

2013 REPORT

Corporate Responsibility



≣XCHANGE
≣NGAGEMENT
E FFICIENCY
■VOLUTION
≣NVIRONMENT
≣XPERTISE

≣XCELLENCE

THIQUE

ESSENTIAL

EMPOWERMENT

EXPANSION

EMERGING

EVERYWHERE



The 2013 Corporate Responsibility Report illustrates Thales's commitments and actions in a number of areas of corporate responsibility, including but not limited to the measures in place to ensure compliance.

This document can be downloaded in accessible PDF format for blind and partially sighted readers from Thales's dedicated corporate responsibility internet portal:

sustainability.thalesgroup.com

In-depth information as well as the latest news and data concerning ethics and corporate responsibility can also be found on the portal.

The Thales Annual Report (registration document) presenting the Group and its financial data, as well as social and environmental data in compliance with Decree no. 2012-557 of 24 April 2012, can be downloaded from:

www.thalesgroup.com/en/worldwide/investors

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Community engagement [07] A global player, acting locally

"THALES HAS
A NEW STRATEGIC
VISION TO BECOME
A TRULY GLOBAL
COMPANY THAT CREATES
VALUE FOR ITS
STAKEHOLDERS AND
FOR THE COMMUNITY
AT LARGE."



editorial

Jean-Bernard Lévy

With 65,000 employees in 56 countries, Thales brings to the table a unique combination of skill sets and a level of engagement that matches its stature as a global technology leader. The company's success in 2013 is attributable in part to an inclusive new strategic vision that will help the organisation to realise its full potential, embrace even more ambitious objectives and drive performance over the long term. This new strategic vision is built on the shared values and company-wide commitment to corporate responsibility that Thales has upheld for more than a decade.

Underpinning the new momentum that is growing within Thales are the three pillars of growth, competitiveness and people. All of these pillars are crucial to the sustainability of the organisation. How, for example, can Thales expect to build market share, especially in countries with strong economic growth, without adapting its practices to these new economies and redoubling its efforts to ensure the integrity of its business? Similarly, how can the company develop new products to meet the needs of these new markets without fully leveraging the technologies and innovations that give Thales its competitive edge? And how can any organisation expect to support the success of its employees without an effective leadership model designed to develop talent, teamwork and accountability?

Thales's new strategic vision is to become a truly global company that creates value for its stakeholders and for the community at large. The company's economic, social and environmental indicators in 2013 show that this strategy is already succeeding. Starting in 2014 in France, corporate responsibility performance will also be taken into consideration in determining the bonuses paid to the Chairman and senior executives of the organisation.

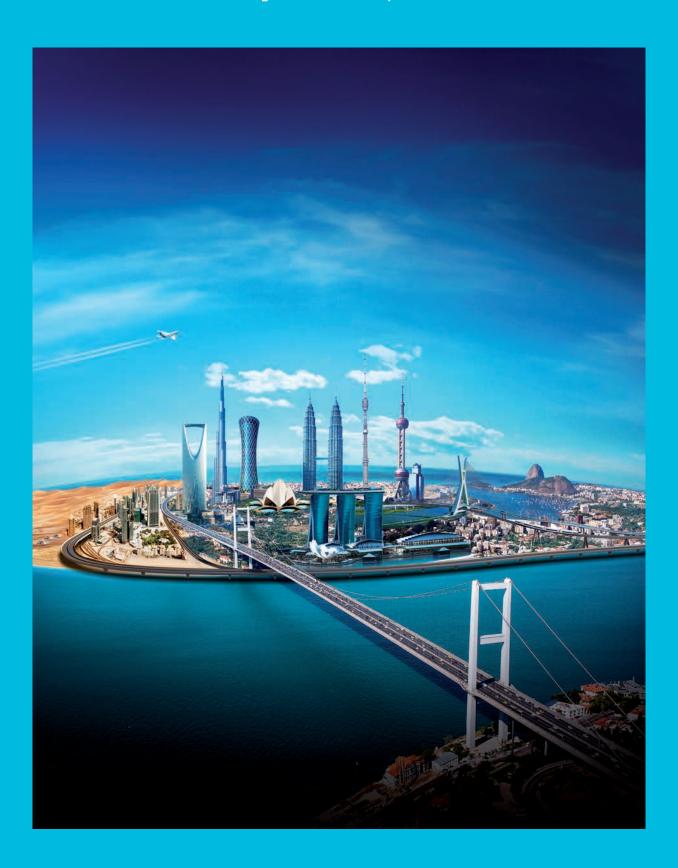
Corporate responsibility is also integral to Thales's new tagline: "Together. Safer. Everywhere." The ability to work together in an increasingly complex world to provide reliable, resilient, long-term solutions for customers and partners in every corner of the planet is more than a value proposition — it is the key to the company's success. These few words encapsulate Thales's commitment to behaving responsibly with respect to customers, suppliers, employees, shareholders, the environment and society at large.

And, as this latest report illustrates, 2013 was a milestone year for Thales as it strives to deliver sustainable, profitable growth through a long-term vision of its business and its responsibility as a company.

Jean-Bernard Lévy
Chairman & Chief Executive Officer

THALES

Together • Safer • Everywhere



Principles of responsibility

Launched in 2000, the United Nations Global Compact (UNGC) is both a policy platform and a practical framework for companies that are committed to sustainable business practices. It seeks to align business operations and strategies everywhere with ten universally accepted principles. About 12,000 organisations around the world, including 8,000 companies, have joined the Global Compact. Thales signed up to the Global Compact in 2003 and has adopted its ten principles.



Since 2012, through its annual Communication on Progress (COP), **Thales** has achieved **Global Compact Advanced** level under the Global Compact Differentiation Programme, which evaluates companies on the basis of 21 specific criteria and represents the highest standard of sustainability performance and reporting. Thales is one of just 360 companies worldwide to have achieved GC Advanced level.

HUMAN RIGHTS

Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights.	Pages 26, 31, 42, 43, 50, 52, 57, 68, 75, 108, 109
Principle 2	Businesses should make sure they are not complicit in human rights abuses.	Pages 26, 31, 42, 43, 50, 52, 57, 68, 75

LABOUR STANDARDS

Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	Pages 26, 30, 43, 57, 67, 70, 74, 77, 78
Principle 4	Businesses should uphold the elimination of all forms of forced and compulsory labour.	Pages 26, 33, 43, 57, 70, 79
Principle 5	Businesses should uphold the effective abolition of child labour.	Pages 26, 33, 43, 57, 70, 79
Principle 6	Businesses should uphold the elimination of discrimination in respect of employment and occupation.	Pages 26, 33, 43, 57, 70, 79, 80, 81, 82

ENVIRONMENT

Principle 7	Businesses should support a precautionary approach to environmental challenges.	Pages 26, 33, 43, 57, 70, 86, 103, 104,
Principle 8	Businesses should undertake initiatives to promote greater environmental responsibility.	Pages 26, 33, 43, 57, 70, 86, 93, 94, 95
Principle 9	Businesses should encourage the development and diffusion of environmentally friendly technologies.	Pages 26, 33, 43, 57, 70, 86, 93, 94, 95, 99, 101

ANTI-CORRUPTION

Principle 10	Businesses should work against corruption in all its forms,	Pages 26-35, 38-49, 56, 57, 58,
•	including extortion and bribery.	69, 70

2013 Highlights

- Update of our corruption risk map and internal assessment process (maturity grids).
- Update of the policies managing intermediaries.
- Jean-Bernard Lévy, Thales Chairman & CEO, is one of the 17 signatories of the recommendations sent to the G20 Heads of State by Presidents and CEOs of companies in the B20 Task Force on Transparency and Anticorruption.
- Thales is involved in the development of future ISO standards on compliance and anti-bribery management systems.
- Thales presented its key technological innovations to customers at the Research Days and Innov' Days events in early 2013.

- Group agreement on prospective management of jobs and skills.
- 76.3% of employees attended a training course in 2013.
- New agreement signed on quality of life in the workplace.
- Group framework agreement on remote working.
- By the end of 2013, 82% of Thales employees were working at an ISO 14001 certified site.
- CR included in the criteria for calculating the variable part of the Chairman's compensation and senior executive compensation from
- 1,360 employees attended ethics training sessions in 2013 (total of 5,670 since 2008).
- By the end of 2013, 29% of employees (19,000 people) had completed the e-learning programme on ethics and corporate responsibility.
- Seventh employee share offer made in 12 countries (58,000 employees eligible).

Employees

Customers

HALES

Investors

- Adjusted net income at 31 December 2013 up by 13%.
- Increased return to shareholders: dividend per share raised by 27% and payout raised from 30% to 35% of adjusted net income.
- New appointments to the Board of Directors.
- Five female directors on the Board at 31 December 2013 (out of a total of 16 members a higher proportion than the legal minimum).

Suppliers and partners

- By the end of 2013, more than 2,900 Thales suppliers (an increase of 160% on 2012) had signed the Group's Purchasing & Corporate Responsibility Charter.
- By the end of 2013, 260 buyers (23% of the staff concerned) and 150 product line managers (50% of the staff concerned) had been trained in how to incorporate environmental factors into their day-to-day work.
- Thales's supply chain mobilised around the Dodd-Frank Act and conflict minerals.
- After a follow-up audit, Thales's official quality label for responsible supplier relations in France was renewed.
- Group policy on qualifying, selecting and managing KIPs (key industrial partners) updated.
- By the end of 2013, 977 supplier sites had been assessed for their environmental maturity.
- Thales PhD Prize 2013 awarded to three young researchers who completed their theses at Thales in 2012.

Thales creates value for its stakeholders



Aerospace €4.5bn



Transportation €1.5bn



Defence and Security €7.0bn



DCNS (consolidated at 35%) €1.2bn

Sales €14.2bn Adjusted net income €644m

Shareholders

(49,900)

€230m in dividends paid, equivalent to €1.12 per share

R&D

€2.5bn, incl. €700m in company-funded R&D

Industrial investment €433m

Employees (65,000)

€5.7bn (incl. social security contributions)

State and local government €281m

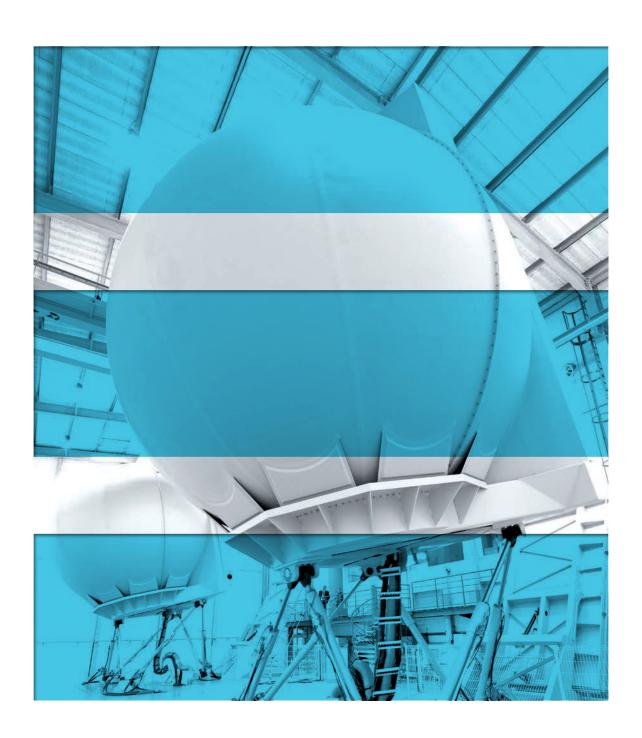
effective tax rate of 30%

Suppliers €5.7bn in purchases, incl. over 70% in the EU

- Thales involved in the Global Compact Leaders Summit in New York in September 2013.
- Bilateral agreement with the French Ministry of Defence to support SMEs in the defence sector (France).
- Creation of the France SME purchasing network.
- In 2013, Group energy consumption reduced by 3% (-12% between 2008 and 2012) and quantity of non-hazardous waste per person reduced by 5% (-11% between 2010 and 2012).
- CO₂ emissions reduced by 82% since 2007.
- Support for charities in France, Germany, Italy, Spain, Switzerland, the United Kingdom and the United States.

Society

 Paid annual leave entitlement for reserve service extended to 15 days (instead of the five-day legal minimum) (200 Group employees are reservists).



About Thales

Collective intelligence for a safer world

Thales is a global technology leader in the Aerospace, Ground Transportation, Defence and Security markets. In 2013, the company generated revenues of €14.2 billion with 65,000 employees in 56 countries. With its 25,000 engineers and researchers, Thales has a unique capability to design, develop and deploy equipment, systems and services that meet the most complex security requirements. Thales has an exceptional international footprint, with operations around the world working with customers as local partners.

Ambition 10, Thales's strategic plan based on three key pillars — growth, competitiveness and people — supports the company's development and sets its course for the next 10 years.

Understanding our business

THESE TECHNOLOGIES AND CAPABILITIES. TOGETHER WITH THE CENTRAL ROLE OF HUMAN FACTORS IN CRITICAL DECISION-MAKING, ARE COMMON TO ALL OUR ACTIVITIES

Our mission

greater mobility, growing complexity and new vulnerabilities, what does it take to make the right decisions at the right time and act accordingly?

In a world that is increasingly mobile, interconnected and interdependent, the security of people and goods, infrastructure and nations depends on leaders and organisations and their ability to decide and act in a timely fashion.

In the markets that Thales serves aerospace, space, ground transportation, defence and security — these decisions are often of critical importance. Army, navy and air force commanders, as well as air traffic controllers, public policymakers and infrastructure operators, face these critical decisions and need full, relevant and reliable information to understand the situation and make the right choices.

The critical decision chain

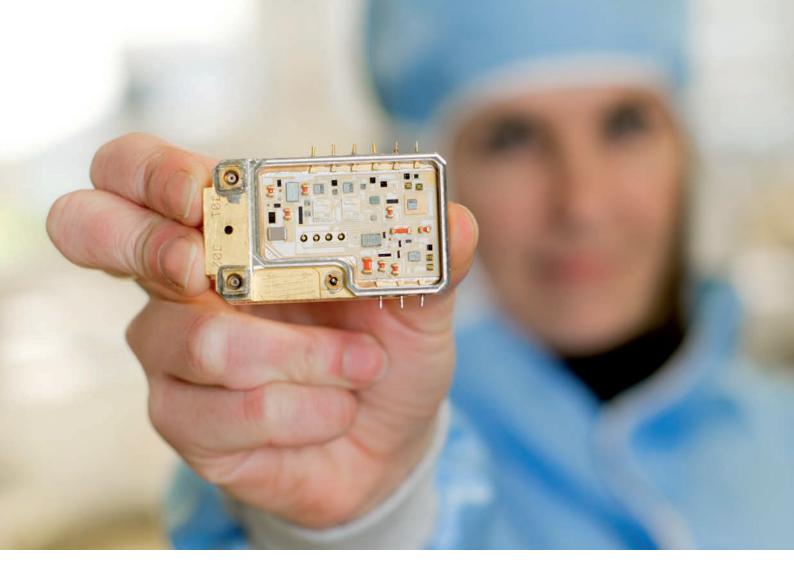
Thales assists its customers in these decisions by providing the tools and technologies they need to gather, process and distribute information, helping them to understand complex situations so they can decide and act in a timely fashion and obtain the best outcomes.

This understanding of "the critical decision chain" underpins Thales's innovation and technological developments in such areas as large-scale software-driven systems, secure communications, sensors (radar, sonar, optical), supervision, onboard electronics, satellites and systems integration. These technologies and capabilities, together with the central role of human factors in critical decisionmaking, are common to all our activities. The Group's employees are constantly developing their skills to stay ahead in these areas.

A responsible local player

Over the decades, Thales has built up an in-depth knowledge of the markets it serves and, with operations in 56 countries, has developed close relationships with local customers to grasp the intricacies of their operational decision-making processes and propose the best solutions for every situation

Across all our businesses, Thales's 65,000 employees are guided by a proactive policy of corporate responsibility that is key to managing risks and driving performance.



Our businesses

TOGETHER

SAFER

EVERYWHERE

Wherever safety and security are critical, Thales delivers. Together, we innovate with our customers to build smarter solutions everywhere.

Aerospace

Thales is the only company in the global aerospace sector with leadership positions in both onboard equipment (cockpit and cabin solutions) and ground equipment (radar, air traffic management systems, etc.).

Market leadership in avionics, air traffic management and space systems makes Thales the world's only company with the capacity to provide a comprehensive end-to-end response to the challenges of air transport.

Thales contributes to the future prosperity of the civil aerospace sector by providing equipment, systems and services — both in the air and on the ground — to support aircraft manufacturers, airlines, air traffic controllers, airports and civil aviation authorities in meeting the challenges of growth, safety, economic and environmental performance, security and passenger comfort.

Space plays a crucial role in modern societies, helping us to meet the challenges of our times, particularly in telecommunications, optical and radar Earth observation, satellite navigation and space exploration. Thales continues to set the global standard in each of these areas through two joint companies with

the Italian Finmeccanica group: Thales Alenia Space and Telespazio.

Thales provides commercial, institutional and military customers with an exceptional combination of expertise spanning the entire value chain: equipment, payloads, satellites, systems and services. Our space businesses complement our other activities, and vice versa, giving us a distinct competitive advantage and enabling us to offer our customers complete endto-end solutions and play a central role on major civil and military programmes. In defence, for example, space systems are a key component of C4ISTAR (Command, Control, Communications, Computers, Intelligence, Surveillance, Target Acquisition and Reconnaissance). The space component is also prominent in most of the programmes now defining the future of air traffic management as well as in rail and road traffic projects around the world.

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AEROSPACE

- NO. I WORLDWIDE in air traffic management:
- More than 40% of the world's airspace managed by Thales air traffic control centres;
- Thales equipment used by two-thirds of the aircraft that take off and land in the world every day.
- NO. 2 WORLDWIDE in in-flight entertainment and connectivity.
- NO. 3 WORLDWIDE and NO. 1 IN EUROPE in flight avionics.
- Thales is a key contributor to future programmes SESAR in Europe and NextGen in the United States to improve air traffic safety and efficiency and reduce fuel costs. The Group is also taking part in Europe's Clean Sky joint technology initiative for "a clean, innovative and competitive air transport system".
- More than 130,000 passengers use Thales in-flight entertainment systems every day, equivalent to almost 50 million users per year. To date, close to 150,000 systems
- Thales is the only company in the world to supply all the components needed for air traffic control: communications, navigation, surveillance and automation. The Group has equipped more than 160 control centres around the world with the TopSky—ATC system.

SPACE

- NO. I IN EUROPE and NO. 3 WORLDWIDE in civil satellites and a major player in orbital infrastructure.
- NO. I WORLDWIDE in payloads for telecommunication satellites.
- NO. I IN EUROPE in military satellite systems and navigation systems.
- oceanography with its Poseidon radar altimeters, and has more than 30 years' experience as a prime contractor on Meteosat weather satellite programmes. The company is closely involved in the GMES programme (Global Monitoring for Environment and Security). It also contributes to almost all of Europe's climate-related space missions, and is a preferred partner to space agencies around the world (ESA, Eumetsat, CNES, ASI, NASA, etc.) for Earth observation.
- Thales Alenia Space contributes to Europe's most important missions. For example, the company is prime contractor for ExoMars, Europe's first mission to land on Mars. It has also supplied 50% of the pressurised volume of the International Space Station.
- Thales Alenia Space is lead company for system design and end-to-end integration and prime contractor for the ground-based mission segment of Europe's Galileo satellite navigation system. The company is also prime contractor for EGNOS, the lynchpin of the Galileo system.

Ground transportation

Thales helps transport operators and infrastructure managers to get the most out of their investments by optimising their operational performance, offering better passenger services and managing the growing complexity of their networks. Its systems and services make it possible to operate transport infrastructures at higher capacity and convey passengers and goods to their destinations more quickly, more safely and at lower cost.

The Group is one of the world's foremost players in rail signalling systems and control and surveillance systems for urban and mainline rail networks. It is also present in the fare collection and toll segment.

A unique "systems" approach for innovative solutions

Most of the other players in the transportation sector have traditionally been rolling stock providers. In contrast, Thales has a systems approach that enables us to develop innovative solutions based on state-of-the-art technologies. The Group is one of the pioneers of de facto standards that structure the rail sector today: CBTC systems (Communications-Based Train Control) for metros and ETCS systems (European Train Control System) for mainline rail, as well as contactless smartcards, nationwide multimodal, multi-operator fare collection systems, integrated supervision systems, etc.

- NO. 2 WORLDWIDE IN RAIL SIGNALLING SYSTEMS.
- WORLD LEADER IN:
- ETCS systems (European Train Control System) for mainline rail networks
- CBTC solutions (Communications-Based Train Control) for urban rail
- Integrated communication and supervision systems for transportation networks
- The CBTC signalling solution was invented and first deployed by Thales on Vancouver's driverless metro in 1986. Today, CBTC technology has become the de facto standard for urban rail systems. With more than 30 metros equipped with its SelTrac CBTC system and over 10 million cumulative hours of operation to its credit, Thales has more experience with this solution than any other provider in the world.
- Half of Spain's high-speed network, the largest high-speed network in the world, is equipped with interlocking signalling and ETCS systems as well as telecommunication systems supplied by Thales.
- Thales has provided ticketing systems for more than 100 cities around the world.



Defence and security

Thales is a trusted partner of defence forces worldwide, working to support their missions by helping them to operate more effectively and more efficiently while providing the best possible protection. The systems designed by Thales support the armed forces in the four traditional defence environments — land, air, sea and space — as well as the emerging environments of urban combat and cyberwarfare.

These sophisticated systems detect and assess threats, manage information, support rapid command decisions, and control engagements, up to and including threat neutralisation, with maximum reliability. By making it simpler to coordinate joint and coalition operations, they help deployed forces maintain decision superiority.

Optimised operational performance

From system design to through-life support and personnel training, Thales support services ensure that the solutions we deliver continue to perform optimally, now and in the future.

The emergence of new types of threats, such as trafficking, terrorism, organised crime and cyberattacks, means that



DEFENCE

- EUROPEAN NO. 1 IN DEFENCE ELECTRONICS.
- TIER I SYSTEMS INTEGRATION PARTNER on major land, air and naval platform programmes.
- SIGNIFICANT GROWTH in services.
- LEADING PLAYER IN AIR DEFENCE through a unique transatlantic joint venture with Raytheon: Thales Raytheon Systems.
- Control, Communications, Computers, Intelligence,
 Surveillance, Target Acquisition and Reconnaissance).
 The Group provides NATO with highly secure communication
 services for the International Security Assistance Force (ISAF)
 in Afghanistan.
- From submarines to airborne surveillance and maritime patrol systems, underwater systems and above water systems, Thales is present at all levels of naval operations. The Group is involved in the major European programmes and a wide range of export programmes. Over 50 navies worldwide have called on Thales's expertise to date.
- multiplatform, multi-environment credentials, we have a distinctive ability to design and develop solutions that offer the interoperability, versatility and scalability needed to coordinate operations, particularly those conducted by joint and/or coalition forces.
- In France, Thales has been selected with Nexter and Sagem to lead the architecture phase of the Scorpion programme for the

SECURITY

- NO. I WORLDWIDE in security for interbank electronic transactions.
- NO. 1 IN EUROPE in information system security.
- **STRONG GROWTH** in critical infrastructure security and border protection.
- the world's 20 largest banks, three of the biggest players in the IT sector, four of the biggest oil companies and nine of the top 10 high-tech companies.
- Thales, in partnership with Telmex, has provided Mexico City (population: 22 million) with a sophisticated urban security system designed to prevent and respond to crime, terrorist threats and natural disasters. Based on the Thales Hypervisor solution, the integrated system includes a national C4I command centre, five regional command and control centres, two tactical mobile command and control centres, more than 8,000 CCTV cameras installed in the streets and in the 175 stations on the city's 11 metro lines, four unmanned reconnaissance aircraft and a citywide network of emergency call points.
- Thales has been selected to design, install and operate the information, communication and security systems at the French Ministry of Defence's future headquarters in the Balard district of Paris. The project includes services for 9,300 users, up to 1,000 visitors per day, 15,000 desktop computers, 10,000 telephones and numerous fixed and mobile videoconferencing suites.
- largest airports, including Dubai International and Doha International.

defence organisations alone are not fully equipped to contend with the changing risks. This convergence between defence and security has prompted the need for new solutions and technologies that enable organisations to share existing information and communication systems while also protecting networks and infrastructures.

Integrated and resilient solutions

Drawing on its experience in the defence sector, Thales works with government agencies, local authorities and civil operators to develop and deploy integrated, resilient solutions to protect citizens, sensitive data and infrastructure.

Its priorities are cybersecurity, urban security, airport security, border protection and infrastructure security. The Group's distinctive strengths include the ability to integrate large-scale, complex systems and leverage the legacy solutions of each customer

TOGETHER

EVERYWHERE

GLOBAL LEADERSHIP

- NO. I WORLDWIDE IN:
- Payloads for telecommunication satellites
- Air traffic management
- Sonars
- Security for interbank transactions
- NO. 2 WORLDWIDE IN:
- Rail signalling systems
- In-flight entertainment and connectivity
- Military tactical radiocommunications
- NO. 3 WORLDWIDE IN:
- Flight avionics
- Civil satellites
- Surface radars

In addition, our systems offerings are built around key technologies that we fully understand: sensors, secure networks and information systems, secure cloud computing, data processing algorithms, data fusion, and management of large volumes of video, voice, text and data.

ONE OF THE WORLD'S 100 MOST INNOVATIVE COMPANIES*

Innovation is a major strategic priority for Thales and a prerequisite for our long-term development, at the heart of this are dual technologie. With a balanced mix of military and civil businesses, Thales is recognised for its expertise in all the key technologies needed to design and develop the critical information systems of the 21st century: large-scale software systems, onboard electronics for all types of platforms, secure communications and transactions, sensors (radar, sonar, optical), supervision and satellite technologies.

Interactive innovation

Thales teams throughout the world are driven by this quest for innovation. The central research labs of Thales Research & Technology, for example, have introduced a system of open innovation to maximise interaction with the academic research community and with Thales's operational units and other innovative companies. Concept development and evaluation environments offer new opportunities to work with customers on reallife scenarios and develop solutions that meet their current and future operational needs. At the same time, innovative product policies are being implemented at our entities to systematically shorten development cycles and limit programme risks.

Thales conducts its research programmes to support operating units in their efforts to differentiate the Group's products and solutions and gain a competitive advantage.

The effectiveness of Thales's R&D effort hinges largely on the decentralised nature of its operations and close coordination on strategic topics. R&D teams are based at more than 80 sites in all the Group's main countries of operation.

- €2.5 BILLION invested in R&D in 2013.
- A PORTFOLIO OF 13,000 PATENTS, with 350 new applications filed in 2013.
- 5 LABORATORIES working closely with universities in France, the United Kingdom, the Netherlands, Singapore and, since 2012, Canada.
- MORE THAN 30 COLLABORATIVE PARTNERSHIPS with universities and public research institutes in Europe, the United States and Asia.

^{*}Thomson Reuters 2012 Top 100 Global Innovators

KEY FIGURES AT 31 DECEMBER 2013

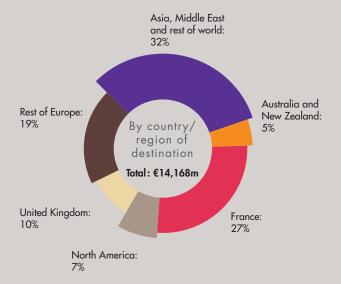
Aerospace: €4,130m Others: €1,492m By operating segment Total: €14,168m Defence and security:

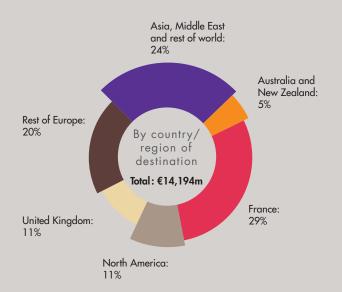
€7,661m

Order intake in 2013



€4,451m





^{*}DCNS is proportionately consolidated at 35%.



INTERNATIONAL FOOTPRINT

Thales has pursued a successful policy of in-country operations for many years. It has made the Group a major industry player in its traditional countries of operation and is now helping to build the Thales brand in emerging economies where growth prospects are strong. This policy, with its focus on customers and long-term customer satisfaction, brings Thales access to local programmes and opportunities to form partnerships with local industries and research institutes. It also relies on a Group-wide network of Key Account Managers, integration centres and competence centres around the world.

EUROPE

France

34,700 people Main locations: Meudon, Élancourt, Rungis, Colombes, Sophia Antipolis, Vélizy, Cannes, Brest, Toulouse, Pessac/Le Haillan.

United Kingdom

7,100 people Main locations: London, Crawley, Belfast, Basingstoke, Glasgow, Reading, Templecombe, Leicester, Bristol, Weybridge.

Germany

3,000 people Main locations: Stuttgart, Berlin, Hamburg, Wilhelmshaven, Kiel, Arnstadt, Koblenz, Pforzheim, Ulm.

Italy

2,800 people Main locations: Rome, Turin, Florence, Chieti, Milan, L'Aquila.

Netherlands

1,900 people

Main locations: Hengelo, Huizen, Delft.

Spain ПП

900 people

Main location: Madrid.

Belgium

700 people Main locations: Charleroi, Tubize, Liege, Brussels.

Austria

300 people Main location: Vienna.

Romania



210 people Main location: Bucharest.

Norway



190 people Main location: Oslo.

Switzerland



185 people Main location: Zurich.

Portugal



180 people Main location: Paço de Arcos.

Poland



160 people Main locations: Warsaw, Poznan.

Turkey



110 people Main locations: Ankara, Istanbul.

AMERICAS

United States



1,930 people Main locations: Arlington (VA), Clarksburg (MD), Edison (NJ), Fullerton (CA), Irvine (CA), Phoenix (AZ), Pittsburgh (PA), Seattle (WA), Shawnee (KS), Totowa (NJ).

Canada



1,290 people Main locations: Ottawa, Toronto, Montreal, Vancouver.

Mexico



330 people Main location: Mexico City.

Brazil



230 people Main location: São Paulo.

AUSTRALIA



3,300 people Main locations: Sydney, Melbourne, Bendigo, Benalla, Rydalmere.

ASIA

South Korea

1,720 people (STC) Main locations: Seoul, Gumi, Daejon, Bundang, Yongin.

China



Main locations: Beijing, Shanghai, Nanjing, Kunming, Hong Kong.

Singapore



560 people

India



250 people Main locations: Delhi, Bombay, Chennai, Cochin, Visakhapatnam, Gwalior.

Malaysia



100 people Main location: Kuala Lumpur.

MIDDLE EAST

Saudi Arabia



720 people Main locations: Riyadh, leddah.

United Arab Emirates



400 people

Main locations: Abu Dhabi, Dubai.

AFRICA

South Africa



240 people

Main location: Midrand.

Space Ground transportation Research centre Defence

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Our strategic vision: Ambition 10



AMBITION 10, THALES'S STRATEGIC PLAN, SETS THE COURSE FOR THE NEXT TEN YEARS. THIS PLAN IS BASED ON THREE PILLARS: GROWTH, COMPETITIVENESS AND PEOPLE

Developed in early 2013, following a Group-wide consultation involving all functions, countries and entities, and implemented in late 2013, Ambition 10, Thales's strategic plan, sets the course for the next 10 years.

Ambition 10 is based on three pillars:

- growth,
- competitiveness,
- people.

Growth: driving ambition

Growth is one of Thales's biggest challenges, but also the driving force of all our ambitions. In the years ahead, much of the Group's growth will be found in three key sectors:

- emerging markets,
- large contracts,
- services.

The emerging markets of Asia, Latin America and the Middle East offer huge potential for Thales in the next 10 years. These countries have several points in common: rapidly increasing urbanisation, a need to address defence, security and environmental issues, a boom in air transportation, and the development of national infrastructures.

The creation of local added value and the organisation of transfers of knowledge and know-how are key requirements for winning business in these new markets. Thales's ambition is to strengthen its presence in 10 key emerging markets.

Large contracts, valued at over €100 million, are vital for Thales and are the focus of particular attention. In 2013, Thales booked twice as many large contracts compared with the previous year. Winning such contracts is a long and complex process, from qualifying the initial opportunity to signing the final contract. Success hinges on prioritising objectives, focusing on a smaller number of contracts and positioning ourselves at a very early stage in the process.

Thales's objectives are equally ambitious in services, with significant growth expected in the next few years. To achieve this growth, the Group is staying closer to its customers in order to better understand their operational procedures and propose value-added solutions to the specific issues they face.

Improving competitiveness to support growth

By continuing the efforts made to improve performance in recent years, Thales will enhance its differentiation on product offerings and costs in an increasingly competitive environment.

Efforts are centred on three strategic

- expansion of our international industrial footprint,
- R&D and engineering competitiveness,
- customer-driven competitive innovation.



"AMBITION 10 IS MUCH MORE THAN JUST A STRATEGY EXERCISE.
IT'S AN INCLUSIVE MOVEMENT THAT IS PROGRESSIVELY MOBILISING
THE ENTIRE GROUP AROUND A SHARED VISION, ALLOWING US TO FOCUS
ALL OF OUR ENERGIES ON THE SAME OBJECTIVE OF SUCCESS."

Hervé Multon

Executive Vice-President, Strategy, Research and Technology

To speed up its development in fast-growing economies, Thales is strengthening its presence by recruiting local talent and developing its local facilities, partnerships and purchasing operations. This expansion of its industrial footprint will enable the Group to increase the proportion of revenues generated by local production facilities while at the same time reducing costs and improving competitiveness.

Making our engineering operations more competitive is a key objective for Thales. Some 22,500 of our 65,000 employees work in engineering today.

On the **innovation** front, Thales has identified a number of *dream products*

for more focused investment in the next few years. These are highly innovative solutions that meet market requirements and that are expected to sell in large quantities to many customers, becoming the benchmark standard and helping Thales to achieve leadership in each respective segment.

The Group fosters an open approach to innovation and is stepping up efforts to co-innovate with customers, start-ups and SMEs in hotspots around the globe, as well as investing in R&T on new concepts and technologies with government laboratories and universities.

Developing talent and encouraging success

The people working for Thales are the key to its success. Developing our people and the skills they offer is a way to secure our future. Ambition 10 focuses on three aspects in particular:

- leadership and diversity,
- customer mindset and value,
- teamwork and incentives.

In order to build a truly global and diverse company, Thales will establish a new leadership model in 2014, which will involve the creation of a development framework and a new model for career planning, promotion and mobility, as well as a new approach to international careers. The Group is also stepping up efforts to establish a wide-ranging talent pool around the world.

To be perceived as a trusted partner, Thales must continue to develop its relationships with customers, working more closely with them in the early stages of their projects, and developing its marketing efforts to better understand the issues customers face, as well as their evolving needs, constraints, budgets, etc. In an increasingly demanding environment, customers' ability to achieve their objectives is more dependent than ever on the performance of their partners and suppliers. The strength of the Group's order book and our ability to move up the value chain depend on the quality of our relationships with customers.

Thales is implementing a new performance management approach inspired by our new core values, particularly the principles of teamwork and cooperation. When setting annual objectives for employees, managers are encouraged to foster exchanges and interaction within the organisation, thus ensuring a focus on personal accountability and best outcomes for the Group.

AMBITION 10

A shared vision based on three pillars

GROWTH	COMPETITIVENESS	PEOPLE
Expanding markets Large contracts Services	International industrial footprint Customer-driven competitive innovation Engineering competitiveness	Leadership and diversity Customer value and customer mindset Teamwork and incentives
Excellence in delivery	Efficiency of structure	Competitiveness in sourcing

supported by the global performance plan

ENSURING SUSTAINABLE AND PROFITABLE GROWTH



The Thales Executive Committee. From left to right: Marc Darmon, Hervé Multon, Pascal Bouchiat, Jean-Pierre Forestier, Jean-Bernard Lévy, Jean-Loïc Galle, Pascale Sourisse, Patrice Caine, Alex Cresswell, Michel Mathieu, Philippe Logak, Pierre-Eric Pommellet, David Tournadre.

THE THALES WAY

Thales is an international powerhouse of talent and human endeavour, encompassing a rich variety of professional backgrounds and national cultures. Throughout the world, these multicultural teams are driven by the same spirit of innovation, performance, responsibility and ethics in their pursuit of customer satisfaction.

THE GROUP'S CORE VALUES SUM UP THE "THALES WAY".

Customer trust

Customer satisfaction is a key performance indicator. We need to work as partners with our customers, listening to them, anticipating their needs and finding solutions together. Building customer trust is always our priority. We work to achieve long-term customer satisfaction by delivering on our promises and assuring the quality of our solutions and services. This is how we will be considered as a trusted partner.

One Team, one Thales

We know that a team performs better than the sum of its parts. We share responsibilities in a culture of loyalty, partnership and transparency. We encourage solidarity and cooperation at every level of the organisation. We are all on the same team and are united in our actions. We may all look different but we share a distinctive Thales culture.

Developing our people

Supporting the professional development of each employed—in line with the principles of respect, transparency and equal opportunity—is of fundamental importance.

We respect diversity, promote knowledge-sharing and encourage dialogue. We recognise and reward teams and individuals for their ideas and successes. Underpinning Thales's overall performance is a human resources policy that promotes both collective achievements and individua talents.

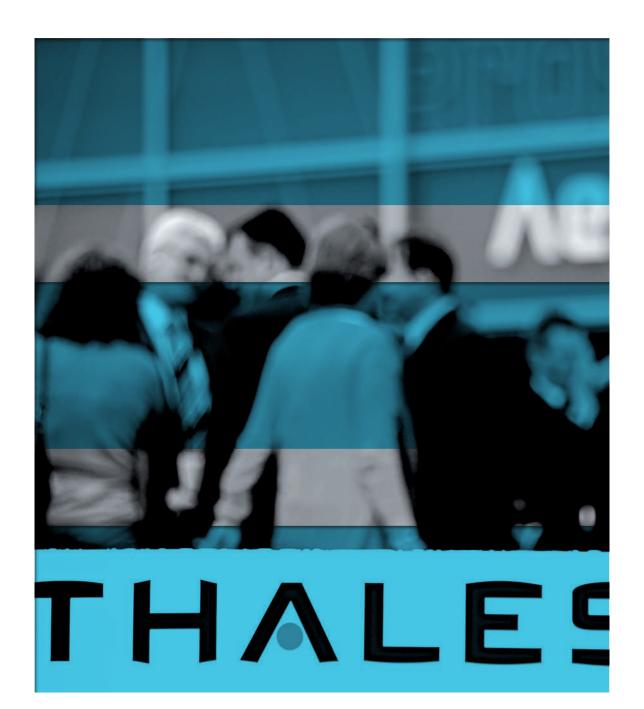
Accountable and committed to excellence

We understand that acting responsibly means making realistic commitments and delivering on our promises. We strive to achieve excellence by acting with integrity, loyalty, accountability and professionalism in everything we do. Our ambition is fuelled by this commitment to excellence. We thrive on constructive criticism and learn as much from our failures as we do from our successes.

Agile and innovative

Another priority is to continually improve quality and work more efficiently. This means being ready to take risks, always demonstrating leadership, deciding quickly and acting on our decisions immediately. Innovation is the lifeblood of our business and the key to our future success. We strive to build on new ideas to achieve a competitive advantage.

Building on the unique attributes of its employees and a set of shared values, Thales has developed a rigorous policy of corporate responsibility with respect to its stakeholders: customers, suppliers, employees, shareholders, financial markets and civil society.



Ethics and corporate responsibility

Our commitment to ethical business conduct and corporate responsibility is a driver of consensus, cohesion and motivation across the Group.

A dedicated structure to develop, implement and monitor ethics and corporate responsibility policy across the organisation worldwide: the Ethics and Corporate Responsibility Committee, the composition of which is representative of all Thales stakeholders to ensure that their expectations are taken into account; the Ethics and Corporate Responsibility Department, which reports to the Thales Group Secretary whose main task is ensuring that the Group's interests are protected; 18 Ethics Officers and an ethics alert facility.

Ethics concerns all of us. For this reason, Thales has put in place a global training programme. Since 2008, some 5,670 employees have attended training sessions on corruption prevention and corporate responsibility, and 29% of employees (19,000 people) have completed the e-learning programme on ethics. Communication resources have been produced, including a dedicated intranet portal, a Code of Ethics (translated into eight languages and distributed to employees worldwide) and guides to good conduct (ethics alert, gifts and hospitality, lobbying, information management, etc.).

The Group's 26 operational processes, which make up the Chorus 2.0 reference system, incorporate ethical issues and corporate responsibility wherever appropriate. A comprehensive risk management system, based on a multidimensional organisation — the Risk Management Committee, the Risk Assessment Committee, 120 Enterprise Risk Officers, a Risk Sponsor for each of the 19 major risks identified and 30 internal auditors — ensures that the Group's business activities comply with all applicable laws and regulations. Operational managers are required to complete a Yearly Attestation Letter, in which they disclose the level of maturity of the system in place at their entities to manage risks and commit to appropriate action plans to ensure the necessary improvements are made.

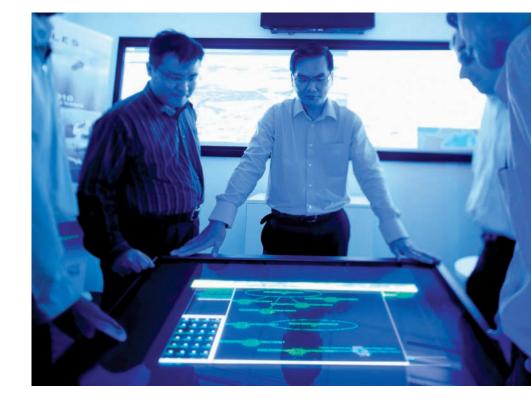
A dedicated organisation



"TRAINING. AWARENESS, TRUST AND RESPECT FOR THE INDIVIDUAL FORM THE BEDROCK OF THALES'S CORPORATE RESPONSIBILITY POLICY, AND WILL CONTINUE TO PROVIDE THE BUILDING BLOCKS FOR THE BEHAVIOURAL INTELLIGENCE THAT UNDERWRITES OUR PERFORMANCE AS AN ETHICAL COMPANY."

Dominique Lamoureux

VP, Ethics and Corporate Responsibility, Thales, and Chairman of the MEDEF Business Intelligence Committee



Thales has put in place a robust organisation for the purpose of developing, implementing and monitoring a consistent set of ethical standards, particularly in terms of corruption prevention, and embedding a culture of corporate responsibility within the organisation worldwide.

Thales created an Ethics and Corporate Responsibility Committee in 2001, confirming that ethics and corporate responsibility are central pillars of the Group's corporate strategy. This Committee is one of the three mainstays of corporate governance within Thales. It reports directly to the Chairman & CEO, submits an annual report to the Thales Board of Directors and provides information to the Executive Committee as needed.

The missions of the Ethics and Corporate Responsibility Committee fall into three categories:

- Strategy: help define Group policy on ethics and corporate responsibility, identify potential issues, and proactively propose guidelines for ethical standards and procedures with respect to marketing and sales practices, the environment, labour relations and society at large.
- Training and awareness: ensure the development and deployment of the Code of Ethics within Thales, define training objectives and communication

ETHICS IS GOOD FOR BUSINESS

"In the business world of today, what does it mean to behave ethically and responsibly? Everyone in a company, from the Chairman to the most junior member of staff, is bombarded with legal and administrative requirements in addition to the procedures and processes imposed by the company itself.

Failure to comply with this barrage of rules and regulations carries a risk of serious financial and sometimes criminal sanctions. And yet there is a significant area between compliance and non-compliance that is governed not by the letter of the law but by a sense of accountability and individual responsibility.

Why? Because not everything in real life, thankfully, is decreed by law or written down in standard operating procedures. The rule-based approach — protecting a company's interests by simply writing more rules — has shown its limitations. Demonstrating that "all necessary measures" have been taken is no longer admissible in some legal systems, and, above all, this concept of management has proven woefully inadequate for companies needing to embrace the complexity of today's business environment.

How we interpret the spirit of the law when rules are unspecific or ambiguous is called ethics and corporate responsibility. Finding the subtle balance between all the different rules that need to be applied, while meeting the often contradictory demands and expectations of a company's various stakeholders, is a delicate process. It's a process that can only be implemented by individuals.

Ethics is therefore an integral part of a company's risk management system, a process of weighing up the consequences of failing to comply with the demands and expectations of any of its various stakeholders.

As well as a way of managing risk, corporate responsibility is now a strategy tool that can drive performance over the long term and set a company apart from its competitors. It is a core component of a company's goodwill because it corresponds to what consumers, investors and society increasingly need.

Put simply, ethics and corporate responsibility are good for business.

Business intelligence may help us to manage a complex environment, but business intelligence alone is not enough. The true performance of a company is measured by its behavioural intelligence, an intelligence that hinges on collective awareness of what is at stake and an acute sense of accountability and individual responsibility.

Training, awareness, trust and respect for the individual form the bedrock of Thales's corporate responsibility policy, and will continue to provide the building blocks for the behavioural intelligence that underwrites our performance as an ethical company."

Dominique Lamoureux

THALES ETHICS AND CORPORATE RESPONSIBILITY COMMITTEE

(at 31 December 2013)

- Chair:

 Philippe Logak
- Secretary:

 Dominique Lamoureux
- Members representing stakeholder interests:

Sandrine Bouttier-Stref
Environment

Didier Brugère

Jean-Marc Budin
Customers

Jean-Claude Climeau Financial markets

Dominique LamoureuxCivil society

Denis PlantierIndustry partners

Matt Pothecary
Media/Community groups

Anne de Ravaran Employees

Bernd Schopp
Germany

Michael SeabrookUnited Kingdom

Andria Wyman-Clarke United States

ETHICS AND CORPORATE RESPONSIBILITY 27



needs, and coordinate and monitor Country Ethics Committees and Ethics Officers.

• Decisions: determine action to be taken on the ethics issues referred to it, launch enquiries when appropriate, and make proposals to management about action to be taken or sanctions to be applied.

The make-up of the Ethics and Corporate Responsibility Committee is representative of the Group's stakeholders in order to anticipate and meet their needs.

The Ethics and Corporate Responsibility Department reports to the Thales **Group Secretary*** and is responsible for implementing ethics and corporate responsibility policy, as defined by the Committee, and for coordinating Group players in this area.

It helps change behaviours within the Group by identifying and implementing best practice, and defines internal standards and processes with respect to ethical business practices, particularly in

the areas of corruption prevention and human rights, working closely with the Legal and Contracts Department and the Export Control Department.

It is also responsible for maintaining the Code of Ethics, and preventing infringements of the Code, which lays down the general practices and values underpinning the Group's operations.

Through its engagement with Thales's stakeholders and its role in setting standards, the Ethics and Corporate Responsibility Department helps promote the Group's corporate image and contributes to regulatory changes to ensure they are as favourable as possible to the Group's strategy and growth.

total of 18 Ethics Officers are responsible for dissemination of the Code of Ethics and its principles in Group units worldwide. They ensure that employees in their respective units receive adequate training and information. They answer questions about compliance with the Code of Ethics. They also implement the ethics policy in the light of local legislation and norms. It is also the role of the Ethics Officers to report possible infringements of the Code of Ethics to the Ethics and Corporate Responsibility Committee.

Thales has put in place a global ethics alert (whistleblowing) facility. A guide describing the scope of the facility, approved by CNIL, the French data protection authority, in 2011, is accessible to all employees via the intranet. This ethics alert facility allows all Group employees to:

- Obtain information and advice in case of questions or doubts about the application or interpretation of the Code of Ethics:
- Raise ethics-related concerns that could impact the Group's business or seriously jeopardise its performance as a responsible operator with respect to:
 - Accounting, financial and banking practices, corruption prevention and . fair trade:



- Discrimination or non-compliance with occupational health and safety regulations that could compromise the physical or mental health of employees.

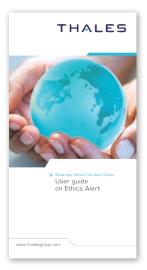
This right to raise concerns must be exercised in accordance with applicable law and rules in the country in which the employee lives or works.

It is based on the principles of confidentiality and respect for the rights of each person concerned throughout the procedure.

*The Thales Group Secretary's mission is to protect Thales's interests through coordinated action with its various departments: Legal and Contracts, Audit, Risks and Internal Control, Real Estate, Ethics and Corporate Responsibility and the Secretariat to the Board of Directors.



Thales UK is conducting an ethics awareness campaign.



Guide to the Thales ethics alert facility

ETHICS AND CORPORATE RESPONSIBILITY 29

Ensuring employee buy-in

As well as establishing behavioural guidelines through the Code of Ethics, Thales organises ethics and corporate responsibility awareness campaigns throughout the year (via the intranet, employee publications and events). Training (e-learning or face-toface) is also available to give employees a more in-depth understanding of the Group's ethics policy.

A training programme to encourage more ethical practices

The theme of ethics is embedded in a number of in-house training programmes. The subject was first introduced in 2000 in training programmes on export control and corruption prevention.

To support the Group's efforts to go beyond compliance and establish ethics and responsibility as a shared corporate value, ethics awareness has now been incorporated into several training programmes in areas such as purchasing, project management and bid preparation, as well as into all training modules for marketing and sales functions.

To deliver a consistent message, Thales has commissioned two multilingual trainers specialising in ethics to conduct the same face-to-face training sessions at Thales University campuses around the world, with 5,670 employees trained since 2008, including 1,360 in 2013. Ethics Officers also conduct occasional awareness sessions or make presentations for in-country staff or specific groups of entities around the world.

Online self-learning

In addition to face-to-face training, Thales offers its employees a wide range of online courses that can be accessed via an intranet or extranet portal. To better match the course offerings with the needs and professional development goals of each employee, only the e-learning courses that are relevant to his or her function, job family and level of responsibility are displayed on the web portal. Online courses in areas such as management, marketing and sales, programme management and business processes, software, systems and other technologies with company-wide relevance are designed to supplement face-to-face training programmes.

More specifically, Thales provides employees around the world with access to an e-learning programme designed to raise their awareness of the underlying principles of ethics and responsibility. Available corporate in French and English (as well as in German since 2012), the programme comprises three 30-minute modules and includes real-life scenarios to help employees recognise and deal with the kinds of complex situations they may encounter in their day-to-day work. To date, 29% of employees (19,000 people) have taken part in the e-learning programme — the equivalent of 15,000 training hours.

INFORMATION MANAGEMENT

In their day-to-day activities, all Group employees are continuously required to process and manage omnipresent in today's work environment, both electronically and physically (in the form of paper documents, CD-ROMs, memory sticks, etc.).

The aim of the Guide to best management, published in November 2013, is to help employees to manage with the legal and ethical requirements with which the Group complies.



Intranet

Thales maintains an ethics and corporate responsibility portal on the Group intranet, where employees can view the latest news, learn more about Thales's policy, and download booklets, tools and other documents. The site also offers employees a chance to learn more about the ethics alert facility and provides contact details for obtaining information and advice.

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

- Thales Code of Ethics (available in eight languages: French, English, Dutch, German, Italian, Spanish, Polish and Portuguese);
- Ethical conduct guides (e.g. gifts and hospitality guidelines, best practices guide to lobbying, best practice guidelines for e-mail, ethics alert facility, best practices guide in information management);
- Reference guide on prevention of corruption;
- Thales policy highlights (e.g. corruption prevention policy);

- Selected conventions and legal texts on combating bribery (e.g. OECD);
- Professional standards e.g. ASD (Aerospace & Defence Industries Association of Europe) Common Industry Standards, and the Global Principles of Business Ethics published by ASD and the Aerospace Industries Association of America (AIA):
- e-Learning modules on business ethics, including case studies in "serious game" format.

STRICT APPLICATION OF THE CODE OF ETHICS

As an extension of Thales's five core values* the Code of Ethics, updated in 2013, lays down the rules of behaviour applicable within the Group, with respect to customers, suppliers, employees, shareholders, financial markets, the environment and society at large.

Thales's ethical commitments are subject to a process of continuous improvement, translating for example into more rigorous demands made of suppliers, and changes to the ethics alert facility.

The rules stipulated in this Code are not a substitute for the national and international legislation applicable in each country, with which the Group fully complies. Neither are they contractual. They must, however, be understood and applied by all of the Group's permanent and temporary staff.

- * Customer trust
- One Team, one Thales
- · Developing our people
- Accountable and committed to excellence
- Agile and innovative

"EACH INDIVIDUAL
HAS RESPONSIBILITY
FOR APPLYING
THESE RULES IN
THEIR DAY-TODAY WORK, AND
MANAGEMENT
IS RESPONSIBLE
FOR ENSURING
THAT THE CODE OF
ETHICS IS APPLIED
STRICTLY AND
CONSISTENTLY."

Jean-Bernard LévyChairman & Chief Executive
Officer

Supporting the initiative



To enforce its corporate responsibility policy and support the sustainable development of its business activities while improving the satisfaction of customers, employees and other stakeholders, Thales has put in place a global organisation based on the principles of transparency, performance improvement and risk management.

A comprehensive risk management system

Thales develops and delivers complex systems, products, equipment and related services for governments as well as major companies and organisations around the world. Due to the nature of these solutions, which are often critical for state sovereignty and/or the security of people, property and data, strict compliance with national and international laws and regulations is a strategic imperative. Any instance of malpractice or malfeasance could not only expose the company to legal and financial risks, but could also undermine its competitive performance and corporate image. Thales has had an organisation in place for many years to ensure that its business activities comply with all applicable laws and regulations.

In 2010, Thales also incorporated operational risks into its risk management system in order to improve business performance and raise levels of customer satisfaction.

This initiative has expanded the Thales risk management system into a comprehensive and integrated management tool that covers 19 major risks (operational, financial and compliance).

IFACI CERTIFICATION

Thales's IFACI* certification was reviewed and renewed for a further three years on 5 February 2013. IFACI has issued its certification as a quality label to help improve internal audit systems and disseminate best

IFACI certification, officially recognised and promoted by the Institute of Internal Auditors (IIA) and the European Confederation of Institutes of Internal Auditing (ECIIA), provides corporate management with assurance that the internal audit function, a key component of the organisation's internal control system, is performing in line with international best practice.

The approach is structured as follows:

- For each of the risks identified, the Risk Management Committee specifies the acceptable level of risk for the Group in the normal courses of business, allocates responsibilities for coordinating and monitoring these risks to the functional and operational departments in accordance with the Group's operating principles, manages the strategy for transferring certain risks to insurance companies and, more broadly, ensures that the risk assessment and management system in place is comprehensive and effective. The Committee is chaired by the Chairman & CEO: it meets at least twice yearly. and in any case before each session of the Audit and Accounts Committee of the Board of Directors covering issues of risk management. It reviews the work of the Risk Assessment Committee.
- Risk Assessment Committee The performs detailed analysis of incidents, identified risks and evolving threats in accordance with a set work schedule, updates and prioritises risk scenarios based on a shared scale of prudence, develops a cohesive policy of prevention, internal control, audit and, where appropriate, transfer to insurance companies for each risk scenario,

"RISK MANAGEMENT IS A LEVER FOR MANAGING THE COMPANY THAT HELPS TO CREATE AND PRESERVE THE COMPANY'S VALUE, ASSETS AND REPUTATION; SECURE DECISION-MAKING AND THE COMPANY'S PROCESSES TO ATTAIN ITS OBJECTIVES: PROMOTE THE CONSISTENCY OF THE COMPANY'S ACTIONS WITH ITS VALUES; BRING THE COMPANY'S EMPLOYEES TOGETHER BEHIND A SHARED VISION OF THE MAIN RISKS."

Source: Reference framework published by the Autorité des Marchés Financiers

SAFER

MANAGING THE 19 MAJOR RISKS **IDENTIFIED**

Operational risks

- Environmental damages
- Information Systems Security breach

Compliance risks

- Misappropriation of intellectual property

Financial risks

- Liquidity & debt

- A **Risk Sponsor** has been designated for each of these risks, allowing anyone involved in risk management to contact the relevant expert whenever necessary.
- The Group's Chorus 2.0 reference system describes the key processes and incorporates risk prevention through a set of effective self-assessment measures.



and ensures that risk management policy is duly adopted by the Group's functional and operational managers. It also contributes, in conjunction with the VP Investor Relations, to the Group's Annual Report (registration document), filed with the Autorité des Marchés Financiers (AMF) and formulates recommendations to the Risk Management Committee to improve the Group's overall risk management policy. It is chaired by the SVP Audit, Risks and Internal Control, and meets at least three times a year. It is assisted by a facilitation network in the Group's countries of operation, Global Business Units (GBUs) and other functions.

• The Group's operational managers formally express their responsibility for the maturity of the system in place within their entity to manage corporate risk via a Yearly Attestation Letter, based on a detailed description of each risk (scenarios, objectives and priority actions) as well as an internal control questionnaire. These self-assessments are reviewed by the Audit, Risks and Internal Control Department and the Risk Sponsors to identify the optimum approach and the most effective way to support entity action plans.

- A network of 120 Enterprise Risk Officers, tasked with:
- ensuring that a Risk Owner, or the Risk Sponsor's contact at the entity, is designated for each of the risks identified at each entity (as reported in their yearly attestation letters),
- overseeing action plans,
- monitoring the actions undertaken to manage risks,
- analysing any instances of noncompliance detected,
- reminding staff of the broad range of risks and the need to manage them.

Enterprise Risk Officers are typically appointed from the legal, finance or operations departments (profiles vary according to the type of business activities involved and the process maturity of the corresponding entity or entities).

• 30 internal auditors, including former business unit directors and programme directors as well as auditors who have previously worked for leading audit companies, verify that the system has been correctly implemented, and conduct around 100 audits and reviews each year. The audit plan is updated on

THE FOUR PHASES OF **AN INTERNAL AUDIT**

- PHASE I: PREPARATION Definition of work plan and preliminary documentation review with the entity concerned.
- PHASE 2: FIELDWORK Interviews and analysis of documents. Typically 20 to 50 people are interviewed over a period of one to two weeks by a team of two, three or four auditors. This is followed by a presentation of preliminary findings and recommendations.
- PHASE 3: REPORT The audit report, with findings, recommendations and associated action plan, is organisation concerned.
- PHASE 4: FOLLOW-UP Follow-up is provided for as long as necessary, with reporting to the Executive Committee on a half-yearly basis.

SAFER

EVERYWHERE

Yearly Attestation Letter (YAL)

This letter is part of the Thales Enterprise Risk Management Program for the year ending December 31st, 2013 and relates to Name of the entity, registered in Country.

- We performed a maturity assessment (see attached Excel file) of the Entity (or grouping thereof) placed under my responsibility against the key risks of the Group. This assessmencompasses an assessment of internal controls over the financial reporting.
- This assessment takes into account all establishments and external worksites my Entity (or grouping thereof) currently operates, including Permanent Establishments set-up in foreign countries.
- The action plans resulting from this self-assessment will be regularly reviewed at Executive Committee level during 2014.
- Our commitment to Thales Ethics and Values translates as follows:
 - o The Code of Ethics is distributed to all new joiners during their first days with Thales.
 - All new employees follow an induction training explaining expected ethical behaviours and Thales Values.
 - Senior Executives from the entity or myself emphasize at least once a year the commitment to Thales Ethics & Values in our internal communication.
 - We set-up a process taking into account local legislation to enable employees to bring any relevant matter to the attention of the Group's Ethics bodies.
- The above assessment is complete and accurate as of today, to the best of my knowledge

RAISING MATURITY LEVELS

The Yearly Attestation Letter is a self-declaration mechanism that requires operational managers to assess the level of maturity of their entity with respect to the main risks identified by the Group.

For each applicable risk, the entity proposes an action plan, if its level of maturity requires it.

The entity can also request the support of the designated Risk Sponsor, particularly in the case of specific issues or difficulties in implementing appropriate actions.

This annual exercise gives operational managers a closer understanding of the Group's comprehensive internal control process and risk management policy.

Example of a Yearly Attestation Letter signed by all Group executives



a half-yearly basis and takes account of risk analysis as well as critical bids and projects. Specific corruption prevention and export control audits are also conducted. Around 30 audits focus on bids, projects, supply chains and product policies where particular risk factors have been identified.

Chorus 2.0, a strategic tool

The Chorus 2.0 management system is a major asset for the Group. In accordance with international standards, it provides clear and precise descriptions in a common language of the roles and rules to be applied. Organised into 26 operational processes, it structures every aspect of the Group's activities, including maturity models, best practices and key decision milestones.

Chorus 2.0 has been available to all 65,000 employees via a dedicated intranet portal since mid-2011. The processes have been applied in a rigorous, measurable and verifiable manner right across the Group since the start of 2012. A proper understanding and due application of this reference system is vital to our overall efficiency.

To ensure that this key improvement driver supports the Group's globalisation objectives, a project was launched in 2013 to simplify the Chorus 2.0 portal and make it more intuitive. It is now quicker and easier for users to navigate the portal, find what they need and understand how to tailor the various processes to their local operational context. This initiative is further improving process application and strengthening cooperation.

Chorus 2.0 helps the company to perform better, to reduce non-quality costs, many of which are generated by failure to apply processes, and, more broadly, to manage risks. It also helps make the Group's operations at all levels of the organisation even more transparent.

TOGETHER

SAFER

EVERYWHERE

A SYSTEMIC APPROACH

- **LEGAL COMPLIANCE**ANTICORRUPTION:
- Public
- Private
- BUSINESS ETHICS
- Export control
- Combating money laundering and tax havens
- Economic and financial crime
- Industrial espionage
- Trading in influence
- Unfair competition
- False subcontracting
- **CORPORATE RESPONSIBILITY**
- Environmental issues
- Shareholder rights
- Respect for human rights
- Working conditions



Customers and suppliers

To better meet the needs and challenges of its customers, Thales has adjusted its business model to strengthen its local commercial and industrial operations, while reaffirming the principles of integrity that underpin its marketing and sales policy.

A comprehensive corruption prevention programme, based on the principle of zero tolerance for all forms of bribery and corruption: dedicated corruption risk prevention structures (ethics committee, local structures, etc.), corruption risk prevention procedures incorporated into the Group's operational processes, employee awareness, information and training programmes, mapping and regular assessment of risk of exposure to corruption, specific corruption prevention audits, industry-wide initiatives to promote a level playing field, and sharing of best practices with partners.

Strict compliance with international legislation applicable to export control, in accordance with Group-level policy set down by the Export Control Department and Export Compliance Committee and implemented at all Thales entities worldwide via a network of 250 Export Control Officers. This policy is updated as part of a continuous improvement process, which is monitored by the Export Compliance Committee through annual self-assessments and regular audits to verify that appropriate control measures have been put in place at each entity.

A responsible and sustainable procurement policy, which includes taking account of the corporate responsibility policy of each supplier in the purchasing process (requiring suppliers to sign and comply with Thales's Purchasing and Corporate Responsibility Charter), evaluating their ESG (environment, social and governance) performance, and fostering fair and sustainable relations with SMEs (3,000 Group suppliers in France are SMEs), as well as encouraging them to innovate, supporting their growth and helping them to improve their performance.

Preventing corruption: an absolute necessity

Corruption is a major risk for multinational companies, particularly those involved in public procurement contracts, and is still endemic in many countries today, in spite of international conventions that prohibit all forms of corruption, and in particular bribery of foreign public officials in international business transactions (OECD Anti-Bribery Convention of 1997).

Consequently, companies that export or have significant operations overseas must incorporate the risk of bribery and corruption into their management methods and development strategies.

Understanding, analysing and mitigating these risks is the responsibility of a company's chief executive. Over the past 10 years or so, Thales corporate management has continuously reaffirmed the principle of "zero tolerance" for all forms of bribery and corruption.

Thales is closely involved in the various committees and working addressing corruption prevention issues and has gained international recognition as a responsible company. Thanks to the quality of its internal corruption prevention system and its commitment to transparent dialogue with stakeholders, the Group's corporate responsibility policy was recognised by the UN Global Compact in 2012, and the NGO Transparency International ranked Thales in the top 10 worldwide defence companies in its anti-

CONSTRUCTIVE DIALOGUE WITH STAKEHOLDERS*

Expectations Relationships

- Effective management of the "critical decision chain"
- A sustainable position as a responsible local player
- Transparency
- Cost and deadline compliance

- Customer relationship management
- Satisfaction surveys

Customers

Specific initiatives

- Comprehensive risk management system (encompassing ethical, operational, financial and legal risks)
- Key Account Management
- Rigorous qualification process for local partners (Instructions for Qualifying, Selecting and Managing Key Industrial Partners and for Appointing and Managing Business Advisers)
- Contribution to:
- the OECD's Good Practice Guidance on Internal Controls, Ethics and Compliance
- the Global Principles of Business Ethics developed by the ASD and the AIA
- Rigorous internal system for ensuring compliance with arms export control regulations.

corruption index.

Institutional customers

(governments,

administrations, etc.)/ public enterprises / private companies

^{*}In 2000, Thales established a formal corporate responsibility policy based on continuous dialogue with stakeholders. This policy is continuously improved to respond to an evolving and increasingly complex environment.



Building sustainable partnerships

To contain corruption risks and meet customers' expectations more closely, Thales has introduced a dedicated international organisation to assure the integrity of the partners it chooses to work with.

As part of a broader strategy of convergence with its customers at the industrial level, Thales has forged sustainable strategic partnerships with local industry players, known as Key Industrial Partners (KIPs). Identifying potential KIPs calls for careful strategic planning. This approach brings the Group a competitive advantage by providing opportunities for market access, as well as helping to reduce operational risks and risks of non-compliance.

Despite the benefits of establishing industrial partnerships, KIPs can pose reputational, legal, financial or industrial risks to Thales if they are not carefully selected and managed. These risks are especially significant in countries with weaker governance, particularly in the strategic growth regions (Africa, Latin America, Asia and the Middle East) identified in the Group's Ambition 10 plan.

Thales has put in place a strict process to identify, select and qualify these local partners. An instruction to this effect is included in the Chorus 2.0 reference

system. The document, entitled Instruction for Qualifying, Selecting and Managing Key Industrial Partners, outlines a strict and comprehensive qualification process that includes legal due diligence (with regard to integrity, shareholders, reputation, etc.), operational and technical assessments and management procedures. More than three years since their introduction, the process and the associated partner assessment methodology are fully bedded in. As part of a continuous improvement process, the KIP instruction was revised in 2013 to take account of feedback, adapt processes to changes in organisational structures and governance processes and extend its scope of application.

At the end of 2013, over 200 KIPs in 75 countries had been aualified for an initial period of three years. Through this innovative partnership strategy, Thales now has a worldwide base of key partners that has been developed systematically and in accordance with a strict qualification process. Further performance improvements in the coming years are partly contingent on the Group's ability to increase synergies with its partners. These local partnerships also help Thales to meet the direct offset (production/technology transfer) obligations that are increasingly a requirement of contracts today.

- corrupt practices of any
- Organisation and resources Dedicated corruption risk prevention structures (ethics committee, local structures, etc.)
- **■** Guidelines Corruption risk prevention

procedures incorporated into the Group's business processes

- Ethics alert Internal whistleblowing procedure for employees
- Information & training
- Employee information, training and awareness
- Sharing of best practice with partners
- Risk mapping Mapping and regular assessment of exposure to corruption risk
- Audit and internal control Specific corruption prevention
- Industry-wide initiatives Efforts to promote a level playing field in the relevant

CUSTOMERS AND SUPPLIERS 39

"WE NEED TO BECOME A GENUINELY GLOBAL GROUP BY SWITCHING FROM AN EXPORT-BASED MODEL TO A COOPERATIVE MODEL INVOLVING INDUSTRIAL OPERATIONS IN EMERGING COUNTRIES. THESE COUNTRIES ACCOUNT FOR ALMOST A QUARTER OF OUR SALES, BUT ONLY ABOUT 5% OF EMPLOYEES. MANY MAJOR CONTRACTS NOW REQUIRE WORKSHARE TO BE TRANSFERRED TO LOCAL INDUSTRIAL PARTNERS, WITH ENGINEERS PROVIDING SUPPORT ON THE GROUND."

Jean-Bernard Lévy

Chairman & Chief Executive Officer HEC Breakfast Event, 23 January 2014

Transferring more local workshare to local industries while safeguarding its core capabilities is another key challenge for Thales's international partnership policy.

Thales also employs the services of Business Advisers (BA) to round out local marketing and sales support organisations by acting as consultants, experts, lobbyists, sponsors or representatives. Business Advisers provide in-depth knowledge of the markets and thereby contribute to Thales's business growth and development.

Because Business Advisers operate in close proximity to existing or potential customers, conflicts of interest and perceptions of corruption are possible. To mitigate these risks, Thales has established dedicated procedure and has published new guidelines for employing Business Advisers. This document, entitled Instruction for Appointing and Managing Business Advisers, describes how to identify, select, appoint and pay these advisers. As part of Thales's riskbased approach, only duly designated, empowered and experienced entities have prerogatives over the selection and payment of Business Advisers. The stringent selection process includes the submission of details of ownership structure and beneficiaries, as well as all other official documents, including annual reports. All the information submitted is included in a qualification package, which is systematically doublechecked by a third party. Any risk factors identified are analysed by the dedicated structures within the Group's international organisation. As in the KIP procedure described above, this instruction includes

SAFER

KEY INDUSTRIAL PARTNERS: A STRICT QUALIFICATION PROCESS

Key Industrial Partners are qualified in a three-stage process managed by the Group's regional agencies at global level*:

I- INTERNAL/EXTERNAL ETHICS **EVALUATION**

Verification of the partner's reputation, ethical history, credentials, financial data, etc. by an outside consultant (ADIT, France's leading strategic analysis agency, set up by the French government in 1992), with additional input based on internal investigations.

2- OPERATIONAL ASSESSMENT Questionnaire, followed by onsite visits to check the credibility

of survey responses as well as operational capabilities.

3- ANALYSIS

The KIP Manager in each region consults legal, financial and operational teams to produce a report that determines the outcomes of the qualification process for each company based on input from all parties involved.

The KIP Manager then submits a recommendation to the director of the corresponding regional agency highlighting potential risk factors (e.g. ownership structure, legal risks, conflicts of interest, etc.).

Companies obtain qualification provided that all these risk factors have been addressed. Partners are qualified by segment, according to the classification used by the Group's purchasing organisation (e.g. installation services, logistics, civil works) and must also sign the Group's Purchasing and Corporate Responsibility Charter.

strict definitions of show stoppers and other risk factors. It was also revised in 2013 to take account of changes in organisational structures and the evolution of the strategy defined in the Ambition 10 plan.

The KIP and BA instructions are part of the Chorus 2.0 Group-wide reference system, which is applicable throughout the organisation, helping to drive a process of continuous improvement that has been in place for more than 10 years. They provide a clear definition of the roles and responsibilities of Thales entities and managers to ensure the strict separation of powers.

A worldwide network of **250** Key Account Managers (KAMs) is tasked with forging long-term customer relationships and acting as a single point of contact for customers from the bid phase through to project completion. The Key Account Manager also serves as the customer's ambassador within Thales to ensure that individual customer requirements are fully understood.

Strong commitment to improving the regulatory environment

The proliferation of international conventions since the late 1990s has gone hand in hand with a series of initiatives originating within society, or launched by international organisations or business groups. More recently, industry associations have invited companies to commit publicly, either individually or collectively, to rejecting all forms of bribery and corruption.

By partnering with the United Nations, Transparency International, the AeroSpace and Defence Industries Association of Europe (ASD) and other organisations, Thales stays abreast of regulatory and normative changes and shares best practices.

Through these working groups and task forces, Thales contributes to the development of international standards, further strengthening the Group's reputation

THALES SUPPORTS SKILLS DEVELOPMENT IN MALAYSIA'S RAIL INDUSTRY

EVERYWHERE

In July 2013, Thales signed a Memorandum of Understanding (MoU) with the Malaysian Industry-Government Group for High Technology (MIGHT) to promote skills development for the country's rail industry. This first MoU is part of a key project to create a Rail Centre of Excellence (RCOE). MIGHT and Thales will provide specific content for the RCOE in the field of signalling and communications for mainline and urban rail, including courseware, simulation tools, train-the-trainer programmes, project management support and facilities.

The Malaysian government is committed to developing the country's public transportation infrastructure and recognises the rail industry's critical need for people with the relevant technical qualifications and skills. This will be achieved through partnerships with rail industry players, both local and international. MIGHT is responsible for setting up the RCOE and the necessary partnerships.

The RCOE will initially provide education and training. Subsequently, it will also include research and development activities and will host SMEs and original equipment manufacturers, including production facilities.

Mohd Yusoff Sulaiman, President and CEO of MIGHT, highlighted the importance of this public-private initiative: "Thales, as a member of MIGHT, has expressed genuine interest in the long-term development of Malaysia's rail industry and recognises that this begins by developing and fostering local talent and transferring the necessary expertise."

Pascale Sourisse, Thales Senior Executive Vice-President, International Development, commented: "Thales has a wealth of experience in knowledge transfer across all its areas of expertise and is delighted to support this industrial initiative in Malaysia."

in this area. In particular, Thales has led or contributed to the development of common industry-wide standards and guidelines such as the OECD's Good Practice Guidance and the Global Principles of Business Ethics signed by the ASD and the Aerospace Industries Association of America (AIA).

CUSTOMERS AND SUPPLIERS 41

Initiatives by civil society

Transparency International

Founded in 1993, Transparency International is the global civil society organisation leading the fight against corruption through a powerful worldwide coalition of experts. As well as providing information and awareness tools such as the Corruption Perceptions Index and the Transparency International Annual Report, the organisation makes practical recommendations to prevent the risk of corruption.

Thales works closely with Transparency International notably by participating in the defence anti-corruption initiative led by Transparency International UK.

In 2012, Transparency International ranked Thales in the top 10 worldwide

defence companies index for its anticorruption programme (see box). Thales is also cited several times in the organisation's report on good anti-corruption practices in defence companies, published in June 2013*.

*Raising the bar: Good anti-corruption practices in defence companies, Transparency International.



"REPUTATION IS ABSOLUTELY KEY FOR OUR GROUP. OUR STRINGENT RULES FOR RESPONSIBLE BUSINESS CONDUCT ARE HIGHLY RATED BY TRANSPARENCY INTERNATIONAL, AND WE CAN BE VERY PROUD OF THAT. WE RECOGNISE THE IMPORTANCE OF CONTINUING TO EXERCISE DISCIPLINE IN THIS AREA AT ALL TIMES."

Jean-Bernard Lévy

Chairman & CEO

Presentation of the Ambition 10 plan to the Group's 400 top managers (May 2013)



RECOGNITION FOR THALES'S COMMITMENT TO ETHICAL CONDUCT

The NGO Transparency
International ranked Thales
in the top 10 worldwide defence
companies in its first anticorruption index*. This index
provides an analysis of what
the 129 largest defence firms
around the world do to prevent
corruption. Companies are
assessed in five key areas:

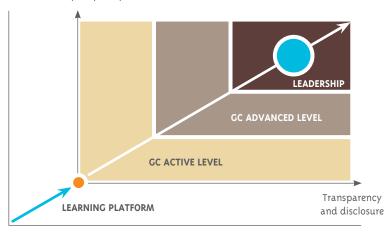
- leadership, governance and organisation,
- risk assessment,
- company codes and policies,
- training.
- personnel and helplines.

The report states that the top 10 companies "publicly demonstrate in considerable detail the systems and procedures that they have in place to prevent corruption". Thales's own initiatives, and its involvement in anti-corruption platforms at national and international level, are cited as examples of good practice in the index report.

*The Defence Companies Anti-Corruption Index, published by Transparency International in October 2012, can be viewed online at the following address: companies.defenceindex.org.

The next edition of the index will be compiled in any and published in according to the compiled in any and published in according to the compiled in any and published in according to the compiled t

Implementation of Global Compact principles



Source: United Nations Global Compact

Initiatives by international organisations

United Nations Global Compact

Thales has been a proud member and supporter of the United Nations Global Compact since 2003 and has adopted its 10 principles in the areas of human rights, labour, the environment and anti-corruption.

The United Nations Global Compact evaluates companies and their policies on the basis of 21 criteria, relating in particular to their compliance with the Global Compact's 10 universal principles, their contribution to the UN's other goals and the quality of their dialogue with stakeholders.

Each year, Thales voluntarily reports to the organisation on its progress (actions undertaken, performance indicators) in incorporating the principles.

Thales is an active member of the UN Global Compact Working Group on the 10th Principle (against corruption), whose core objectives are to:

 Develop guidelines to help companies extend anti-corruption measures to their supply chains (auditing, selecting and training suppliers and encouraging them to improve their anti-corruption measures);

• Provide tools to help SMEs develop robust anti-corruption programmes.

Thales reaffirmed its commitment to the Working Group, which published a Guide for Customers and Suppliers in 2010, by participating in the Leaders Summit at the United Nations in New York in September 2013. Thales was credited in the UN Global Compact's 2008 annual review and in the Global Compact for Development report in 2010 for its efforts to extend its corruption prevention policy to its suppliers and subcontractors.

Thales is the only "aerospace and defence" company among the 26 French firms to achieve "Global Compact Advanced" level under the Global Compact programme. To date, 360 companies out of the 8,000 Global Compact members worldwide have reached this level.

Organisation for Economic Cooperation and Development (OECD)

Thales collaborates with the OECD, particularly through the organisation's Business and Industry Advisory Committee (BIAC), on issues relating to public procurement and the implementation of the OECD Anti-Bribery Convention.

The Group worked with the OECD to develop the addendum to the convention, known as Annex II (or Good Practice Guidance on Internal Controls, Ethics and Compliance), aimed at helping companies, especially SMEs, establish measures for preventing and detecting the bribery of foreign public officials in their international business transactions. It also includes guidelines for international organisations and professional associations that provide assistance to companies in these efforts.

Although not legally binding, this document can help companies establish effective internal controls and compliance programmes for preventing and detecting the bribery of foreign public officials and thus supports companies in their efforts to comply with existing legislation such as the UK Bribery Act, which came into force on 1 July 2011.

The key new measure of the Bribery Act establishes the criminal liability of companies that fail to prevent bribery. The second important feature is its extraterritorial reach. For several years, Thales's anti-corruption procedures have been in compliance with the new provisions introduced by the Bribery Act.

Thales has also been closely associated with the OECD's work on facilitation payments, which are authorised in some national legal systems but are controversial and should be eliminated from trade practices.

During 2013, the Group also played an active role in the work on Phase 3 of country monitoring of the OECD antibribery convention.

International Organisation for Standardisation (ISO)

The International Organisation for Standardisation (ISO) has started work on two new international standards, relating to Compliance Management

TOGETHER

"FROM DECLARATION TO ACTION": **LETTER TO G20 HEADS OF STATE**

and Anti-Corruption, which brings together over 50 companies from the G20 countries, issued a set of recommendations in the run-up to the G20 Summit

- Create an enabling environment via more regular and in-depth exchanges between business and government in order to create a level playing field, in terms of the necessary regulatory constraints, for all companies, from the smallest to the very largest;
- Bring new approaches to reducing corruption to each G20 country by setting up anti-corruption centres of excellence.



CONFERENCE OF THE STATES PARTY TO THE UNITED NATIONS CONVENTION AGAINST CORRUPTION, PANAMA CITY, 25-29 NOVEMBER 2013

"The rule of law, governance, profits and livelihoods all suffer from corruption's corrosive effects. We all have a stake in ending corruption." said the Director of the Division for Treaty Affairs of the UN Office on Drugs and Crime, John Sandage, in his speech at the closing ceremony of the world's largest biennial anti-corruption gathering.

Six resolutions and three decisions were passed during the conference, relating in particular to the private sector, education and improved international cooperation.

France organised a side meeting during the conference to explain the country's anticorruption regime. Thales—the only company invited to represent the private sector at the meeting—presented its ethical compliance and corruption prevention policy, in a further reflection of its engagement with this issue.

Systems (draft standard ISO 19600) and anti-bribery management systems (draft standard ISO 37001) respectively. ISO 19600 is expected to be published in late 2015.

Thales is extensively involved in the development of these standards as a member of the Afnor Compliance/Anti-Bribery standards committee, responsible for reviewing the standards in France, and as a member of the French delegations to the two international committees tasked with developing the content of the standards.

ISO 19600, based on the Australian AS 3806 (2006) standard, is likely to be a guideline-type standard aimed at helping organisations design, apply, maintain and enhance an effective compliance programme.

The ISO 37001 anti-bribery standard is based on UK standard BS 10500, published by the British Standards Institute (BSI) to help companies set up anti-bribery management systems and demonstrate the existence of such systems. The UK standard was developed in response to the UK Bribery Act, which came into force on 1 July 2011.

Initiatives by business groups and industry associations

International Chamber of Commerce (ICC)

Thales is a long-standing member of the International Chamber of Commerce's Commission on Corporate Responsibility and Anti-Corruption. The Group actively participated in the development of RESIST (Resisting Extortion and Solicitation in International Transactions), which is designed to help employees of exporting companies to respond appropriately to a variety of solicitations.

Launched in 2009, the development of the tool was spearheaded by the International Chamber of Commerce, Transparency International, the United Nations Global Compact and the World Economic Forum.

The **RESIST** training toolkit complements companies' existing compliance, antibribery and corruption prevention

programmes and focuses on solicitations from public officials and foreign customers. RESIST provides 22 real-life scenarios from a range of business processes and proposes mechanisms for anticipating and coping with solicitations from a business partner or public authority.

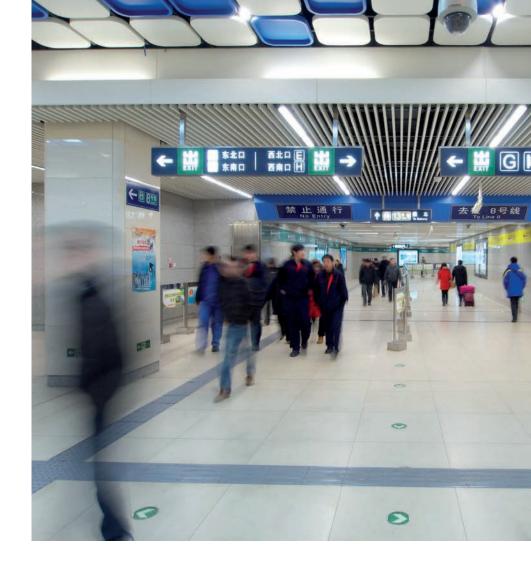
The scenarios are based on the best practices and experiences of multinational companies, including Thales, and are divided into two categories:

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

In addition, Dominique Lamoureux, Thales VP Ethics and Corporate Responsibility and chair of ICC France's Corporate Responsibility and Anti-Corruption Commission, contributed to the ICC Ethics and Compliance Training Handbook, published in December 2013, which aims to provide companies with practical solutions to combat corruption at source.



THALES IS COMMITTED TO SHARING ITS EXPERIENCE AND BEST PRACTICES WITH INDUSTRY PARTNERS TO DEVELOP SECTOR-WIDE GUIDELINES. RECOMMENDATIONS AND COMMON STANDARDS



The AeroSpace and Defence Industries Association of Europe (ASD) and the Aerospace Industries Association of America (AIA)

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

The Group is a founding member of the ASD's Business Ethics Task Force. In 2010, the Task Force was upgraded to a permanent body called the Business Ethics Committee, which is chaired by Thales and reports to the ASD Board.

In 2007, after comparing the existing corporate responsibility policies and procedures, the Task Force published a set of guidelines known as the Common Industry Standards. These guidelines address both broad matters of business integrity and issues specific to the aerospace and defence sector. This document has been signed by the ASD's 30 member trade associations and by more than 400 companies in Europe. It is regularly updated — with significant input from Thales — to reflect developments in applicable standards and regulations.

Following the establishment of the Common Industry Standards, the ASD and its US counterpart, the AIA, teamed up to develop a set of worldwide standards.

The resulting document, entitled Global Principles of Business Ethics, was signed by the two associations in 2009. These non-binding principles demonstrate the industry's commitment to ethical business conduct and aim to help companies develop a competitive advantage over those that fail to apply the same criteria of integrity to their business practices.

Developed under Thales's leadership, the Global Principles currently address four

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

International Forum on Business Ethical Conduct (IFBEC)

To continue work on the principles and ensure their adoption by other countries, the ASD and AIA created the International Forum on Business Ethical Conduct (IFBEC) in 2010 in order to encourage continuing dialogue between industry players as well as with their customers and civil society. Thales is a founding member of the Forum.

At the initiative of 15 European and American aerospace and defence companies, IFBEC created a formal governance body and a permanent steering committee during its annual conference in Washington DC in October 2011. IFBEC pursues two key objectives: promote and foster the development of global, industry-wide ethical standards for companies that are active in the aerospace and defence business sector, and organise regular forums for industry and relevant stakeholders to **exchange information** and best practices concerning ethical business challenges,



practices and opportunities worldwide. IFBEC now has 27 members, including major global aerospace and defence companies and key suppliers.

IFBEC's Public Accountability Annual **Report*** provides data on IFBEC member compliance with the Global Principles of Business Ethics and on best practices that align with the Global Principles. It also analyses the implementation of integrity policies and programmes within member organisations, on the basis of a detailed questionnaire designed to measure their maturity. Completion of this questionnaire on an annual basis is a condition of membership of IFBEC. The report is aimed at fostering robust dialogue among all stakeholders on issues relating to ethical business conduct and encouraging participation in the development of fair competition rules and practices for companies in the sector.

The fourth IFBEC annual conference was held in Alexandria, Virginia (USA) in October 2013. Focused on promoting increase global cooperation to transparency and integrity in public procurement, the conference brought together around 80 ethics and compliance specialists from aerospace and defence sector firms, government agencies and non-governmental organisations. Areas of focus included best practice, ethics in the global marketplace and the impact of corruption on the aerospace and defence markets. Among the topics discussed at the conference were the need for training and communication (illustrated via successful examples such as videos, mobile training kits, etc.) and the benefit of developing industry-wide initiatives to mitigate risks associated with global supply chains and offset contracts.

*Downloadable from www.ifbec.info

SAFER EVERYWHERE



KEY MEMBERS OF THE INTERNATIONAL FORUM ON BUSINESS ETHICAL CONDUCT (IFBEC)

- Airbus Group
- ATK
- BAE Systems Plc.
- BAE Systems, Inc.
- Boeing
- CEIIA (Center for Excellence and Innovation in the Automobile Industry)
- Dassault Aviation
- DCNS
- EADS
- Elbit Systems Ltd.
- Finmeccanica
- General Dynamics Corporation
- General Dynamics European Land Systems
- L-3 Communications
 Corporation
- Leidos
- Lockheed Martin Corporation
- MBDA
- Meggitt Plc.
- Northrop Grumman Corporation
- Raytheon Company
- Rolls-Royce
- Saab
- Safran
- SAIC
- Serce
- Thales
- WSK "PZL-Rzeszów" S.A.

All of the above companies are members of the AeroSpace and Defence Industries Association of Europe (ASD) and/or the Aerospace Industries Association of America (AIA).

For more information, visit: www.ifbec.info

ANTI-CORRUPTION CERTIFICATION

In 2013, Thales launched a certification scheme for its anti-corruption processes.

This scheme will be run by Mazars and ADIT*, who have more than 10 years' experience of implementing, supporting and auditing anti-corruption processes on behalf of their customers. It is based on:

- Terms of reference that are fully compliant with relevant legislation (OECD Convention, FCPA, UK Bribery Act and Guidance, French law, etc.) and with market best practice, and are approved by a panel of international experts and by SCPC (the Central Service for the Prevention of Corruption, an interministerial department attached to the French Ministry of Justice);
- A methodology compliant with IFAC (International Federation of Accountants) codes and standards. IFAC is the global organisation for the accountancy profession; it contributes to the development of international quality standards and guidance in the field.

Analysis work involves reviewing Thales's processes against the ADIT-Mazars® terms of reference (approved by SCPC) using the 200-point ADIT-Mazars methodology.

*Mazars is an independent organisation specialising in audit and advisory services for businesses. ADIT is the European leader in strategic intelligence. For more information, visit: www.mazars.fr and www.adit.fr

A comprehensive corruption prevention programme

The **new business model** adopted by Thales in 2010 is designed to expand the Group's international footprint by developing long-term partnerships in target countries centred around Key Industrial Partners (KIPs) and working together to strengthen the capabilities of local Thales entities.

Thales is especially vigilant about corruption, which has been identified in its global risk management system as one of 19 major risks facing the company.

Particular attention is paid to operational purchasing processes, which have been revised to address supply chain

risks more effectively. Thales's bid and project management processes, which are part of the Chorus 2.0 reference system and are therefore accessible to all Group employees, now include specific corruption risk qualification and reduction mechanisms.

Ethical conduct is an important area of focus in the Group's employee awareness and training programme. Regularly updated "Behaviour Guides" are widely available to employees and support the operational tools, policies and procedures applicable throughout the organisation. Since 2000, Thales has organised a face-to-face training programme on the prevention of corruption in international business.

This training is mainly intended for the purchasing, marketing & sales and bids & projects job families. Since 2008, more than 5,600 employees around the world have received the training, including 1,360 in 2013.

To support the Group's efforts to go beyond compliance and establish ethics and responsibility as a shared corporate value, ethics awareness has also been incorporated into several training programmes provided by Thales University and available to all employees.

This comprehensive internal corruption prevention programme demonstrates Thales's commitment to business ethics, corporate citizenship, and continuous improvement in accordance with the principles of the UN Global Compact.

ACTIVE AND PASSIVE CORRUPTION

western countries and the strict sanctions applied by national authorities,

so that competitors can trust each other, apply the letter of the law and

From 2012, they were extensively involved, via the governments of their

Active corruption

When a company offers or pays an illicit commission or undue advantage to a public official.

Passive corruption

When an illicit commission or undue advantage is requested or received by a public official.

GUIDANCE FOR INDIVIDUAL ACTIONS

Thales's ethical principles are based on individual responsibility: every employee must act fairly and responsibly, and seek advice from colleagues without hesitation when necessary.

■ GIFTS AND HOSPITALITY

At the end of 2009, Thales published a set of Gifts and Hospitality Guidelines to provide employees in all job families and countries with specific details about these issues. The guide is based on the same principles as the Code of Ethics and is intended as a practical management tool that is applicable to all companies controlled by the Group. The document includes decision support tools such as diagrams and checklists and a description of the "4Rs rule" (Regulations, Reasonable, Responsible and Record) that Thales applies to gifts and hospitality. Supplements to the guide cover national legislation, case law, tax requirements and country-specific cultural considerations. Supplements were added for the United Kingdom (2009), Germany and France (2010) and Spain, Hong Kong and Poland (2011), etc.

■ LOBBYING

Thales produced a Best practices guide to lobbying in May 2011, designed to provide employees in the job families

concerned — particularly marketing and sales, bid and project management, services and support, purchasing, finance and communications — with information and recommendations about lobbying activities. Thales defines lobbying as the provision of relevant information, in complete transparency, to assist public officials in their decision-making processes. In practical terms, this means making public officials aware of Thales's technical expertise and credentials in ways that support the company's growth and development.

This Best practices guide to lobbying is designed to enable employees to assess the risks associated with any lobbying activities that could involve side negotiations or closed-door discussions, for example, and that could therefore be perceived as an attempt to exert undue influence over decision-makers.

The aim is to boost awareness among employees, allowing them to respond appropriately to the challenges of lobbying and make the right choices in their day-to-day activities, so that they avoid crossing the blurred boundary between legitimate lobbying and trading in influence or, worse still, corruption.

SOCIETAL INDICATORS

DESCRIPTION	2013 DATA	VERIFICATION OF DATA	SCOPE'	COMMENTS/REFERENCES
Total number and percentage of sites that have received an assessment of corruption risks and identified major risks	156 legal entities	¥	100%	Corruption risks and other major risks have been identified in Thales's global risk management system as one of the major risks facing the company. (See 2013 Registration Document: § Risk factors \ Legal risks \ Regulatory compliance \ Management of commercial activities and § Fair practices \ Preventing corruption \ An internal compliance programme)
Communication and training in anti-corruption policies and procedures	1,360 employees²	V	100%	This four-hour training course is delivered at the various Thales University campuses around the world by two multilingual trainers specialising in business ethics. It is mainly aimed at employees in the Purchasing, Marketing & Sales and Bids & Projects job families. An e-learning programme comprising three 30-minute modules (in French, English and German) is also available for all Group employees. (See 2013 Registration Document: § Risk factors \ Legal risks \ Regulatory compliance \ Management of commercial activities)
Proven cases of corruption and action taken	None reported	>	100%	To contain corruption risks, Thales manages its local entities via a dedicated international organisation comprising seven regional agencies at global level, responsible, among other things, for ensuring the integrity of the partners it chooses to work with. The regional agencies are the only Group entities that are duly designated, empowered and experienced to oversee the partner qualification process, which includes a third-party review. (See 2013 Registration Document: § Fair practices \ Preventing corruption \ An internal compliance programme) Thales also has a global Ethics Alert Facility, approved by CNIL (France's national commission for information and liberties) in 2011, which allows all Group employees to raise ethics-related concerns with respect to accounting, financial or banking practices, corruption prevention or fair trade, and report instances of discrimination, harassment or any non-compliance with occupational health and safety regulations. None of the concerns reported in 2013 related to incidences of corruption. (See 2013 Registration Document: § Fair practices \ Preventing corruption \ An internal compliance programme)

- 1 The scope includes all companies financially consolidated into the Group.
- $_{
 m 2}$ Between 2008 and 2013, 5,670 employees around the world received training, including 1,360 in 2013.
- Indicators verified by Mazars for 2013.

Complying with export control regulations



THALES HAS A GROUP-WIDE EXPORT CONTROL COMPLIANCE ORGANISATION THAT HAS BEEN **PROGRESSIVELY** DEVELOPED OVER A NUMBER OF YEARS

A stringent framework

In 2013, defence and security business accounted for almost half of Thales's sales. The Group manufactures defence and civil products and systems in democratic countries with strong governance and strict control over the manufacturing processes and technologies.

As signatories of international laws and conventions regulating the production, sale, export, re-export and import of defence or dual-use components, equipment and technologies, these countries enforce strict anti-corruption and export control laws on all companies, particularly those in the defence sector.

These regulations take account of each country's sovereignty and security imperatives, as well as international arms control, disarmament and nonproliferation agreements.

Many of the Group's business activities are dependent on strict compliance with export regulations in various countries. Failure to comply could lead, at the very least, to damaging delays in deliveries, frequently accompanied by financial penalties, and in the most serious cases a range of severe sanctions such as prohibitively large fines, prison sentences for company directors, or even a temporary or permanent ban on imports or exports.

In addition, a significant proportion of Thales's products and solutions rely on items that are bought in from outside suppliers. The Group therefore takes steps to ensure that it remains constantly aware

COMMON EU POSITION ON ARMS EXPORTS

In late 2008, the European Union's member states adopted a common position on arms exports, based on a set of criteria that states agree to apply when issuing export licences for defence technology and equipment:

- Respect for the international obligations of member states;
- Respect for human rights in the country of final destination;
- Internal situation in the country of final destination;
- Preservation of regional peace, security and stability;
- National security of member states and of friendly and allied countries;
- Behaviour of the buyer country with respect to the international community, in particular its attitude to terrorism;
- Risk that the defence technology or equipment could be diverted within the buyer country or re-exported under undesirable conditions;
- Compatibility of the exports of defence technology or equipment with the technical and economic capacity of the recipient country.

In France, the official list of defence and defence-related equipment is set out in the Decree of 17 June 2009. All EU member states have adopted equivalent legislation.

AN ARMS TRADE TREATY FOR A SAFER WORLD

The United Nations General Assembly adopted the Arms Trade Treaty on 2 April 2013. Thales was extensively involved in the concerted effort by sector trade associations (such as GIFAS, ASD, etc.) to ensure that manufacturers' voices were heard by the governments responsible for negotiations on the Treaty.

In France, the Ministry of Foreign Affairs, which represented the country at the final negotiations, made a strong statement in favour of an arms trade treaty that "seeks to increase transparency and prevent the diversion of arms from the legal market to illicit trafficking networks" and that is "robust, effective and legally binding in order to make the world a safer place and reduce the number of innocent victims of armed violence".

(Source: French Ministry of Foreign Affairs website: www.diplomatie.gouv.fr)

"The Arms Trade Treaty is a ground-breaking text: it is the first binding international instrument to apply to all conventional arms and to all international arms transfers. It is also an ambitious text with two key objectives: to regulate legal trade between states and prevent illegal arms trafficking.

In order to achieve these interdependent objectives, in a field in which economic interests have often held sway over humanitarian considerations, the treaty establishes arms export control mechanisms, notably a strict ban on all exports of conventional arms that violate public international law, international human rights law or international humanitarian law.

(...) France has a concentrated, diversified and competitive defence industry that is recognised internationally for its wide range of state-of-the-art products. Arms exports are driven by the economic power of major industrial groups like the European firm EADS (the seventh largest global arms producer according to the Stockholm International Peace Research Institute) and Thales and Safran of France, ranked in 11th and 15th place respectively.

For many years, France has been among the top five exporters of defence equipment at global level. Order intake stood at €4.8 billion in 2012, despite a recent reduction. Over the 2008-2012 period, Asia-Pacific accounted for 27.8% of orders, making this region the leading destination for French military exports. The Middle East accounted for 21.4% of the total and Latin America for 20.9%. Traditional partners like Saudi Arabia (France's largest customer between 2003 and 2012), the United States, the United Kingdom and South Korea have now been joined by emerging countries such as India, Brazil, the United Arab Emirates and Malaysia on the list of France's major customers.

As a leading arms exporter and a permanent member of the United Nations Security Council, France has a special responsibility in this area, together with the other permanent members of the Security Council, who account for 80% of arms exports at global level, worth around €80 billion per year."

(Extract from the report by Jean-Philippe Mallé, MP of the French National Assembly, on behalf of the French Foreign Affairs Committee, regarding the bill adopted by the French Senate authorising ratification of the Arms Trade Treaty, 11 December 2013.)

of the export constraints on purchased items, particularly those from Japan - to ensure that items are not subject to the prohibition on use for military purposes and the United States, where the Group purchases well over €1 billion of goods annually that may be subject to extraterritorial export control regulations.

Rigorous internal control

Strict compliance with export control regimes is critical to Thales's continued success and the preservation of the Group's corporate assets. In the light of its vital importance for the Group, export control policy is defined at corporate level by the Group's Export Control and Compliance Department and is deployed in all business units worldwide.

Export control violations, like corruption, have been identified in Thales's global risk management system as one of the major risks facing the company.

Thales has a company-wide export control compliance organisation that has been progressively developed over a number of years. The corporate team coordinates a global network of 250 Export Control Officers and their correspondents. Exporting countries maintain their own national export control departments to provide national expertise at the local level. These local entities work closely with the corporate team to ensure consistent implementation of Group policy and procedures. The Group has also developed in-house expertise in US export controls to provide Thales companies with practical advice on interpreting the US regime.

The Group's Export Compliance Committee, made up of export control officers from major French entities, national representatives from 12 countries and key corporate stakeholders from Purchasing, Internal Audit and Corporate Responsibility, meets every quarter to review progress against the objectives of the Group's compliance improvement

THE GROUP'S **EXPORT COMPLIANCE** COMMITTEE MEETS EVERY OUARTER TO REVIEW PROGRESS AGAINST THE **OBJECTIVES OF THE** GROUP'S COMPLIANCE **IMPROVEMENT** PROGRAMME, APPROVE PROPOSALS FOR FURTHER IMPROVEMENTS, SHARE BEST PRACTICE AND ADDRESS ANY OTHER ISSUES OF COMMON CONCERN

THALES MAKES THE CASE FOR MODERNISING EXPORT CONTROLS

EVERYWHERE

For several decades, countries have security and help fight against the

Many different control mechanisms co-exist some of them multilateral and others extra-territorial.

With the globalisation of production

There is thus a need to develop a threats such as asymmetric warfare, terrorism and cybercrime.

For a number of years, Thales that manufacture and sell sensitive goods, and the creation of a

defence-related products, adopted in May 2009 (the first directive in

implementing the directive was 30 June 2012.

The key provisions of the Directive

- transfer licence;
- period (three years), provided recipients have an adequate legal
- a re-export control mechanism;

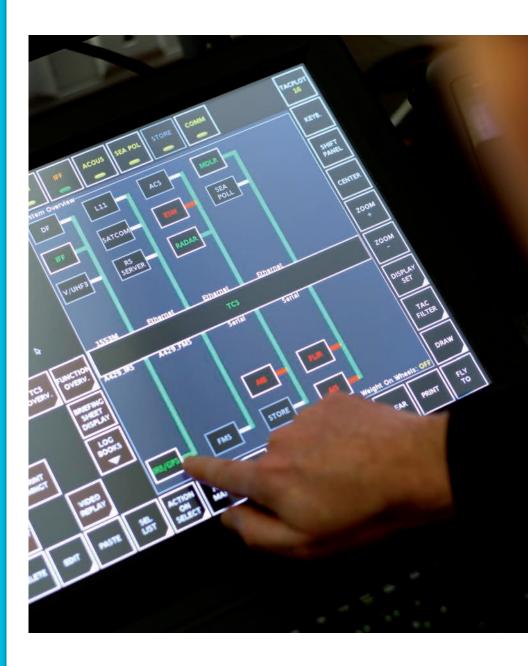
The licence system defined under the directive is gradually being rolled out across Europe (22 companies had been certified as of January certification during the first half

DOES YOUR BUSINESS POTENTIALLY INVOLVE A SIGNIFICANT EXPORT CONTROL RISK?

The Risk Profile questionnaire, presented in matrix format, allows companies to assess their level of export control risk based on a set of simple criteria relating to the following: sector of activity, product classification (military/dual use), product containing US components, other components (military, dual use, sensitive technologies, civil only), cross-border technical cooperation, export activity (military/civil), export territories, purchasing and/or subcontracting in low-cost

For each of these areas, the main scenarios identified across the Group are placed in one of four risk categories/ columns, from "high" to "very low"

The easy-to-complete questionnaire provides export control personnel with a one-page overview of their entity's level of export control risk and enables them to implement any necessary actions based on the result, with the support of corporate export control bodies if required.



programme, approve proposals for further improvements, **share best practice** and address any other issues of common concern.

Thales has developed an annual self-assessment questionnaire to identify the entities with the greatest potential exposure to the risk of breaching export controls. This *Risk Profile questionnaire* enables the Group to identify entities with high, moderate, low and very low risk and to allocate resources accordingly. An annual review of compliance programme maturity is also carried out for each entity.

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

Annual self-assessments, coupled with the results of audits carried out by the Internal Audit team, provide improved visibility of the control measures being deployed. In accordance with the Group compliance programme, progress is monitored by export control officers at both corporate and local level.

EMPLOYEE AWARENESS: A KEY PRIORITY FOR THALES

All personnel have access to a dedicated export control intranet site, set up in 2008, which provides a wide range of documentation, including guides to good conduct, document templates, etc. A range of **e-learning** modules have been available to all employees worldwide since 2009. These modules cover compliance with US export controls — ITAR regulations for defence equipment, EAR for dual-use goods, customs procedures, etc. — as well as the controls imposed by France, Germany, the United Kingdom, Japan and other countries (thanks to a new set of modules added in 2013). A publicity campaign was launched on the Group intranet in April 2013 to inform all employees of the availability of the new modules.

A parallel series of training programmes designed to boost employee awareness of national and international export control regulations in all Group entities and business sectors is overseen by the Export Compliance Committee, with the support of the 250 Export Control Officers and their correspondents. All these measures are aimed at reducing the risk of professional misconduct arising from lack of knowledge of the regulations or lack of awareness of the issues at stake.

A firmly embedded system

Thales advocates a high level of **transparency** with respect to the regulatory authorities, should export controls be violated in contravention of its rigorous compliance programme. Although this approach could be considered counterintuitive, given the risk of fines and other potential sanctions, it demonstrates Thales's real determination to improve its compliance performance and learn from past experience.

It is also an approach that is strongly recommended by the US authorities, who have stated that voluntary selfdisclosures, in the absence of aggravating circumstances, are likely to mitigate any sanctions arising from accidental export control breaches.

Export compliance is now firmly embedded in Thales's business processes, reflecting an increasing awareness of the benefits of this integrated approach and a high level of process maturity. Chorus 2.0 provides entities with regularly updated information and documents that set out the behaviours required of Thales employees worldwide, such as the Standard of Export Compliance, a mandatory set of rules based on 10 areas of best practice. Guides to the regulations applicable in key countries of operation are also available, while specific documents on "sensitive" countries list all the constraints, embargoes and export restrictions involved and include a set of quality-of-life indicators encompassing human rights, level of development, financial reliability, etc.

This detailed set of responses goes well beyond export control in its strictest sense, illustrating Thales's commitment to continuous process improvement. The Group also submits an annual progress report to the UN Global Compact describing the actions that have been implemented to improve compliance with the Global Compact's principles in the areas of human rights, labour, the environment and the fight against corruption.

Anticipating

The concept of "design for exportability" has been part of the Group's Standard of Export Compliance since 2007, with the aim to limit barriers to export, reduce lead times and in turn boost competitiveness. This means that components used in the Group's products and systems have to meet strict selection criteria at the design phase. R&D teams and technical departments use the TCIS (Thales Components Information System) database, which contains around 2 million electronic components used in Thales products. Database entries include information on component obsolescence, as well as data on compliance with currently applicable environmental and export control regulations. A PPL (Preferred Parts List) is also available, enabling designers to avoid using components that are difficult to export. In addition, all Group purchasers require suppliers to complete a Commodity Export Classification Certificate in order to identify the export control classification of purchased or subcontracted products and/or their components and any associated export restrictions.

The Group has begun reflecting on possible future controls on civil goods that could present a threat to privacy and human rights (such as tools for tracking internet and social network use, surveillance equipment, drones, etc.). As in the field of anti-corruption, Thales will be looking for further dialogue on these issues — which are closely related to ethics — with all the players involved (governments, NGOs and international organisations) in order to keep track of proposed regulations and incorporate them into its strategic thinking as well as to maintain Thales's image and reputation on ethics and corporate responsibility issues.

THE LEGISLATIVE FRAMEWORK IN FRANCE

Thales manufactures, purchases and sells civil, military and dual-use components, systems and equipment. Exports of goods in these categories are subject to specific rules: civil goods are covered by customs regulations, while defence equipment, sensitive technologies and dual-use goods have to comply with export controls.

The legislative and regulatory framework in France is based on the principle that all exports of defence equipment are prohibited without a special licence

The Prime Minister, advised by the French interministerial commission on defence exports (CIEEMG), is responsible for the approval of export licences. CIEEMG is a joint commission of the French foreign affairs, defence, finance and productive renewal ministries and is chaired by the Secretary General for Defence and National Security.

The Commission expresses its views in the form of directives, approved by the political authorities, which cover general issues as well as specific topics such as embargoes, conflict zones or human rights violations.

As in other European Union member states, an EU regulation provides the legal basis for exports of dual-use goods, which are not prohibited in principle but are subject to controls and generally require a licence. The list of dual-use goods and technologies subject to controls is regularly updated to take account of evolving technologies and their availability on the international market. Exports of dual-use goods may be dependent on obtaining export licences from the General Directorate for Competitiveness, Industry and Services (DGCIS), Dual-Use Goods Department (SBDU), at the Ministry for Productive Renewal. Licences are issued on the advice of the French interministerial commission on dual-use goods (CIBDU), chaired by the Minister of Foreign Affairs.

REGULAR EXPORT
CONTROL AUDITS
ARE CARRIED OUT
BY THE AUDIT AND
INTERNAL CONTROL
DEPARTMENT
TO VERIFY THE
EXISTENCE AND
EFFECTIVENESS
OF APPROPRIATE
CONTROL MEASURES

Responsible purchasing for lasting relationships with suppliers

CONSTRUCTIVE DIALOGUE WITH STAKEHOLDERS*

Suppliers and partners

Suppliers of goods and services • Industrial partners • Universities and research institutions

Expectations

- Equal treatment, mutual recognition, competitive tendering for purchases
- Improved economic benefits
- Skills transfer
- Co-development
- Support for research programmes
- Knowledge transfer
- Scientific and technological advice

Relationships

- Partnerships
- Long-term contracts
- **■** Export support
- Collaborative projects
- Teaching and research professorships
- Joint laboratories and research partnerships
- Training centres

Supplier responsibility at the heart of the

chain.

purchasing process

Thales develops and

solutions

subassemblies, subsystems or complete

systems, some of which are purchased

from external suppliers. As a result,

suppliers make a substantive contribution

to Thales's added value and ability to deliver customer satisfaction. As part of its efforts to forge equitable, long-term relationships with suppliers, the Group

has put in place a series of measures aimed at promoting responsible practices

and behaviours throughout the supply

integrated

manufactures

comprising

Thales spends the equivalent of around 50% of its revenues on purchasing and therefore needs to deploy rigorously managed purchasing processes.

The restructuring of the Group's purchasing function in 2012 was aimed at boosting supply chain **productivity**, delivering continued improvements in control of purchasing costs in bids and projects, reducing non-quality costs and making purchasing generally more responsible, efficient and effective.

The Group's 1,300 purchasing staff around the world are now assigned specifically to products, bids or projects, or to "purchasing families" such as IT and telecoms, power generation and conversion, etc. In the latter case, rolling out purchasing family strategies to the most appropriate suppliers and partners is a key task for purchasers. Product, bid and project purchasers are required to act as purchasing project managers, challenging requirements and defining

Specific initiatives

- Purchasing and Corporate Responsibility Charter
- Charter of Inter-Company Relations
- Strategic partnerships (Key Industrial Partners KIP)
- Founding member of SME Pact in France
- Guidelines on gifts and hospitality
- Open innovation
- International network of research centres
- Competitiveness clusters
- Doctoral student programme (220 students around the world)

 $^{^*}$ In 2000, Thales established a formal corporate responsibility policy based on continuous dialogue with stakeholders. The policy is continuously improved to respond to an evolving and increasingly complex environment.

purchasing strategies with product, bid and project managers as well as purchasing family specialists.

During the supplier assessment and selection process, integrated into Chorus 2.0, Thales not only takes into account the quality and ownership cost of proposals, but also reviews each supplier's corporate responsibility policy.

As a signatory to the United Nations Global Compact, the world's most comprehensive corporate responsibility initiative, Thales requires its suppliers to adhere to the principles of corporate

TOGETHER

citizenship in the following areas:

- Human rights
- Labour standards
- Environment
- Corporate governance
- Corruption prevention
- Export control

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

By the end of 2013, more than 2,900 Thales suppliers had signed up to the Charter and completed the assessment

THALES CREDITED BY THE UN GLOBAL COMPACT

The United Nations Global Compact considers that Thales's Purchasing and Corporate Responsibility Charter for suppliers and subcontractors makes a positive contribution to the achievement of the Millennium Development Goals.

The Charter requires Thales's suppliers to subscribe to the Group's corporate responsibility policy and adhere to the principles of its Code of Ethics and those of the Global Compact and the OECD.

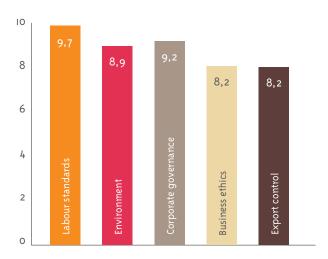
questionnaire, an increase of 160% compared with 2012. The Group's suppliers achieve an overall score of 9.3 out of 10 for their environmental, social and governance (ESG) performance.

Purchasing managers take **environmental factors** into account in the supplier selection processes. A separate questionnaire relating to the environment is now part of the procurement process. This questionnaire is designed to measure

TRAINING AND AWARENESS

Ethical and environmental issues are key components of the Passport training programme in Purchasing delivered by Thales University. Purchase Contract Management training covers all aspects of corporate responsibility, and a dedicated purchasing portal on the company intranet keeps employees informed of the latest issues, developments and procedures that concern the purchasing function.

SUPPLIERS' ESG PERFORMANCE



THALES'S POSITION ON CONFLICT MINERALS

Under the Dodd-Frank Act, adopted by the United States in 2012,

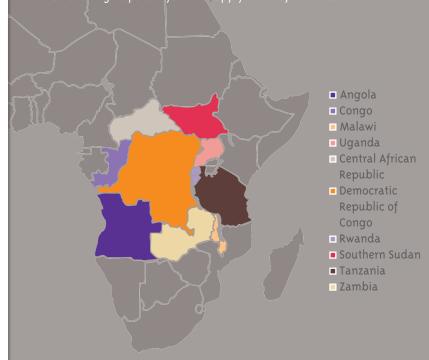
parts and components that may potentially contain tiny quantities

sub-assemblies procured via its supply chain).

In addition, Thales's direct supplier base is made up of manufacturers,

not, strictly speaking, subject to the legislation, because it is not listed on the US stock exchanges.

Nevertheless, to meet customer expectations and in line with its corporate responsibility commitments, notably in relation to the UN Global Compact, Thales is taking steps to inform its supply chain of this issue.



the maturity of suppliers' environmental management practices and encourage them to embark on a continuous improvement process. Completed selfassessments may subsequently be checked during supplier audits, which may also lead to mandatory improvement plans or even supplier disqualification in the event of failure to comply with essential criteria.

To help drive this initiative forward, the Group Purchasing Department has set a target of evaluating the environmental maturity of 100% of the Group's Tier A suppliers, which account for 80% of purchasing. By the end of 2013, some 977 supplier sites had been assessed, including 444 Tier A facilities (32% of the total).

In addition. Thales has worked closely with selected suppliers over many years to address potential improvements in certain areas

SMEs: a vital link

In France, 3,000 small and medium-sized enterprises (SMEs) account for more than one-third of all Group purchasing. As part of its efforts to forge equitable, lasting relationships with SMEs, the Group is developing a special SME policy to encourage innovation, foster growth and boost performance.

In 2006, Thales was one of the first companies in France to sign the SME Pact (Pacte PME), which aims to promote synergies between SMEs and major customers, foster innovation and help the best SMEs grow into the mid-cap companies that the French economy needs.

Some **60 major groups** are now members of the SME Pact association, which helps companies apply best practices on a collective basis, thereby supporting growth among SMEs without creating economic dependence.

Since the SME Pact association was set up in 2010, SMEs and major customers have developed a comprehensive support framework based on a set of some 40 best practices (innovation, purchasing processes, partnerships, development and governance) as well as support programmes. Major customers are responsible for implementing best practices and making use of support programmes.

Member initiatives in support of French SMEs are reviewed on an annual basis in accordance with the association's statutes. In late May 2013, having analysed a set of impact indicators as well as the Group's action plan in respect of the reference framework for partner purchasing, the SME Pact joint monitoring committee issued a favourable assessment of Thales's involvement and its impact on SMEs and mid-cap companies.

The SME Pact produces a confidential comparative assessment of each major customer every year, including a "supplier barometer" that enables large companies to adjust their policies and draw up action and improvement plans where appropriate. Thales was assessed by more than 230 suppliers in late 2012. The results were presented to suppliers in April 2013 (see box).

In addition, Thales supports the international development of SMEs by drawing up manufacturing plans in collaboration with them.

OPERATION TRANSPARENCY

On 24 April 2013, Thales presented the results of its first "supplier barometer" to an invited audience representing 54 suppliers. This was the largest event of its kind ever hosted by a major group in France, demonstrating the strength of the relationships forged by Thales with its suppliers.

SMEs and Thales representatives participated in lively discussions on four key components of the customer-supplier relationship (exchanges of information in advance of purchasing operations, innovation policy, contractual relations, and openness to partnerships) with the aim of identifying areas for improvement, which will be integrated into the continuous improvement process by the Group Purchasing Department.

The event was favourably received by Thales representatives and suppliers alike, and participants were invited back to review the outcomes of the initiative at next year's presentation.



Presentation of the results of the first "supplier barometer" on 24 April 2013

These plans also help the Group meet its offset obligations. Some of the proactive SMEs supported by Thales in India have already been able to develop ties with Indian firms.

Thales is one of about 20 large companies that signed the **Charter of** Inter-Company Relations in 2010. This Charter sets out 10 key principles for responsible purchasing and helps create balanced customer-supplier relationships based on mutual trust and recognition of respective rights and responsibilities.

By signing up to the Charter, Thales agrees to work towards the following goals:

- create lasting relationships with SMEs;
- facilitate cooperation with strategic suppliers;
- consider the total cost of a purchase, and not just the apparent price, when selecting a supplier;
- take environmental factors into account;
- consider the company's roles and responsibilities in the regional economy;
- ensure that purchasers are fair, ethical, objective and professional.

In accordance with the Charter, suppliers are free to refer any disputes to an SME liaison officer appointed by Thales to act as an internal mediator.

The Group's support for SMEs is also intended to drive innovation. Thales has long-standing relationships with many innovative SMEs, several of which are considered strategic partners or have expertise deemed critical to Thales's product offering.

As part of its commitment to open innovation, Thales hosts special one-day focus events, organised jointly with the SME Pact association. The Radiotech, Optrotech and Securitech events, for example, were set up to provide Thales with the opportunity to communicate its technological requirements in the communication and security domains to an audience of SMEs. After Thales's opening presentation, SMEs are given a platform to showcase their proposed

FRENCH DEFENCE MINISTRY AND THALES SUPPORT **DEFENCE-SECTOR SMES**



Jean-Bernard Lévy, Thales's Chairman & Chief Executive Officer, and France's Minister of Defence Jean-Yves Le Drian at the signing of the bilateral agreement to support defence-sector SMEs on 4 February 2013.

On 4 February 2013, Jean-Bernard Lévy, Thales's Chairman & Chief Executive Officer, and France's Minister of Defence Jean-Yves Le Drian signed a bilateral agreement to support SMEs as part of the SME Defence Pact. The Pact, launched by the government on 27 November 2012, aims to provide support for defence-sector SMEs.

"The signing of this agreement between the French State and Thales provides a concrete illustration of both parties' support for the development of SMEs and mid-cap companies working in the country's defence sector, as well as our broader commitment to innovation, competitiveness, growth and employment", said Jean-Yves Le Drian.

By signing the agreement — which represents a continuation of its commitments under the SME Pact — Thales undertakes to step up its efforts in terms of best practices in order to support the development of defence-sector SMEs, provide assistance for innovation projects and foster balanced customer-supplier partnerships, thereby making a further contribution to national security.

SME PURCHASING NETWORK: A NEW INITIATIVE TO STRENGTHEN LINKS WITH SMES

In line with its commitments under the bilateral agreement with the French Ministry of Defence, Thales has set up a SME purchasing network comprising Purchasing Directors from the Group's 17 legal entities in France.

The aim of the network is to provide a forum for discussing initiatives in the field, feedback and mutual benefits for SMEs and the Group and to identify solutions on a collaborative

The network met six times in 2013 and has set up working groups to address the key topics identified by Thales and SMEs at the presentation of the first supplier barometer (improved

communication on contracts and product development, identification of the right purchasing contacts, tailoring of Thales contracts to reflect the size of SMEs, etc.).

This work culminated in a meeting on 2 December 2013 between representatives of around 260 suppliers and key players from the Group Purchasing function in France.

The meeting closed with the announcement of the launch of the second supplier barometer, marking the start of a new cycle of structured dialogue to further improve Thales's relationships with its suppliers.





responses to the Group's requirements. The proposals are then analysed against a series of innovation criteria and bilateral meetings are scheduled with selected SMEs with a view to developing joint

As part of the ongoing effort to identify innovative SMEs, the French Ministry for Productive Renewal launched the Innovative SME Charter in 2012, with input from Thales. The charter has now been signed by around 20 major groups that are part-owned by the French State (see box).

France's high-tech clusters offer excellent opportunities for Thales to develop partnerships with innovative suppliers. The Group is actively involved in several of these regional, national and international clusters, including:

- Aerospace Valley
- ASTech Paris area
- Cap Digital Paris area
- Mer PACA and Bretagne
- Pegase
- System@tic Paris

Thales was one of the drafters and first signatories of the Innovative SME Charter.

Firms signing up to the Charter commit to working towards the following objectives:

- · Allow SMEs easy access to major companies' key areas of focus for innovation;
- Help SMEs to complete their innovation projects;
- Encourage SMEs to use the results of their innovation work to grow their businesses in other markets;
- Adapt purchasing processes to support innovation;
- Invest in innovative SMEs:
- Support the development of innovative SMEs;
- Implement a specific in-company oversight



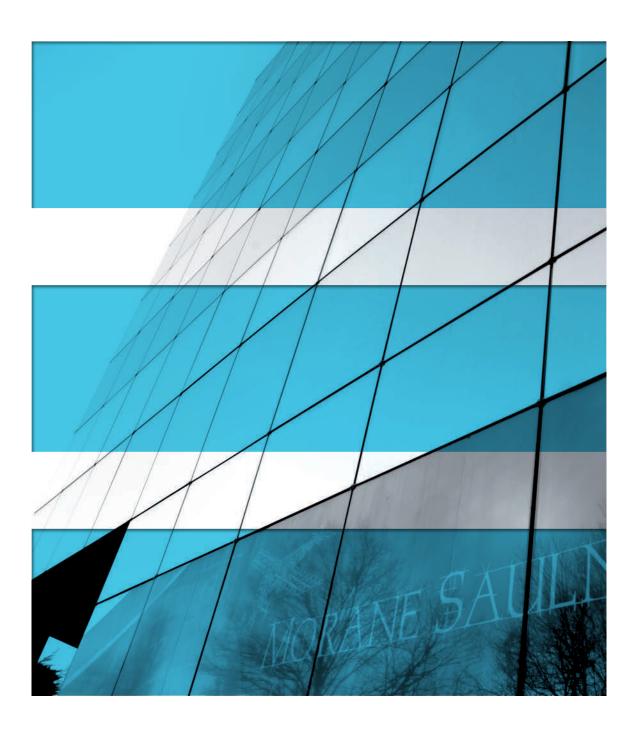
THE RESPONSIBLE **SUPPLIER RELATIONS QUALITY LABEL**

a follow-up audit of key criteria* to verify that best practices are embedded on a sustainable basis.

companies that are committed to responsible purchasing practices.

*Fair financial treatment of suppliers, promotion of balanced and sustainable relationships, equal treatment of suppliers and subcontractors, and prevention of corruption.

THALES HAS LONG-STANDING RELATIONSHIPS WITH MANY INNOVATIVE SMES, SEVERAL OF WHICH ARE CONSIDERED STRATEGIC PARTNERS OR HAVE EXPERTISE DEEMED CRITICAL TO THALES'S PRODUCT OFFERING



Governance and investors

Non-financial factors, such as governance, employee relations and the environment, are an important consideration in the valuation of a company. Thales is therefore committed to a policy of regular and transparent dialogue.

The Thales Board of Directors has 16 members, of whom 14 are appointed by the annual general meeting, and two are elected by employees. Four of the Board members are independent directors as defined by the Afep-Medef code of corporate governance. The Board has five female members, more than the percentage required by French law. The Board of Directors has set up three committees that meet regularly to review specific topics: an Audit and Accounts Committee, a Governance and Remuneration Committee and a Strategy Committee.

The holdings of the "public sector" and the "industrial partner" (Dassault Aviation) — 26.63% and 25.63% of shares respectively — are governed via three agreements: the Shareholders' Agreement, the Agreement on the protection of national strategic interests, and the Specific Agreement. Employee shareholder associations in 17 different countries are members of FAST (Federation of Associations of Staff Shareholders of Thales). Employees hold 2.13% of shares*.

The Group's financial information includes data on ESG and business ethics issues, in particular the prevention of corruption and control of exports with a potential impact on the company's performance and reputation.

The Group implements a rigorous internal control process to provide reasonable assurances that its objectives will be achieved. In addition, compliance with applicable regulations is incorporated into the Group's overall risk management system and is overseen by a global network of 120 Enterprise Risk Officers (one at each entity).

^{*}As at 31 December 2013

Ownership structure and corporate governance

Board of Directors

The Thales Board of Directors comprises 16 directors, of whom 14 are appointed by the annual general meeting and two are elected by the employees of the Group's French companies. The four outside directors (see box on next page) have been declared independent directors as defined by the Afep-Medef code of corporate governance. Thales's major shareholders are committed to appointing directors whose experience is both diverse and relevant to the Group's business.

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

Thales complies with the recommendations of the Afep-Medef code of corporate governance for listed companies, except with regard to the proportion of independent directors on the Board (at least one-third is recommended for companies with controlling shareholders) and on the various governance committees. This is because of the shareholders' agreement between the public sector (TSA, which is wholly owned by the French State) and the industrial partner (Dassault Aviation) and the strict criteria of independence that have been adopted by the company. The Thales Board of Directors currently includes four independent directors (31% of the Board*).

As laid down in the Board's internal rules, the statutory auditors receive the same information as the directors and are invited to attend Board meetings.

*According to the revised Afep-Medef code (June 2013), the proportion of independent directors does not include employees and employee representatives.

THALES SHAREHOLDERS

(at 31 December 2013)

- Shareholders
- Treasury shares: 1.21%

- Voting rights
- Public sector: 36.83%

CONSTRUCTIVE DIALOGUE WITH STAKEHOLDERS*

Expectations

- Financial performance
- Transparency in management Good governance
- Authentic, transparent and verified information
- Strategy
- Societal impact and consideration of sustainable development criteria

Investors

Relationships

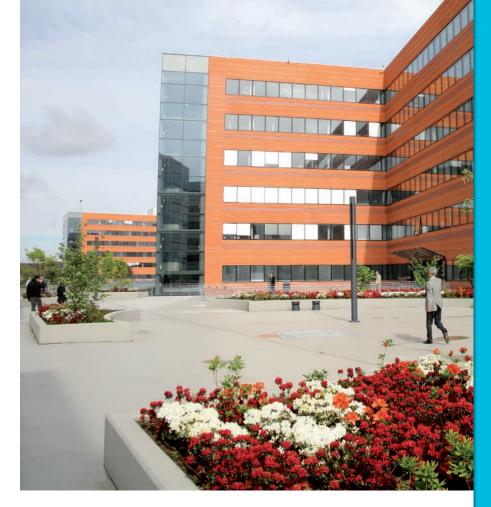
- Information
- Annual general meeting
- Rating agency reports

Specific initiatives

- Dedicated coverage on intranet and internet sites
- Annual report (company registration document)
- Roadshows
- One-on-one meetings

Shareholders • Financial markets authority (Autorité des Marchés Financiers — AMF) • Banks and financial institutions • Ratings agencies

^{*}In 2000, Thales established a formal corporate responsibility policy based on continuous dialogue with stakeholders. This policy is continuously improved to respond to an evolving and increasingly complex environment.



The objectives set out in the Afep-Medef code and in French legislation (Act No. 2011-103 of 27 January 2011) regarding increased **numbers of women** on the board of directors remain unchanged, although they have been put back by one year. For a 16-member Board, the objectives specified in the applicable texts are as follows:

- three women members (four in practical terms, if the female Director elected by employees is included) by the date of the 2013 AGM (according to the Afep-Medef code) or the 2014 AGM (under the Act);
- six women members (seven in practical terms, for the same reasons) by the date of the 2016 AGM (according to the Afep-Medef code) or the 2017 AGM (under the Act).

As a result of the appointment of Jeanne-Marie Prost, Anne-Claire Taittinger and Ann Taylor as independent directors at the Annual General Meeting on 15 May 2012, 25% of the members of the Thales Board of Directors were women at that date, thereby exceeding the objective of 20% one year ahead of the Afep-Medef timeline and two years ahead of the legal deadline. Marie-Françoise Walbaum was co-opted to the Board in 2013, increasing the number of female directors from four to five (out of a total of 16) as at 31 December 2013.

Employee share ownership: an integral part of corporate governance

Since privatisation in 1998, Thales has proposed several share purchase offers to its employees (in 1998, 2000, 2002, 2004, 2008 and 2011). The most recent offer was in June 2013.

As of 31 December 2013, employees owned 2.13% of the company's share capital.

Employee share ownership is primarily structured through a company investment fund managed by a supervisory board, the majority of whose members are elected by employee shareholders, or are representatives of Thales management. Employee shareholders are represented on the Thales Board of Directors by a director nominated by the joint supervisory board for election by the annual general meeting of shareholders. This director is also a member of the Strategy Committee of the Thales Board of Directors.

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

BOARD OF DIRECTORS

(as at 31 December 2013)

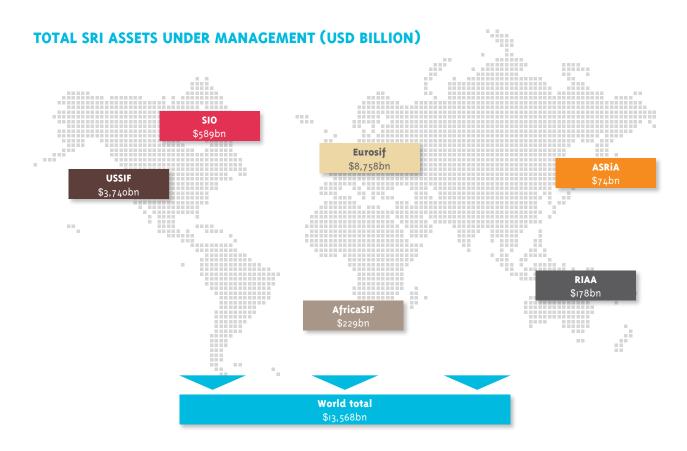
- Public sector (French State)
- Jean-Bernard Lévy, Chairman & Chief Executive Officer
- David Azema
- Didier Lombard*
- Bruno Parent
- leanne-Marie Prost
- Industrial partner (Dassault Aviation)
- Charles Edelstenne
- Loïk Segalen
- Eric Trappier
- Marie-Françoise Walbaum
- Outside directors
- Yannick d'Escatha
- Stève Gentili
- Anne-Claire Taittinger
- Ann Taylor
- Representative of employee shareholders
- Philippe Lépinay
- Elected by employees
- Dominique Floch
- Martine Saunier

*Didier Lombard's term as director expires at the annual general meeting on 14 May 2014. He will be succeeded by Laurence Broseta.

Several shareholder associations have been formed to help promote employee share ownership in 17 Thales countries throughout Europe, North America and Asia-Pacific. The employee shareholder associations are members of FAST (Federation of Associations of Staff Shareholders of Thales).

GOVERNANCE AND INVESTORS 67

Transparency and regular exchanges with investors



*Socially Responsible Investment

Source: Global Sustainable Investment Review 2012, GSIA

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

This also makes it possible for investors to choose companies whose practices are compatible with their own values and to avoid investing in sectors of activity or individual companies that are known to have violated international conventions human rights, environmental protection, etc.

Over the last 10 years, it has become increasingly common in Northern Europe and France for investors to take extrafinancial factors into consideration in their investment decisions (in France, "responsible" investments reached almost €150 billion in 2012, €100 billion more than in 2009). The trend is now becoming more and more widespread, particularly in English-speaking countries — for example, there was a 22% increase in responsible investment in the United States between 2010 and 2012.

Thales regularly holds one-to-one meetings with investors as well as *roadshows*, and takes part in specialised conferences organised by brokers, to provide members of the socially responsible investor (SRI) community with details about its corporate responsibility policy, including environmental, social and governance issues, business ethics, corruption prevention and export control.

These meetings complement the Group's programme of financial communication and are designed to help investors and analysts better understand Thales's ethics and corporate responsibility policy, how it is implemented within the organisation, and the impact it is having on Thales's competitive performance and value creation potential.

More broadly, Thales is engaged in an ongoing dialogue with financial analysts and institutional investors, particularly when it publishes its quarterly, half-yearly and annual financial statements, or conducts major financial or strategic operations, to provide them with insight into Thales's business activities and strategy. Additionally, comprehensive

financial information is published on the Thales corporate website at www.thalesgroup.com.

Internal control and compliance

Thales's internal control regime is a standard process designed to provide reasonable assurances that the Group's objectives will be achieved, specifically demonstrating:

- the effectiveness and efficiency of the internal processes in place;
- the ability of the internal accounting and financial controls in place to ensure the reliability of information distributed and used internally for management and monitoring purposes, to the extent that this information contributes to accounting and financial disclosures;
- compliance with regulatory requirements (legal compliance).

While the internal control system helps the Group to achieve its objectives, it does not provide an absolute guarantee because of the limitations inherent in any internal control system, whereby a certain level of risk may be accepted on the basis of a systematic cost/benefit analysis and because of external uncertainties.

EXTRA-FINANCIAL INDEX

Thales is included in the NYSE EURONEXT® Vigeo Eurozone 120 index. This index is composed of the 120 listed Eurozone companies that perform best in social and environmental terms. The stocks are selected on the basis of analyses by Vigeo, a French corporate responsibility rating agency.

The financial and accounting aspects of Thales's internal control regime are based on a questionnaire completed at least once a year by all Group entities. This internal control questionnaire helps prevent fraud and failures in financial reporting. Based on AMF recommendations, it assesses 143 points encompassing the majority of processes. Responses are regularly reviewed by the Internal Audit Department.

Compliance risk is covered by the overall Thales risk management system, as non-compliance with regulations could expose Thales and its officers to large fines, criminal or civil sanctions, sales and legal restrictions and reputational damage.

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

To help them cope with the complex and constantly evolving legal and regulatory framework, Thales has appointed an Enterprise Risk Officer in each unit. The main roles of the members of this

worldwide network of about 120 people are as follows:

- ensure that **employees understand** risks sufficiently clearly to allow them to make an effective contribution to risk prevention and mitigation;
- monitor actions taken within the entity to manage any instances of noncompliance detected and take any necessary steps themselves;
- oversee associated action plans.

In addition, all Thales employees are required to act in strict accordance with applicable laws and are therefore individually responsible for ensuring compliance. The Thales Code of Ethics, as well as a series of awareness and e-learning programmes (covering such areas as competition, insider trading and intellectual property) for employees with no specific legal expertise are available throughout the Group. These tools help individuals to choose the appropriate course of action when performing the duties for which they are responsible.

TOGETHER

THALES'S FUNDAMENTAL PRINCIPLES

■ ENVIRONMENT

Proactive policy

- A comprehensive approach to environmental risk
- monitoring and management
- SOCIAL

Leadership in transnational HR policy

- Pioneering Europe-wide labour agreements to promote professional development and more

- Constant dialogue and
- **■** GOVERNANCE

Rigorous governance and transparency standards

- Government commissioner and

THALES WINS AWARD FOR FINANCIAL TRANSPARENCY

Thales won renewed recognition for the quality of its financial communication at the Financial Transparency Awards held in Paris on 1 October 2013. The Group ranked second in the Industrial Goods and Services category and was placed eighth among SBF120 companies. The Financial Transparency Awards recognise best practice among listed companies in terms of access to regulated

Companies' practices are assessed* on the basis of four financial communication documents (the annual registration document or annual report, the half-year financial statement, section of the corporate website and the press release announcing annual results) and in accordance with a total of 85 criteria relating to the accessibility, accuracy, comparability and availability of financial information.

the French Society of Financial Analysts, the French Asset Management Association, the French Institute of Directors, the Association for Individual Shareholders and Asset Holders (Association pour learning on the Association pour learning of the Association pour the Federation of Individual Investors and Investment Clubs (Fédération des Investisseurs Individuels et des Clubs d'Investissement) and the Leonard de Vinci THALES IS ENGAGED IN AN ONGOING DIALOGUE WITH FINANCIAL ANALYSTS AND INSTITUTIONAL INVESTORS, PARTICULARLY WHEN IT PUBLISHES ITS QUARTERLY, HALF-YEARLY AND ANNUAL FINANCIAL STATEMENTS, OR CONDUCTS MAJOR FINANCIAL OR STRATEGIC OPERATIONS





Employees

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

Constructive dialogue and social responsibility strengthen cohesion within the Group, while recognising the specifics of each country of operation. Human rights are promoted and respected through agreements and best practices designed to ensure that the Group behaves responsibly in all its activities. Constructive dialogue supports the professional development of all employees.

Thales has signed three ground-breaking agreements at European level: the IDEA agreement on professional development, the TALK agreement on annual activity discussions and the agreement establishing a European Works Council. In France, Group agreements have enabled a common set of employee relations standards to be established.

"Developing our people" is one of Thales's core values. The Group is committed to maintaining employee motivation and enabling each member of the workforce to build a career path in line with their aspirations. Employee professional development is supported by training programmes (76.3% of employees received training in 2013) and professional development discussions (attended by 90% of personnel in 2013). The Group works closely with employee representatives to maintain a constant focus on quality of life in the workplace, a prerequisite for professional fulfilment.

To ensure a culturally and professionally diverse workforce, the Group is firmly committed to gender equality, diversity and non-discrimination in the workplace. Efforts to boost gender balance and cultural diversity are focused primarily on recruitment, salaries, professional development and work-life balance. In addition, Thales has long championed the cause of disabled people in the workplace, via a policy to increase job opportunities and support career development for employees with disabilities.

Thales's commitments to social responsibility

TOGETHER

Responsible social policy

The ultimate objective of Thales's commitments to social responsibility, as part of its human resources policy, is to share a set of common values as a key differentiator to boost the Group's performance.

By drawing on constructive dialogue and social responsibility in all its actions, Thales seeks to strengthen cohesion within the Group while complying with the specific rules of each country of operation. The Group's employees are bound together by a number of values which form an integral part of Thales's corporate culture. These include: "One team, one Thales", "Developing our people", and "Accountable and committed to excellence".

INCORPORATING CR INTO SENIOR MANAGEMENT OBJECTIVES

Recognising the importance of the Group's social responsibility commitments, the Group's Chairman & CEO as well as senior managers in France have included a CR criterion in their 2014 targets, focusing on one of the following three areas: the promotion of women, professional development and quality of life in the workplace.

In addition to the actions taken to conduct a high-quality social responsibility policy with regard to employees, Thales also engages in social responsibility actions with regard to other stakeholders, such as suppliers and associations.

A CONSTRUCTIVE DIALOGUE WITH STAKEHOLDERS*

Employees

Employees and union representatives

Expectations

- Recognition, compensation and employee share ownership
- Consultation and social dialogue
- Promotion and training
- Diversity and nondiscrimination
- Work-life balance
- A safe and healthy workplace
- Quality of life in the workplace
- Access to Group news

Relationships

- Information
- Discussions with employee representatives
- Labour negotiations
- Representation on the Board of Directors

Specific initiatives

- e-Social Responsibility Reporting
- European Works Council
- IDEA: Improving professional Development through Effective Anticipation
- TALK: Transparent annual Activity discussion for mutual Listening and developing professional Knowledge
- Promoting gender equality and work-life balance
- Promoting cultural diversity
- Supporting employees with disabilities
- Ethics alert facility
- Employee share ownership

^{*}In the 2000s, Thales established a formal corporate responsibility policy based on a permanent dialogue with stakeholders. The policy is continuously improved to respond to an evolving and increasingly complex environment.



EVERYWHERE

SOCIAL RESPONSIBILITY E-LEARNING PROGRAMME

A special e-learning programme on social responsibility was developed for all Group employees in 2012. The programme, which was deployed again in 2013, outlines Thales's commitments and describes the measures being taken by the Group to deliver on them. It is available in English and French to make it widely accessible to employees. The objective is to embed social responsibility more fully into human resources policy and strengthen employees' sense of belonging to a socially responsible group.

Promoting and respecting human rights

The Thales Code of Ethics, which was first issued to all Group employees in 2001, includes commitments on human rights and labour rights.

Thales also signed the United Nations Global Compact in 2003 and adheres to its 10 principles on human rights and labour rights, which are inspired by the Universal Declaration of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. These principles are implemented on the basis of agreements and best practices that ensure that the Group's activities are conducted responsibly. In 2012, through its annual Communication on Progress (COP), Thales reached the "Advanced Level" of the United Nations Global Compact Differentiation Programme.

Data on employment, working conditions, labour agreements, labour practices and human rights is provided by the human resources departments in each country and included in the Social Report.

Applying the process introduced in 2011 with the deployment of the computerised e-Social Responsibility Reporting tool, precise information is provided by contributors and approved by the human resources directors of each country

or geographic area. This information is gathered using a qualitative and quantitative questionnaire based on indicators of compliance with applicable legislative provisions, or indicators proposed by the Global Reporting Initiative* or negotiated with employee representatives at European level. Other indicators make it possible to collect information needed to mitigate personal injury risk. Country data is consolidated by the Group's Human Resources Department, which is responsible for ensuring consistency and producing the report.

As part of this process, the Social Report, which is available on the Group's website at http://sustainability.thalesgroup.com, provides more complete information than the present report, together with a topic-based breakdown of all the actions and innovative measures that Thales has taken with respect to employee relations and social policy at country level. The Social Report now also includes figures and a topic-based breakdown for individual countries. For each indicator, the percentage of employees covered is also provided.

*The Global Reporting Initiative (GRI) is a not-forprofit organisation developing a common framework for sustainable development reporting. Established in 1997, the GRI published a preliminary version of its guidelines in 1999. Compliance with these guidelines by companies is completely voluntary.



THE SPECIALISED SKILLS OF THALES EMPLOYEES ARE A MAJOR ASSET FOR THE GROUP. AS A RESULT, ALL OF ITS IOB FAMILIES HAVE INTRODUCED A SYSTEM OF KEY SKILLS MANAGEMENT, FOCUSED ON IDENTIFYING AND SHARING AVAILABLE TECHNICAL SKILLS

Towards recognition as a top employer

The breakdown of Thales's 65,192 employees* worldwide by geographic area and by level of responsibility shows the statistics that have helped shape the Group's social policy:

- an international footprint, with 30,147 employees working outside France, representing almost 46.2% of the global workforce, at the end of 2013;
- a highly skilled workforce, with 74.7% employed as engineers, specialists or managers;
- women accounting for 22% of the global workforce;
- a high proportion of permanent, longterm employment contracts (97.4%);
- a high proportion of full-time jobs (93.5%).
- *"Employees" refers to all employees under management.

Anticipating tomorrow's opportunities and challenges

With recognised technological expertise, a broad international presence, a wealth of talents and skills and a long tradition of success and innovation in all its areas of activity, the Group has been able to face the challenges of a fast-changing world. By tailoring its employment policy to the Group's requirements, and despite the slowdown in some labour markets and the need to adapt in certain countries, the Group recruited 5,863 new employees in 2013. The majority of new recruits were offered permanent employment contracts.

Thales The specialised skills employees are a major asset for the Group. As a result, all of its job families have introduced a system of Key Skills Management, focused on identifying all available technical skills and sharing them throughout the organisation.

By structuring its skills management processes and identifying expertise across 15 job families, the Group ensures that its employees' skills and expertise meet its needs as closely as possible. This approach helps to solve specific technical problems on ongoing programmes, and provides access to the specific skills needed to set up successful bid and project teams. It also provides day-to-day support for employees, helping them to achieve their professional goals or develop their skill sets. To date, approximately 29,000 employees have listed their skills in the Key Skills Management system, which is progressively being rolled out on a global scale.

an increasingly competitive marketplace. iob mobility and professional development enhance the Group's capacity to adapt and respond to change and offer its employees rich and varied career paths. Active career management is encouraged.

Mobility also allows employees to develop their skill sets within a matrix organisation in which market-related concerns complement the Global Business Units' product-related concerns. This means that when employees relocate or explore new employment opportunities, they are helping Thales to expand into emerging markets.

Constructive dialogue to achieve shared goals

Constructive dialogue is an integral part of Thales's social policy, which seeks to promote the professional development of all employees. Currently, more than 87% of Thales employees worldwide are covered by collective agreements, including Europe-wide labour agreements signed by the Group.

Supporting and encouraging social dialogue at European level

As part of its commitment to encouraging social dialogue, Thales is a signatory to three pioneering Europe-wide labour agreements (covering 11 countries and more than 52,000 employees):

- The 1993 agreement establishing a European Works Council as part of an "anticipation" agreement. The European Works Council has representatives from Thales's 11 main European countries of operation. Its resources and responsibilities have been progressively extended by amendments to the original agreement, signed in 2002 and 2007. A further amendment is currently under negotiation;
- IDEA: signed in 2009 as the first European agreement of its kind, IDEA is based on sharing existing best practices in the countries involved, making it a ground-breaking agreement. In addition to setting out broad principles, IDEA establishes specific objectives for improving professional development opportunities, and includes a set of 30 corresponding measures:
- TALK: a Europe-wide social agreement that establishes a clear framework and practical guidelines to guarantee that the Annual Activity Discussion (AAD) with each Thales employee

is conducted in a climate of social responsibility, mutual respect and listening.

Constructive social dialogue in France

The agreements the Group has signed in France have helped establish a **common set** of employee relations standards for all Group companies. To give agreements with individual companies as well as Group France agreements added legitimacy, Thales took steps in 2010 to place its 2006 commitment only to enter into agreements supported by a majority of employees (barring exceptional cases) on a permanent footing. Within this framework of constructive social dialogue, the Group signed three labour agreements in 2013:

- The Group Generation Contract⁽²⁾, signed on 23 July 2013 with unanimous support from trade union organisations, demonstrates Thales's commitment to employing young people and the over-50s, and encourages the transfer of knowledge and skills between generations. In addition to increasing work-study programmes and providing opportunities for young jobseekers, including low-skilled workers, the agreement encourages keeping the over-50s employed through a package of special measures. It also takes into account, in concrete terms, the physical strain associated with certain lines of
- The Group Anticipation agreement⁽³⁾ signed on 26 April 2013 with unanimous support from employee representatives, builds on the November 2006 agreement on prospective employment management. The text maintains and reinforces the Group's shared, transparent approach to prospective employment and skills management. It also includes the Proactive Resource Management programme, which uses a collaborative process, as well as measures based on the aspirations of both the company and the employee, to face up to foreseeable economic challenges related to new skills requirements or the risk of technological

- breakthroughs likely to have an impact on employment.
- The Group framework agreement⁽⁴⁾ of 26 April 2013 governs the use of **teleworking** for companies looking to implement such an arrangement.
- Agreements relating to union membership and social dialogue, social provisions, the employment of people with disabilities and gender equality (amendment of 27 June 2012).
- [2] Group-wide agreement on Thales's commitment to employing young people and the over-50s and supporting the transfer of knowledge and skills.
- (3) Group-wide agreement aimed at improving professional development and employment through effective anticipation.
- (4) Group-wide framework agreement on teleworking.

Training for sustained professional development

Thales **believes** that professional fulfilment comes from constantly maintaining and improving the skills of each of its employees with a view to maximising employability.





THALES BELIEVES THAT EACH OF ITS EMPLOYEES. AT EVERY LEVEL OF RESPONSIBILITY AND IN EVERY JOB FAMILY, IS ENTITLED TO A FULFILLING CAREER

building a common corporate

culture to forge cohesion

around its core values.

To ensure that all employees achieve their full potential, in 1988 the Group founded Thales University, which has since become a major pillar of the company's training policy.

Thales University seeks to tailor individual and collective skills to the needs of each discipline, at the same time as supporting the Group's strategic objectives.

The Europe-wide IDEA agreement has a significant training component, including the following provisions:

- all countries are required to ensure that collective training plans take into account forward-looking analyses of technological developments and innovations, as well as employment trends and the needs of employees and the company;
- a network of training advisors has been developed throughout Europe, with each employee assigned a personal advisor;
- at least once every three years, each employee has access to a relevant training programme lasting a significant length of time and corresponding to his or her training plan and to the needs of Thales;

• individual training programmes take each employee's experience into account and address opportunities for obtaining independent certifications and qualifications.

In total, 76.3% of Group employees received training in 2013, demonstrating Thales's commitment to investing in training its employees.

Focus on professional development

"Developing our people" is one of Thales's core values.

The Group is committed to maintaining employee motivation through open and honest dialogue, and enabling each member of the workforce to build a career path in line with their aspirations.

Thales believes that each of its employees, at every level of responsibility and in every job family, is entitled to a fulfilling career

Thales's global HR policy is based on the principle that individual employees are responsible for driving their own professional development.

Under the IDEA agreement, the Professional Development Discussion (PDD) has become standard practice for all Thales employees in Europe.

Promoting well-being, safety and quality of life for all Thales employees

One of Thales's top priorities is to ensure a safe and healthy working environment for its employees by meeting legal requirements, monitoring procedures, preventing health and professional risks and providing adequate training for employees. The Group has established a dedicated organisation, which has been in place for three years and applies to all countries worldwide, in order to prevent health and safety risks in the workplace.

The Human Resources and HSE-Operations Departments share oversight responsibility for the many aspects of health and safety. The HSE-Operations Department monitors environmental health and safety at all sites and facilities. The Human Resources Department works to prevent risks related to employee health and safety in the workplace. It defines the principles of the health and safety policies that are implemented in each country of operation in accordance with national laws and requirements.

A Risk Sponsor, who is responsible for preventing damage to people, regularly monitors risks that could affect employees around the world (discrimination, sexual and moral harassment, health risks, risks of accidents, workplace risks and psychosocial risks).

In 2012, each Group company in France appointed a two-person team, composed of an HR specialist and an HSE specialist, to assist in **preventing workplace-related health and safety risks**. HR and HSE representatives have been appointed at company level, and HR and HSE managers have also been appointed as correspondents for individual sites and facilities

Procedures are in place to anticipate and manage health risks that might occur at international and/or national level. These procedures were included in the Group reference system in 2012 to make them even more visible and readily accessible to all the parties concerned:

- Permanent medical management unit;
- A crisis management unit for major international health risks;
- A procedure for managing missions in countries with major health risks.

AGREEMENT ON QUALITY OF LIFE IN THE WORKPLACE

A NEW

In France, the agreement on quality of life in the workplace signed on 2 July 2009 set out a general framework for Groupwide health and safety policy and established a system for identifying and preventing workplace hazards and risks. The agreement was based on a preventive approach involving all the stakeholders in occupational health, and aimed to prevent psychosocial risks through collective measures and by focusing on the well-being of each individual employee. A central Quality of Life at Work Committee supported all of these initiatives.

As this agreement expired, new negotiations were launched with employee representatives throughout the Group in 2013 to continue and step up the actions put in place to enhance the quality of life at work. These negotiations led to the signing of a new Group-wide agreement on 4 February 2014.

TOGETHER

THE PROFESSIONAL DEVELOPMENT DISCUSSION, PROVIDING OPPORTUNITIES FOR EMPLOYEES

Annual Professional Development Discussions are a key stage in the process of professional development. They give employees the opportunity to:

- review career progress in their current job
- evaluate career options.
- identify the skills that they have acquired or need to develop,
- clarify career goals.
- consider the best ways to achieve those goals (such as training or practical experience).

In 2013, around 90% of Thales employees in Europe and worldwide had a Professional Development Discussion with their manager.

THALES ENCOURAGES THE DEVELOPMENT OF EUROPE-WIDE CAREER PATHS IN ORDER TO HELP MAKE ITS TEAMS EVEN MORE DIVERSE AND ENCOURAGE

GREATER OPENNESS

TO NEW PROFILES

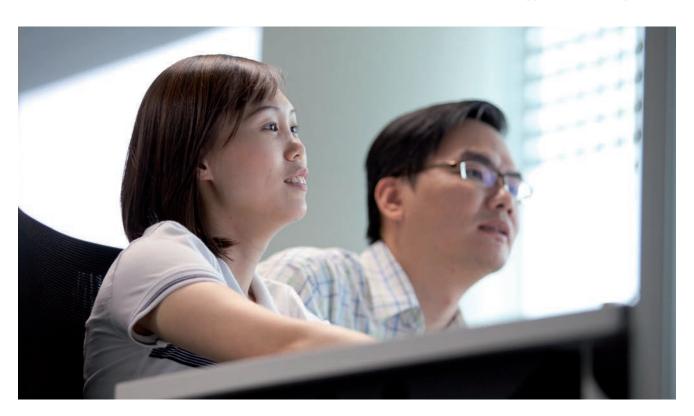
Promoting gender equality and work-life balance

In a high-tech company with engineers making up the majority of the workforce, gender diversity represents a significant **challenge**. Thales is rising to this challenge through constructive social dialogue and a strong commitment to specific objectives aimed at promoting more active involvement by women in the company's development. Figures from the end of 2013 show that the Group is making headway in this area. Women today account for 22% of the active global workforce (23% in France, and 24% of all direct employees in France). As a result of efforts to increase the number of women in the workforce, women accounted for 27.5% of new hires worldwide in 2013 (28.3% in Europe).

Commitments

In France, a Group framework agreement signed in 2004 with all employee representative organisations adopted the principles of gender equality and defined the methodology to be applied to promote it.

Subsequently, about 20 French companies negotiated three-year action plans based on the actual gender equality situation in each workplace. These action plans, prepared using comparative data, were renegotiated every three years. A new framework agreement was unanimously concluded in June 2012. Thales has therefore set new targets and put in place new resources to step up its recruitment efforts, support the development of



Most of the women who work at Thales occupy qualified full-time jobs, with 97% on permanent contracts and 60.5% employed as engineers, specialists or managers (levels of responsibility 7 to 12).

women's careers and enhance work-life balance.

In Europe, the IDEA agreement signed in 2009 by Thales and the European Metalworkers Federation (now industriAll) contains a significant number of measures to promote professional equality between men and women. Countries signed up to the agreement are required to produce an annual report on gender equality and propose an action plan to improve performance where necessary. More generally, the agreement includes a range of commitments on equal opportunities in recruitment, career development, compensation and work-life balance.

Taking practical steps

In order to achieve a balanced representation of women within the Group, it is necessary to pay particularly close attention to recruitment - especially in technical and scientific sectors. In France and Germany, the Group has organised school outreach and communication programmes to encourage girls to study science and technology. Based on a prospective analysis of female employee departures, negotiated action plans in Group companies in France set specific recruitment targets to maintain the proportion of women employed by the Group (24% of direct employees in France). In 2013, women represented 40% of new hires in Spain and 31% in France.

Several country operations have taken concrete steps to ensure equal pay for men and women. In France, a specific budget equivalent to 0.1% of total payroll has been set aside since 2006 to rectify unwarranted discrepancies in compensation between men and women. In 2013, 951 women benefited from the policy and were awarded an average individual pay increase of 2.49% to close the gap in salaries with their male counterparts.

Thales is also committed to promoting work-life balance. The Group has a long-standing attachment to improving the work-life balance for all its employees, whether or not they have children, and therefore pays particular attention to part-time employees. The action plans negotiated at each individual company reflect the importance of applying best practices in the areas of working hours, meeting

BREAKING THROUGH THE GLASS CEILING: PROMOTING CAREER DEVELOPMENT FOR WOMEN

Special attention is paid to career development opportunities for women during the people reviews carried out each year in France as part of a commitment by the Group's French companies to adopt a proactive policy to combat the glass ceiling, which can prevent women from advancing to more senior positions. Thales companies in France also promote access for women to certain more male-dominated jobs through the development of training and mentoring schemes, and by encouraging support measures, co-development models and individual coaching. Equal access to training is also promoted by prioritising on-site training delivery and by allocating a special budget to cover additional childcare costs incurred when employees undertake training courses away from home. To ensure equal opportunities for career development, the Group Chairman has also included a target for the promotion of women in his own targets and those of his senior management.

times and the use of new information and communication technologies.

By signing the French Parenthood Charter in November 2008, Thales demonstrated its commitment to helping employees improve their work-life balance. Further reflecting this commitment, Thales encourages Group companies to set up inter-company childcare facilities. Since 2010, Thales has helped create a dozen such facilities in France which care for more than 200 children of Group employees. Since January 2013, the Group has also worked with a partner to offer Solu'Crèche, an emergency childcare service that provides working parents with openings in daycare centres when their usual childcare solutions are unavailable. Lastly, to enable fathers to play a more active role in parenting during the initial period after a baby is born, Thales companies in France maintain compensation throughout the period of paternity leave. In Italy, Thales helps to cover employee childcare costs.

The training sessions that are organised throughout the Group, particularly in Europe, and the e-learning programme on social responsibility, support Thales's

efforts to promote diversity and equal opportunity in the Group.

Promoting diversity and taking a stand against discrimination

Promoting cultural diversity

As an international Group, Thales respects and encourages cultural diversity in the workplace. The Group pays particular attention to recruiting local employees in all its countries of operation. The Europewide IDEA and TALK agreements have fostered a better understanding of social practices in European countries and have **enriched** national social policies in terms of employment, professional development and the promotion of diversity and nondiscrimination. To promote diversity, the IDEA agreement encourages companies to develop Europe-wide career paths in order to help make teams even more diverse and encourage greater openness to new profiles. Thales's long-term strategic vision aims to make the Group even more international by promoting greater diversity within teams.

In France, the Generation Contract also seeks to support equal opportunities in education and encourage diversity. One example of this commitment is the partnership between Thales and the association Nos Quartiers ont des Talents signed on 27 November 2013.

Supporting employees with disabilities

In all countries of operation, Group companies make every effort to comply not only with legal requirements but also with local regulations and guidelines designed to promote the employment of people with disabilities. Some countries (Australia, the Netherlands, Norway and the United Kingdom) explicitly prohibit all forms of discrimination, while others (Austria, Germany, Italy, South Africa and Spain) set mandatory employment quotas for people with disabilities and generally impose financial penalties on companies that fail to comply.

Other countries (e.g. Portugal) take a different approach, offering financial incentives to companies with a policy of recruiting people with disabilities. Many Group companies, based in various countries, have also adopted a series of measures aimed at going beyond the legal requirements and promoting the employment of people with disabilities.

In France, Thales has long championed the cause of disabled people in the workplace, signing a company-wide agreement in 1992 to increase job opportunities and support career development for employees with disabilities. This policy has been consistently maintained and led to the signing of a Group-wide agreement on 13 November 2004, which was unanimously renewed by employee representative organisations in 2007 and again on 21 October 2011.

Further to Group-wide agreements in France, disabled employees now make up 5.5% of the workforce, compared with 5.1% in 2011.

Also in 2013, partnerships were sealed with Université Pierre et Marie Curie (UPMC Paris), the Universities of Bordeaux and Toulouse and Université Paris Descartes to develop learning and career opportunities for young people with disabilities.

In 2012, Thales also worked with AFNOR to develop OK Pilot, a self-assessment tool for companies to measure compliance with the standard for disability-friendly employers and define any necessary improvements. In 2013, 18 Thales sites were audited and action plans were put in place to ensure they are fully compliant by the end of 2014.

Combating age discrimination

The strong commitments made by the Group and formalised in its Code of Ethics demonstrate its willingness to act responsibly and fight all forms of discrimination

In France, Thales took these efforts one step further through a Group-wide agreement, signed in 2009, that included a number of innovative measures to promote the employment of the over-50s in Group companies. As this agreement expired, the Group-wide "Generation Contract" was signed in July 2013. In addition to incorporating many of the provisions aimed at prohibiting discrimination based on age, it provides guidelines for anticipating career changes, developing the skills of older employees, improving working conditions and taking individual situations into account with respect to employees in physically demanding jobs and those who may be unable to adapt to new practices. Under the agreement, Thales also undertakes to support end-ofcareer planning and the transition from employment to retirement.

Measurable targets were also set, aimed at increasing the percentage of recruitment of employees aged 55 and over to 2% and increasing the number of employees aged 57 and over to 15% of the total workforce by 2016.

DEVELOPING INNOVATIVE PRODUCTS TO SUPPORT PEOPLE WITH DISABILITIES

The Group supports the development of innovative products based on Thales technologies to provide practical assistance to people with disabilities. These include:

- the "Eyeschool" learning aid, which provides visually impaired students with audio read-outs of course materials and interactive animations of notes written on the board by teachers. Under an agreement with the Ministry of Education, the system was rolled out in 2013 to help 400 visually impaired or dyslexic students in four regions of France (Île-de-France, Pays de Loire, Provence-Alpes-Côte d'Azur and Midi Pyrénées).
- "GUIDEO", an audio guidance system enabling the visually impaired to use a smartphone to find their way around buildings without assistance. The system has been deployed at Thales's new facilities in Gennevilliers and will be available at the ESSEC business school in Cergy in 2014.
- a "smart wheelchair guidance system" using artificial intelligence technologies, which has been developed with the Garches Foundation under a three-year partnership agreement with the ISEN engineering school. This system became operational in 2012. It was the subject of a thesis on automation at Lille University and was adopted under the Technology cluster scheme.

EMPLOYMENT INDICATORS

Scope of data verification

	2013		VERIFICATIO	
INDICATORS	DATA	Scope	Registration document	Social Report
otal workforce ^(a) at 31 Dec. 2013	65,192	100%	✓	~
imployees by country				
rance	35,045	100%	✓	<u> </u>
urope	52,668	100%	✓	~
outside France	30,147	100%	✓	~
Employees by gender				
% of women	22%	94.1%	✓	
% of men	78%	94.1%	~	_
% of women in France	23.2%	97.9%	~	<u> </u>
Employees by type of contract				
% under permanent contract	97.4%	94.1%	~	
% of full-time contracts	93.5%	94.1%	~	<u> </u>
Employees by age bracket				
< 30	10.5%	94.1%		J
50-39	23.9%	94.1%		Ŭ
40-50	30.8%	94.1%		
> 50	34.8%	94.1%		, i
Employees by level of responsibility (LR)	34.0%	94.170	•	· ·
R to 6	25.27	01.197	_	_
	25.3%	94.1%	V	V
R 7 to 12	74.7%	94.1%	<u> </u>	<u> </u>
Number of temporary employees	2,123	94.3%	✓	✓
Departures by type				
Number of departures	4,574	94.3%	~	~
% resignations	34.8%	94.3%	~	~
% redundancies	33.6%	94.3%	~	~
% retirements	25.8%	94.3%	~	~
% other departures (including deaths)	5.8%	94.3%	✓	~
Recruitment				
Total number of recruitments	5,863	94.3%	~	~
% of women	27.5%	94.3%	~	~
Number of apprenticeship contracts signed in 2013	1,076	94.3%	~	~
Training		_		
% of employees attending a PDD ^(b)	90%	91.5%	~	~
% of employees receiving training	76.3%	92.3%	~	~
% of women receiving training	79.3%	92.3%	~	~
Average training hours per employee	21.65	93.7%	✓	~
Fotal training hours	1,323,063	93.7%	✓	~
% of employees covered by a collective bargaining agreement	86.9%	96.6%	✓	✓
% of employees covered by a regulation on working time	89.2%	95.2%		
Health and safety				
Overall absenteeism rate (World)	2.96%	91.6%	✓	<u> </u>
Overall absenteeism rate (France)	2.71%	97.9%	~	~
Overall absenteeism rate (France) including maternity/paternity leave	3.07%	97.9%	~	~
Accident severity rate (World)	0.07	91.6%	✓	~
Accident severity rate (France)	0.09	97.9%	✓	~
Accident frequency rate (World)	2.53	91.6%	✓	~
Accident frequency rate (France)	3.33	97.9%	✓	~
Days lost for work-related illness (France)	1,619	97.9%	✓	~
Other				
staff costs (World) ^(c)	€5.3bn	100% financial	✓	V
Proportion of employees with disabilities (France)		consolidation		
	5.5%		Y	Y
obs created by GERIS in 2013	434		~	Y
Start-ups or business acquisitions supported by GERIS in 2013 EU suppliers as a proportion of total purchasing spend	48 70 ⁹⁷		~	Y
	70%		~	Y
French suppliers as a percentage of total purchasing spend	41%		~	~
ndustrial subcontracting	€5.7bn		~	~

⁽a) Employee numbers refer to active employees.

⁽b) PDD: Professional Development Discussion

⁽c) excl. DCNS

[✓] Indicators verified by Mazars for 2013



Environment

As an innovative and responsible company, Thales is stepping up to the major environmental challenges of our times and developing solutions that help customers improve their own environmental performance.

Thales's environmental policy is defined at Corporate level and deployed at nearly 160 sites worldwide. The policy's programmes aim to continuously improve Thales's operations as well as its product lines. The Group offers a variety of training, communication and information-sharing tools, such as a dedicated intranet, displays, contests, events, in-house articles, etc., to encourage employees to buy in, change their behaviour and take environmental considerations into account in their work in the company's different business lines.

The Group designs and/or implements innovative, environmentally friendly technologies. Our commitment to eco-design drives both creativity and innovation and allows us to produce new, environmentally responsible solutions in fields such as air and ground transport and climate monitoring.

Two main priorities of Thales's environmental policy are protecting the environment and fighting climate change. Since 2010, the Group has reduced its CO2 emissions by 13%. It is also continuing to reduce its consumption of natural resources and the quantity of waste generated by its activities. In addition to reducing its environmental footprint, Thales works to protect natural sites and preserve biodiversity through biodiversity risk mapping at 140 sites in 26 countries. Lastly, the Group is also committed to promoting the environment within trade associations and defining international standards.

A history of environmental commitment



Further action

Environmental responsibility is one of Thales's core ethical principles, reflecting the strength of corporate management's commitment to environmental issues. To engage everyone involved in environmental management, Thales implements an environmental policy at all Group sites around the world. In addition to ensuring compliance with applicable regulations and anticipating future regulatory changes, the policy has five key areas of focus:

Prevention of impacts on people and the environment arising from the Group's activities:

- reducing and managing environmental health impacts;
- respecting biodiversity and cultural heritage.

Incorporation of environmental factors into the design of products and services:

- limiting their environmental footprint whenever possible;
- using the environment as a driver of innovation.

Consumption of fewer natural resources:

- limiting dependence on fossil fuels;
- saving water.

Significant reduction in CO₂ emissions:

- leveraging the Group's expertise;
- reducing business travel and increasing the use of greener modes of transport.

ENVIRONMENTAL GOALS 2013-2015

	PERFORMANCE 2012-13	TARGET 2015	
Energy and natural resources			
Energy consumption Water consumption	-6%	-10% ^(a)	
CO ₂ EMISSIONS			
Energy and substances per unit of revenue (scopes 1 and 2) Business travel per unit of revenue (scope 3)	-5%	-10% ^(a)	
Non-hazardous waste			
Quantity per person Recycling rate	6%	10% ^{(a)(b)}	
Responsible purchasing			
Evaluation of class A suppliers ^(c)	32%	100%	
Purchaser training	23%	80%	
Eco-design			
Product policies integrating environmental criteria	Not determined	20%	
Training for product line managers	50%	100%	

- (a) Average index for both indicators
- (b) In absolute terms
- (c) Suppliers representing 80% of purchasing volumes

Fostering a spirit of innovation with regard to the environment:

- sharing expertise;
- communicating transparently;
- involving employees, suppliers and other stakeholders.

This pro-environment **commitment** has been a guiding principle for the Group for **over 15 years**, and entails taking environmental impacts and risks into account in all of its activities and at every level of the organisation.

To reinforce this commitment, the Group has set performance targets for all of its entities since 2007. In 2010 these were extended to Purchasing employees, and in 2012 to staff involved in product policy.

Implementing environmental policy through a cohesive organisation

As part of its efforts to continuously improve its environmental performance and ensure effective mitigation of risks, the Group has implemented a three-tier organisation:

- A corporate environmental team responsible for formulating strategy, policy and processes and overseeing their implementation across the Group;
- A global network of environmental managers (340 as of December 2013) responsible for implementing the policy at country and entity level, particularly with regard to sites

TO ENSURE THAT
EVERYBODY ENGAGES
WITH ISSUES OF
ENVIRONMENTAL
MANAGEMENT,
THALES IMPLEMENTS
AN ENVIRONMENTAL
POLICY AT ALL GROUP
SITES AROUND THE
WORLD

THALES JOINS THE FRENCH ASSOCIATION ENTREPRISES POUR L'ENVIRONNEMENT^{*} (EpE)

As part of its commitment to continuously improving its environmental performance and more effectively managing the health and environmental impacts and risks associated with its activities, Thales joined the French association EpE in September 2013.

In accordance with its Code of Ethics and core values, Thales has made protecting employees, residents living near its sites, customers and the environment a top priority.

By becoming a member of EpE, Thales joins a group of companies who share the same view of the environment as a potential driver of progress and opportunity, and want to move forward together by sharing their experiences.

of around 40 French and international companies committed to working together to ensure that environmental issues are taken into account more effectively in their strategies and day-to-day management.

(buildings, infrastructure, energy, etc.) and operations (industrial processes, substances, waste, etc.).

 A network of "product environmental managers" (127 people as of December 2013, working either fulltime or combining the role with other assignments), initially in France and subsequently Europe-wide, responsible for applying environmental policy to our products.

Because dealing with environmental risks and challenges across the Group's different business lines requires employees with managerial and technical skills in environmental matters, these networks fall within a single, dedicated job family in order to enhance skills, determine recruitment and training needs, anticipate future changes and share expertise within a single community.

Managing environmental risks

Environmental damage has been identified as one of 19 major risks that Thales faces as a Group (see comprehensive risk management system, p. 32). For many years, Thales has regularly updated its analysis of environmental risks to keep pace with changes in its business activities, scientific and technical developments, emerging environmental challenges.

These analyses are used for risk mapping exercises, with the following aims:

 verifying that site employees and local communities are not exposed to health and environmental risks.

- checking that activities do not present a threat to the environment,
- ensuring the compliance of activities and products,
- evaluating the impact of new regulations on product design and other activities.

Risk mapping provides an overview of areas for improvement, which are addressed via action plans either at Group level or locally.

2007, the Group's Management Committee has overseen an annual analysis of the risk management system by each of the Group's legal entities, leading if necessary to the development of a local improvement plan in collaboration with Group experts. Audits are conducted by both internal and external auditors as part of the ISO 14001 certification process or within the scope of preventive reviews.

In 2013, Thales continued its loss prevention initiative aimed at providing a more effective assessment of its sites' exposure to the risk of natural disasters. As well as identifying potential flooding, storm or earthquake risks, the analysis also enables us to anticipate the consequences of such events in terms of environmental impact, damage to property, impact on business, etc. The Group has continued to expand its risk mapping initiative, assessing and auditing 38 sites since 2011.

Thales has also mapped its risks related to water at around 160 sites worldwide. The analysis of existing and future risks encompassed social issues (such as access to water/sanitation and per capita water availability) as well as economic aspects (conflicts over water rights) and environmental concerns (water consumption relative to the level of water stress in the catchment area). The risk was scored on the basis of a series of indicators, using international

data to ensure a uniform assessment. The mapping process determined that 10 sites were located in vulnerable areas. The majority of them are offices whose low water consumption has only a minor impact on the environment. At three of the

sites, where some industrial activities are carried out, a more detailed analysis of water stress at a very local level will be conducted to assess the impact of their water usage.



Engaging employees

A dedicated process

To meet its environmental objectives, Thales has underscored the importance of managing environmental impacts and risks in a number of ways in its Group reference system, which is available to all employees and in all entities worldwide.

An Environmental Management System has been deployed at all sites as part of a dedicated process that aims to manage and mitigate the environmental risks and impacts associated with operations (buildings, industrial facilities, equipment and construction sites) and products (design, bids and projects).

It provides best practices for managing environmental impacts and risks, as well as methodological guides and rules applicable at all levels of the organisation. The process has been

integrated into various functions, such as Bids and Projects, Purchasing, Quality and Real Estate, and is being rolled out to cover all functions and activities within the Group, thereby helping to integrate environmental considerations into the design and development of all of Thales's products and services.

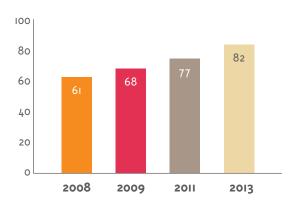
It also defines the risk management and alert procedures in the event of an

At the end of 2013, 125 entities were ISO 14001 certified, representing 82% of the Group's workforce. Of these entities, 82 include product design/development in their scope of certification.

ENGAGING SUPPLIERS

As part of its commitment to extending its environmental responsibility policy to the supply chain, Thales requires suppliers to sign the Group's Purchasing and Corporate Responsibility Charter. This is a binding document designed to help suppliers align their policies and internal processes with a set of principles that Thales has adopted. By the end of 2013, more than 2,900 suppliers increase from 2012 — had signed up. To help drive this initiative forward, the Group Purchasing Department has set a target of evaluating the environmental maturity of 100% of the Group's tier A suppliers, who account for 80% of purchasing. By the end of 2013, 977 supplier sites had been assessed, including 444 tier A facilities (32% of the total).

EMPLOYEES WORKING AT ISO 14001 CERTIFIED SITES (in %)



EVERYWHERE



Training, informing and empowering employees

Thales strives to embed a genuine culture of environmental responsibility within its organisation worldwide. To reinforce its expertise in environmental issues, the Group offers dedicated training modules in its Thales University training catalogue, including an eco-design training offered to all employees. These modules are specially designed for environment managers as well as for the different job families (Purchasing, Design, Sales, etc.). Some job families even have their own specific environmental training modules. In 2013, 260 purchasers (or 23% of staff concerned) and 150 Product Line Managers (or 50% of staff concerned) responsible for product policy were trained on how to integrate environmental concerns into day-to-day work.

Because any environmental initiative requires the commitment of all employees, the aim is to encourage personnel to take a fresh look at the environment, and to incorporate environmental issues into their work at a day-to-day level. Thales provides employees with a variety of communication and information-sharing tools, including a dedicated intranet, posters, competitions, events, articles in the Group's quarterly magazine, etc.

Online e-learning modules are also available to educate Group employees on basic aspects of environmental risk management, general topics such as eco-responsibility, and specific issues such as REACH (Registration, Evaluation, Authorisation and restriction of CHemicals) regulations or the new labelling system for hazardous chemicals.

A collaborative IT platform provides a forum for hundreds of employees around the world to exchange news and information about the Group. Members include personnel working in areas such as design, communications, etc., in addition to those involved directly in environmental management.

Finally, the **Group's reference system**, Chorus 2.0, underpins this proactive policy by incorporating an environmental focus into all relevant processes, such as bids and projects, design, development, through-life support and decommissioning, which can sometimes occur decades later. A network of product environmental managers has been set up to oversee the implementation of the reference system.

Eco-design for sustainable innovation

BEING
TECHNOLOGICALLY
CREATIVE AND
INNOVATIVE
AND TURNING
ENVIRONMENTAL
CHALLENGES INTO
NEW OPPORTUNITIES
IS ALL PART OF
THALES'S "GREEN
TOUCH"



The Group's environment policy now includes a stronger focus on eco-design, confirming Thales's **commitment** to "designing, manufacturing and supplying products and services that integrate health, safety and environmental requirements", "contribute to the development of green technologies" and "participate in joint efforts via national, continental and international programmes to improve understanding and preservation of the environment"*.

This commitment forms the basis of Thales's entire policy and approach.

The Group is committed to taking a responsible approach that aims to minimise the impact of its products and services on the environment in order to comply with the increasing number of regulations and meet the demands of the market and society at large. Incorporating environmental factors into our products from design to end-of-life disposal is a driver of creativity and dynamic innovation, without compromising on the strict performance, safety, security and reliability requirements of the aerospace, space, ground transport, defence and security markets we serve.

Being technologically creative and innovative and turning environmental challenges into new opportunities is all part of Thales's "Green touch". By developing new materials and new architectures to reduce the weight, size and power consumption of the products we deliver, identifying hazardous

substances at the design phase, finding alternatives to restricted or prohibited substances, etc., Thales is progressively embedding environmental responsibility into its methods, processes and practices, while helping to drive constant innovation.

This proactive policy is producing results, as seen by the number of product lines that already integrate environmental criteria evaluations into their life cycle assessments

One example is the GAÏA-I laser used in the semiconductor industry to anneal silicon components, which is typically operated by customers on a continuous cycle, 24 hours a day, 7 days a week. The industrial redesign process kicked off with team training at Thales University, which has recently launched a module on eco-design. Next, the team conducted a life-cycle assessment of the product, defining the scope of analysis, drawing up a life cycle inventory, quantifying negative impacts on the environment, identifying avenues for improvement, and checking that negative impacts had been addressed. The results were a 20% reduction in energy consumption and a new version in the pipeline offering 50% lower consumption.

Thales has also developed an innovative hybrid-energy solution which aims to provide a comprehensive system for managing energy production, storage and consumption in onboard systems in military vehicles and shelters. Known as DYON, the solution uses the latest

technologies from the commercial sector, such as lithium batteries, and adds numerous operational benefits, for example increased battery life, reduced noise and emissions, and no heat signature. It also reduces the logistical footprint by drastically cutting fuel consumption and thus the number of convoys needed to transport fuel. In terms of its impact on the environment, it reduces CO₂ emissions by tens of thousands of tonnes and does not require lead batteries.

In the area of public transport, the innovative automatic fare collection system DreamGate represents a technological revolution by providing increased safety and security for operators and passengers. The system offers greater operational performance along with a reduced environmental impact. The fact that it is smaller, lighter, more energy efficient and has fewer components (including a 3D camera and smart engines) also makes it easier to install and maintain.

*Extract from Thales's health, safety and environment commitment.

Technology and the global environment

THALES IS A KEY PLAYER IN SPACE-BASED EARTH OBSERVATION PROGRAMMES, PROVIDING HIGH-RESOLUTION OPTICAL AND RADAR IMAGING SYSTEMS THAT PROMOTE A BETTER UNDERSTANDING OF CLIMATE CHANGE AND MORE EFFECTIVE ENVIRONMENTAL MONITORING

All of Thales's customers around the world in all sectors face the same environmental challenges: reducing the environmental impact of their activities, protecting the environment, preserving biodiversity and contributing to the fight against climate change.

Thanks to its technical expertise and potential for innovation, and its involvement in an array of national and international programmes, Thales can help its customers meet these challenges.

Monitoring the climate

As the global climatological and environmental crisis continues to unfold, with inevitable effects on the planet and on human life, the industrial and scientific community is mobilising to provide solutions. Thales is a key player in space-based Earth observation programmes, providing high-resolution optical and radar imaging systems that promote a better understanding of climate change and more effective environmental monitoring.

The Poseidon altimeter, for example, uses mapping of ocean surface topography to determine patterns of ocean circulation

on the surface and at depth, improving our understanding of this important component of the planet's climate system. The Meris camera, meanwhile, provides high-quality images of the planet and its oceans on a daily basis, showing the continually changing face of the biosphere by recording phenomena such as plankton efflorescence and changes in vegetation cover.

As part of the European GMES (Global Monitoring for Environment and Security) programme, the European Space Agency has selected Thales Alenia Space as prime contractor for the design, development and integration of the Sentinel-3 satellite, which will provide data on sea surface topography, as well as carrying out ice, land and vegetation monitoring in order to determine the condition of vegetation and manage its development more effectively.

Meanwhile, the third-generation Meteosat system (MTG) ensures the continuity of Eumetsat's geostationary weather monitoring capacity until the year 2030. The information based on imagery of the globe and hyperspectral sounding of the atmosphere that it provides will also deliver unprecedented quantities of data on water vapour and temperature profiling. The increase in the amount of historic data available will help climatologists better understand how the climate evolves. With this system, Thales Alenia Space will continue to provide meteorological data to around half the world's population.

In partnership with the African Union, Eumetsat, the European Union and others, Thales Alenia Space is contributing to the AMESD (African Monitoring of the Environment for Sustainable Development) project, designed to bring Africans the benefits of the latest space technologies, spawning a growing network of African experts trained to monitor and protect the environment for population groups throughout the continent.

Transport and environmental challenges

Greener rail and road systems

In today's increasingly urbanised world, creating sustainable conditions for urban mobility and inter-city travel is an important way of reducing CO2 emissions. For over 30 years, Thales has



been helping city authorities and largescale transport network operators to meet increasing demand for more efficient travel. The challenge is clear: to convince travellers, who in France, for example, make 85% of their journeys by car, to switch to other modes of transport by offering them multimodal options that are cheaper, quicker and more comfortable.

Thales systems help to make infrastructure operators more efficient while improving the service provided to customers.

The fare collection systems deployed by Thales, for example, allow passengers to use different modes of transport at regional or national level with a single ticket

Metro and urban rail networks form the backbone of urban transportation systems around the world. Each year, they enable over 40 billion passengers to travel smoothly and efficiently with a reduced environmental footprint, since trains produce three times less CO_2 per passenger mile than cars.

Thales leads the field in automated train control systems based on CBTC (Communications-Based Train Control) technology, which significantly increases the number of trains that can operate on

a given line, and thus helps make urban rail systems more efficient.

Thales's ground transport solutions also allow rail operators to cut their energy consumption - by up to 15% with CBTC technology for example - thereby contributing to a further reduction in the carbon footprint of rail transport (see box).

Toll systems for trucks help regulate road traffic flows and provide revenues for vital improvements to infrastructure.

Green Seltrac® CBTC is a comprehensive, innovative solution for reducing energy consumption on metro networks by up to 15% using Thales's CBTC (Communications-Based Train Control) technology. It uses sophisticated optimisation algorithms to limit energy-intensive stop/start cycles and switch power off at pre-determined points so that trains can coast on their own accumulated power whenever possible.

Thales is a leader in CBTC technology, having been the first company to develop it more than 25 years ago.

Green Seltrac® CBTC uses that technology today to protect the environment and reduce operating costs. For an average metro line, the solution cuts CO₂ emissions by around 14,000 tonnes a year, the equivalent of taking 6,000 cars off the road.

On the Kadikoy-Kartal metro line in Istanbul, where Green Seltrac® CBTC was recently deployed, the solution reduced the energy consumption of fully loaded trains by more than 14%.

ENVIRONMENT 95



The French government's Ecotaxe toll collection scheme, in which Thales is one of the major players, will apply to French and foreign heavy goods vehicles using roads in mainland France. Similar systems are already in operation in Germany, Switzerland and Austria.

Free-flow tolling systems, with no channelling lanes or equipment on the ground, are playing an increasingly important role in combating the congestion and pollution that affects urban and interurban routes around the world.

This technology eliminates the stops and starts imposed by conventional toll systems, thereby increasing the capacity of existing road networks and improving driver safety while reducing operating costs and carbon emissions. Not surprisingly, it is proving increasingly successful worldwide, with systems already in service in Australia, Brazil, Canada, Chile, Israel and the United States. In Brisbane, Australia, journey times are reduced and road safety is improved thanks to a latestgeneration electronic toll system from Thales, which improves traffic flows using innovative tolling gantries and associated technology not available anywhere else on the market.

The Global Navigation Satellite System (GNSS) based on Thales technologies is also helping to optimise road traffic flows.

More eco-friendly air transport

Global air traffic is expected to grow to between 415 and 500 million passengers per year by 2030 - double the figure of 228 million passengers recorded in 2005. Largely driven by emerging countries, this growth will also expand the size of the global fleet of commercial airliners, which could increase from 15,000 aircraft today to 31,500 by 2030. Faced with these challenges, the air transport industry is working hard to raise levels of safety and efficiency - and improve the sector's environmental performance at the same

Thales is a market leader in avionics and air traffic management solutions and is a key stakeholder in the major programmes launched in the early 2000s to manage research and technological development projects with a view to enhancing aircraft operations.



Thales is a founding member of Clean Sky, one of the largest European research programmes ever. The objective of this public-private initiative is to speed adoption of new greener design practices by an industry which traditionally has long design and life cycles.

The environmental goals for the Clean Sky initiative have been set by ACARE, the Advisory Council for Aeronautics Research in Europe, for 2020. They include a 50% reduction of CO₂ emissions through a drastic reduction of fuel consumption, an 80% reduction of NOx (nitrogen oxide) emissions, a 50% reduction of external noise, and a green product life cycle (design, manufacturing, maintenance and disposal/recycling).

The Group is coordinating one of the six main research topics, "Systems for Green Operations", which aims to reduce aircraft energy consumption through trajectory management, notably during take-off and approaches. It is also coordinating Clean Sky's "Technology Evaluator", a simulation tool that will be used to assess the environmental impact of the programme.

Thales is also a major player on the SESAR programme, launched by the European Commission in 2004. One of SESAR's key objectives is to reduce aviation's environmental footprint.

Several specific targets have been set:

- by 2020, reduce CO₂ emissions by 10% per flight (against a 2005 baseline);
- reduce aircraft noise emissions by 20 dB during take-off and landing;
- give local environmental regulations a greater role in air traffic management.

To achieve their environmental goals, manufacturers must improve the way aircraft are designed. The objective is to achieve a 10% cut in fuel consumption, and 65% of this reduction will come through better aircraft design. Thales is also partnering a project led by the Consortium for Research and Innovation in Aerospace in Quebec (CRIAQ), a nonprofit organisation established in 2002 to increase the competitiveness of the aerospace industry. Now in its second phase, this project is currently focusing on new wing architectures in an effort to reduce drag and in turn bring down fuel consumption. Such advances will also shorten take-off and landing distances, since aircraft will be able to take off and land at slower speeds.

Smarter cities

Cities are the place where companies and their people, skills and resources come together. They are also the ideal place for innovation.

Globalisation is intensifying competition between cities as well as other economic players. At the same time, a broader perception of climate change and the risk of depleting our natural resources could herald the demise of unbridled consumption. As they address the problems related to galloping urbanisation and changing demographics - more than half the world's population now lives in cities - cities are reassessing their growth models and development strategies.

While problems of social cohesion are becoming more crucial than ever, the growing use of social networks, think tanks and competitiveness clusters are enabling economic players to adopt more concerted, collaborative approaches. At the same time, cities must rethink sustainability and be smarter and more creative in their policies.

Present in the world's largest urban centres for several decades, Thales is at the heart of the transformation process, helping to build the smarter cities of tomorrow. The Group provides interoperable supervision and hypervision solutions which provide operators of transport systems, energy networks and major urban infrastructure with a real-time overview of key events and parameters. Operators are able to optimise flows and configurations, manage equipment status and allocate resources to enhance security, boost operational efficiency, save energy and speed decision-making processes, thereby improving the quality of life of local residents.



Reducing our environmental footprint

THALES IS RESPONDING TO THE MAJOR ISSUE OF CLIMATE CHANGE IN WAYS THAT ARE DIRECTLY RELEVANT TO ITS BUSINESS **ACTIVITIES** THROUGH A STRATEGY OF AT-SOURCE REDUCTION OF CO2 EMISSIONS

The Group is committed to reducing the environmental footprint of its activities by analysing their impact and the associated risks for people and the environment.

Alongside technical and organisational measures, the most effective ways of delivering performance improvements are to share best practices and support behavioural changes.

Reducing carbon emissions

Thales is responding to the major issue of climate change in ways that are directly relevant to its business activities. As well as implementing a strategy of atsource reduction of CO₂ emissions, the Group is helping to raise awareness of climate-related issues through a number of programmes and partnerships, while promoting products and services that support the emission-reduction initiatives of its customers and society at large.

Since Thales introduced indicators of CO₂ emissions and set emission-reduction targets several years ago, awareness of the impact of Thales's activities on climate change has grown, and a number of new opportunities have been identified. For example, refurbishing and renovating certain buildings to more stringent ecological standards and changing equipment and consumption habits are just some of the measures taken to improve energy efficiency and in turn reduce CO₂ emissions.

Ozone-depleting substances used in refrigeration systems are being monitored and reduced under specific plans, particularly those cited in the **Kyoto Protocol**. Of these, SF6 accounts for more than 40% of Thales's CO_2 emissions linked to Protocol substances. This gas, used in a specific industrial process to insulate electronic tubes during high-voltage tests, has a global warming potential of 23,600kg CO₂ per kg. The few sites that use SF6 have implemented ambitious plans, such as eliminating it altogether from tube manufacturing processes, or modifying installations that operate using the gas, and have reduced emissions by 82% since 2007.

Thales has also stepped up initiatives to reduce emissions from business travel (by road, air and rail). Efforts have continued to encourage the use of videoconferencing and teleconferencing, car sharing and hiring vehicles with lower fuel consumption.

Since 2005, Thales has reported to the Carbon Disclosure Project (CDP) website, in complete transparency, on its climate change strategy and its progress in reducing CO_2 emissions. The \overline{CDP} brings together over 722 institutional investors managing assets of \$87 billion worldwide. Its aim is to assist investment decisions taken by its members by informing them of the effects of climate change on companies. In 2012, Thales scored 87 out of 100 for climate change performance.

TOGETHER

SUSTAINABLE MOBILITY IN VENDÔME, FRANCE

Changing our travel habits is difficult to do, and convincing drivers to use public or sustainable modes of transport (for example walking or cycling) is no easy task. But that is just what the Thales Avionics site in Vendôme, France has set out to do. "Some people are resistant to the change," says Joël Cuisy, the site's project manager. "Many of them still don't want to travel any other way than in their cars, but I think our plan really is the way forward." As a pioneer in the development of alternative modes of transport in the region, Thales recently worked with laroueverte.com to launch a car-sharing website for its employees, and plans to use an electric car for travel between its two Vendôme area sites.

ENCOURAGING OTHERS TO HELP FIGHT CLIMATE CHANGE

In addition to reducing greenhouse gas emissions from its own activities, Thales encourages its partners to take a responsible attitude to climate issues. Since 2009, the Group has co-chaired the Carbon working group of the French aerospace industries association (GIFAS) and is a member of the Greenhouse Gas working party of the International Aerospace Environmental Group (IAEG) to define international standards. Thales is also engaged in partnerships with other industry players as well as research laboratories and government agencies. A new university chair in greenhouse gas emissions monitoring, inaugurated in December 2011, provides a perfect example. Scientific partners supporting the professorship include the Laboratoire des Sciences du Climat et de l'Environnement (LSCE), the French atomic energy commission (CEA), the University of Versailles Saint-Quentin-en-Yvelines (UVSQ) and the National center for scientific research (CNRS), while industrial partners include Veolia Eau and Thales Alenia Space.

WHICH OF THALES'S SITES IS THE GREENEST?

EVERYWHERE

A Thales team in Canada was behind this unique crowdsourcing activity organised for GIS Day 2013*. Using CartoDB, a geospatial data management tool, the team plotted all of Thales's sites on a world map and then made a list of different modes of transport. Each mode was given an eco-friendliness score. The team tallied the responses from participants (1,436 from 25 different countries) to calculate an average score for each

*20 November 2013. GIS (for geographic information systems) Day is an international day dedicated to showing the public how geography is used in our daily lives.

Reducing consumption of natural resources

Thales has been developing a natural resources strategy for several years and has introduced various programmes aimed at controlling and reducing consumption. These programmes focus on areas such as energy efficiency of buildings and industrial processes and optimisation of water use.

Raising employee awareness of best practices is another vital part of the strategy. The Group has undertaken a variety of initiatives alongside its communication campaigns, such as the "10 for 10" campaign in the United Kingdom (10 actions to reduce energy consumption

by 10%). Throughout the year, employees are reminded of simple things they can do to reduce energy consumption, while particularly motivated individuals can go on to become Green Champions. The Group launched a similar initiative in Spain, "DesconéscThales", also aimed at reminding staff of what they can do to improve energy efficiency.

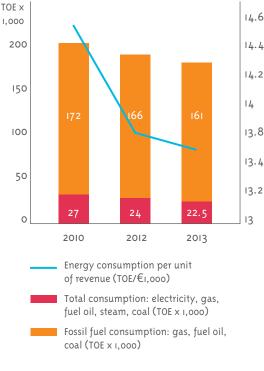
Since 2007, Thales has defined targets for reducing energy consumption in a bid to address the energy issue. After reducing its energy consumption by 12% between 2008 and 2012, the Group continued its efforts by achieving a further cut of 3% in 2013.

Limitations on the use of fossil fuels, combined with a raft of energy saving initiatives, are key drivers behind the Group's success in reducing its energy footprint. The percentage of electricity from renewable sources now represents more than 13% of electricity consumption.

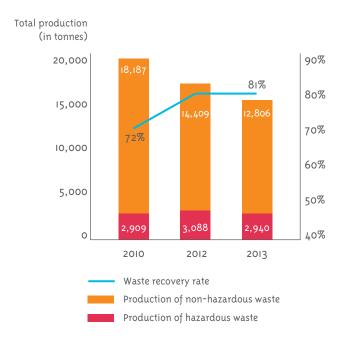
New energy-efficient buildings help to reduce energy consumption (see box). Green IT is also used to reduce the environmental footprint of IT equipment and of information systems in general. The use of new-generation inverters and the optimisation of IT equipment have helped reduce energy consumption by over 10% in some cases.

Water is a fundamental resource that needs to be preserved. The Group's programme launched in 2000 to reduce water consumption continues to deliver

ENERGY CONSUMPTION



WASTE **PRODUCTION**



EVERYWHERE

results, with a 41% reduction achieved at worldwide level, and 50% in France,

Limiting discharges and reducing waste

between 2008 and 2013.

In general, Thales's activities do not generate atmospheric discharges, with the exception of those linked to site operations (in particular heating). A few sites do generate industrial discharges to the atmosphere, which are collected and treated where necessary by means of air filters, gas scrubbers, etc. and are regularly checked. The most frequent discharges involve solvents.

With the exception of the Mulwala propellant manufacturing plant in Australia, the use of solvents is mainly linked to isolated individual activities such as paintwork detailing or small-capacity component degreasing baths. The quantities used are therefore limited. However, it is difficult to measure atmospheric emissions, since they are not systematically collected.

Although 67 entities purchase solvents, 90% of solvent purchases concern just four sites (85% are purchased for the Mulwala facility alone). Together, the Group's Australian facilities account for 91% of total emissions. Many sites have eliminated solvents or use detergents instead.

ENERGY-EFFICIENT BUILDINGS



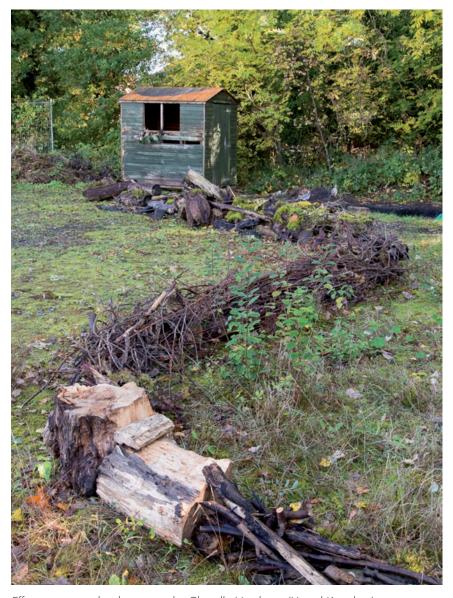
Rivergate, Thales's headquarters in Vienna, Austria

Refurbishing and renovating certain buildings to more stringent ecological standards and changing equipment and consumption habits are just some of the measures taken to improve energy efficiency and in turn reduce CO2 emissions. By choosing certain types of equipment and building features (including overall architecture, materials, technical building management, comfort, access, dedicated car parks for car sharing, vehicle recharging stations, etc.), we are contributing to the fight against climate change. criteria must be met before the premises are made available.

Cristal, the new headquarters of Thales Communications & Security in Gennevilliers, near Paris, uses the latest technology to reduce energy consumption, employing highly insulated walls and roofs, triple glazing, reversible heat pumps, dynamic low-energy

auto-on/off lighting, and a centralised facilities management solution.

The headquarters of Thales Austria, "Rivergate", houses the greenest offices in the country and has already obtained the EU Green Building certificate and LEED (Leadership in Energy and Environmental Design) Platinum certification thanks to a raft of initiatives encompassing water and energy use as well as materials. The site is well served by public transport, offering fast access to the city centre and the airport, and is close to an extensive network of cycle paths. The headquarters of Thales USA was the first site to receive LEED certification; it was certified LEED 2012) thanks to its initiatives to reduce energy consumption and CO, emissions, recycle waste and use recycled and/or locally sourced construction materials.



Effort to promote biodiversity at the Cheadle Heath site (United Kingdom)

Thales's activities generate little in the way of industrial wastewater discharges. 90% of such discharges originate from just six sites, and 60% from the Mulwala facility alone. Despite increases in production at certain sites, wastewater discharges have fallen by 14% since 2012 as a result of ongoing plant optimisation and modernisation measures.

Some sites that are not connected to public networks discharge their industrial wastewater into surface water, after treatment, in accordance with regulations and with the approval of local authorities.

As part of its waste targets, Thales aims to reduce the quantity of waste it produces, as well as the amount sent to landfill. To further boost performance in this area, the target for 2015 is again aimed at reducing the quantity of waste produced per person as well as improving the recycling rate.

Having reduced the quantity of nonhazardous waste produced per person by 11% between 2010 and 2012, Thales went even further in 2013 and achieved an additional 5% reduction by introducing various waste sorting measures, finding optimum waste treatment streams and changing behaviours (for example through the introduction of a new printing policy, and the re-use of cardboard and other packaging to reduce waste production and improve waste treatment).

For example, volumes of paper and packaging waste continued to fall (down by 10% compared with 2012).

The recycling rate for non-hazardous waste increased from 31% in 2007 to 56% in 2013.

The Group has also focused heavily on hazardous waste, which it manages using dedicated collection and storage areas.

As a result of measures taken since 2007, 82% of all waste is now recovered.

Protecting natural sites and preserving biodiversity

Preserving species and their habitats, for example areas containing native flora, and protecting our natural and historic heritage must be a part of our day-to-day efforts to help protect the environment.

The Group has been working to address this major environmental challenge for many years, having drawn up an initial inventory of French sites located in or near protected areas containing rare or endangered flora, fauna and habitats in 2006. It also evaluated the impact of its activities on biodiversity at certain sites, and the extent to which the company is dependent on the "ecosystem services" provided by nature.

At the same time, as part of a macroscopic approach, Thales mapped biodiversity risks at 140 sites in 26 countries in order to obtain a cohesive overview of Group sites located in areas with the highest biodiversity risks.

Although the overall impact of the Group's activities on biodiversity is low, flora and fauna are of particular concern at a number of sites, and Thales encourages employees everywhere to preserve and promote biodiversity. An internal competition open to all Group employees awards prizes to the three best biodiversity projects selected by a panel of judges. In 2013, the Cheadle Heath site in the United Kingdom won an award under the scheme for its work on the environmentally friendly restoration of a pond, and the introduction of wildflower fields, fruit trees, bird nesting boxes and "insect hotels".

A range of local initiatives have been implemented at worldwide level to protect flora and fauna. Inventories of species are carried out at certain sites, either on a volunteer basis or in partnership with the authorities or local biodiversity

ALTHOUGH THE
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IS LOW, FLORA
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protection organisations, and tailored habitat management measures are put in place. At Lithgow (Australia), in close cooperation with the Lithgow Council for Endangered Species, a habitat management plan has been established for one of the rarest species of butterflies in Australia, the Bathurst Copper. The aim is to stabilise the butterfly population and then help it to expand as part of a wider programme set up by the National Parks and Wildlife Service.

Other sites will focus on outdoor projects to preserve the natural habitat and protect fauna (including bird boxes, feeders, species survey by an expert, etc.) or reestablish native plant species, thereby providing a reasonably safe, protected haven for a huge variety of plants, fungi and animals.

For sites with large areas of open grassland or forest, particular precautions are taken to protect fauna and flora by using natural, low-impact mowing and grazing methods.

At other sites, employees are made aware of biodiversity issues through a range of initiatives, including photographic exhibitions devoted to the forest and to agroforestry or to species present on the site, beekeeping demonstrations, registers of local species and biodiversity blogs.

Partnerships have been set up with local authorities and organisations. In Mexico, for example, Thales employees and their families took part in a planting day in a park in Mexico City, organised in cooperation with the Ministry of the Environment. Thales also funded an expedition by an employee who is a bird-watching enthusiast, in aid of the charity Go South. The charity, which celebrated its 10-year anniversary in 2013, was created to share and disseminate information about birds and nature in Morocco. The expedition covered vast, relatively unknown areas between Agadir and the Mauritanian border, with a view to producing a report on birds in Morocco's Atlantic Sahara region (for more information, visit www.go-south.org).





Looking for rare birds in the Moroccan Sahara.

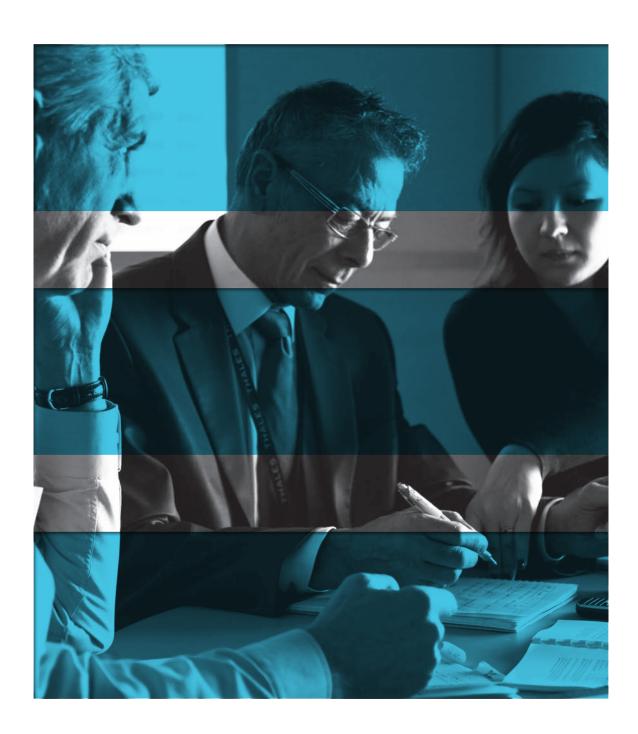
ENVIRONMENTAL INDICATORS

The information in the table below allows the Group's environmental performance to be assessed on a like-for-like basis. In 2013, the scope included 29 countries and 158 sites, representing 91% of revenues and 91% of the Group's workforce.

2012 is now the baseline year for 2013-2015 targets.

		UNITS	EVOLUTION 2007-2010	EVOLUTION 2010-2012	2012	2013	TREND
ENERGY							
Electricity consumption	~	TOE x 1,000	-5%	-4%	139	136	-2%
Electricity consumption per unit of revenue	~	tep/k€	-	-5%	11.5	11.4	-1%
Fossil fuel consumption	~	TOE x 1,000	-42%	-11%	24	23	-6%
Fossil fuel consumption per unit of revenue	~	tep/k€	-	-13%	2	1.9	-5%
Total energy consumption per unit of revenue	✓	TOE x 1,000	-11%	-5%	166	161	-3%
Per sales total energy consumption	~	tep/k€	-	-6%	13.7	13.5	-2%
WATER							
Water consumption	~	m³ x 1,000	-21%	-1%	1,768	1,612	-9%
Water consumption per unit of revenue	~	m³/k€	-	-2%	146	135	-8%
WASTE							
Total production of waste	~	tonnes	-14%	-20%	17,463	15,746	-10%
Total production of waste per unit of revenue	~	kg/€1,000	-9%	-21%	1.45	1.32	-9%
Percentage of non-hazardous waste	~	%	-	-	83	81	-1%
Non-hazardous waste per person	~	kg/pers	-20%	-11%	199	189	-5%
Non-hazardous waste recycling rate	✓	%	39%	8%	52	56	8%
Hazardous waste recycling rate	~	%	10%	-8%	29	33	11%
DISCHARGES							
Industrial wastewater discharges	✓	m³ x 1,000	-57%	47%	782	672	-14%
Atmospheric discharges	~	tonnes	-	-30%	694	857	23%
CO ₂							
CO ₂ emissions from energy use	~	CO ₂ tonnes x 1,000	-18%	-5%	227	217	-5%
CO ₂ emissions from energy use per unit of revenue	~	CO₂ kg/€1,000	-33%	-6%	19	18	-4%
CO ₂ emissions linked to Kyoto Protocol substances	~	CO₂ tonnes x 1,000	-10%	-49%	19.1	16.1	-15%
of which CO ₂ emissions linked to SF6	~	CO _z tonnes x 1,000	-28%	-56%	11.4	6.7	-42%
CO ₂ emissions from business travel (Group-wide)	~	CO₂ tonnes x 1,000	-15%	-4%	107	107	-
CO_{z} emissions from business travel per unit of revenue	~	CO₂ kg/€1,000	-	-5%	8.9	8.9	-
CO2 SCOPES according to GHG Protocol							
Scope (gas, fuel oil, coal, substances)	~	CO2 tonnes x 1,000	-31%	-21%	99	88	-11%
Scope 2 (electricity, steam)	~	CO₂ tonnes x 1,000	-6%	-1%	168	160	-4%
Scope 3 (business travel by air, rail, road)	~	CO2 tonnes x 1,000	-15%	-4%	107	107	-
Total scopes 1, 2 and 3	~	CO₂ tonnes x 1,000	-16%	-8%	374	355	-5%
Total scopes 1, 2 and 3 per unit of revenue	~	CO₂ kg/€1,000	-	-	31	30	-5%
OTHER							
ISO 14001 certified entities	~	-	70%	-	124	125	-
Staff concerned as percentage of total workforce	~	%	15%	-	80%	82%	-

 $[\]checkmark$ Indicators reviewed by Ernst & Young for the 2013 reporting period and included in limited assurance conclusion.



Community engagement

All over the world, Thales companies play an active role in the community and are major players in the local economy.

OUTLINE

Thales strives to promote dialogue, consultation and participation in each of its 56 countries of operation. Its activities support the local economy and are part of the larger ecosystem of local authorities, partners, subcontractors and suppliers.

Everywhere it operates, the Group aims to act responsibly in order to foster lasting relationships with all of these players.

It invests in communities by establishing educational partnerships, donating to health and educational charities and, on a more local level, supporting veterans and military families, among other efforts. Any financial support granted anywhere is provided in compliance with the rules defined in the Thales Code of Ethics.

Respecting and promoting local cultures is an essential part of responsible corporate behaviour. Local players can only participate effectively if the company integrates cultural concerns into its entire policy. This is not only a question of respecting local and national differences but of promoting them as well. Throughout the world, Thales strives to reconcile economic efficiency and a respect for local differences.

A global player, acting locally

Thales's policy in each country is to develop close, authentic ties with economic and other players in society, local institutions and communities. Local subcontractors and suppliers are used wherever possible to support economic activity in the area.

The Thales entity Geris Consultants helps create permanent, sustainable job opportunities in areas affected by industrial job losses by making its expertise available to other companies and local authorities in order to provide guidance and financial assistance to developing SMEs/SMIs. Through its regeneration programmes, Geris has helped create over 3,400 jobs in France, including 434 in 2013 alone, with around 500 SMEs/SMIs.

Consultants also provides free, confidential services to assist entrepreneurs who have plans to set up or buy a company.

It also conducts trial programmes in the field of human resources, with the aim of developing the skills of SMEs/SMIs working in its industries or the regions where it operates. The "Pass'Compétences" programme, for example, is aimed at boosting the development of SMEs by assigning them experts from major groups (e.g. Thales, Alcatel-Lucent, Schneider Electric, etc.) for secondments lasting between 12 and 18 months. Ten of these secondments were completed between October 2012 and 1 January 2014. The programme will be continued and expanded throughout France in 2014. Geris Consultants also works with Thales's HR teams on the "Parcours Partagé d'Apprentissage" programme, which aims to organise apprenticeships alternating between major groups and SMEs/SMIs in order to facilitate integration into the workforce.

Thales invests in education, having established numerous partnerships with educational establishments to promote its disciplines and areas of specialisation, encourage young people to make appropriate training choices, develop close ties with students. We believe in the importance of students and businesses sharing their experience and knowledge.

CONSTRUCTIVE DIALOGUE WITH STAKEHOLDERS

Civil society

NGOs and associations •

Expectations

- Continuous improvement of business practices
- Commitment to social and environmental issues
- Industrial safety and security
- Local economic benefits
- Reliable information

Relationships

- Information
- Partnerships and working groups
- Sponsorship
- Media relations

Specific initiatives

- Member of the United Nations Global Compact
- Active member of business ethics and anti-corruption working groups in national and international bodies and industry
- Assistance for SMEs and country policies designed to support local economic activity
- Environmentally friendly research and innovation programmes (in ground and air transport)

^{*}In the 2000s, Thales established a formal corporate responsibility policy based on a permanent dialogue with stakeholders. The policy is continuously improved to respond to an evolving and increasingly complex environment.



Thales also has an active policy of supporting people with disabilities. A number of initiatives are aimed in particular at young disabled individuals, such as internships and access to educational partnerships. Thales is committed to the development of innovative technologies that bring practical benefits to disabled employees.

It also strives to be a responsible member of society, despite far-reaching and ever-increasing demands. The Group supports a number of community and charity initiatives around the world, most of them involving locally based child health and education programmes.

For example:

• In the United Kingdom, Community Investment lies at the heart of Thales's initiatives in respect of employees, customers, investors and suppliers. These initiatives include working with schools and higher education institutions to give children and young people a better idea of the career prospects offered by studying engineering.

In 2013, through its Charitable Trust, Thales UK made a donation to the UKESF (UK Electronics Skills Foundation) to establish a residential summer school for students preparing to enrol at university. Thales actively supported a host of scientific initiatives in 2013, such as the "Big Bang Young Scientists and Engineers" fair, which had 65,000 visitors, "Women into Science and Engineering", a competition to encourage young women to pursue careers in science, and 10 scholarships for science students through the Arkwright Scholarship programme.

It also continued its partnership with Railway Children.

The "Give As You Earn" programme, set up in 2012, enables employees to give a percentage of their gross salary to a charity of their choice, with only part of it deducted from their net salary (the rest is covered by Thales). In 2013, thanks to contributions from employees and Thales, a cheque for £170,000 was

presented to the Alzheimer's Society, which employees chose as a key charity partner;

- In Spain, Thales supports projects in which staff are directly involved. Any employee of Thales España can apply for funding to set up a charitable project under the Thales Commitment programme. In 2013, Thales partnered 10 projects run by different foundations and associations:
- In Italy, the Group renewed its Christmas card partnership with UNICEF;
- In the United States, Thales sponsors several charities that provide support to veterans and military families, as well as local initiatives to help underprivileged families. In 2013, Thales USA collected \$60,000 from its entities and employees for victims of Hurricane Sandy. IFEC (In-Flight Entertainment and Connectivity) employees also provided financial support to disaster victims in the Philippines;



- In **Switzerland**, Thales made a donation to the Swiss Red Cross for the victims of Typhoon Haiyan in the Philippines;
- In **Germany**, Thales donated to around 30 charity and local support programmes, mainly in aid of children, healthcare and the arts;
- In **France**, Thales continued its commitment to supporting schools and universities, and had sponsorship programmes in place at around 20 universities (including Supelec, Polytechnique, ESCP Europe, ISAE, ESSEC, ISEP, etc.).

The Group was also a corporate sponsor of events marking 60 years of the Patrouille de France, the national air display team. As a partner of the association Replic'Air, Thales helped to build an exact replica of the two-seater aircraft used by Roland Garros 100 years ago. The effort paid off when the plane successfully re-enacted the crossing of the Mediterranean in 2013.

In order to better structure and organise its community engagement efforts, the Group plans to create a Thales Foundation, and organised several assessments and working groups in 2013 for that purpose.



SERVING THALES AND COUNTRY



Today, more than 200 Thales employees are also military reservists. Most of them work in France, where they have formed their own club.

As a member of the Association des Entreprises
Partenaires de la Défense since 2006, Thales does
a great deal to support the reservists on its payroll.
In 2013, Thales management decided it would release
reservists for up to 15 days a year on full pay instead
of the five days a year mandated by law.

The dual role of reservists — as civilians at Thales and military personnel with the armed forces — strengthens the bond between the Group and its customers. Serving with the reserve is a call of duty, and reservists help to create closer ties between the armed forces and civil society.

Career considerations aside, however, a reservist's main motivation is without doubt the desire to serve his or her country and stay connected with military circles, while at the same time promoting defence-related issues in a family and work-related setting.

In the French Army, for example, reserve units are most often called in as reinforcements for national security operations. These include operations like Vigipirate, when security forces are placed on maximum alert, site surveillance missions or disaster response and recovery, operating alongside or supporting active servicemen and women. Reservists also honour the nation's history, taking part in commemorations of the end of the First and Second World Wars, National Day celebrations and a range of outreach activities.

For its efforts in support of France's military reserve policy, Thales received the military reserve award on 9 April 2014. This award is given by the French Minister of Defence to recognise the companies that are most committed to supporting reservists.



The Thales delegation on 4 April 2013 at St. Maximin, France. From left to right: Eva Kouda, General Jean-Marie Faugère, Patrice Caine, Clémence Philippon. Maud Le Cam. Jean-Michel Néaret. Cédric Jouis.



Defence Minister lean-Yves Le Drian meeting Thales reservists

For more information

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