration. It brings together representatives of the operational divisions, as well as the designated person from Internal Audit, who acts as committee secretary. The role of the committee is to:

- facilitate the deployment of internal control across the Group's activities,
- encourage risk mapping and other techniques that help reduce the Group's exposure,
- review audit reports, the conclusions of which are deemed relevant for the Group, and draw the relevant operational conclusions.

In 2007, the Risks and Internal Control Committee monitored the definition and deployment of a compliance programme, company law and delegations, export control, self-evaluation of internal control and risk mapping.

### Centralised departments

The centralised departments at Thales determine the scope of the Group's internal control activities and ensure consistency and coordination in the following areas:

- investment and divestment,
- financing, cash management and foreign exchange risk,
- export finance,
- real estate management,

- disputes, litigation and legal compliance,
- insurance and claims,
- contract intermediation.

### Compliance programme

At the request of the Audit and Accounts committee, and closely monitored by the Risk and Internal Control committee, the Group has implemented a compliance programme that addresses the following areas:

- corporate law,
- competition law,
- labour law,
- occupational health and safety,
- environment,
- business ethics,
- anti-corruption,
- import-export,
- taxes and finance,
- national security.

The first phase involved the identification of a Compliance Officer at each of the Group's legal entities, whose role is to assist legal officers or director in the following tasks:

- reinforcing the compliance framework and acting as a relay for the Group's initiatives,
- evaluating the compliance programme,
- identifying and monitoring improvement plans and developing a training programme.

The second phase involved drawing up a list of best practices for each field to facilitate the assessment of existing resources and prevent non-compliance. This list was used as the basis for a letter issued by each legal officer or director and addressed to the division Senior Vice Presidents (SVP) and country directors. The letter describes the status and improvement plans associated with each field of compliance.

Division SVPs and country directors then convey their compliance letters directly to the Chairman and CEO.

An analysis by area of activity and country will lead to improvement schemes across the Group in 2008.

## Reliable and transparent communication

### Procedures

#### > Accounting and financial procedures

The Group has produced a set of procedural manuals that are legally binding for all Group subsidiaries:

- The Accounting Procedures Manual details the accounting rules and principles applied toward the consolidated accounts under IFRS.
- The Budgetary Control Procedures Manual describes the budget process that divisions and units must follow. It defines the content and format of regular reports and includes a glossary to help standardise financial aggregates.
- The Cash Flow Manual describes the respective roles of the centralised and subsidiary teams with regard to cash flow and financing operations. It also details the procedures for short-term cash flow management and the foreign exchange risk hedging system, as well as other reporting rules.
- The Guide to Financial Arrangements defines the role of the different teams involved in financial transactions, as well as the sequence of procedures following a commercial bid.

#### > Budget process

Annual budget objectives are set each year in three stages:

- The Group's divisions draw up a 10-year strategic plan, which is presented to and approved by the Group's Executive Committee.
- Each division then submits a more detailed 3-year budget plan to the

Group's Executive Committee. This plan is based on sales projections prepared jointly by the divisions and the marketing and sales departments at Group and country level.

- Finally, the Group's Executive Committee sets the goals for each division, ensuring that all objectives are consistent.

#### > Financial reporting

Financial reporting includes key elements such as accounting and financial procedures, as well as centralised consolidation supported by a single software platform.

Monthly results are studied to identify deviations from the budget and update annual sales projections, revenue, turnover and cash flow. This procedure is carried out by each unit and provides a consolidated vision at both the division and Group level. It also helps identify if specific action plans will be required to achieve targets.

### Financial and accounting information

#### > Control over financial information

Each year, the Internal Audit team works with statutory auditors to review the Audit manual. The manual describes the steps taken by statutory auditors and highlights any particular areas to be audited.

Consolidated companies are classified into three categories according to their size criteria and exposure to risk. They may be subject to the Internal

Audit's in-depth review, a limited review or a cursory review.

In the first two situations, as well as assessing the unit's financial statements, the statutory auditors recommend improvements to internal control.

These recommendations are described in a dedicated section of the annual interim summary report issued to the entity and to Group management in November of each year.

Internal Audit ensures that there is a high level of risk management and that internal control across the Group is adequate by carrying out audit missions and implementing analytical tools that evaluate internal control procedures.

#### • Financial disclosure

In accordance with its Code of Ethics and procedural rules, **Thales provides financial markets with up-to-date information on its financial performance, strategy and management policy.** This financial disclosure and communications policy takes different shapes, including:

- regular publication of regulatory information,
- online publication of data on the Group's website,
- information sessions led by the Chairman and CEO or the Chief Financial Officer.

All information on the Group's financial risk should be disclosed transparently and effectively.





## The Thales practices to financial communications

The investor relations team provides the financial community with access to in-depth information on Group companies by way of:

- one-on-one sessions
- roadshows
- investor days

### • One-on-one sessions

Organised by the Group's investor relations team, one-on-one sessions are individual conferences between Thales executives and analysts or investors. They generally take place during roadshows, either at Group headquarters or in investor offices, and are scheduled on the sidelines of the main presentations.

As executive managers generally have a limited amount of time to devote to individual meetings, the investor relations team applies a selective approach to requests. In addition to one-on-ones, the investor relations team schedules meetings with investors throughout the year.

### • Roadshows

Roadshows are direct meetings between Group executives and a select group of investors. Usually held over a short period of time, from one day to a week, they take the shape of individual interviews (one-on-ones) or group interviews. The latter bring together a variable number of investors and are often organised around a group lunch.

### • Investor days

Investor days are organised by the investor relations team to disclose information that goes beyond regulatory requirements and enable Thales to showcase its overall strategies, business prospects and goals to the financial community. They provide investors with an opportunity to better understand the Group, meet with its executive and operational managers and organise a site visit.

## Conclusion

Thales benefits from **an effective and dedicated organisation that ensures ethical governance and promotes best practices throughout the Group**. It involves a large number of employees and processes at all Group levels. Thus, corporate governance and business ethics at Thales help strengthen confidence among stakeholders. ●



# A well-defined environmental framework

Aware of the seriousness of today's environmental challenges, Thales is doing everything possible to limit the environmental impact of its activities and any associated health risks. While the Group's activities are mostly non-polluting, Thales continues to apply its values of excellence and progress in the sphere of environmental protection.



o this end, over the past ten years Thales has worked hard on its own systems and processes. It has implemented a **common system of environmental management** throughout the Group's entities, while allowing for a broad range of local situations.

This flexibility means the Group can adapt the pace at which it implements environmental improvements, allowing for the specificities of each production site and business line, including:

- its broad range of products and services,
- its broad range of applications (civil, military, mass market or aerospace)
- different site configurations,
- different historical contexts (recent or long-term acquisitions, reconfigured sites, shared sites, etc.),
- various local environments,
- various cultural differences,
- different expectations by stakeholders.

In order to introduce environmental awareness into all the Group's entities, Thales has set up a **special structure** tasked with protecting the environment. This reflects the Group's desire to effectively coordinate implementation of the various actions it undertakes.

A central structure, under the responsibility of the company's Operations Department, defines the common lines for progress. In addition, environmental officers have been appointed at each division. In countries where Thales runs major operations (Germany, Australia, Belgium, Canada, Spain, United States, France, United Kingdom Italy,

Netherlands) specific local structures have been set up. Within this framework, a manager coordinates local strategies and collects the information required for reporting. Finally, there is now a designated environmental officer at each Thales site.

This multi-country approach to environmental stewardship is described in the "**Environmental Reference**" section of the Group Reference System, a set of documents laying out the rules for the Group's different processes and practices.

The Environmental Reference, a monitoring and working tool that applies to all Thales entities, is based on two key documents:

- **The Thales Manual of Commitment to Quality, Safety and the Environment.** It reflects the Group's target of implementing a long-term environmental approach.
- **Environmental commitments for Thales.**

In 2007, environmental commitments were enshrined in the company's environmental policy. Approved by

Denis Ranque, Chairman and CEO, the policy seeks to unite the Group's employees and partners around a number of objectives: to protect the environment by managing risk as part of its continuous improvement. By doing so, the Group will be able to be proactive in meeting current and future legal requirements and obligations.

This approach is already contained in the **Environmental Management System (EMS)**. The EMS ensures the ongoing regulatory and technical compliance of plants, risk management and follow-up of steps taken. It is part of the Group's Integrated Management System. As such it plays a central role in the Group's managerial approach.

### Managing risk

For Thales, managing risk is a two-step process involving both prevention and management.

#### Prevention

##### > Identifying risk

Thales has set out to map its environmental risks. The programme was initially designed to identify and evaluate administrative inefficiencies, the presence of asbestos or other hazardous materials, and so on. With time, it evolved to cover Thales's new strategic challenges and it now includes all the Group's business lines.

The programme includes health and environmental risks. It operates at two different levels:

- **Local** — production sites identify their own sources of risk and take appropriate action.
- **Corporate** — the Group sets specific and innovative targets for pollution, cooling towers, etc.

Risk prevention also applies to environmental problems that arise from decommissioning of sites or acquisitions. By complying with the relevant regulations, the Group can guard against lawsuits, litigation or other legal claims, while at the same time ensuring that any sites sold or purchased are non-polluting.

In addition to health and environmental risks, the mapping also covers financial, legal and commercial risks related to the environment.

### Findings of the risk mapping exercise

(as of 31 December 2007)

- the total amount of Thales's commitments toward environmental guarantees stands at **€200 million**,
- Thales has never been ordered to pay compensation as a result of environment-related litigation,
- the total amount of provisions made by Thales for environmental risk stands at **€3.5 million**,
- **there was no record** of an environmental accident with major impact on human safety,
- **two cases of noise pollution** related to testbed trials were identified. Soundproofing was implemented. •



### > The legal framework

Thales respects the legislation and regulations on environmental protection in all countries in which it is present. **The Group always goes beyond the requirements of local legislation** to identify and warn against new risks related to its activities. Measures taken with respect to cooling towers are examples of Thales's proactive approach.

## Cooling towers

are designed to cool down water that has been heated by a given energy source. After their detrimental effects on health were demonstrated (links to Legionnaires' disease, for example), the Group removed 76 such cooling towers in France between 2002 and 2007. •

### > Communications and employee training

The involvement of all employees is essential for the success of an effective environmental policy. Various initiatives have been taken to raise awareness and involve all of the Group's employees. This is in keeping with Thales's environmental policy of sharing values and best practices.

This willingness to communication with and train its employees is reflected in the following measures:

- personalised communications related to environmental issues are sent to each employee; information on best practices is included,
- an intranet site has been set up to act as a discussion forum for specific proposals, some of which have already been implemented,
- an "Environment Portal" has been launched on the Group's intranet. It contains most of the relevant legal and regulatory texts as well as information about the Group's environmental policy,
- seminars and conferences are held regularly at the country level,
- training is organised at site level as part of the development of the EMS or in compliance with ISO 14000 certification. In 2007, 19,000 employees participated in these events.

## Management

### > Managing risk

#### • Risk management by site

To protect the environment we first need to manage the impact at manufacturing facilities and sites. **Thales has implemented a number of programmes to limit environmental and health hazards at its installations.** These programmes focus on:

- asbestos,
- replacement of wet cooling towers with dry air systems,
- energy audits at sites with high consumption levels.

#### • Risk management by activity and process

Managing risk also requires a **constant monitoring of products and raw materials** implemented by Thales in its processes and activities. To this end, partnerships have been set up with selected sub-contractors to improve production techniques, replace certain chemical products by less harmful compounds and limit the quantity of stored products.

#### • Risk management by systems and products

Globally, a working group made up of representatives of each division has undertaken an extensive examination of the implementation of REACH guidelines. The Group will carry out a complete review of certain manufacturing sites to address the associated risks and prohibit the use of hazardous substances.

#### • Evaluating risk management

Policies are only effective in the long term in so far as they are continuously monitored and improved. Thales has therefore developed audit procedures for its environmental management system.



### REACH

is an EU regulation aimed at identifying and gradually doing away with hazardous chemical products. It is a direct application regulation enshrined in the legislation of all EU member states. *REACH* is an acronym for *Registration, Evaluation and Authorisation of Chemicals*. •

Evaluation is carried out at each entity and division, as well as at Group level, and involves internal and external audits or regular reporting.

The level of employee involvement in the evaluation of environmental performance was extremely high in 2007: 136 units contributed to Group reporting, accounting for 90% of the Group's workforce. The results below are based on that reporting.

### Commitment to continuous improvement

Given the urgency of climate-related and environmental issues, the effectiveness of one-off actions is obviously very limited. Thales is therefore already in the process of developing actions that have a global and long-term impact. The Group strives to do so as part of its commitment to continuous improvement, ensuring that it always goes further than what is required under statutes and regulations. This is reflected in Thales's constant desire to protect resources, fight climate change and limit pollution of any kind.

#### Protecting natural resources and areas

##### > Water

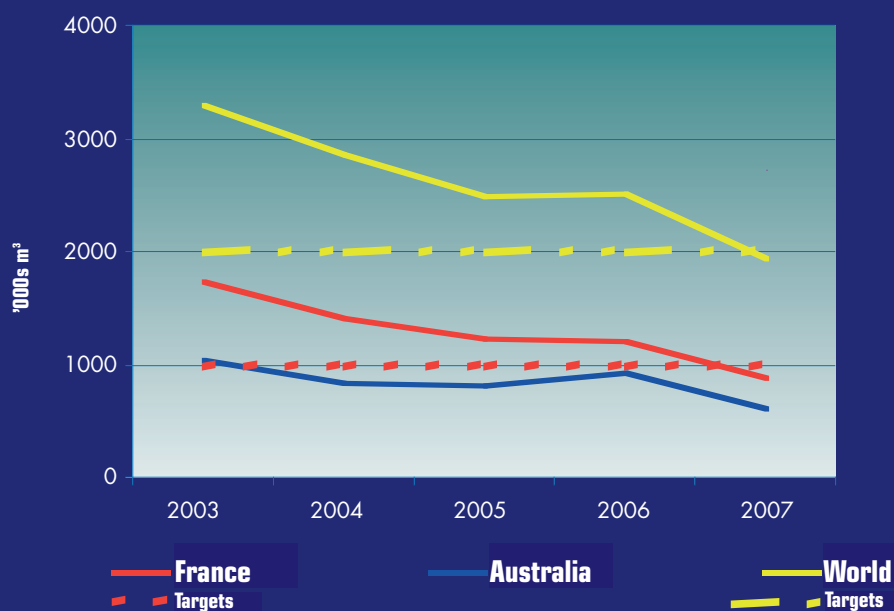
Water is an essential resource, both for the Group and for society as a whole. As such, it should be used with moderation. As early as 2000, Thales launched a **widespread programme** to reduce water consumption in France and it has now been extended to other countries. In 2005, the company's production sites set out to reduce water

consumption to "less than 1 million cubic metres in France and 2 million cubic metres in the rest of the world".

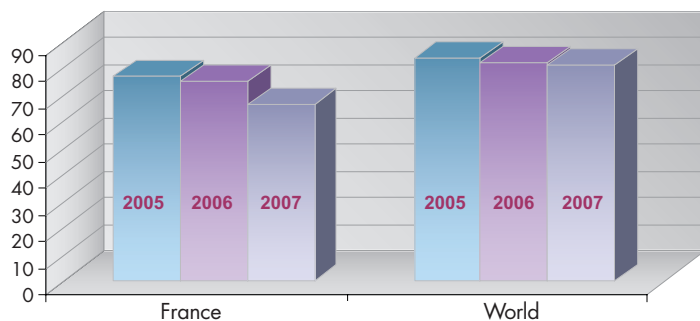
**Local action plans** were implemented, such as leak repairs and the replacement of inefficient machinery. At the same time, various initiatives were undertaken to raise awareness among employees.

The results were wide-ranging and quickly attained. The 1 million cubic metre target was achieved in France and has amounted to a 56% reduction in water consumption since 2000. Meanwhile, the global objective was reached in 2007: 1.9 million cubic metres were used compared to 2.5 million the previous year.

## Water consumption



## TOE per m²



TOE: Tonne Oil Equivalent

### > Energy

Electricity, gas and diesel fuel are Thales's main sources of energy. They are used for lighting, IT, heating and operating machinery. Thales has sought to reduce its consumption of energy inputs across all sectors.

The Group's global consumption of energy has dropped 4% compared to 2006. In addition, the 2005 figures show that:

- energy consumption per square metre has fallen almost 3% globally and 13% in France,
- energy consumption per person is also declining: -9% globally and -11% in France.

### > Land

About 63% of Thales sites around the world are located in industrial areas, compared to 15% in metropolitan areas and 22% in rural areas.. The Group's approach to land preservation is two-fold:

- land use should be rational and conscientious,
- the risks and effects of subsoil pollution should be considered.

As a result, any new construction or leasing project must take land preservation into account. Thales carries out studies of climate-related and geographic risks associated with its manufacturing sites, the environmental impact of the Group's activities in terms of pollution, and the integration of production units into the surrounding landscape.

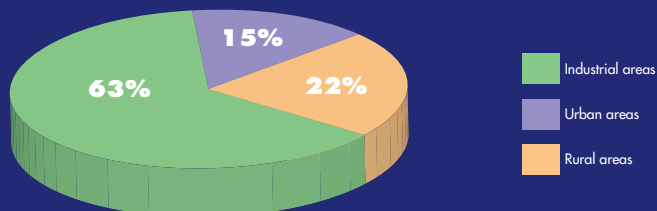
For more than 10 years, Thales has been carrying out a risk evaluation policy for soil pollution at all of the Group's production sites. Group policy also calls for waste to be treated locally rather than transferring pollutants to other sites.

### > Biodiversity

Environmental protection also includes animal and plant species, together with their habitats. Almost 14% of land used by Thales (covering five of its sites) is situated within zones to which special protective measures apply, with respect to animals, plants, natural habitats or historic monuments. **The Group is therefore highly sensitive about maintaining a balance between its production activities and the surrounding environment.**

The Lithgow site in Australia, for example, is home to one of the country's rarest butterfly species: the Bathurst Copper Butterfly (*Paralucia spinifera*). For a number of years the site has been working closely with government agencies dealing with threatened species to develop a management plan for the butterfly's habitat.

### Sites environnements<sup>1</sup>



#### Evaluation of production sites in industrial areas

Studies have been made in 92% of industrial areas to identify any traces of pollution and examine specific issues faced by each area (geology, neighbourhood, endangered species, etc.). •

### Fighting climate change

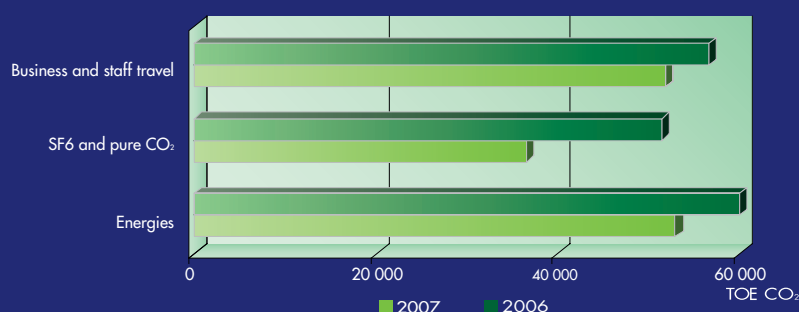
#### > Buildings, activities and industrial processes

The Group is committed to reducing its energy inputs, which account for the bulk of CO<sub>2</sub> emissions generated by buildings on its sites. This effort has reduced the amount of CO<sub>2</sub>-equivalent emissions from 278,000 tonnes in 2006 to 271,000 tonnes in 2007.

Used mainly in France, sulphur hexafluoride (SF<sub>6</sub>) is responsible for 96% of the Group's CO<sub>2</sub> emissions. This compound has been replaced in a number of cases, leading to a significant reduction in greenhouse gas emissions.

<sup>1</sup> These figures do not include the sites at Mulwala (Australia) and La Ferté-Saint-Aubin (France) which together account for 63% of the total surface area of all sites included in the scope of consolidation. The Mulwala site is on the edge of a small town, and La Ferté-Saint-Aubin in a rural area. The size of these sites is justified by the nature of their activity which requires large unoccupied areas to provide the necessary safety guarantees. The unoccupied land is forest or grazing land.

## CO<sub>2</sub> emissions in France



### > Individual and group behaviour

Thales is also exploring ways of changing the behaviour of its employees, both individually and collectively. A number of actions have been taken as a group to raise awareness, including energy-saving measures, the promotion of clean transport and a heightened use of video- and telephone-conferencing.

### > Transport

CO<sub>2</sub> emissions generated by business trips and travel and commuting to work are now evaluated. Many teams are currently involved with green transport measures:

- Company Travel Plans (CTP) — a range of measures aimed at optimising professional travel through alternative modes of transport),
- “Ride your bike to work” days,
- car pooling.

Thales also seeks to reduce CO<sub>2</sub> emissions by company cars. The average emission rate for the Group’s fleet was considerably lower in 2007.

### > Systems and products

In addition to the environmental impact of Thales’s activities, the products sold by the Group can also result in CO<sub>2</sub> emissions. Studies have been carried out to reduce CO<sub>2</sub> emissions generated by certain products during their working life, including energy consumption.

For example, Thales Transportation Systems has reviewed the production line of its new generation ticketing machines. The machines now use ceramic heating techniques and are lit by LEDs (Light Emitting Diode — a low-cost light). This has resulted in a 70% drop in electricity consumption.

## The importance of purchasing

Getting the Purchasing department involved yielded positive results in 2007. Specifically, it did away with paper catalogues, introduced green products and even put an end to over-packaging.

### Reducing emissions and other nuisances

#### > Waste

Non-hazardous waste generated by the Group results from the general activities of a site or construction area, or may also arise from certain industrial processes that themselves use chemical products, hydrocarbons or so-called

hazardous substances. The volume of this type of waste increased in 2007 (22,674 tonnes compared to 20,985 tonnes in 2006) due to major building projects carried out during the year, as well as to sediments from water treatment pools at an Australian site.

Other than these one-off cases, the long-term trend is downward. For example, waste generated per employee is dropping and has fallen from 348 to 334 kg per year. The proportion of hazardous waste products, meanwhile, amounts to only 13% of the Group's total volume of waste.

### > Greenhouse gas emissions (other than CO<sub>2</sub>)

Relatively low in volume, these are mainly related to heating and air conditioning equipment used in buildings. Most of the installations operating continuously do not generate greenhouse gas emissions.

### > Industrial wastewater

This mainly refers to water used in cooling or processing that is treated before discharge, 90% of which is generated by 5 countries: Germany, Australia, France, the Netherlands and the United Kingdom.

Production sites located in these countries have invested heavily to reduce industrial wastewater by 18%, down to 1.175 million cubic metres in 2007 compared to 1.435 million in 2006.

### > Noise

Given the nature of the Group's activities, few of its production sites generate noise pollution. The few sites that do emit noise are equipped with soundproofing systems such as covers on refrigeration or generator units that limit auditory impact on area residents and animal life. ●

## Thales and air transport

Air transport has a significant impact on the environment and is constantly growing. In 2006, almost 740 million passengers travelled by plane in Europe, a figure that is likely to double, or even triple, in certain places by 2025. Modernising air traffic practices, technology and management is essential.

Thales has been contributing actively to the **SESAR** programme (Single European Sky Air traffic management Research) launched by the European Commission to address these issues. The objective of this ambitious programme is to improve air traffic management, making it safer and limiting environmental impact. This involves improving the circulation of planes on tarmacs and runways, new ground-to-air communication systems and a greater use of satellite-based communications. At stake are lower costs, time efficiency gains and a significant reduction in greenhouse gas emissions.

In addition, Thales is one of the founding members of the **CleanSky** project. This European research programme is tasked with reducing and managing energy use. Launched by the aerospace industry together with the European Commission, it has a budget of €1.6 billion and seeks to develop new technology and reduce the environmental impact of air transport. ●



## Environmental indicators

	Unit	2006*	2007**	2007***
<b>Energy</b>				
Electricity consumption	'000s toe	122.3	102.5	130
Electricity consumption per capita	Toe/pers	2.39	1.98	1.97
Fossil energy consumption	'000s toe	34.5	47.8	77
Fossil energy consumption per capita	Toe/pers	0.68	0.92	1.17
Total energy consumption	'000s toe	156.4	150.3	207
Total energy consumption per capita	Toe/pers	3.06	2.9	3.14
<b>Water</b>				
Water consumption	'000s m <sup>3</sup>	2,512	1,927	2,645
Water consumption per capita	m <sup>3</sup> /pers	43.3	37.2	40
<b>Waste</b>				
Non-hazardous waste generation	T	18,365	19,827	23,800
Non-hazardous waste generation per capita (excl. building waste)	kg/pers	348	334	291
Percentage of non-hazardous waste recovered (1)	%	52	58	52
Hazardous waste generation	T	2,620	2,847	3,061
Hazardous waste generation per capita	kg/pers	51	55	46
Percentage of hazardous waste recovered (1)	%	58	59	59
<b>CO<sub>2</sub></b>				
CO <sub>2</sub> emissions from energy use	'000 t CO <sub>2</sub>	278	271	384
CO <sub>2</sub> emissions from energy use per m <sup>2</sup> of floor space	kg CO <sub>2</sub> / m <sup>2</sup>	146	145	155
<b>Miscellaneous</b>				
Entities with ISO 14001 certification	Number	65	-	69
Staff concerned as percentage of Group total	%	57	-	60

\* Representing 90% of Group staff in 2006.

\*\* Same scope as 2006.

\*\*\* New scope (includes the businesses acquired from Alcatel-Lucent and represents 90% of Group staff).

1 Not sent to landfill nor incinerated without recovering energy.



# A broad vision of responsibility

As a result of its presence at many different layers of society, Thales's corporate responsibility strategy covers more than just the Group's direct stakeholders (customers, suppliers, employees and shareholders).

**T**hales actively supports youth training schemes, shares the fruit of its investments in research and development with other institutions, supports job creation and participates in community-led initiatives.

## Supporting youth training

### Educational partnerships

Thales has implemented a range of educational programmes and partnerships to **promote technological and scientific education**.

Thales Academia, for example, provides scholarships and mentoring to French and foreign students on the basis of academic excellence. In 2007, Thales also took part in the second edition of the *Faites de la science* ('Practice science') competition, a science-based event aimed at French high school students and organised by 24 universities.

In December 2006, Thales signed the *Charte de l'Engagement des Entreprises* ('Corporate Commitment Charter') which **promotes equal opportunities in education**, alongside 40 other large industrial groups and in partnership with the French Education Ministry. The Group is developing targeted action in:

- mentoring,
- sponsorship,
- tutoring,
- showcasing of Thales's professions,
- company visits for students and teachers,
- recruitment of young graduates from disadvantaged areas.

## Thales Academia

Since May 2006, within the framework of its international corporate sponsorship programme, 'Technology for Education and Youth', Thales has been working with the French Foreign Ministry, the Grandes Ecoles (prestigious engineering and management educational institutions) and the University of Paris-Dauphine to welcome talented foreign students to France and support them during their studies.

Selected on the basis of academic excellence, these students attend participating institutions of higher learning. They receive an annual stipend of €13,000, personalised mentoring and management training at Thales University. These students are also able to complete an internship with the Group. In 2007, 28 students from, Brazil, China, India and Russia participated in the programme. •



## The Jugend Forscht programme

Since 2006, Thales has supported Jugend Forscht ('Young Researchers') in Germany. This competition, which has been held every year since 1965, is open to students and interns aged 15 to 21. Candidates are asked to present a project in one of the following fields: workplace issues, biology, chemistry, earth and space sciences, mathematics / computer science, physics or engineering.

The winner receives €10,000 in grant money or the equivalent in technical supplies. For all of the award-winners, Thales organises special information sessions about the latest technology, including visits to flight simulators on its site. •

For more information:  
<https://www.jugend-forscht.de/>

### Relations with colleges and universities

Thales places particular emphasis on the transfer of specialised skills that are relevant to its activities. The Group thus helps promote the continued development of these skills while simultaneously boosting its own expertise and capacity for innovation. As a result, the Group is committed to maintaining long-term relations with institutions of higher learning to ensure the **transfer of skills and experience**. These actions are also undertaken with a view of recruiting young talent.

Regularly updated since its launch in 2001, **Thales's college outreach programme** serves to promote the Group and its business activities among students. This programme has led to the signature of a number of agreements between Thales and prestigious institutions and universities worldwide.

Thales has also appointed '**Campus Managers**' to establish permanent links between the Group and colleges and universities. Alumni of the institutions for which they are responsible, these managers take a particular interest in curriculum development as well as the personal progression of students.

Moreover, to reinforce its international status, Thales works with the Board of European Students of Technology (BEST). Launched at European level in 2007, this partnership with BEST will continue through 2008.

### United Kingdom

Thales UK encourages young people to pursue careers in scientific fields. It works with local schools and universities to spur interest in activities related to science, engineering and technology. Thales UK also participates in high-profile programmes such as Science Engineering & Technology Network (SETNET), which creates links between employers and local schools.

Since 2006, Thales UK has also been developing a four-year graduate development programme. This programme has been accredited by the Institute of Mechanical Engineers, the Institute of Engineering and Technology, the Institute of Physics, the Royal Aeronautical Society and the Institute of Mathematics and its Applications. At present, 180 graduates are following this programme in the UK. Thales UK recruits 100 young graduates in this way every year.



## Netherlands

Thales Nederland has long-standing links with Twente University, the University of Delft and Saxion College. Windesheim College joined the list in 2007. Thales provides material and participates in academic programmes through conferences and university chairs. Thales also sponsors a number of student technical associations and provides internships for about 100 students each year.

## United States

Thales Communications Inc. (TCI) helps to fund a number of educational programmes at Clark School, an institution founded in 1978 for students with significant intellectual and creative potential. This partnership enables TCI to meet with students, teachers and alumni and facilitates the recruitment of future employees.

## Spain

Thales has signed agreements with the country's leading universities and business schools. In 2007, 5% of new recruits were graduates of these targeted institutions.

## Canada

In order to promote internships, the Aerospace division has developed relations with local colleges and universities, including Sherbrooke University, the Ecole Polytechnique de l'Université de Montréal and the Ecole de Technologie Supérieure. In 2007, 12 students completed internships with the Aerospace division, a figure that is expected to increase in 2008.

## Italy

Relations have been established with local colleges and universities to make internships available to students in technical and engineering fields.

### Thales and youth employment policies

Thales facilitates the entry of young people into the workplace through internships and work/study programmes. In France in 2006, Thales launched the **'Top Interns' programme**. The objective is to hire the most promising interns or work/study participants, as well as the best postgraduate students and international volunteers (VIE participants). In 2007, almost 95 young people were eligible for the Top Interns programme.

### > Internships

Each year, Thales offers **over 2,000 internships to students and young graduates in France and abroad**. The Group strives to provide interns with suitable conditions in their introduction to the corporate workplace. Thus, in compliance with the internship charter introduced by the French government in 2006, interns are guaranteed a decent level of pay, mentoring and interesting missions. For the last seven years, the Group has also organised an **internship forum** at Thales University. The day-long forum provides young interns with an opportunity to learn more about the Group and its activities.

### > Work/study programmes

Thales strongly supports **work/study** programmes as a particularly effective way of combining training and an introduction into the workplace. In 2007, 608 students took part in the programme, a **180% increase over 2005**. The Group aims to be welcoming 1,000 young people per year from 2008. A particular effort is made to train mentors, as their input is key to obtaining a successful outcome.

Thales also works with Air France to provide support to two French **vocational training centres**: the AFTI (Association for Training in Industrial Technology) and the AFMAé (Association for Aeronautics Training).



### Investing in social aspects of R&D

#### Participating in knowledge development

Thales is involved in partnerships and collaborative projects that foster the exchange of best practices and expand knowledge. This approach reflects the emergence of trans-national industrial and scientific networks, also known as '**new innovation ecosystems**'. The objective of these ecosystems is to create synergies among major industrial groups, technology suppliers (often SMEs), and educational and research institutions.

The Group is engaged in a **proactive policy of partnerships with SMEs**. This means that it is able to rapidly and effectively reap the benefits of the latest technological advances developed by innovative companies.

### Thales and SMEs

/// In France, large groups and SMEs are traditionally understood as having diverging interests. Thales, however, has developed strong bonds with the SME sector. In 2007, SMEs with fewer than 250 employees accounted for over 30% of the Group's €2 billion French purchasing budget. This figure rises to 40% if SMEs employing up to 1,000 staff are considered. •

#### Recognition for its commitments

The Group's commitment to the development of scientific knowledge is demonstrated by the research funds that it has provided for over 20 years to Albert Fert, who received a Nobel Prize in 2007. His research has resulted in the development of spintronics, a technology used in a range of everyday consumer items, such as computers and mobile phones.

Thales's involvement in these technological advancements also bears witness to the Group's capacity to develop solutions that benefit society as a whole.



### A Nobel Prize for Thales

The 2007 Nobel Prize in Physics was awarded jointly to Albert Fert, Scientific Director at the CNRS/Thales Joint Physics Unit in France, and Peter Grünberg, Professor at the *Institut für Festkörperforschung, Forschungszentrum* (Institute for Solid State Research) in Jülich, Germany, in recognition of their discovery of giant magnetoresistance. This prestigious award also acknowledges 20 years of scientific research that was supported by financial and material backing by Thales. Through the Nobel Prize, Thales's willingness to invest, over the long term, in projects that benefit society as a whole has been acknowledged. •

### Innovation for the good of society

As a leading player in space research, Thales is frequently asked to participate in high-level **space exploration programmes** by governments and scientific institutions. These programmes address emerging needs in communications, data collection and earth observation.

Thales takes part in the GMES programme of the European Space Agency, the objective of which is to gain greater understanding of the earth's resources through observation from space. Thales Alenia Space is also a prime contractor for the ExoMars mission, which aims to send a rover to Mars to look for traces of past or present life. The launch, scheduled for 2011 from Kourou, Guyane, will help to prepare future manned exploration missions.

## The GMES programme

The Global Monitoring for Environment and Security (GMES) programme is a joint initiative of the European Space Agency (ESA) and the European Union. Its objective is to link and rationalise European satellite monitoring capacity.

The programme seeks to develop innovative tools and services that combine space, ground and airborne techniques. It will improve scientific observation of oceans, coastal areas, soil and plant life, as well as of the risks linked to water management and atmospheric quality. Thales Alenia Space will provide Sentinel-1, the first earth observation satellite managed by GMES. •





## Acting in favour of employment

Conscious of the challenges linked to employment and of the Group's role in this area, Thales is involved in regeneration schemes and supports local and regional employment.

### Supporting reindustrialisation

For the past 20 years, **Géris Consultants** (a subsidiary of Géris) has managed reindustrialisation schemes in the context of industrial restructuring programmes. This subsidiary is mainly active on Group sites that are located in regions facing challenging conditions and also works with other actors, from SMEs to local authorities. Géris Consultants is recognised as performing a public service through its reindustrialisation activities.

Géris Consultants pursues the following objectives:

- to help workers affected by restructuring plans find new jobs,
- to facilitate the sale of non-strategic assets,
- to revitalise local socio-economic networks.

To carry out its mandate and in compliance with the French law on social cohesion, Géris Consultants is also tasked with:

- analysing local conditions,
- developing industrial projects,
- managing industrial development funds,
- supporting local economic development,
- prospecting foreign companies.

## Géris

Géris is part of the Human Resources Department. In France, it is involved in business start-ups, worker redeployment and the revitalisation of local workforces. Géris employs experienced consultants who have a sound understanding of regional industrial conditions. •

### Employment policies adapted to local conditions

In the agreement of November 23, 2006, Thales pledged its continued commitment to supporting employment in places where the Group is present. To this end, the Group has set up **partnerships** with local and regional authorities, local economic and social agents, universities and schools.

## France

Thales has a significant presence in seven regional employment markets. Due to this geographically-defined approach, the Group has a deep understanding of local socio-economic conditions. In each market, a Thales representative is responsible for

## Thales also pays careful attention to industrial redeployment schemes in the different countries in which it is present.

### United Kingdom

As part of restructuring operations, Thales UK offers its employees the services of a professional redeployment unit. Employees can thus benefit from career counselling seminars, workshops on career mobility and financial advice.

### Netherlands

The Group works closely with SMEO (*Stichting Metalektro Oost*), a redeployment agency set up by employers in the metallurgical sector. SMEO has 80% success rates in finding jobs for former Group employees.

### Germany

The Group carries out a range of redeployment measures. Training and financial aid is provided to affected workers. •

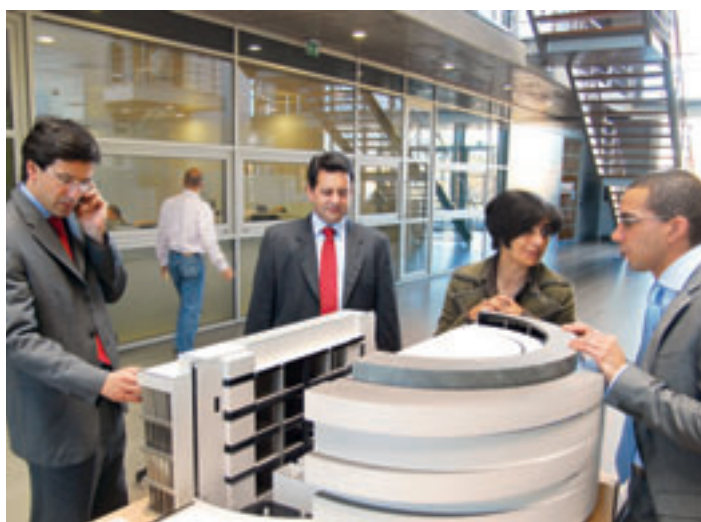
developing links with local and regional authorities, economic and social agents, and universities, schools and training centres.

### United Kingdom

Thales UK has established close working relationships with employee associations to ensure it is able to maintain ongoing dialogue with local communities. Thales UK is a member of Crawley LEAG, a group of employers who are present in Crawley, Sussex. This group supports different local initiatives and provides assistance to help them succeed.

### Australia

Some Thales sites are located in isolated areas, where the Group is the main local employer. Close attention is paid to the needs of these local communities and to the creation of formal and informal networks. Local sub-contractors and suppliers are used wherever possible to promote regional economic activity.



### Innovative projects for people with disabilities

In 2007, Thales continued to support the projects for people with disabilities that it has launched over recent years. The Group has also developed new strategies.

#### French Sign Language & cued speech

Thales Training and Simulation has developed a CD-Rom to teach French Sign Language (FSL) and cued speech. This CD-Rom will be used to train Group employees who work with hearing-impaired colleagues, thus facilitating their integration into the teams.

#### Portanum

Developed by engineers from Thales Research & Technology, Portanum helps people with impaired vision to read wall and flip charts accurately. This technology uses a camcorder to film the chart and then transfers the image via WiFi to the visually-impaired person's computer.

#### Handi Air Surveillance

Handi Air Surveillance is a technology designed to prevent and track forest fires by transmitting infrared images from aircraft to the ground.

The technology enables people with motor disabilities to pilot surveillance planes. The system design, assembly and adaptation of the different constituent elements were carried out by Thales. For the sixth consecutive year, the Group has also been responsible for training pilots.

#### Access Learning: distance e-learning

Access Learning has been developed in partnership with France's Garches Institute. This association, which is based in the Raymond Poincaré Hospital, provides guidance to people undergoing a career transition as a result of a workplace accident or visual/hearing impairments. Since the end of 2004, Access Learning has enabled these people to benefit from tailored training courses through distance learning. The tool also enables them to acquire multimedia and internet skills.

#### Professional integration for the hearing impaired

Thales seeks to promote the professional integration of people with hearing impairments by enabling them to participate actively in meetings and discussions with other employees. The Group has created a working group of around a dozen companies which will study this issue and propose a system to enhance workplace accessibility.

### Support for local and national organisations

Thales supports a number of local and national charities in most of the countries where it has a presence.

#### France

For the sixth consecutive year, Thales has supported UNICEF by commissioning it to produce the Group's corporate season's greetings cards. 55% of the purchase price of the greeting cards is donated.

Thales is also involved in the 4L Trophy car race, sponsoring a team from the *Ecole Nationale Supérieure d'Ingénieurs des Etudes et Techniques d'Armement* (ENSIETA). This race, held in Morocco, is the leading sporting and humanitarian event for students in Europe. In the 2007 edition, 1,000 teams distributed over 50 tonnes of educational and sporting material, helping to provide education for 5,000 Moroccan children.

Thales is also a historic partner of the Franco-British Student Alliance (FBSA). Since 2004, the FBSA has brought together French and British students and young graduates from Oxford University, Cambridge University, the London School of Economics (LSE), the IEP of Paris, the HEC School of Management and the Ecole Polytechnique.





Additionally, Thales is a fee-paying member of the Club Entreprises at the Quai Branly Museum in Paris. The contributions the Club receives are used to fund a new art project every year.

## United Kingdom

Through its charitable trust, Thales UK provides financial assistance to charities working in the fields of youth, technology and education.

In 2007, the charitable trust provided funds for, among others, Youthnet, an association that provides career counselling for people aged 16 to 24, and the National Deaf Society, which supports hearing impaired individuals.

In 2008, Thales UK employees plan to raise £100,000 for Marie Curie Cancer Care.

## United States

Thales North America participates actively in charity works. It provides support for injured soldiers and their families through Operation Second Chance, which hosts injured veterans, and through the Special Operations Warrior Foundation, which funds the college education of children who have lost a parent serving in the US armed forces.

In the Washington DC metropolitan area, Thales partners with the Washington Capitals ice hockey team to help the Children's National Medical Center. This institution provides healthcare for 360,000 children every year.

Finally, a Thales team has also raised funds for the Montgomery General Hospital in Maryland.

## Australia

Thales Australia sponsors many charitable activities, including races, raffles and school competitions. This Group subsidiary also provides funds to organisations such as Re-engineering Australia and Young Engineers, both of which raise funds for disadvantaged youths.

Thales Australia encourages its employees to play an active role in volunteer activities. For example, a Thales team raised AUS \$3,000 for the Australian Red Cross in 2007. Thales also provides financial and advertising support for these activities. ●

# Vigeo Rating 2007

In 2007, Thales underwent an audit by Vigeo<sup>(1)</sup>, a French ratings agency, for its performance in corporate responsibility. The results of the audit showed that the Group is performing well in terms of the challenges facing the Aerospace sector.



**V**igeo described the Thales Human Resources policy as *"one of the most advanced in the sector"*, particularly in terms of labour relations and management of restructuring plans, as well as its career development policies. In addition, while Thales still has room for improvement in the area of health and safety, the Group's rating of 55 for human resources (sector maximum: 55) ranked it well above the sector average.

The Thales environmental policy obtained a rating of 33 (sector maximum: 42), a score that again ranks it in the upper range for the sector. This positive result is due to the resources allocated by the Group to pollution prevention, the monitoring of greenhouse gas emissions and the reduction of hazardous waste.

In terms of Business Behaviour, which assesses a company's ethics and the processes it implements to ensure responsibility in business transactions, Thales obtained a rating of 45 (sector maximum: 57). The Group is therefore well within the sector average.

In the field of Corporate Governance, a rating of 26 showed that the Group's performance was mediocre (sector maximum: 70). This is attributable to the presence of the French state as a shareholder and to the low number of independent board members.

The Group obtained a rating of 60 (sector maximum: 60) for Community Outreach, which assesses the Group's entities in terms of civil society policies. According to Vigeo, *"Thales makes a positive contribution to both the local*

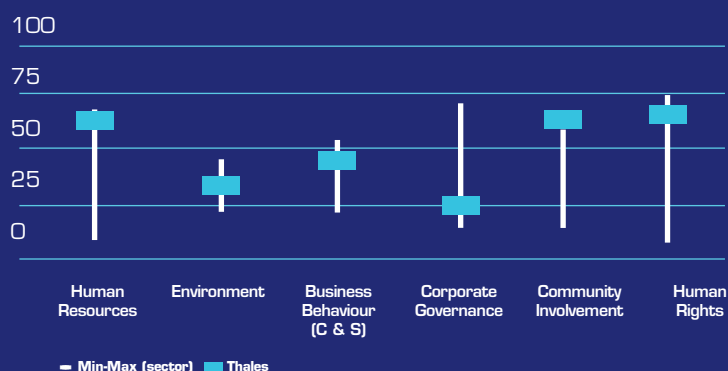
<sup>1</sup> Source: Vigeo, Rating April 2008 – Market sector: Aerospace (companies in sector panel: 10).

and regional development of areas where it is active by stimulating company start-ups, working with local suppliers and maintaining close relations with local scientific communities”.

Finally, the rating of 65 on human rights (sector maximum: 73) was particularly commendable. The measures instituted by the Group in terms of non-proliferation were especially well received. They demonstrate the ability Thales has to effectively control the export and traceability of its products. In addition, the Group’s anti-discrimination policy and the integration of disabled persons were also commended.

Overall, the Group’s performance has remained above the sector’s average since its previous audit by Vigéo in 2006. ●

Criteria (min –/max ++)	Scores 04/2008	Ratings 04/2008
Human Resources	55	+
Environment	33	=
Business Behaviour (C&S)	45	=
Corporate Governance	26	-
Community Involvement	60	+
Human Rights	65	+





# The 2007 rating by Oddo Securities

In 2007, France's leading independent broker, Oddo Securities<sup>(1)</sup>, rated the performance of Thales with regard to corporate responsibility, particularly human resources policy.



According to the broker, the aerospace and defence sector will face three major challenges in 2007-2010: consolidation, reorganisation or restructuring and technological shifts.

These challenges raise two important questions:

What impact will they have on HR? To what extent will HR play a role in the medium and long-term success

of certain companies?

To answer these questions, Oddo Securities has developed an integrated analytical model for HR policy in the aerospace and defence sector. The model is based on comprehensive data that cuts across sectors. Variables include growth models, career integration and management, education, restructuring management and hiring costs. The model also takes sector-specific challenges and criteria into account.

Oddo Securities has also included individual criteria such as country HR potential, technological shifts, job attractiveness, absenteeism, workplace accidents and operational profitability per employee. The criteria were weighted according to sector by Oddo's Social Responsibility Investment department, as well as the broker's own financial analysts.

The results show that Thales is taking the HR challenges faced by the aerospace and defence sector seriously. The Group was ranked 4th out of 15 companies evaluated.

Oddo Securities gave Thales a positive rating for its HR performance and ranked HR as an Opportunity<sup>(2)</sup> for the Group. ●

<sup>1</sup> Source: Oddo Securities SRI, HR Analysis of the Aerospace-Defence sector – April 2007.

<sup>2</sup> There are four levels of HR recommendation: Strong Opportunity (1<sup>st</sup>), Opportunity (2<sup>nd</sup>), Moderate Risk (3<sup>rd</sup>) and High Risk (4<sup>th</sup>). The non-financial recommendations made by Oddo Securities (in this case, the HR recommendation) reflect the expected relative level of share performance within the sector in the long term (more than 12 months).

## Details of Thales HR performance

	Thales	Sector average	Highest score
HR potential	0.9	1.4	3.0
Growth model	6.0	5.6	8.0
Average age	0.0	1.0	2.0
HR represented within COMEX	2.0	1.2	2.0
HR transparency	1.5	1.1	2.0
Technological shift	7.0	5.5	8.0
Size attractiveness	1.5	1.6	2.0
International attractiveness	3.0	2.2	4.0
Business attractiveness	1.0	1.4	2.0
Job attractiveness	2.0	1.9	3.0
Employee shareholders	6.0	3.1	6.0
Net asset growth	0.0	1.3	3.0
Integration, annual review rate & career management	2.0	1.1	2.0
Quality & effectiveness of training	2.0	1.4	2.0
Management of restructuring & reorganisation	5.5	5.8	10.0
Absenteeism	0.5	0.6	2.0
Social climate	5.5	5.2	7.0
Attrition of key employees	3.5	3.5	5.0
Average salary cost	0.5	0.9	2.0
Number of salaried employees	1.0	1.1	2.0
Profit margin per employee	3.0	3.7	6.0
Management quality and HR follow-up	3.5	2.9	5.0
Hiring costs	3.5	4.3	10.0
Frequency & seriousness of workplace accidents	1.0	0.9	2.0
<b>Evaluation</b>	<b>62.4</b>	<b>58.6</b>	<b>100</b>
<b>Ranking</b>	<b>4°</b>	<b>-</b>	<b>-</b>







## FOR FURTHER INFORMATION

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