

# 2014 Registration Document

ANNUAL FINANCIAL REPORT



# Table of contents

Chairman & chief executive officer's foreword	
Overview of the Group	
History	
Key data	

## 1

2	<b>FINANCIAL INFORMATION 2014</b>	<b>7</b>
3	1.1 Group management report	8
4	1.2 Consolidated financial statements	29
5	1.3 Parent company management report and financial statements	87

## 2

	<b>BUSINESS REVIEW</b>	<b>121</b>
2.1	Operating segments	122
2.2	Research and innovation	131
2.3	Relations between Thales and its subsidiaries	134
2.4	Information about major operational subsidiaries and manufacturing sites	136

## 3

	<b>CORPORATE GOVERNANCE</b>	<b>139</b>
3.1	Members of the Board of directors at 31 December 2014	140
3.2	Chairman's report to the General Meeting of 13 May 2015 on corporate governance, internal control and risk management	148
3.3	Statutory auditors' report prepared in accordance with Article L.225-235 of the French Commercial Code (Code de commerce) on the report of the Chairman of the Board of directors of Thales	161
3.4	General management	162
3.5	Incentives and profit-sharing	173
3.6	Statutory auditors	174

## 4

	<b>COMPANY AND SHARE CAPITAL</b>	<b>177</b>
4.1	General information about the Company	178
4.2	General Meetings	179
4.3	Share capital and shareholders	180
4.4	Regulated commitments	193
4.5	Stock market information financial communication	198

## 5

	<b>CORPORATE RESPONSIBILITY</b>	<b>205</b>
5.1	Social Information	206
5.2	Environmental information	220
5.3	Societal information	232
5.4	Statutory auditors' independent third-party report on consolidated social, environmental and societal information published in the management report	239
5.5	Social, environmental and societal information	241



# 2014 Registration document

Including the Annual Financial Report



The registration document was filed with the Autorité des Marchés Financiers (AMF) on 1 April 2015, in accordance with Article 212-13 of the AMF General Regulations. It may only be used in support of a financial transaction if accompanied by a prospectus authorised by the AMF. It was drawn up by the issuer and its signatories accept liability.

The English language version of this report is a free translation from the original, which was prepared and filed with the AMF in French language. All possible care has been taken to ensure that the translation is an accurate presentation of the original. However, in all matters of interpretation, views or opinion expressed in the original language version of the document in French take precedence over the translation.

In accordance with Article 28 of Commission Regulation (EC) no. 809/2004, the following information is incorporated by reference in this registration document:

- the consolidated financial statements and corresponding audit reports found on pages 32 to 93 of the 2012 registration document filed with the AMF on 3 April 2013;
- the Group's financial information, key figures and management report, found respectively on pages 5 and 8 to 31 of the 2012 registration document filed with the AMF on 3 April 2013;
- the consolidated financial statements and corresponding audit reports found on pages 31 to 89 of the 2013 registration document filed with the AMF on 1 April 2014;
- the Group's financial information, key figures and management report, found respectively on pages 5 and 8 to 30 of the 2013 registration document filed with the AMF on 1 April 2014.

The omitted sections of these documents are either irrelevant to the investor, or addressed elsewhere in this registration document.

# CHAIRMAN & CHIEF EXECUTIVE OFFICER'S FOREWORD

Thales had a robust performance in 2014.

The implementation of our strategic vision, Ambition 10, and of all of the concrete initiatives that accompany it, whether they relate to growth, competitiveness or talent, is beginning to bear fruit.

This can be seen in the strong growth in order intake, which progressed by 8% at constant scope and exchange rates to more than €14 billion. Last year, we were awarded 19 «large» contracts of over €100 million, half of which are in emerging markets. Our orders in these markets have increased more than 40% in two years, thus confirming the soundness of our strategic vision.

More generally, in 2014 Thales either met or exceeded all of its objectives, excluding the impact of DCNS losses in civil nuclear and certain naval programmes. Excluding that impact, our EBIT progressed by 13% compared with last year, despite stable sales. This favourable evolution is directly related to our efforts to increase competitiveness and improve our contract execution. In addition, we continued to prepare for the future, again reinforcing our research and development efforts as well as our industrial investments. Finally, our strong cashflow generation and sound financial structure gives us the flexibility we need to conduct targeted acquisitions, such as the acquisition of Live TV in the United States.

These results reinforce my confidence in our long-term vision for the Group as well as my determination to implement Ambition 10.



In 2015, thanks to the increase in our order intake over the last two years, we expect return to top line growth, for the first time in years, and to show improvement in results.

Beyond that, it is by pursuing our growth, reinforcing our competitiveness, and developing the talents of the men and women of Thales that we will set the Group on a sustainable path of development and profitability.

**Patrice Caine**  
*Chairman & Chief Executive Officer*

# OVERVIEW OF THE GROUP

Thales is a global company helping to make the world a safer place. Wherever complex environments exist, the Group partners locally and internationally with public stakeholders and business clients in order to provide reliable, efficient and secure solutions, across five key markets: Aeronautics, Space, Ground Transportation, Defence and Security.

Thales integrates smart technologies, systems, software, services and equipment. The Group innovates, develops and builds end-to-end solutions, at the heart of which are infrastructure operators, controllers, pilots, armed forces and crews, the people whose role it is to make critical decisions every day. Thales places at their disposal sensors and cyber secure data communications, decision-support systems, services, controlled and automated response systems.

With solutions embedded into critical operating environments, Thales ensures that decisions-makers are better equipped to assess and respond to the operational challenges they face, whilst maintaining the safety and security of the people and assets they protect.

In **Aeronautics**, Thales equips pilots, crews and controllers with fully connected, technology-enabled avionics and air traffic control solutions suited to this complex and demanding environment. Whilst ensuring safety and security, the connected solutions simplify operational management in aircraft flying in more densely crowded skies; they further increase fuel and operational efficiencies, shorten journey and turn-around times; and provide passengers with a ever more entertaining and connected flying experience.

In **Space**, Thales is a premier manufacturer of satellites and space technologies. Thales designs, integrates, deploys and operates innovative space systems. Featuring cutting-edge technologies, these systems meet the needs of commercial, government, scientific, defense and security customers. Thales sets the global standard for space

**Together — Safer —  
Everywhere**

*Ensemble,  
pour un monde  
plus sûr, partout.*

systems that provide communications and navigation services, monitor our environment and the oceans, help to better understand climate change and drive scientific progress.

In **Ground Transportation** Thales works in partnership with customers to deliver innovative, integrated, end to end signalling, supervision and fare collection solutions that bring significant levels of operational automation, efficiency, control and safety, whilst delivering enhanced passenger experiences and improved network capacities.

In **Defence** Thales equips defence forces in the air, on land and at sea with the means to better assess and respond to the strategic and tactical challenges they face, to maintain superior situational awareness, decision-making and operational capability under all circumstances. This enables them to maintain the safety and security of their allies, the citizens and assets they protect.

In **Security**, Thales offers integrated solutions required to contain or reduce risk, particularly in the fields of cyber-security and urban and infrastructure security, whilst minimising disruption to the flow of passengers, citizens, commerce and data. Thus they are able to make decisions and take actions in the knowledge that they have accurate information and the operational means of detecting and responding effectively to threats in order to maintain security.

In designing and delivering every solution, Thales draws on the long term relationships built with customers and an intimate knowledge of the complex environments they manage. Thales leverages its resolve for innovation, a strong 'delivery culture', its first-class smart technologies, global partnerships, and the combined expertise of 61,000 employees operating through locally based operations worldwide.

# HISTORY

- 1893** Compagnie Française Thomson-Houston (CFTH) established to exploit the patents of the US company Thomson-Houston Electric Corp. in France, in the field of power generation and transport.
- 1918** Compagnie Générale de Télégraphie Sans Fil (CSF), a pioneer in broadcasting, electro-acoustics and radar technology, set up.
- 1968** CSF and the professional electronics businesses of Thomson-Brandt merge to form Thomson-CSF.
- 1982** Thomson-CSF nationalised.
- 1983** Civil telecommunications businesses sold to Compagnie Générale d'Électricité (now Alcatel-Lucent).
- 1987** Medical imaging business (CGR) sold to General Electric; semiconductor business merged with that of the Italian company SGS to form SGS-Thomson.
- 1989** Acquisition of the defence electronics business of the Philips group.
- 1997** Interest in SGS-Thomson (now STMicroelectronics) divested.
- 1998** Thomson-CSF privatised; Alcatel and Groupe Industriel Marcel Dassault (GIMD) contribute assets and become shareholders. Satellite businesses of Alcatel, Aerospatiale and Thomson-CSF merge to form Alcatel Space, jointly owned by Thomson-CSF (49%) and Alcatel (51%).
- 1999** Thomson-CSF acquires 100% control of Sextant Avionique, the avionics joint venture between Thomson-CSF and Aerospatiale (now Airbus Group).
- 2000** Takeover of Racal Electronics in the United Kingdom.  
Thomson-CSF changes its name to Thales.  
Thales and Raytheon form joint venture Thales Raytheon Systems in air defence.
- 2001** Thales sells its stake in Alcatel Space.
- 2007** Thales acquires the transport, security and space businesses of Alcatel-Lucent and sells its French naval surface business to DCNS.  
  
At the same time, acquisition of a 25% stake in DCNS from the French government.
- 2009** Acquisition by Dassault Aviation of Thales shares held by Alcatel-Lucent and GIMD. Dassault Aviation becomes a shareholder of Thales, with a 26% stake in the Company.
- 2011** Thales increases its DCNS interest to 35%.

# KEY DATA

(€ million)	2014	2013 <sup>(1)</sup>
Order book at year-end	27,285	24,469
Order intake	14,363	12,928
Sales <sup>(2)</sup>	12,974	12,698
France	3,419	3,497
Rest of Europe	4,252	4,148
North America	1,350	1,479
Australia/New Zealand	667	697
Emerging markets <sup>(3)</sup>	3,286	2,877
EBIT <sup>(4)</sup>	985	1,011
Adjusted net income, Group share <sup>(5)</sup>	562	642
Free operating cash flow <sup>(6)</sup>	501	477
Net operating investments	(443)	(358)
Net financial investments	(374)	(35)
Self-funded R&D <sup>(7)</sup>	(675)	(638)
Net cash at year-end	1,006	1,077
Equity, Group share	3,771	3,847
Consolidated workforce at year-end	60,781	59,467

(1) In this registration document, all of the 2013 data have been restated to take into account the introduction of the IFRS 10/11 standards.

(2) Sales by destination

(3) All countries in Asia, the Middle East, Africa and Latin America.

(4) An adjusted operating aggregate, corresponding to income from operations, plus the share of the net income of equity-accounted companies, before the amortisation of purchased intangible assets (purchase price allocation, PPA). See presentation of financial information in the Group management report on page 8.

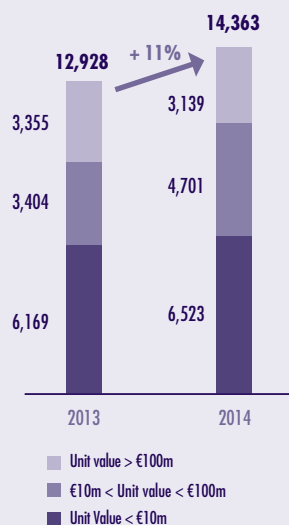
(5) The adjusted net income excludes (i) the amortisation of purchased intangible assets, (ii) the «result of disposals, variations in scope and others» (as presented in the consolidated financial statements), (iii) change in the fair value of foreign exchange derivatives (recorded in «other financial results» in the consolidated accounts), as well as (iv) the actuarial gains on long-term benefits (accounted within the «finance cost on pensions and other long-term benefits» in the consolidated accounts) net of tax effects. See presentation of financial information in the Group management report on page 8.

(6) See definition on page 8.

(7) Including capitalised R&D.

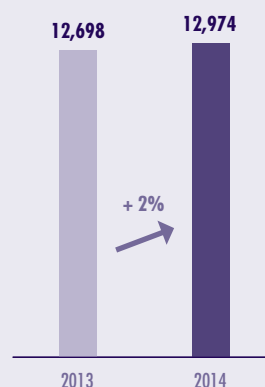
## ORDER INTAKE

€ million



## SALES

€ million



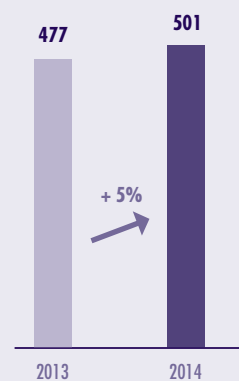
## EBIT<sup>(2)</sup>

€ million



## FREE OPERATING CASH FLOW

€ million



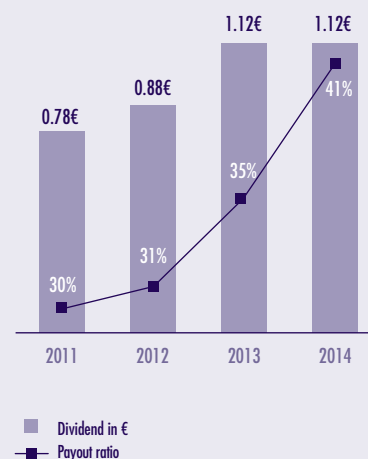
(1) Excluding 35% share in net income of DCNS.  
 (2) Non-GAAP indicator, see definition on page 8.

## ADJUSTED NET INCOME

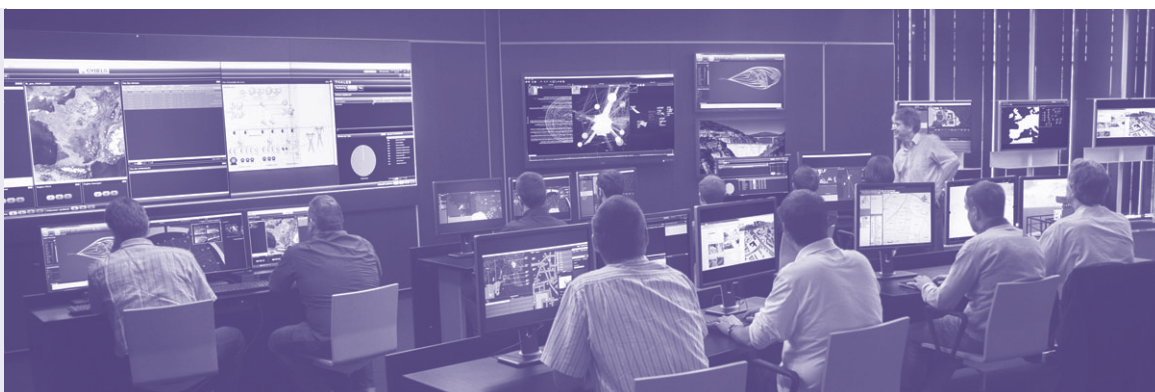
€ million



## DIVIDEND AND PAY OUT RATIO







## 1

# FINANCIAL INFORMATION 2014

<b>1.1</b>	<b>GROUP MANAGEMENT REPORT</b>	<b>8</b>
1.1.1	Report on operations and results	8
1.1.2	Risk factors	14
1.1.3	Social, environmental and societal information	25
1.1.4	Events since year-end	27
1.1.5	Summary statement of share transactions in 2014 carried out by directors, non-voting directors and related persons	28
<b>1.2</b>	<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>29</b>
1.2.1	Consolidated profit and loss account	29
1.2.2	Consolidated statement of comprehensive income	30
1.2.3	Consolidated statement of changes in equity	31
1.2.4	Consolidated balance sheet	32
1.2.5	Consolidated statement of cash flows	34
1.2.6	Notes to the consolidated financial statements	35
1.2.7	Statutory auditors' report on the consolidated financial statements	85
<b>1.3</b>	<b>PARENT COMPANY MANAGEMENT REPORT AND FINANCIAL STATEMENTS</b>	<b>87</b>
1.3.1	Parent company management report 2014	87
1.3.2	Parent company financial statements	90
1.3.3	Statutory auditors' report on the financial statements	119

# 1.1 Group management report

## 1.1.1 REPORT ON OPERATIONS AND RESULTS

In 2014, Thales achieved or exceeded all of its objectives, excluding the impact of losses related to DCNS. Sales were maintained at a stable level, and with a sharp increase in order intake for the second consecutive year, the Group improved its operating profitability (excluding DCNS).

### 1.1.1.1 Key figures (adjusted)

(€ million)	2014	2013 <sup>(a)</sup>	Total change	Organic change <sup>(b)</sup>
Order intake	14,363	12,928	+11%	+8%
Order book	27,285	24,469	+12%	+5%
Sales	12,974	12,698	+2%	-1%
EBIT <sup>(c)</sup> excluding DCNS <sup>(d)</sup>	1,102	971	+13%	+8%
in % of sales	8.5%	7.6%		
EBIT <sup>(d)</sup>	985	1,011	-3%	-8%
in % of sales	7.6%	8.0%		
Adjusted net income Group share <sup>(d)</sup>	562	642	-12%	
Adjusted net income Group share, per share <sup>(d)</sup>	€2.75	€3.20	-14%	
Consolidated net income, Group share	714	573	+25%	
Dividend per share	€1.12 <sup>(e)</sup>	€1.12	0%	
Free operating cash flow <sup>(f)</sup>	501	477	+5%	
Net cash	1,006	1,077	-7%	

(a) Restated to reflect the first adoption of IFRS 10 and IFRS 11.

(b) In this report, «organic» means «at constant scope and exchange rate».

(c) Non-GAAP measure, see definition below in the section «Presentation of financial information».

(d) In this management report, «excluding DCNS» means «excluding the impact of the 35% share in the net income (loss) from DCNS», i.e. a loss of €117 million for 2014 and income of €40 million for 2013.

(e) Total amount proposed to the AGM on 13 May 2015, including the interim dividend of €0.34 paid in December 2014.

(f) Operating cash flow before interest and tax + Change in working capital requirements and provisions for contingencies - Net financial interest paid - Pension benefits (excluding payments to reduce deficits and changes in the United Kingdom) - taxes paid - net operating investments.

### 1.1.1.2 Presentation of financial information

#### Accounting policies

The consolidated financial statements of the Thales group are prepared in accordance with IFRS (International Financial Reporting Standards) as approved by the European Union at 31 December 2014.

These principles, described in note 14 of the notes to the financial statements, are consistent with those applied for the year ended 31 December 2013, except for the following elements:

- first adoption of new consolidation standards applicable to annual reporting periods beginning on or after 1 January 2014: Consolidated Financial Statements (IFRS 10), Joint Arrangements (IFRS 11) and Disclosure of Interests in Other Entities (IFRS 12). In this context, it was decided that Thales Alenia Space, a 67%-owned sub-group, should be fully consolidated (the relevant changes were implemented in the financial statements published from 2014; see note 1 to the consolidated financial statements for details). It was also decided that the jointly-controlled

entities, which were previously accounted for under the proportionate method, will now be consolidated using the equity method;

- the other standards applicable from 1 January 2014, with no significant impact for the Group are: the amendment to IAS 32 (Financial Instruments: Presentation), the amendment to IAS 39 (Financial Instruments: Recognition and Measurement) and the amendment to IAS 36 (Impairment of Assets).

#### Definition of non-GAAP financial indicators

To facilitate better monitoring and benchmarking of its operating and financial performance, the Group presents two key non-GAAP indicators, which allow it to exclude non-operating and non-recurring elements. They are determined as follows:

- **EBIT**, an adjusted operating metric, corresponds to income from operations plus the share of the net income (loss) of equity affiliate companies, excluding the amortisation of intangible assets acquired (purchase price allocation – PPA) recorded as part of business combinations;
- **Adjusted net income** corresponds to the net income attributable to shareholders of the parent company, excluding the following items,

net of the corresponding tax effects: (i) amortisation of intangible assets acquired, (ii) results of disposals of assets, (iii) change in fair value of derivative foreign exchange instruments (recorded in "other financial results" in the consolidated accounts), (iv) actuarial gains on long-term benefits (accounted within the "finance cost on pensions and other long-term benefits" in the consolidated accounts).

It is reminded that only the consolidated financial statements were audited by the statutory auditors at 31 December including the EBIT provided in note 2 "Segment information" of the consolidated financial statements. Adjusted financial information other than that provided in note 2 "Segment information" is subject to the verification procedures applicable to all information included in this report.

The impact of these adjustment entries on the income statement at 31 December 2014 and 31 December 2013 is reflected in the tables below:

#### ■ IMPACT OF ADJUSTMENT ENTRIES IN THE INCOME STATEMENT – 2014

(€ million)	Adjustments					Adjusted 2014 P&L
	2014 consolidated P&L	Amort. of acquired intangible assets (PPA)	Income (loss) from disposals and others	Change in fair value of FX derivatives	Actuarial differences long-term benefits	
<b>Sales</b>	<b>12,974</b>					<b>12,974</b>
Cost of sales	(9,792)					(9,792)
R&D	(641)					(641)
Selling, general and administrative expenses	(1,434)					(1,434)
Restructuring costs	(114)					(114)
Amortisation of acquired intangible assets (PPA)	(104)	104				0
<b>Income from operations</b>	<b>889</b>					<b>N/A</b>
Impairment of non-current operating assets	0					— <sup>(a)</sup>
Income from disposals, changes in scope and others	249		(249)			0
Share of income (loss) in equity affiliate companies	(34)	27				(7)
<b>Income from operations after income from equity-affiliates</b>	<b>1,104</b>					<b>N/A</b>
<b>EBIT</b>	<b>N/A</b>					<b>985</b>
Impairment of non-current operating assets	— <sup>(a)</sup>					0
Financial interests net	2					2
Other financial costs	(40)			12		(27)
Finance cost on pensions and other long-term benefits	(90)				13	(77)
Income tax	(214)	(35)	(1)	(4)	(4)	(258)
<b>Net income (loss)</b>	<b>762</b>					<b>625</b>
Non controlling interests	(48)	(15)				(62)
<b>NET INCOME, GROUP SHARE</b>	<b>714</b>	<b>80</b>	<b>(249)</b>	<b>8</b>	<b>9</b>	<b>562</b>

(a) Included in «Income from operations after income from equity-accounted companies» in the consolidated income statement and in «Net income (loss)» in the adjusted income statement.

## ■ IMPACT OF ADJUSTMENT ENTRIES IN THE INCOME STATEMENT – 2013

(€ million)	2013 consolidated P&L	Adjustments				2013 adjusted P&L
		Amort. of acquired intangible assets (PPA)	Income (loss) from disposals and others	Change in fair value of FX derivatives	Actuarial differences long- term benefits	
<b>Sales</b>	<b>12,698</b>					<b>12,698</b>
Cost of sales	(9,685)					(9,685)
R&D	(612)					(612)
Selling, general and administrative expenses	(1,400)					(1,400)
Restructuring costs	(122)					(122)
Amortisation of acquired intangible assets (PPA)	(62)	62				0
<b>Income from operations</b>	<b>817</b>					<b>N/A</b>
Impairment of non-current operating assets	(3)					— (a)
Income (loss) from disposals, changes in scope and others	16		(16)			0
Share of income (loss) in equity affiliate companies	106	27				133
<b>Income from operations after income from equity-affiliates</b>	<b>936</b>					<b>N/A</b>
<b>EBIT</b>	<b>N/A</b>					<b>1,011</b>
Impairment of non-current operating assets	— (a)					(3)
Financial interests net	(9)					(9)
Other financial costs	(45)			31		(14)
Finance cost on pensions and other long-term benefits	(69)					(70)
Income tax	(204)	(21)	1	(11)	0	(234)
<b>Net income (loss)</b>	<b>609</b>	<b>67</b>	<b>(15)</b>	<b>20</b>	<b>(0)</b>	<b>681</b>
Non controlling interests	(35)	(3)	2	(3)	(1)	(39)
<b>NET INCOME, GROUP SHARE</b>	<b>573</b>	<b>65</b>	<b>(13)</b>	<b>18</b>	<b>(1)</b>	<b>642</b>

(a) Included in «Income from operations after income from equity-accounted companies» in the consolidated income statement and «Net income (loss)» in the adjusted income statement.

## 1.1.1.3 Order intake

(€ million)	2014	2013	Total change	Organic change
ORDER INTAKE				
<b>Aerospace</b>	<b>5,024</b>	<b>4,297</b>	<b>+17%</b>	<b>+11%</b>
<b>Transport</b>	<b>1,652</b>	<b>1,454</b>	<b>+14%</b>	<b>+14%</b>
<b>Defence &amp; Security</b>	<b>7,608</b>	<b>7,114</b>	<b>+7%</b>	<b>+4%</b>
<b>Total - operating segments</b>	<b>14,284</b>	<b>12,865</b>	<b>+11%</b>	<b>+7%</b>
Others	79	63		
<b>TOTAL</b>	<b>14,363</b>	<b>12,928</b>	<b>+11%</b>	<b>+8%</b>

The **new orders** entered in the order book during 2014 amount to **€14,363 million**, representing an **increase of 11%** compared to 2013 (+8% at constant scope and exchange rates<sup>(1)</sup>). At 31 December 2014, the consolidated **order book** totalled **€27,285 million**, i.e. more than two years of sales. The **book-to-bill** ratio amounted to **1.11** at the end of 2014.

Nineteen large **orders for an amount over €100 million** were recorded in 2014 (the same number as in 2013):

- 8 in the Aerospace segment, including a major supply contract for two observation satellites for the United Arab Emirates (Falcon Eye), three contracts for commercial telecommunications satellites (Inmarsat/Arabsat, KT Sat in Korea and Telkomsat in Indonesia), contracts for the Egnos (navigation) and Exomars (exploration) space programmes, as well as a satellite supply contract for a European customer;

(1) Taking into account a positive exchange rate effect of €16 million and a positive scope effect of €441 million linked to the full consolidation of Thales Raytheon Company Systems SAS (Defence & Security) and Trixell SAS (Aerospace) from 1 January 2014 following changes to the shareholders' agreements and the first consolidation of Live TV from 1 July 2014 (Aerospace).

- 1 in the Transport segment for signalling and control systems for the Olmedo-Orense high-speed rail line in Spain;
- 10 in the Defence & Security segment, 4 in the emerging markets (a military communication network and a port infrastructure security contract in Qatar; an air defence system in Indonesia; an urban security contract for Mexico City; systems for the corvettes sold by DCNS in Egypt) and 6 in the main countries in which the Group is based (air defence radars, Scorpion programme for the land forces and laser designation pods in France; modernisation of military air control in the United Kingdom; and land defence systems in Australia).

**Orders with a unit value less than €10 million** represent just under half of the order intake in terms of value.

With significantly marked growth in the Middle East, **order intake in the emerging markets<sup>(1)</sup>** continued to grow (+8% compared to 2013) reaching **€4,267 million** or 30% of total order intake. Since 2012, there has been a 40% increase in order intake in emerging markets.

Order intake for the **Aerospace** segment rose sharply to **€5,024 million** compared to €4,297 million in 2013 (+17%). Avionics orders increased, boosted by continued growth in commercial and Military Avionics, both original equipment and support. There was significant growth in the Space business, both in the institutional segment for observation, navigation and

exploration satellites as well as in the Telecommunications segment, with the signing of the previously mentioned major contracts.

Order intake for the **Transport** sector was particularly strong in the fourth quarter and increased to **€1,651 million** in 2014 compared to €1,454 million in 2013 (+14%). The main lines business benefits from contracts in Spain, Poland, Mexico and the United Kingdom in particular, and activity is sustained in urban rail, with projects in Qatar, Brazil and the United States.

Order intake in the **Defence & Security** segment totalled **€7,608 million** compared to €7,114 million in 2013 (+7%). This trend reflects the significant growth in orders for Land and Air Systems, which reported several large orders in the fourth quarter: the Marshall contract for the renovation of the UK military air control, air defence radars in France and a land defence contract in Australia. Order intake for Secure Communications and Information Systems remains stable overall, with an increased order intake for Protection Systems (Mexico, Qatar, France) offsetting the decline in radiocommunications orders, following the notification in 2013 of the major French software-defined radio contract. However, as expected, and despite several successes in surface ships systems (Egypt, United Kingdom, Netherlands, Australia), the Defence Mission systems business did not match the very high level of order intake achieved in 2013, driven by the multi-annual SSOP contract for the UK Royal Navy.

#### 1.1.1.4 Sales

(€ million)	2014	2013	Total change	Organic change
<b>SALES</b>				
<b>Aerospace</b>	<b>5,014</b>	<b>4,713</b>	<b>+6%</b>	<b>+1%</b>
<b>Transport</b>	<b>1,402</b>	<b>1,447</b>	<b>-3%</b>	<b>-4%</b>
<b>Defence &amp; Security</b>	<b>6,480</b>	<b>6,456</b>	<b>+0%</b>	<b>-2%</b>
<b>Total - operating segments</b>	<b>12,895</b>	<b>12,616</b>	<b>+2%</b>	<b>-1%</b>
Others	79	82		
<b>TOTAL</b>	<b>12,974</b>	<b>12,698</b>	<b>+2%</b>	<b>-1%</b>

Group **sales<sup>(2)</sup>** totalled **€12,974 million** at 31 December 2014 compared to €12,698 million at the end of December 2013, which represents an increase of 2% (-1% at a constant scope and exchange rates).

In the **Aerospace** segment, sales amounted to **€5,014 million**, up 6% compared to 2013 (+1% at constant scope and exchange rates). Avionics continued to grow thanks to commercial on-Board avionics, which benefited from increased production rates at aircraft manufacturers and the growth of aftermarket activities, while the military business (helicopters and simulation) sales were lower. There was also continued growth in In-Flight Entertainment sales, following large orders in 2013. Space sales were relatively stable; the increase in new programmes (Brazil, observation satellites) did not offset the reduced contribution of constellation programmes (Iridium, O3b).

The **Transport** segment recorded sales of **€1,402 million** compared to €1,447 million in 2013, representing a decrease of 3% (-4% at constant scope and exchange rates). The main line signalling business reported sales

growth, thanks in particular to several projects in Europe (Poland, Hungary, Austria). Nevertheless, this trend did not completely offset lower sales in the ticketing business which saw several contracts come to an end, and in urban rail signalling, in which several projects have had delays.

Sales for the **Defence & Security** segment reached **€6,480 million**, almost identical to that of 2013 (-2% at constant scope and exchange rates). Excluding the positive impact of the consolidation of 100% de Thales Raytheon Systems SAS, Land and Air Systems reported lower sales compared to 2013, despite the good performance of airborne optronics. There was also a drop in sales in Defence Mission Systems, despite the growth of the sonar business driven in particular by the ramp-up of the SSOP contract in the United Kingdom. Finally, Secure Communications and Information Systems reported a slight fall in sales; the performance of the cybersecurity and secure networks business failed to fully offset the decline in the radiocommunications business, mainly in the United States.

(1) In this report, "emerging markets" refers to all countries in Asia, the Middle East, Latin America and Africa.

(2) The exchange rate impact on sales is positive and amounts to €43 million while the scope impact amounts to €384 million, taking into account the full consolidation of Thales Raytheon Systems SAS (Defence & Security) and Trixell SAS (Aerospace) from 1 January 2014, following changes to the shareholders' agreements and the first consolidation of Live TV (Aerospace) from 1 July 2014.

1.1.1.5 **Adjusted results**

## ■ EBIT

(€ million)	2014	2013	Total change	Organic change
EBIT				
<b>Aerospace</b>	<b>505</b>	<b>420</b>	<b>+20%</b>	<b>+11%</b>
<i>in % of sales</i>	10.1%	8.9%		
<b>Transport</b>	<b>32</b>	<b>97</b>	<b>-67%</b>	<b>-68%</b>
<i>in % of sales</i>	2.3%	6.7%		
<b>Defence &amp; Security</b>	<b>620</b>	<b>499</b>	<b>+24%</b>	<b>+21%</b>
<i>in % of sales</i>	9.6%	7.7%		
<b>Total - operating segments</b>	<b>1,157</b>	<b>1,016</b>	<b>+14%</b>	<b>+8%</b>
<i>in % of sales</i>	9.0%	8.1%		
Others - excluding DCNS	(55)	(45)		
<b>Total - excluding DCNS</b>	<b>1,102</b>	<b>971</b>	<b>+13%</b>	<b>+8%</b>
<i>in % of sales</i>	8.5%	7.6%		
DCNS (share at 35%)	(117)	40		
<b>TOTAL</b>	<b>985</b>	<b>1,011</b>	<b>-3%</b>	<b>-8%</b>
<i>in % of sales</i>	7.6%	8.0%		

For 2014, the Group reported an **EBIT<sup>(1)</sup> of €985 million**, which represents **7.6%** of sales compared to €1,011 million (8.0% of sales) in 2013. This decline is entirely attributable to the strongly negative contribution of DCNS (-€117 million compared to a positive contribution of €40 million in 2013) due to significant negative variances on several contracts, particularly in civil nuclear activities. **Excluding the contribution of DCNS**, the Group's **EBIT** totalled **€1,102 million (8.5% of sales)**, up 13% compared to the previous financial year, as performance plans continued to be deployed.

The EBIT<sup>(1)</sup> for the **Aerospace** segment increased further to **€505 million (10.1% of sales)** compared to €420 million (8.9% of sales) in 2013. Avionics reported significant growth in their results, due to the higher sales volume in commercial avionics and in-flight entertainment and the results of competitiveness measures. Space reported a stable EBIT<sup>(1)</sup> compared to the previous year, the positive impact of performance plans offset by research and development expenses and increasing restructuring costs.

The **Transport** segment reported an EBIT<sup>(1)</sup> of **€32 million (2.3% of sales)** compared to €97 million (6.7% of sales) in 2013. The Transport business was affected by execution difficulties on several projects, particularly in urban rail. Corrective measures have been implemented in order to improve the quality of programme execution. These measures should gradually produce benefits.

Despite globally stable sales, the EBIT<sup>(1)</sup> for the **Defence & Security** segment increased significantly in 2014 totalling **€620 million (9.6% of sales)** compared to €499 million in 2013 (i.e. 7.7% of sales). The EBIT<sup>(1)</sup> for Land and Air Systems rose sharply as better execution of contracts offset the increased costs in self-funded R&D. Secure Communications and Information Systems reported an increased EBIT<sup>(1)</sup> in 2014, thanks to the good execution of projects and reduced restructuring costs. Likewise, the Defence Mission Systems Business reported an increase in EBIT<sup>(1)</sup> as a result of the better execution of contracts and lower restructuring costs.

**Adjusted financial results**

The adjusted financial costs, remained practically unchanged at -€25 million compared to -€23 million in 2013. Adjusted financial income on pensions and other employee benefits came to -€77 million compared to -€70 million during the previous financial year, since the interest rates at the end of 2013, which were used to calculate the 2014 financial cost, were higher than the 2012 rates.

**Adjusted net income**

The adjusted net income – Group share for 2014 was €562 million, compared to €642 million in 2013, after an adjusted tax charge of -€258 million compared to -€234 million, i.e., an effective tax rate of 29% compared to 30% in 2013. The adjusted net income, Group share, per share amounted to €2.75 compared to €3.20 at the end of December 2013.

1.1.1.6 **Consolidated results****Income from operations**

Income from operations rose by 9% to €889m in 2014, from €817m in 2013. This increase reflects the improvement in gross profitability and tighter control of indirect costs.

**Income from operations after income from equity-accounted companies**

Income from operations after income from equity-accounted companies came to €1,104m, compared with €936m in 2013.

Aside from the growth in income from operations, the increase in income from operations after income from equity-accounted companies reflected:

- on the one hand, a significant gain on the disposal of Thales Raytheon Systems SAS and Trixell relating to fair value adjustments (€249m, versus

(1) Non-GAAP measure, see definition page 8.

€16m in 2013), after an amendment to the shareholders' agreements of these joint ventures led to Thales taking sole control, but with no change in the percentage ownership of the joint shareholders of these companies; and

- on the other hand, a sharp fall in the share of income of equity-accounted companies, from €106m in 2013 to a loss of €34m in 2014, due to the substantial net loss posted by DCNS for the year.

## Net income (loss)

Consolidated net income, Group share, totalled €714m compared with €573m in 2013, after tax of €214m versus €203m in 2013, and including an increase in share of income attributable to non-controlling interests following the changes relating to Thales Raytheon Systems SAS and Trixell mentioned above.

### 1.1.1.7 Financial position at 31 December 2014

(€ million)	2014	2013
<b>Operating cash flow before interest and tax</b>	<b>1,466</b>	<b>1,330</b>
Change in working capital requirements and provisions for contingencies	(287)	(301)
Payment of contributions/pension benefits	(122)	(123)
Net financial interest paid	(14)	(31)
Income tax paid	(98)	(40)
<b>Net operating cash flows<sup>(a)</sup></b>	<b>944</b>	<b>835</b>
Net operating investments	(443)	(358)
<b>Free operating cash flow</b>	<b>501</b>	<b>477</b>
Net (acquisitions)/disposals	(374)	(35)
Deficit payments on pensions in the United Kingdom	(69)	(64)
Dividends	(243)	(181)
Exchange rate and others	114	(50)
<b>Change in net cash</b>	<b>(71)</b>	<b>147</b>

(a) Excluding deficit payments on pensions in the United Kingdom.

The **free operating cash flow** increased compared to 2013 totalling **€501 million** compared to €477 million in 2013, despite a 24% increase in operating investments (€443 million compared to €358 million in 2013) as part of the optimisation of the Group's industrial base.

At 31 December 2014, **net cash** amounted to **€1,006 million** compared to €1,077 million at the end of December 2013, taking into account in particular the acquisition of the US company Live TV for €287 million and a significant increase in the dividend distributed (€243 million over the year compared to €181 million for the previous year).

**Shareholders' equity**, Group share, amounted to **€3,771 million** compared to €3,847 million at the end of December 2013, taking into account net consolidated income, Group share of €714 million and the significant increase in provisions for pensions and long-term benefits (€2,557 million compared to €1,858 million in 2013) linked to the extremely low interest rates at the end of 2014.

### 1.1.1.8 Proposed dividend

At the Annual General Meeting on 13 May 2015, the Board of directors will propose the distribution of a **dividend of €1.12** per share to the shareholders.

If approved, the ex-dividend date will be 27 May 2015 and the payment date will be 29 May 2015. The dividend will be paid fully in cash and will amount to €0.78 per share, after deducting the interim dividend of €0.34 per share already paid in December 2014.

### 1.1.1.9 Outlook for 2015

After an order growth of almost 20% over the last two years, order intake should remain high in 2015, with a new increase in order intake expected from emerging markets.

The continued growth in order intake over the last two years should result in a low-single digit increase in sales in 2015.

This positive trend, combined with competitiveness improvement efforts and the progressive return to profitability of DCNS should result in an EBIT<sup>(1)</sup> increase of around 15% compared to 2014 (based on current exchange rates), to total €1,130 million to €1,150 million.

Over the medium term, Thales confirms its objectives of a moderate increase in sales and an improvement in its EBIT<sup>(1)</sup> margin to reach a rate of 9.5 to 10% by 2017/2018.

(1) Non-GAAP measure, see definition page 8.



## 1.1.2 RISK FACTORS

Thales is exposed to a number of risks and uncertainties which could materially affect its business, reputation, financial position, results or ability to achieve its objectives. The risks described below are not the only ones that Thales faces. Other risks, unknown to Thales on this date, or which presently appear to be non-significant, could also have an unfavourable impact on the business, profitability and financial position of the Group or its ability to achieve its objectives.

Generally, Thales may be faced with a number of operational, strategic, legal and financial risks.

### 1.1.2.1 Operational and strategic risks

#### 1.1.2.1.1 Competitive environment

Thales operates on highly competitive markets, both in terms of international groups, especially in a context of shrinking defence budgets in their home countries, and in terms of local or niche companies in certain market segments. This competitive pressure could negatively impact Thales' commercial position, sales and profits.

There is also no guarantee that competition will not intensify, particularly in an unfavourable economic environment, or that Thales will be able to successfully fight its current or future competitors.

In order to limit the impact of this risk, Thales continues its research and development efforts in order to provide competitive and differentiating elements to the Group's operating units and also works to upgrade its product offer in order to meet the needs of its customers, in both defence and civil markets.

#### 1.1.2.1.2 Unfavourable trends in the civil aviation market

Demand for air travel appears closely linked to general economic trends, but is also affected by specific factors, such as the characteristics of aircraft fleets in service, regulatory changes (new environmental standards, deregulation, etc.) and the ability of airlines to access financing. Moreover, trends in oil prices have a direct impact on the profitability, and therefore, the investment decisions of airlines. In addition, the civil aviation market is also susceptible to the effects of intensification (real or perceived) of terrorist activity, as well as conflicts and epidemics or disasters, which can have an important, if temporary, impact on air traffic and thus affect the entire civil aviation market.

The economic environment is therefore likely to remain unsettled, especially in Europe. In order to remain profitable in a difficult market, airlines could cancel or postpone orders and aircraft manufacturers might have to reduce production rates. This environment could also lead the airlines to reduce or delay their maintenance expenditure or their investments in in-flight entertainment systems. Similarly, air navigation service providers could reduce or delay investments in air traffic control equipment and systems. Were they to materialise, these factors could have a negative impact on Thales' profitability and financial position.

To limit the impact of this risk, Thales is pursuing action on two fronts: (i) ongoing improvements to its competitive performance and industrial flexibility in order to better manage trading fluctuations during the cycle and (ii) a comprehensive strategy seeking a balance within the business portfolio (with exposure to the civil aviation market reduced to around 15% of Group sales).

### 1.1.2.1.3 Dependence on public procurement

Thales generates most of its business from governments, particularly in the defence markets in France and the UK, and, to a lesser extent, in the rest of Europe, North America and Australia. In these markets, public spending is dependent on political and economic factors and is therefore likely to fluctuate from one year to the next. A significant reduction in defence budgets, particularly in Europe as part of a more restrictive budget policy, could affect the Group's business and profitability. In fact, a reduction in the budget resources of government customers could generate delays in order booking, contract execution, payments or a decrease in funding for research and development programmes.

Thales has based its strategy on a balanced portfolio of defence operations (approximately 50% of sales) and civil operations (approximately 50% of sales). The overall solidity of the portfolio is underpinned by a diversified base of orders with a unit value of less than €100m. Finally, the broad geographic spread of Thales' business, particularly through its international operations, ensures further diversification of its customer base.

#### 1.1.2.1.4 Political risks

A significant proportion of Thales' sales is subject to the risk of economic and/or political instability in the countries in which the Group operates. The materialisation of these risks may affect the Group's financial position and profitability.

In particular, a change in government, major political event, armed conflict, act of terrorism, sharp deterioration in the balance of payments, industrial action, strike or protest could lead to various types of risks. These include:

- more restrictive currency control, with limitations or exclusions on withdrawing currency from a client country, preventing it from honouring its financial commitments towards Thales;
- impairment of assets because of devaluations of the local currency or other measures taken by public authorities that significantly affect the value of operations;
- expropriation (by confiscation, nationalisation, requisition, etc.) or the forced sale of Thales' interest in a local company, or, more broadly, discriminatory measures that compromise Thales' operations in a country;
- a security situation entailing a risk of attack on the physical safety of its employees and/or its facilities, which strongly limit or prevent Thales from assuming its performance obligations under a contract, or reduce or prohibit the use of its local industrial assets;
- an unexpected breach of a contract or commitment;
- an unfair call of a bond or a guarantee;
- the non-certification of documents eligible for payment, or non payment on the due dates stipulated in a contract, which prevent the anticipated progress of that contract.



To limit the financial impact of these risks, Thales seeks to protect its interests as far as possible through contractual provisions. In addition, the Group may use government and/or private sector insurers when necessary to provide appropriate cover. If applicable, it may also transfer receivables without recourse to financial institutions.

Lastly, the Group has deployed a global procedure for employee security, crisis detection and reaction, protection and monitoring (see paragraph on *Security breaches in respect of sites*.)

### 1.1.2.1.5 Control of projects and programmes

Many of Thales' products and systems are highly complex due to their advanced technology content, the rigorous operational constraints and harsh environments in which they operate (which require them to be extremely reliable) and the contractual arrangements surrounding their sale (comprehensive prime contractorships for large-scale systems, public-private partnerships or equivalent, local shares, compensation commitments etc.).

The actual cost of design, development and manufacture may therefore exceed initial cost estimates, which in turn may adversely impact Thales' results and financial position, especially considering that the associated contracts are generally based on a fixed, all-inclusive price. In addition, many contracts include stringent performance levels and/or tight delivery schedules for the products or systems sold, particularly given the increased competition. If Thales is unable to deliver these products or systems in line with the required level of performance and/or delivery schedule, customers may demand penalty payments or even decide to terminate the contract. Moreover, as Thales generates most of its business from governments and/or government agencies, it is exposed to political risks in the countries in which it operates (see paragraph 1.1.2.1.4 *Political risks*). The occurrence of such events could have a material impact on Thales' results and financial position.

Bid and project management is therefore subject to a detailed risk management and assessment process. Thales ranks the various levels of criticality. Critical bids and projects are specifically monitored at the management level of the operating entities (Business Lines, Global Business Units) and, as needed, by the Group's executive management.

Contractual risk assessment is an integral part of the tendering process. Depending on the complexity of the bid, this procedure involves a number of steps which progressively reveal the estimated level of profitability and the associated risks to be assessed. Particular attention is paid to long-term sales contracts that include fixed prices valid for the entire duration of the agreement.

For certain contracts that run for several years and involve products and services with a high degree of complexity, regular reviews are organised in order to monitor the technical and financial progress.

The Group continues to pay particular attention to analyses and action plans for the management efficiency of bids and projects by measuring and monitoring financial variance on the projects and the implementation of corrective actions.

In the context of the Ambition Boost performance programme, the Group has also implemented action plans to improve the management of bids and projects, engineering and the supply chain. These actions aim in particular to:

- improve the product policy, in order to streamline new developments and thus reduce risks;
- improve the management of commitments made, with widespread use of independent peer reviews, closer involvement of Engineering, Purchasing, Production, Legal and Quality Control and the introduction of Product and Project Design Authorities responsible for developing the technical project solution (during the bid or product/project execution phase);

- improve methods, practices and tools, to make them more relevant to international products/projects;
- improve the supply chain, by increasing its global dimension and enhance the maturity level of emerging countries in the implementation of projects;
- introduce advanced training for project managers to obtain International Project Management Association (IPMA) certification. At the end of 2014, nearly 820 project managers within the Group had gained IPMA certification, with approximately 220 certified during the year.

### 1.1.2.1.6 Management of supplier risk

Purchases constitute a very significant proportion of Thales' business, representing nearly half its sales in manufacturing, services, equipment and sub-systems. Thales is thus exposed to the risk of industrial, technical or financial failure of any of its suppliers, which in turn could affect the Company's profitability and performance.

There are two major types of supplier risk:

- legal or regulatory non-compliance (ethics, export control, intellectual property, etc.); these risks are handled by the departments concerned using the Group Risk Management system with the support of the Purchasing Department;
- structural and operational risks that could disrupt supply are dealt with by the Purchasing Department using the Group Risk Management system. The Purchasing Department has identified two key triggers: supplier default and economic dependence. Although individual events might be considered to have a minor financial impact, they could potentially occur several times a year. The financial impact could become significant if several events are considered together, due to the domino effect and the large number of suppliers in Thales' supplier panel.

#### a) Management of the risks of supplier default

Supplier default could be caused by a major incident at one of its sites, by its external environment (shortage of raw materials - particularly critical materials - or components, major political instability, natural disaster, etc.) or through mismanagement. The supplier's management performance is monitored both in operating terms (lack of procurement planning, failure to manage tier 2 suppliers, loss of control over industrial processes, plant obsolescence, etc.) and in cross-disciplinary and financial terms (poor skills management, loss of know-how, fall in sales, mismanagement of working capital requirement, cash flow problems, administration or bankruptcy protection, etc.). A combination of problems could lead to the disappearance of a company or its takeover by investors with different interests from those of Thales.

Faced with this risk of a supply shortage, Thales seeks to implement a dual sourcing (or alternative-source) policy for each technology family, regularly updated and accompanied by buffer stocks that cover its requirements until customer contracts have been fulfilled.

In addition, taking into account the increased risk of fragility of certain suppliers in the current economic climate, Thales has introduced a special measure aimed at identifying, from among its critical suppliers, those that would be particularly exposed financially and implementing an appropriate action plan to ensure continuity of supply. Apart from individual monitoring, analysis is carried out by technology field in conjunction with the professional bodies concerned to identify appropriate solutions.

Alongside these financial supervision measures, Purchasing and Quality Control have stepped up their appraisal, accreditation and management of supplier performance to better identify structural risks. Supplier performance audits are broad-based (quality control, industrial maturity, flow optimisation, compliance with environmental regulations, expertise in technical and technological processes, financial solidity, etc.) and therefore allow a complete risk analysis to be carried out. When executing a purchasing contract, Thales closely monitors the implementation by the supplier of measures aimed at tackling the risks identified during the selection process.

## b) Management of the risks of economic dependence

The economic dependence of small and medium-sized enterprises (SMEs) on Thales is considered a separate risk in its own right. It is particularly significant now that the economic crisis has disrupted the sales portfolios of a number of them, jeopardising the operating cycle with Thales and potentially leading to a supply shortage.

In order to mitigate this risk, the commitment rate (orders placed by Thales as a percentage of the supplier's total annual sales) is monitored for each panel of suppliers by market segment and for the main countries where the Group is implanted (France, the UK, the Netherlands, etc.). If the commitment rate exceeds 50% for more than two consecutive years, an action plan coordinated with internal prescriptors and internal users is drawn up and implemented in order to return to a reduced commitment rate.

The procurement policy, supplier selection and performance monitoring processes and supervisory and risk mitigation measures are all designed to reduce these risks, both during the bidding phase and during the preliminary project phase.

### 1.1.2.1.7 Raw materials risk

Given the nature of its business, Thales uses few raw materials. The Group's exposure to raw materials risk is therefore negligible.

### 1.1.2.1.8 Human resources risk

#### a) Health and safety at work

Ensuring a healthy and safe working environment for its employees pursuant to the laws in force, monitoring procedures, preventing health and professional risks and employee training are key priorities for Thales.

These principles are reflected in a structure designed to prevent risks related to health and safety in the workplace, whether on Thales sites or external sites.

The formalisation of procedures concerning the implementation of a "permanent medical unit responsible for health monitoring" and "a crisis centre in the event of a major international health risk", and a procedure reserved for assignments in countries posing a major health risk, enable risks that may arise overseas to be anticipated and managed more effectively. Regular monitoring of the risks to which the Group's employees may be exposed is performed each year on the basis of dedicated indicators.

Concrete measures are also implemented in relation to the health and safety of employees in the workplace. The commitments made and initiatives undertaken by the Group Human Resources Department and Health, Safety and Environment Department in this area are ongoing. In particular, new employees, whatever their country, can have a medical in the year of recruitment with Thales, and are provided with risk prevention information at their on-site. Thales is also committed to increase the quality of life in the workplace. In France, a new Group agreement on "Quality of life at work"

was signed on 4 February 2014. Continuing the approach adopted in the agreement signed in 2009 on the same subject, which had expired, the agreement signed on 4 February 2014 for a period of three years defines a general framework for prevention, with a particular focus on the detection and prevention of psycho-social risks by implementing individual and collective preventive actions.

Proof of the Group's continuing commitment to certification, 90 Thales entities (representing 72% of the workforce) had obtained OHSAS 18001 certification by the end of 2014.

#### b) Talent development

If Thales is not attractive enough to recruit the qualified staff it needs in a timely manner and retain and motivate its employees to develop and conduct its business, sales and operating profitability could be negatively affected. Thales' success and performance effectively depend on its capacity to recruit employees in the different employment markets, in France and abroad, the quality of the key skills and the commitment of its employees, and its capacity to globally manage the talents required for the development of its activity worldwide.

Moreover, the lack of sufficient employees to carry out the workload and/or of the necessary skills over a sustained period would be likely to affect operating profitability by leading, for example, to increased use of subcontractors or temporary staff.

Thales therefore attaches great importance to its attractiveness and positioning as a top employer, ensuring a good external image which will boost recruitment and an internal situation that will contribute to retain employees.

As an attractive and recognised employer in France, Thales also intends to build its image in all the countries where the Group is already present or is intending to develop.

Thus, particular attention is paid to the systematic deployment of recruitment tools and organisations in emerging markets. In addition, a global recruitment function, attached to the HR general management has been created to help the Group develop in these geographical zones. The global process of identification and management of the Group's talents has also been reinforced, by encouraging exchanges between management teams in different parts of the organisation.

Thales is also continuing its dynamic skills management policy for the Group's main professional families. A Steering Committee per family, composed of operational and HR managers, annually analyses developments in the jobs, expertise, and the needs of the Company, and establishes action plans (training, anticipated management of internal mobility, external recruitment etc.). To complement this tool, each year the Group's internal University updates the key programmes in response to changing needs.

### 1.1.2.1.9 Environmental risks

For many years, Thales has conducted regular analysis and update of environmental risks in accordance with its business activities, scientific and technical developments and the emerging environmental challenges.

This analysis aims at:

- ensuring that employees and surrounding residents are not exposed to health and environmental risks (pollution, asbestos, etc.) through their activities or work environment, whether on Thales or external sites;
- ensuring the compliance of activities and products (substances, waste, etc.);

- analysing the impact of new regulations, including on product design;
- analysing the impact of the environment on activities (water stress, climatic events, etc.);
- specifying an appropriate organisation and associated action plans, either at Group level or locally, according to the results of this analysis.

In support of this analysis, an Environmental Management System has been deployed at all sites in order to ensure the control and limitation of the products' and activities' environment impacts. Integrated into the Group commitments, this management system is applied to the different functions. As such, environmental competences have been widened to include engineering, research, procurement and contracts, for example through organisational management, special training, communication tools and sharing experiences.

At the end of 2014, 117 entities had been certified ISO 14001, representing 88% of the Group's workforce.

At 31 December 2014, the amount of reserves for environmental contingencies amounted to €8.1m.

#### 1.1.2.1.10 Security breaches in respect of sites and employees

Thales is exposed to attempts to breach the security of its sites (attempts by unauthorised persons to access confidential information, threats to the physical security of sites and facilities, etc.). The occurrence of such events could affect the rollout of the Group's activities and its reputation and, consequently, its results and financial situation.

In order to minimise this risk, the Group Security Department has drafted a policy for regulating access to all Group sites. This policy is applied by the Group's network of security officers. In its defence businesses, the Group is subject to different national regulations requiring it to implement measures to protect its employees and industrial assets.

The Group is therefore subject to a large number of audits and inspections by the national supervisory authorities.

In addition, the Group has deployed a global procedure for employee security, crisis detection and reaction, protection and monitoring to ensure they have an appropriate level of security in the countries in which they perform their work. In certain countries, this global procedure runs alongside a local intervention system, which ensures a quick response to incidents.

#### 1.1.2.1.11 Risk of IT system failure

The Group operates – directly or through service providers – complex IT systems and infrastructure that are essential to the smooth running of its commercial, industrial and financial processes. The malfunction or failure of these systems may have external causes (viruses or hacking, power cuts or network failures, natural disasters, etc.) or internal causes (malicious acts, breaches of data confidentiality, human error, obsolescence). Any such malfunction or failure could have an impact on the Group's operations and its financial results.

The Group has put in place business continuity measures in the event of power cuts or the loss of network connections to critical sites. There is also an action plan that covers the Group's international operations, which is aimed at safeguarding its critical information systems (from data back-ups to the implementation of redundancy protection and back-up systems) and involves the regular testing of these systems.

In addition, rules for protecting the Group's IT systems and the sensitive information they contain have been formalised into a set of internal reference

documents circulated for application to all entities, via a network of IT System Security Managers, with the aim of minimising risks related to IT system security on a worldwide basis. These rules ensure that the systems are designed in a secure manner and that any anomalies are detected and resolved appropriately. Compliance with these rules is monitored through surveys, vulnerability assessments and audits.

With regard to IT system users and administrators, a range of awareness-raising initiatives have been implemented and will continue to be improved and enhanced.

Lastly, the Thales IT system security and anti-cyber crime strategy has been approved by the Group's corporate management, in close cooperation with the national and governmental authorities of the countries concerned.

#### 1.1.2.1.12 Risk related to failure of equipment or technology

Thales systems and equipment are highly complex and technical and are likely to be integrated within high-value civil or military platforms. A malfunction of any such systems, equipment or technologies could result in client claims or third-party litigation. Thales could thus be held liable in the event of damage to property or personal injury. Were they to occur, such events would be liable to impact Thales' results and financial position, as well as its reputation.

In order to limit the impact, Thales has put Group-wide *standards in place* (Design Authority, quality, documentation, contractualisation and risk management). In addition, Thales conducts a policy to maintain appropriate insurance coverage (see section 1.1.2.4 *Insurance*)).

#### 1.1.2.1.13 Risk of lower impact of performance improvement measures

In 2010, Thales initiated a five-year competitiveness plan called Probasis, with the aim of reducing the Group's cost base. This plan, which mainly focused on improving project execution and optimising purchasing costs, targeted gross savings of €1.3bn, representing a positive net impact on EBIT of some €300m at the end of 2014. In total, this plan will have generated a positive net impact on EBIT of more than €350m at the end of 2014 (€50m at end-2011, plus €99m in 2012, €120m in 2013 and €90m in 2014).

To continue the initiatives carried out under the Probasis plan, in 2014 the Group introduced the "Ambition Boost" performance programme, aimed at improving the Group's overall performance, with the target of achieving an EBIT margin of 9.5-10% by 2017/2018 and returning to growth.

This global performance plan provides a common framework within which the units can implement plans and initiatives adapted to their own issues in terms of performance improvements.

The objectives are validated during the multi-year budget preparations, and cover all Group issues in terms of growth, competitiveness and talent development.

The actual results may differ significantly from the objectives. The performance initiatives are based on the economic and commercial assumptions used in the Group's multi-year budget. The accuracy of these assumptions may be affected by changes in the execution of Thales' operations or its environment, such as the development of new businesses, increased competitiveness on domestic and export markets or unfavourable changes in regulations or legislation.

Furthermore, the future earnings and financial position of Thales could be negatively impacted if the initiatives planned under the Ambition Boost

framework could not be fully implemented or if they failed to generate the expected results according to the original timetable. The cost of implementing these initiatives could also be higher than forecast.

Thales pays particular attention to the management of the Ambition Boost programme and the monitoring of performance improvement initiatives. The Group's corporate management regularly reviews the progress of the main initiatives. Expected impacts for all initiatives for the year are regularly updated as part of the Group's steering process.

#### 1.1.2.1.14 Risks relating to strategic acquisitions and investments

Thales regularly looks to acquire new companies (as well as making strategic investments and combining business activities through joint ventures, etc.) in order to round out its technological portfolio and strengthen its presence in certain markets. Integrating these businesses within Thales could prove more difficult and take longer than envisaged, requiring a more significant involvement by senior managers and the teams concerned and, in turn, negatively impacting the Group's results and financial position.

In addition, there are no guarantees that the newly acquired companies will perform as well as expected in accordance with the initial business plans, which form the basis of the investment decision. This type of variance could lead to the recognition of impairment losses on goodwill and other intangible assets, thereby negatively impacting Thales' results and financial position.

Before any planned acquisitions, Thales conducts audits and due diligence with the assistance of external consultants where necessary, in order to analyse the fundamentals of the target company. A review is also conducted at each key stage in the acquisition process to confirm Thales' interest and specify the necessary conditions and parameters to ensure a successful outcome. The newly acquired company is then integrated into Thales' financial reporting system so that its performance can be monitored.

#### 1.1.2.1.15 Risks related to minority investments

Thales generates part of its sales from companies in which control is shared with, or exercised by, other partners; in accordance with the accounting principles in force on 1 January 2014, these companies are consolidated using the equity method<sup>(1)</sup>.

Moreover, the share in net income of equity affiliates is included in Thales' EBIT<sup>(2)</sup> and adjusted net income<sup>(3)</sup>. A deterioration in the performance of these companies may therefore impact on the Group's income and financial position. Accordingly, the net loss recorded by DCNS in 2014 had a significant negative impact on Thales' EBIT and net income.

Since the influence exercised by Thales over these minority investments varies, decisions that are detrimental to the interests of Thales may be taken, without Thales necessarily having the means to oppose them.

In addition, the risk of disagreement or blockage, inherent in any jointly-controlled entity, exists, particularly in those where important decisions require the unanimity of members or where there are limited exit rights.

Furthermore, the application of management rules and principles in these entities may differ from those adopted by Thales for entities over which it exerts exclusive control. This also means that the ability to carry out analysis and give instructions regarding financial or operational data, or even to access this data, may be more limited than in the entities over which Thales exerts exclusive control.

As a result, the Group aims to define appropriate governance methods by seeking to be represented on the Board of directors (or a similar decision-

making body), and more generally, to negotiate contractual provisions that are in Thales' best interests.

### 1.1.2.2 Legal and compliance risks

#### 1.1.2.2.1 Compliance with laws and regulations

The Group operates its business in a strict and evolving complex legal and regulatory environment, both nationally and internationally.

The legal and regulatory framework in which Thales operates covers a broad range of areas, relating in particular to company law, financial market regulation, fiscal legislation, labour law, export control and measures to combat corruption and money laundering.

Thales is able to monitor developments within this legal and regulatory framework through its international network. The Company is not always able to foresee them, however, and in this respect its business could be affected.

Despite the steps taken by Thales as a Company to comply with all applicable legislation, risks still exist due to their inherent nature, the interpretative powers of regulatory agents, the extraterritorial reach of certain regulations, and changes in legal/judicial precedent and sanctioning powers.

In most cases, regulators in conjunction with the judicial authorities have the right to initiate legal proceedings, which could expose the Group or its employees to civil, administrative or criminal rulings. Such a ruling could, if applicable, involve a temporary ban on trading, which would in turn have an adverse impact on the Group's profitability and financial position.

Using a risk map validated by the Risk Management Committee, the Audit, Risks & Internal Control Department carries out assessments and audits of the implementation and improvement of compliance plans within the Group's Units. Compliance actions rely for these needs on networks of compliance officers who may be specialists (export control), on risk advisors in charge of the prevention of each of the major risks identified and monitored by the Risk Assessment Committee, or on a dedicated organisation as regards international trade (see *below*).

The Audit, Risks & Internal Control Department takes into account these compliance areas when preparing its audit plan.

Regular reports are submitted to the Audit and Accounts Committee of the Thales Board of directors, which in turn may issue compliance audit directives within the entire Group.

#### a) Management of commercial activities

Because of its presence in more than 50 countries and the diversity of its markets and business segments, Thales is subject to national laws, particularly those resulting from the transposition of international conventions (OECD convention, UN convention to fight corruption, European Union convention, Council of Europe conventions, etc.) and to international norms and standards to fight corruption.

Infringement of these laws could have serious legal and financial consequences for the individuals or entities concerned. It could also have a significant impact on the image and reputation of the Group as a whole.

(1) See note 17 to the consolidated financial statements on pages 83 and 84.

(2) Non-GAAP measure, see definition on page 8.

(3) See note 5 to the consolidated financial statements for the year ended on page 47.

In response to the regulatory requirements in terms of prevention of corruption and business ethics in general, Thales has for a number of years operated a strict international compliance and integrity programme. It is implemented on the basis of a coherent set of directives that is included in the Group's reference system, dedicated units and independent control resources.

The corruption risk prevention programme, which is assessed regularly and modified to reflect changes in legislation, and in external and internal risks, was certified by Mazars and by ADIT in July 2014. The ADIT/Mazars benchmark is compliant with national and international laws and regulations concerning the fight against corruption (French law, the United Kingdom Bribery Act, the United States Foreign Corrupt Practices Act (*FCPA*), the OECD Anti-Bribery Convention on Bribery of Foreign Public Officials in International Business Transactions), the tenth principle of the United Nations Global Compact and best practices in terms of anti-corruption procedures. Furthermore, this benchmark is focused on five main areas (control environment, risk assessment, control, monitoring, information and communication) set out in over 200 control points. It was validated by an International Advisory Board and by the Central Anti-Corruption Service (*Service Central de Prévention de la Corruption - SCPC*) of the French Ministry of Justice.

The risks inherent in sales are borne in mind in all the business management processes. From the preliminary phase of a project, these operating processes envisage action plans to mitigate business risks, focusing particularly on the prevention of corruption.

Thales strictly governs the use of agents and consultants through a very detailed procedure, which requires in-depth preliminary verifications (due diligence) – reinforced by the analysis of red flags or risk factors, as well as appropriate representations and engagements from these consultants. Designed by the Group's Ethics & Corporate Responsibility Department, this procedure is regularly revised in conjunction with the Group's Legal Department and the Sales Department.

In addition, to underpin its strategy of strengthening its presence internationally and its establishment in target countries, Thales vets and selects local industrial partners. The qualification and selection process is designed to secure sustainable partnerships with domestic industrial players meeting a set of criteria relating to integrity and business ethics, competence and expertise. This system, updated in 2014, is part of a process of deploying adapted and reasonable measures for prior verification (due diligence) concerning third parties.

An international, dedicated network, independent of the operational commercial structures, conducts the verifications required, enhanced by outside studies and diagnostics performed by companies that specialise in business intelligence – during the vetting and selection phases for agents, consultants and local industrial partners for Thales.

In addition, by relying on risk mapping and rigorous internal control procedures, Thales' Audit, Risks & Internal Control Department regularly conducts compliance and integrity audit missions which cover all processes to manage commercial risks.

Thales is particularly keen to make its employees aware of ethical business conduct as soon as they join the Group. Adherence and accountability are key to the awareness and training model designed by the Ethics and Corporate Responsibility Department. A broad array of tools (Code of

Ethics, reference guide, best practice guides, etc.) and training sessions (face-to-face training and e-learning) is available to staff throughout their professional careers. Special attention is paid to employees involved in the sales processes, project management and purchasing. The training plan for "Business Ethics and Preventing Corruption", which is worldwide in scope, is as a priority intended for this group of employees.

Thales also continues to disseminate and foster best practices among its suppliers and subcontractors, requiring them to subscribe to the terms of its Purchasing & Corporate Responsibility Charter. In this connection, in France in 2012 Thales received government recognition for responsible supplier relations. This is a three-year label given to French businesses that have demonstrated long-term balanced relations with their suppliers.

Thales also actively participates in national professional organisations (MEDEF, GIFAS, ADS<sup>(1)</sup>, etc.) and international organisations (ASD<sup>(2)</sup>, ICC<sup>(3)</sup>, B20<sup>(4)</sup>, etc.) dealing with business ethics, and within the working groups of intergovernmental organisations (OECD, United Nations, ISO<sup>(5)</sup>, etc.). In September 2013, Thales signed the recommendations of the Chairmen and CEOs of member companies in the B20 "Transparency and Anti-corruption" Task Force intended for Heads of State of the G20, which call on them to step up the fight against corruption by facilitating the emergence of new approaches (industry actions, public/private sector dialogue, etc.).

The Group actively participates in a variety of initiatives in the fight against corruption, both at European level (Business Ethics Committee of the ASD) and under the global sectoral initiative of the Aeronautics and Defence industries (IFBEC<sup>(6)</sup>) whose most recent world forum took place in Brussels in November 2014.

Thales is also a stakeholder in international standardisation work carried out within the ISO on compliance and anti-corruption programmes.

At the same time, since 2012, Thales has been ranked by TI - an NGO working to combat corruption worldwide - as one of the top 10 companies of the Defence sector. The Transparency International report<sup>(7)</sup> published in October 2012 presents an analysis of the corruption prevention programmes of the world's biggest defence sector companies. The companies are assessed in five areas (leadership, governance and organisation – risk assessment – company codes and policies – training – personnel and helplines) with regard to the ethics and anti-corruption systems they have put in place.

Lastly, for the third consecutive year, Thales obtained the "Global Compact Advanced" level of the UN Global Compact, which, by respecting 21 specific criteria, is the highest level of reporting and performance in responsible development. Of the 8,300 companies that are members of the Global Compact, only 400 have obtained the Global Compact Advanced level to date, including 40 French companies.

## b) Export control

Exports account for a significant proportion of Thales' business. Many of the Group's products and systems are designed for military or dual use applications. Consequently, the export of these products or systems to customers located outside Thales' domestic markets where they are manufactured, particularly in the defence sector, may be subject to limitations, export licences or specific export controls (imposed by the countries in which Thales operates, as well as by other countries where the suppliers of

(1) Advancing UK AeroSpace, Defence & Security Industries.

(2) AeroSpace and Defence Industries Association of Europe.

(3) International Chamber of Commerce.

(4) International Business Community, representing 22 employer organisations.

(5) International Organisation for Standardisation.

(6) International Forum on Business Ethical Conduct.

(7) Defence Companies Anti-corruption Index 2012 – Transparency International – <http://companies.defenceindex.org/report>.



component products or technologies are based, most notably the United States).

There are no guarantees that (i) the export controls to which Thales is subject will not be tightened, (ii) new-generation products or systems developed by Thales will not be subject to similar or tighter controls and, (iii) geopolitical factors will not make it impossible for Thales or its suppliers to obtain export licences for certain customers or make it more difficult for Thales to execute previously signed contracts. Further limitations on access to military markets would thus have a negative impact on Thales' business, profitability and financial position.

Thales has put in place systems and formal procedures to ensure compliance with applicable regulations and controls, and reinforces these measures through awareness-raising programmes with dedicated e-learning modules and alerts on legislative and regulatory changes relating to export control that are relevant to Thales' business. Operating Units have access to a network of specialists within the Group, in charge of monitoring the application within operational units of compliance rules determined at Group level as well as monitoring the necessary authorisations and conformity of their implementation.

### c) Competition

Thales' business activities are subject to a wide range of national and international regulations mainly aimed at combating anti-competitive practices.

Infringement of these rules could lead to severe sanctions, such as fines, payment of damages, and legal bans. They could also have a serious impact on the Group's reputation.

To avoid any such infringements, Thales has initiated an awareness-raising programme to these rules, in particular through the roll-out of a dedicated e-learning tool and training programmes.

### d) Intellectual property

Thales is exposed to two main types of intellectual property risk: dependence on third-party technology and third-party actions against the Company for perceived infringement of their intellectual property rights.

To reduce the risk of reliance on critical third-party technology, Thales has implemented an identification process and management of each situation with a precise, strategic "Make/Team/Buy" (MTB) plan.

Given the nature of its activities and the specific features of its products, Thales conducts most of its research and development work in-house and controls the technology which is critical to the business. Thales' extensive intellectual property portfolio (over 15,000 patents, as well as software and know-how) and its presence throughout the value chain (equipment, systems and systems of systems) reduce its reliance on third-party technology. As a result, Thales' dependence on such technology can be considered very low.

To reduce the risk of third-party actions for alleged infringement of their intellectual property rights by Thales entities, the Group identifies and analyses this risk in the context of its own patent filing procedures and/or when embarking on technical research or product development.

In the event of a third-party infringement claim against a Thales company, the legal and technical analysis of the allegedly infringing products and intellectual property rights are handled centrally by Thales experts, with the assistance of specialist external consultants where needed.

### 1.1.2.2.2 Litigation

Due to the nature of its business activities, Thales is exposed to the risk of technical and commercial litigation.

To prevent disputes or limit their impact, Thales' policy is to systematically seek alternative methods of dispute resolution. This policy is reviewed on a regular basis to take into account changes in the Company's core areas of business and is backed by employee training programmes.

In addition, Thales implemented a procedure several years ago to centralise all civil and criminal litigation and claims. These are handled by the Group Legal and Contracts Department, with the support of the Group companies concerned.

At the end of 2002, a group of French manufacturers, including Thales and one of its subsidiaries, collectively received a request for arbitration relating to the execution of old contracts. In proportion to each industrial partner's involvement, Thales would have been liable for around 20% of the total claim of \$260 million. Under an agreement signed in 2003, the client withdrew its request for arbitration.

In November 2012, the claimant filed a new request for arbitration for a revised amount of €226m. The Industrial Partners are strongly challenging this claim and at this date it is not possible to evaluate any potential financial risk. Consequently, Thales has not recognised any provision. This procedure is still in process.

The Company is not aware of any other governmental, legal or arbitration procedures, pending or threatened, that are likely to have or that have had a significant impact on the financial situation or profitability of the Company and/or Group over the last 12 months.

### 1.1.2.3 Financial risks

#### 1.1.2.3.1 Liquidity

The Group's liquidity risk is the risk of it being unable to meet its cash needs out of its financial resources. In particular, it relates to Thales' level of exposure to changes in the main market indicators that could lead to an increase in the cost of credit, or even to a temporary limitation of access to external sources of financing.

The Group manages this risk by trying to anticipate its cash needs and ensures that these are covered by the Group's short-term and long-term financial resources as follows:

- shareholders' equity, listed by heading in note 8 to the consolidated financial statements;
- gross debt, listed by maturity in note 6 to the consolidated financial statements;
- committed, undrawn credit facilities granted by banks as backup to the commercial paper programme and acting as a financial reserve. These are described in more detail in note 6 to the consolidated financial statements.

The principle of centralising the entities' short-term assets and liabilities (cash pooling) is applied to the combination of entities in the same currency zone (euro zone, sterling zone, dollar zone and Australian dollar zone, etc.) and, in some cases, in the same country.

Through the consolidation and centralisation of cash requirements and surpluses of its Units, the Group is in a position to:

- simplify cash management and match the cash positions of units to produce a single consolidated position that is easier to manage; and
- gain prime access to financial markets through the parent company's financing programmes, rated by Standard & Poor's and Moody's (see below).

At 31 December 2014, cash recorded under consolidated assets amounted to €2,481.4m (compared with €2,563.7m at end-2013), including:

- €2,051.4m held by the parent company and available for immediate use (€2,051.7m in 2013);
- €430m in the bank credit balances of subsidiaries (€512m in 2013), most of them outside of France. This figure includes, inter alia, payments received in the last few days of the financial year and subsequently transferred to the corporate treasury account.

Cash at bank and equivalents at year-end is solely invested in bank deposits, in very short-term bank certificates of deposit with first-tier banks or in money market funds. At the date of publication, Thales' credit risk ratings were as follows:

	Moody's	Standard & Poor's
Medium and long-term loans	A2	BBB+
Outlook	Negative	Stable
Commercial paper & short-term loans	Prime-1	A2

A decrease of Thales' credit risk rating would not place at risk financial covenants included in financing contracts. The coming into effect of the unique clause providing for accelerated repayment would only apply in the event that the State no longer held its golden share and, simultaneously, the ratio of consolidated net financial debt to EBITDA (earnings before interest, taxes, depreciation and amortisation) were to exceed 3.

A lower rating would result in an increase (capped) in the margins applicable to the committed credit facility of €1.5bn (described in note 6 to the consolidated financial statements); at the same time, these margins would be improved (with a minimum threshold) in the event of a rating upgrade.

The Corporate Financing and Treasury Department consolidates data on Thales' exposure to interest rate risk and uses the appropriate financial instruments to hedge those risks.

Thales policy is to control interest rate and counterpart risks and to optimise its funding and banking operations.

The breakdown of Thales' debt by type of interest rate is described in note 6 to the consolidated financial statements. The table below summarises the Group's exposure to interest rate risk before and after hedging. Based on the Group's average net cash (taking into account hedging instruments), a 1% rise in interest rates would have a positive impact on net financial interest in 2014 of €8.4m (compared to €12m in 2013).

### 1.1.2.3.2 Interest rates

Thales is exposed to interest rate volatility and in particular its impact on the conditions associated with variable-rate financing. To limit this risk, Thales operates an active policy of interest rate hedging.

(€ million)	< 1 year		> 1 year		Total	
	Fixed rate	Variable rate	Fixed rate	Variable rate	Fixed rate	Variable rate
Financial liabilities	(22.2)	(86.0)	(1,387.2)	(36.5)	(1,409.4)	(122.5)
Financial assets	-	2,538.2	-	-	-	2,538.2
<b>Net exposure before taking account of derivatives</b>	<b>(22.2)</b>	<b>2,452.2</b>	<b>(1,387.2)</b>	<b>(36.5)</b>	<b>(1,409.4)</b>	<b>2,415.7</b>
Derivatives	(4.9)	4.9	981.8	(981.8)	976.9	(976.9)
<b>Net exposure after taking account of derivatives</b>	<b>(27.1)</b>	<b>2,457.1</b>	<b>(405.4)</b>	<b>(1,018.3)</b>	<b>(432.5)</b>	<b>1,438.8</b>

### 1.1.2.3.3 Foreign exchange

Due to the international nature of its business, Thales is exposed to the risk of exchange rate fluctuations.

#### a) Business-related currency risk

Business-related currency risk occurs when some of the business is billed in a currency other than that of the related costs.

- As a general rule, Thales is structurally immune to exchange rate fluctuations for a significant part of its business activity. More than 40% of Thales' sales are generated in the euro zone, which is also where most of its industrial operations are located. More generally, the reinforcement of the Group's international industrial footprint allows the Company to manufacture and invoice in local currency, which helps to reduce exchange rate risk on local sales.

- The accounts of Thales subsidiaries located in countries where the official currency is not the euro are translated into euros in the Group's consolidated financial statements. A fall in these currencies against the euro is likely to have a negative impact on the accounts. Its impact on profitability is limited, however, since the cost base of these subsidiaries is essentially in the same currency as their sales. The main currencies are the Pound sterling, the US dollar, the Canadian dollar and the Australian Dollar.
- For certain Group businesses (civil avionics and tubes, civil space, etc.), the US dollar ("USD") is the reference transaction currency. For business activities outside the dollar zone (the in-flight entertainment business is based essentially in the United States and is therefore largely immune to this risk), a specific currency risk hedging policy is implemented.

- For equipment transactions (avionics and tubes), this policy is defined on the basis of sales forecasts in USD, after accounting for corresponding purchases in USD. For these transactions, net exposure to dollar risk represents around 3.5% of the Group's total sales for 2014.
- For longer-term programmes in markets traditionally denominated in USD (primarily in civil space), each bid is examined for profitability in the light of the effect of currency fluctuations, after accounting for corresponding purchases in USD, and, if necessary, is specifically hedged through market transactions (forward exchange-rate contracts and options).

Where necessary, a similar approach is adopted for other Thales activities if a customer specifically requires a contract denominated in USD on an ad hoc basis.

Overall, net exposure represented around 3.5% of the Group's total sales for 2014.

- As well as this direct dollar risk, which concerned around 7% in total of consolidated sales at end-2014, the Group is also exposed to an "indirect" dollar risk on contracts denominated in currencies other than the dollar. This occurs when it is bidding against companies that benefit from a cost base in dollars. Analysis by product line and region shows that approximately one quarter of total sales may be exposed to this "indirect" dollar risk.

The "dollar risk" is thus the main currency risk that Thales needs to hedge. The figures corresponding to the hedging of business-related dollar risk are as follows:

- USD 3,191m, the amount of financial instruments hedging net firm commitments (USD risk against the euro, Canadian dollar and pound sterling) at 31 December 2014 compared with USD 2,495m at 31 December 2013;
- USD 198m, the amount of financial instruments hedging bids in USD against the euro, Canadian dollar and pound sterling at 31 December 2014 compared to USD 281m at 31 December 2013.

Operating receivables and payables denominated in foreign currency are exchange-rate hedged and therefore not exposed to currency risk.

The change in value of financial instruments (forward transactions) used as cash flow hedges is recognised in shareholders' equity. A decrease (increase) of 5% in the US dollar compared to the Euro, Pound sterling and Canadian dollar, would have increased (decreased) shareholders' equity by approximately €132m at 31 December 2014, compared with €103m at 31 December 2013. The premium/discount component is not eligible to cash flow hedge accounting and is recognised through profit and loss. In 2014, the change in market value of the discount/premium was +€7m.

The change in value of financial instruments matched with portfolios of sales offers which are not eligible for hedge accounting is recognised in profit and loss. A decrease (increase) of 5% in the US dollar compared to the euro, pound sterling and Canadian dollar, would have increased (decreased) the result by approximately €2m at 31 December 2014, compared with €2m at 31 December 2013.

Foreign currency-denominated financial debt does not generate any exposure in profit and loss, as it is either denominated in the functional currency of the entity in which it is recognised, or is used as a net foreign investment hedge.

## b) Management of risks relating to foreign currency-denominated assets

The Group may hedge a portion of its foreign currency-denominated assets, mainly those likely to be disposed of at a future date. The main criteria for determining whether or not a given foreign currency-denominated asset should be hedged are as follows:

- the nature of the business involved;
- the structure of Thales' commitment with respect to jointly-held companies, in particular the specific features of the shareholders' agreement in each joint venture.

The actual application of this policy also depends on:

- the objective of optimising hedges in the light of market conditions (availability of foreign currency, interest rates, hedging rate, etc.);
- the risks inherent in the future value of the assets being hedged and the nature of the business of the corresponding subsidiaries.

## ■ SUMMARY OF ASSET RISKS AT 31 DECEMBER 2014 FOR THE MAIN CURRENCIES

(€ million)	GBP	USD	AUD
Assets	1,883.1	1,120.7	805.1
Liabilities	2,099.6	872.8	447.9
<b>Net position before management</b>	<b>(216.5)</b>	<b>247.9</b>	<b>357.2</b>
Off-balance-sheet position	-	-	-
<b>NET POSITION AFTER MANAGEMENT</b>	<b>(216.5)</b>	<b>247.9</b>	<b>357.2</b>

### 1.1.2.3.4 Shares

Thales was not exposed to any significant equity risk at end-2014, excluding the risk on treasury shares.

At 31 December 2014, Thales held 1,876,732 treasury shares, representing 0.90% of the share capital.

### 1.1.2.3.5 Off-balance-sheet commitments

#### a) Pension commitments

Defined-benefit pension plans are in place for certain Thales employees, mainly in the United Kingdom and the Netherlands, and are externally funded by the Company under the provisions of the applicable national legislation.

At 31 December 2014, Thales' commitments in the United Kingdom and the Netherlands toward current employees (access to these plans has been closed to new employees in the UK), former employees and retired employees amounted to €5,429.3m for both countries, hedged by €4,189.8m in



investments, representing an underlying shortfall of €1,239.5m. At 31 December 2014, these investments consisted of:

- 34% in equities;
- 39% in fixed-rate bonds;
- 11% in inflation-linked bonds;
- 7% in alternative liquid investments;
- 8% in alternative long-term investments (e.g. real estate, infrastructure, etc.);
- 1% in cash.

Changing market parameters could affect the amount of the shortfall and the annual costs of defined-benefit plans. At 31 December 2014, the main risk variables were as follows, listed in order of importance:

- a reduction or increase in the discount rate applied to liabilities, which could increase or reduce the unfunded status; this variable is partly offset by changes in the value of fixed-rate hedging bonds held as plan assets and interest rate swaps;
- changes in the total return on investments in equities and other assets;
- changes in the forecast inflation rate;
- a substantial change in mortality tables;
- exchange rate fluctuations (mainly sterling against the euro).

Thales has introduced quarterly reporting on its pension plan positions and makes regular projections measuring the sensitivity of unfunded status to possible changes in market parameters taking into account correlation factors. In some countries, such as the UK and the Netherlands, Thales is committed to defined-benefit pension schemes, but plan assets are managed by trustees in accordance with the applicable regulations and in consultation with the Group. Plan assets are allocated with regard to the long-term maturity of the commitments they cover.

## b) Parent company guarantees

Thales, as the parent company, issues guarantees on commitments undertaken by its subsidiaries on commercial contracts. These guarantees are centralised by the Group Corporate Financing & Treasury Department.

Guarantees are issued out of an envelope of €3bn dedicated each year to the Chairman and Chief Executive Officer by the Board of directors. Prior to each renewal of the authority granted to the Chairman & Chief Executive Officer, the Group's Treasury and Funding Department reports to the Board of directors on the level of use of this envelope, based on the monitoring carried out by the Group Corporate Financing & Treasury Department.

At 31 December 2014, outstanding guarantees issued by the parent company in support of its subsidiaries stood at €13,161m. This figure includes all commitments given in relation to Thales Alenia Space (matched by a counter-guarantee from Finmeccanica in proportion to its 33% interest in Thales Alenia Space).

Thales manages risks connected to these parent company guarantees and optimises the financial conditions of the transactions guaranteed. The main objectives of this risk management policy are as follows:

- to limit risks to those corresponding to normal commitments on commercial contracts, particularly in terms of volume and duration;
- to limit the issue of guarantees to commitments made by wholly-owned subsidiaries, with guarantees on commitments by consortia or joint ventures only in proportion to the Group's equity interest or counter-guaranteed by the other shareholder in proportion to its interest;
- to enable its subsidiaries to benefit, when appropriate, from the credit rating of the parent company by controlling the financial conditions of the transactions guaranteed.

## 1.1.2.3.6 Client credit

Credit risk relates to the risk that a party to a contract will default on its commitments or fail to pay what it owes.

### a) Risk relating to failure of a private sector customer

Non-governmental customers (aircraft manufacturers, airlines, private infrastructure operators and industry) account for approximately 25% of Thales' sales. These customers may encounter major and/or prolonged financial difficulties that could lead to payment defaults or order cancellations. Such occurrences could have a negative impact on Thales' sales, profitability and financial position.

To mitigate these risks, Thales conducts regular analysis of the ability of customers to meet their obligations. When necessary, Thales may request bank guarantees or corporate guarantees, or may use credit insurers.

### b) Credit risk relating to Public Sector customers

Public, Government and institutional customers account for around 75% of Thales' sales. Thales works with a large number of countries. Some of these could present a significant credit risk which could, for example, lead them to suspend an order in production, or make them be unable to pay on delivery, as agreed under the terms of the contract. To limit its exposure to these risks, Thales takes out insurance with export credit agencies (such as Coface in France) or private insurers.

At 31 December 2014, only two customers accounted for annual sales for Thales in excess of €500m: the French State (around €2.5bn) and the UK government (approx. €1bn). At 31 December 2014, these two countries still had first-class or high-quality ratings (France AA by S&P and Aa1 by Moody's; UK AAA by S&P and Aa1 by Moody's).

## 1.1.2.4 Insurance

Thales' Insurance and Risk Management Department, based at head office and reporting to the SEVP Finance & Information Systems, is responsible for the Group's insurance activities and insurable risk management. It is in charge of Group operations and oversees policy implementation by Group companies.

The Group covers the financial consequences of the risk of accidental damage suffered or caused by property or people using appropriate insurance policies with leading international insurance and reinsurance companies.

The insurance policies arranged by the Group to cover these major risks relate to areas such as:

- damage to property and consequent operating losses;
- transport;
- testing and development;
- aviation liability, including liability for aeronautical products and hull/test flight insurance;
- civil liability for space products;
- risks of damage to or by naval vessels by subsidiaries, as naval equipment suppliers;
- general third-party liability;
- environmental liability;
- liability of executive officers and directors;
- individual accident – repatriation assistance for employees on assignment.

Whilst certain damageable events were notified to insurers, the Group had no major loss in 2014.

Thales' policy is to arrange cover on the insurance market based on the rates and limits that it considers reasonable, in view of the conditions offered by the market. Limits are applicable to insurance for major risks, while general exclusions for the entire market (e.g. asbestos) also apply to Thales.

The maximum coverage limit of €1.3bn in 2014 for damage to property and consequent business interruptions takes into account an estimate of the maximum loss caused to an industrial site which the Group could incur for direct damages and business interruptions.

Levels of liability cover depend on the quantification of a reasonable claim expectancy for Thales, as identified by the risk map of the main business activities and at Group level, and on cover capacity available on the insurance market. The insurance coverage for aviation liability commitments, which is covered by a specific programme, amounts to USD 2bn.

The insurance industry, which was affected by the recent financial crisis, is still trying to reduce its overall risk exposure. We are witnessing an increase in insurance premiums, a rise in deductibles and additional limits on the scope of cover. In addition, there are fewer insurers with the necessary resources and financial capacity to insure major industrial risks. There are no guarantees that Thales will be able in the future to maintain current levels of insurance under similar financial conditions.

In order to reduce its exposure to insurance market volatility, Thales insures major risks on a two-tier basis:

- the Group's contribution, through captive insurance and reinsurance companies, towards the settlement of claims, to a maximum net retention of €12m per year, for damage to property and consequent business interruptions, transport, general third-party liability, testing and development and space risks;
- transfer to insurers of payment for catastrophic losses.

An active Prevention and Protection policy for industrial sites is designed to reduce the magnitude and frequency of the accidental risks of fire or explosion and to detect other exposures, such as environmental or natural disasters and the vulnerability of critical industrial facilities. In 2014, more than 80% of the assets insured were the subject of a "multi peril" audit by the insurers during their visits to the principal operating sites and infrared thermography inspections by an outside organisation specialised in the prevention of electrical damage.

In accordance with Group processes, measures were taken to minimise business interruption and the consequences of any unforeseen events. An organisational structure and crisis management tools are in place to deal as efficiently as possible with the immediate consequences of a catastrophic event and to take the necessary emergency measures.

Thales continues to roll out professional indemnity cover for its staff. In addition, specific and/or local cover has been arranged to comply with the regulations in force and to satisfy the specific requirements of certain activities or projects, particularly public-private partnerships.

### 1.1.3 SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION

#### Table of reconciliation decree No. 2012-557 of 24 April 2012

In accordance with decree no. 2012-557 of 24 April 2012 and with Article R. 225-105-1 of the French Commercial Code on transparency obligations for companies on social and environmental matters, in its management report, Thales provides information on the Group's social, environmental and societal issues. This information, which has been verified by a declaration

of inclusion and an assurance report moderated by independent verifiers, presented on pages 239 *et seq.* for the social, environmental and societal data, is presented in full in chapter 5 on "Corporate Responsibility" in this registration document.

Decree no. 2012 – 557 of 24 April 2012	Page	Section	
<b>1) SOCIAL INFORMATION</b>	<b>206</b>	<b>5.1</b>	<b>SOCIAL INFORMATION</b>
<b>a) Employment</b>	206	5.1.1	A responsible employment policy
Total workforce and breakdown of employees by gender, age and geographical area	206 215	5.1.1.1 5.1.6	Employment in the Group Gender equality and diversity
Recruitments and redundancies/dismissals	208 208	5.1.1.2 5.1.1.3	Recruitments Departures
Remuneration and salary progression	213	5.1.4	A Group employee profit-sharing policy
<b>b) Organisation of work</b>			
Organisation of working hours	215	5.1.5.5	Working time
Absenteeism	215	5.1.5.3	Information on work-related accidents and absenteeism
<b>c) Employee relations</b>			
Organisation of social dialogue, especially procedures for providing information to and consulting with staff and negotiating with them	210 210	5.1.2.1 5.1.2.2	Collective bargaining Appropriate social dialogue bodies
Summary of collective agreements			
<b>d) Health &amp; safety</b>			
Health and safety conditions at work	214	5.1.5	A safe and healthy working environment: workplace health and safety
Summary of health and safety agreements entered into with trade union organisations or employee representatives with regard to health and safety at work			
Frequency and severity of work-related accidents and sick leave and occupational influences	215	5.1.5.3	Information on work-related accidents and absenteeism
<b>e) Training</b>			
Policies implemented for training	212	5.1.3.5	Training
Total number of training hours			
<b>f) Equal opportunities</b>			
Measures taken to promote gender equality	215	5.1.6	Gender equality and diversity
Measures taken to promote the employment and integration of disabled persons	216 216 232	5.1.6.2.2 5.1.6.2.3 5.3.1.2	The employment of people with disabilities throughout the world The employment of people with disabilities in France Group initiative to support people with disabilities
Anti-discrimination policy	215 216	5.1.6 5.1.6.2	Gender equality and diversity Promoting cultural diversity
<b>g) Promotion of and compliance with the International Labour Organisation fundamental conventions:</b>			
Respect for freedom of association and right to collective bargaining	214	5.1.5	A safe and healthy working environment: workplace health and safety
Elimination of discrimination in respect of employment and occupation	215	5.1.6	Gender equality and diversity
Elimination of forced or compulsory labour			
Effective abolition of child labour			

Decree no. 2012 – 557 of 24 April 2012	Page	Section	
<b>2) ENVIRONMENTAL INFORMATION</b>	<b>220</b>	<b>5.2</b>	<b>ENVIRONMENTAL INFORMATION</b>
<b>a) General policy</b>	<b>220</b>	<b>5.2.1</b>	<b>General policy on environmental issues</b>
Organisation of the Company to take account of environmental questions and, if applicable, environmental assessment and certification processes	221 222	5.2.1.2 5.2.1.4	Environmental organisation Control and prevention of environmental risks and pollution
Employee training and information training initiatives on protection of the environment	221	5.2.1.3	Stakeholders training and information
Measures taken to prevent environmental risks and pollution	222	5.2.1.4	Control and prevention of environmental risks and pollution
Amount of provisions and guarantees set aside for environmental risks	223	5.2.1.5	Guarantees, provisions and compensation
<b>b) Pollution and waste management</b>	<b>223</b>	<b>5.2.2</b>	<b>Pollution and waste management</b>
Measures taken to prevent, reduce and clean up discharges into the air, water and soil seriously affecting the environment	223 230	5.2.2.1 5.2.7	Limiting discharges Environmental indicators
Measures taken to prevent, recycle and eliminate waste	223 230	5.2.2.2 5.2.7	Preventing production, recycling and eliminating waste Environmental indicators
Mitigation of noise and other forms of pollution related to a business activity	224	5.2.2.3	Fighting pollution
<b>c) Sustainable use of resources</b>	<b>224</b>	<b>5.2.3</b>	<b>Sustainable use of resources</b>
Water consumption and supply in accordance with local constraints	224 230	5.2.3.1 5.2.7	Consumption of water and measures to improve its efficient use Environmental indicators
Consumption of raw materials and measures taken to improve efficiency of their use	224 228	5.2.3.2 5.2.6.1	Consumption of raw materials and measures to improve their efficient use Innovation for the development of green technologies
Energy consumption, measures taken to improve energy efficiency and use of renewable energy	225 230	5.2.3.3 5.2.7	Energy consumption and, where applicable, measures to improve energy efficiency and renewable energy use Environmental indicators
Land use	225	5.2.3.4	Land use
<b>d) Climate change</b>	<b>225</b>	<b>5.2.4</b>	<b>Fighting climate change</b>
Greenhouse gas emissions	225 230	5.2.4.1 5.2.7	Reduction of greenhouse gas emissions from activities Environmental indicators
Adaptation to the consequences of climate change	226	5.2.4.2	Contribution to fighting climate change
<b>e) Protection of biodiversity</b>	<b>227</b>	<b>5.2.5</b>	<b>Protection of biodiversity</b>
Measures taken to preserve and develop biodiversity	227	5.2.5	Protection of biodiversity

Decree no. 2012 – 557 of 24 April 2012	Page	Section	
<b>3) INFORMATION ON SOCIETAL COMMITMENTS IN FAVOUR OF SUSTAINABLE DEVELOPMENT</b>	<b>232</b>	<b>5.3</b>	<b>SOCIETAL INFORMATION</b>
<b>a) Territorial, economic and social impact of the Company's activities</b>	<b>232</b>	<b>5.3.1</b>	<b>Territorial, economic and social impact of the Group's activities</b>
In terms of regional employment and development on resident or local populations	232	5.3.1.1	Regional policies and actions of Geris Consultants in France
<b>b) Relations with people or organisations with an interest in the Company's activities, especially associations for inclusion, teaching establishments, associations for defence of the environment, consumer associations and local residents' associations</b>	<b>233</b>	<b>5.3.2</b>	<b>Stakeholder relationships</b>
Conditions for dialogue with these people or organisations	233	5.3.2.1	Partnerships with professional, international and non-governmental organisations
Partnership or sponsorship operations	209 227	5.1.1.4.3 5.2.4.2.4	Educational partners and links with schools and students In the definition of international standards and partnerships
	227	5.2.5	Protection of biodiversity
	233	5.3.2.2	Thales initiatives with charitable organisations
<b>c) Subcontractors and suppliers</b>	<b>234</b>	<b>5.3.3</b>	<b>Relations with suppliers: a responsible approach</b>
Recognition of social and environmental issues in the procurement policy	221 234	5.2.1.3.2 5.3.3	Involving suppliers Relations with suppliers: a responsible approach
Importance of subcontracting and recognition of subcontractors' and suppliers' corporate responsibility in relations with them	222 227	5.2.1.3.3 5.2.4.2.4	Relations with stakeholders In the definition of international standards and partnerships
	227	5.2.5	Protection of biodiversity
	234	5.3.3	Relations with suppliers: a responsible approach
<b>d) Fair business practices</b>	<b>235</b>	<b>5.3.4</b>	<b>Loyal practices</b>
Actions undertaken to prevent corruption	235 238	5.3.4.1 5.3.5	Anti-corruption Societal indicators
Measures taken to ensure consumer health and safety	236	5.3.4.2	Health and safety of consumers
<b>e) Other actions undertaken to promote Human Rights</b>	<b>235</b>	<b>5.3.4</b>	<b>Loyal practices</b>
	214	5.1.5	A safe and healthy working environment: workplace health and safety
	215	5.1.6	Gender equality and diversity
	229	5.2.6.2	Eco-responsible products
	237	5.3.4.3	Actions to support Human Rights
	239	<b>5.4</b>	<b>Statutory auditors' independent third-party report on consolidated social, environmental and societal information published in the management report</b>

## 1.1.4 EVENTS SINCE YEAR-END

No significant events after reporting period.

### 1.1.5 SUMMARY STATEMENT OF SHARE TRANSACTIONS IN 2014 CARRIED OUT BY DIRECTORS, NON-VOTING DIRECTORS AND RELATED PERSONS

In accordance with Article 223-26 of the General Regulations of the French Financial Markets Authority (AMF).

In accordance with Article L. 621-18-2 a) of the French Monetary and Financial Code, the members of the Board of directors are subject to this disclosure requirement.

Pursuant to Article L. 621-18-2 b) of the French Monetary and Financial Code, the Company has declared to the AMF that all members of the Executive Committee come under the category of non-voting directors in respect of obligations to declare share transactions.

Related persons in the sense of Article L. 621-18-2 c) of the French Monetary and Financial Code are people who have, under the conditions defined by decree in the Council of State, close personal relations with the people indicated in Article L. 621-18-2 a) and b) above.

To the best of the Company's knowledge, the following disclosures have been made to the AMF for publication on its website (<http://www.amf-france.org>):

Director's name	Financial instrument	Type of transaction	Total amount of transaction (in €)	Unit price(in €)
<b>Patrice Caine</b>	Other financial instruments	Exercise of stock options	35,400.00	29.50
	Other financial instruments	Exercise of stock options	102,030.00	34.01
	Other financial instruments	Exercise of stock options	109,410.00	36.47
<b>Physical person related to P. Caine</b>	Shares	Sale	322,759.44	44.8277
<b>Alex Cresswell</b>	Other financial instruments	Exercise of stock options	44,655.13	34.01
	Other financial instruments	Exercise of stock options	151,248.00	32.88
	Other financial instruments	Exercise of stock options	263,400.00	26.34
	Shares	Sale	61,054.50	46.50
	Shares	Sale	213,900.00	46.50
	Shares	Sale	448,041.80	44.8041
	FCPE investment fund units	Sale	18,912.47	62.16
	FCPE investment fund units	Sale	7,199.53	48.05
<b>Jean-Loïc Galle</b>	Other financial instruments	Exercise of stock options	56,050.00	29.50
	Shares	Sale	82,175.00	43.25
<b>Michel Mathieu</b>	Other financial instruments	Exercise of stock options	136,040.00	34.01
	Other financial instruments	Exercise of stock options	136,040.00	34.01
	Other financial instruments	Exercise of stock options	7,890.32	34.01
	Other financial instruments	Exercise of stock options	128,149.68	34.01
	Shares	Sale	167,984.39	41.996
	Shares	Sale	168,840.00	42.21
	Shares	Sale	10,024.72	43.21
	Shares	Sale	162,815.28	43.21
<b>Physical person related to M. Mathieu</b>	Shares	Sale	14,968.80	41.58
	Shares	Sale	14,979.60	41.61
	Shares	Sale	15,123.60	42.01
	Shares	Sale	15,066.00	41.85
	Shares	Sale	15,066.00	41.85
	Shares	Sale	15,164.16	42.1226
<b>Hervé Multon</b>	Other financial instruments	Exercise of stock options	29,500.00	29.50
	Shares	Sale	44,500.00	44.50
<b>Pierre Éric Pommellet</b>	Other financial instruments	Exercise of stock options	493,200.00	32.88
	Other financial instruments	Exercise of stock options	120,351.00	36.47
	Other financial instruments	Exercise of stock options	255,075.00	34.01
	Shares	Sale	345,675.00	46.09
	Shares	Sale	152,097.00	46.09
	Shares	Sale	691,350.00	46.09

## 1.2 Consolidated financial statements

### 1.2.1 CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€ million)	Notes	2014	2013 <sup>(a)</sup>
<b>Sales</b>	<b>note 2</b>	<b>12,973.6</b>	<b>12,697.6</b>
Cost of sales		(9,791.8)	(9,685.3)
Research and development expenses		(641.4)	(612.2)
Marketing and selling expenses		(914.4)	(894.0)
General and administrative expenses		(519.3)	(506.2)
Restructuring costs	note 10.4	(114.4)	(121.6)
Amortisation of intangible assets acquired (PPA) <sup>(b)</sup>	note 4.2	(103.7)	(61.8)
<b>Income from operations</b>	<b>note 2</b>	<b>888.6</b>	<b>816.5</b>
Disposal of assets, changes in scope of consolidation and other	note 3.2	248.9	16.1
Impairment of non-current operating assets	note 4.3	–	(3.0)
<b>Income of operating activities before impact of equity affiliates</b>		<b>1,137.5</b>	<b>829.6</b>
<b>Share in net income (loss) of equity affiliates</b>		<b>(34.0)</b>	<b>106.0</b>
Of which, share in net income (loss) of joint ventures	note 5.1	(83.5)	79.8
Of which, share in net income (loss) of associates	note 5.2	49.5	26.2
<b>Income of operating activities after impact of equity affiliates</b>		<b>1,103.5</b>	<b>935.6</b>
Financial interests on gross debt		(20.2)	(26.6)
Financial income from cash at bank and equivalents		22.4	17.7
Financial interests, net	note 6.1	2.2	(8.9)
Other financial income (expense)	note 6.1	(39.6)	(45.1)
Finance costs on pensions and other long-term benefits	note 9.3	(90.1)	(69.5)
Income tax	note 7.1	(214.3)	(203.5)
<b>NET INCOME (LOSS)</b>		<b>761.7</b>	<b>608.6</b>
Attributable to:			
<b>Shareholders of the parent company</b>		<b>714.2</b>	<b>573.4</b>
Non-controlling interests		47.5	35.2
Basic earnings per share (in euros)	note 8.2	3.49	2.85
Diluted earnings per share (in euros)	note 8.2	3.47	2.84

(a) New consolidation standards, mentioned in note 1.1, prescribe a retrospective application. Consequently, the financial statements presented for comparative periods have been restated accordingly.

In this context, and given that joint ventures and associates are an integral part of the Group's businesses, share in net income (loss) of equity affiliates is now presented within "income from operating activities after impact of equity affiliates", according to recommendation 2013-01 of the French Authority of Accounting Standards.

(b) This line corresponds to the amortisation of intangible assets acquired (Purchase Price Allocation: PPA) of fully consolidated entities. The amortisation of PPA related to entities consolidated under equity method is included in the share in net income (loss) of equity affiliates and detailed in note 2.2.

## 1.2.2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€ million)	2014			2013 <sup>(a)</sup>		
	Total attributable to:			Total attributable to:		
	Shareholders of the parent company	Non-controlling interests	Total	Shareholders of the parent company	Non-controlling interests	Total
<b>NET INCOME (LOSS)</b>	<b>714.2</b>	<b>47.5</b>	<b>761.7</b>	<b>573.4</b>	<b>35.2</b>	<b>608.6</b>
Cumulative translation adjustment (note 8.1)	107.9	1.0	108.9	(135.4)	(0.7)	(136.1)
Deferred tax (note 7.2)	(0.7)	-	(0.7)	(0.3)	-	(0.3)
<b>Net</b>	<b>107.2</b>	<b>1.0</b>	<b>108.2</b>	<b>(135.7)</b>	<b>(0.7)</b>	<b>(136.4)</b>
Cash flow hedge (note 8.1)	(261.8)	(30.2)	(292.0)	60.3	10.8	71.1
Deferred tax (note 7.2)	86.7	10.4	97.1	(22.4)	(3.7)	(26.1)
<b>Net</b>	<b>(175.1)</b>	<b>(19.8)</b>	<b>(194.9)</b>	<b>37.9</b>	<b>7.1</b>	<b>45.0</b>
Financial assets available for sale	0.1	-	0.1	(0.1)	-	(0.1)
<b>Items to be subsequently reclassified to P&amp;L</b>	<b>(67.8)</b>	<b>(18.8)</b>	<b>(86.6)</b>	<b>(97.9)</b>	<b>6.4</b>	<b>(91.5)</b>
<i>Of which, part related to joint ventures, after income tax (note 5.1)</i>	<i>18.4</i>	<i>-</i>	<i>18.4</i>	<i>(16.3)</i>	<i>-</i>	<i>(16.3)</i>
<i>Of which, part related to associates, after income tax (note 5.2)</i>	<i>16.0</i>	<i>-</i>	<i>16.0</i>	<i>(21.2)</i>	<i>-</i>	<i>(21.2)</i>
Actuarial gains (losses) on pensions: subsidiaries (note 9.3)	(617.6)	(9.4)	(627.0)	(27.1)	(5.0)	(32.1)
Actuarial gains (losses) on pensions: equity affiliates	(24.6)	-	(24.6)	(5.2)	-	(5.2)
Deferred tax (note 7.2)	97.0	3.1	100.1	(11.0)	0.1	(10.9)
<b>Items that will not be reclassified to P&amp;L</b>	<b>(545.2)</b>	<b>(6.3)</b>	<b>(551.5)</b>	<b>(43.3)</b>	<b>(4.9)</b>	<b>(48.2)</b>
<i>Of which, part related to joint ventures, after income tax (note 5.1)</i>	<i>(14.8)</i>	<i>-</i>	<i>(14.8)</i>	<i>(3.8)</i>	<i>-</i>	<i>(3.8)</i>
<i>Of which, part related to associates, after income tax (note 5.2)</i>	<i>0.9</i>	<i>-</i>	<i>0.9</i>	<i>-</i>	<i>-</i>	<i>-</i>
<b>Other comprehensive income (loss) for the period, net of tax</b>	<b>(613.0)</b>	<b>(25.1)</b>	<b>(638.1)</b>	<b>(141.2)</b>	<b>1.5</b>	<b>(139.7)</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>	<b>101.2</b>	<b>22.4</b>	<b>123.6</b>	<b>432.2</b>	<b>36.7</b>	<b>468.9</b>

(a) New consolidation standards, mentioned in note 1.1, prescribe a retrospective application. Consequently, the financial statements presented for comparative periods have been restated accordingly.



## 1.2.3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(€ million)	Number of shares outstanding (thousands)	Share capital	Paid-in surplus	Retained earnings	Cash Flow Hedge	AFS investments	Cumulative translation adjustment	Treasury shares	Total attrib. to shareholders of the parent company	Non controlling interests	Total
<b>AT 1 JANUARY 2013 PUBLISHED</b>	<b>199,544</b>	<b>607.0</b>	<b>3,731.6</b>	<b>(623.7)</b>	<b>18.7</b>	<b>1.6</b>	<b>(106.2)</b>	<b>(87.9)</b>	<b>3,541.1</b>	<b>10.4</b>	<b>3,551.5</b>
New consolidation standards impact	-	-	-	(64.1)	-	-	-	-	(64.1)	219.1	155.0
<b>AT 1 JANUARY 2013 RESTATED<sup>(a)</sup></b>	<b>199,544</b>	<b>607.0</b>	<b>3,731.6</b>	<b>(687.8)</b>	<b>18.7</b>	<b>1.6</b>	<b>(106.2)</b>	<b>(87.9)</b>	<b>3,477.0</b>	<b>229.5</b>	<b>3,706.5</b>
Net income (loss)	-	-	-	573.4	-	-	-	-	573.4	35.2	608.6
Other comprehensive income (loss)	-	-	-	(43.3)	37.9	(0.1)	(135.7)	-	(141.2)	1.5	(139.7)
<b>Total comprehensive income (loss) for 2013<sup>(a)</sup></b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>530.1</b>	<b>37.9</b>	<b>(0.1)</b>	<b>(135.7)</b>	<b>0.0</b>	<b>432.2</b>	<b>36.7</b>	<b>468.9</b>
Employee share issues	3,405	10.2	95.0	-	-	-	-	-	105.2	-	105.2
Parent company dividend distribution (note 8.1)	-	-	-	(180.7)	-	-	-	-	(180.7)	-	(180.7)
Third party share in dividend distribution of subsidiaries	-	-	-	-	-	-	-	-	-	(31.9)	(31.9)
Share-based payments (note 9.4)	-	-	-	14.7	-	-	-	-	14.7	-	14.7
Acquisitions/disposals of treasury shares (note 8.1)	305	-	-	(10.4)	-	-	-	6.5	(3.9)	-	(3.9)
Other	-	-	-	4.0	-	-	-	-	4.0	(0.2)	3.8
Changes in scope of consolidation	-	-	-	(1.6)	-	-	-	-	(1.6)	4.1	2.5
<b>AT 31 DECEMBER 2013 RESTATED<sup>(a)</sup></b>	<b>203,254</b>	<b>617.2</b>	<b>3,826.6</b>	<b>(331.7)</b>	<b>56.6</b>	<b>1.5</b>	<b>(241.9)</b>	<b>(81.4)</b>	<b>3,846.9</b>	<b>238.2</b>	<b>4,085.1</b>
Net income (loss)	-	-	-	714.2	-	-	-	-	714.2	47.5	761.7
Other comprehensive income (loss)	-	-	-	(545.2)	(175.1)	0.1	107.2	-	(613.0)	(25.1)	(638.1)
<b>Total comprehensive income (loss) for 2014</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>169.0</b>	<b>(175.1)</b>	<b>0.1</b>	<b>107.2</b>	<b>--</b>	<b>101.2</b>	<b>22.4</b>	<b>123.6</b>
Employee share issues	2,097	6.3	63.3	-	-	-	-	-	69.6	-	69.6
Parent company dividend distribution (note 8.1)	-	-	-	(242.8)	-	-	-	-	(242.8)	-	(242.8)
Third party share in dividend distribution of subsidiaries	-	-	-	-	-	-	-	-	-	(130.9)	(130.9)
Share-based payments (note 9.4)	-	-	-	14.1	-	-	-	-	14.1	-	14.1
Acquisitions/disposals of treasury shares (note 8.1)	613	-	-	(19.3)	-	-	-	22.5	3.2	-	3.2
Other	-	-	-	(24.9)	-	-	-	-	(24.9)	(0.5)	(25.4)
Changes in scope of consolidation	-	-	-	4.1	-	-	-	-	4.1	169.3	173.4
<b>AT 31 DECEMBER 2014</b>	<b>205,964</b>	<b>623.5</b>	<b>3,889.9</b>	<b>(431.5)</b>	<b>(118.5)</b>	<b>1.6</b>	<b>(134.7)</b>	<b>(58.9)</b>	<b>3,771.4</b>	<b>298.5</b>	<b>4,069.9</b>

(a) New consolidation standards, mentioned in note 1.1, prescribe a retrospective application. Consequently, the financial statements presented for comparative periods have been restated accordingly.

## 1.2.4 CONSOLIDATED BALANCE SHEET

**Assets**

(€ million)	Notes	31/12/2014	31/12/2013 <sup>(a)</sup>	01/01/2013 <sup>(a)</sup>
Goodwill, net	note 4.1	3,212.6	2,923.6	2,913.7
Other intangible assets, net	note 4.2	946.2	527.8	564.2
Tangible assets, net	note 4.2	1,557.0	1,322.3	1,273.8
<b>Total non-current operating assets</b>		<b>5,715.8</b>	<b>4,773.7</b>	<b>4,751.7</b>
Investment in joint ventures	note 5.1	1,103.1	1,411.4	1,439.5
Investment in associates	note 5.2	385.5	246.8	203.0
Non consolidated investments	note 6.3	60.4	65.0	191.5
Other non-current financial assets	note 6.3	138.4	153.0	132.3
<b>Total non-current financial assets</b>		<b>1,687.4</b>	<b>1,876.2</b>	<b>1,966.3</b>
Non-current derivatives – assets	note 6.5	44.1	16.6	23.5
Deferred tax assets	note 7.3	947.6	803.6	993.3
<b>NON-CURRENT ASSETS</b>		<b>8,394.9</b>	<b>7,470.1</b>	<b>7,734.8</b>
Inventories and work in progress	note 10.1	2,437.6	2,124.1	2,111.2
Construction contracts: assets	note 10.2	1,996.4	1,995.2	2,029.5
Advances to suppliers	note 10.1	326.0	285.2	231.0
Accounts, notes and other current receivables	note 10.1	4,129.1	3,810.0	3,888.1
Current derivatives – assets	note 6.5	108.2	176.5	119.1
<b>Total current operating assets</b>		<b>8,997.3</b>	<b>8,391.0</b>	<b>8,378.9</b>
Current tax receivables		60.3	31.9	35.1
Current financial assets	note 6.2	56.8	196.9	271.8
Cash at bank and equivalents	note 6.2	2,481.4	2,563.7	2,127.3
<b>Total current financial assets</b>		<b>2,538.2</b>	<b>2,760.6</b>	<b>2,399.1</b>
<b>CURRENT ASSETS</b>		<b>11,595.8</b>	<b>11,183.5</b>	<b>10,813.1</b>
<b>TOTAL ASSETS</b>		<b>19,990.7</b>	<b>18,653.6</b>	<b>18,547.9</b>

(a) New consolidation standards, mentioned in note 1.1, prescribe a retrospective application. Consequently, the financial statements presented for comparative periods have been restated accordingly.

## Equity and liabilities

(€ million)	Notes	31/12/2014	31/12/2013 <sup>(a)</sup>	01/01/2013 <sup>(a)</sup>
Capital, paid-in surplus and other reserves		3,965.0	4,170.2	3,671.1
Cumulative translation adjustment		(134.7)	(241.9)	(106.2)
Treasury shares		(58.9)	(81.4)	(87.9)
<b>Total attributable to shareholders of the parent company</b>		<b>3,771.4</b>	<b>3,846.9</b>	<b>3,477.0</b>
Non-controlling interests		298.5	238.2	229.5
<b>TOTAL EQUITY</b>	<b>NOTE 8.1</b>	<b>4,069.9</b>	<b>4,085.1</b>	<b>3,706.5</b>
Financial debt: long-term	note 6.2	1,467.8	1,451.6	712.2
Non-current derivatives – liabilities	note 6.5	–	2.6	–
Pensions and other employee benefits	note 9.3	2,556.8	1,857.9	1,883.4
Deferred tax liabilities	note 7.3	265.3	149.1	183.4
<b>NON-CURRENT LIABILITIES</b>		<b>4,289.9</b>	<b>3,461.2</b>	<b>2,779.0</b>
Advances received from customers on contracts	note 10.1	3,676.4	3,739.3	3,741.2
Refundable grants	note 10.1	130.4	143.0	148.1
Construction contracts: liabilities	note 10.2	1,072.3	1,073.9	1,267.9
Reserves for contingencies	note 10.4	1,038.0	1,026.1	1,156.2
Accounts, notes and other current payables	note 10.1	5,269.4	4,746.9	4,836.6
Current derivatives – liabilities	note 6.5	282.2	72.9	92.5
<b>Total current operating liabilities</b>		<b>11,468.7</b>	<b>10,802.1</b>	<b>11,242.5</b>
Current tax payables		54.0	59.5	39.4
Financial debt: short-term	note 6.2	108.2	245.7	780.5
<b>CURRENT LIABILITIES</b>		<b>11,630.9</b>	<b>11,107.3</b>	<b>12,062.4</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>19,990.7</b>	<b>18,653.6</b>	<b>18,547.9</b>

(a) New consolidation standards, mentioned in note 1.1, prescribe a retrospective application. Consequently, the financial statements presented for comparative periods have been restated accordingly.

## 1.2.5 CONSOLIDATED STATEMENT OF CASH FLOWS

(€ million)	Notes	2014	2013 <sup>(a)</sup>
<b>Net income (loss)</b>		<b>761.7</b>	<b>608.6</b>
Add (deduct):			
Income tax expense (gain)		214.3	203.5
Financial interests, net expense (gain)		(2.2)	8.9
Share in net (income) loss of equity affiliates (net of dividends received)		34.0	(106.0)
Dividends received from equity-accounted: joint ventures		44.6	95.8
Dividends received from equity-accounted: associates		25.1	16.9
Depreciation and amortisation of tangible and intangible assets	note 4.2	345.9	305.1
Depreciation and amortisation of intangible assets acquired	note 4.2	103.7	61.8
Provisions for pensions and other employee benefits	note 9.3	172.5	154.5
Impairment of non-current operating assets	note 4.3	0.0	3.0
Loss (gain) on disposal of assets, change in scope of consolidation and other	note 3.2	(248.9)	(16.1)
Net allowances to restructuring provisions	note 10.4	(10.7)	(39.2)
Other items		25.6	32.9
<b>Operating cash flows before working capital changes, interests and tax</b>		<b>1,465.6</b>	<b>1,329.7</b>
Change in working capital requirement and in reserves for contingencies	note 10.1	(287.1)	(300.7)
Payment of contributions/pensions benefits (defined benefit plans):	note 9.3	(190.5)	(187.4)
■ related to reduction of the UK deficit		(68.8)	(64.3)
■ related to future service (recurrent contributions)		(121.7)	(123.1)
Financial interests paid		(31.4)	(47.5)
Financial interests received		17.0	16.3
Income tax paid		(98.4)	(39.8)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>- I -</b>	<b>875.2</b>	<b>770.6</b>
Capital expenditure on tangible and intangible assets		(472.6)	(383.9)
Proceeds from disposal of tangible and intangible assets		29.2	25.7
<b>Net operating investment</b>	<b>note 11.2</b>	<b>(443.4)</b>	<b>(358.2)</b>
Acquisitions of subsidiaries, net	note 11.3	(378.2)	(44.0)
Disposals of subsidiaries, net	note 11.3	4.4	8.9
Decrease (increase) in loans and other non-current financial assets		21.9	(14.3)
Decrease (increase) in other current financial assets		152.7	81.1
<b>Net financial investment</b>		<b>(199.2)</b>	<b>31.7</b>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>- II -</b>	<b>(642.6)</b>	<b>(326.5)</b>
Parent company dividend distribution		(242.8)	(180.7)
Third party share in dividend distributions of subsidiaries		(130.9)	(31.9)
Increase in equity (exercise of subscription options)		75.0	97.3
Purchase/sale of treasury shares		3.2	(6.8)
Increase in financial debt		46.1	840.3
Repayment of financial debt		(94.2)	(699.3)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>- III -</b>	<b>(343.6)</b>	<b>18.9</b>
Effect of exchange rate variations and other	- IV -	28.7	(26.6)
<b>TOTAL INCREASE (DECREASE) IN CASH AT BANK AND EQUIVALENTS</b>	<b>I+II+III+IV</b>	<b>(82.3)</b>	<b>436.4</b>
Cash at bank and equivalents at beginning of period		2,563.7	2,127.3
<b>CASH AT BANK AND EQUIVALENTS AT END OF PERIOD</b>		<b>2,481.4</b>	<b>2,563.7</b>

(a) New consolidation standards, mentioned in note 1.1, prescribe a retrospective application. Consequently, the financial statements presented for comparative periods have been restated accordingly.

The Group net cash position and its change on both periods are presented in note 11.1.

## 1.2.6 **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

<b>NOTE 1</b>	ACCOUNTING STANDARDS FRAMEWORK	36
<b>NOTE 2</b>	SEGMENT INFORMATION	40
<b>NOTE 3</b>	IMPACT OF CHANGES IN SCOPE OF CONSOLIDATION	43
<b>NOTE 4</b>	TANGIBLE AND INTANGIBLE ASSETS	44
<b>NOTE 5</b>	INVESTMENTS IN JOINT VENTURES AND ASSOCIATES	47
<b>NOTE 6</b>	FINANCING AND FINANCIAL INSTRUMENTS	50
<b>NOTE 7</b>	INCOME TAX	58
<b>NOTE 8</b>	EQUITY AND EARNINGS PER SHARE	61
<b>NOTE 9</b>	LONG-TERM BENEFITS	63
<b>NOTE 10</b>	CURRENT OPERATING ASSETS AND LIABILITIES	71
<b>NOTE 11</b>	CASH FLOWS	75
<b>NOTE 12</b>	LITIGATION	76
<b>NOTE 13</b>	EVENTS AFTER REPORTING PERIOD	76
<b>NOTE 14</b>	ACCOUNTING POLICIES	76
<b>NOTE 15</b>	FEES PAID TO AUDITORS	82
<b>NOTE 16</b>	OTHER DISCLOSURES	82
<b>NOTE 17</b>	LIST OF MAIN CONSOLIDATED COMPANIES	83

All monetary amounts included in these notes are expressed in € million.

## NOTE 1 ACCOUNTING STANDARDS FRAMEWORK

On 25 February 2015, the Board of directors approved, and authorised for issue, Thales's consolidated financial statements for the year ended 31 December 2014. In accordance with French legislation, the financial statements will be finally approved by the shareholders of Thales (parent company) at the Annual General Meeting on 13 May 2015.

Thales parent company is a listed French *société anonyme*, registered with the Nanterre commercial registry (*Registre du Commerce et des Sociétés de Nanterre*) under the number 552 059 024.

### 1.1 Basis of preparation of the 2014 consolidated financial statements

The consolidated financial statements of the Thales group are prepared in accordance with IFRS (International Financial Reporting Standards) as approved by the European Union at 31 December 2014<sup>(1)</sup>.

These principles, described in note 14, are consistent with those applied for the year ended 31 December 2013, with the exception of the first time adoption of the new consolidation standards described hereafter.

#### a) Analysis of the new standards

##### Consolidated Financial Statements (IFRS 10)

This new standard replaces IAS 27 ("Consolidated and separate financial statements") and SIC 12 ("Consolidation – Special Purpose Entities").

IFRS 10 introduces a new definition of control. An investor (the Group) controls an investee and consolidates it as a subsidiary when the following criteria are met:

- the investor has the ability to direct the core activities of the investee;
- the investor has rights to variable returns from its involvement with the investee;
- the investor has the ability to affect those returns through its power over the investee.

In this framework, the Group has undertaken an analysis of its not fully owned investments to determine the level of control exercised over them and to confirm their method of consolidation.

In particular, this led to review, according to IFRS 10 criteria, the consolidation method of Space activities that were, up to now, consolidated under the proportionate method. It was concluded that these activities should be consolidated as follows:

- Thales Alenia Space, sub-group controlled and owned at 67%, under the full consolidation method;
- Telespazio, owned at 33% and under significant influence, according to the equity method.

These changes have been implemented in the Group consolidated accounts published as from 2014.

##### Joint Arrangements (IFRS 11)

IFRS 11 replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non Monetary Contributions by Venturers". This standard defines the accounting treatment of joint arrangements through which at least two parties exercise joint control. Pursuant to this new standard, there are only two types of joint arrangement: joint ventures and joint operations.

The classification is based on the rights and obligations of the parties to the arrangement, taking into consideration the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances:

- a joint operation is a joint arrangement whereby the parties have rights to the assets and obligations for the liabilities, relating to the arrangement. The Group did not identify a joint operation in its perimeter;
- a joint venture is a joint arrangement whereby the parties (joint venturers) that have joint control of the arrangement have rights to the net assets of the arrangement. Pursuant to IAS 31, the Group accounted for its joint arrangements, all classified as joint ventures, using the proportionate consolidation method. In accordance with IFRS 11, joint arrangements classified as joint ventures must be accounted for using the equity method (proportionate consolidation is no longer allowed).

Consequently, the Group now accounts all arrangements under a joint control using the equity method.

##### Disclosure of Interests in Other Entities (IFRS 12)

IFRS 12 includes into a single standard the disclosures relating to entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The first time adoption of this standard involves additional disclosures in the notes to the Financial Statements (note 5 and 8.1-g).

#### b) Impact of the changes in consolidation methods on the 2013 consolidated financial statements

The consolidated financial statements of 2013 have been restated in order to take into account changes in the consolidation methods detailed hereafter:

##### ■ MAIN SUBSIDIARIES, PREVIOUSLY ACCOUNTED FOR UNDER THE PROPORTIONATE METHOD, NOW FULLY CONSOLIDATED

	Country	Level of control	Consolidation method	% stake
Thales Alenia Space France	France	Exclusive control	Fully consolidated	67%
Thales Alenia Space Italia SpA	Italy	Exclusive control	Fully consolidated	67%

##### ■ SUBGROUP, PREVIOUSLY ACCOUNTED FOR UNDER THE PROPORTIONATE METHOD, NOW ACCOUNTED FOR UNDER THE EQUITY METHOD

	Country	Level of control	Consolidation method	% stake
Telespazio SpA	Italy	Significant influence	Equity method	33%

(1) Available on the following internet address: [http://ec.europa.eu/internal\\_market/accounting/ias\\_fr.htm](http://ec.europa.eu/internal_market/accounting/ias_fr.htm).

## ■ MAIN JOINT VENTURES, PREVIOUSLY ACCOUNTED FOR UNDER THE PROPORTIONATE METHOD, NOW ACCOUNTED FOR UNDER THE EQUITY METHOD

	Country	Level of control	Consolidation method	% stake
Air Command Systems International SAS	France			50%
Amper Programas Electrónica y Comunicaciones SA	Spain			49%
Citylink Telecommunications Holdings Ltd	United Kingdom			33%
DCNS	France			35%
Diehl Aerospace GmbH	Germany			49%
Junghans Microtec GmbH	Germany	Joint control	Equity method	45%
Samsung Thales Co. Ltd	South Korea			50%
Sofradir SAS	France			50%
Thales-Raytheon Systems Company LLC	United States			50%
Thales-Raytheon Systems Company SAS	France			50%
Trixell SAS	France			51%

### Impact of the transitional arrangements

The transitional arrangements of the new standards led the Group to make the following restatements:

- the equity book value of joint ventures at 1 January 2013 has been recalculated by including their goodwill. The reclassified goodwill amounts to €497.5 million (note 4.1);
- when the joint venture is included in a broader Cash Generating Unit (CGU), a share of the goodwill of the corresponding CGU is reallocated on the basis of its relative value. In this context, an impairment test has

been carried out and has led Thales to recognise, in the opening balance sheet, an impairment of €23.1 million.

Within the joint application of IFRS 11 and IAS 28 requirements, the Group has chosen to restate the transactions that had led to take over (lose) joint control. The restatement (€41.0 million) essentially comes from the cancellation of the revaluation of shares previously held at the date of the additional 10% DCNS acquisition (end of 2011).

The impact of both adjustments, at the transition date, leads to a €64.1 million decrease of the equity at 1 January 2013.

## ■ CONDENSED FINANCIAL STATEMENTS OF 2013 RESTATED FOR COMPARATIVE PERIODS

Consolidated balance sheet at 1 January 2013	01/01/2013 published	Impacts	01/01/2013 Restated	Of which, DCNS impact
Non-current operating assets	6,088.5	(1,336.8)	4,751.7	(1,076.3)
Investment in joint ventures	–	1,439.5	1,439.5	838.2
Investment in associates	148.6	54.4	203.0	(6.8)
Other non-current assets	1,483.2	(142.6)	1,340.6	(147.2)
Current operating assets and taxes	10,358.7	(1,944.7)	8,414.0	(1,359.1)
Current financial assets	3,238.7	(839.6)	2,399.1	(577.1)
<b>Total assets</b>	<b>21,317.7</b>	<b>(2,769.8)</b>	<b>18,547.9</b>	<b>(2,328.3)</b>
Equity, shareholders of the parent company	3,541.1	(64.1)	3,477.0	(37.0)
Non-controlling interests	10.4	219.1	229.5	–
Financial debt: long-term	850.6	(138.4)	712.2	(49.4)
Other non-current liabilities	2,308.5	(241.7)	2,066.8	(203.2)
Current operating liabilities and taxes	13,609.8	(2,327.9)	11,281.9	(2,016.5)
Financial debt: short-term	997.3	(216.8)	780.5	(22.2)
<b>Total equity and liabilities</b>	<b>21,317.7</b>	<b>(2,769.8)</b>	<b>18,547.9</b>	<b>(2,328.3)</b>
Net cash (debt)	1,527.9	(598.0)	929.9	(619.0)

Consolidated balance sheet at 31 December 2013	31/12/2013 Published	Impacts	31/12/2013 Restated	Of which, DCNS impact
Non-current operating assets	6,149.0	(1,375.3)	4,773.7	(1,107.6)
Investment in joint ventures	–	1,411.4	1,411.4	829.8
Investment in associates	187.8	59.0	246.8	(5.4)
Other non-current assets	1,336.6	(298.4)	1,038.2	(292.4)
Current operating assets and taxes	10,430.7	(2,007.8)	8,422.9	(1,477.8)
Current financial assets	3,390.7	(630.1)	2,760.6	(350.9)
<b>Total assets</b>	<b>21,494.8</b>	<b>(2,841.2)</b>	<b>18,653.6</b>	<b>(2,404.3)</b>
Equity, shareholders of the parent company	3,911.0	(64.1)	3,846.9	(37.0)
Non-controlling interests	29.9	208.3	238.2	(14.6)
Financial debt: long-term	1,539.0	(87.4)	1,451.6	(25.3)
Other non-current liabilities	2,243.0	(233.4)	2,009.6	(200.1)
Current operating liabilities and taxes	13,314.7	(2,453.1)	10,861.6	(2,099.2)
Financial debt: short-term	457.2	(211.5)	245.7	(28.1)
<b>Total equity and liabilities</b>	<b>21,494.8</b>	<b>(2,841.2)</b>	<b>18,653.6</b>	<b>(2,404.3)</b>
Net cash (debt)	1,666.3	(589.0)	1,077.3	(555.2)

Consolidated statement of comprehensive income 2013	2013 Published	Impacts	2013 Restated	Of which, DCNS impact
Sales	14,194.1	(1,496.5)	12,697.6	(1,088.9)
Income from operations	904.8	(88.3)	816.5	(24.6)
Share in income (loss) of equity affiliates (new standards)	–	106.0	106.0	14.7
EBIT (excl. PPA note 2.2)	1,003.2		1,011.0	–
Share in income (loss) of equity affiliates (previous standards)	20.2	(20.2)	–	–
Net income (loss)	573.0	35.6	608.6	1.8
Of which, shareholders of the parent company	573.4	–	573.4	–
Of which, non-controlling interests	(0.4)	35.6	35.2	1.8
Net income (loss)	573.0	35.6	608.6	1.8
Other comprehensive income (loss)	(141.7)	2.0	(139.7)	5.5
Total comprehensive income (loss)	431.3	37.6	468.9	7.3

Consolidated statement of cash flows 2013	2013 Published	Impacts	2013 Restated	Of which, DCNS impact
Cash flow from operating activities	834.6	(64.0)	770.6	(6.5)
Cash flow from investing activities	(289.2)	(37.3)	(326.5)	(43.2)
Cash flow from financing activities	(4.4)	23.3	18.9	18.4
Effect of exchange rate variations and other	(35.5)	8.9	(26.6)	4.1
Cash at bank and equivalents at beginning of period	2,518.3	(391.0)	2,127.3	(191.3)
Cash at bank and equivalents at end of period	3,023.8	(460.1)	2,563.7	(218.5)

#### c) Other standards applicable in 2014

The following texts, mandatorily applicable from 1 January 2014 have no significant impact on the consolidated financial statements:

- amendment to IAS 32 ("Financial Instruments – Presentation"), seeking to clarify the principles for offsetting financial assets and financial liabilities;
- amendment to IAS 39 ("Financial Instruments – Recognition and Measurement") relating to the novation of derivatives and maintaining hedge accounting;
- amendment to IAS 36 ("Impairment of Assets"), relating to disclosures on the recoverable values of non-financial assets.

#### 1.2 New standards mandatorily applicable after 31 December 2014

The interpretation IFRIC 21 (Leases) has been adopted by the European Union in June 2014 and will be applicable for the Group from 1 January 2015. This new interpretation identifies the obligating event for the recognition of a liability related to tax (excluding income tax and taxes related to wages and salaries). The liability is recognised progressively only if the obligating event occurs over a period of time. According to this principle, some taxes will be recognised in full in the Interim Consolidated Financial Statements (the estimated impact amounts to -€20 million on EBIT of the first interim 2015 and +€20 million on EBIT of the second interim).



The following new standards have been published by the IASB and, subject to endorsement by the European Union, these standards will be applicable for annual periods detailed hereafter:

- IFRS 15 ("Revenue from contracts with customers"), replacing the standards IAS 18 ("Revenue") and IAS 11 ("Construction contracts") will be effective from 1 January 2017;
- IFRS 9 ("Financial instruments") will be effective from 1 January 2018, subject to its definitive endorsement by the European Union. This new standard will replace all the texts related to financial instruments;
- amendment to IAS 16 ("Tangible assets") and IAS 38 ("Intangible assets") which clarify the amortisation methods allowed;
- amendment to IFRS 11 ("Joint arrangements"), related to the accounting of acquisition of interests in a joint operation; amendment to IFRS 10 ("Consolidated financial statements") related to the non monetary assets contribution to an associate or a joint venture, in exchange of investments in share in these companies;
- amendment to IAS 19 ("Employee benefits"), to clarify the accounting of contributions from employees or third parties set out in the formal terms of a defined benefit plan in respect of service;
- amendment to IFRS 2 ("Share-based payment"), related to the definition of vesting conditions and other conditions;
- annual improvements to IFRS: Cycles 2011-2013 and 2012-2014.

The process to identify the potential impacts of the new standards on the Group's consolidated statements is in progress.

### 1.3 Significant accounting estimates

The preparation of the Group's consolidated financial statements involves making estimates and assumptions, which have an impact on the valuation of income, expenses, assets and liabilities. These estimates are based on past experience and factor in the economic conditions prevailing at the end of the reporting period and any information available as of the date of preparation of the financial statements.

In the context of the current global economic environment, the degree of volatility and subsequent lack of visibility remain particularly high. Future facts and circumstances could lead to changes in these estimates or assumptions, which would affect the Group's financial condition, results of operations and cash flows.

#### Construction contracts (note 10.2)

Recognition of incomes and expenses relating to construction contracts is based on estimates of overall profit or loss on completion of such contracts (see note 14-d). These estimates are performed by project managers, under the supervision of General Management, in accordance with Group procedures.

#### Goodwill (note 4.1)

Goodwill is subject to impairment tests (see note 14-i). The recoverable amount of goodwill by cash generating unit is assessed on the basis of forecast data from the strategic plans prepared, in accordance with Group procedures. Tests of sensitivity to changes in key assumptions are used to secure the conclusions reached.

#### Development costs (note 4.2)

Development costs that meet the criteria for capitalisation (note 14-f) are recognised as intangible assets and amortised over their useful lives. Assessments of compliance with the criteria are carried out on the basis of the forecast sales and profitability of the corresponding projects.

#### Pensions and other long-term benefits (note 9.3)

Benefit obligations in respect of pensions and other long-term benefits are estimated on statistical and actuarial bases in accordance with the policies outlined in the note 14-l. Actuarial assumptions made by the Group (discount rates, inflation rate, mortality tables, etc) are reviewed each year with the Group's actuaries.

#### Deferred tax assets (note 7)

Deferred tax assets are recognised for unused tax losses and deductible temporary differences between the book value and the tax value of assets and liabilities. Recovery of these assets is assessed on the basis of forecast data contained in the strategic plans of each of the tax groups considered, over a period of 5 years.

#### Litigation (note 12)

The Group regularly identifies and reviews litigation in progress and recognises, depending on the circumstances, accounting provisions that it considers to be reasonable. Any uncertainties concerning litigation in progress are described in the note 12.

#### Purchase price allocation in respect of business combinations

Business combinations are accounted for in accordance with the "purchase accounting" method described in the note 14-c: thus, on the date of the takeover of a company, the acquiree's identifiable assets, liabilities and contingent liabilities are measured at their fair value. These valuations are performed by independent experts who base their work on assumptions and estimate the effects of future events, which are uncertain at the acquisition date.

## NOTE 2 SEGMENT INFORMATION

### 2.1 Information by business segment

The implementation of IFRS 11, as well as the increasing importance of activities and new projects involving partners in joint ventures or associates, led the Group to adapt the presentation of its consolidated profit & loss account and the definition of its performance indicators.

In the consolidated profit & loss account, the share in net income of equity affiliates is now presented in the item "income of operating activities after

impact of equity affiliates", in accordance with the recommendation 2013-01 of the French Authority of Accounting Standards.

The calculation of the performance indicator EBIT has also been changed in order to include the share in net income of equity affiliates in the income from operations before PPA<sup>(1)</sup>.

2014	Aerospace	Transport	Defence & Security	Oth. elim and non allocated	Thales
Consolidated order backlog	8,686.9	3,615.1	14,914.6	68.2	27,284.8
Consolidated new orders	5,023.8	1,651.5	7,608.3	79.4	14,363.0
Consolidated sales	5,013.6	1,401.6	6,479.7	78.7	12,973.6
Inter segment sales	73.2	7.6	257.6	(338.4)	–
Total sales	5,086.8	1,409.2	6,737.3	(259.7)	12,973.6
EBIT	505.4	32.2	620.1	(172.7)	985.0
<i>Of which, in DCNS</i>	–	–	–	(117.0)	(117.0)
<i>Of which, DCNS excluded</i>	505.4	32.2	620.1	(55.7)	1,102.0
Capital expenditures	152.0	12.9	109.7	198.0	472.6
Dep. and amort. of tangible and intangible assets	139.1	8.4	109.8	88.6	345.9

2013 restated <sup>(a)</sup>	Aerospace	Transport	Defence & Security	Oth. elim and non allocated	Thales
Consolidated order backlog	7,880.6	3,329.5	13,225.7	32.9	24,468.7
Consolidated new orders	4,296.9	1,454.4	7,113.6	62.8	12,927.7
Consolidated sales	4,712.8	1,447.2	6,455.4	82.2	12,697.6
Inter segment sales	96.1	21.8	290.5	(408.4)	–
Total sales	4,808.9	1,469.0	6,745.9	(326.2)	12,697.6
EBIT	419.9	97.4	499.2	(5.5)	1,011.0
<i>Of which, in DCNS</i>	–	–	–	40.0	40.0
<i>Of which, DCNS excluded</i>	419.9	97.4	499.2	(45.5)	971.0
Capital expenditures	145.9	12.1	105.0	120.9	383.9
Dep. and amort. of tangible and intang assets	117.2	8.9	109.3	69.7	305.1

(a) Restated to take into account the new consolidation standards.

### Operating segments

The operating segments presented by the Group are the following:

- the Aerospace operating segment combines the "Avionics" and "Space" Global Business Units that develop on-board systems, solutions and services mainly with civil customers (aircraft manufacturers, airlines, satellite operators) and also, to a lesser extent, with States/Defence customers (States, Space agencies and other parapublic organisations);
- the Transport operating segment comprises the "Ground Transportation Systems" Global Business Unit that develops systems and services for an exclusively civil customer base of ground transportation infrastructure operators;
- the Defence and Security operating segment combines the "Secure Communications and Information Systems", "Land and Air Systems" and "Defence Mission Systems" Global Business Units that develop equipments, systems and services for the armed and security forces as well as the protection of networks and infrastructures, with an almost exclusively States/Defence customer base.

(1) Amortisation of intangible assets acquired (Purchase Price Allocation – PPA) within business combination.

## Other, elim and non allocated

The "Other, elim and non allocated" column relates to corporate activities (Thales parent company, Thales Global Services, Group R&D centers, facilities management), and to the elimination of transactions between the business segments.

The non-allocated EBIT includes Group's share (35%) in the net income of DCNS (note 5.1-d), the Corporate income from operations which is not charged back to the segments and the cost of vacant premises. Other costs (mainly results from foreign holding companies which are not charged back and the share-based payments cost) are reallocated to business segments proportionally to their respective ex-Group sales.

Determination of these two indicators is presented below:

	2014 Published	Amort. of intangible assets acquired	Disposal of assets and other	Change in fair value/ derivatives	Actuarial gains & losses/other long-term benefits	2014 Adjusted
Net operating income	888.6	103.7	–	–	–	992.3
Share in net income (loss) of equity affiliates	(34.0)	26.7	–	–	–	(7.3)
<b>EBIT</b>						<b>985.0</b>
Impairment of non-current operating assets	–	–	–	–	–	–
Disposal of assets and other	248.9	–	(248.9)	–	–	–
Net financial interests	2.2	–	–	–	–	2.2
Other financial income (expense)	(39.6)	–	–	12.3	–	(27.3)
Financial income on pension and other	(90.1)	–	–	–	13.0	(77.1)
Income tax	(214.3)	(35.2)	(0.5)	(4.2)	(4.1)	(258.3)
Effective tax rate						29.0%
Less, non-controlling interests' income	(47.5)	(14.8)	–	0.2	–	(62.1)
<b>NET INCOME (EXPENSE), GROUP</b>	<b>714.2</b>	<b>80.4</b>	<b>(249.4)</b>	<b>8.3</b>	<b>8.9</b>	<b>562.4</b>
Average number of shares outstanding	204,774					204,774
Net income (expense) per share, Group	3.49					2.75

	2013 Published	Amort. of intangible assets acquired	Disposal of assets and other	Change in fair value/ derivatives	Actuarial gains & losses/other long-term benefits	2013 Adjusted
Net operating income	816.5	61.8	–	–	–	878.3
Share in net income (loss) of equity affiliates	106.0	26.7	–	–	–	132.7
<b>EBIT</b>						<b>1,011.0</b>
Impairment of non-current operating assets	(3.0)	–	–	–	–	(3.0)
Disposal of assets and other	16.1	–	(16.1)	–	–	–
Net financial interests	(8.9)	–	–	–	–	(8.9)
Other financial income (expense)	(45.1)	–	–	30.9	–	(14.2)
Financial income on pension and other	(69.5)	–	–	–	(0.1)	(69.6)
Income tax	(203.5)	(21.1)	1.2	(10.6)	–	(234.0)
Effective tax rate						29.9%
Less, non-controlling interests' income	(35.2)	(2.8)	2.3	(2.7)	(0.5)	(38.9)
<b>NET INCOME (EXPENSE), GROUP</b>	<b>573.4</b>	<b>64.6</b>	<b>(12.6)</b>	<b>17.6</b>	<b>(0.6)</b>	<b>642.4</b>
Average number of shares outstanding	200,967					200,967
Net income (expense) per share, Group	2.85					3.20

## 2.3 Information by country/region of destination

### ■ CONSOLIDATED NEW ORDERS (DIRECT AND INDIRECT) BY COUNTRY/REGION OF DESTINATION

	2014	2013
France	3,593.8	3,343.4
United Kingdom	1,325.9	1,256.2
Rest of Europe	3,173.0	2,744.8
<b>Europe</b>	<b>8,092.7</b>	<b>7,344.4</b>
<b>North America</b>	<b>1,036.2</b>	<b>914.5</b>
<b>Australia and New Zealand</b>	<b>967.0</b>	<b>681.4</b>
Asia	1,701.4	1,478.4
Saudi Arabia & Middle East	1,929.0	1,401.4
Rest of the world	636.7	1,107.6
<b>Emerging markets</b>	<b>4,267.1</b>	<b>3,987.4</b>
<b>TOTAL</b>	<b>14,363.0</b>	<b>12,927.7</b>

### ■ SALES (DIRECT AND INDIRECT) BY COUNTRY/REGION OF DESTINATION

	2014	2013
France	3,419.0	3,497.0
United Kingdom	1,314.4	1,439.6
Rest of Europe	2,937.5	2,707.5
<b>Europe</b>	<b>7,670.9</b>	<b>7,644.1</b>
<b>North America</b>	<b>1,349.7</b>	<b>1,479.0</b>
<b>Australia and New Zealand</b>	<b>667.3</b>	<b>696.9</b>
Asia	1,823.4	1,597.1
Saudi Arabia & Middle East	911.8	833.3
Rest of the world	550.5	447.2
<b>Emerging markets</b>	<b>3,285.7</b>	<b>2,877.6</b>
<b>TOTAL</b>	<b>12,973.6</b>	<b>12,697.6</b>

## 2.4 Sales by category of contracts

More than half of the Group's sales come from contracts specifically negotiated with the customer, who establishes specifications concerning the contract. These contracts meet different needs depending on the customer, and are generally long-term contracts.

	2014	2013
Construction contracts	6,270.6	6,487.5
Sales of goods and equipment	3,344.2	3,182.0
Services	3,267.6	2,939.5
Other	91.2	88.6
<b>TOTAL</b>	<b>12,973.6</b>	<b>12,697.6</b>

## NOTE 3 IMPACT OF CHANGES IN SCOPE OF CONSOLIDATION

### 3.1 Main changes in scope of consolidation

- At the end of May 2014 Thales and Raytheon renegotiated the joint venture agreement related to Thales Raytheon Systems, without any change in the percentage of interest of each shareholder in the company.

The changes consisted in a review of the corporate governance rules into force, particularly in terms of budgets approval. As a result, Thales obtained the exclusive control of Thales-Raytheon Systems Company SAS. As from 2014, the company is fully consolidated, with a 50% interest.

Consequently the Group determined, with the support of an independent expert, the fair value of its investment and booked a fair value adjustment in profit and loss of €80.1 million. At the same time, this fair value has been allocated to identifiable assets and liabilities, in particular intangible assets for €140.9 million, amortised over their useful lives (of which, €56.8 million related to acquired technology and €67.2 million related to acquired customer relationship) and an associated deferred tax liability of €49.3 million. This results in a temporary goodwill of €38.0 million.

- In June 2014, the shareholders' agreement related to the joint venture Trixell has been amended. This company is owned by Thales at 51%, Siemens at 24.5% and Philips Medical Systems International at 24.5%

According to the shareholders' agreement changes, Thales is now able to exercise an exclusive control over Trixell, according to IFRS 10, by purchasing its joint shareholders' respective shares in case of persistent disagreement on the key activities of the company. As from 2014, the company is fully consolidated, with a 51% interest.

Consequently the Group determined, with the support of an independent expert, the fair value of its investment and booked a fair value adjustment in profit and loss of €140.8 million. At the same time, this fair value has been allocated to identifiable assets and liabilities, in particular intangible assets for €248.9 million, amortised over their useful lives (of which, €241.3 million related to acquired technology) and an associated deferred tax liability of €84.6 million. This results in a temporary goodwill of €63.3 million.

- In June 2014 Thales completed the acquisition for \$392.5 million (€287.4 million) of the American company Live TV from JetBlue. Live TV is the market leader in TV and broadband connectivity for aircraft. The company is fully consolidated at 31 December 2014. The temporary amount of goodwill amounts to €86.5 million, after opening balance sheet adjustments and purchase price allocation to intangible assets and liabilities acquired. The fair value of assets and liabilities acquired is presented below:

#### FAIR VALUE OF ASSETS AND LIABILITIES ACQUIRED

	(€ million)
Tangible assets	64.6
Acquired technologies	77.5
Customer relationship: backlog	39.1
Current operating assets (liabilities)	19.8
<b>Net assets acquired (I)</b>	<b>200.9</b>
<b>Goodwill (II)</b>	<b>86.5</b>
<b>ACQUISITION COST (I + II)</b>	<b>287.4</b>

Sales of the Company amounted to approximately \$170 million in 2014.

- In June 2014 Thales Alenia Space UK acquired the space activities of the company Systems Engineering & Assessment Limited (SEA), a British subsidiary of the group Cohort Plc, for an expected amount of £6.5 million (of which, £5 million (€6.2 million) paid at 31 December 2014).
- In October 2014 Thales acquired from its joint shareholder Amper SA, its 51% interests in the equity of Amper Programas Electrónica y Comunicaciones for an amount of €4.4 million. From this date Thales has the exclusive control of the company which is now operating under

the name Thales Programas SA. In the consolidated financial statements, the previously-held equity interest of 49% has been measured again at fair value through profit and loss and amounts to €8.7 million. The purchase price allocation is in progress.

- At the end of December 2014, Thales ended the acquisition of the cyber security services and secure communications activities of Alcatel-Lucent which amounts to €40.6 million, of which €37.7 million paid on the 31<sup>st</sup> December 2014. The purchase price allocation is in progress.

No significant change in scope has occurred in 2013.

### 3.2 Disposal of assets, changes in scope of consolidation and other

	2014	2013
<b>Fair value adjustments<sup>(a)</sup>:</b>	<b>229.6</b>	<b>–</b>
Thales-Raytheon Systems Company SAS (50%)	80.1	–
Trixell (51%)	140.8	–
Amper Programmas (49%)	8.7	–
<b>Disposal of investments</b>	<b>(2.2)</b>	<b>5.7</b>
Simulation activities in the UK	–	8.4
Other	(2.2)	(2.7)
<b>Disposal of other assets:</b>	<b>15.0</b>	<b>(1.3)</b>
Real estate assets	14.4	(0.2)
Equipments	0.6	(1.1)
<b>Provisions on litigation and other<sup>(b)</sup></b>	<b>–</b>	<b>7.3</b>
<b>Impact of curtailments and settlements of pensions plans and long-term benefits (note 9.3)</b>	<b>6.5</b>	<b>4.4</b>
<b>TOTAL</b>	<b>248.9</b>	<b>16.1</b>

(a) In June 2014 the shareholders' agreements of both joint ventures, Thales-Raytheon Systems SAS and Trixell have been amended (note 3.1). Consequently, Thales now controls these companies according to IFRS 10, without any change in the percentage of interests of each shareholder in these companies.

In October 2014 Thales acquired from its joint shareholder Amper SA, which is now operating under the name Thales Programmas SA, its 51% interests in the equity of Amper Programmas Electrónica y Comunicaciones for an amount of €4.4 million. From this date Thales has the exclusive control of the company.

In the Consolidated Financial Statements, the change in the level of control, from joint control to exclusive control involves:

- the measurement at fair value through profit and loss of the interests previously accounted for under the equity method;
- the recognition of a goodwill related to the full consolidation of the entity (note 4.1).

(b) In 2013 the profit refers to the grant provided by the Abruzzo Region further to the damages of the L'Aquila earthquake (Thales Alenia Space production site) in April 2009.

## NOTE 4 TANGIBLE AND INTANGIBLE ASSETS

### 4.1 Goodwill

Goodwill is allocated to cash generating units (CGU) or to aggregate CGUs corresponding to the Group's Global Business Units (GBU).

Within the implementation of the new consolidation standards, the Group reclassified at the transition date, the amount of goodwill related to joint ventures in the line "Investment in Joint Ventures" as described in note 1.1.

The evolution of goodwill related to fully consolidated subsidiaries is presented hereafter.

	31/12/2013 restated	Acquisitions	Disposals	Impairment	Exchange rate var. and other	31/12/2014
Avionics	291.5	153.6 <sup>(a)</sup>	–	–	11.6	456.7
Space	458.2	8.5	–	–	0.3	467.0
<b>Aerospace</b>	<b>749.7</b>	<b>162.1</b>	<b>–</b>	<b>–</b>	<b>11.9</b>	<b>923.7</b>
<b>Transport</b>	<b>875.3</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>875.3</b>
Secure Communications & Information Systems	568.3	67.6 <sup>(b)</sup>	–	–	6.6	642.5
Land and Air Systems	271.0	38.0 <sup>(c)</sup>	–	–	0.9	309.9
Defence Mission Systems	459.3	–	–	–	1.9	461.2
<b>Defence and Security</b>	<b>1,298.6</b>	<b>105.6</b>	<b>–</b>	<b>–</b>	<b>9.4</b>	<b>1,413.6</b>
<b>TOTAL</b>	<b>2,923.6</b>	<b>267.7</b>	<b>–</b>	<b>–</b>	<b>21.3</b>	<b>3,212.6</b>

(a) Of which €86.5 million related to the acquisition of Live TV and €63.3 million related to the full consolidation of Trixell.

(b) Of which €39.3 million related to the acquisition of cyber security services and secure communications activities.

(c) Full consolidation of Thales-Raytheon Systems SAS.

The goodwill related to Trixell and TRS SAS have been determined under the method of the partial goodwill. This method consists in recognising a goodwill only on the Group share.

	31/12/2012 published	Impact IFRS 11	01/01/2013 restated	Acquisitions	Exchange rate var. and other	31/12/2013 restated
Avionics	313.2	(44.7)	268.5	26.9	(3.9)	291.5
Space	487.0	(28.8)	458.2	–	–	458.2
<b>Aerospace</b>	<b>800.2</b>	<b>(73.5)</b>	<b>726.7</b>	<b>26.9</b>	<b>(3.9)</b>	<b>749.7</b>
<b>Transport</b>	<b>875.4</b>	<b>0.1</b>	<b>875.5</b>	<b>–</b>	<b>(0.2)</b>	<b>875.3</b>
Secure Communications & Information Systems	579.3	(1.7)	577.6	14.9	(24.2)	568.3
Land and Air Systems	332.2	(72.4)	259.8	16.8	(5.6)	271.0
Defence Mission Systems	492.7	(18.6)	474.1	–	(14.8)	459.3
<b>Defence and Security</b>	<b>1,404.2</b>	<b>(92.7)</b>	<b>1,311.5</b>	<b>31.7</b>	<b>(44.6)</b>	<b>1,298.6</b>
DCNS	329.0	(329.0)	–	–	–	–
Other	2.4	(2.4)	–	–	–	–
<b>TOTAL</b>	<b>3,411.2</b>	<b>(497.5)</b>	<b>2,913.7</b>	<b>58.6</b>	<b>(48.7)</b>	<b>2,923.6</b>
<i>Of which:</i>						
Reclassification into "Investment in joint ventures"		(433.4)				
Recognised through equity (note 1.1):		(64.1)				
■ depreciation at the transition date		(23.1)				
■ impact of changes in the controlling relationship		(41.0)				

## 4.2 Other tangible and intangible assets

### a) Change in net tangible and intangible assets

	Intangible assets acquired (PPA)	Development costs	Other intangible assets	Tangible assets	Total
<b>Net value at 1 January 2013</b>	<b>347.3</b>	<b>142.4</b>	<b>74.5</b>	<b>1,273.8</b>	<b>1,838.0</b>
Acquisitions/capitalisations	–	25.8	29.3	328.8	383.9
Disposals	–	–	(3.5)	(22.2)	(25.7)
Amortisation of intangible assets acquired	(61.8)	–	–	–	(61.8)
Other depreciation and amortisation	–	(37.5)	(39.4)	(228.2)	(305.1)
Impairment	–	–	–	(3.0)	(3.0)
Scope, foreign exchange rates and other	10.8	(0.4)	40.3	(26.9)	23.8
<b>Net value at 31 December 2013</b>	<b>296.3</b>	<b>130.3</b>	<b>101.2</b>	<b>1,322.3</b>	<b>1,850.1</b>
Acquisitions/capitalisations	–	33.9	36.4	402.3	472.6
Disposals	–	–	–	(29.2)	(29.2)
Amortisation of intangible assets acquired	(103.7)	–	–	–	(103.7)
Other depreciation and amortisation	–	(46.0)	(39.6)	(260.3)	(345.9)
Scope, foreign exchange rates and other	522.9	29.0	(14.5)	121.9	659.3
<b>NET VALUE AT 31 DECEMBER 2014</b>	<b>715.5</b>	<b>147.2</b>	<b>83.5</b>	<b>1,557.0</b>	<b>2,503.2</b>

## b) Detail of the balance sheet items

	31/12/2014			31/12/2013	01/01/2013
	Gross	Depreciation and impairment	Net	Net	Net
Acquired technologies	657.6	(271.8)	385.8	50.9	79.8
Customer relationship: long-term	485.3	(216.3)	269.0	231.7	255.1
Customer relationship: backlog	271.3	(224.3)	47.0	–	–
Other	34.0	(20.3)	13.7	13.7	12.4
<b>Intangible assets acquired (business combinations)</b>	<b>1,448.2</b>	<b>(732.7)</b>	<b>715.5</b>	<b>296.3</b>	<b>347.3</b>
Development costs	945.2	(798.0)	147.2	130.3	142.4
Other	656.6	(573.1)	83.5	101.2	74.5
<b>Intangible assets</b>	<b>3,050.0</b>	<b>(2,103.8)</b>	<b>946.2</b>	<b>527.8</b>	<b>564.2</b>
Lands	51.9	(1.8)	50.1	51.6	54.0
Buildings	1,480.4	(879.7)	600.7	521.1	482.2
Plants and equipment	2,250.1	(1,673.0)	577.1	472.1	472.7
Other	961.7	(632.6)	329.1	277.5	265.0
<b>Tangible assets</b>	<b>4,744.1</b>	<b>(3,187.1)</b>	<b>1,557.0</b>	<b>1,322.3</b>	<b>1,273.8</b>
Of which fixed assets held under lease agreements	33.0	(20.3)	12.7	14.3	16.0

## 4.3 Impairment of non-current operating assets

	2014	2013
Goodwill	–	–
Other tangible and intangible assets	–	(3.0)
<b>TOTAL</b>	<b>–</b>	<b>(3.0)</b>

At the end of 2014, as in 2013, impairment tests were performed with the initial assumption of a 8.5% discount rate for every CGU (these CGU present a risk level more or less equivalent and the specific risks of CGU are included in the projections). A 1% increase of the discount rate would not lead the Group to book significant additional impairments.

The long-term growth rate used to determine terminal value is 2%. This rate, close to the long-term inflation rate estimated at closing, represents a reasonable estimation by Thales of the future growth of the activity. A

1% decrease of this rate would not lead the Group to book significant additional impairments.

Terminal values are based on the normative operational incomes of the Group strategic plans (14-i). A 2% decrease in the operational profitability of the CGU would not lead the Group to book significant additional impairments.

## 4.4 Commitments related to operation leases

Binding lease and rental commitments at 31 December 2014 and 2013 are analysed below:

31 December 2014	Rent payable			
	Total	< 1 year	1 to 5 years	> 5 years
Financial leases	–	–	–	–
Operation leases	1,482.5	207.7	641.7	633.1

31 December 2013	Rent payable			
	Total	< 1 year	1 to 5 years	> 5 years
Financial leases	0.1	0.1	–	–
Operation leases	1,104.1	199.3	513.1	391.7

The increase in payable loans between 2013 and 2014 is due to the replacement of expired leases by leases with an average maturity of 9 years, as the Group did not change significantly the number of occupied square meters.



## NOTE 5 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

### 5.1 Joint ventures

#### a) Impact of equity accounting of joint ventures at transition date

The amount of assets and liabilities reclassified in the line "Investment in joint ventures" at the transition date is presented below:

	01/01/2013
Non-current operating assets	(1,373.3)
Investment in joint ventures	1,439.5
Investment in associates	(6.8)
Other non-current assets	(166.5)
Current operating assets & taxes	(2,104.4)
Current financial assets	(900.5)
<b>Total assets</b>	<b>(3,112.0)</b>
Equity, shareholders of the parent company	(60.1)
Non-controlling interests	(2.4)
Financial debt: long-term	(137.3)
Other non-current liabilities	(287.4)
Current operating liabilities and taxes	(2,607.8)
Financial debt: short-term	(17.0)
<b>Total equity and liabilities</b>	<b>(3,112.0)</b>

#### b) Group's share in net equity and net income (loss) of joint ventures

	Investments in Joint Ventures			Share in net income (loss)		Share in oth. comprehensive income	
	31/12/2014	31/12/2013	01/01/2013	2014	2013	2014	2013
DCNS (35%)	677.5	829.8	838.2	(142.3)	14.7	(139.6)	9.1
Other joint ventures <sup>(a)</sup>	425.6	581.6	601.3	58.8	65.1	59.7	50.6
<b>TOTAL</b>	<b>1,103.1</b>	<b>1,411.4</b>	<b>1,439.5</b>	<b>(83.5)</b>	<b>79.8</b>	<b>(79.9)</b>	<b>59.7</b>

(a) Separately not significant, the value of each investment representing less than 10% of the total value.

#### c) Change in investment in joint ventures

	31/12/2014	31/12/2013
<b>Investment at 1 January</b>	<b>1,411.4</b>	<b>1,439.5</b>
Share in net income (loss) of joint ventures	(83.5)	79.8
Items of comprehensive income (loss) to be subsequently reclassified to P&L	18.4	(16.3)
Other items of comprehensive income (loss) that will not be reclassified to P&L	(14.8)	(3.8)
<b>Total comprehensive income (loss)</b>	<b>(79.9)</b>	<b>59.7</b>
Dividends paid	(44.6)	(95.8)
Changes in scope <sup>(a)</sup>	(171.9)	0.3
Other	(11.9)	7.7
<b>INVESTMENT AT 31 DECEMBER</b>	<b>1,103.1</b>	<b>1,411.4</b>

(a) Mainly due to the full integration of Thales-Raytheon Systems SAS and Trixell SAS and to the reclassification in associates of Thales-Raytheon Systems LLC.

## d) DCNS summarized financial information

Since December 2011, Thales has a 35% stake in the company DCNS, a subsidiary jointly controlled with the French State. DCNS is a French industrial group specialised in naval defence and energy.

During the second half of 2014, DCNS has conducted a comprehensive review of the financial and contractual status of several activities and complex programmes, which have had difficulties. The main conclusions were:

- execution difficulties encountered in civil nuclear energy activities, which led DCNS to a significant increase in the costs to completion of on-going

projects, particularly the Jules Horowitz research reactor for the French Atomic Energy and Alternative Energies Commission (CEA);

- substantial increases in costs to completion of naval programmes, particularly on France's Barracuda nuclear attack submarine programme. These developments led DCNS to adopt a generally more cautious approach to this type of programmes.

The financial statement of DCNS, after Thales restatements (mainly related to intangible assets acquired) are presented below:

Summarized balance sheet at 100%	31/12/2014	31/12/2013
Non-current assets	2,671.6	2,639.4
Current assets	6,443.8	6,001.9
<b>Total assets</b>	<b>9,115.4</b>	<b>8,641.3</b>
Restated equity, attrib. to the shareholders of the company	1,103.3	1,536.6
Non-controlling interests	32.0	41.6
Non-current liabilities	723.1	654.9
Current liabilities	7,259.0	6,408.2
<b>Total equity and liabilities</b>	<b>9,115.4</b>	<b>8,641.3</b>
Cash at bank and equivalents	1,428.6	997.1
Available-for-sale investments	566.1	673.7
Non-current financial liabilities	(187.4)	(157.3)
<b>Net cash (debt)</b>	<b>1,807.3</b>	<b>1,513.5</b>

Summarized profit and loss account at 100%	2014	2013
Sales	3,065.9	3,311.5
Income from operating activities after impact of equity affiliates <sup>(a)</sup>	(617.8)	64.1
Financial interests, net	14.4	22.9
Other elements of financial income	22.0	(19.5)
Tax	163.8	(30.6)
<b>Restated net income<sup>(a)</sup></b>	<b>(417.7)</b>	<b>36.9</b>
Of which, attrib. to the shareholders of the company	(406.5)	41.9
Of which, non-controlling interests	(11.2)	(5.0)
Dividends received from the joint venture	3.0	17.1

(a) After Thales restatements (mainly related to intangible assets acquired).

Reconciliation of the summarized financial information with the Group's investment in DCNS:

	31/12/2014	31/12/2013
Restated equity of DCNS, attrib. to the shareholders of the company	1,101.3	1,536.6
% of Thales' interests	35%	35%
Thales' share	385.5	537.8
Goodwill	292.0	292.0
<b>Share in net assets of the joint venture</b>	<b>677.5</b>	<b>829.8</b>

	2014	2013
Restated net income, attrib. to the shareholders of the company	(406.5)	41.9
% of Thales' interests	35%	35%
<b>Share in income (loss) of the joint venture</b>	<b>(142.3)</b>	<b>14.7</b>
Of which, impact of PPA	25.3	25.3
<b>Of which, share in income (loss) before PPA</b>	<b>(117.0)</b>	<b>40.0</b>

## e) Commitments toward joint ventures

At 31 December 2014, the outstanding of sureties, endorsements and guarantees, given by Thales the parent company to support its joint ventures amounts to €234.1 million (€393.8 million at 31 December 2013, including TRS SAS).

The risk management policy of the Group is to issue guarantees on commitments by joint ventures only in proportion to the Group's equity interest, or counter-guaranteed by the other shareholder in proportion to its interest.

## f) Transactions with joint ventures (related party)

The volume of transactions with joint ventures and their joint shareholders amounts to:

	2014	2013
Sales	505.4	569.1
Purchases	199.7	234.2
Loans and financial assets	40.9	40.6
Financial debts	9.3	67.4

## 5.2 Associates

The main associates are listed in note 17. None of these companies is individually significant with regard to consolidated aggregates. The mandatory information is therefore presented in aggregated form in tables below:

## a) Changes in investment in associates

	31/12/2014	31/12/2013
<b>Investment in associate at opening<sup>(a)</sup></b>	<b>246.8</b>	<b>203.0</b>
Share in net income (loss) of associates	49.5	26.2
Items of comprehensive income (loss) to be subsequently reclassified to P&L	16.0	(21.2)
Other items of comprehensive income (loss) that will not be reclassified to P&L	0.9	–
<b>Total comprehensive income (loss)</b>	<b>66.4</b>	<b>5.0</b>
Dividends paid	(25.1)	(16.9)
Dividends declared, non paid	(5.7)	–
Changes in scope <sup>(b)</sup>	110.3	50.0
Capital increase of Air Tanker	–	7.1
Other	(7.2)	(1.4)
<b>INTERESTS AT 31 DECEMBER<sup>(a)</sup></b>	<b>385.5</b>	<b>246.8</b>

(a) Share in Telespazio SpA included.

(b) Cloudwatt in 2013, Thales-Raytheon Systems LLC in 2014.

## b) Commitments toward associates

The Group has no significant commitment toward associates.

**NOTE 6 FINANCING AND FINANCIAL INSTRUMENTS****6.1 Financial income****a) Net financial interests**

	2014	2013
Interest expense:		
■ on gross debt	(37.5)	(43.4)
■ on interest rate swaps	17.3	16.8
	<b>(20.2)</b>	<b>(26.6)</b>
Interest income/cash at bank and equivalents	22.4	17.7
<b>TOTAL</b>	<b>2.2</b>	<b>(8.9)</b>

**b) Other financial income (expense)**

	2014	2013
Foreign exchange gains (losses)	2.0	3.1
Change in fair value of derivative exchange instruments <sup>(a)</sup>	(12.3)	(30.9)
Cash flow hedge inefficiency/foreign exchange instruments	(1.8)	2.7
<b>Net foreign exchange gains (losses)</b>	<b>(12.1)</b>	<b>(25.1)</b>
Dividends received	2.3	5.0
Net financial costs on operating loans/debts	(5.3)	(9.1)
Impairment of investments in shares (available-for-sale)	(1.9)	(3.9)
Depreciation of loans and financial assets	(1.4)	0.9
Expenses related to confirmed credit line, non used	(5.4)	(4.2)
Other	(15.8)	(8.7)
<b>TOTAL</b>	<b>(39.6)</b>	<b>(45.1)</b>

(a) Includes the variation of forward points fair value (+€6.8 million in 2014 and -€12.6 million in 2013) and the time value of the hedge accounting derivatives (-€6.0 million in 2014 and -€7.1 million in 2013), and also includes the variation of the fair value of derivatives non qualified for hedge accounting.

**6.2 Net cash (net debt)**

The Group's net cash is as follows:

	31/12/2014	31/12/2013	01/01/2013
Current financial assets <sup>(a)</sup>	56.8	196.9	271.8
Cash at bank and equivalents	2,481.4	2,563.7	2,127.3
<b>Cash and other short-term financial assets (I)</b>	<b>2,538.2</b>	<b>2,760.6</b>	<b>2,399.1</b>
Long-term financial debt	1,467.8	1,451.6	712.2
Short-term financial debt	108.2	245.7	780.5
Fair value of interest rate derivatives <sup>(b)</sup>	(44.1)	(14.0)	(23.5)
<b>Total gross financial debt (II)</b>	<b>1,531.9</b>	<b>1,683.3</b>	<b>1,469.2</b>
<b>NET CASH (I - II)</b>	<b>1,006.3</b>	<b>1,077.3</b>	<b>929.9</b>

(a) Including €158.8 million at 31 December 2013 and €224.7 million at 1 January 2013 of deposits from Thales Alenia Space with Finmeccanica, non directly available for Thales. This deposit is nil at 31 December 2014.

(b) In accordance with IAS 39, the value of borrowings qualified for fair value hedge accounting takes into account changes in the fair value of the hedged risk. This change in debt is offset by changes in the value of swaps used as hedges (note 6.5).

**a) Current financial assets**

	31/12/2014	31/12/2013	01/01/2013
Current accounts receivable with affiliated companies	34.0	186.8	267.7
Marketable securities	3.7	0.6	0.2
Accrued interests	19.1	9.5	3.9
<b>CURRENT FINANCIAL ASSETS</b>	<b>56.8</b>	<b>196.9</b>	<b>271.8</b>

**b) Cash at bank and equivalents**

The available cash presented in the consolidated balance sheet at 31 December 2014 is detailed in the note 6.5.

**c) Gross financial debt**

	31/12/2014	31/12/2013	01/01/2013
Bond maturity 2021	314.8	291.0	–
Bond maturity 2018	504.1	495.5	–
Bond maturity 2016	611.4	612.4	618.5
Bond maturity 2013	–	–	599.4
Project financing debt <sup>(a)</sup>	30.4	46.5	70.5
Current accounts payable with affiliated companies	13.2	76.4	90.7
Subscription commitments	53.2	57.4	46.8
Other borrowings	8.3	47.6	22.9
Bank overdrafts	23.8	53.2	16.9
Accrued interests	16.8	17.3	27.0
Fair value of interest rate derivatives (note 6.5)	(44.1)	(14.0)	(23.5)
<b>GROSS FINANCIAL DEBT</b>	<b>1,531.9</b>	<b>1,683.3</b>	<b>1,469.2</b>

(a) Non-recourse, or limited recourse, debt whose interest costs and repayment are covered by the share of project sales which is contractually guaranteed by customers. Fixed-rate loans (or floating-rate loans swapped to fixed-rate loans) maturing in years up to 2020.

Nature of bonds	Nominal value	Maturity date	Nature	Rate	
				Nominal (excluding effect of hedging)	Effective
Bond, maturity date 2021	€300 million	March 2021	fixed incl. €300 million swapped at variable rate	2.25%	2.40%
Bond, maturity date 2018	€500 million	March 2018	fixed incl. €300 million swapped at variable rate	1.625%	1.74%
Bond, maturity date 2016	€600 million	October 2016	fixed incl. €400 million swapped at variable rate	2.75%	2.91%
Bond, maturity date 2013	€600 million	April 2013	fixed	–	4.38%
					4.58%

**Breakdown of gross financial debt by maturity**

		Contractual cash flows scheduled in:				
31/12/2014	Total	2015	2016	2017	2018	>2018
Gross financial debt	1,531.9	108.2	616.7	5.3	501.3	300.4
Contractual maturity date	1,600.8	111.8	638.6	16.4	515.4	318.6

		Contractual cash flows scheduled in:				
31/12/2013	Total	2014	2015	2016	2017	>2017
Gross financial debt	1,683.3	245.7	31.9	600.7	4.6	800.4
Contractual maturity date	1,799.1	253.9	54.7	627.9	18.9	843.7

## Breakdown of gross financial debt by currency

	31/12/2014	31/12/2013	01/01/2013
Euro	1,461.2	1,544.5	1,370.1
Pound sterling	20.4	66.9	10.3
US Dollar	22.7	12.0	30.5
Australian Dollar	7.6	21.0	43.3
Other	20.0	38.9	15.0
<b>TOTAL</b>	<b>1,531.9</b>	<b>1,683.3</b>	<b>1,469.2</b>

After incidence of the corresponding derivative instruments.

## 6.3 Non-current financial assets

### a) Non-consolidated available-for-sale investments

#### Fair value of investments at 31 December

	31/12/2014	31/12/2013	01/01/2013
Participation in Cloudwatt (22%) <sup>(a)</sup>	–	–	50.0
Investments held by Thales International Offsets <sup>(b)</sup>	28.2	28.2	33.1
Investments held by Thales Corporate Ventures (venture capital)	4.2	5.2	11.4
Sysgo <sup>(c)</sup>	–	–	24.4
Visionix <sup>(c)</sup>	–	–	23.3
Seso <sup>(c)</sup>	–	–	14.6
Other	28.0	31.6	34.8
<b>TOTAL</b>	<b>60.4</b>	<b>65.0</b>	<b>191.5</b>

(a) Company created jointly with Orange and La Caisse des Dépôts in order to offer cloud-based infrastructures. This investment is accounted for under the equity method as of 1 January 2013.

(b) The Group's subsidiary in charge of negotiating and implementing indirect offset requirements.

(c) These companies are consolidated as of 1 January 2013.

## Changes over the period

	2014	2013
<b>Investments in non-consolidated shares at 1 January</b>	<b>65.0</b>	<b>191.5</b>
Acquisitions (disposals) of non-consolidated investments	0.6	(6.8)
Impairment of investments included in financial income	(1.9)	(3.9)
Changes in scope (Cloudwatt, Sysgo, Visionix and Seso in 2013)	(4.1)	(112.8)
Exchange rate variations and other	0.8	(3.1)
<b>INVESTMENTS IN NON-CONSOLIDATED SHARES AT 31 DECEMBER</b>	<b>60.4</b>	<b>65.0</b>

### b) Non-current financial assets

	31/12/2014	31/12/2013	01/01/2013
Loans to related parties	69.1	76.3	55.8
Loans and other financial assets at amortised cost	46.6	54.7	53.5
Loans and other financial assets at fair value	30.6	31.3	34.8
<b>Gross value</b>	<b>146.3</b>	<b>162.3</b>	<b>144.1</b>
Depreciation	(7.9)	(9.3)	(11.8)
<b>NET</b>	<b>138.4</b>	<b>153.0</b>	<b>132.3</b>

## 6.4 Summary of financial assets and liabilities

### a) Financial assets

At 31 December 2014	Loans and receivables at amortised cost	Through P&L	At fair value			Total
			Financial assets		Derivatives	
			Available-for- sale	Hedge accounting	Not qualified for hedge accounting	
<b>Non-current financial assets:</b>						
Available-for-sale investments	–	–	60.4	–	–	60.4
Loans and financial assets, non-current	107.8	30.6	–	–	–	138.4
Non-current derivatives, asset	–	–	–	44.1	–	44.1
<b>Current financial assets:</b>						
Current derivatives, asset	–	–	–	98.2	10.0	108.2
Current financial assets	56.8	–	–	–	–	56.8
Cash at bank and equivalents	2,225.8	255.6	–	–	–	2,481.4
<b>TOTAL</b>		<b>286.2</b>	<b>60.4</b>	<b>142.3</b>	<b>10.0</b>	
<b>Methods used to measure fair value</b>						
Valuation at cost		–	60.4	–	–	60.4
Quoted price in active markets (level 1)		255.6	–	–	–	255.6
Valuation based on observable market data (level 2)		30.6	–	142.3	10.0	182.9

At 31 December 2013	Loans and receivables at amortised cost	At fair value				Total
		Through P&L	Financial assets		Derivatives	
			Available-for- sale	Hedge accounting	Not qualified for hedge accounting	
<b>Non-current financial assets</b>						
Available-for-sale investments	–	–	65.0	–	–	65.0
Loans and financial assets, non-current	121.7	31.3	–	–	–	153.0
Non-current derivatives, asset	–	–	–	16.6	–	16.6
<b>Current financial assets:</b>						
Current derivatives, asset	–	–	–	166.8	9.7	176.5
Current financial assets	196.9	–	–	–	–	196.9
Cash at bank and equivalents	1,996.7	567.0	–	–	–	2,563.7
<b>TOTAL</b>		<b>598.3</b>	<b>65.0</b>	<b>183.4</b>	<b>9.7</b>	
<b>Methods used to measure fair value</b>						
Valuation at cost		–	65.0	–	–	65.0
Quoted price in active markets (level 1)		567.0	–	–	–	567.0
Valuation based on observable market data (level 2)		31.3	–	183.4	9.7	224.4

Trade receivables, as detailed in the note 10.1, are accounted for as financial assets and evaluated at amortised cost in accordance with IAS32/39.

## b) Financial liabilities

At 31 December 2014	At amortised cost	At fair value			Total
		Financial liabilities	Derivatives		
			Hedge accounting	Not qualified for hedge accounting	
<b>Non-current financial liabilities:</b>					
Financial debt-long-term	1,423.7	44.1	–	–	1,467.8
Non-current derivatives, liability	–	–	–	–	–
<b>Current financial liabilities:</b>					
Current derivatives, liability	–	–	271.7	10.5	282.2
Financial debt-short-term	108.2	–	–	–	108.2
<b>TOTAL</b>		<b>44.1</b>	<b>271.7</b>	<b>10.5</b>	
<b>Methods used to measure fair value</b>					
Valuation based on observable market data (level 2)		44.1	271.7	10.5	326.3

At 31 December 2013	At amortised cost	At fair value			Total
		Financial liabilities	Derivatives		
			Hedge accounting	Not qualified for hedge accounting	
<b>Non-current financial liabilities:</b>					
Financial debt-long-term	1,437.6	14.0	–	–	1,451.6
Non-current derivatives, liability	–	–	2.6	–	2.6
<b>Current financial liabilities:</b>					
Current derivatives, liability	–	–	61.9	11.0	72.9
Financial debt-short-term	245.7	–	–	–	245.7
<b>TOTAL</b>		<b>14.0</b>	<b>64.5</b>	<b>11.0</b>	
<b>Methods used to measure fair value</b>					
Valuation based on observable market data (level 2)		14.0	64.5	11.0	89.5

As detailed in the note 10.1, accounts payable and refundable grants are accounted for as financial liabilities and evaluated at amortised cost in accordance with IAS32/39.

### Measurement of fair value of financial assets and liabilities

The fair value of financial assets and liabilities estimated at amortised cost approximates their carrying amount, except for financial debts.

The fair value of debt obligation is measured on the basis of prices quoted (Level 1). The fair value of other financial debts is determined for each loan by discounting future cash flows with the Euribor interest rate at the balance sheet date, adjusted for the Group's credit risk (Level 2). On this basis, the fair value of the financial debt amounts to €1,596.8 million at 31 December 2014 and €1,710.3 million at December 2013.

The fair value of money market funds and other mutual funds is estimated according to their latest available net market value. The fair value of interest rates products (certificates of deposit, term accounts, medium-term negotiable notes, etc) is estimated by discounting coupons and price excluding accrued interests, for the time remaining between the annual closing and the maturity of the product. The discount rate is a market rate matching the maturity and features of the product.

The fair value of the derivatives is estimated according to the models commonly used by the stakeholders to estimate these financial instruments (model which take into account market data). The recognition of the default risk of the counterpart and the credit risk of the entity has no significant impact on the fair value of derivatives.

There were no transfers between the fair value hierarchy levels during the year ended 2014 and 2013.



## 6.5 Financial risks

### a) Market risks

Thales covers foreign exchange and interest rate risks by using over-the-counter derivatives subscribed with first-ranking banks. The book value of derivatives used in the management of financial risk is presented below:

	31/12/2014		31/12/2013	
	Assets	Liabilities	Assets	Liabilities
<b>Non-current derivatives</b>				
■ foreign exchange derivatives	–	–	–	–
■ interest rate derivatives	44.1	–	16.6	2.6
<b>Current derivatives</b>				
■ foreign exchange derivatives	108.2	278.2	176.5	68.0
■ interest rate derivatives	–	4.0	–	4.9
Foreign exchange derivatives, net	(170.0)		108.5	
Interest rate derivatives, net	40.1		9.1	

### Foreign exchange

Thales hedges currency risks arising in connection with the negotiation of contracts denominated in currencies other than the main production currency, currency risks generated by normal commercial operations, risks relating to cash pooling and, in some cases, risks relating to its net investments in foreign currencies.

Operating receivables and payables denominated in foreign currencies are covered by exchange rate hedges and are therefore not exposed to foreign currency risk.

Regarding the derivative instruments documented as cash flow hedge, a decrease (respectively, an increase) of 5% in the rate of the dollar against the main currencies (EUR, GBP and CAD) would have positively (respectively, negatively) impacted equity by approximately €132 million at 31 December 2014 compared to €103 million at 31 December 2013.

Regarding the derivative instruments matched with portfolios of sales offers, which are not eligible for hedge accounting, a decrease (respectively, an increase) of 5% in the rate of the dollar against the main currencies (EUR, GBP and CAD) would have positively (respectively, negatively) impacted profit and loss by approximately €2 million at 31 December 2014, compared to €2 million at 31 December 2013.

### ■ FOREIGN EXCHANGE DERIVATIVES

	31/12/2014					31/12/2013	
	USD	GBP	Other	Total	Market value	Total	Market value
<b>Negotiations and trade operations hedges</b>							
<b>Hedge accounting</b>							
Forward currency sales	4,299.8	464.8	1,413.6	6,178.2	(151.3)	4,950.9	
Forward currency purchases	1,630.5	507.9	979.4	3,117.8		2,470.9	106.6
Currency sales (call and put options)	93.7	–	–	93.7	0.5	141.3	
Currency purchases (call and put options)	–	40.9	10.6	51.5		11.5	1.4
<b>Not qualified for hedge accounting</b>							
Forward currency sales	–	9.5	–	9.5		4.4	
Forward currency purchases	3.9	–	1.6	5.5	–	23.3	(0.1)
Currency sales (call and put options)	98.4	–	64.9	163.3	1.5	402.2	
Currency purchases (call and put options)	16.0	39.0	93.5	148.5		372.5	3.9
<b>Hedges related to cash pooling</b>							
Currency sales: foreign exchange swaps	37.5	–	185.4	222.9	(1.3)	100.1	
Currency purchases: foreign exchange swaps	66.6	488.9	418.4	973.9		1,001.5	(4.3)
<b>Hedges related to net foreign assets (hedge accounting)</b>							
Currency sales: foreign exchange swaps	348.6	–	20.6	369.2	(19.4)	39.4	(0.4)
Currency purchases: foreign exchange swaps	–	325.9	–	325.9		–	–
Other	–	–	–	–	–	–	1.4
<b>NET ASSET</b>					<b>(170.0)</b>		<b>108.5</b>

Nominal amounts are translated into euros at the closing rate.

The maturity of the derivatives used to hedge commercial contracts is consistent with the average payment deadlines of these contracts. This maturity is usually less than 5 years.

Other derivatives have a maturity of less than one year.

## Interest rate

Thales is exposed to interest rate volatility and in particular its impact on the conditions associated with variable-rate financing. To limit this risk, Thales operates an active policy of interest rate hedging.

The Corporate Financing and Treasury department consolidates data on Thales's exposure to interest rate risk and uses the appropriate financial instruments to hedge those risks. Thales policy is to control interest rate and counterpart risks and to optimise its funding and banking operations.

### ■ INTEREST RATE DERIVATIVE INSTRUMENTS

	31/12/2014		31/12/2013	
	Nominal	Market value	Nominal	Market value
<b>Fair value hedge (swaps with variable-rate payable)</b>				
■ swaps related to bond with maturity 2021	300.0	21.0	300.0	(2.6)
■ swaps related to bond with maturity 2018	300.0	8.3	300.0	0.1
■ swaps related to bond with maturity 2016	400.0	14.8	400.0	16.5
		<b>44.1</b>		<b>14.0</b>
<b>Cash flow hedge (financing of projects at variable-rate swapped to fixed-rate)</b>	23.1	(3.4)	26.3	(4.1)
<b>Swaps not documented as hedge</b>				
■ swap with fixed-rate payable, related to bonds	–	–	200	(0.3)
■ swap with fixed-rate payable, related to a loan	11.1	(0.6)	13.3	(0.5)
<b>NET ASSET</b>		<b>40.1</b>		<b>9.1</b>

The table below summarises the Group's exposure to interest rate risk before and after hedging these risks. Based on the average net cash (taking into account hedging instruments), a 1% rise in interest rates would increase financial income by €8.4 million in 2014 (€12.0 million in 2013).

31/12/2014	< 1 year		> 1 year		Total	
	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate
Gross financial debt	(22.2)	(86.0)	(1,387.2)	(36.5)	(1,409.4)	(122.5)
Financial assets, cash at bank and equivalents	–	2,538.2	–	–	–	2,538.2
<b>NET EXPOSURE BEFORE IMPACT OF DERIVATIVE INSTRUMENTS</b>	<b>(22.2)</b>	<b>2,452.2</b>	<b>(1,387.2)</b>	<b>(36.5)</b>	<b>(1,409.4)</b>	<b>2,415.7</b>
Hedging derivatives	(4.9)	4.9	981.8	(981.8)	976.9	(976.9)
<b>NET EXPOSURE AFTER IMPACT OF DERIVATIVE INSTRUMENTS</b>	<b>(27.1)</b>	<b>2,457.1</b>	<b>(405.4)</b>	<b>(1,018.3)</b>	<b>(432.5)</b>	<b>1,438.8</b>

31/12/2013	< 1 year		> 1 year		Total	
	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate
Gross financial debt	(37.4)	(208.4)	(1,394.3)	(43.2)	(1,431.7)	(251.6)
Financial assets, cash at bank and equivalents	–	2,760.6	–	–	–	2,760.6
<b>NET EXPOSURE BEFORE IMPACT OF DERIVATIVE INSTRUMENTS</b>	<b>(37.4)</b>	<b>2,552.2</b>	<b>(1,394.3)</b>	<b>(43.2)</b>	<b>(1,431.7)</b>	<b>2,509.0</b>
Hedging derivatives	(4.7)	4.7	978.4	(978.4)	973.7	(973.7)
<b>NET EXPOSURE AFTER IMPACT OF DERIVATIVE INSTRUMENTS</b>	<b>(42.1)</b>	<b>2,556.9</b>	<b>(415.9)</b>	<b>(1,021.6)</b>	<b>(458.0)</b>	<b>1,535.3</b>

### b) Credit risk

Credit risk relates to the risk that a party to a contract will default on its commitments or fail to pay what it owes.

#### Risk relating to failure of a private-sector customer

Non-governmental customers (aircraft manufacturers, airlines, private infrastructure operators and industry) account for approximately 25% of

Thales's sales. These customers may encounter major and/or prolonged financial difficulties that could lead to payment defaults or order cancellations. Such occurrences could have a negative impact on Thales's sales, profitability and financial position.

To mitigate these risks, Thales conducts regular analysis of the ability of customers to meet their obligations. When necessary, Thales may request bank guarantees or corporate guarantees, or may use credit insurers.

## Credit risk relating to public-sector customers

Public, Government and institutional customers account for around 75% of Thales's sales. Thales works with a large number of countries. Some of these could present a significant credit risk which could, for example, lead them to suspend an order in production, or make them be unable to pay on delivery, as agreed under the terms of the contract. To limit its exposure to these risks, Thales takes out insurance with export credit agencies (such as Coface in France) or private insurers.

At 31 December 2014, only two customers accounted for annual sales in excess of €500 million: the French government (approx. €2.5 billion, compared to €2.4 billion in 2013) and the British State (approx. €1 billion). At 31 December 2014, these two countries still have first-class or high quality ratings (France AA by Standard & Poor's and Aa1 by Moody's – U.K. AAA by Standard & Poor's and Aa1 by Moody's).

The Group's Finance Department consolidates all the information relating to the Group's exposure to credit risk, notably by identifying and analysing the ageing of overdue accounts and notes receivable that have not been written down as impaired. At 31 December 2014 and 2013, the ageing of these accounts and notes receivable is as follows:

		Accounts and notes receivables overdue			
At 31 December 2014	Total	< 3 months	3 to 6 months	> 6 months	
Overdue accounts & notes receivables not depreciated					
State and assimilated	141.7	102.3	14.6	24.8	
Others	366.5	232.5	40.4	93.6	

		Accounts and notes receivables overdue			
At 31 December 2013	Total	< 3 months	3 to 6 months	> 6 months	
Overdue accounts & notes receivables not depreciated					
State and assimilated	124.3	44.2	30.4	49.7	
Others	341.6	196.9	55.1	89.6	

## Credit risks related to banking counterparts

Financial investments are diversified. They relate to senior debt and are negotiated with banks that are themselves top-ranking.

Thales group has OTC derivatives with first class banks under agreements which provide offset amounts owed and to receive in case of failure of one

of the contracting parties. These conditional compensation agreements do not meet the criteria of IAS 32 to allow clearing of derivative instruments assets and liabilities on the balance sheet. However, they fall within the scope of disclosures under IFRS 7 on compensation.

At 31 December 2014	Gross book value (before netting)	Offset amounts on Balance sheet	Net balances presented in balance sheet	Impact of other netting agreements		Net
				Netting agreements	Financial collaterals	
Derivatives – Assets	152.3	–	152.3	(136.0)	–	16.3
Derivatives – Liabilities	282.2	–	282.2	(136.0)	–	146.2

## c) Liquidity risk

Thales's liquidity risk corresponds to its level of exposure to changes in the main market indicators that could lead to an increase in the cost of credit or even to a temporary limitation of access to external sources of financing.

Thales manages this risk by anticipating its liquidity requirements. This risk is hedged by Thales's short- and long-term financial resources:

- equity (note 8.1);
- gross debt (listed by date of maturity in note 6.2);
- committed, undrawn credit facilities granted by banks (€1,500 million maturing in 2019) as backup for the commercial paper programme and representing, as such, a financing reserve.

The principle of consolidating and centralising the short-term surpluses and requirements of units (cash pooling) is applied to units in the same currency zone — euro zone (with separate cash pooling for French units), sterling zone, dollar zone and Australian dollar zone, etc — and, in some cases, in the same country.

Through the consolidation and centralisation of cash requirements and surpluses of its units, the Group is in a position to simplify cash management and match the cash positions of units to produce a single consolidated position that is easier to manage as well as to gain prime access to financial markets through the parent company's financing programmes, rated by Standard & Poor's and Moody's (see below).

At 31 December 2014, the cash recorded under consolidated assets amounts to €2,481.4 million (€2,563.7 million in 2013). It includes:

- €2,051.4 million held by the parent company and available for immediate use (€2,051.7 million in 2013). These amounts include €1,725.6 million (€1,610.1 million in 2013) of term deposits, euros market funds, negotiable debt securities, other investments with maturities of less than 3 months;
- €430.0 million in the bank credit balances of subsidiaries, most of them outside France. This figure includes payments received in the last few days of the financial year and subsequently transferred to the corporate treasury account (€512.0 million in 2013).

At the date of publication, Thales's credit risk ratings were as follows:

	Moody's	Standard & Poor's
Medium and long-term loans	A2	BBB+
Outlook	Negative outlook	Stable outlook
Commercial paper & short-term loans	Prime-1	A-2

The decrease of Thales's credit risk rating does not place at risk financial covenants included in financing contracts. The coming into effect of the unique clause providing for accelerated repayment would only apply in the event that the State no longer held its golden share and, simultaneously, the ratio of consolidated net financial debt to EBITDA<sup>(1)</sup> were to exceed 3.

A decrease of Thales's credit risk ratings would lead to a (capped) increase in the margin related to the confirmed €1.5 billion credit facilities; by contrast, an increase of Thales's credit risk ratings would lead to an improvement of the margin (with a minimum threshold). Other fundings do not provide "covenants" based on financial ratios.

## NOTE 7 INCOME TAX

Determination of the income tax expense takes into account the specific local rules applied by Thales, including the tax consolidation system in France,

Group Relief in the United Kingdom, tax consolidation in the USA, and the *Organschaft* rules in Germany.

### 7.1 Analysis of tax charge

	2014	2013
Current tax <sup>(a)</sup>	(159.3)	(108.3)
Deferred tax	(55.0)	(95.2)
<b>TOTAL</b>	<b>(214.3)</b>	<b>(203.5)</b>

(a) Before deduction of research tax credits, which are included in the income from operations (€151.4 million in 2014, €136.5 million in 2013).

(1) EBITDA, as defined in the funding agreements, is the sum of operating income, depreciation of movable and immovable assets and any impairment of intangible assets, net of amortisation of goodwill. This aggregate is determined in accordance with French accounting principles.

## Effective tax rate

	2014	2013
Net income (loss)	761.7	608.6
Less: income tax	214.3	203.5
Less: share in net income (loss) of equity affiliates	34.0	(106.0)
Less: disposal of assets, changes in scope of consolidation and other	(248.9)	(16.1)
<b>Profit before tax, disposals and impact of equity affiliates</b>	<b>761.1</b>	<b>690.0</b>
Average tax rate <sup>(a)</sup>	32.0%	31.6%
<b>Theoretical tax gain (expense)</b>	<b>(243.6)</b>	<b>(218.5)</b>
Reconciliation items:		
■ Tax credits <sup>(b)</sup>	72.0	64.0
■ Other non taxable items	(1.5)	(3.6)
■ Income related to previously unrecognised deferred tax assets	23.7	17.8
■ Expenses related to the non-recognition of deferred tax assets	(21.4)	(4.3)
■ Taxes not taken into account in the theoretical rate <sup>(c)</sup>	(16.7)	(10.9)
■ Prior year adjustments	(14.2)	(8.2)
■ Impact of dividends paid <sup>(d)</sup>	(14.1)	(35.3)
■ Impact of change in the deferred tax rate	1.5	(6.0)
■ Tax related to disposal of assets, changes in scope of consolidation and oth.	0.5	(1.2)
■ Other	(0.5)	2.7
<b>ACTUAL TAX GAIN (EXPENSE)</b>	<b>(214.3)</b>	<b>(203.5)</b>
<b>Effective tax rate</b>	<b>28.2%</b>	<b>29.5%</b>

(a) The weighted average rate corresponds to the sum of theoretical taxes of all the consolidated companies, divided by the consolidated income before tax, disposals and impact of equity affiliates. The theoretical tax of each consolidated company corresponds to the income before tax to which is applied the local tax rate.

Thus, the average tax rate depends on the contribution of the different countries to the Group's income before tax. The part of the income before tax of France, which tax rate amounts to 34.43% before additional contributions, represents more than 70% (compared to nearly 60% in 2013).

(b) Includes:

- the effect of not taxing research tax credits and tax credit for encouraging competitiveness and jobs (CICE), recorded in the non taxable income of operations (especially in France);
- the fiscal benefits related to the research, recorded in the income tax (notably in Australia and Netherlands).

(c) Including in particular the additional contribution in France, the IRAP in Italy and foreign investments tax.

(d) Includes the 3% tax on dividends as well as deferred tax on expected distributions (€23.3 million in 2013 compared to €2.4 million in 2014).

## 7.2 Deferred tax allocated to equity

	2014		2013	
	Base	Tax	Base	Tax
Translation of the financial statements of foreign subsidiaries	106.8	—	(137.0)	—
Net foreign investments hedge	2.1	(0.7)	0.9	(0.3)
Cash flow hedge	(292.0)	97.1	71.1	(26.1)
Available-for-sale investments	0.1	—	(0.1)	—
<b>Items subsequently reclassified to P&amp;L</b>	<b>(183.0)</b>	<b>96.4</b>	<b>(65.1)</b>	<b>(26.4)</b>
Actuarial gains and losses/pensions – United Kingdom	(334.6)	— <sup>(a)</sup>	(75.5)	— <sup>(a)</sup>
Actuarial gains and losses/pensions – Other countries	(317.0)	100.1	38.2	(10.9)
<b>Items not subsequently reclassified to P&amp;L</b>	<b>(651.6)</b>	<b>100.1</b>	<b>(37.3)</b>	<b>(10.9)</b>
Payment in shares		1.0		0.8
<b>TOTAL DEFERRED TAX ALLOCATED TO EQUITY</b>		<b>197.5</b>		<b>(36.5)</b>
Of which, related to companies under equity method		12.6		3.2
Of which, related to fully consolidated companies		184.9		(39.7)

(a) Depreciation of deferred taxes related to pensions in the UK.

### 7.3 Tax assets and liabilities presented in the balance sheet

	01/01/2014	Income (expense)	Recognised through equity	Cash flow impact	Changes in exch. rate, scope and other	31/12/2014
Current income tax assets	31.9	–	–	28.4	–	60.3
Current income tax liabilities	(59.5)	(159.3)	–	70.0	94.8	(54.0)
<b>Current income tax, net</b>	<b>(27.6)</b>	<b>(159.3)</b>	<b>–</b>	<b>98.4</b>	<b>94.8</b>	<b>6.3</b>
Deferred tax assets	803.6	61.2	184.9	–	(102.1)	947.6
Deferred tax liabilities	(149.1)	(116.2)	–	–	–	(265.3)
<b>Deferred tax, net</b>	<b>654.5</b>	<b>(55.0)</b>	<b>184.9</b>	<b>–</b>	<b>(102.1)</b>	<b>682.3</b>
<b>TOTAL</b>		<b>(214.3)</b>	<b>184.9</b>	<b>98.4</b>		

	01/01/2013	Income (expense)	Recognised through equity	Cash flow impact	Changes in exch. rate, scope and other	31/12/2013
Current income tax assets	35.1	–	–	(3.2)	–	31.9
Current income tax liabilities	(39.4)	(108.3)	–	43.0	45.2	(59.5)
<b>Current income tax, net</b>	<b>(4.3)</b>	<b>(108.3)</b>	<b>–</b>	<b>39.8</b>	<b>45.2</b>	<b>(27.6)</b>
Deferred tax assets	993.3	(129.5)	(39.7)	–	(20.5)	803.6
Deferred tax liabilities	(183.4)	34.3	–	–	–	(149.1)
<b>Deferred tax, net</b>	<b>809.9</b>	<b>(95.2)</b>	<b>(39.7)</b>	<b>–</b>	<b>(20.5)</b>	<b>654.5</b>
<b>TOTAL</b>		<b>(203.5)</b>	<b>(39.7)</b>	<b>39.8</b>		

#### a) Current income tax

The payment of corporate tax is reported net of tax credits utilised. The allocation of tax credits is presented in the column " changes in exch. rate, scope and other".

#### b) Deferred tax

#### Changes by nature

	At 01/01/2014	(Expense) income of the period	Recognised through equity	Changes in exch. rate, scope and other	At 31/12/2014
<b>Temporary differences:</b>	<b>664.5</b>	<b>10.8</b>	<b>251.8</b>	<b>(83.6)</b>	<b>843.5</b>
■ pensions and other long-term benefits	425.0	(9.6)	169.7	23.3	608.4
■ intangible assets	(150.2)	26.1	–	(2.1)	(126.2)
■ reserve for losses at completion	153.3	(25.9)	–	3.9	131.3
■ other	236.4	20.2	82.1	(108.7)	230.0
<b>Tax loss carry-forwards</b>	<b>376.4</b>	<b>(68.1)</b>	<b>–</b>	<b>7.8</b>	<b>316.1</b>
<b>TOTAL</b>	<b>1,040.9</b>	<b>(57.3)</b>	<b>251.8</b>	<b>(75.8)</b>	<b>1,159.6</b>
<b>Part not recognised in the balance sheet</b>	<b>(386.4)</b>	<b>2.3</b>	<b>(66.9)</b>	<b>(26.3)</b>	<b>(477.3)</b>
<b>Total net deferred tax assets</b>	<b>654.5</b>	<b>(55.0)</b>	<b>184.9</b>	<b>(102.1)</b>	<b>682.3</b>

	At 01/01/2013	(Expense) income of the period	Recognised through equity	Changes in exch. rate, scope and other	At 31/12/2013
<b>Temporary differences:</b>	<b>809.9</b>	<b>(69.8)</b>	<b>(48.8)</b>	<b>(26.8)</b>	<b>664.5</b>
■ pensions and other long-term benefits	448.8	5.7	(23.8)	(5.7)	425.0
■ intangible assets	(162.1)	26.4	–	(14.5)	(150.2)
■ reserve for losses at completion	231.1	(74.9)	–	(2.9)	153.3
■ other	292.1	(27.0)	(25.0)	(3.7)	236.4
<b>Tax loss carry-forwards</b>	<b>419.7</b>	<b>(38.9)</b>	<b>–</b>	<b>(4.4)</b>	<b>376.4</b>
<b>TOTAL</b>	<b>1,229.6</b>	<b>(108.7)</b>	<b>(48.8)</b>	<b>(31.2)</b>	<b>1,040.9</b>
<b>Part not recognised in the balance sheet</b>	<b>(419.7)</b>	<b>13.5</b>	<b>9.1</b>	<b>10.7</b>	<b>(386.4)</b>
<b>Total net deferred tax assets</b>	<b>809.9</b>	<b>(95.2)</b>	<b>(39.7)</b>	<b>(20.5)</b>	<b>654.5</b>

## Expiration of tax loss carry-forwards

Total tax loss carry-forwards represent a potential tax saving of €316.1 million at 31 December 2014 (€376.4 million at 31 December 2013). Corresponding expiry dates are:

	31/12/2014		31/12/2013
2015	0.5	2014	5.6
2016-2019	0.1	2015-2018	0.8
Beyond 2019	27.1	Beyond 2018	32.0
Without any time limit	288.4	Without any time limit	338.0
<b>Total</b>	<b>316.1</b>	<b>Total</b>	<b>376.4</b>
<i>Of which not recognised in the balance sheet</i>	<i>(157.9)</i>	<i>Of which not recognised in the balance sheet</i>	<i>(170.5)</i>
<b>NET DEFERRED TAX ASSET</b>	<b>158.2</b>	<b>NET DEFERRED TAX ASSET</b>	<b>205.9</b>
<i>Of which, in France</i>	<i>107.9</i>	<i>Of which, in France</i>	<i>143.4</i>

Only deferred tax assets related to tax losses which the Group expects to recover, in accordance with note 14-k, are recognised in the balance sheet. In particular, the Group takes into account loss carry-forward limitation.

## NOTE 8 EQUITY AND EARNINGS PER SHARE

### 8.1 Equity

#### a) Share capital

The share capital of Thales parent company amounts to €623,523,333 and is made of 207,841,111 shares with an individual value of €3, compared with 205,744,500 shares at 31 December 2013. This represents an increase of 2,096,611 shares resulting from the exercise of share subscription options by the beneficiaries of the plans.

#### b) Outstanding securities giving access to the share capital of the Company

At 31 December 2014, there are no securities that give access to the share capital of the Company, with the exception of the share subscription options described in the note 9.4.

#### c) Treasury shares

Thales parent company held 1,876,732 of its own shares at 31 December 2014. They are accounted for with a €58.9 million decrease from the consolidated equity.

In accordance with the authorisations given to the Board of directors at the Annual General Meeting, the Company did the following operations in 2013 and 2014:

	2014	2013
<b>Treasury shares at 1 January</b>	<b>2,490,177</b>	<b>2,795,564</b>
Purchases as part of the liquidity contracts	2,146,816	1,582,469
Sales as part of the liquidity contracts	(2,216,116)	(1,624,034)
Purchase in the market	–	524,861
Transfer to employees as part of the employee share purchase offering	–	(473,653)
Delivery of free shares	(544,145)	(306,130)
Exercise of share purchase options	–	(8,900)
<b>TREASURY SHARES AT 31 DECEMBER</b>	<b>1,876,732</b>	<b>2,490,177</b>

At 31 December 2014, as in 2013, relating to the liquidity contract entrusted to Kepler Cheuvreux from 30 October 2014, the liquidity account had the following means:

	2014	2013
Number of shares at 31 December	24,000	93,300
Value (million euros)	29.8	19.2



## d) Translation differences

Translation differences result from the translation of financial statements of companies whose functional currency is not the euro, where appropriate offset by the impact of derivative instruments denominated in foreign currencies to hedge net investments in foreign subsidiaries.

These differences are recorded in equity as other comprehensive income, subsequently reclassified to profit and loss at the date of disposal of such investments. They are as follows:

	2014	2013
<b>Translation differences at 1 January</b>	<b>(241.9)</b>	<b>(106.2)</b>
Changes in value	108.9	(135.4)
Reclassified to profit and loss	(1.0)	–
<b>Gross variation</b>	<b>107.9</b>	<b>(135.4)</b>
Deferred tax	(0.7)	(0.3)
<b>Translation differences at 31 December</b>	<b>(134.7)</b>	<b>(241.9)</b>
<i>Of which:</i>		
<i>Hedge of net foreign investments</i>	<i>3.0</i>	<i>5.1</i>

## e) Reserves for cash flow hedge

The Group uses foreign exchange derivatives to hedge against changes in the value of future cash flows related to trade flows in foreign currencies. In the Group's consolidated financial statements, changes in fair value of these derivatives, when efficient, are recognised directly in equity, until the hedged cash flows affect profit and loss.

	2014	2013
<b>Cash flow hedge at 1 January</b>	<b>56.6</b>	<b>18.7</b>
Changes in value	(277.0)	82.2
Reclassified to profit and loss	(12.0)	(12.8)
Scope and exchange variations	(22.8)	(9.1)
<b>Gross variation</b>	<b>(261.8)</b>	<b>60.3</b>
Deferred tax	86.7	(22.4)
<b>CASH FLOW HEDGE AT 31 DECEMBER<sup>(a)</sup></b>	<b>(118.5)</b>	<b>56.6</b>

(a) A positive balance at closing means that the exchange rates of the derivative instruments documented as hedge are generally more favorable than the exchange rates prevailing at the date of closing.

## f) Parent Company dividends distribution

Dividends per share amounted to €1.12 in 2013 and €0.88 in 2012.

On 25 February 2015, the Board of directors decided to offer the shareholders, who will be called in to a General Meeting on 13 May 2015, the payment of a total amount of €1.12 per share. Given the down payment of €0.34 per share, the balance of €0.78 per share will be detached on 27 May 2015.

Dividends paid in 2013 and 2014 are described below:

Full year	Approved by	Description	Dividend per share (euro)	Payout date	How paid	Total (€ million)
2014	Board of directors meeting on 16 September 2014	2014 interim dividend	€0.34	12 Dec. 2014	Cash	€70.0 million
	Shareholders' meeting on 14 May 2014	Balance for 2013	€0.85	30 May 2014	Cash	€172.8 million
		<b>Total dividends paid in 2014</b>				<b>€242.8 million</b>
2013	Board of directors meeting on 17 September 2013	2013 interim dividend	€0.27	13 Dec. 2013	Cash	€54.9 million
	Shareholders' meeting on 24 May 2013	Balance for 2012	€0.63	28 May 2013	Cash	€125.8 million
		<b>Total dividends paid in 2013</b>				<b>€180.7 million</b>
2012	Board of directors meeting on 29 November 2012	2012 interim dividend	€0.25	14 Dec. 2012	Cash	€49.8 million

## g) Non-controlling interests

This item principally includes Finmeccanica's share in the sub-group Thales Alenia Space (33%), as well as, from 1 January 2014, Siemens' and Philips Medical Systems International's interests in the company Trixell SAS (49%) and Raytheon's in Thales-Raytheon Systems Company SAS (50%).

The contribution of these minority shareholders in the main financial aggregates of the Group is individually not significant.

The treasury of these three companies is exclusively placed with the Corporate Treasury Department of Thales, without restriction of use.

## 8.2 Earnings per share

Basic earnings per share are calculated by dividing profit attributable to shareholders by the weighted average number of shares outstanding during the financial year, excluding treasury shares.

Diluted earnings per share take into account instruments that have a dilutive effect on earnings per share and exclude anti-dilutive instruments. The dilutive effect of share subscription options is calculated using the treasury stock method, taking into account the average market price for the share in the period in question.

	2014	2013
<b>Numerator</b> (in millions of euros):		
Net income (loss) attributable to shareholders of the parent company (a)	714.2	573.4
<b>Denominator</b> (in thousands):		
Average number of shares outstanding (b)	204,774	200,967
Share subscription options <sup>(1)</sup>	1,095	602
Diluted average number of shares outstanding (c)	205,869	201,569
<b>Earnings per share</b> (in euros) (a)/(b)	<b>3.49</b>	<b>2.85</b>
<b>Diluted earnings per share</b> (in euros) (a)/(c)	<b>3.47</b>	<b>2.84</b>
Average share price	€44.38	€36.25

(1) Only exercisable subscription options plans (of which the exercise price is lower than the average share price) are used for diluted earnings per share calculation.

## NOTE 9 LONG-TERM BENEFITS

### 9.1 Consolidated number of employees

The consolidated number of employees includes all employees of fully consolidated companies and does not include the employees of companies accounted for under the equity method. At the end of 2014 it represents 60,781 employees (59,467 at the end of 2013).

The consolidated number of employees remains stable at comparable scope.

### 9.2 Personnel expenses

	2014	2013
Wages and salaries and social charges <sup>(a)</sup>	(5,268.3)	(5,260.4)
Defined benefit pension expense (note 9.3)	(172.5)	(154.5)
Share-based payment (note 9.4)	(15.0)	(14.7)
<b>TOTAL</b>	<b>(5,455.8)</b>	<b>(5,275.1)</b>

(a) Defined contribution pension expense included.

### 9.3 Pension and other long-term benefits

The Group grants its employees postemployment benefits (pensions, retirement awards, medical care, etc) and other long-term benefits (long-service benefits, long-service awards on departure, etc). Apart from state plans, the plans that are set up to cover these benefits are either defined contribution plans or defined benefit plans.

#### State plans

In certain countries, and particularly in France, the Group subscribes to state plans (Social Security State plans, compulsory additional plans such as ARRCO, AGIRC, etc) for which the pension expense for the financial year is equal to the contributions called by, and thus payable to, such plans.

#### Defined contribution plans

These plans guarantee employees benefits that are directly related to aggregate contributions paid, increased by the yield on investments made. The Company's pension expense is thus limited to contributions paid.

## Defined benefit plans

There are two categories of countries within the Group:

- countries in which the funding of retirement is mainly based on defined contribution plans and where certain other long-term benefits (retirement awards, long-service awards) are of a defined benefit nature and for which external funding is not systematically put in place. France and Germany are notably included in this category;

- countries in which retirement and other long-term benefits are mainly funded externally: this category includes the UK and the Netherlands.

*In the UK, the master plan "Thales UK Pension Scheme", provides a pension based on the average of salary and indexed to inflation. In 2002, this plan was closed to new entrants, who have a collective defined contribution pension scheme.*

*In the Netherlands, employees have a defined benefit plan, the indexation of which depends on the level of financing achieved, as assessed by the local prudential rules.*

### a) Provisions recognised in the balance sheet

	2014	2013
<b>Net obligation at 1 January</b>	<b>(1,857.9)</b>	<b>(1,883.4)</b>
<b>Current service cost</b>	<b>(88.9)</b>	<b>(89.4)</b>
<b>Curtailments and settlements</b>	<b>6.5</b>	<b>4.4</b>
Interest cost	(229.5)	(208.5)
Expected return on plan assets	157.9	144.0
<b>Net interest</b>	<b>(71.6)</b>	<b>(64.5)</b>
Fund cost	(5.5)	(5.1)
Actuarial gain & losses/other long-term benefits	(13.0)	0.1
<b>Finance costs on pensions and other long-term benefits</b>	<b>(90.1)</b>	<b>(69.5)</b>
<b>Total pension cost of the period</b>	<b>(172.5)</b>	<b>(154.5)</b>
<b>Actuarial gains &amp; losses (other comprehensive income (loss) of the period)</b>	<b>(627.0)</b>	<b>(32.1)</b>
<b>Benefits and contributions</b>	<b>190.5</b>	<b>187.4</b>
■ deficit payment in the United Kingdom	68.8	64.3
■ future service cash	121.7	123.1
Exchange rate variation	(70.1)	24.1
Changes in scope of consolidation and other	(19.8)	0.6
<b>NET OBLIGATION AT 31 DECEMBER</b>	<b>(2,556.8)</b>	<b>(1,857.9)</b>
<b>Of which:</b> Post-employment benefits	(2,370.6)	(1,694.8)
Other long-term benefits	(186.2)	(163.1)

## b) Changes in defined benefit obligations and plan assets, by category of country

31 December 2014	Externally funded countries			Countries mainly internally funded			Total
	UK	Netherlands	Total	France	Other	Total	
<b>Obligations at 1 January</b>	<b>(3,332.7)</b>	<b>(981.5)</b>	<b>(4,314.2)</b>	<b>(896.8)</b>	<b>(402.4)</b>	<b>(1,299.2)</b>	<b>(5,613.4)</b>
Current service cost	(20.9)	(10.9)	(31.8)	(41.1)	(16.0)	(57.1)	(88.9)
Interest cost	(149.2)	(35.7)	(184.9)	(31.1)	(13.5)	(44.6)	(229.5)
Plan participant's contribution	(11.5)	(9.5)	(21.0)	–	–	–	(21.0)
Curtailments/settlements	–	6.5	6.5	–	8.1	8.1	14.6
Experience gains (losses)	(3.4)	11.5	8.1	(16.9)	0.8	(16.1)	(8.0)
Actuarial gains (losses)/financial assumptions	(488.5)	(272.7)	(761.2)	(114.1)	(75.3)	(189.4)	(950.6)
Actuarial gains (losses)/demographic assumptions	(0.7)	(28.3)	(29.0)	(8.0)	(4.4)	(12.4)	(41.4)
Actuarial gains (losses) on long-term benefits	–	(2.8)	(2.8)	(7.3)	(2.9)	(10.2)	(13.0)
Benefits paid by plan assets	128.1	29.1	157.2	2.2	4.3	6.5	163.7
Benefits paid by employer <sup>(a)</sup>	0.4	0.4	0.8	59.2	15.8	75.0	75.8
Scope, exch. rate var. and other	(257.0)	–	(257.0)	(18.1)	(8.9)	(27.0)	(284.0)
<b>OBLIGATIONS AT 31 DECEMBER</b>	<b>(4,135.4)</b>	<b>(1,293.9)</b>	<b>(5,429.3)</b>	<b>(1,072.0)</b>	<b>(494.4)</b>	<b>(1,566.4)</b>	<b>(6,995.7)</b>
<b>Plan assets at 1 January</b>	<b>2,553.9</b>	<b>958.0</b>	<b>3,511.9</b>	<b>121.9</b>	<b>121.7</b>	<b>243.6</b>	<b>3,755.5</b>
Expected return on plan assets	114.2	35.3	149.5	4.0	4.4	8.4	157.9
Employer's contribution <sup>(a)</sup>	92.9	14.2	107.1	3.5	4.1	7.6	114.7
Plan participants' contribution	11.5	9.5	21.0	–	–	–	21.0
Curtailments/settlements	–	–	–	–	(7.9)	(7.9)	(7.9)
Benefits paid by plan assets	(128.1)	(29.1)	(157.2)	(2.2)	(4.3)	(6.5)	(163.7)
Experience gains (losses)	158.0	214.0	372.0	1.5	(0.5)	1.0	373.0
Scope, exch. rate var. and other	186.6	(1.3)	185.5	(0.3)	3.2	2.9	188.4
<b>PLAN ASSETS AT 31 DECEMBER</b>	<b>2,989.2</b>	<b>1,200.6</b>	<b>4,189.8</b>	<b>128.4</b>	<b>120.7</b>	<b>249.1</b>	<b>4,438.9</b>
<b>NET PROVISIONS AT 31 DECEMBER</b>	<b>(1,146.2)</b>	<b>(93.3)</b>	<b>(1,239.5)</b>	<b>(943.6)</b>	<b>(373.7)</b>	<b>(1,317.3)</b>	<b>(2,556.8)</b>

(a) Contributions/benefits paid amount to €190.5 million in 2014, compared to €187.4 million in 2013. They should remain stable in 2014, at comparable scope and exchange rates: subject to the United Kingdom, of which the amount depends on negotiations which will take place in 2015 (note 9.3-e).

31 December 2013	Externally funded countries			Countries mainly internally funded			Total
	UK	Netherlands	Total	France	Other	Total	
<b>Obligations at 1 January</b>	<b>(3,207.5)</b>	<b>(995.3)</b>	<b>(4,202.8)</b>	<b>(870.2)</b>	<b>(419.9)</b>	<b>(1,290.1)</b>	<b>(5,492.9)</b>
Current service cost	(22.9)	(12.4)	(35.3)	(38.9)	(15.2)	(54.1)	(89.4)
Interest cost	(135.4)	(33.6)	(169.0)	(26.6)	(12.9)	(39.5)	(208.5)
Plan participant's contribution	(8.9)	(9.2)	(18.1)	–	(0.6)	(0.6)	(18.7)
Curtailements/settlements	–	4.4	4.4	–	–	–	4.4
Experience gains (losses)	(5.5)	24.6	19.1	(10.1)	0.3	(9.8)	9.3
Actuarial gains (losses)/financial assumptions	(44.2)	20.3	(23.9)	26.2	8.9	35.1	11.2
Actuarial gains (losses)/demographic assumptions	(87.5)	(7.3)	(94.8)	(21.4)	(2.0)	(23.4)	(118.2)
Actuarial gains (losses) on long-term benefits	–	(0.5)	(0.5)	(4.2)	4.8	0.6	0.1
Benefits paid by plan assets	113.4	27.5	140.9	1.9	1.0	2.9	143.8
Benefits paid by employer <sup>(a)</sup>	–	–	–	45.3	19.4	64.7	64.7
Scope, exch. rate var. and other	65.8	–	65.8	1.2	13.8	15.0	80.8
<b>OBLIGATIONS AT 31 DECEMBER</b>	<b>(3,332.7)</b>	<b>(981.5)</b>	<b>(4,314.2)</b>	<b>(896.8)</b>	<b>(402.4)</b>	<b>(1,299.2)</b>	<b>(5,613.4)</b>
<b>Plan assets at 1 January</b>	<b>2,451.5</b>	<b>936.0</b>	<b>3,387.5</b>	<b>114.3</b>	<b>107.7</b>	<b>222.0</b>	<b>3,609.5</b>
Expected return on plan assets	105.2	31.9	137.1	3.2	3.7	6.9	144.0
Employer's contribution <sup>(a)</sup>	95.8	19.5	115.3	3.3	4.1	7.4	122.7
Plan participants' contribution	8.9	9.2	18.1	–	0.6	0.6	18.7
Benefits paid by plan assets	(113.4)	(27.5)	(140.9)	(1.9)	(1.0)	(2.9)	(143.8)
Curtailements/settlements	–	–	–	–	–	–	–
Experience gains (losses)	61.8	(9.9)	51.9	3.5	10.2	13.7	65.6
Scope, exch. rate var. and other	(55.9)	(1.2)	(57.1)	(0.5)	(3.6)	(4.1)	(61.2)
<b>PLAN ASSETS AT 31 DECEMBER</b>	<b>2,553.9</b>	<b>958.0</b>	<b>3,511.9</b>	<b>121.9</b>	<b>121.7</b>	<b>243.6</b>	<b>3,755.5</b>
<b>NET PROVISIONS AT 31 DECEMBER</b>	<b>(778.8)</b>	<b>(23.5)</b>	<b>(802.3)</b>	<b>(774.9)</b>	<b>(280.7)</b>	<b>(1,055.6)</b>	<b>(1,857.9)</b>

(a) Contributions/benefits paid amount to €190.5 million in 2014, compared to €187.4 million in 2013. They should remain stable in 2014, at comparable scope and exchange rates: subject to the United Kingdom, of which the amount depends on negotiations which will take place in 2015 (note 9.3-e).

#### c) Actuarial assumptions used

The actuarial assumptions used are ascertained by actuaries according to special features of each country and each system. The most sensitive assumptions are the following:

2014	UK	Netherlands	France	Germany <sup>(a)</sup>
Inflation rate	2.86%	1.60%	1.60%	1.60%
Discount rate	3.68%	1.90%	1.50%	2.02%
Average duration of the plans	17 years	16 years	11 years	19 years

(a) Main country of the category "others".

2013	UK	Netherlands	France	Germany <sup>(a)</sup>
Inflation rate	3.25%	2.00%	2.00%	2.00%
Discount rate	4.61%	3.69%	3.17%	3.77%
Average duration of the plans	17 years	16 years	11 years	19 years

(a) Main country of the category "others".

The discount rates are obtained by reference to market yields on high quality bonds in each country (high quality corporate bonds with maturity dates equivalent to those of the plans being measured). In this context, the Group refers to the Iboxx Corporate AA index, adjusted in accordance with the duration of the concerned countries' commitments.

At 31 December 2014, the sensitivity of the net obligation to a change in the discount rate is as follows:

Sensitivity in basis points	+ 0.25%	- 0.25%	+ 0.50%	- 0.50%	+ 1.00%	- 1.00%
Decrease (increase) in net obligation (€ million)	299.3	(318.5)	597.5	(657.7)	1,092.6	(1,404.9)

In the UK, an increase (decrease) of the inflation rate of 25 basis points would generate an increase (decrease) of the commitment by €115 million.

#### d) Return on plan assets

The actual return on plan assets in 2014 amounts to €530.9 million (€209.6 million in 2013), which represents an average increase of 15%. At 31 December 2014, plan assets are invested as follows:

	UK	Netherlands	Other countries	2014	2013
Fixed rate bonds	29%	60%	73%	39%	37.5%
Linked investments	16%	–	–	11%	8%
Equities	34%	33%	23%	34%	38%
Liquid alternative investments	10%	–	–	7%	6.5%
Illiquid alternatives (property...)	9%	7%	–	8%	6%
Liquidities	2%	–	4%	1%	4%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

#### e) Financing

Thales is subjected to financing obligations due to defined benefit pension commitments (mainly in the UK and in the Netherlands).

In the UK, in accordance with the regulation in force, the financing level of pension commitments of the Thales UK scheme is measured every three years. Following this measurement, the opportunity of a new financing plan and/or the enforcement of guarantees in favour of the plan is decided, in coordination with the trustees.

This assessment, based on the underfunding at the end of 2011, was completed on 30 March 2013, and led to a slight increase in the annual contribution from £50 million to £52.6 million.

In addition, Thales UK Holding granted a guarantee covering future liabilities of the relevant subsidiaries in the United Kingdom under this financing plan. At 31 December 2014 the balance of the guarantee is £720.5 million, this amount will be reduced by any amount paid accordingly to the financing plan. This guarantee is underwritten by Thales (parent company).

This financing plan and the attached guarantees will be updated in 2015 on the basis of financing level valuation at 2014 end.

#### 9.4 Share-based payment

Thales regularly granted its employees and managers, purchase and subscription options up until 2011. The decision was made in 2012 to stop granting options.

Also, Thales regularly granted free shares and/or performance shares in reference with the employees performance management policy.

In 2014, the Group stopped free shares grants and replaced them with a Units plan (see paragraph e). These different plans are described below. At 31 December 2014, the following options, shares and units were outstanding:

- 117,800 share purchase options at a weighted average exercise price of €42.76;
- 5,841,789 share subscription options at a weighted average exercise price of €36.58, of which 658,682 performance shares;
- 1,831,191 free shares, of which 521,801 performance shares;
- 704,800 units, of which 280,250 performance units.

## a) Expenses related to share-based payments

In the consolidated statements, the benefit granted to the beneficiaries of stock options, free shares and units is recognised as an operating expense. This breaks down as follows:

Grant date	Initial number of options, shares and units granted	Fair value at grant date	Initial Fair value (€ million)	Remaining fair value at 31/12/2014	2014 Expense	2013 Expense
<b>Share subscription options:</b>						
15/09/2011	435,300	€25.20	2.3	–	0.2	(0.6)
23/09/2010	471,850	€26.40	2.8	–	–	(0.3)
25/06/2009	1,600,340	€31.93	11.2	–	–	(0.1)
<b>Total</b>				<b>–</b>	<b>0.2</b>	<b>(1.0)</b>
<b>Free shares<sup>(a)</sup>:</b>						
17/09/2013	724,290	€39.16	22.8	14.4	(5.2)	(1.6)
20/12/2012	718,290	€27.47	16.1	7.4	(3.5)	(4.0)
15/09/2011	630,990	€25.20	13.0	2.1	(2.5)	(3.2)
23/09/2010	631,730	€26.40	13.6	–	(2.2)	(3.2)
25/06/2009	334,980	€31.93	8.7	–	–	(1.0)
<b>Total</b>				<b>23.9</b>	<b>(13.4)</b>	<b>(13.0)</b>
<b>Units<sup>(b)</sup>:</b>						
16/09/2014	706,970	€42.42	24.2	23.4	(1.8)	–
<b>Total</b>				<b>23.4</b>	<b>(1.8)</b>	<b>–</b>
Company savings scheme					–	(0.7)
<b>TOTAL</b>					<b>(15.0)</b>	<b>(14.7)</b>
<b>Of which, counterpart:</b>						
Equity					14.1	14.7
Debt					0.9	–

(a) The fair value of free shares plans takes into account a distribution rate of 2.5% of future results.

(b) The fair value of the plan, according to a Monte-Carlo model, takes into account a volatility assumption of 22% and a distribution rate of 2.7% of future results. The amount is presented before social charges.

## b) Outstanding purchase option plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31/12/2013	Options exercised in 2014	Options cancelled in 2014	Number of options outstanding at 31/12/2014
25/11/2008	From 25 Nov. 2012 to 24 Nov. 2018	€38.50	37,800	–	–	37,800
04/07/2007	From 4 July 2011 to 3 July 2017	€44.77	80,000	–	–	80,000



## c) Outstanding subscription option plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31/12/2013	Options granted in 2014	Options exercised in 2014	Options cancelled in 2014 <sup>(b)</sup>	Number of options outstanding at 31/12/2014
15/09/2011 <sup>(a)</sup>	From 15 Sept. 2015 to 14 Sept. 2021	€26.34	384,200	–	–	(73,368)	310,832
23/09/2010 <sup>(a)</sup>	From 23 Sept. 2014 to 22 Sept. 2020	€26.34	441,350	–	(92,000)	(1,500)	347,850
25/06/2009	From 25 June 2013 to 24 June 2019	€32.88	1,057,881	–	(194,185)	(6,204)	857,492
01/07/2008	From 1st July 2012 to 30 June 2018	€38.50	1,322,360	–	(192,943)	(20,700)	1,108,717
04/07/2007	From 4 July 2011 to 3 July 2017	€44.77	1,362,250	–	(103,055)	(33,840)	1,225,355
09/11/2006	From 09 Nov. 2010 to 08 Nov. 2016	€36.47	1,522,655	–	(343,045)	(19,000)	1,160,610
30/06/2005	From 30 June 2009 to 29 June 2015	€34.01	1,217,420	–	(374,100)	(12,387)	830,933
01/07/2004	From 1st July 2008 to 30 June 2014	€29.50	877,945	250	(797,083)	(81,112)	–
01/07/2003	From 1st July 2007 to 30 June 2013	€25.70	200 <sup>(c)</sup>	–	(200)	–	–

(a) Performance shares.

(b) Including, for the involved plans, written-off options when performance targets are not, partially or totally, achieved (in 2014 73,368 written-off options).

(c) Due to an on-going succession dossier.

## Conditions of exercise

All options are granted for a ten-year period, at no discount to the market price.

Stock purchase and subscription stock options granted between 30 June 2005 and 23 September 2010 can already be exercised in full.

The options granted on 23 September 2010 and 15 September 2011 are contingent upon the achievement of internal performance targets over the three following financial years. The performance criteria are EBIT, operating cash flow and order intake, with a weighting of 60%, 25% and 15% respectively.

Options are validated by third once the Board of directors has approved the Group consolidated accounts of the related periods. The number of options validated will not exceed the number of shares initially allotted. For all beneficiaries, the exercise of options will only be possible as from the fourth anniversary date of the grant.

## d) Plan of free shares and/or performance shares awards

Free shares and/or performance shares awards Plans have been implemented since 2007.

Until 2011, the Chairman (the only *mandataire social*: legally responsible as defined by the French Commercial Code), and 21 executives (including Executive Committee) could not benefit from these plans. Since 2012, only the Chairman could not benefit from these plans.

These plans are divided in two sub plans:

## Free shares

All designated beneficiaries of the plan will be granted shares at the end of a four-year vesting period subject to compliance with the employment conditions stipulated under the plan's rules.

## Performance shares

The shares granted are subject to the attainment of internal performance conditions over three financial years following the allocation date. The rights are validated by third during the Board meeting closing the three years financial statements. The number of shares vested will not exceed the number of shares initially allotted.

Shares granted in 2010, 2011 and 2012:

- the three criteria used are EBIT, operating cash flows and order intake, each of these criteria having a 60%, 25% and 15% weighting respectively;
- all designated beneficiaries of this sub-plan will be granted validated shares at the end of a four-year vesting period subject to compliance with the employment conditions stipulated under the plan's rules.

Within the two sub-plans, beneficiaries who are French tax residents or who pay social contributions in France will then have to observe a two-year lock-in period during which shares may not be sold. The lock-in period does not apply to beneficiaries who are not French tax residents.

Shares granted in 2013:

- the three criteria used are EBIT, operating cash flows and order intake, each of these criteria having a 60%, 15% and 25% weighting respectively;
- all designated beneficiaries of this sub-plan will be granted validated shares at the end of a four-year vesting period subject to compliance with the employment conditions stipulated under the plan's rules. Due to French legislation changes, the lock-in period of two years no longer apply to beneficiaries who are French tax residents.

Date of Board decision	Vesting period	Share price at grant date	Number of free shares at 31/12/2013	Adjustments posterior to closing	Shares cancelled in 2014 <sup>(b)</sup>	Shares delivered in 2014	Number of free shares at 31/12/2014
17/09/2013	From 17/09/2013 to 17/09/2017	€39.16	422,040	–	(7,930)	(320)	413,790
			298,100 <sup>(a)</sup>	–	(57,137)	–	240,963
20/12/2012	From 20/12/2012 to 20/12/2016	€27.47	475,580	1,090	(18,020)	(250)	458,400
			228,500 <sup>(a)</sup>	–	(50,646)	–	177,854
15/09/2011	From 15/09/2011 to 15/09/2015	€25.20	456,350	320	(19,100)	(370)	437,200
			135,290 <sup>(a)</sup>	450	(32,756)	–	102,984
23/09/2010	From 23/09/2010 to 23/09/2014	€26.40	440,490	–	(14,990)	(425,500)	–
			127,250 <sup>(a)</sup>	–	(5,400)	(121,850)	–

(a) Performance shares.

(b) Including, for the involved plans, written-off shares when performance targets are not, partially or totally, achieved (120,759 written-off shares in 2014).

#### e) Units or performance units grant, indexed to the value of the Thales share

A plan defined in units indexed to the value of the Thales share, including units subject to performance conditions, has been implemented in 2014. This plan is divided into two sub plans.

##### Units plan subject to presence conditions

Each granted unit gives right to the settlement of a monetary value at the end of a four-year vesting period, subject to compliance with the employment conditions stipulated under the plan's rules.

This monetary value will be calculated at the end of the vesting period, and will be set equal to the average daily opening share price over the vesting period. The extreme stock market price variations in the increase or in the reduction will be neutralized.

At the end of the vesting period, the amount owed to the beneficiaries who meet the presence conditions is equal to the number of granted units multiplied by the value of the unit. Half of the payment will be done in shares, while the other half will be paid in cash.

##### Units plan subject to presence conditions and performance conditions

Performance units follow the same rules as units regarding the vesting period and the presence conditions, but the number of units finally allocated will depend on the attainment of internal performance conditions over the three financial years following the allocation date. The rights are validated by third during the Board meeting closing the three years financial statements.

The number of granted validated units will not exceed the number initially allotted.

The three criteria used are EBIT, operating cash flows and order intake, each of these criteria having a 60%, 15% and 25% weighting respectively.

Date of the allocation decision	Vesting period	Share price at grant date	Number of units at 31/12/2013	Units allocated in 2014	Units cancelled in 2014 <sup>(b)</sup>	Units delivered in 2014	Number of units at 31/12/2014
16/09/2014	From 16/09/2014 to 16/09/2018	€42.42	–	425,920	(1,370)	–	424,550
			–	281,050	(800)	–	280,250 <sup>(a)</sup>

(a) Units subject to performance conditions.

(b) Including, for the involved plans, written-off units when performance targets are not, partially or totally, achieved.

## 9.5 Compensation of directors and senior corporate officers

Expenses recognised in respect of compensation, benefits and social security contributions attributable to Directors and members of the Executive Committee are as follows:

	2014	2013
<b>Short-term benefits:</b>		
■ Fixed compensation	4.3	4.0
■ Variable compensation	2.9	2.8
■ Employer's social security contribution	2.5	3.1
■ Contract termination benefits resulting from contract commitments	–	3.1
■ Employer's social security contribution/contract termination benefits	–	1.0
■ Compensation for attendance at Board meetings	0.6	0.6
<b>Other benefits:</b>		
■ Post employment benefits	1.7	1.2
■ Share-based payments	0.7	0.5

## 9.6 French statutory training entitlement

In accordance with the requirements of French legislation dated 4 May 2004 relating to professional training, French companies in the Group grant their employees a training entitlement of at least 20 hours per calendar year, which may be held concurrently for a maximum of six years and capped at 120 hours.

Thales has signed an agreement regarding anticipation of changes in employment, professional development and training that is applicable to all its French subsidiaries. This agreement stipulates the manner in which the statutory training entitlement can be exercised within the enterprise. It recalls that this entitlement guarantees employees access to training for their maintenance in employment or changes therein or for the development of their skills. In this respect, training initiatives contributing to the professional development of employees envisaged in the training programme are counted as part of the statutory training entitlement. In consequence, as the costs incurred benefit the enterprise, no provision has been recognised.

## NOTE 10 CURRENT OPERATING ASSETS AND LIABILITIES

The current operating assets and liabilities include the elements of working capital requirement (VCCR) and the reserves for contingencies. Their evolution is presented below.

Contracts under IAS 11 are subject to a specific classification in the consolidated balance sheet: for each contract, the balances of unbilled sales, work-in-progress and provisions for risks and charges are presented in the assets or liabilities in the "Construction Contracts" (note 14-d).

The Group may transfer trade receivables, mainly from the French State. At 31 December 2014, the transferred receivables amounted to €210.7 million (€136.3 million at 31 December 2013). The change in overdue payments on constant perimeter amounts to +€69 million in 2014 (+€130.3 in 2013).

As these transfers, which are without recourse in case of payment default by the debtor, involve the transfer of substantially all corresponding risks and rewards, those receivables are derecognised. The following risks and rewards are not transferred to the bank (within the meaning of IFRS 7): the dilution risk and the remuneration received under the recovery mandate.

## 10.1 Evolution of current operating assets and liabilities

	01/01/2013	Change in WCR and provisions	Ex. rate var. chg in scope and reclass.	31/12/2013	Change in WCR and provisions	Ex. rate var. chg in scope and reclass.	31/12/2014
Inventories and work-in-progress	2,111.2	43.1	(30.2)	2,124.1	188.7	124.8	2,437.6
Construction contracts: assets	2,029.5	15.6	(49.9)	1,995.2	(91.0)	92.2	1,996.4
Advances to suppliers	231.0	55.7	(1.5)	285.2	29.3	11.5	326.0
Accounts, notes & other current receivables	3,888.1	(94.9)	16.8	3,810.0	223.4	95.7	4,129.1
Derivative instruments – assets	119.1	57.6	(0.2)	176.5	(8.1)	(60.2)	108.2
<b>Current operating assets</b>	<b>8,378.9</b>	<b>77.1</b>	<b>(65.0)</b>	<b>8,391.0</b>	<b>342.3</b>	<b>264.0</b>	<b>8,997.3</b>
Advances received from cust. on contracts	(3,741.2)	(45.4)	47.3	(3,739.3)	220.5	(157.6)	(3,676.4)
Refundable grants	(148.1)	4.4	0.7	(143.0)	12.9	(0.3)	(130.4)
Construction contracts: liabilities	(1,267.9)	176.3	17.7	(1,073.9)	18.5	(16.9)	(1,072.3)
Reserve for contingencies	(1,156.2)	52.8	77.3	(1,026.1)	22.4	(34.3)	(1,038.0)
Accounts, notes & other current payables	(4,836.6)	55.3	34.4	(4,746.9)	(318.8)	(203.7)	(5,269.4)
Derivative instruments – liabilities	(92.5)	19.4	0.2	(72.9)	–	(209.3)	(282.2)
<b>Current operating liabilities</b>	<b>(11,242.5)</b>	<b>262.8</b>	<b>177.6</b>	<b>(10,802.1)</b>	<b>(44.5)</b>	<b>(622.1)</b>	<b>(11,468.7)</b>
<b>Restructuring provision<sup>(a)</sup></b>	<b>177.2</b>	<b>(39.2)</b>	<b>0.3</b>	<b>138.3</b>	<b>(10.7)</b>	<b>6.6</b>	<b>134.2</b>
<b>INCREASE (DECREASE) IN WCR &amp; RESERVES FOR CONTINGENCIES</b>		<b>300.7</b>			<b>287.1</b>		

(a) To be excluded from reserves for contingencies.

## 10.2 Construction contracts

Balances presented in the balance sheet are analysed as follows:

	31/12/2014	31/12/2013
Construction contracts: assets	1,996.4	1,995.2
Construction contracts: liabilities	(1,072.3)	(1,073.9)
<b>NET</b>	<b>924.1</b>	<b>921.3</b>

This balance is analysed as follows:

Work-in-progress on construction contracts	898.1	889.6
Unbilled receivables on construction contracts	1,346.0	1,326.2
Reserves for losses at completion on construction contracts <sup>(a)</sup>	(518.2)	(590.1)
Other reserves on construction contracts	(801.8)	(704.4)
<b>NET</b>	<b>924.1</b>	<b>921.3</b>
Advances received from customers on construction contracts	2,679.2	2,790.8

(a) The variations of reserves for losses at completion between 2013 and 2014 are mainly explained by the utilisation of reserves booked during the previous years.

### 10.3 Maturity of current receivables and payables

Balances presented in the balance sheet are analysed as follows:

	31/12/2014			31/12/2013
	Total	< 1 year	> 1 year	
Accounts and unbilled receivables, gross	3,019.6	2,803.5	216.1	2,585.9
Provisions on accounts & notes receivable	(109.2)	(71.3)	(37.9)	(103.6)
<b>Accounts and unbilled receivables, net</b>	<b>2,910.4</b>	<b>2,732.2</b>	<b>178.2</b>	<b>2,582.3</b>
Other tax receivables (excluding income tax)	923.6	605.6	318.0	924.2
Other debtors and prepaid expenses, gross	296.7	246.2	50.5	310.3
Related provisions	(1.6)	(1.9)	0.3	(6.8)
<b>Net</b>	<b>1,218.7</b>	<b>849.9</b>	<b>366.8</b>	<b>1,227.7</b>
<b>ACCOUNTS, NOTES AND OTHER CURRENT RECEIVABLES</b>	<b>4,129.1</b>	<b>3,582.1</b>	<b>547.0</b>	<b>3,810.0</b>
Accounts and notes payable	2,177.8	2,167.8	10.0	1,899.9
Accrued holiday pay and social	1,368.1	1,364.7	3.4	1,297.6
Other tax payables (excluding income tax)	657.7	656.3	1.4	603.6
Other creditors and accrued liabilities	1,065.8	984.4	81.4	945.8
<b>ACCOUNTS, NOTES AND OTHER CURRENT PAYABLES</b>	<b>5,269.4</b>	<b>5,173.2</b>	<b>96.2</b>	<b>4,746.9</b>

Changes in depreciations	31/12/2013	Net depreciation (reversal)	Utilisation	Scope, exch. And other	31/12/2014
Depreciation on accounts & notes receivable	(103.6)	(7.0)	8.9	(7.4)	(109.2)
Depreciation on other receivable	(6.8)	(0.7)	5.6	0.3	(1.6)

### 10.4 Reserves for contingencies (excluding construction contracts)

	31/12/2013	Increase	Utilisation	Reversal	Scope, exch. rate and other	31/12/2014
Restructuring <sup>(b)</sup>	138.3	92.7	(101.9)	(1.5)	6.6	134.2
Litigation	135.2	51.9	(18.0)	(23.2)	(3.4)	142.5
Guarantees	242.4	67.5	(77.7)	(20.8)	19.5	230.9
Losses at completion	51.6	56.8	(32.4)	(6.6)	(0.3)	69.1
Provisions on contracts	163.4	66.9	(34.5)	(24.5)	0.3	171.6
Other <sup>(a)</sup>	295.2	63.2	(59.8)	(12.5)	3.6	289.7
<b>TOTAL</b>	<b>1,026.1</b>	<b>399.0</b>	<b>(324.3)</b>	<b>(89.1)</b>	<b>26.3</b>	<b>1,038.0</b>

	01/01/2013	Increase	Utilisation	Reversal	Scope, exch. rate and other	31/12/2013
Restructuring <sup>(b)</sup>	177.2	70.7	(105.2)	(4.7)	0.3	138.3
Litigation	120.5	45.1	(19.2)	(2.9)	(8.3)	135.2
Guarantees	257.6	85.0	(64.3)	(26.0)	(9.9)	242.4
Losses at completion	72.8	35.2	(49.0)	(9.9)	2.5	51.6
Provisions on contracts	209.1	38.7	(29.3)	(10.2)	(44.9)	163.4
Other <sup>(a)</sup>	319.0	72.3	(61.3)	(17.8)	(17.0)	295.2
<b>TOTAL</b>	<b>1,156.2</b>	<b>347.0</b>	<b>(328.3)</b>	<b>(71.5)</b>	<b>(77.3)</b>	<b>1,026.1</b>

(a) Includes technical provisions of insurance companies, provisions for tax and social risks, liability guarantees, environment and other.

(b) The net restructuring costs are as follows:

	2014	2013
Increase in reserves during the period	(92.7)	(70.7)
Reversal in reserves during the period	103.4	109.9
Expenses during the period	(125.1)	(160.8)
<b>Restructuring costs net</b>	<b>(114.4)</b>	<b>(121.6)</b>

## 10.5 Bonds and warranties linked to commercial contracts

Within the context of its activity, the Group regularly responds to invitations to bid. When requested by the customer, bid bonds are delivered in order to demonstrate the definitive nature of the bid and to provide for indemnification to the customer if the Group fails to meet its commitments. At 31 December 2014, bid bonds issued amounted to €81.5 million (€57.6 million at 31 December 2013).

From the signature of a contract up until its completion, the Group may deliver performance bonds to its customers, using a bank as an intermediary, in order to guarantee the due and proper completion of the contract (and if not, to provide for payment of damages to the customer). At 31 December 2014, performance bonds amounted to €1,902.9 million (€1,624.9 million at 31 December 2013).

Technical, operational and financial costs incurred by the Group in order to meet its obligations are valued, on a contract-by-contract basis, and are included in the cost to completion of the contract. Otherwise, any potential risk is estimated, on a contract-by-contract basis, and provided for in the Group financial statements if necessary.

In order to finance contract completion, the Group receives advances from its customers, based on contractual terms that are booked as a liability in the balance sheet. In order to guarantee reimbursement of these advance payments if the contractual obligations are not met, the Group may deliver, at the customer's request, an advance payment bond. At 31 December 2014, advance payment bonds amounted to €1,882.0 million (€1,640.8 million at 31 December 2013).

During the contractual warranty period, the Group evaluates and accrues for warranty costs in order to guarantee the conformity of goods sold to the customer. In most cases, the provisional retention of payment contractually applied during this period can be replaced by setting up, using a bank as intermediary, a warranty retention bond. At 31 December 2014, warranty retention bonds amounted to €259.3 million (€214.3 million at 31 December 2013).

The maturity dates of these commitments are:

	< 1 year	1 to 5 year	> 5 year	Total
Bid bonds	77.4	4.1	–	81.5
Performance bonds	546.5	1,132.9	223.5	1,902.9
Advance payment bonds	782.8	904.3	194.9	1,882.0
Warranty retention bonds	170.4	45.1	43.8	259.3
Other bank bonds	61.9	17.5	80.6	160.0
<b>TOTAL</b>	<b>1,639.0</b>	<b>2,103.9</b>	<b>542.8</b>	<b>4,285.7</b>

In addition, Thales may, in support of its subsidiaries obligations, grant so-called "parent company guarantees" to third parties without using a bank as an intermediary. At 31 December 2014, these "corporate" guarantees amount to €12,767.7 million (€11,182.4 million at 31 December 2013).

These guarantees include all commitments given on behalf of Thales Alenia Space, which are subject to a counter guarantee of Finmeccanica up to its stake in the capital of Thales Alenia Space (33%).

## NOTE 11 CASH FLOWS

### 11.1 Changes in net cash (net debt)

	2014	2013
<b>Net cash (debt) at 1 January</b>	<b>1,077.3</b>	<b>929.9</b>
Net cash flow from operating activities	1,465.6	1,329.7
Changes in WCR and reserves for contingencies	(287.1)	(300.7)
Pensions recurrent contributions, interest and taxes paid	(234.5)	(194.1)
Net operating investments	(443.4)	(358.2)
<b>Operating Free cash-flow</b>	<b>500.6</b>	<b>476.7</b>
Acquisitions of subsidiaries	(378.2)	(44.0)
Disposal of subsidiaries	4.4	8.9
Reduction of UK pension deficits	(68.8)	(64.3)
Variation of loans	21.9	(14.3)
Dividends paid	(242.8)	(180.7)
Third party share in dividend distributions of subsidiaries	(130.9)	(31.9)
Treasury shares and exercise of subscription options	78.2	90.5
Net cash (debt) of acquired/disposed companies	33.6	3.4
Exchange rate variation: translation and financing operations	63.8	(74.2)
Debt/investments in shares (available-for-sale) and other	47.2	(22.7)
<b>NET CASH (DEBT) AT 31 DECEMBER (NOTE 6 .2)</b>	<b>1,006.3</b>	<b>1,077.3</b>

### 11.2 Operating investment

Only acquisitions and disposals of tangible and intangible assets that resulted in a cash flow are presented in the cash flow statement. This may include capitalisation of development costs (note 4.2).

### 11.3 Net financial investment

<b>■ ACQUISITIONS OF SUBSIDIARIES</b>	<b>2014</b>	<b>2013</b>
Live TV	(287.4)	–
Activities of cyber security and secure communications of Alcatel lucent	(37.7)	–
Capital increase of the joint-venture ACSI	(12.5)	–
Cloudwatt: partial release of capital	(8.9)	–
Space activities in the UK (SEA)	(6.2)	–
Remaining earn-out of Sysgo AG	(5.3)	–
Additional acquisition of Amper Programmas (51%)	(4.0)	–
Capital increase of a real estate company (SMBPE)	–	(16.1)
Capital increase of Thales CETC Avionics Co Ltd	–	(7.8)
Capital increase of Air Tanker	–	(7.1)
Other	(16.2)	(13.0)
<b>NET INVESTMENT</b>	<b>(378.2)</b>	<b>(44.0)</b>
<b>■ DISPOSALS OF SUBSIDIARIES</b>	<b>2014</b>	<b>2013</b>
Repayment of FCPR Thales Ventures	1.5	6.6
Other	2.9	2.3
<b>NET DISPOSAL</b>	<b>4.4</b>	<b>8.9</b>



## NOTE 12 LITIGATION

Due to the nature of its business activities, Thales is exposed to the risk of technical and commercial litigation.

To prevent disputes or limit their impact, Thales policy is to systematically seek alternative methods of settlement. This policy is reviewed on a regular basis to take into account changes in the Company's core areas of business and is backed by employee training programmes.

In addition, Thales implemented a procedure several years ago to centralise all civil and criminal litigation and claims. These are handled by the Legal and Contracts Department, with the support of the Group companies concerned.

At the end of 2002, a group of French manufacturers, including Thales and one of its subsidiaries, collectively received a request for arbitration relating to the execution of old contracts. In proportion to each Industrial partner's involvement, Thales would have been liable for around 20% of the total claim of \$260 million. Under an agreement signed in 2003, the client withdrew its request for arbitration.

In November 2012, the claimant filed a new request for arbitration for a revised amount of €226 million. Industrial Partners are strongly challenging this claim and at this date it is not possible to evaluate any potential financial risk. Consequently, Thales has not recognised any provision. This procedure is still in process.

## NOTE 13 EVENTS AFTER REPORTING PERIOD

No significant events after reporting period.

## NOTE 14 ACCOUNTING POLICIES

### a) Presentation of the financial statements

#### Consolidated Profit and Loss account

Expenses in the income statement are presented analytically by destination.

Income from operations is equal to income of operating activities before taking into account:

- gains and losses on disposal of intangible or tangible assets, businesses or investments;
- impact of changes in the scope on the consolidated net income (note 14-c);
- impact of curtailments/settlements of pension plans and other long-term benefits;
- impairment of non-current operating assets;
- other operating income (expense) resulting from events that are unusual because of their frequency, their nature and their amount.

#### Consolidated Balance Sheet

A significant portion of the Group's activities in its different business segments has long-term operating cycles. Accordingly, assets (liabilities) that are usually realised (settled) within the entities' operating cycles (inventory, accounts receivable and payable, advances, reserves, etc) are classified in the consolidated balance sheet as current assets and liabilities, without distinction between the amounts due within one year and those due after one year.

#### Consolidated statement of Cash Flows

The statement of the cash flows enables the analysis of the balance sheet items "Cash at bank and equivalents", as defined in the note 14-j. The

statement of cash flows is prepared using the indirect method, starting with the consolidated net income and is broken down into three categories:

- net cash flows from operating activities (including interest and taxes);
- net cash flows from investing activities, including net operating investment (acquisition and disposal of tangible and intangible assets, capitalisation of development costs) and net financial investment;
- net cash flows from financing activities including dividends paid, capital subscriptions in the context of the exercise of options by employees, purchase/sales of treasury shares, issuance and repayment of financial debts, changes in bank overdrafts.

The Group also presents the changes in its net cash, which is a non-GAAP balance and includes gross financial debt, net of cash at bank, cash equivalents and investments immediately available. The change in net cash, presented in note 11.1, particularly underlines the "operating Free cash-flow", which is defined by the net cash flows from operating activities reduced by the net operating investment, plus the payment of the UK pension deficits.

#### Segment information

The Group is organised along three Business Sectors that operating performances, from internal reporting, are regularly reviewed by the Chairman and Chief Executive Officer, together with the Senior Executive Vice-President Chief Finance Officer, in order to allocate resources on this basis. Those sectors are described below:

- the Aerospace operating segment combines the "Avionics" and "Space" Global Business Units that develop on-board systems, solutions and services especially with non governmental customers (aircraft manufacturers, airlines, satellite operators...) and also, to a lesser extent, with governmental

customers (states, space agencies and other paragonovernmental organisations);

- the *Transport* operating segment comprises the "Ground Transportation Systems" Global Business Unit that develops systems and services for an exclusively civil customer base of ground transportation infrastructure operators;
- the *Defence and Security* operating segment combines the "Secure Communications and Information Systems", "Land and Air Systems" and "Defence Mission Systems" Global Business Units that develop equipments, systems and services for the armed and security forces as well as the protection of networks and infrastructures, with an almost exclusively governmental defense customer base.

The indicators regularly reviewed by the Group's executives follow the same accounting policies as those used for the consolidated financial statements, with the following exceptions:

- **EBIT** corresponds to income from operations added to the share in net income of equity affiliates excluding the amortisation of intangible assets acquired (Purchase Price Allocation *PPA*) recorded when significant businesses are combined;
- The **adjusted net income** is regarded as relevant by the Group because it enables non-recurring items to be excluded. It corresponds to the consolidated net income attributable to shareholders of the parent company, less the following elements, net of the corresponding tax impacts:
  - amortisation of intangible assets acquired (*PPA*),
  - disposal of assets, changes in scope of consolidation and other,
  - changes in fair value of derivative foreign exchange instruments, recognised in "other financial income",
  - actuarial gains and losses on long-term benefits, included in "finance cost on pensions and other long-term benefits";
- The **adjusted net income per share** corresponds to the adjusted net income attributable to shareholders of the parent company, divided per the average number of outstanding shares during the considered period.

## Commitments and Contingencies

Information regarding commitments and contingencies are presented in the following notes:

- note 4.4: commitments related to operation leases;
- note 9.6: social commitments, French statutory training entitlement;
- note 10.5: bonds and warranties linked to commercial contracts.

## Related parties

The Group has identified the following related parties: shareholders of Thales (parent company), especially the French State and Dassault Aviation,

companies controlled by the same shareholders, companies under joint control, companies under significant influence, directors and senior corporate officers.

The main provisions concerning the shareholders' agreement (governing relations between Public Sector and the Industrial Partner within Thales), the convention on the protection of national strategic interests and the specific convention are described in part 3 of the 2013 registration document, which remain the same in 2014.

The information related to transactions with related parties are presented in the following notes:

- sales with the French State (mainly with DGA: French defence procurement agency) in note 6.5-b;
- transactions with companies under joint control and their joint shareholders in note 5.1-f.

The transactions with the other related parties are not significant.

Expenses recognised in respect of compensation, benefits and social security contributions attributable to directors and members of the Executive Committee are presented in note 9.5.

## b) Foreign currencies

### Presentation currency for the consolidated financial statements

The Group's consolidated financial statements are presented in euros.

### Functional currency

The functional currency of an entity is the currency of the economic environment in which it primarily operates. In most cases, the functional currency is the local currency. However, for certain entities the functional currency may be different from the local currency since it reflects the currency of the main tradings and of the economic environment of the entity.

### Financial statements translation of foreign subsidiaries which functional currency is different from euro (presentation currency)

The financial statements of companies which functional currency is different from euro are translated using the following methods:

- balance sheet items are translated at the exchange rates prevailing at balance sheet dates;
- profit and loss items and the statement of cash flows are translated at the average exchange rates for the year;
- translation adjustments are directly recognised in equity as comprehensive income within the "cumulative translation adjustment" account, then reclassified in profit and loss at the date of disposal.

Main closing and average exchange rates used for translation purposes:

Euros	31/12/2014		31/12/2013		31/12/2012	
	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
Australian Dollar	1.4829	1.4723	1.5423	1.3936	1.2712	1.2447
Sterling Pound	0.7789	0.8031	0.8337	0.8501	0.8161	0.8119
U.S. Dollar	1.2141	1.3211	1.3791	1.3308	1.3194	1.2932

In addition, the Group owns foreign currency-denominated financial instruments in order to hedge its net investment in foreign subsidiaries. The corresponding translation differences are recognised through equity under the "cumulative translation adjustment" caption until the date of disposal. On this date, they will be recognised in profit and loss.

## Translation of transactions in foreign currencies

Transactions in foreign currencies are translated at the exchange rate prevailing at the transaction date. At each accounting closing date:

- non-monetary assets and liabilities denominated in foreign currencies are recorded at the historical rate prevailing on the date of the transaction;

- monetary assets and liabilities denominated in foreign currencies are translated at the closing rate. The resulting exchange differences are recognised in exchange profit or loss account. However if the monetary assets and liabilities are an additional net investment in a foreign operation, the exchange differences are directly recognised in equity.

The Group uses derivative instruments to hedge the foreign exchange risk associated with its activities. When a hedge is shown to be effective, hedge accounting is applied in the following manner:

- the change in the fair value of the hedging instrument is recognised directly in equity for the effective portion of the hedge until such time as the hedged flows affect profit and loss. The ineffective portion is recognised in profit and loss;
- the amount of the foreign currency denominated transaction is subsequently translated at the exchange rate prevailing at the date of the hedge.

Changes in the fair value of premiums or discounts related to forward foreign currency contracts, as well as the time value of foreign currency options, are recognised in "other financial income (expense)" as they are excluded from the hedging relationship.

## c) Scope of consolidation and changes in scope

### Scope of consolidation

The financial statements of significant subsidiaries directly or indirectly controlled by Thales have been fully consolidated.

The control exists when the Group has power over the entity acquired (or created), is exposed or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of significant joint ventures by Thales or in which the Group has significant influence (associates) are accounted for under the equity method.

A joint venture is a joint arrangement whereby the parties (joint venturers) that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is defined as the contractually agreed sharing of control over an entity that exists only in cases where decisions about the relevant activities require the unanimous consent of the parties sharing the control.

The significant influence is characterised by the right to take part in decisions concerning financial and operating policies of the entity, without controlling or jointly controlling these policies.

Transactions between fully consolidated companies are eliminated, whether or not they affect consolidated profit and loss. The gains and losses from transaction between a fully consolidated company and a joint venture or an associate are only accounted for, in the consolidated statements of the Group, to the extent of the interest held by a third party in the joint venture or the associate.

### Business combination

Business combinations are accounted for under the acquisition method as described in the IFRS 3 standard. Under this method, the Group recognises assets acquired and liabilities taken identifiable at their fair value, at their date of takeover, and any non-controlling interest in the acquiree.

Those non-controlling interests are measured either at fair value or at the proportionate share of the identifiable net assets. The Group determines case-by-case the option they wish to apply.

Acquisition-related costs (valuation fees, consulting fees...) are recognised in profit and loss within other operating expenses as incurred.

Any contingent consideration assumed in a new business combination is measured at fair value at the acquisition date even if it is not probable. Subsequent changes to the fair value of the contingent consideration beyond

twelve months from the acquisition date will be recognised in the profit and loss account.

The goodwill is measured as the difference between the fair value of the consideration transferred, plus the amount of any non-controlling interests in the acquiree and the net fair value of the identifiable assets acquired and the liabilities assumed on the acquisition date. Goodwill can be adjusted in the twelve months following the acquisition date to take into account definitive estimates of the acquired assets and liabilities recognised.

Negative goodwill is immediately recognised in "other operating income (expense)". Goodwill related to controlled companies is recognised in balance sheet assets under the "intangible assets" caption. Goodwill related to companies accounted for under the equity method is recognised under the "share in net assets of equity affiliates" caption.

Goodwill is not amortised but is subject, each year, to impairment. Goodwill impairment is booked as an expense in the line "impairment of non-current operating assets" and cannot be reversed. Goodwill impairment related to equity affiliates is accounted for in "share in net income (loss) of equity affiliates" and can be reversed.

## Step acquisition and changes in a parent's ownership interest in a subsidiary:

In the context of a step acquisition, an acquirer must measure again any equity interest it holds in the acquiree immediately before achieving control at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss.

When an interest in an associate becomes an interest in a joint venture and conversely the equity method is still used and these changes in interests don't need to be measured again at the fair value.

Loss of control is accounted for in gain or loss at disposal which is calculated on the whole stake owned at the transaction date. The investment remaining in the former subsidiary is measured at its fair value through the profit and loss account at the date when the control is lost.

Changes in a parent's ownership interest in a subsidiary that do not result in a change of control (added acquisition or disposal) are accounted for as changes in equity (transactions between the Group and the minorities), with no impact on profit or loss account.

## d) Sales

The Group's sales can be divided into two main accounting categories: sales of goods and services, and construction contracts.

Sales are measured at the fair value of the consideration received or receivable. When the deferral of payment has a material effect on the determination of such fair value, the amount at which sales are recognised is adjusted to take the financial impact of the deferral of payment into account.

### Sales of goods and services

Sales from the sales of goods and services together with royalty and licence income are recognised when the future economic benefits will likely flow to the Group and when the amount of sales can be measured reliably. The following specific criteria must also be satisfied in order for sales to be recognised:

- sales from the sale of goods are recognised when the Company has transferred the principal risks and rewards inherent to ownership of the goods to the purchaser;
- sales related to the rendering of services are recognised according to the percentage-of-completion of the transaction.

The costs related to the service provided (sale of goods or services rendered) are recognised in the statement of income at the same time as the corresponding sales.

## Construction contracts

A construction contract is a contract specifically negotiated for the construction of an asset or of a group of assets, which are interrelated in terms of their design, technology, function, purpose or use.

According to its characteristics, a notified construction contract can either be accounted for separately, be segmented into several components which are each accounted for separately, or be combined with another construction contract in progress in order to form a single construction contract for accounting purposes in respect of which sales and expenses will be recognised.

Sales and expenses on construction contracts are recognised in accordance with the technical percentage of completion method. However, when there is no significant time difference between technical percentage of completion and contractual dates of transfer of ownership, the percentage of completion is determined according to the contractual transfer of ownership.

Penalties for late payment or relating to improper execution of a contract are recognised as a deduction from sales. In the balance sheet, provisions for penalties are deducted from assets related to the contract.

Expected losses on contracts are fully recognised as soon as they are identified.

Selling, administrative and interest expenses are directly charged to the profit and loss account in the financial year in which they are incurred.

Estimates of work remaining on loss-making contracts do not include sales from claims made by the Group, except when it is highly probable that such claims will be accepted by the customer.

Progress payments received on construction contracts are deducted from contract assets as the contract is completed. Progress payments received before the corresponding work has been performed are classified in "Advances received from customers on contracts" in balance sheet liabilities.

The cumulative amount of costs incurred and profit recognised, reduced by recognised losses and progress billings, is determined on a contract-by-contract basis. If this amount is positive it is categorised as "Construction contracts: assets" in balance sheet assets. If it is negative it is categorised as "Construction contracts: liabilities" in balance sheet liabilities.

### e) Inventories and work-in-progress

In the consolidated balance sheet, work-in-progress related to construction contracts is included in the "Construction contracts: assets" caption or the "Construction contracts: liabilities" caption.

Inventories and work-in-progress are carried at their production cost (determined using the FIFO or weighted-average cost method) and depreciated when the cost is higher than their net realisable value. Work-in-progress, semi-finished and finished goods are stated at direct cost of raw materials, production labour and subcontract costs incurred during production, plus an appropriate portion of production overhead costs and of any other costs that can be directly allocated to contracts.

When significant, the cost of debt incurred during the construction of a qualifying asset is incorporated in the value of the asset. When the funding is specific, the loan rate is used, otherwise the Group's rate is used.

### f) Research and development expenses

A significant share of research and development expenses is funded by customers and government agencies. Internally funded research and development expenses are charged to the profit and loss account as incurred, except for project development costs which meet the criteria below. In this case, the development costs are capitalised in the balance sheet:

- the product or process is clearly defined, and costs are separately identified and reliably measured;

- the technical feasibility of the project is clearly demonstrated, and the Group's experience in this area is established;
- adequate resources are available to complete the project successfully;
- a potential market for the products exists or their usefulness, in case of internal use, is demonstrated;
- the Company intends to produce and market, or use the new product or process, and can demonstrate its profitability. Profitability is assessed on the basis of prudent commercial assumptions in order to reflect contingencies inherent to the long cycles of the Group's activities, in particular Aerospace. Minimum internal rates of return are required in the case of projects deemed risky.

Capitalised development costs mainly relate to Aerospace and Security activities, for which the products developed are relatively generic and can be sold to a larger number of potential customers. By contrast, development costs linked to Defence activities are for more specific and restricted markets with a more limited number of players: the specific features of the products developed make it harder to share development work and therefore harder to capitalise the associated costs.

Development costs are then amortised over the useful life of the product. The method of amortisation is generally determined by reference to expected future quantities over the period in which future economic benefits will be earned. If the method cannot be determined reliably, linear amortisation is adopted. The period of amortisation depends on the type of activity.

Assets are also subjected to impairment loss tests. The terms and assumptions taken into account to conduct these tests are described in notes 4 and 14-i. These impairment losses can be reversed. Impairment losses reversal criteria are identical to those retained when first capitalising development costs on a new project.

The Group benefits from tax credits related to research carried out by its subsidiaries. Such tax credits are considered as operating grants and are thus included in the income from operations, when their obtention does not depend on the realisation of a taxable income. Should the opposite occur, they are recorded in deduction of the income tax expense.

### g) Restructuring

Provisions for restructuring costs are made when restructuring programs have been agreed and approved by Group management and have been announced before the balance sheet date, resulting in an obligating event of the Group to the third parties in question, as long as the Group does not expect consideration for these costs.

Such costs primarily relate to severance payments, costs for notice periods not worked and other costs linked to the closure of facilities such as write-offs of fixed assets. These costs and the costs directly linked to restructuring measures (removal costs, training costs of transferred employees, etc) are recognised under the "restructuring costs" caption in the profit and loss account.

### h) Tangible and intangible fixed assets

#### Intangible assets

The Group's intangible assets mainly include:

- goodwill (note 14-c);
- assets acquired in business combinations, primarily acquired technologies, customer relationships and the order backlog. These assets are recognised at fair value and amortised over their useful lives. The fair value of the assets is based on the market value. If no active market exists, the Group uses methods based on forecasts of the present value of the expected future operating cash flows (excess earnings method, royalty method...);

- capitalised development costs (note 14-f).
- Intangible assets are submitted to impairment tests (see note 14-i).

### Tangible assets

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Depreciation of tangible fixed assets is generally calculated on the basis of the following typical useful lives:

- 20 years for buildings;
- 1 to 10 years for plant and equipment;
- 5 to 10 years for other tangible fixed assets (vehicles, fixtures, etc).

The depreciable amount takes into account the residual value of the asset. The different components of tangible fixed assets are recognised separately when their estimated useful lives or patterns of use, and thus the period over which they are depreciated or the depreciation methods applicable to them, are materially different.

Borrowing costs that are directly attributable to the acquisition or construction of an asset are capitalised as part of the cost of that asset.

Assets acquired through finance lease arrangements that transfer substantially all the risks and rewards associated with ownership of the asset are recognised in the balance sheet at their fair value or, if lower, at the present value of the minimum lease payments. Such assets are depreciated in accordance with the methodology described above. The corresponding debt is recognised in liabilities.

### i) Impairment of non-current assets

Every time events or circumstances indicate that a tangible or an intangible asset may be impaired, and systematically at each annual balance sheet date for goodwill and intangible assets with indefinite useful lives, impairment tests are performed. These assets (mainly goodwill and intangible assets relating to business combination) are allocated to cash generating units (CGU). The scope of a CGU cannot be broader than that of an operational division, before aggregation if any, as defined by IFRS 8.

These tests consist in ensuring that the recoverable amount of each of the Group's CGU is at least equal to the corresponding net assets (including goodwill). The recoverable amount of an asset is the highest of its fair value less costs to sell and its value in use. Value in use is determined on the basis of discounted future operating cash flows over a three-year period and a terminal value. This calculation is based on data from the strategic plans prepared in accordance with Group procedures.

The discount rate used is calculated on the basis of the Group's weighted average cost of capital adjusted if necessary for the specific risks attributable to each business sector. This rate is mainly based on the market risk-free rate, on risk factors inherent in the Group's businesses, on the Group's marginal interest rate and on specific risks for which cash flows have not been adjusted.

Assumptions used concerning growth in sales and terminal values are based on a reasonable approach in line with specific data available for each business sector (generally terminal value is based on the weighted average of the income from operations from the three-year strategic plans and the growth is limited to 2%).

Impairment tests of capitalised development costs (note 14-f) are performed, project by project, on the basis of discounted future operating cash flows related to the project.

### j) Financial assets, financial liabilities and derivatives

#### Financial assets

Financial assets are initially recorded at fair value. They are later estimated at either fair value or amortised cost, depending on the category they fall into, as defined by IAS 39:

- investments are designated as "available-for-sale" assets and measured at fair value. As the Group holds no listed companies on regulated market, the fair value is determined using valuation models provided by independent third parties, or by reference to the net equity contribution held by the Group. Failing this, securities are recognised at cost. Changes in fair value are recognised directly in equity. If an impairment indicator is identified, impairment is recognised in "other financial income (expense)". Such impairments are only written back to profit and loss at the date of disposal of the security in question;
- receivables and financial loans are recognised at amortised cost. They are subject to impairment if an impairment indicator is identified. Such impairment, recognised in the "other financial income (expense)" caption, can subsequently be reversed through profit and loss if the conditions which led to the impairment loss being recognised cease to exist;
- other financial assets are estimated at fair value, with variations recognised in the P&L account. They include money market funds and other mutual funds, and interest rates products (certificates of deposit, term deposits, medium-term negotiable notes...);
- "Cash at bank and equivalents" includes cash at bank and in hand as well as cash equivalents (short-term and liquid investments that are easily converted into a known amount of cash and exposed to negligible risk of a change in value).

#### Financial liabilities

Borrowings and other financial liabilities are measured at amortised cost using the effective borrowing rate of interest. Upon initial recognition, premiums, redemption and issuance costs are recorded as an increase of the nominal value of the loans concerned. These premiums and issuance costs are included in the calculation of effective interest rate and are recognised in the income statement on an actuarial basis over the life of the loan.

#### Derivatives

The Group uses financial instruments to manage and reduce its exposure to risks of changes in interest rates and foreign exchange rates. Derivatives are stated at their fair value in the balance sheet. In order to be eligible for hedge accounting, financial instruments must have the two following characteristics:

- at the date of origination of the financial instrument, the existence of a hedging relationship must be formal and documented;
- the hedge must be expected to be effective. Effectiveness must be measurable in a reliable manner, and must be demonstrable, over the entire period of the hedge relationship as initially determined.

Accounting policies in respect of foreign exchange derivatives are presented in note 14-b. Financial instruments relating to interest rate hedges are hedge-accounted as either fair value hedges or cash flow hedges:

- a fair value hedge is a hedge of the exposure to changes in the value of assets and liabilities;
- a cash flow hedge is a hedge of the exposure to changes in the value of future cash flows (unknown future interest flows payable on existing variable rate borrowings or on highly probable future borrowing issues, for example).

In the case of fair value hedge relationships, the financial liabilities hedged by the interest rate derivatives are remeasured to the extent of risk hedged. Changes in value of hedged item are recognised in profit and loss of the period and are offset by symmetrical changes of the interest rate derivatives.



In the case of cash flow hedge relationships, changes in fair value of interest rate derivatives shown in the balance sheet are recognised directly through equity, for the effective portion thereof, until the hedged flows affect profit and loss.

## k) Deferred taxation

Thales recognises deferred taxes when the tax value of an asset or liability differs from its book value. The effects of changes in the corporation tax rate are recorded in the profit and loss account for the financial year in which the change was decided, unless the underlying transactions were recognised directly through equity. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are not recognised in the balance sheet if the company concerned does not reasonably expect to recover the tax asset. To assess its ability to recover deferred tax assets, the Group takes into account future taxable results of the tax entities concerned on a generally five-year forecast, non-recurring past events and tax strategies specific to each country.

## l) Pension and other long-term benefits

In accordance with local legislation and practice in the countries in which it operates, the Group grants its employees post-employment benefits (pensions, retirement awards, medical care, etc) and other long-term benefits (long-service benefits, long-service awards on departure, etc). For defined contribution schemes and state plans, contributions paid by the Group are in full discharge of the Group's liability and are recognised as an expense for the period.

Under the defined benefit plans, the Group measures and recognises the corresponding commitments as follows:

- obligations under defined benefit plans are measured by independent actuaries using the projected unit credit method on the basis of estimated salaries at the date of retirement. The calculations mainly take into account assumptions concerning financial discounting, inflation, mortality, staff turnover rates;
- changes in actuarial assumptions and experience adjustments – corresponding to the effects of differences between previous actuarial assumptions and what has actually occurred – give rise to actuarial gains and losses:
  - actuarial gains and losses regarding post-employment benefits are fully recognised in “Other comprehensive income”, and not subsequently taken to P&L. Where appropriate, adjustments from the ceiling to net assets relating to overfunded plans follow the same method,
  - actuarial gains and losses regarding other long-term benefits are recognised immediately in the financial result (note 9.3);
- past service cost and reductions/settlements of plans are fully recognised in the profit and loss accounts in the period in which they occurred, within the operating income (note 3);

- net interest expense, determined based on the discount rate of obligations, is recognised in the financial result.

## m) Share-based payments

### Plans of free shares settled in shares

Between 2007 and 2013 Thales granted free shares and/or performance shares to its employees. These allotments resulted in an expense representing the fair value of services received at the grant date. This payroll expense is recognised against equity.

The fair value of the services received is calculated by reference to the fair value of the shares at the grant date, less the present value of dividends forfeited by employees during the vesting period, taking into account the presence conditions.

Internal performance conditions are taken into account only by means of an adjustment in the projected number of instruments acquired by employees at the end of the vesting period. Therefore, they are not taken into account in the fair value estimate of the instruments granted, which is determined at grant date.

The expense is recognised on a straight-line basis over the vesting period. The expense is adjusted over the vesting period to reflect any losses of rights.

### Share unit plans indexed to the value of the Thales share

A share unit plan indexed to the value of the Thales share and of which some are performance shares, was implemented in 2014. At the maturity date the beneficiaries will receive the value about half of which is determined in lieu of payment of shares and cash-settled share-based payment.

The proportion delivered in shares follows the same accounting policies as those applied to plans of free shares. The accounting treatment applicable to cash-settled share-based payment is governed by IFRS 2. Under this policy, the services acquired and the liability incurred are measured at fair value. Until the liability is settled, debt is remeasured at each reporting date and at the date of settlement, with any changes in fair value recognised in income of the period. The remeasurement of the liability at the reporting date takes into account any changes in the value of the underlying shares, as well as whether or not the presence conditions and performance criteria have been met.

The payment of compensation is subject to presence conditions, the corresponding expense is recorded over the vesting period on a straight-line basis.

### Company savings plans

Employee share offerings with a discount to the market price proposed within Company savings plans do not include any vesting period of the rights but they are subjected to a legal five-year lock-up period. Valuation of the advantage granted to the employees takes into account the cost of the five-year lock-up period.

The expense related to share based payments is included in income from operations and a corresponding credit is recognised increasing retained earnings. Thus it has no effect on the overall amount of equity.

## NOTE 15 FEES PAID TO AUDITORS

The fees paid to auditors in 2013 and 2014 are presented in the table below<sup>(a)</sup>:

	Mazars				Ernst & Young Audit			
	Amount pre-tax		%		Amount pre-tax		%	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>Audit</b>								
Auditing, certification, examination of individual and consolidated accounts <sup>(b)</sup>								
■ Issuer	695	695	13%	13%	770	804	15%	15%
■ Subsidiaries fully consolidated	4,123	3,905	75%	73%	3,596	3,916	71%	70%
Other efforts and services directly associated with the assignment of auditor <sup>(c)</sup>								
■ Issuer	302	256	5%	5%	106	140	2%	2%
■ Subsidiaries fully consolidated	410	506	7%	9%	318	360	7%	7%
<b>Sub-total</b>	<b>5,530</b>	<b>5,348</b>	<b>100%</b>	<b>100%</b>	<b>4,790</b>	<b>5,220</b>	<b>95%</b>	<b>94%</b>
<b>Other services rendered by the networks subsidiaries fully consolidated<sup>(d)</sup></b>								
Legal, tax-related, social-security-related	5	11	–	–	272	342	5%	6%
Other (if > 10% of audit fees)	–	–	–	–	–	–	–	–
<b>Sub-total</b>	<b>5</b>	<b>11</b>	<b>–</b>	<b>–</b>	<b>272</b>	<b>342</b>	<b>5%</b>	<b>6%</b>
<b>TOTAL</b>	<b>5,535</b>	<b>5,359</b>	<b>100%</b>	<b>100%</b>	<b>5,062</b>	<b>5,562</b>	<b>100%</b>	<b>100%</b>

(a) With regard to the period under consideration, these are services performed in respect of a financial year charged to the Income Statement.

(b) Including the services of independent experts or members of the auditors' network which the auditor uses in connection with certifying the financial statements.

(c) This heading includes diligences and services directly associated that are rendered to the issuer or its subsidiaries:

- by the auditor in compliance with the provisions of article 10 of the French Code of Conduct for statutory auditors;
- by a member of the network in compliance with the provisions of articles 23 and 24 of the French Code of Conduct for statutory auditors.

(d) These are services not relating to certification rendered, in compliance with the provisions of article 24 of the French Code of Conduct for statutory auditors, by a member of the network to the subsidiaries of the issuers whose financial statement are being certified.

## NOTE 16 OTHER DISCLOSURES

The German group companies Thales Transportation Systems GmbH, Thales Security Solutions & Services GmbH, Electronic Signalling Services (ESS) GmbH and Thales Immobilien Deutschland GmbH, all located at 1 Thalesplatz, 71254 Ditzingen have claimed an exemption from their obligation to publish their respective German financial statements for the fiscal year 2014 by reference to section 264 paragraph 3 German Commercial Code.

## NOTE 17 LIST OF MAIN CONSOLIDATED COMPANIES

(excl. Thales, the parent company)

		% stake	
	Country	31/12/2014	31/12/2013
1. Consolidated subsidiaries			
LiveTV LLC	United States	100%	–
TDA Armements SAS	France	100%	100%
Thales Alenia Space SAS	France	67%	67%
Thales Alenia Space Italia SpA	Italy	67%	67%
Thales Air Systems SAS	France	100%	100%
Thales Australia Ltd	Australia	100%	100%
Thales Austria GmbH	Austria	100%	100%
Thales Avionics SAS	France	100%	100%
Thales Avionics Inc.	United States	100%	100%
Thales Avionics Electrical Systems SAS	France	100%	100%
Thales Canada Inc.	Canada	100%	100%
Thales Communications & Security SAS	France	100%	100%
Thales Defense & Security, Inc.	United States	100%	100%
Thales Electronic Systems GmbH	Germany	100%	100%
Thales Espana Grp, S.A.U.	Spain	100%	100%
Thales Electron Devices SAS	France	100%	100%
Thales Italia SpA	Italy	100%	100%
Thales Nederland B.V.	Netherlands	99%	99%
Thales Norway A.S.	Norway	100%	100%
Thales Optronique SAS	France	100%	100%
Thales Transportation Systems GmbH	Germany	100%	100%
Thales Ground Transportation Systems UK Ltd	United Kingdom	100%	100%
Thales-Raytheon Systems Company SAS <sup>(a)</sup>	France	50%	–
Thales Services SAS	France	100%	100%
Thales Solutions Asia Pte Ltd	Singapore	100%	100%
Thales Systèmes Aéroportés SAS	France	100%	100%
Thales Transport & Security Ltd	United Kingdom	100%	100%
Thales Training & Simulation SAS	France	100%	100%
Trixell SAS <sup>(a)</sup>	France	51%	–
Thales Underwater Systems SAS	France	100%	100%
Thales UK Ltd <sup>(b)</sup>	United Kingdom	100%	100%
2. Joint control (under equity method)			
Air Command Systems International SAS (ACSI)	France	50%	50%
Citylink Telecommunications Holding Ltd	United Kingdom	33%	33%
DCNS	France	35%	35%
Diehl Aerospace GmbH	Germany	49%	49%
Junghans Microtec GmbH	Germany	45%	45%
Samsung Thales Co. Ltd	South Korea	50%	50%
Sofradir SAS	France	50%	50%
Thales-Raytheon Systems Company LLC <sup>(a)</sup>	United States	–	50%
Thales-Raytheon Systems Company SAS <sup>(a)</sup>	France	–	50%
Trixell SAS <sup>(a)</sup>	France	–	51%



	Country	% stake	
		31/12/2014	31/12/2013
<b>3. Significant influence (under equity method)</b>			
Aviation Communications & Surveillance Systems	United States	30%	30%
Airtanker Holdings Ltd	United Kingdom	13%	13%
Cloudwatt	France	22%	22%
Elettronica SpA	Italy	33%	33%
ESG Elektroniksystem- und Logistik GmbH	Germany	30%	30%
Thales-Raytheon Systems Company LLC <sup>(a)</sup>	United States	50%	–
Telespazio SpA	Italy	33%	33%

(a) Further to the change in shareholders' agreement leading to the exclusive control of Thales-Raytheon Systems Company SAS and Trixell SAS, in accordance with IFRS 10 (note 3).

(b) In 2014 Thales UK Ltd includes activities of former Thales Air Defence Ltd, Thales Avionics Ltd, Thales Naval Ltd, Thales Optronics Ltd, Thales Underwater Systems Ltd and Thales Training & Simulation Ltd.

## 1.2.7 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

This is a free translation into English of the statutory auditors' report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users.

The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.

This report also includes information relating to the specific verification of information given in the group's management report. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

Year ended 31 December 2014

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended 31 December 2014, on:

- the audit of the accompanying consolidated financial statements of Thales;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

### I - Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the group as at 31 December 2014 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention to:

- the note 1.1.a "Analysis of the new standards", that exposes the impact of the first application of IFRS 10, IFRS 11 and IFRS 12 standards;
- the note 5.1.d "DCNS summarized financial information", which describes the financial closing process as at 31 December 2014 of DCNS.

### II - Justification of our assessments

In accordance with the requirements of Article L.823-9 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

As stated in note 1.3 "Main sources of estimates" to the consolidated financial statements, the group's management is required to make estimates and assumptions that affect certain amounts included in the consolidated financial statements of the group and the accompanying notes to these consolidated financial statements. These assumptions are by nature uncertain, and the actual figures may vary from these estimates under the circumstances anticipated in note 1.3 "Main sources of estimates" to the consolidated financial statements.

We considered that the items that have been subject to significant accounting estimates, and which are likely to require justification of our assessments, include construction contracts, impairment tests relating to acquisition goodwill, deferred tax assets valuation, provisions for pension plans and related contingency, litigation and contingency provisions.

#### Customers' contracts

Your company recognises income on its contracts, and in particular on its construction contracts in accordance with the methods set out in note 14.d "Accounting policies - Sales" to the consolidated financial statements. Such income is based on estimates of income on completion made by the project managers, according to the group's procedures and under the control of group's management.

Based on the information provided to us at the time of our audit, our work consisted in assessing the data and assumptions used to estimate the income on completion for these contracts, comparing the amounts of income on completion from previous financial periods with the corresponding actual figures, and checking that the notes to the financial statements provide appropriate information.

#### Acquisition goodwill

Acquisition goodwill, which appears in the balance sheet as at 31 December 2014 for a net amount of €3,212.6 million, was subject to impairment tests in accordance with the methods set out in note 14.i "Accounting policies - Impairment of non-current assets" to the consolidated financial statements. We reviewed the methods for carrying out these tests, based on discounted cash-flows of the business activities, verified the consistency of the assumptions used with the forecast data taken from the strategic plans drawn up for each of the business activities under the group's control and checked that notes 4.1 "Goodwill" and 4.3 "Impairment of non-current operating assets" provide appropriate information.

#### Deferred tax assets

As stated in notes 14.k "Accounting policies - Deferred taxation" and 1.3 "Main sources of estimates" to the consolidated financial statements, the recoverability of net deferred tax assets amounting in the balance sheet as at 31 December 2014 to €682.3 million was assessed by Thales on the basis of forecast data taken from the strategic plans drawn up for each of the consolidated tax groups concerned, under the group's control. We reviewed the recoverability tests performed by the group on these deferred tax assets and checked that notes 14.k and 1.3 to the financial statements provide appropriate information.

#### Provisions for pension plans and related commitments

Certain headings in both the assets and liabilities sides of the balance sheet drawn up for consolidated financial statements, as well as off-balance sheet commitments, are estimated on a statistical and actuarial basis, in particular, the provisions for pension plans and related commitments. The methods for calculating these headings are set out in notes 14.l "Accounting policies - Pensions and other employee benefits" and 9.3 "Provision for pensions and other employee benefits" to the consolidated financial statements. Our work consisted in assessing the data and assumptions used in the models for valuing these headings, with due regard, in particular, to the group's

experience, its regulatory and economic environment; as well as the overall consistency of the assumptions and the appropriateness of the information given in notes 14.1 and 9.3 to the financial statements.

### Litigation and contingency provisions

As regards litigation and contingency provisions, we ensured that the procedures in force in your group allow their identification, evaluation and recognition from an accounting standpoint in satisfactory conditions. We checked that the disputes identified during the implementation of these procedures were described in appropriate terms in the notes to the consolidated financial statements, and, in particular, in notes 12 "Litigation" and 6.5 "Financial Risks".

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

### III - Specific verification

As required by law we have also verified, in accordance with professional standards applicable in France, the information presented in the group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Courbevoie and Paris-La Défense, 25 February 2015

The statutory auditors

French original signed by

#### MAZARS

Jean-Marc Deslandes  
Anne-Laure Rousselou

#### ERNST & YOUNG Audit

Philippe Diu  
Michel Gauthier

## 1.3 Parent company management report and financial statements

### 1.3.1 PARENT COMPANY MANAGEMENT REPORT 2014

#### 1.3.1.1 Activity and results

**Operating income amounted to €642 million**, compared with €544 million in 2013. Sales came to €224 million compared with €206 million in 2013.

*Operations by sector are described in the notes.*

Sales mainly consisted of rents re-billed to operating subsidiaries and sales of research, chiefly conducted by the Central Research and Technology Department of the Thales group. The change in sales is mainly due to the rebilling since 2014 of the guarding services of the occupied sites to related subsidiaries.

Other operating income amounted to €393 million, compared with €322 million the previous year. This was made up of fees paid by operating subsidiaries and rents re-billed to those subsidiaries, including general and specific services rendered by the parent company to the subsidiaries and capitalised production. The change in 2014 is due to the activation of construction works that amounts to €68 million of which the main part concerns the sites in Velizy and Paris La Defense, the new Company's headquarter.

**Net loss from operations was -€82 million** as in 2013.

**Net financial income amounted to €684 million** compared with €409 million in 2013; this increase is mainly due to the distribution of the contribution share premium of Thales Alenia Space France to Thales, for an amount of €163 million, recorded in "Other financial income".

Provisions for equity investments and subsidiaries risks totalled -€19 million in 2014 compared with -€39 million in 2013. Reversals on provisions for equity investments represented €13 million in 2014 compared with €15 million in 2013.

The income related to equity investments amounted to €524 million in 2014, compared with €452 million in 2013.

**Extraordinary items represented a net charge of -€17 million** compared with -€12 million in 2013, taking into account expenses related to the closing of the site in Neuilly.

Corporate income tax represented a net gain of €77 million compared with €86 million in 2013, almost all of which is due to the tax consolidation applied by Thales and its subsidiaries.

In 2014, expenditure excluded from tax-deductible expenses (pursuant to Articles 223 quarter and 39.4 of the French General Tax Code) amounted to €0.1 million.

**A net profit of €663 million was recorded in 2014**, compared with €401 million in 2013.

#### 1.3.1.2 Balance sheet at 31 December 2014

**The balance sheet total stood at €12,475 million at the end of 2014**, a rise of €25 million from €12,450 million at the end of 2013.

Non-current assets of €8,733 million, compared with €8,970 million in 2013 mainly reflected long-term financial assets. The decrease of -€310 million in equity investments is mainly due to the partial reimbursements of the capital of Thales USA Inc., Thales Deutschland and Thales Alenia Space for a total amount of -€350 million.

Other non-current financial investments declined by -€10 million. This is mainly due to the cash received at the beginning of 2014 in relation with the subscription options exercised in December 2013 (€7.8 million).

Current assets were up by €262 million to total €3,742 million at year-end 2014. The increase of €32 million in other receivables is mainly due to the foreign exchange revaluation for €53 million, balanced by a decrease in tax receivables from the State for -€27 million.

The main change in "the treasury shares assigned to plans" which amounted to -€23 million is due to the delivery of the 2010 free shares plan.

The balance of amounts due to and from the financial Group accounts receivable and payable represented a net debt of €3,448 million at year-end 2014, compared with €4,123 million at the end of 2013.

"Financial debt" amounted to €1,492 million at year end 2014, compared with €1,524 million in 2013. They mainly include bonds for a total amount of €1,400 million and also debts in foreign currencies and in euros to subsidiaries and equity affiliates of the Group.

At 31 December 2014, share capital stood at €623.5 million and shareholders' equity totalled €5,951 million, compared with €5,461 million in 2013.

## Information on supplier payment schedules

Thales' payment terms are 60 days from invoice, in line with the maximum period allowed under the French "LME" law on the modernisation of the economy.

See presentation below on the ageing of trade payables in relation to the date of invoice:

( <i>€ million</i> )	Trade payables at 31/12/2014			Trade payables at 31/12/2013		
	Group	Non-Group	Total	Group	Non-Group	Total
<b>France</b>						
Due in less than two months (not due)	29.1	10.2	39.3	32.9	12.5	45.4
Due in two to four months	0.6	1.8	2.4	0.6	0.1	0.7
Due after four months	0.3	0.2	0.5	0.4	0.5	0.9
	<b>30.0</b>	<b>12.2</b>	<b>42.2</b>	<b>33.9</b>	<b>13.1</b>	<b>47.0</b>
<b>International</b>						
Due in less than two months (not due)	2.1	0.3	2.4	1.0	0.4	1.4
Due in two to four months	0.5	0.1	0.6	0.4	0.1	0.5
Due after four months	0.2	–	0.2	–	–	–
	<b>2.8</b>	<b>0.4</b>	<b>3.2</b>	<b>1.4</b>	<b>0.5</b>	<b>1.9</b>
<b>Sub-total</b>	<b>32.8</b>	<b>12.6</b>	<b>45.4</b>	<b>35.3</b>	<b>13.6</b>	<b>48.9</b>
Charges payable not due			49.1			18.6
<b>TOTAL TRADE PAYABLES</b>			<b>94.5</b>			<b>67.5</b>

### 1.3.1.3 Outlook for the current year

Results for 2015 should reflect the dividends paid by some subsidiaries in respect of the 2014 financial year and changes in provisions for impairment of investments and risks relating to subsidiaries as a consequence of trends in their business and performance in 2015.

### 1.3.1.4 Proposed allocation of earnings<sup>(1)</sup> and dividend policy

The General Meeting notes that distributable earnings, made up of the net profit for 2014 financial year	€662,868,517.85
Less allocation to the legal reserve	(€628,983.30)
Plus the amount of the interim dividends of €0.34 paid on 12 December 2014	€69,996,897.88
Plus the credit balance brought forward	€575,485,950.88
<b>AMOUNTS TO A TOTAL OF</b>	<b>€1,307,722,383.31</b>

The General Meeting resolves to allocate this profit as follows:

Distribution of unitary dividend of €1.12 to 207,841,111 shares bearing rights as from 1 January 2014	€232,782,044.32
Balance carried forward	€1,074,940,338.99
<b>TOTAL EQUIVALENT TO DISTRIBUTABLE EARNINGS</b>	<b>€1,307,722,383.31</b>

If the 2014 dividend is approved by the Annual Meeting on 13 May 2015, it will be detached on 27 May 2015 and paid out on 29 May 2015. The balance of dividend to be paid amounts to €0.78 per share, taking account of an interim dividend of €0.34 per share.

Dividends are paid to the holders of shares in accordance with the law. The Company uses the Euroclear direct payment procedure. Any dividend

unclaimed after five years lapses by law and is paid to the French tax authority.

As required by law, the per-share dividend information for the last three financial years is given below. In accordance with the French General Tax Code, dividends paid in respect of 2011, 2012 and 2013 qualified for a possible tax credit of 40%.

<b>Year</b>	<b>Dividend per share</b>
2011	€0.78
2012	€0.88
2013	€1.12
<b>2014</b>	<b>€1.12<sup>(1)</sup></b>

(1) Subject to the approval of the Annual General Meeting of 13 May 2015, which will vote on the 2014 financial statements.

### 1.3.1.5 Cross-reference table of the management report of Thales the parent company

In accordance with the Articles L.225-100, L.232-1, L.247.1 and R.225-102 of the French Commercial Code, the management report of the parent company is composed of the following information, available in the "2014 registration document":

Management report French Commercial Code	Chapters/Pages
<b>1-Annual financial statements of Thales the parent company at 31 December 2014</b>	<b>Chapters 1.3.2.5</b>
■ Table of subsidiaries and equity affiliates	note 23
■ Table of investments made and thresholds crossed in French companies in 2014	note 23
■ Table of the results of the Company for the last five years	Ch. 1.3.2.6
■ Table of outstanding share purchase options plans and subscription options plans at 31 December 2014	note 15
■ Change in number and in value of the treasury shares of the Company	note 14
■ Reversal of general expenses following tax audit	note 6
■ Events after reporting period	note 22
<b>2-Management report and consolidated financial statements of the Group at 31 December 2014</b>	<b>Chapters 1 &amp; 2</b>
■ Presentation of the businesses, with: segment reporting for subsidiaries and controlled companies	Ch. 2
■ Description of the main risks and uncertainties the Group has to cope with	Ch. 1.1.2
■ Information on use of financial instruments (as a complement of the notes related to the financial statements)	Ch. 1.1.2
■ Information on the research and development activities	Ch. 2.2
<b>3-Corporate governance</b>	<b>Chapter 3</b>
■ Information on executive directors and corporate officers (offices, positions, compensations, commitments made by the Company, stock options granted)	Ch. 3.4
■ Chairman's report on corporate governance, internal control and risks management.	Ch. 3.2
<b>4-Company and share capital</b>	<b>Chapter 4</b>
■ Breakdown of shareholders and changes performed during the year	Ch. 4.3.1
■ Employee shareholdings	Ch. 4.3.3.6
■ Authorisations granted at General Meetings with delegation of powers to the Board of directors	Ch. 4.3.3.9
■ Description of the shares repurchase programme adopted by the Annual General Meeting of 14 May 2014	Ch. 4.3.3.4
■ Transactions on treasury shares during 2014	Ch. 4.3.3.8
■ Summary statement of share transactions carried out in 2014 by directors, non-voting directors and related persons	Ch. 4.3.3.7
■ Information about the market performance of Thales shares over the past two years	Ch. 4.5.1.3
■ Key factors likely to have an impact in the event of a public offering	Ch. 4.3.3.10
■ Agreements and engagements authorised during 2014	Ch. 4.4. 2
<b>5-Corporate responsibility</b>	<b>Chapter 5</b>
■ Social information	Ch. 5.1
■ Environmental information	Ch. 5.2
■ Societal information	Ch. 5.3
■ Information on operations of free shares granted during the year 2014.	Ch. 5.1.4.4

## 1.3.2 PARENT COMPANY FINANCIAL STATEMENTS

### 1.3.2.1 Income statement by nature

(€ million)	Notes	2014	2013
■ Re-billing of rents		208.7	190.8
■ Research		15.7	15.1
<b>Total sales</b>		<b>224.4</b>	<b>205.9</b>
■ Royalties		185.7	187.2
■ Re-billing of expenses		207.3	134.6
<b>Total other operating income</b>		<b>393.0</b>	<b>321.8</b>
Reversal of provisions		8.5	6.6
Transfer of expenses		15.8	9.7
<b>Total operating income</b>		<b>641.7</b>	<b>544.0</b>
Other external charges		(473.0)	(403.8)
Personnel expenses		(183.2)	(177.1)
Purchases and changes in inventories and work-in-progress		(32.1)	(14.9)
Taxes other than on income or payroll-related		(10.2)	(8.8)
Depreciation and amortisation		(17.4)	(15.6)
Provisions		(7.8)	(6.1)
<b>Total operating expenses</b>		<b>(723.7)</b>	<b>(626.3)</b>
<b>Income (loss) from operations</b>	<b>note 3</b>	<b>(82.0)</b>	<b>(82.3)</b>
Net interest expense		(6.5)	(14.0)
Income from investments		523.7	452.4
Other financial income		196.2	29.5
Other financial expenses		(29.1)	(58.6)
<b>Net financial income (expense)</b>	<b>note 4</b>	<b>684.3</b>	<b>409.3</b>
<b>Income (loss) before income tax</b>		<b>602.3</b>	<b>327.0</b>
<b>Net extraordinary items</b>	<b>note 5</b>	<b>(16.8)</b>	<b>(12.2)</b>
<b>Profit (loss) before income tax</b>		<b>585.5</b>	<b>314.8</b>
Income tax	note 6	77.4	85.8
<b>NET INCOME</b>		<b>662.9</b>	<b>400.6</b>

The notes to the financial statements are an integral part of the parent company financial statements.

### 1.3.2.2 Balance sheet

#### ■ ASSETS

(€ million)	Notes	31/12/2014	31/12/2013
Tangible and intangible assets, net	note 7	134.4	51.9
Equity investments	note 8	8,487.1	8,797.4
Treasury shares, non assigned to plans	note 14	24.9	24.0
Other financial investments, net	note 9	86.9	97.2
<b>Total non-current assets</b>		<b>8,733.3</b>	<b>8,970.5</b>
Inventories and work-in-progress		7.0	19.5
Advances to suppliers	note 16	0.5	0.3
Trade receivables	note 16	159.2	145.8
Other receivables	note 16	606.1	574.0
Financial Group accounts receivable	note 10	864.5	621.8
Treasury shares, assigned to plans	note 14	34.0	57.4
Accrued interests on cash and cash equivalents		19.1	9.5
Cash at banks and equivalents	note 11	2,051.4	2,051.7
<b>Total current assets</b>		<b>3,741.8</b>	<b>3,480.0</b>
<b>TOTAL ASSETS</b>		<b>12,475.1</b>	<b>12,450.5</b>

#### ■ LIABILITIES

(€ million)	Notes	31/12/2014	31/12/2013
Share capital		623.5	617.2
Additional paid-in capital		3,889.9	3,826.6
Reserves and retained earnings		774.7	616.9
Net income for the period		662.9	400.6
<b>Total capital and reserves</b>	<b>note 13</b>	<b>5,951.0</b>	<b>5,461.3</b>
<b>Reserves for contingencies</b>	<b>note 17</b>	<b>158.3</b>	<b>154.0</b>
Financial debt	note 12	1,492.5	1,524.3
Financial Group accounts payable	note 10	4,312.7	4,745.1
Advances received on contracts in progress	note 16	14.1	14.2
Trade payables	note 16	94.5	67.5
Other debt	note 16	452.0	484.1
<b>Total debt</b>		<b>6,524.1</b>	<b>6,989.2</b>
<b>TOTAL LIABILITIES</b>		<b>12,475.1</b>	<b>12,450.5</b>

The notes to the financial statements are an integral part of the parent company financial statements.



1.3.2.3 **Statement of cash flows**

(€ million)	Notes	2014	2013
<b>Net profit</b>		<b>662.9</b>	<b>400.6</b>
Add (deduct):			
Net depreciation charges on tangible and intangible assets	note 7	17.4	15.6
Provisions for pensions and long-term benefits	note 17	4.8	6.9
Net depreciation of equity investments and provision for subsidiary risks	note 4	5.7	24.0
Loss (gain) on disposals of assets	note 5	0.0	(6.6)
Other elements		1.0	10.1
<b>Operating cash flow</b>		<b>691.8</b>	<b>450.6</b>
Change in working capital requirements and operating reserves for contingencies		(43.2)	(81.1)
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>- I -</b>	<b>648.6</b>	<b>369.5</b>
Acquisition of tangible and intangible assets		(88.7)	(10.8)
Proceeds from disposal of tangible and intangible assets		0.0	2.8
<b>Net operating investment</b>	<b>note 7</b>	<b>(88.7)</b>	<b>(8.0)</b>
Investments in subsidiaries and equity affiliates	note 8	(51.3)	(26.4)
Partial reimbursements of subsidiaries' capital	note 8	350.1	–
Disposal of subsidiaries and equity affiliates	note 8	0.6	1.1
Decrease (increase) of other financial investments and treasury shares		11.8	12.2
Decrease (increase) financial Group accounts receivable		(233.9)	(14.1)
<b>Net financial investment</b>		<b>77.3</b>	<b>(27.2)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>- II -</b>	<b>(11.4)</b>	<b>(35.2)</b>
Dividends distribution	note 13	(242.8)	(180.6)
Increase in shareholders' equity (exercice of subscription options)		75.0	97.3
Increase in financial debt		50.2	797.4
Repayment of financial debt		(31.1)	(677.3)
Increase (decrease) in financial Group accounts payable		(488.8)	(41.2)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>- III -</b>	<b>(637.5)</b>	<b>(4.4)</b>
<b>INCREASE(DECREASE) IN CASH AT BANK AND EQUIVALENTS</b>	<b>I+II+III</b>	<b>(0.3)</b>	<b>329.9</b>
Cash at banks and equivalents at beginning of period		2,051.7	1,721.8
<b>CASH AT BANKS AND EQUIVALENTS AT END OF YEAR</b>		<b>2,051.4</b>	<b>2,051.7</b>

The notes to the financial statements are an integral part of the parent company financial statements.

### 1.3.2.4 Statement of changes in equity

(€ million)	Number of shares in circulation (thousands)	Share capital	Paid-in surplus emission	Retained earnings	Net income for the period	Total shareholders' equity
<b>At 1 January 2013</b>	<b>202,340</b>	<b>607.0</b>	<b>3,731.6</b>	<b>490.7</b>	<b>306.8</b>	<b>5,136.1</b>
Allocation of the 2012 result	–	–	–	306.8	(306.8)	0.0
Dividend distribution (note 13.2)	–	–	–	(180.6)	–	(180.6)
Capital increase	3,405	10.2	95.0	–	–	105.2
2013 net income	–	–	–	–	400.6	400.6
<b>At 31 December 2013</b>	<b>205,745</b>	<b>617.2</b>	<b>3,826.6</b>	<b>616.9</b>	<b>400.6</b>	<b>5,461.3</b>
Allocation of the 2013 result	–	–	–	400.6	(400.6)	0.0
Dividend distribution (note 13.2)	–	–	–	(242.8)	–	(242.8)
Capital increase	2,096	6.3	63.3	–	–	69.6
2014 net income	–	–	–	–	662.9	662.9
<b>At 31 DECEMBER 2014</b>	<b>207,841</b>	<b>623.5</b>	<b>3,889.9</b>	<b>774.7</b>	<b>662.9</b>	<b>5,951.0</b>

The notes to the financial statements are an integral part of the parent company financial statements.

1.3.2.5 **Notes to the parent company financial statements**

<b>NOTE 1</b>	ACCOUNTING PRINCIPLES	95
<b>NOTE 2</b>	CHANGE IN THALES' DIRECT INVESTMENTS	95
<b>NOTE 3</b>	INCOME (LOSS) FROM OPERATIONS	95
<b>NOTE 4</b>	NET FINANCIAL INCOME (EXPENSE)	95
<b>NOTE 5</b>	NET EXTRAORDINARY ITEMS	97
<b>NOTE 6</b>	INCOME TAX	97
<b>NOTE 7</b>	TANGIBLE AND INTANGIBLE ASSETS	98
<b>NOTE 8</b>	EQUITY INVESTMENTS	99
<b>NOTE 9</b>	OTHER FINANCIAL INVESTMENTS	100
<b>NOTE 10</b>	FINANCIAL GROUP ACCOUNTS RECEIVABLE (PAYABLE)	101
<b>NOTE 11</b>	CASH AT BANKS AND EQUIVALENTS	102
<b>NOTE 12</b>	FINANCIAL DEBT	102
<b>NOTE 13</b>	EQUITY	103
<b>NOTE 14</b>	TREASURY SHARES	104
<b>NOTE 15</b>	PLANS OF SHARES/OPTIONS GRANTED TO THE EMPLOYEES	105
<b>NOTE 16</b>	RECEIVABLES AND PAYABLES	109
<b>NOTE 17</b>	RESERVES FOR CONTINGENCIES	110
<b>NOTE 18</b>	LEGAL AND ENVIRONMENT RISKS	111
<b>NOTE 19</b>	OFF-BALANCE SHEET COMMITMENTS	112
<b>NOTE 20</b>	MARKET RISKS	113
<b>NOTE 21</b>	RELATED PARTIES	114
<b>NOTE 22</b>	EVENTS AFTER REPORTING PERIOD	115
<b>NOTE 23</b>	SUBSIDIARIES AND EQUITY AFFILIATES	116

All the amounts in these notes are expressed in millions of euros (€ million) except for information related to number of employees and number of shares.

## NOTE 1 ACCOUNTING PRINCIPLES

The public limited company Thales is the parent company of the Thales group.

Thales' annual financial statements are prepared in accordance with the accounting standards defined by the French national chart of accounts (*Plan Comptable Général*) as defined in the rule ANC n°2014-03.

These principles are detailed in each note hereafter.

## NOTE 2 CHANGE IN THALES' DIRECT INVESTMENTS

In 2014, Thales USA Inc, Thales Deutschland GmbH and Thales Alenia Space SAS have partly reimbursed their capital, for a total amount of €350 million.

No significant operation of acquisition or disposal of direct investments has occurred in 2013 and in 2014.

## NOTE 3 INCOME (LOSS) FROM OPERATIONS

In addition to its functions of holding company (holding of equity investments, management of central support functions and cash pooling), the parent company manages the real-estate of its French operating subsidiaries and carries out its own research activity in France.

- fees paid by operating subsidiaries related to shared services, as well as re-billing of general and specific services rendered by the parent company to the subsidiaries.

### 3.1 Operating income

Consequently the operating income includes:

- the re-billing of rents to operating subsidiaries as well as research disposals, which are the sales of the parent company (€224.4 million in 2014 and 205.9 million in 2013), mainly realised in France;

### 3.2 Operating expenses

The operating expenses mainly include personnel expenses (employees of Thales (parent company) and executives), real-estate rents and related services, and other external services (notably services rendered by Thales Global Services, company which includes the shared services of the Group).

## NOTE 4 NET FINANCIAL INCOME (EXPENSE)

### 4.1 Accounting principles

The net financial income (expense) mainly includes:

- interests and financial expenses on financial debt;

- income and expenses related to direct investments of Thales (dividends and depreciation – note 8);
- the financial component of the increase in provisions for pensions and other employee benefits (note 17);
- net foreign exchange gains (losses) as described in note 20.

## 4.2 Analysis of the net financial income (expense)

	Notes	2014	2013
<b>Net financial interest</b>		<b>(6.5)</b>	<b>(14.0)</b>
<b>Interest and financial income:</b>		<b>32.1</b>	<b>27.7</b>
Interest on financial Group accounts receivable and loans to subsidiaries and equity affiliates <i>(of which, related companies for €4.2 million in 2014 compared with €4.3 million in 2013)</i>		4.6	4.9
Interest on cash at banks and equivalents		27.5	22.8
<b>Interest and financial expense:</b>		<b>(50.1)</b>	<b>(41.7)</b>
Interest on financial Group accounts payable and borrowings to subsidiaries and equity affiliates <i>(of which, related companies for -€15.4 million in 2014 compared with -€14.7 million in 2013)</i>		(15.4)	(14.7)
Interest on bonds and other financial debts		(34.7)	(37.3)
Interest on interest rate swaps matched with financial debt		11.5	10.3
<b>Income from investments</b>	<b>(note 23)</b>	<b>523.7</b>	<b>452.4</b>
<b>Other financial income</b>		<b>196.2</b>	<b>29.5</b>
Distribution of the share premium of Thales Alenia Space SAS		163.0	–
Reversal of provisions related to equity affiliates <sup>(a)</sup>		13.4	14.7
Foreign exchange gains		8.9	8.8
Reversal of provisions for currency risks		7.7	–
Amounts recovered on clawback provisions		0.7	1.2
Reversal of provisions on treasury shares		–	1.1
Others		2.5	3.7
<b>Other financial expenses</b>		<b>(29.1)</b>	<b>(58.6)</b>
Increase in provisions related to equity affiliates <sup>(a)</sup>		(19.1)	(38.7)
Increase in financial provisions for end-of-career compensation and other benefits	(note 17)	(6.0)	(7.3)
Foreign exchange losses		(0.2)	(0.2)
Increase in provisions for currency risks		–	(7.7)
Others		(3.8)	(4.7)
<b>NET FINANCIAL INCOME (EXPENSE)</b>		<b>684.3</b>	<b>409.3</b>

(a) Provisions related to equity affiliates.

	2014		2013	
	Reversal	Increase	Reversal	Increase
<b>Provisions for impairment of equity investments:</b>	<b>13.4</b>	<b>(15.9)</b>	<b>–</b>	<b>(35.2)</b>
Cloudwatt	–	(7.6)	–	(7.4)
SAS Chatelleraut Brelandière	–	(4.2)	–	–
Thales Université SAS	–	(2.4)	–	–
Thales Microelectronics SAS	–	(1.7)	–	(3.2)
Société de Marchands de Biens pour l'Électronique SAS	–	–	–	(16.1)
Amper Programas Electrónica y Comunicaciones SA	–	–	–	(3.5)
Avimo Group Ltd	9.8	–	–	(2.4)
United Monolithic Semiconductors Holding	2.0	–	–	–
Others	1.6	–	–	(2.6)
<b>Provisions for subsidiaries' risks (note 17.2):</b>	<b>–</b>	<b>(3.2)</b>	<b>14.7</b>	<b>(3.5)</b>
Société de Marchands de Biens pour l'Électronique SAS	–	(1.5)	14.2	–
Others	–	(1.7)	0.5	(3.5)
<b>TOTAL</b>	<b>13.4</b>	<b>(19.1)</b>	<b>14.7</b>	<b>(38.7)</b>

## NOTE 5 NET EXTRAORDINARY ITEMS

### 5.1 Accounting principles

The net extraordinary items include:

■ restructuring costs.

Such costs primarily relate to severance payments, redundancy payments, costs for notice periods not worked and other costs linked to the closure of facilities such as sites rehabilitation or write-offs of fixed assets. These costs as well as costs directly linked to restructuring measures (removal costs, training costs of transferred employees, etc.) are recognised in "Restructuring costs" in profit and loss;

- capital gains or losses on disposals, in particular disposals of activities or equity investments. As an exception to the rules of the French national chart of accounts (*Plan Comptable Général*) and in order to give a more accurate information of the transactions, the reversals of provisions for impairment of equity investments and the reversals of provisions for subsidiaries' risks are integrated in the income from disposals;
- the other income and expenses of extraordinary events by frequency, by nature and by amount.

### 5.2 Analysis of the net extraordinary items

	2014	2013
<b>Restructuring costs</b>	<b>(16.8)</b>	<b>(8.8)</b>
<b>Capital gains or losses on disposals:</b>	<b>0.0</b>	<b>6.6</b>
Patents disposal to Thomson Licensing	1.4	–
Disposal of activity to Sofradir	–	2.5
Disposal of treasury shares as part of the liquidity contract	–	5.5
Others	(1.4)	(1.4)
<b>Increase in provisions for extraordinary risks</b>	<b>–</b>	<b>(10.0)</b>
<b>NET EXTRAORDINARY ITEMS</b>	<b>(16.8)</b>	<b>(12.2)</b>

## NOTE 6 INCOME TAX

### 6.1 General framework and accounting principles

Since 1 January 1992, Thales has opted for the tax group scheme. Thales is the head of this tax group and consolidates a large number of its French subsidiaries pursuant to the tax rules provided by the Article 223A of the French General Tax Code (*Code Général des Impôts*).

In accordance with the tax group agreement concluded between Thales and its subsidiaries, companies included in the tax consolidation pay tax as if they had been taxed separately. The tax savings, realised through the fiscal losses of some subsidiaries, are retained by the parent company and recognised

in income. However, the parent company may incur a corresponding tax, if and when these subsidiaries become profitable again and are able to deduct the losses as if they had not been part of the tax consolidation.

The income tax rate related to 2013 and 2014, including all contributions, is 38%. Tax loss carry forwards are attributable up to the limit of 50% of the fiscal profit. Furthermore, since 17 August 2012, the French companies have been subject to a contribution of 3% on the distribution of dividends.

The parent company benefits from tax credits related to research and development efforts in its site of Palaiseau. This tax credit is recorded against the income tax expense.

## 6.2 Current tax

The net income tax can be analysed as follows:

	2014	2013
Income tax received from beneficiary subsidiaries	90.6	85.1
Income tax due to the French State	(28.8)	(12.2)
<b>Income from tax consolidation related to income tax</b>	<b>61.8</b>	<b>72.9</b>
Contribution of 3% on the dividends from beneficiary subsidiaries	11.7	10.8
Contribution of 3% on the dividends due to the French State	(7.3)	(5.4)
<b>Income from tax consolidation related to contribution on the dividends</b>	<b>4.4</b>	<b>5.4</b>
Research tax credit (CIR)	7.9	8.1
Prior periods adjustments and other taxes	3.3	(0.6)
<b>TAX INCOME</b>	<b>77.4</b>	<b>85.8</b>

In 2014 as in 2013, no general expenses have been reintegrated, further to a tax audit. The expenses excluded from deductible charges (Article 223 quarter and 39.4 of the French General Tax Code) amounts to €0.1 million in 2014, compared to €0.2 million in 2013; it corresponds to the excess amortisation of vehicles.

## 6.3 Deferred tax

The parent company has future tax savings due to:

- temporary differences between fiscal and accounting impacts of income or expense (€116.5 million in basis at 31 December 2014 compared with €117.4 million at year-end 2013). They are mainly coming from

reserves for contingencies which are non-tax deductible, in particular provisions for pensions;

- tax loss carry forwards. At 31 December 2013 the Group's losses from tax consolidation amounted to €324.5 million. They are estimated at €224.9 million at 31 December 2014.

The corresponding deferred tax is not recognised.

## NOTE 7 TANGIBLE AND INTANGIBLE ASSETS

### 7.1 Accounting principles

The intangible assets (mainly software) and tangible assets are booked at their acquisition cost in the balance sheet. They are amortised on a straight-line or declining-balance basis. Amortisation periods correspond to the estimated useful lifetimes that are estimated at 20 years for buildings and from 3 to 10 years for other assets.

Non-current assets held under finance leases or hire purchase agreements are not recognised. If necessary, these are reported in off-balance sheet commitments.

### 7.2 Detail of balance sheet items

	31/12/2014			31/12/2013		
	Gross amount	Cumulated amort. and depr.	Net	Gross amount	Cumulated amort. and depr.	Net
<b>Intangible assets</b>	<b>18.6</b>	<b>(18.5)</b>	<b>0.1</b>	<b>18.8</b>	<b>(18.7)</b>	<b>0.1</b>
Buildings	215.8	(92.7)	123.1	135.4	(91.1)	44.3
Industrial plant, equipment and machinery	44.0	(40.6)	3.4	43.3	(39.3)	4.0
Other property, plant and equipment	24.9	(17.1)	7.8	19.4	(15.9)	3.5
<b>Tangible assets</b>	<b>284.7</b>	<b>(150.4)</b>	<b>134.3</b>	<b>198.1</b>	<b>(146.3)</b>	<b>51.8</b>
<b>TOTAL</b>	<b>303.3</b>	<b>(168.9)</b>	<b>134.4</b>	<b>216.9</b>	<b>(165.0)</b>	<b>51.9</b>

## 7.3 Change in net tangible and intangible assets

	Intangible assets	Tangible assets	Total
<b>Net value at 01/01/2013</b>	<b>0.0</b>	<b>58.3</b>	<b>58.3</b>
Acquisitions	–	10.8	10.8
Disposals	(2.7)	(0.1)	(2.8)
Depreciation and amortisation	(0.2)	(15.4)	(15.6)
Other	3.0	(1.8)	1.2
<b>Net value at 31/12/2013</b>	<b>0.1</b>	<b>51.8</b>	<b>51.9</b>
Acquisitions	0.1	88.6	88.7
Disposals	–	–	–
Depreciation and amortisation	(0.1)	(17.3)	(17.4)
Other	–	11.2	11.2
<b>NET VALUE AT 31/12/2014</b>	<b>0.1</b>	<b>134.3</b>	<b>134.4</b>

## NOTE 8 EQUITY INVESTMENTS

### 8.1 Accounting principles

Equity investments are recorded at cost price. The related acquisition costs are recognised in the profit and loss. When the value in use becomes lower than the book value, a depreciation that amounts to the difference is recognised.

The value in use is determined according to criteria based on profitability outlooks, on the property, on the values resulting from recent transactions or on the market price for listed securities.

The profitability outlooks are determined on the basis of discounted future operating cash flows over a three-year period and a terminal value. Assumptions used concerning growth in sales and terminal values are based on a reasonable approach, and a growth limited to 2%.

The discount rate used is calculated on the basis of the Group's weighted average cost of capital (8.5% in 2014 as in 2013), adjusted if necessary for the specific risks attributable to each equity investment. This rate is mainly based on the market risk-free rate, on risk factors inherent in the Group's businesses, on the Group's marginal interest rate and on specific risks for which cash flows have not been adjusted.

The impairment tests are carried out annually at the end of the second semester in order to establish coherency between the annual accounting period and the internal process preparing of the strategic plans for the entities of the Group.



## 8.2 Change in equity investments

The detail of equity investments is presented in the note 23. Changes are presented below:

	Notes	Gross value	Depreciation	Net
<b>Value at 01/01/2013</b>		<b>10,262.6</b>	<b>(1,455.3)</b>	<b>8,807.3</b>
<b>Acquisitions/Capital subscriptions</b>		<b>26.4</b>	<b>–</b>	<b>26.4</b>
Increase in capital of SMBPE		16.1	–	16.1
Increase in capital of Thales Global Services		10.3	–	10.3
<b>Disposals</b>		<b>(1.1)</b>	<b>–</b>	<b>(1.1)</b>
Sofresa's Investments		(1.1)	–	(1.1)
<b>Increase in depreciation</b>	<b>note 4</b>	<b>–</b>	<b>(35.2)</b>	<b>(35.2)</b>
<b>Reversals</b>	<b>note 4</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Value at 31/12/2013</b>		<b>10,287.9</b>	<b>(1,490.5)</b>	<b>8,797.4</b>
<b>Acquisitions/Capital subscriptions</b>		<b>51.3</b>	<b>–</b>	<b>51.3</b>
Increase in capital of Thales Microelectronics SAS		22.4	–	22.4
Creation of SNC Thales Merignac		20.0	–	20.0
Release of capital of Cloudwatt		8.9	–	8.9
<b>Partial reimbursement of capital</b>		<b>(350.1)</b>	<b>–</b>	<b>(350.1)</b>
Partial reimbursement of the capital of Thales USA Inc		(209.1)	–	(209.1)
Partial reimbursement of the capital of Thales Deutschland GmbH		(100.0)	–	(100.0)
Partial reimbursement of the capital of Thales Alenia Space SAS		(41.0)	–	(41.0)
<b>Disposal of Habitat 06</b>		<b>(0.6)</b>	<b>–</b>	<b>(0.6)</b>
<b>Increase in depreciation</b>	<b>note 4</b>	<b>–</b>	<b>(15.9)</b>	<b>(15.9)</b>
<b>Reversals</b>	<b>note 4</b>	<b>–</b>	<b>13.4</b>	<b>13.4</b>
<b>Other</b>		<b>(8.4)</b>	<b>–</b>	<b>(8.4)</b>
<b>VALUE AT 31/12/2014</b>		<b>9,980.1</b>	<b>(1,493.0)</b>	<b>8,487.1</b>

## NOTE 9 OTHER FINANCIAL INVESTMENTS

### 9.1 Accounting principles

This note mainly includes loans contracts signed by Thales with its direct or indirect subsidiaries and equity affiliates. These contracts have to be distinguished from the financial Group accounts agreements, dedicated to the management of daily cash requirements or surpluses of cash (note 10).

This item includes the deposits as part of real-estate commitments and other financial receivables.

Depreciation is recognised depending on non-recovery risks.

## 9.2 Detail of the balance sheet items

	31/12/2014			31/12/2013		
	Gross value	Depreciation	Net value	Gross value	Depreciation	Net value
Loans to direct subsidiaries and equity affiliates (note 23)	24.6	–	24.6	23.2	–	23.2
Loans to other Group's subsidiaries	39.1	–	39.1	40.7	–	40.7
Loans to other Group's equity affiliates	11.1	–	11.1	13.3	–	13.3
Other financial investments	16.3	(4.2)	12.1	24.2	(4.2)	20.0
<b>TOTAL</b>	<b>91.1</b>	<b>(4.2)</b>	<b>86.9</b>	<b>101.4</b>	<b>(4.2)</b>	<b>97.2</b>

## 9.3 Breakdown by maturity and by currency

Breakdown by maturity	31/12/2014	31/12/2013
< 1 year	52.1	72.3
From 1 to 5 years	25.2	12.1
> 5 years	9.6	12.8
<b>TOTAL</b>	<b>86.9</b>	<b>97.2</b>

Breakdown by currency	31/12/2014	31/12/2013
Euro	44.5	58.0
Saudian Ryal	21.0	18.5
South African Rand	19.3	18.0
Other currencies	2.1	2.7
<b>TOTAL</b>	<b>86.9</b>	<b>97.2</b>

## NOTE 10 FINANCIAL GROUP ACCOUNTS RECEIVABLE (PAYABLE)

### 10.1 General framework and accounting principles

The financial Group accounts receivable and payable in the balance sheet represent the debtor or creditor position of the parent company towards its subsidiaries as part of the cash pooling of the Group.

As a rule, the surpluses of subsidiaries are transferred to the parent company under a centralisation system known as cash pooling. In return, the parent company meets the cash flow requirements of the subsidiaries. Except in special cases, this system applies to all subsidiaries in which Thales has majority control.

Due to their nature, the financial group accounts receivable and payable are with a term of less than one year.

### 10.2 Financial Group accounts receivable

	31/12/2014	31/12/2013
Debt of direct subsidiaries and equity affiliates towards Thales (note 23)	733.1	531.6
Debt of other Group's subsidiaries towards Thales	131.4	90.3
<b>TOTAL</b>	<b>864.5</b>	<b>621.8</b>

### 10.3 Financial Group accounts payable

	31/12/2014	31/12/2013
Deposits from direct subsidiaries and equity affiliates with Thales (note 23)	3,317.7	3,553.3
Deposits of Thales Alenia Space (France and Italy) with Thales	349.8	537.0
Deposits of Thales Australia Ltd with Thales	233.2	194.1
Deposits of other Group's subsidiaries with Thales	412.0	460.7
<b>TOTAL</b>	<b>4,312.7</b>	<b>4,745.1</b>

## NOTE 11 CASH AT BANKS AND EQUIVALENTS

### 11.1 Accounting principles

The item "cash at banks and equivalents" includes cash at banks and in hand as well as cash equivalents (short-term and liquid investments that are easily converted into a known amount of cash and exposed to negligible risk of a change in value)

### 11.2 Detail of the items

At 31 December 2014, the cash at banks and equivalent available for immediate use amounts to €2,051.4 million (€2,051.7 million at 31 December 2013). This amount includes €1,725.6 million (€1,610.1 million in 2013) of term deposits, euros market funds "SICAV", negotiable debt securities, other investments with maturities of less than 3 months.

## NOTE 12 FINANCIAL DEBT

### 12.1 Accounting principles

Bonds are recognised at their repayment value. Any issue or reimbursement premium is recognised in the corresponding balance sheet item and amortised on a straight-line basis in financial expense. Bonds issue expenses are recognised on a straight-line basis over the term of the bond.

### 12.2 Detail of balance sheet items

	Nominal rate	Variable rate swaps	31/12/2014	31/12/2013
Bonds maturity March 2021	Fixed 2.25%	€300 million	300.0	300.0
Bonds maturity March 2018	Fixed 1.63%	€300 million	500.0	500.0
Bonds maturity October 2016	Fixed 2.75%	€400 million	600.0	600.0
Other financial debts			77.6	109.4
Accrued interest			14.9	14.9
<b>GROSS FINANCIAL DEBT</b>			<b>1,492.5</b>	<b>1,524.3</b>

At 31 December 2014, no financing of material amount used by the Group is subject to clauses requiring accelerated repayment based on the Group's rating or on financial ratios.

At 31 December 2014, committed and undrawn bank credit facilities totalled €1,500 million, expiring in 2019. These credit facilities are used

as a backup for commercial paper and as a financial reserve. The credit agreement states that, in the event that the State no longer holds its golden share and, simultaneously, the ratio of consolidated net financial debt to EBITDA<sup>(1)</sup> were to exceed three, clauses providing for accelerated repayment would apply.

(1) EBITDA, as defined in the funding agreements, is the sum of operating income, depreciation of movable and immovable assets and any impairment of intangible assets, net of amortisation of goodwill. This aggregate is determined in accordance with French accounting principles.

## 12.3 Breakdown by maturity and by currency

Breakdown by maturity	31/12/2014	31/12/2013
< 1 year	78.6	109.3
From 1 to 5 years	1,114.0	1,115.0
> 5 years	300.0	300.0
<b>TOTAL</b>	<b>1,492.5</b>	<b>1,524.3</b>

Breakdown by currency	31/12/2014	31/12/2013
Euro	1,455.0	1,464.4
Singapore dollar	32.8	30.2
South African rand	4.7	–
Swiss franc	–	29.7
<b>TOTAL</b>	<b>1,492.5</b>	<b>1,524.3</b>

## NOTE 13 EQUITY

### 13.1 Capital

Thales' share capital totalling €623,523,333 at 31 December 2014, is composed of 207,841,111 shares with a nominal value of €3 each, compared with 205,744,500 shares at 31 December 2013. This represents an increase of 2,096,611 shares resulting from the exercise of share subscription options by the beneficiaries of the plans. The breakdown of the capital is presented hereafter:

	31/12/2014			31/12/2013		
	In number of shares	% of share capital	% of voting rights	In number of shares	% of share capital	% of voting rights
T.S.A.	54,786,654	26.36%	36.51%	54,786,654	26.63%	36.83%
French State (incl. 1 golden share)	2,060	–	–	2,060	–	–
<b>Public Sector<sup>(a)</sup></b>	<b>54,788,714</b>	<b>26.36%</b>	<b>36.51%</b>	<b>54,788,714</b>	<b>26.63%</b>	<b>36.83%</b>
Dassault Aviation <sup>(b)</sup>	52,531,431	25.28%	29.05%	52,531,431	25.53%	29.31%
Thales <sup>(c)</sup>	1,876,732	0.90%	–	2,490,177	1.21%	–
Employees	4,151,060	2.00%	2.70%	4,373,955	2.13%	2.86%
Other shareholders	94,493,174	45.46%	31.74%	91,560,223	44.50%	31.00%
<b>TOTAL<sup>(d)</sup></b>	<b>207,841,111</b>	<b>100.00%</b>	<b>100.00%</b>	<b>205,744,500</b>	<b>100.00%</b>	<b>100.00%</b>

(a) Under the terms of the shareholders' agreement with Dassault Aviation (the "Industrial Partner"), the Public Sector is represented by the company TSA, excluding the State directly. All Thales shares held directly and indirectly by the French State have been in directly registered form for more than two years and thus have a double voting right on 31 December 2014.

(b) Dassault Aviation has held 34,654,349 shares in directly registered form for more than two years, and thus double voting rights on 31 December 2014 and 17,877,082 shares in bearer form.

(c) Treasury shares totalled 24,000 bearer shares under a liquidity contract, and 1,852,732 directly registered shares.

(d) During 2014, 2,096,611 shares were created by the exercise of stock options, bearing rights from 1 January 2014.

At 31 December 2014, there is no share giving access to the Company's capital, with the exception of the stock options described in the note hereafter.

## 13.2 Reserves and retained earnings

	31/12/2013	2013 net income allocation	Balance of 2013 dividend	2014 interim dividend	31/12/2014
Legal reserve	60.7	1.0	–	–	61.7
Blocked reserve	8.3	–	–	–	8.3
Ordinary reserve	128.9	–	–	–	128.9
Other reserves	0.3	–	–	–	0.3
Retained earnings	418.7	399.6	(172.8)	(70.0)	575.5
<b>TOTAL</b>	<b>616.9</b>	<b>400.6</b>	<b>(172.8)</b>	<b>(70.0)</b>	<b>774.7</b>

Regarding dividends related to 2013, Thales paid €227.6 million (€1.12 per share), including €54.8 million of interim dividend in December 2013, and the balance of €172.8 million in May 2014. For 2014 Thales paid €70.0 million of interim dividends.

## NOTE 14 TREASURY SHARES

### 14.1 Accounting principles

Thales operates on its own shares in accordance with the authorisations granted to the Board of directors by the General Meeting.

At year-end, they are recognised and measured according to their assigned function:

- the treasury shares that have not been assigned are booked in other financial investments at their acquisition cost. At the closing date, a depreciation is recognised if the book value exceeds the valuation at the weighted-average stock market price of December;
- the treasury shares assigned to a plan of allocation of free shares are booked in "marketable securities", either at their acquisition cost if the shares have been assigned from the beginning of the plan, or at the net book value at the reclassification date if they have been assigned to the plan after their acquisition.

The valuation of those treasury shares is not based on the market value because of the commitment of awarding them to employees. Thus:

- the shares allocated to Thales' employees (parent company) are amortised through an increase in reserve for contingencies in liabilities, on the straight-line basis over the term of the plan (48 months),
- the shares allocated to the other employees of the Group are maintained at the historical cost, provided they are intended to be re-billed to the involved subsidiaries for the same amount.

### 14.2 Change in treasury shares

#### Change in number of shares

At 31 December 2014, Thales owns 1,876,732 treasury shares, including 700,294 shares (0.34% of the capital) that may be freely disposed of, and 1,176,438 shares (0.56% of the capital) assigned to the following plans of allocated free shares for employees:

- 15 September 2011 plan: 540,184;
- 20 December 2012 plan: 636,254.

	2014			2013		
	Freely transferable treasury shares	Treasury shares allocated to plans	Total of treasury shares	Freely transferable treasury shares	Treasury shares allocated to plans	Total of treasury shares
<b>At 1 January</b>	<b>626,717</b>	<b>1,863,460</b>	<b>2,490,177</b>	<b>583,419</b>	<b>2,212,145</b>	<b>2,795,564</b>
Purchases in the context of liquidity contract	2,146,816	–	2,146,816	1,582,469	–	1,582,469
Disposals in the context of liquidity contracts	(2,216,116)	–	(2,216,116)	(1,624,034)	–	(1,624,034)
Purchases in the market	–	–	–	524,861	–	524,861
Disposals of shares to employees (Company savings scheme)	–	–	–	(473,653)	–	(473,653)
Delivery of free shares	4,095	(548,240)	(544,145)	(555)	(305,575)	(306,130)
Exercise of stock options	–	–	–	(8,900)	–	(8,900)
Reclassified shares	138,782	(138,782)	–	43,110	(43,110)	–
<b>Net change</b>	<b>73,577</b>	<b>(687,022)</b>	<b>(613,445)</b>	<b>43,298</b>	<b>(348,685)</b>	<b>(305,487)</b>
<b>AT 31 DECEMBER</b>	<b>700,294</b>	<b>1,176,438</b>	<b>1,876,732</b>	<b>626,717</b>	<b>1,863,460</b>	<b>2,490,177</b>

## Change in value

### ■ FREELY TRANSFERABLE TREASURY SHARES

	2014	2013
<b>At 1 January</b>	<b>24.0</b>	<b>15.9</b>
Purchases in the context of liquidity contract	93.4	57.2
Disposals in the context of liquidity contract	(96.5)	(56.4)
Purchases in the market	–	19.7
Disposals of shares to employees (Company savings scheme)	0.2	(13.5)
Delivery of free shares	–	–
Exercise of stock options	–	(0.3)
Reclassified shares	3.8	1.4
<b>AT 31 DECEMBER</b>	<b>24.9</b>	<b>24.0</b>
<i>Of which, acquisition cost</i>	24.9	24.0
<i>Of which, depreciation</i>	–	–
Average share price in December	€43.68	€44.45

Treasury shares assigned to plans	2014	2013
<b>At 1 January</b>	<b>57.4</b>	<b>70.9</b>
Delivery of free shares	(19.6)	(12.1)
Reclassified free shares	(3.8)	(1.4)
<b>AT 31 DECEMBER</b>	<b>34.0</b>	<b>57.4</b>
Reserves for contingencies	(4.3)	(3.6)

## NOTE 15 PLANS OF SHARES/OPTIONS GRANTED TO THE EMPLOYEES

The Group regularly granted its employees and managers, purchase and subscription options up until 2011. The decision was made in 2012 to stop granting options.

Also, Thales regularly granted free shares and/or performance shares in reference with the employees performance management policy.

In 2014, the Group stopped free shares grants and replaced them with a Units plan (see paragraph 15.4). These different plans are described below.

At 31 December 2014, the following options, shares and units were outstanding:

- 117,800 share purchase options at a weighted average exercise price of €42.76;
- 5,841,789 share subscription options at a weighted average exercise price of €36.58, of which 658,682 performance shares;
- 1,831,191 free shares, of which 521,801 performance shares;
- 704,800 units, of which 280,250 performance units.

## 15.1 Outstanding share purchase option plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31/12/2013	Options exercised in 2014	Options cancelled in 2014	Number of options outstanding at 31/12/2014
25/11/2008	From 25/11/12 to 24/11/2018	€38.50	37,800	–	–	37,800
04/07/2007	From 04/07/2011 to 03/07/2017	€44.77	80,000	–	–	80,000

## 15.2 Outstanding subscription option plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31/12/2013	Options granted in 2014	Options exercised in 2014	Options cancelled in 2014 <sup>(b)</sup>	Number of options outstanding at 31/12/2014
15/09/2011 <sup>(a)</sup>	From 15/09/2015 to 14/09/2021	€26.34	384,200	–	–	(73,368)	310,832
23/09/2010 <sup>(a)</sup>	From 23/09/2014 to 22/09/2020	€26.34	441,350	–	(92,000)	(1,500)	347,850
25/06/2009	From 25/06/2013 to 24/06/2019	€32.88	1,057,881	–	(194,185)	(6,204)	857,492
01/07/2008	From 01/07/2012 to 30/06/2018	€38.50	1,322,360	–	(192,943)	(20,700)	1,108,717
04/07/2007	From 04/07/2011 to 03/07/2017	€44.77	1,362,250	–	(103,055)	(33,840)	1,225,355
09/11/2006	From 09/11/2010 to 08/11/2016	€36.47	1,522,655	–	(343,045)	(19,000)	1,160,610
30/06/2005	From 30/06/2009 to 29/06/2015	€34.01	1,217,420	–	(374,100)	(12,387)	830,933
01/07/2004	From 01/07/2008 to 30/06/2014	€29.50	877,945	250	(797,083)	(81,112)	–

(a) Performance shares.

(b) Including, for the involved plans, written-off options when performance targets are not, partially or totally, achieved.

### Conditions of exercise

All options are granted for a ten-year period, at no discount to the market price.

Stock purchase and subscription stock options granted between 30 June 2005 and 23 September 2010 can already be exercised in full.

The options granted on 23 September 2010 and 15 September 2011 are contingent upon the achievement of internal performance targets over the

three following financial years. The performance criteria are EBIT, operating cash flow and order intake, with a weighting of 60%, 25% and 15% respectively.

Options are validated by third once the Board of directors has approved the Group consolidated accounts of the related periods. The number of options validated will not exceed the number of shares initially allotted. For all beneficiaries, the exercise of options will only be possible as from the fourth anniversary date of the grant.

## Options granted and exercised in 2014

	Number of options granted/shares subscribed or purchased	Exercise price	Date of plan
<b>1 – Directors</b>			
Options granted in 2014			
Jean-Bernard Lévy	None		
<b>2 – The 10 biggest awards of options allotted to employees</b>			
Options granted in 2014			
	None		
<b>3 – The 10 biggest exercises of options by employees<sup>(a)</sup></b>			
Options exercised in 2014			
	20,000	€29.50	01/07/2004
	17,000	€29.50	01/07/2004
	15,000	€34.01	30/06/2005
	15,000	€32.88	25/06/2009
	10,000	€26.34	23/09/2010
	8,000	€44.77	04/07/2007
	8,000	€38.50	01/07/2008
	8,000	€32.88	25/06/2009
	7,500	€34.01	30/06/2005
	7,000	€34.01	30/06/2005

(a) For all Group companies combined.

### 15.3 Allotment of free shares and/or performance based-shares

Free shares and/or performance shares awards Plans have been implemented since 2007. Until 2011, the Chairman & Chief Executive Officer (the only company representative) and 21 executives (including Executive Committee) could not benefit from these plans. Since 2012, only the Chairman could not benefit from these plans. These plans are divided in two sub plans:

#### Free shares

All designated beneficiaries of the plan will be granted shares at the end of a four-year vesting period subject to compliance with the employment conditions stipulated under the plan's rules.

#### Performance shares

The shares granted are subject to the achievement of internal performance conditions over three financial years following the allocation date. The rights are validated by third during the Board meeting closing the three years financial statements. The number of shares vested will not exceed the number of shares initially allotted.

#### ■ Shares granted in 2010, 2011 and 2012:

- the three criteria used are EBIT, operating cash flows and order intake, each of these criteria having a 60%, 25% and 15% weighting respectively;
- all designated beneficiaries of this sub-plan will be granted validated shares at the end of a four-year vesting period subject to compliance with the employment conditions stipulated under the plan's rules. Within the two sub-plans, beneficiaries who are French tax residents or who pay social contributions in France will then have to observe a two-year lock-in period during which shares may not be sold. The lock-in period does not apply to beneficiaries who are not French tax residents.

#### ■ Shares granted in 2013:

- the three criteria used are EBIT, operating cash flows and order intake, each of these criteria having a 60%, 15% and 25% weighting respectively;
- all designated beneficiaries of this sub-plan will be granted validated shares at the end of a four-year vesting period subject to compliance with the employment conditions stipulated under the plan's rules. Due to French legislation changes, the lock-in period of two years no longer apply to beneficiaries who are French tax residents.



Date of Board decision	Vesting period	Share price at grant date	Number of free shares at 31/12/2013	Adjustments posterior to closing	Shares cancelled in 2014 <sup>(b)</sup>	Shares delivered in 2014	Number of free shares at 31/12/2014
17/09/2013	From 17/09/2013 to 17/09/2017	€39.16	422,040	–	(7,930)	(320)	413,790
			298,100 <sup>(a)</sup>	–	(57,137)	–	240,963 <sup>(a)</sup>
20/12/2012	From 20/12/2012 to 20/12/2016	€27.47	475,580	1,090	(18,020)	(250)	458,400
			228,500 <sup>(a)</sup>	–	(50,646)	–	177,854 <sup>(a)</sup>
15/09/2011	From 15/09/2011 to 15/09/2015	€25.20	456,350	320	(19,100)	(370)	437,200
			135,290 <sup>(a)</sup>	450	(32,756)	–	102,984 <sup>(a)</sup>
23/09/2010	From 23/09/2010 to 23/09/2014	€26.40	440,490	–	(14,990)	(425,500)	–
			127,250 <sup>(a)</sup>	–	(5,400)	(121,850)	–

(a) Performance shares.

(b) Including, for the involved plans, written-off options when performance targets are not, partially or totally, achieved.

## 15.4 Units or performance units grant, indexed to the value of the Thales share

A plan defined in units indexed to the value of the Thales share, including units subject to performance conditions, has been implemented in 2014. This plan is divided into two sub plans.

### Units plan subject to presence conditions

Each granted unit gives right to the settlement of a monetary value at the end of a four-year vesting period, subject to compliance with the employment conditions stipulated under the plan's rules.

This monetary value will be calculated at the end of the vesting period, and will be set equal to the average daily opening share price over the vesting period. The extreme stock market price variations in the increase or in the reduction will be neutralized.

At the end of the vesting period, the amount owed to the beneficiaries who meet the presence conditions is equal to the number of granted units multiplied by the value of the unit. Half of the payment will be done in shares, while the other half will be paid in cash.

### Units plan subject to presence conditions and performance conditions

Performance units follow the same rules as units regarding the vesting period and the presence conditions, but the number of units finally allocated will depend on the attainment of internal performance conditions over the three financial years following the allocation date. The rights are validated by third during the Board meeting closing the three years financial statements.

The number of granted validated units will not exceed the number initially allotted.

The three criteria used are EBIT, operating cash flows and order intake, each of these criteria having a 60%, 15% and 25% weighting respectively.

Date of Board decision	Vesting period	Share price at grant date	Number of units at 31/12/2013	Units allocated en 2014	Units cancelled en 2014 <sup>(b)</sup>	Units delivered en 2014	Number of units at 31/12/2014
16/09/2014	From 16/09/2014 to 16/09/2018	€42.42	–	425,920	(1,370)	–	424,550
			–	281,050 <sup>(a)</sup>	(800)	–	280,250 <sup>(a)</sup>

(a) Units subject to performance conditions.

(b) Including, for the involved plans, written-off units when performance targets are not, partially or totally, achieved.

## NOTE 16 RECEIVABLES AND PAYABLES

### 16.1 Accounting principles

Receivables and payables denominated in foreign currency are translated at the exchange rate at 31 December. The translation differences are recognised in the balance sheet in other creditors in case of unrealised

foreign exchange gain and in other debtors in case of unrealised foreign exchange loss. Unrealised foreign exchange losses are subject to a contingency provision. The corresponding increase in provision, as well as the realised foreign exchange gains and losses are recognised in the "other financial income and expenses" of the income statement.

### 16.2 Detail of balance sheet items

	Gross	Provision	31/12/2014 Net	31/12/2013 Net
<b>Advances to suppliers</b>	<b>0.5</b>	<b>–</b>	<b>0.5</b>	<b>0.3</b>
<b>Trade receivables</b>	<b>160.5</b>	<b>(1.3)</b>	<b>159.2</b>	<b>145.8</b>
<b>Other receivables</b>	<b>606.1</b>	<b>–</b>	<b>606.1</b>	<b>574.0</b>
State, income tax (Mainly research tax credit)	372.7	–	372.7	399.4
Translation difference and exchange rate adjustment	180.1	–	180.1	126.7
Tax and social security receivables	23.9	–	23.9	18.7
Others	29.4	–	29.4	29.2
<b>TOTAL</b>	<b>767.1</b>	<b>(1.3)</b>	<b>765.8</b>	<b>720.1</b>
<b>Advances received on contracts in progress</b>	<b>14.1</b>	<b>–</b>	<b>14.1</b>	<b>14.2</b>
<b>Trade payables</b>	<b>94.5</b>	<b>–</b>	<b>94.5</b>	<b>67.5</b>
<b>Other debt</b>	<b>452.0</b>	<b>–</b>	<b>452.0</b>	<b>484.1</b>
Tax debts towards integrated subsidiaries	191.7	–	191.7	225.0
Translation difference and exchange rate adjustment	163.9	–	163.9	166.3
Tax debts, excluded income tax	82.8	–	82.8	75.9
Others	13.6	–	13.6	16.9
<b>TOTAL</b>	<b>560.6</b>	<b>–</b>	<b>560.6</b>	<b>565.8</b>

### 16.3 Schedule of receivables and payables at 31 December 2014

	Net	Maturity		
		< 1 year	1 to 5 years	>5 years
Advances to suppliers	0.5	0.5	–	–
Trade receivables	159.2	159.2	–	–
Other receivables	606.1	334.2	271.9	–
<b>TOTAL RECEIVABLES</b>	<b>765.8</b>	<b>493.9</b>	<b>271.9</b>	<b>0.0</b>
Advances received on contracts in progress	14.1	14.1	–	–
Trade payables	94.5	94.5	–	–
Other debt	452.0	318.7	133.3	–
<b>TOTAL PAYABLES</b>	<b>560.6</b>	<b>427.3</b>	<b>133.3</b>	<b>0.0</b>

## NOTE 17 RESERVES FOR CONTINGENCIES

### 17.1 Accounting principles

The Group books provisions for implicit or legal current obligations resulting from a past event and which would require a loss of resources of which the amount can be estimated reliably.

#### Provisions on pensions and other employee benefits

The funding of pension is mainly based on state plans (Social Security State plans, compulsory additional plans such as ARRCO, AGIRC...) for which the pension expense for the financial year is equal to the contributions called by, and thus, payable to, such plans. These contributions are recognised as an expense for the period.

The Group grants its employees retirement awards and other long-term benefits (long-service awards and one exceptional week of paid holidays granted the year when the employee reaches a seniority of 35 years within the Group). Some senior executives can benefit from an additional pension plan.

For these benefits, qualified as defined benefit plans, a provision is recognised on the basis of an actuarial valuation, according to the projected unit credit method and taking into account the future salary levels. This method consists in assess for each employee, the actuarial value of the benefit that he can intend at the due date, by taking into account assumptions concerning financial discounting, inflation, mortality and staff turnover rates...

The Company recognises these schemes according to the following rules:

- the normal cost, which corresponds to the commitment increase over the current year, is recognised in income (loss) from operations;
- the financial income (expense) includes the undiscounting of the net commitment, the impact of the actuarial gains and losses and the amortisation of the change in pension plans when the benefits are renegotiated;

- the actuarial gains and losses resulting from the impact of changes in actuarial assumptions or from experience adjustments (difference between projected and actual) on commitments are recognised:

- for retirement benefits, in income or expense using the "corridor" approach. The portion exceeding 10% of the commitment at the closing date is amortised over the expected average remaining working life of employees benefiting from the scheme,
- for the other long-term benefits, totally in income or expense for the period.

Thales decided to outsource a part of its pension benefits commitments by entering into a contract of insurance with the Allianz Group. The value of these investments reduces the amount of provisions.

#### Subsidiary risks

Equity investments held by Thales are measured at the end of each period and depreciated if necessary. When the investments are totally depreciated and that the share of Thales in the equity of the subsidiaries or equity affiliates becomes negative and when required by the situation, a provision for subsidiary risks is recognised.

#### Restructuring

Provisions for restructuring costs are made when restructuring programs have been agreed and approved by Group management and have been announced before the balance sheet date, resulting in an obligating event of the Group to the third parties in question, as long as the Group does not expect consideration for these costs.

### 17.2 Reserves in the balance sheet

	31/12/2013	Increase	Reversal Utilisation	31/12/2014
Pensions and other employee benefits (17.3)	59.3	10.9	(6.0)	64.2
Subsidiary risks	28.7	3.2	–	31.9
Restructuring	8.7	12.4	(9.1)	12.0
Others	57.3	2.6	(9.7)	50.2
<b>TOTAL</b>	<b>154.0</b>	<b>29.1</b>	<b>(24.8)</b>	<b>158.3</b>

## 17.3 Pensions and other employee benefits

The provisions in the balance sheet are analysed as follows:

	2014			2013		
	Post-employment benefits	Others	Total	Post-employment benefits	Others	Total
<b>Balance sheet position at 1 January</b>	<b>(56.3)</b>	<b>(3.0)</b>	<b>(59.3)</b>	<b>(49.5)</b>	<b>(2.9)</b>	<b>(52.4)</b>
<b>Net increase in provisions of which:</b>	<b>(4.9)</b>	<b>–</b>	<b>(4.9)</b>	<b>(6.8)</b>	<b>(0.1)</b>	<b>(6.9)</b>
Current service cost	(4.2)	(0.2)	(4.4)	(3.0)	(0.2)	(3.2)
Net interests	(2.7)	(0.1)	(2.8)	(2.8)	(0.1)	(2.9)
Amortisation of plan amendments	(1.7)	–	(1.7)	(1.7)	–	(1.7)
Amortisation of actuarial gains and losses	(1.6)	0.1	(1.5)	(2.6)	(0.1)	(2.7)
Financial expense	(6.0)	–	(6.0)	(7.1)	(0.2)	(7.3)
Benefits paid by employer and employer contributions	6.0	0.4	6.4	4.6	0.3	4.9
Others	(0.7)	(0.2)	(0.9)	(1.3)	(0.1)	(1.4)
<b>BALANCE SHEET POSITION AT 31 DECEMBER</b>	<b>(61.2)</b>	<b>(3.0)</b>	<b>(64.2)</b>	<b>(56.3)</b>	<b>(3.0)</b>	<b>(59.3)</b>

They reconcile with the net actuarial commitment as follows:

Commitments	(156.1)	(3.2)	(159.3)	(138.3)	(3.0)	(141.3)
Investments	40.9	–	40.9	39.8	–	39.8
<b>Under-financing at 31 December</b>	<b>(115.2)</b>	<b>(3.2)</b>	<b>(118.4)</b>	<b>(98.5)</b>	<b>(3.0)</b>	<b>(101.5)</b>
Actuarial losses to be amortised	43.0	0.2	43.2	29.5	–	29.5
Change in pension plans to be amortised	11.0	–	11.0	12.7	–	12.7
<b>PROVISION AT 31 DECEMBER</b>	<b>(61.2)</b>	<b>(3.0)</b>	<b>(64.2)</b>	<b>(56.3)</b>	<b>(3.0)</b>	<b>(59.3)</b>

The used actuarial assumptions for the determination are the following:

	31/12/2014	31/12/2013
Discount rate	1.50%	2.90%
Inflation rate	1.60%	2.00%
Average rate of the increase in salary	2.70%	2.70%
Expected average remaining working life	7 years	12 years

## NOTE 18 LEGAL AND ENVIRONMENT RISKS

### 18.1 Legal risks

Due to the nature of its business activities, Thales is exposed to the risk of technical and commercial litigation.

To prevent disputes or limit their impact, Thales policy is to systematically seek alternative methods of settlement. This policy is reviewed on a regular basis to take into account changes in the Company's core areas of business and is backed by employee training programme.

In addition, Thales implemented a procedure several years ago to centralise all civil and criminal litigation and claims. These are handled by the Group Legal Department, with the support of the Group companies concerned.

At the end of 2002, a group of French manufacturers, including Thales and one of its subsidiaries, collectively received a request for arbitration relating to the execution of old contracts. In proportion to each Industrial Partner's involvement, Thales would have been liable for around 20% of the total claim of \$260 million. Under an agreement signed in 2003, the client withdrew its request for arbitration.

In November 2012, the claimant filed a new request for arbitration for a revised amount of €226 million. Industrial Partners are strongly challenging this claim and at this date it is not possible to evaluate any potential financial risk. Consequently, Thales has not recognised any provision. This procedure is still under way.

## 18.2 Environment risks

Due to the nature of Thales's activities, environmental risks are related to potential adverse environmental and health effects of these activities, impact of the environment on its operations and non-compliance with new regulations applicable to activities and to products.

For many years, Thales has conducted regular analysis and update of environmental risks in accordance with its business activities, scientific and technical developments and the emerging environmental challenges.

This analysis, represented by risk mapping, is intended to:

- ensure that employees and local residents are not exposed to health and environmental risks;
- ensure the compliance of activities and products;

- analyse the impact of new regulations, including on product design;
- specify an appropriate organisation and associated action plans, either at Group level or locally, according to the risk mapping results.

In support of this analysis, an environmental management system has been deployed at all sites in order to ensure the control and limitation of the products' and activities' environmental impacts in accordance with the Group's environmental commitments. As part of the Group's references, this system is deployed throughout the different job families. As such, environmental competences have been widened to include engineering, research, procurement and contracts.

At 31 December 2014, the amount of reserves for environmental contingencies amounted to €4.6 million.

## NOTE 19 OFF-BALANCE SHEET COMMITMENTS

### 19.1 Deposits and guarantees

Commitments given:	31/12/2014	31/12/2013
■ Guarantees given by Thales under commercial contracts signed by operating entities	9,102.1	7,961.8
■ Guarantees given to banks for facilities granted to subsidiaries	1,811.9	1,757.3
■ Counter-guarantee given to trustees to hedge obligations regarding pensions in the United-Kingdom	1,072.0	1,001.6
■ Other guarantees given to Group's subsidiaries	393.5	–
■ Other guarantees given to third parties	781.7	461.7
<b>Total<sup>(a)</sup></b>	<b>13,161.2</b>	<b>11,182.4</b>
■ Of which, related to direct subsidiaries (note 23)	3,692.4	3,341.7
■ Of which, related to other Group's subsidiaries	9,112.2	7,431.8
■ Of which, related to direct and indirect equity affiliates	356.6	408.9
<b>Commitments received:</b>	<b>31/12/2014</b>	<b>31/12/2013</b>
Debt write-offs granted to related companies with clawback provisions	121.7	179.2

(a) The increase in guarantees between 2013 and 2014 is due to the change in exchange rate (+€520 million) and the setting-up of new guarantees on significant contracts.

### 19.2 Commitments to lease

	31/12/2014	31/12/2013
<b>OPERATING LEASE</b>	<b>753.7</b>	<b>541.2</b>
< 1 year	113.9	118.8
1 to 5 years	358.8	275.0
In more than 5 years	281.0	147.4

The increase in payable loans between 2013 and 2014 is due to the replacement of expired leases by leases of an average maturity of 9 years, as the Group did not change significantly the number of occupied square meters.

## 19.3 Commitments related to pensions (note 17)

	31/12/2014	31/12/2013
Actuarial losses to be amortised	43.2	29.5
Impact of changes in pension plans to be amortised	11.0	12.7

## NOTE 20 MARKET RISKS

### 20.1 Accounting principles

Thales Treasury and Financing Department (parent company) operates an active policy on the financial markets in order to reduce the interest rate and foreign exchange risks of the Group.

#### Interest rate risk management

Thales uses interest rate derivatives to manage and reduce its exposure to risks of changes in interest rates. Where these contracts are designated as hedging instruments, the gains and losses on such contracts are recognised in the same period as the hedged item.

#### Currency risk management

Thales hedges currency risks arising in connection with the negotiation of contracts by its subsidiaries denominated in currencies other than the main production currency. The gains and losses related to foreign exchange derivatives taken out by Thales with banks as counterparts, are recognised in income or expenses. When the valuation of Thales' commitment to hedge contract negotiations of its operating subsidiaries is negative, a provision is recognised.

Thales hedges, on behalf of its subsidiaries, foreign exchange related to firm contracts and normal commercial operations. In this context Thales ensures to its operating subsidiaries specific exchange rate for each transaction and backs up its position by taking out foreign exchange derivatives with banking counterparts. The unrealised or realised gains and losses, both on bank derivatives and subsidiaries' guarantees, are recognised symmetrically in income or expenses.

Thales hedges its currency risks related to cash pooling. Gains and losses on foreign exchange derivatives are balanced with gains and losses resulting from the revaluation of the hedged financial Group accounts/loans. As an exception, the gain or loss related to the derivatives' swap points is spread over the hedge duration.

In some cases Thales hedges net foreign investments. The gains and losses on the foreign exchange derivatives are recognised in the item "translation difference" of the balance sheet (note 16). As an exception, the gain or loss related to the derivatives' swap points is spread over the hedge duration.

### 20.2 Interest rate risks management

At 31 December 2014 and 31 December 2013, Thales mainly held the following derivative instruments. All these instruments are qualified as hedge.

	31/12/2014		31/12/2013	
	Nominal	Market value	Nominal	Market value
<b>Swaps with variable-rate payable</b>				
■ swaps related to bond with maturity 2021	300.0	21.0	300.0	(2.6)
■ swaps related to bond with maturity 2018	300.0	8.3	300.0	0.1
■ swaps related to bond with maturity 2016	400.0	14.8	400.0	16.5
<b>TOTAL</b>	<b>1,000.0</b>	<b>44.1</b>	<b>1,000.0</b>	<b>14.0</b>
<b>Swaps with fixed-rate payable</b>				
■ swap related to bonds with maturity 2014	—	—	200.0	(0.3)
■ swap related to a loan with maturity 2019	11.1	(0.6)	13.3	(0.5)
<b>TOTAL</b>	<b>11.1</b>	<b>(0.6)</b>	<b>213.3</b>	<b>(0.8)</b>

## 20.3 Currency risks management

At 31 December 2014 and 2013 the derivative instruments taken out by Thales with banks are the following:

	31/12/2014					31/12/2013	
	USD	GBP	Others	Total	Market value	Total	Market value
Negotiations and trade operations hedges:							
■ Forward currency purchases	4,291.2	474.3	1,411.7	6,177.2	(151.5)	4,955.3	106.4
■ Forward currency sales	1,581.7	507.8	980.5	3,070.0		2,494.2	
■ Options (call and put): currency sales	192.2	–	64.9	257.1	2.0	543.5	5.2
■ Options (call and put): currency purchases	15.9	80.0	104.1	200.0		384.0	
Hedges related to cash pooling:							
■ Currency sales: foreign exchange swaps	386.2	–	206.0	592.2	(20.7)	100.1	(5.4)
■ Currency purchases: foreign exchange swaps	66.5	814.9	406.7	1,288.1		989.8	
Hedges related to net foreign investments:							
■ Currency sales: foreign exchange swaps	–	–	–	–	–	39.4	(0.4)
■ Currency purchases: foreign exchange swaps	–	–	–	–		–	

At the same time, Thales granted to its operating subsidiaries in the extent of firm contracts or normal commercial operations, "mirror" foreign exchange guarantees.

Furthermore Thales granted to its operating subsidiaries foreign exchange guarantees in the extent of the commercial contracts negotiation; these guarantees depend on the award of the corresponding contracts. The corresponding Thales' commitment was subject to a provision of €7.7 million at 31 December 2013. This provision has been reversed in 2014.

## NOTE 21 RELATED PARTIES

### 21.1 Definition

The Group has identified the following related parties: the shareholders of the Thales parent company (particularly the French State and Dassault Aviation), companies controlled by these shareholders, joint ventures, companies under significant influence and senior executives.

### 21.2 Agreements signed with Thales' shareholders

The main provisions concerning the shareholders' agreement (governing relations between the Public Sector and the Industrial Partner within Thales), the convention on the protection of national strategic interests and the specific convention are described in part 3 of the 2013 registration document, which remain the same in 2014.

### 21.3 Agreements signed with DCNS

Since December 2011, Thales holds 35% of share capital in DCNS, subsidiary jointly controlled with the French state.

Thales and DCNS also signed an industrial and trade cooperation agreement, whose objective is to optimize the organisation of the activity of both groups in naval operations (market access, research and development, purchasing).

## 21.4 Compensation of Directors and senior Executives

The compensation, benefits and social charges awarded to the directors and the members of the Executive Committee break down as follows:

	2014	2013
<b>Short-term benefits:</b>		
■ Fixed compensation	4.3	4.0
■ Variable compensation	2.9	2.8
■ Employer's social security contribution	2.5	3.1
■ Contract termination benefits resulting from contract commitments	–	3.1
■ Employer's social security contribution/contract termination benefits	–	1.0
■ Compensation for attendance at Board meetings	0.6	0.6
<b>Other benefits:</b>		
■ Post employment benefits	1.7	1.2
■ Share-based payments (note 15 <sup>(a)</sup> )	0.7	0.5

(a) According to IFRS 2 –Share-based payments.

## NOTE 22 EVENTS AFTER REPORTING PERIOD

At the publication date of this document, no event liable to modify Thales' financial position has occurred since year-end.



**NOTE 23** SUBSIDIARIES AND EQUITY AFFILIATES

Information related to the entity <i>(local currency)</i>				Contribution of subsidiaries and equity affiliates to Thales' financial statements <i>(EUR)</i>								
	Prior year sales exc. VAT	Income (loss) for last year ended	Share capital	Share equity other than capital	Carrying amount of investments held (Gross)	Carrying amount of investments held (net)	Share of the capital held (%)	Loans and advances made by Thales not yet paid	Receivables	Liabilities	Amounts of deposits and guarantees given by Thales	Dividend received by Thales during the year
(€ millions)												
A. Detailed disclosures concerning subsidiaries and equity affiliates where the gross value exceeds 1% of the Company's share capital												
1. Subsidiaries												
Thales Holdings UK PLC	GBP	-	6.9	726.8	883.3	2,571.7	1,700.0	100%	-	453.9	393.5	-
Thales Avionics SAS	EUR	1,194.6	102.0	175.0	222.2	936.8	936.8	100%	-	315.4	-	107.2
Thales Alenia Space SAS	EUR	-	158.5	918.0	222.7	683.1	683.1	67%	-	-	496.1	61.7
Thales Systèmes Aéroportés SAS	EUR	877.1	71.8	93.2	118.6	706.1	706.1	100%	-	893.4	324.5	85.6
Thales Deutschland GMBH	EUR	-	-4.8	27.1	323.3	545.0	545.0	100%	119.4	-	220.7	-
Thales USA INC	USD	-	3.4	118.1	252.9	394.1	394.1	100%	-	13.2	24.7	47.3
Thales Communications & Security SAS	EUR	1,722.2	95.0	164.0	37.1	590.7	590.7	100%	0.1	590.4	1,001.6	74.9
Thales International SAS	EUR	-	54.6	313.0	10.5	398.5	398.5	100%	151.5	29.8	6.0	11.3
Thales Air Systems SAS	EUR	503.2	5.5	126.3	192.7	314.1	314.1	89%	-	355.5	162.7	-
Avimo Group LTD	SGD	-	0.5	22.1	35.6	250.7	62.0	100%	-	-	-	-
Thales Nederland BV	EUR	433.7	33.5	29.5	54.2	235.2	235.2	99%	-	159.7	501.8	-
Thales Underwater Syst NV	EUR	-	0.0	4.5	4.1	129.2	8.5	100%	-	-	-	-
Thales Services SAS	EUR	358.6	5.1	1.5	38.9	126.4	126.4	100%	21.9	-	8.5	14.4
Sifelec SAS	EUR	-	-0.0	38.3	0.4	111.8	38.7	100%	-	28.1	-	-
Thales Optronique SAS	EUR	392.5	37.1	56.2	103.1	106.3	106.3	77%	0.7	154.4	127.4	17.0
Thales Underwater Systems SAS	EUR	368.1	33.0	15.3	-10.4	96.5	96.5	100%	-	262.4	110.9	28.3
Thales Holding Norway AS	NOK	-	-0.0	419.8	-186.8	77.1	77.1	100%	-	-	-	-
Thales Corporate Ventures SAS	EUR	-	-0.4	15.0	12.6	73.3	16.7	100%	-	12.0	-	-
Thales Microelectronics SAS	EUR	58.4	-1.8	0.5	26.8	88.0	26.8	100%	2.7	-	-	-
Thales Suisse SA	CHF	68.0	9.2	57.2	5.8	56.1	56.1	100%	-	-	-	5.6
TDA Armements SAS	EUR	84.2	16.5	0.3	17.4	51.7	51.7	100%	-	3.0	-	22.3
Thales Europe SAS	EUR	-	-6.4	43.2	-11.5	43.2	43.2	100%	215.2	-	-	-
Thales Belgium SA	EUR	23.0	1.6	3.4	0.7	41.4	4.6	100%	-	5.2	18.6	-
Thales Electron Devices SAS	EUR	292.4	12.9	31.0	35.9	39.2	39.2	100%	48.6	0.0	41.3	11.9
CMT Medical Technologies LTD	USD	14.2	-3.4	1.0	31.1	21.8	21.8	100%	-	6.9	-	-
Thales Canada INC	CAD	345.3	-31.9	6.8	65.4	19.7	19.7	55%	9.6	1.1	249.1	-
SNC Thales Merignac	EUR	-	-0.1	20.0	-	20.0	20.0	100%	-	1.5	-	-
Thales Avionics Electrical Systems SAS	EUR	132.9	-5.6	6.9	-5.1	18.6	18.6	100%	52.1	1.5	-	-
SMB pour l'Electronique SAS	EUR	-	-	0.0	-	16.2	-	100%	-	-	-	-
Thales SESO SAS	EUR	15.0	1.4	0.4	1.7	14.6	14.6	100%	4.9	-	-	1.5
Thales Global Services SAS	EUR	410.8	0.8	0.5	4.6	12.4	10.3	100%	0.0	11.1	-	-
SAS Châtellerault Brelandiere	EUR	2.9	-0.0	2.0	2.1	10.0	4.0	100%	-	1.2	-	0.3
Thales Communications LTDA	BRL	-	-	14.6	-14.6	9.2	-	100%	-	-	-	-
Thales Angenieux SAS	EUR	75.8	3.2	2.7	10.9	8.1	8.1	100%	3.2	-	4.6	3.0
TOTAL SUBSIDIARIES					8,816.8	7,374.5	-	629.9	3,299.6	3,692.1	492.3	

Information related to the entity <i>(local currency)</i> Contribution of subsidiaries and equity affiliates to Thales' financial statements <i>(EUR)</i>									
<i>(€ millions)</i>	Prior year sales exc. VAT	Income (loss) for last year ended	Share capital	Share equity other than capital	Carrying amount of investments held (Gross)	Carrying amount of investments held (net)	Share of the capital held (%)	Loans and advances made by Thales not yet paid	Dividend received by Thales during the year
<b>2. Equity affiliates</b>									
United Monolithic Semiconductors Holding	EUR	-	33.9	7.8	24.3	21.3	50%	-	-
Electronica SPA	EUR	11.7	-	66.0	26.7	26.7	33%	-	4.4
Sofradir	EUR	137.8	20.6	60	71.4	26.5	50%	-	8.9
Telespazio SPA	EUR	661.8	21.7	50.0	186.9	81.6	33%	3.6	7.0
DCNS Group	EUR	3,065.9	-334.3	563.0	833.7	833.7	35%	-	2.6
Thales Systems Ireland LTD	EUR	-	1.3	7.7	56.3	56.3	23%	-	3.0
Cloudwatt	EUR	-	-35.2	225.0	50.0	35.0	22%	-	3.7
Amper Programas, Electronica Y Comunicaciones	EUR	4.5	-4.0	3.0	11.2	-	49%	-	-
<b>Total Equity Affiliates</b>		-	-	-	<b>1,110.3</b>	<b>1,081.1</b>		<b>3.6</b>	<b>27.0</b>
<b>TOTAL A.</b>					<b>9,927.1</b>	<b>8,455.6</b>		<b>3.6</b>	<b>3,299.6</b>
								<b>3,694.7</b>	<b>519.3</b>

Information related to the entity <i>(local currency)</i> Contribution of subsidiaries and equity affiliates to Thales' financial statements <i>(EUR)</i>									
<i>(€ millions)</i>	Prior year sales exc. VAT	Income (loss) for last year ended	Share capital	Share equity other than capital	Carrying amount of investments held (Gross)	Carrying amount of investments held (net)	Share of the capital held (%)	Loans and advances made by Thales not yet paid	Dividend received by Thales during the year
<b>B. General disclosures concerning other subsidiaries and equity affiliates</b>									
<b>1. Subsidiaries not listed in section A.</b>									
French subsidiaries					33.3	19.9	-	34.5	0.3
Foreign subsidiaries					0.7	0.1	-	-	-
<b>Total</b>					<b>34.0</b>	<b>20.0</b>		<b>34.5</b>	<b>0.3</b>
<b>2. Equity affiliates not listed in section B.</b>									
In French companies					11.6	11.4	-	-	1.1
In foreign companies					7.4	0.1	21.0	68.7	0.2
<b>Total</b>					<b>19.0</b>	<b>11.5</b>		<b>68.7</b>	<b>1.3</b>
<b>TOTAL B.</b>					<b>53.0</b>	<b>31.5</b>		<b>103.2</b>	<b>230.5</b>
<b>TOTAL: A+B</b>					<b>9,980.1</b>	<b>8,487.1</b>		<b>733.1</b>	<b>3,317.7</b>
<b>Information concerning related companies</b>									
Thales' direct subsidiaries (A)								629.9	3,299.6
Thales' direct subsidiaries (B)								34.5	16.8
Other Group's subsidiaries								131.4	995.0
								9,112.2	

## Investments made and thresholds crossed in French companies in 2014

## ■ PERCENTAGE OWNED

(€ thousand)	Amount of investment	At 31/12/2013					At 31/12/2014				
		>5%	>20%	>33%	>50%	>66%	>5%	>20%	>33%	>50%	>66%
<b>1. Increases</b>											
SNC MERIGNAC	19,999	-	-	-	-	-	-	-	-	-	100%
<b>2. Decreases</b>											
Paris Publishing		-	25%	-	-	-	-	-	-	-	-

## 1.3.2.6 Results of the Company for the last five years

(€ million, except for per share data)

	2010	2011	2012	2013	2014
<b>1. Share capital at year-end</b>					
Share capital	597.2	607.0	607.0	617.2	623.5
Number of ordinary shares issued	199,082,027	202,328,457	202,339,674	205,744,500	207,841,111
Maximum number of shares to be created in future: by exercise of subscription options	17,860,559	15,056,223	12,294,262	8,186,261	5,841,789
<b>2. Operations and results for the period</b>					
Sales excluding tax	133.0	143.9	174.9	205.9	224.4
Earnings before taxes, employee profit-sharing, depreciation, amortisation and provisions	152.6	(224.2)	222.0	379.7	609.3
Income tax	87.4	78.9	48.1	85.8	77.4
Employee profit-sharing during the period	-	-	-	-	-
Earnings after taxes, employee profit-sharing, depreciation, amortisation and provisions	192.3	175.4	306.8	400.6	662.9
Net income distributed	97.7	155.2	175.7	227.6	70.0 <sup>(a)</sup>
<b>3. Earnings per share</b>					
Earnings after tax and employee profit-sharing but before amortisation, depreciation and provisions	1.21	(0.72)	1.34	2.26	3.30
Earnings after taxes, employee profit-sharing, depreciation, amortisation and provisions	0.97	0.87	1.52	1.95	3.19
Net dividend per share	0.50	0.78	0.88	1.12	1.12 <sup>(b)</sup>
<b>4. Personnel</b>					
<b>Average employee headcount during the year:</b>	<b>987</b>	<b>985</b>	<b>824</b>	<b>833</b>	<b>852</b>
Engineers and managers	795	808	711	726	749
Technicians and supervisors	192	177	113	107	103
<b>Personnel charges of which:</b>	<b>166.4</b>	<b>188.9</b>	<b>161.6</b>	<b>177.1</b>	<b>183.2</b>
Total wage and salary costs for the period	120.8	138.4	113.7	123.9	130.2
Social charges and benefits paid during the year (Social security, welfare)	45.6	50.5	47.9	53.2	53.0

(a) Interim dividend.

(b) Subject to the approval of the Annual General Meeting of Shareholders on 13 May 2015.

2010: Capital increased from €597,071,796.0 to €597,246,081.0 following capital increase.

2011: Capital increased from €597,246,081.0 to €606,985,371.0 following capital increase.

2012: Capital increased from €606,985,371.0 to €607,019,022.0 following capital increase.

2013: Capital increased from €607,019,022.0 to €617,233,500.0 following capital increase.

2014: Capital increased from €617,233,500.0 to €623,523,333.0 following capital increase.

### 1.3.3 STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

This is a free translation into English of the statutory auditors' report on the financial statements issued in French and it is provided solely for the convenience of English-speaking users.

The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.

This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to the shareholders.

This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

Year ended December 31, 2014

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended 31 December 2014, on:

- the audit of the accompanying financial statements of Thales;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of directors. Our role is to express an opinion on these financial statements based on our audit.

#### I - Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at 31 December 2014 and of the results of its operations for the year then ended in accordance with French accounting principles.

#### II. Justification of our assessments

In accordance with the requirements of Article L.823-9 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

##### Investments

Investments which appear in the balance sheet as at 31 December 2014 for a net amount of €8,487.1 million are assessed at their cost price and subject to impairment tests in accordance with the methods set out in note 8 to the financial statements.

Based on the information provided to us at the time of our audit, our work consisted in assessing the data used to estimate the net realizable value, in particular, we reviewed the update of forecast profitability of the subsidiaries and investments, and verified the consistency of the assumptions used with the forecast data taken from the strategic plans drawn up for each of these subsidiaries or investments under management's control and checked that notes to the financial statements provide appropriate information.

#### Litigation and contingency provisions

As regards contingency provisions and litigation, we ensured that the procedures in force in your company made it possible to identify, evaluate and recognise such provisions from an accounting standpoint in satisfactory conditions. We also ensured that the disputes identified during the implementation of these procedures were described in appropriate terms in the notes to the financial statements, and, in particular, in note 18.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

#### III - Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of directors and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L.225-102-1 of the French Commercial Code (*Code de commerce*) relating to remunerations and benefits received by the Directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders or holders of the voting rights has been properly disclosed in the management report.

Courbevoie et Paris-La Défense, 25 February 2015

The statutory auditors  
French original signed by

**MAZARS**

Jean-Marc Deslandes  
Anne-Laure Rousselot

**ERNST & YOUNG Audit**

Philippe Diu  
Michel Gauthier

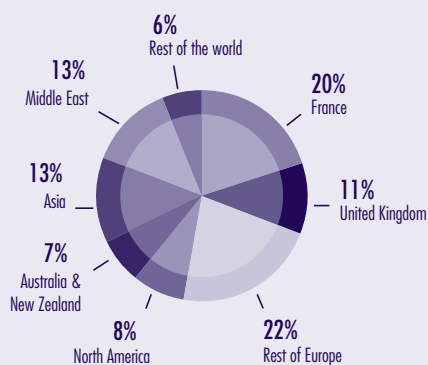
## A BUSINESS PORTFOLIO BALANCED BETWEEN CIVIL AND DEFENCE ACTIVITIES, SHARING COMMON TECHNOLOGIES

(€ million)	Aerospace		Transport		Defence & Security		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Order book	8,687	7,881	3,615	3,330	14,915	13,226	<b>27,285</b>	<b>24,469</b>
Order intake	5,024	4,297	1,652	1,454	7,608	7,114	<b>14,363</b>	<b>12,928</b>
Sales	5,014	4,713	1,402	1,447	6,480	6,455	<b>12,974</b>	<b>12,698</b>
EBIT <sup>(1)</sup>	505	420	32	97	620	499	<b>985</b>	<b>1,011</b>
Employees under Group management	17,935	17,299	6,139	5,910	31,257	31,131	<b>60,781</b>	<b>59,467</b>

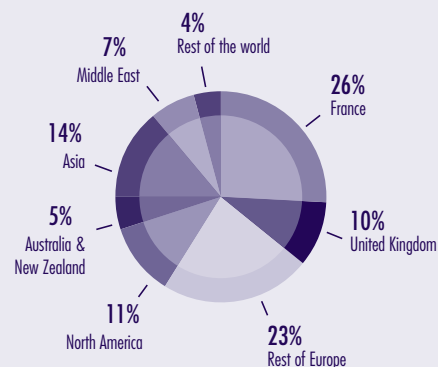
(1) Non-GAAP measure, see Group Management Report, page 8.

## A STRONG INTERNATIONAL PRESENCE

### ORDERS BY DESTINATION 2014



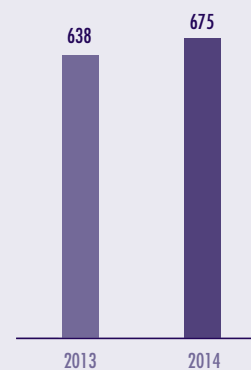
### SALES BY DESTINATION 2014



## INNOVATION AT THE HEART OF THE STRATEGY

- A portfolio of 15,000 patents, almost 400 new applications filed in 2014.
- A policy of innovation open to the academic world, research centres and industrial partners: 5 laboratories collaborating with universities and over 30 cooperative partnerships with universities and research centres.
- Five Thales Research & Technology laboratories worldwide: France, United Kingdom, Netherlands, Singapore and Canada.
- Thales, a major player in the competitive clusters in France and the United Kingdom.

### SELF-FUNDED R&D





## 2

# BUSINESS REVIEW

<b>2.1</b>	<b>OPERATING SEGMENTS</b>	<b>122</b>
2.1.1	Aerospace segment	122
2.1.2	Transport segment	124
2.1.3	Defence & Security segment	126
<b>2.2</b>	<b>RESEARCH AND INNOVATION</b>	<b>131</b>
2.2.1	Research and development - the key to competitiveness and growth	131
2.2.2	Four key technical domains	131
2.2.3	Thales at the heart of innovation ecosystems	132
2.2.4	A dynamic approach to intellectual property management	133
<b>2.3</b>	<b>RELATIONS BETWEEN THALES AND ITS SUBSIDIARIES</b>	<b>134</b>
2.3.1	Simplified organisational chart of Thales at 31 December 2014	134
2.3.2	Role of Thales parent company within the Group	135
2.3.3	Financial flows between the parent company and its subsidiaries	135
<b>2.4</b>	<b>INFORMATION ABOUT MAJOR OPERATIONAL SUBSIDIARIES AND MANUFACTURING SITES</b>	<b>136</b>
2.4.1	List of the main consolidated companies (as of 31 December 2014)	136
2.4.2	Major manufacturing sites	137

## 2.1 Operating segments

In early 2013, the Group has set up a matrix organisation based on:

- six Global Business Units, divided into three operating segments: Aerospace (Avionics, Space), Transport (Ground Transportation Systems) and Defence & Security (Secure Communications and Information Systems, Land & Air Systems, Defence Mission Systems);
- an international organisation split into the major industrial countries in which the Group is present (Germany, France, the Netherlands, the UK, Canada, the United States and Australia & New Zealand), other European countries and emerging markets.

### 2.1.1 AEROSPACE SEGMENT

The Aerospace segment includes the Avionics and Space Global Business Units.

The Avionics Global Business Unit offers a large array of equipment and functions for piloting, navigation and aircraft control systems, electrical generation and conversion, and in-flight entertainment and connectivity systems. This activity also includes simulation and training solutions for military aircraft and civil and military helicopters as well as microwave or imaging subsystems. As a partner with the major aircraft manufacturers and airlines, Thales is a player in the entire value added chain of the aviation sector, in addition to its space and air traffic management business.

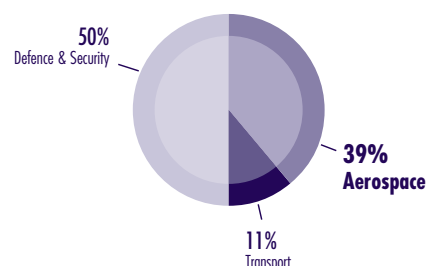
The Space Global Business Unit offers spatial systems and solutions, in particular in the fields of telecommunications, radar and optical observation of the Earth, satellite navigation and exploration of the universe. The strategic partnership in the space sector between Thales and Finmeccanica – the Space Alliance – responds to the significant environmental, scientific, security and information society development challenges and is based on the complementary solutions offered by Thales Alenia Space (67% owned by Thales) in satellite systems and by Telespazio (33% owned by Thales) in related services.

#### 2.1.1.1 Key data

	2014	2013
Order book at 31 December	€8,687 m	€7,881 m
Order intake	€5,024 m	€4,297 m
Sales	€5,014 m	€4,713 m
EBIT <sup>(a)</sup>	€505 m	€420 m
Consolidated headcount	17,935	17,299

(a) Non-GAAP indicator. See definition in the section entitled "Presentation of Financial Information" in the Group management report on page 8.

#### SALES



#### 2.1.1.2 Avionics

##### 2.1.1.2.1 General overview

Thales manufactures flight avionics systems, passenger cabin equipment and systems and flight simulators for helicopters and military aircraft. In addition, the Group offers microwave and imaging subsystems.

The portfolio of flight avionics systems and equipment comprises on-board electronics systems, including helmets display, for aircraft navigation and handling for civil and military fixed-wing and rotary-wing aircraft.

Thales also supplies electrical generation and power conversion equipment.

In the cabin systems market, Thales's offer is focused on the in-flight entertainment and passenger connectivity segment. In addition, the Group offers lighting and aircraft interior systems through Diehl Aerospace.

In simulation and training, Thales provides flight simulators for several European defence programmes and provides training for pilots, particularly for helicopters, via the Helisim joint venture.

Microwave subsystems (tubes and power amplifiers) are aimed at the space and defence market, as well as at some telecommunications and civil industrial applications, while imaging subsystems are aimed at the medical radiology market.

##### 2.1.1.2.2 Competitive position

As one of the leading players on the avionics market, Thales is a supplier for the civilian and military aircraft manufacturers AgustaWestland, Airbus Group, ATR, Bell, Boeing, Bombardier, Dassault Aviation, Embraer, Gulfstream, NHIndustries, Sikorsky and Sukhoi. The other major players in this field are the US companies Honeywell and Rockwell Collins. The growth of this business therefore correlates directly to the change in production rates of aircraft manufacturers.

In the passenger cabin systems segment, Thales is one of the world's top two players with Panasonic Avionics.



There are numerous competitors on the simulation solutions market, particularly from US defence companies such as Lockheed Martin, Raytheon and L3Com.

Thales continues to be a global market leader in microwave and imaging subsystems.

#### 2.1.1.2.3 Significant events in 2014

In **Civil avionics**, the year was notable for the certification of the Airbus A350 XWB by the EASA (European Aviation Safety Agency) followed by its delivery to Qatar Airways. The first successful flight of the A320neo was also an important milestone for Thales, since it incorporated a new flight control computer.

In addition, Thales delivered to ATR a series of developments in connection with the evolution of the "standard 2" of the ATR-600 avionics suite. The various aeronautical certification authorities approved the automatic landing function offered by Thales aboard the Sukhoi Superjet 100, enabling airplane to operate at visibilities on the ground of less than 200 feet. Finally, Thales was selected to develop and implement advanced flight control solutions for the future business airplanes Gulfstream G500 and G600.

Among signed agreements with airline companies, the Taiwanese company TransAsia Airways chose Thales's avionics suite for its 18 new A320 airplanes. China Eastern Airlines's new fleet of Airbus single-aisle airplanes will also be equipped with the most recent avionics solutions, including surveillance systems, flight management systems and head-up displays (HUD).

In **Training & Simulation**, 2014 was marked by the opening of the A400M team training centre at the Brize Norton Royal Air Force base in the United Kingdom, which was built by Thales and is managed by a joint venture between Thales and Airbus Group. The first FFS (Full-Flight Simulator) supplied by Thales was installed at this A400M pilot school. The British Defence Minister also awarded Thales a several million pound contract to supply a second A400M flight simulator, which will also be installed at the training centre in 2015.

In Australia, Thales will provide simulators for Australian naval and ground force helicopter team training, including three EC135 Full Flight simulators, as well as support service and maintenance. In addition, Thales continued to pursue its strategy of developing local, tailored training centres for civilian helicopter operators. For example, in 2014 it opened the first training centre for AS350 helicopter pilots in Albertville, France.

Thales expanded its **in-flight entertainment** business through the acquisition of LiveTV. The Group thus obtained new multimedia solutions to equip airliners with multi-band, high-speed connectivity solutions. In 2014, Thales also launched its 4th generation system AVANT, which has already been selected by 12 airlines for installation on board various platforms (A330, A350, A380, B737, B777, B787). In all, Thales equipped 184 aircraft with its in-flight entertainment systems in 2014.

In the area of **Helicopter avionics**, Thales will supply its Integrated Electronic Standby Instrument (IESI) for the modernisation of the Brazilian army's Equilo/Fennec helicopter fleet. The IESI integrates essential standby functions of artificial horizon, altimeter and anemometer within a compact, single piece of equipment. Thales's Scorpion helmet display was chosen to equip Thales's future Airbus Helicopters weapon systems.

In the area of **Military avionics**, Thales delivered the second tactical version of the systems developed for the A400M, including innovative functions, some of which were designed in connection with the SESAR (Single European Sky Air Traffic Management Research) studies.

With respect to **Electrical Systems**, major milestones were reached in connection with the Dassault Aviation Falcon 5X Programme.

In airline support, Thales was among the top ten in the Airbus Supplier Support Ranking for the eighth consecutive year. Airbus also commended Thales for its customer-support performance for in-flight entertainment, naming it best in class in-flight entertainment supplier. In terms of maintenance contracts, the Chinese company Sichuan Airlines renewed its confidence in the Group with respect to maintenance of Thales components.

In 2014, Thales reinforced its position as a worldwide leader in the area of **Microwave & Imaging Sub-Systems**, having significant commercial success in exporting, in particular to Asia, in defence, with delivery of the first transmitters to the South Korean army.

### 2.1.1.3 Space

#### 2.1.1.3.1 General overview

Thales Alenia Space is a joint venture between Thales (67%) and Finmeccanica (33%) and a partner in the Space Alliance, along with Telespazio.

Thales Alenia Space has more than 40 years of experience in the design, integration, testing, operation and commissioning of innovative space systems. These cutting-edge systems meet the needs of commercial, government, scientific, defence and security customers from around the world. The satellites and payloads designed by Thales Alenia Space have become the global standard for space systems that provide communications and navigation services, monitor our environment and the oceans, help us better understand climate change and drive scientific progress. Thales Alenia Space is also a leading supplier to the International Space Station, and a pivotal player in space systems designed to explore the Universe.

Thales Alenia Space is one of the world's leading designers of **telecommunications satellites**, platforms and payloads, a market that accounts for 50% of its business. The company offers a wide range of solutions, from supplying high-performance equipment to turnkey systems. The Spacebus NEO family of geostationary platforms meets the needs of operators from around the world. The payloads designed by Thales Alenia Space have proven their performance, reliability and competitiveness on satellites made by all leading space industry manufacturers. Thales Alenia Space is one of the world's foremost players in low/medium earth orbit mobile communications constellations, with a total of 117 satellites on order (81 Iridium NEXT, 12 O3b and 24 Globalstar Second Generation).

In the military segment, Thales Alenia Space operates in the design and production of extremely secure telecommunications systems and observation systems and high-resolution radar and optical payloads. It offers space and ground telecommunications and observation segments, as well as dual civil and military systems. It is at the heart of the Franco-Italian cooperation with the Sicral and Athena Fidus programmes.

In the area of **Earth observation**, Thales Alenia Space is a leader in high- and very high-resolution optical and radar payloads, in which it is a major exporter, supplying military, dual or civilian missions: information gathering, target designation, map-making and crisis management, meteorology, oceanography and climatology, etc.

For the last three decades, the European Space Agency (ESA) and Eumetsat have awarded Thales Alenia Space the contract for Europe's meteorological satellites (the three generations of Meteosat satellites), as well as the Copernicus environmental missions and spatial altimetry, an



activity in which the radars of Thales Alenia Space are the standard in ocean and ice surveillance.

Thales Alenia Space is now also prime contractor for Exomars, ESA's most ambitious Mars mission, following the success of Herschel and of Planck, the largest space observatories ever developed in Europe. The company is also the contractor for EUCLID, ESA's scientific satellite dedicated to the understanding of dark matter. On the ground, it deployed radioastronomy antennae on the Atacama Plateau in Chile under the ALMA programme for the European Southern Observatory.

Thales Alenia Space is also at the origin of satellite navigation in Europe as prime contractor for Egnos, the precursor to Galileo, and has a major role in its development with Galileo system support, participation in the In-Orbit Validation phase, which consists of manufacturing the first four satellites of the constellation, and especially in the deployment of the ground-based mission segment (Galileo Mission Segment) for the full constellation.

In manned space flight, Thales Alenia Space is a major contributor to the International Space Station (ISS), supplying more than 50% of its pressurised volume and heavily involved in the ATV (Automated Transfer Vehicle) for ESA and Cygnus for NASA, which will supply the ISS. In addition, the company is developing the IXV atmospheric re-entry demonstrator for ESA.

Thales Alenia Space also contributes to the European policy on access to space through the provision of the on-board electronics for the Ariane rocket and the on-board backup system for Soyuz in Guyana.

#### 2.1.1.3.2 Competitive position

The satellite market is a dynamic but highly competitive market. In the commercial satellite segment, the main competitors of Thales Alenia Space are MDA (SSL Loral), Airbus Group, Orbital Sciences Corporation, Boeing and Lockheed Martin. Going forward, the commercial challenge is the capacity to offer satellite solutions with electric-only propulsion. Other international manufacturers (Russian, Chinese, Indian, Israeli, Japanese, etc.) have gradually emerged on the commercial market with increasingly competitive solutions both in telecommunications and in observation.

The leading competitors in the institutional market in Europe, which depends to a large extent on the budgetary situation of governments, are Airbus Group and OHB, which may also be partners depending on the programme.

#### 2.1.1.3.3 Significant events in 2014

In connection with Ambition Boost, the Group's global performance plan, Thales Alenia Space has implemented several initiatives to ensure its

growth while maintaining the quality that is at the heart of its strategy and favouring innovation. It has made R&D investments in order to launch new products. Finally, it has implemented a plan to extend Thales Alenia Space's international footprint.

The first results of the plan enabled Thales Alenia Space to obtain four contracts in 2014, for five telecommunication satellites: Yamal 601 for the Russian operator Gazprom Space System, Koreasat 5A and Koreasat 7 for KTSAT in South Korea, Inmarsat S/HellaSat 3, a shared satellite for Inmarsat and Arabsat, and Telkom 3S for the Indonesian operator Telkom. The European Space Agency has announced Phase B of the NEOSAT programme to develop new geostationary satellite platforms.

In the area of Earth observation, a new tranche of financing for the new generation COSMO-SkyMed programme was approved by the Italian Space Agency (ASI), and the French Space Agency (CNES) selected Thales Alenia Space to build the SWOT (Surface Water and Ocean Topography) satellite, which is intended to be used for oceanography and hydrology. Finally, the Falcon Eye contract relating to two high-resolution optical observation satellites for the United Arab Emirates entered into force.

In 2014, Thales Alenia Space participated in 12 launches, including in particular Athena Fidis, the first success from the Franco-Italian cooperation on a dual mission; the Sentinel 1A, which opens the door for the ESA's Copernicus programme; and lastly, the second cluster of the O3b constellation, for which responsibility was transferred to the customer on 13 August 2014, now in orbit and operational. The third cluster of four O3b satellites was also launched in late December.

In terms of technology and innovation, new products were launched in the areas of optical observation and high-resolution radar. Emphasis was placed on the development of the Spacebus line under the name Spacebus NEO, with a hybrid propulsion offering and a fully electric version planned for 2015. Finally, in terms of innovation, Thales Alenia Space reinforced its capacities in this area with the Stratobus, a geostationary stratospheric platform that has been part of the French industrial development plan since July 2014.

Thales Alenia Space's international growth accelerated in 2014 with the opening of a new site in Louvain, Belgium, the creation of a new subsidiary in the United Kingdom (which integrated the space activities of SEA, a company that was later acquired), as well as the project to create Thales Alenia Space Brazil, a subsidiary intended to oversee the technology transfer provided for in the SGDC contract won in 2013.

## 2.1.2 TRANSPORT SEGMENT

Thales provides transport infrastructure operators and managers with systems and services to operate their investments to best effect by optimising their operational performance, offering the best passenger experience, and managing the growing complexity of transport systems. Thales solutions

help increase the capacity of transport infrastructures and promote the highest safety in the transport of people and goods, rapidly and cost effectively.

## 2.1.2.1 Key data

	2014	2013
Order book at 31 December	€3,615 m	€3,329 m
Order intake	€1,652 m	€1,454 m
Sales	€1,402 m	€1,447 m
EBIT <sup>(a)</sup>	€32 m	€97 m
Consolidated headcount	6,139	5,910

(a) Non-GAAP indicator. See definition in the section entitled "Presentation of Financial Information" in the Group management report on page 8.

## 2.1.2.2 Ground Transportation Systems

## 2.1.2.2.1 General overview

The Group is one of the leading players worldwide in transportation systems: rail signalling, monitoring and supervision for urban, suburban and mainline transportation networks, and ticketing.

In rail signalling, Thales provides systems for conventional and high speed mainline networks, in addition to metro, tram and suburban networks.

In terms of monitoring and communications, Thales leverages its expertise in critical information supervision systems to offer transport network operators integrated solutions. They can thus monitor and effectively control critical operations (from traffic to power and communications management) and implement efficient solutions to satisfy passengers by offering a higher quality of service while helping to improve passenger, network and personal safety.

Thales is also a large player in passenger payment collection solutions, in particular for public transit operators, and has long experience with multimodal and multi-operator ticketing systems.

## 2.1.2.2.2 Competitive position

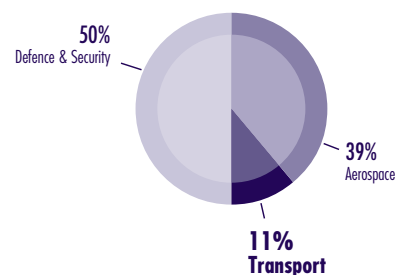
Thales addresses the ground transportation business, whose growth is linked to a great extent to urban planning, with a portfolio of automation and services solutions dedicated to the operation, security and safety of rail infrastructures. Specialised in intelligent critical systems and services, Thales distinguishes itself from its "generalist" competitors, who offer a range of products dominated by rolling stock. Its key capabilities make Thales a recognised leading player with strong positions in these markets.

The competitive landscape varies significantly depending on the segment targeted by Thales. In signalling, Thales is a major player, its main competitors being Siemens, Alstom, Ansaldo STS and Bombardier. In terms of supervision and telecommunications, the major generalist players are also present, as well as more local and/or specialist providers such as HollySys, Indra and Singapore Technologies Engineering. In Revenue Collection, the main Groups competitors are Cubic, Parkeon, Scheidt & Bachmann and Xerox.

## 2.1.2.2.3 Significant events in 2014

In **main lines**, Thales won a contract from PKP Polish Lines S.A. in Poland to deploy an ERTMS solution including the AlTrac ETCS Level 2 signalling system and the GSM-R communication system on two branches of the Warsaw-Lodz line. The ETCS (European Train Control System), the European standard for train control, permits transparent border crossing while significantly increasing railway infrastructure capacity and the safety of operations.

## SALES



In the United Kingdom, Network Rail launched an ambitious plan to modernise its mainline traffic management, with 12 regional operational centres. Network Rail selected Thales to equip the first two centres, in Romford and Cardiff, with the NetTrac Aramis solution.

In France, the SNCF entered into a contract with Thales to replace the signal control point at Vitry-sur-Seine with the electronic interlocking solution LockTrac PIPC, permitting an optimal level of safety while increasing the number of trains that can travel on the line.

In Spain, Thales joined with Siemens to win two signalling, supervision and telecommunications contracts to equip more than 500km of lines on the high-speed Antequera/Granada and Olmedo/Orense sections.

Thales won several maintenance contracts for mainline lines, in particular in Portugal and in Spain. In ticketing, Thales was awarded a maintenance contract by the Dutch railway company NS for more than one thousand access gates installed in the country's largest train stations. More generally, the mainline activity is sustained by framework agreements to provide LockTrac electronic interlocking systems, in particular in France, Germany, Austria, Switzerland and Norway.

In Morocco, the consortium formed by Thales, Huawei and Imet won a contract to supply the railway operator ONCF with a turnkey communication system based on the GSM-R standard. As the leader of the consortium, Thales runs the programme.

In addition, Thales has had several other successes in emerging markets. For example, Thales gained a foothold in Nigeria, winning a contract to provide an integrated signalling and telecommunications system for the future 330-km line between Itapké and the Port of Warri.

In India, Thales won a first ETCS Level 1 contract from Southern Railways to modernise the Basin Bridge-Arakonam section in Southern India.

In Mexico, Thales was selected to deploy its signalisation ETCS Level 2 technology on the suburban rail line between Mexico City and Toluca, the capital of the State of Mexico.

In **urban transport**, the SelTrac® CBTC signalling solution for metro invented by Thales is an automatic train control system allowing operators to increase traffic on their lines by reducing intervals between trains with optimal safety.

This solution was selected for the modernisation of two networks in the United States: for the San Francisco metro, in order to prolong an existing line, and for the University of West Virginia, which also selected Thales ticketing systems, passenger information systems and centralised operational control systems to modernise its campus rapid transit network.

In Germany, Thales won a contract to equip the Mehringdamm station of Line U6 of the Berlin metro with its LockTrac ESTW L905 NV electronic interlocking solution.

In France, the Bordeaux Metropolitan Area selected Thales to replace its existing ticketing system with a contactless multimodal and interoperable ticketing system.

In addition, Thales's Urban Transport Unit won numerous contracts in emerging markets. In Brazil, SelTrac® CBTC will equip two future metro lines in Salvador, whilst the Sao-Paulo metro selected Thales's telecommunications systems for a future line in its network.

In Chile, Thales won a contract from the Santiago metro to supply an operational control centre for two lines, and to carry out the migration of the SCADA energy system (for management and optimisation of electrical consumption) for the entire network.

In Azerbaijan, Thales for the first time signed a contract with the Bakou metro to supply an integrated supervision and telecommunications solution for Phase 1 of the Purple Line.

In Qatar, Thales won a contract to equip the future Lusail tramway with a complete solution including ticketing, telecommunications, supervision and security systems.

In China, Thales's joint venture SAIC Transportation System Limited Company won six metro-line signalling contracts. It will supply the SelTrac® CBTC solution to the metros of Hefei, Shenzhen, Wuhan, Guangzhou and Shanghai.

In India, Thales will equip the 80 stations of Phase III for the Delhi metro, which extends over 100km, with a ticketing system including 900 access gates. Thales also won the contract to provide a ticketing system for Phase 2 of the Gurgaon metro.

## 2.1.3 DEFENCE & SECURITY SEGMENT

### 2.1.3.1 Key data

	2014	2013
Order book at 31 December	€14,915 m	€13,226 m
Order intake	€7,608 m	€7,114 m
Sales	€6,480 m	€6,456 m
EBIT <sup>(a)</sup>	€620 m	€499 m
Consolidated headcount	31,257	31,131

(a) Non-GAAP indicator. See definition in the section entitled "Presentation of Financial Information" in the Group management report on page 8.

Thales is a long-standing partner to military and security forces around the world, providing support on the ground to increase operational effectiveness as well as ensure the highest levels of protection.

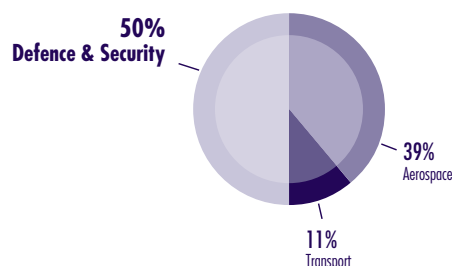
Thales designs systems for all sectors: land, air, naval, space and cyberspace. These systems detect and assess threats, manage information, support rapid command decisions and control engagements, through to threat neutralisation, with maximum reliability. By facilitating the coordination of joint or coalition forces operations, they contribute to the decision-making superiority of the forces.

As new risks emerge, defence alone cannot protect against new threats such as trafficking, terrorism, organised crime, cyber-attacks, natural disasters, etc.

This convergence of defence and security requires new solutions and technologies to be implemented to facilitate the sharing of existing information and communication systems, as well as the protection of networks and infrastructure.

The Defence & Security segment, with a primarily government customer base, leverages Thales's expertise in these various fields. Logically, the evolution in this business is closely linked to changes in threats and defence spending in the countries in which the Group operates.

### SALES



### 2.1.3.2 Secure Communications and Information Systems

#### 2.1.3.2.1 General overview

At the heart of the defence-security continuum, Thales offers interoperable and secure information and telecommunications systems for military forces, security forces and essential operators. These activities, which include radio communications, networks, protection systems, and critical information and cybersecurity systems, respond to the needs of markets in which new technologies such as 4G mobile communications, cloud computing and *big data* are of utmost importance. Thales is present throughout the value chain, from equipment to systems and systems of systems, logistical support and related services.

These businesses represent four major segments:

- **Radio Communication Products.** Thales designs radios and embedded and tactical communication solutions for the three environments (ground, air and sea), navigation systems, identification (IFF<sup>(1)</sup>) systems, and force-protection systems. The armed forces of more than 50 countries around the world are equipped with Thales solutions. The Group is a major player in the development of high-performance, secure Software Defined Radio (SDR) solutions. The contractor for the Contact programme in France, it is also present at the European level with the Eссор programme and in the United States with the Rifleman programme;

(1) Identification Friend or Foe.

- **Network and Infrastructure Systems.** Ensuring the security, integrity, service continuity and resilience of deployable or mobile infrastructure and telecommunications networks are major challenges for governments, armed forces and essential businesses. The solutions designed by Thales respond to the needs of the most exacting customers in the world. For instance, Thales offers services ranging up to the operation and management of secure networks for the armed forces, even in theatres of operations. For example, for more than eight years Thales has operated the ISAF<sup>(1)</sup> Communications and Information Systems in Afghanistan and deploys capacity for the armed forces currently engaged in Mali. In France, the Group is managing the development and deployment phases, through to operation of the information, communication and security systems of the future Ministry of Defence site;
- **Protection Systems.** Thales develops information, command and intelligence systems for armed forces. The Group also responds to the growing safety needs of nations (identity management systems, border control and surveillance), of cities (urban security, crisis management, security for large events) and of critical infrastructure (protection of airports, of public transportation, of sensitive sites, and of energy sites). These solutions are intended to improve operational safety and efficiency by facilitating rapid decision-making by the operators of the command and control centres or in mobile situations, and by providing their users with relevant, clear and immediate information about their environment;
- **Critical Information Systems and Cybersecurity.** Thales actively contributes to the performance, resilience and security of the critical information systems of its customers, public bodies or large businesses, in particular essential infrastructure operators, who are confronted with numerous advances in computer programming and the continuous evolution of cyber threats. Thales supports its customers from the analysis of security challenges (detection and audit) to supervision of critical information system security, through the phases of design, integration of tailored products and solutions, maintenance and evolution of systems, as well as maintaining them in safe condition. Thales also provides security products and solutions (confidential or defence secret) in 50 countries, including the NATO countries. The Group is among the worldwide leaders in securing banking transactions, in particular through its Hardware Security Modules (HSM).

### 2.1.3.2.2 Competitive position

Thales has a variety of competitors, both at the sector and geographic levels, depending on the business.

In defence applications - radiocommunications, networks, and command and control - the main competitors are American: Harris, General Dynamics and Raytheon. The Israeli company Elbit Systems is also a competitor. In Europe, Airbus Group is active, as are Rohde & Schwarz, particularly in the areas of naval communications and electronic war, and Aselsan, essentially for radiocommunications.

In security, Thales's competitors are primarily in the aeronautic and defence sector (Boeing, Northrop Grumman, Honeywell, Airbus Group, etc.) or in the information systems sector (IBM, Atos, Capgemini, etc.). The latter are also competitors of Thales in critical information systems.

Finally, in cyber security, Thales is in competition with companies like RSA or Gemalto in the civil arena and BAE Systems, Ultra Electronics, Airbus Group and Secunet in defence.

### 2.1.3.2.3 Significant events in 2014

In France, Thales is continuing to pursue the Contact programme, which beginning in 2018 will deliver the first **Software Defined Radio (SDR) solutions** for ground, aeronautic and naval armed forces. In the United States, Thales obtained a pre-series contract for the soldier radio Rifleman, and pursued its experiments with the MBITR 2 - the first two-channel portable radio - for the American armed forces. In Europe, Thales was chosen by three major countries (France, United Kingdom and Germany) for the Mode 5 renovation of IFF systems for aircraft. In export, the Group recorded significant orders for VHF and HF tactical radios in several countries in the Middle East and Asia. Thales confirmed its position among the leaders on the market for military vehicle intercommunication systems with the signature of contracts in the Middle East and in Australia for its Sotas system.

Finally, Thales took 100% control of APEC, which develops "command and control systems" and tactical radios in Spain and now operates under the name Thales Programmas.

In **Secure Infrastructure and Networks**, Thales was chosen by the armed forces of Qatar to supply a satellite military communications system. This new system will provide long-distance communication capacity to the ground and naval forces for their missions of national security and protection of the country's vital interests. In France, for the new headquarters of the Ministry of Defence, Thales is already operating the critical information and security systems for the users that are already installed.

With respect to **Protection Systems**, in 2014 Thales had numerous successes in this fast-growing segment. Mexico City decided to entrust the Group with doubling the size of its urban security system and with the maintenance of its solutions. Thales was awarded new contracts by new clients for the protection of critical infrastructure in the oil, port, and airport segment (first global supervision system signed in France with Aéroports de Lyon). The Group, which is in charge of security for the holy sites of Mecca, was awarded a new contract to extend the system. It was also in charge of security for the G20 summit held in November in Brisbane, Australia. In the area of biometrics and identity management, Thales confirmed its strong position on the French market, with a doubling of biometric stations (Bionet contract extended to 400 stations) and supplied Switzerland's first biometric visa stations.

In defence, in France, the DGA launched the Scorpion programme and chose the group composed of Nexter, Renault Trucks Défense and Thales for the renewal of all of its armoured combat vehicles, including support equipment for information systems and for battlefield digitisation. Thales will be responsible for the electronic architecture of the vehicles. With this contract, combined with the contract already awarded for the Contact Software Defined Radio, Thales reinforces its position as the electronics provider of reference for the digitisation of the battlefield and for development and information within the Land Force's platforms.

Several clients renewed their confidence in Thales for their C4I<sup>(2)</sup> systems, in particular Canada, Australia and France, with the SIC21 for the Navy and the construction of the foundation for the Army Information System (SIA).

In **Critical Information Systems and Cyber Security**, Thales acquired Alcatel-Lucent's cyber security business and signed a commercial partnership giving it access to the market for telecommunications operators and infrastructure security. Thales reinforced its competitive position in the supervision of critical information systems security by obtaining a major contract from a global financial services leader. Several large providers of cloud computing services, as well as two American distributors of digital content, chose Thales's nShield cyber security solution to secure their businesses.

(1) International Security Assistance Force (ISAF). The ISAF is the military component of the coalition, under the aegis of NATO and under UN mandate, operating in Afghanistan since 2001.

(2) Computerized Command, Control, Communications and Intelligence.

Finally, several agreements were signed to create cyber security chairs, in particular with the University of Qatar and with the Naval Academy and Telecom Bretagne, in cooperation with DCNS and the Brittany region.

## 2.1.3.3 Land and Air Systems

### 2.1.3.3.1 General overview

Thales systems and equipment help to make airspace safer and more secure. In civil **air traffic control**, Thales's portfolio ranges from conventional navigational aids to radar and air traffic control centres, surveillance systems, satellite navigation and airport management solutions.

Thales plays a key role as architect and integrator for the air traffic management of the future, mainly through initiatives such as ICAO's<sup>(1)</sup> Aviation System Block Upgrades in Europe and the NextGen programme in the United States. Thales remains the leading Industrial Partner of the SESAR<sup>(2)</sup> project in Europe.

In the military domain, Thales owns 50% of Thales Raytheon Systems, a leading international air defence company. Since its creation in 2001, Thales Raytheon Systems has sold air defence radars, including the GM200 and GM400 built by Thales, and command and control centres for military airspace throughout the world, ensuring the protection and security of forces and resources deployed in over 60 countries. Thales Raytheon Systems is notably prime contractor for NATO's Air Command and Control System (ACCS).

Moreover, Thales offers in all continents, one of the broadest lines of civil and military, ground based and naval radars on the market, for surveillance, air traffic management and fire control.

Thales offers a wide range of **weapons systems** for : medium-range (SAMP/T), short-range (Crotale and RAPIDDefender) and very short-range markets (RAPIDFire and RAPIDRanger). The Group also specialises in multirole weapons systems based on the new lightweight multirole missile (LMM) family, which includes a guided, free-fall variant. Thales is also a major player in the munitions sector: rocket mortar systems, metric precision munitions, missile and bomb fuzing systems, vehicle close protection systems, soldier systems and battlefield protection systems.

In **optronics**, Thales designs and manufactures components and systems for day and night surveillance, reconnaissance, protection and target acquisition on all types of land, sea (surface and subsurface) or air platforms for defence and security customers worldwide. Thales's expertise in optics is also applicable to the commercial fields of zoom lenses for film-making and lasers for scientific research.

Thales designs, manufactures and supports **armoured military vehicles** including the Hawkei and Bushmaster. Thales provides integrated capability solutions at all levels of the value chain from subsystem supplier, to system integrator, mission systems design authority and prime contractor. The open architecture systems of vehicles provides highly standardised "plug and play" capability for on-board sub-systems and products, increasing vehicle capability and performance whilst reducing size, weight and operator workload and whole life system costs.

### 2.1.3.3.2 Competitive position

Thales's expertise in all aspects of air traffic control (automation, navigation, surveillance and satellite communication) is widely recognised by the world's civil aviation authorities. With over 40% of the world's airspace controlled by TopSky-ATC, Thales is at the forefront of air traffic control systems and civilian radars.

Other major players in the civil sector are the US groups Lockheed Martin and Raytheon, European companies Indra and Finmeccanica (Selex), and in some niche areas Saab, Frequentis and Exelis.

In the military segment, Thales's main competitors are the US groups Lockheed Martin, Northrop Grumman, and Raytheon, and Finmeccanica, Airbus Group, BAE Systems, Indra and Saab in Europe.

Thales is one of Europe's leading suppliers of medium-range, short-range and very short-range missiles and weapon systems. Other principal players in this field in Europe (MBDA) and the US (Raytheon and Lockheed Martin) are also major customers of Thales's missile electronics and key partners in weapon systems.

Thales is one of Europe's foremost optronics suppliers facing competition in this segment from US suppliers (Raytheon and Flir Systems). The protected vehicles systems market segment is dominated, on an international level, by BAE Systems, General Dynamics, Rheinmetall, Krauss-Maffei Wegmann and Nexter, with Thales operating in Europe as an independent integrator both for its own and other suppliers' equipment within complex mission systems.

### 2.1.3.3.3 Significant events in 2014

In **air traffic management**, Thales (jointly with NATS, through the dedicated The Aquila Air Traffic Management Systems joint venture) was awarded a 22-year contract with the UK Ministry of Defence to transform air traffic management at all its military airfields, including the provision of new equipment, system upgrades, maintenance, support services and training. A number of contracts for civil air traffic control systems and radars were signed in Europe (Bulgaria, Belgium, Czech Republic, France, UK and COOPANS<sup>(3)</sup>), in the Middle East, in Asia, in Africa and in Central and Latin America. Regarding navigational aids, the main contracts were signed in the United States, Africa and Asia. A leader of ATM innovation, first industry partner in the European single-sky programme SESAR, Thales has contributed to the success of I-4D flight test, TOPMET prototype flight test and has successfully passed important validations. The Group also introduced SHAPE, its future vision of the Air Traffic Controller Working Position.

Thales delivered 15 **radars** from the Ground Master family to air forces and Thales Raytheon Systems signed contracts for 16 GM400 and GM200 radars to insure low and medium altitude surveillance of French territory. Two additional Ground Master 60 have also been ordered by another country. In weapon locating radars, Thales signed a major contract with a customer in Middle Eastern countries for Cobra radar. In the naval domain, DCNS has selected Smart-S Mk2 radars to equip Gowind frigates for Egypt. In addition, the French Ministry of Defence signed a development contract for the new Sea Fire 500 multifunction AESA radar, which has been officially launched during the Euronaval show.

Various important system tests and on-site tests were successfully completed as a demonstration of the operational capabilities of the NATO Air Command and Control System (ACCS), including theatre missile defence capability. The deployment phase is currently under way in Italy, France, Belgium and Germany.

(1) International Civil Aviation Organization (ICAO).

(2) Single European Sky ATM Research.

(3) COOPANS: air traffic management system involving Austria, Croatia, Denmark, Ireland and Sweden.



In the sphere of **advanced weapons systems**, 2014 was marked by the delivery of last SAMP/T to the Italian and French forces. Thales signed a contract for the ForceSHIELD Integrated Air Defence system and STARStreak missiles for the Indonesian Ministry of Defence, integrating radars, communications, engagement and fire control systems, launchers and missiles to meet front-line users' needs. The Lightweight Multi-role Missile (LMM) was selected to meet the UK MoD's requirement for a Future Anti-Surface Guided Weapon which provides the Royal Navy with a versatile, rapidly-deployable and highly-effective capability to defeat the threat from small ships and inshore attack craft. In the context of the UK Multi-mission System Technical Demonstrator programme, successful missile firings from the RAPIDRanger multi-role launcher have taken place.

Thales also conducted a successful demonstration firing of its sub metric precision 68mm laser-guided rocket incorporating induction technology, from a Tiger HAP helicopter for a programme overseen by the French Defense Procurement Agency (DGA). The Group also signed a significant contract with the French Ministry of Defence to develop and qualify the next generation of insensitive ammunitions for both the 81mm and 120mm mortars family devoted to reinforce security, terminal effect and logistic performances.

In 2014, several export contracts were won in the **Optronics** domain in particular in the Middle East and Asia. In France, Optrolead (a joint company of Thales and Safran) has been selected for the renovation of the Scorpion programme optronics suite. Thales also successfully launched its long range thermal imager with more than 600 units ordered and also recorded the first full operational flight of its MIRAS Missile Warner System on board A400M.

In the field of **lasers**, Thales confirmed its market position on intense laser intended for scientific research with the notification of contracts in Romania, Germany and Japan.

For **Armoured Vehicle Systems**, Thales won two new export markets, Japan and Jamaica, for its Bushmaster vehicle, and also continued to progress on the development of the Hawkei for the Australian light armoured vehicle procurement programme. In the UK, a new vehicle-mounted surveillance capability was delivered to the Ministry of Defence, additional mission systems for Foxhound patrol vehicles were ordered and further quantities of rifle sights were supplied through the Future Integrated Soldier Technology (FIST) programme.

## 2.1.3.4 Defence Mission Systems

### 2.1.3.4.1 General overview

Thales has recognised global positions in airborne combat, intelligence, surveillance and reconnaissance electronic systems as well as in naval surface and underwater combat systems.

For **airborne combat missions**, Thales produces, in cooperation with Dassault Aviation, radar systems and equipment for the Rafale, the Mirage 2000 and the future combat UAVs, as well as electronic radar Air French Radar Naval Aviation systems, designed to detect threats and to protect platforms.

**For airborne intelligence, surveillance and reconnaissance missions**, Thales designs naval patrol and surveillance, ground and air surveillance solutions, including a range of electromagnetic-based intelligence-gathering sensors. These systems, installed on airborne platforms, integrate surveillance radars, acoustical sub-systems, electromagnetic support measure equipment, and data links. Thales also designs complete UAV systems with intelligence, surveillance, target acquisition and reconnaissance capabilities.

In **surface naval warfare**, the Thales offering covers all combat systems with the integration of equipment (radar, electronic warfare, infrared sensors, etc.), weapons systems, communications and command equipment, as well as naval platform engineering capabilities.

In **underwater warfare**, the Group offers a broad line of products including the submarine sonar suite, hull-mounted and towed array sonar for surface ships, anti-mine systems incorporating multiple sonars, including using unmanned underwater vehicles, as well torpedo acoustic heads.

### 2.1.3.4.2 Competitive position

In electronic combat systems, Thales is one of the leading European players, competing with Finmeccanica (Selex), BAE Systems, Lockheed Martin, Raytheon and Northrop Grumman in addition to Airbus Group, General Atomics and Elbit in intelligence, surveillance and reconnaissance systems.

In surface naval systems, Thales is one of the principal European players, alongside Finmeccanica (Selex), Saab and BAE, and competes with Lockheed Martin. In underwater warfare, Thales is one of the principal European players along with Atlas Elektronik and Ultra Electronics, and is in competition with the American companies Lockheed Martin, Raytheon and L3.

### 2.1.3.4.3 Significant events in 2014

**Electronic Combat Systems.** The ASTAC tactical reconnaissance pods were adapted for the French Mirage 2000s, in order to carry out reconnaissance missions heretofore carried out by Mirage F1s. Several demonstration flights of the complete renovated Mirage 2000 system for the Indian Air Force were successfully carried out. In addition, the first phase of studies relating to the suite of multifunction sensors for the future Franco-British combat UAV began in collaboration with Finmeccanica. The French Ministry of Defence awarded Thales a technological studies contract concerning the future generation of active electronically scanned array. Finally, the first Rafale modernised to the F3 standard was delivered to the French Navy.

**Airborne surveillance and intelligence systems.** A memorandum of understanding with the armed forces of Qatar was signed to jointly develop an optionally piloted aircraft composed of a high-performance ISTAR system. The final standard for the maritime patrol aircraft for the Turkish Meltem 2 programme was delivered. The HMaster radar now has a maritime mode that permits it to visualise mobile targets on sea in addition to its ISR<sup>(1)</sup> terrestrial capabilities. The British Watchkeeper tactical UAV system is currently in use in Afghanistan. It contributes to support and protect the British land forces. The new multi-role airborne surveillance radar Searchmaster was launched: the ATL2 mission aircraft from the Air French Naval Aviation will be the first to be so equipped.

(1) Intelligence Surveillance Reconnaissance.

**Surface naval systems.** The Malaysian Royal Navy ordered six SMARTS Mk2 naval surveillance radars for patrol ships and second-generation coastline combat. The Netherlands acquired the new SCOUT Mk3 radar to equip an interservice support ship. Poland signed a contract for the delivery of the integrated combat system as well as sensors for a patrol ship. The Australian Department of Defence renewed for a term of five years its award of service management and ship-maintenance operations for the royal navy at the port facilities of Garden Island in Sydney. At the same time, Thales will perform maintenance on Australian frigates of the Adelaide class.

**Underwater warfare systems.** The Malaysian Royal Navy ordered six Mk2 sonars for second generation patrol ships and coastline combat. Poland will equip the Komoran II mine hunter with acoustic systems. The British Royal Navy awarded the contract for support of the 2050 sonar used on the 13 Type 23 frigates. Three new products were launched: the BlueWatcher hull-mounted sonar and the related CAPTAS1 sonar for warships and offshore patrol vessels of over 300 tonnes, as well as the mine detector SeeMapper, intended to secure maritime zones by mapping the seabed.

## 2.2 Research and innovation

Thales needs to acquire increasingly sophisticated technologies, particularly in detection, analysis and decision-making fields, in order to design and develop critical information systems. These innovative solutions serve customers in the aeronautics, space, ground transportation, defence and security markets.

Thales's R&D strategy is based on the conviction that a successful high-tech company needs teams of high-level experts with the ability to understand

and evaluate the findings of the world's best research centres. The durability of the alliances which the Thales group maintains with its strategic partners guarantees the construction of a solid technological foundation.

The research is carried out in accordance with guidelines aimed at giving the Group's operating units the competitive edge they need to ensure sustainable growth.

### 2.2.1 RESEARCH AND DEVELOPMENT - THE KEY TO COMPETITIVENESS AND GROWTH

Some 25,000 Thales employees, over 70% of them engineers, are involved in the Group's technical operations, ranging from research to engineering. In 2014 Thales spent €675m on self-funded R&D, representing 5.2% of sales.

A significant part of this budget is dedicated to upstream research, conducted both at Thales Research & Technology (TRT) laboratories and the Groups centres of expertise, in order to develop:

- new technologies;
- new system and product concepts;
- new engineering tools and methods for critical information systems.

### 2.2.2 FOUR KEY TECHNICAL DOMAINS

Governance of research and development of key technologies is split into four domains:

- hardware technologies: electronics, electromagnetism, optronics, acoustics, radiofrequency techniques and management of thermal constraints;
- software technology: signal and information processing computers, real-time on-board systems, distributed systems, service-oriented architectures,

model-driven engineering, engineering tools, information systems safety and security;

- information and cognitive sciences: data fusion, data mining, autonomous systems, synthetic environments, human factors;
- systems: focused on architectural system design, this area provides support for methodology, processes and expertise.

#### FOCUS 1

##### NETWORK VIRTUALISATION SUPPORTING MORE RESILIENT NETWORKS

SDN (Software-Defined Network) is a new approach to design network architectures, which allows applications to be liberated from the IT infrastructure; to this end, software, in particular virtualisation technology, is integrated into systems and equipment. This innovation enables Thales to increase the resilience and security of its solutions and products.

This innovation takes advantage of the synergies between network architecture and cloud computing and is having an impact on the IT and telecommunications industries by speeding up the roll-out and integration of new services and facilitating their end-to-end management. SDN enables integration of key security technologies such as hypervisor security, encryption and traffic analysis tools at the heart of the solutions.

The Thales R&D teams have developed an initial SDN solution. It illustrates the resilient interconnection between the various "cloud computing" platforms using distributed architecture capable of adapting to constrained environments.



## 2.2.3 THALES AT THE HEART OF INNOVATION ECOSYSTEMS

Wherever it has an industrial presence, Thales seeks to build partnerships within innovation ecosystems, with academic partners design centres and industrial groups to jointly innovate on applications, business models and technologies.

To develop the technologies it needs, Thales relies heavily on cooperation between its research teams and the academic world. Thales Research & Technology (TRT), an international network of corporate laboratories, is responsible for building relationships with academic partners.

TRT has facilities in France, the UK, the Netherlands, Singapore and Canada. In France, the Palaiseau laboratory, located on the campus of the École polytechnique, is part of a unique environment of world-class research networks, "Digiteo" (information technologies) and "Triangle de la Physique" (Physics Triangle). It is also heavily involved in the programme to build up the world-class science and technology complex in Saclay.

Similarly, Thales's research centre in the Netherlands is located at Delft University, while the Singapore centre has partnered with Nanyang Technological University and with France's national research institute CNRS, in one of the few joint international research units with an industrial partner.

Thales has numerous strategic partnerships, for example, with the CNRS, ONERA, École polytechnique, Telecom Paris Tech, Université Pierre et Marie Curie (UMPC-Paris VI) and Université Paul Sabatier (Toulouse III), to name but a few.

The most advanced form of partnership is the joint laboratory operated by Thales with the CNRS for physics, with CEA-LETI in the 3-5 Lab (an EIG

whose members are Alcatel-Lucent, Thales and CEA-LETI), with CEA-IIST for artificial vision and with UPMC in data mining.

Thales is positioned as a major player in numerous high-tech clusters (including System@tic Paris-Région, Aerospace Valley in the southwest, the Maritime clusters in Brittany and Provence-Alpes-Côte d'Azur, the Images et Réseaux – images and networks – telecommunications cluster in the Brittany region, etc.) and the IRT (Institut de Recherche Technologique Saint-Exupéry), of which it is a founding member.

In the United Kingdom, TRT has direct links to several major universities, including Cambridge and Bristol. Thales is an active member of a number of centres of excellence: the MVCE (Mobile Virtual Centre of Excellence) in mobile communications; the CSIT (Centre for Secure Information Technologies) based at Queen's University Belfast; the IVHM (Integrated Vehicle Health Management) at Cranfield University, and the CSIC (Centre for Smart Infrastructure and Construction) based at Cambridge University.

In Canada, the Group regularly works with research networks and institutions such as CRIAQ (Consortium de Recherche et Innovation en Aérospatiale au Québec), the University of Toronto, McGill University, the École polytechnique de Montréal and Laval University, with which Thales concluded an agreement for a joint research unit in urban sciences in November 2014.

In emerging countries, Thales is looking to spur its growth by establishing innovation platforms locally, using the tried and tested principles of joint innovation with local players, and in that way building close long-term relationships.

### FOCUS 2

#### INNOVATION HUBS, CATALYSTS FOR THE R&D STRATEGY

In order to promote joint innovation with its clients, Thales is gradually rolling out "innovation hubs" in several regions of the world. These are based on new methodology approaches for collaborative design, combining simulation, visualisation and rapid prototyping. The innovation hubs of Thales are laboratories for identifying and analysing new operational requirements, creating and testing new applications.

By going one step further than simply adapting existing solutions for local markets, Thales is able to differentiate its product range to respond to specific client requirements, whether these are based on business segment, market maturity, operating requirements or the country's culture.

Two new innovation hubs were set up in Asia this year. Singapore is the very first multidisciplinary hub outside of Europe; it addresses maritime surveillance, smart cities and defence. The Hong Kong hub focuses on ground transportation. Thanks to the multicultural and multidisciplinary teams of Thales in Asia, local clients have access to the Group's portfolio of research and high technology solutions to meet their civil and military requirements.

Training also forms part of this overall strategy of creating links between the Group and the academic world. This is achieved by involvement in doctorate programmes and by the Group's support for teaching chairs.

The Group supports around 200 PhD students worldwide. They work on subjects directly connected with a technical issue facing Thales, which thus reinforces the appeal for young scientists.

Thales is already a partner for ten university chairs, and in 2014 participated in the creation of two new research and teaching chairs, thus confirming its commitment to higher education as the means of training the talent required by our industries. In September, together with Safran and Dassault Aviation,

Thales created the "Aerospace and Defence" chair at the University of Bordeaux. In October, Thales, in partnership with Keyrus, Orange, École polytechnique and the École polytechnique Foundation created the Data Scientist chair to meet the challenge of training the talent to generate tomorrow's many innovations in "Big Data".

Thales also supports foundations such as the Fondation Télécom and the Fondation de Recherche pour l'Aéronautique et l'Espace, providing support for those training, research and innovation programmes, which fully match the Group's strategic orientation.

## 2.2.4 A DYNAMIC APPROACH TO INTELLECTUAL PROPERTY MANAGEMENT

Thales supports its R&D activities with a dynamic approach to intellectual property management.

In terms of the number of patents granted for its inventions (close to 400 new applications in 2014), Thales is on a par with most of its competitors. The continued large number of patent applications in recent years reflects the

Company's commitment to innovation and its ability to translate research results into competitive advantages.

The Thales portfolio included more than 15,000 patents and patent applications at the end of 2014 and is regularly adapted to operational requirements, particularly to protect Thales's market share.

### FOCUS 3

#### THE "BIG OPTICAL EAR"

Underwater sonar antennas can "listen" to the sounds made by moving objects in the marine environment up to several kilometres away. These sounds are converted into electrical signals using ultra-sensitive piezoelectric hydrophones, amplified and digitised underwater and then transmitted to a processing centre above water, which detects, positions and identifies the nature of the source of the sounds.

After studies lasting several years, the Thales research teams in cooperation with innovative SMEs have recently successfully tested in water an acoustic antenna demonstration platform using "All-Optical" technology. Made entirely from optical fibre and related components, this system does not require any underwater electronics. Information is transferred from the antenna solely by laser via a several kilometre long fibre optic cable with an extremely small diameter.

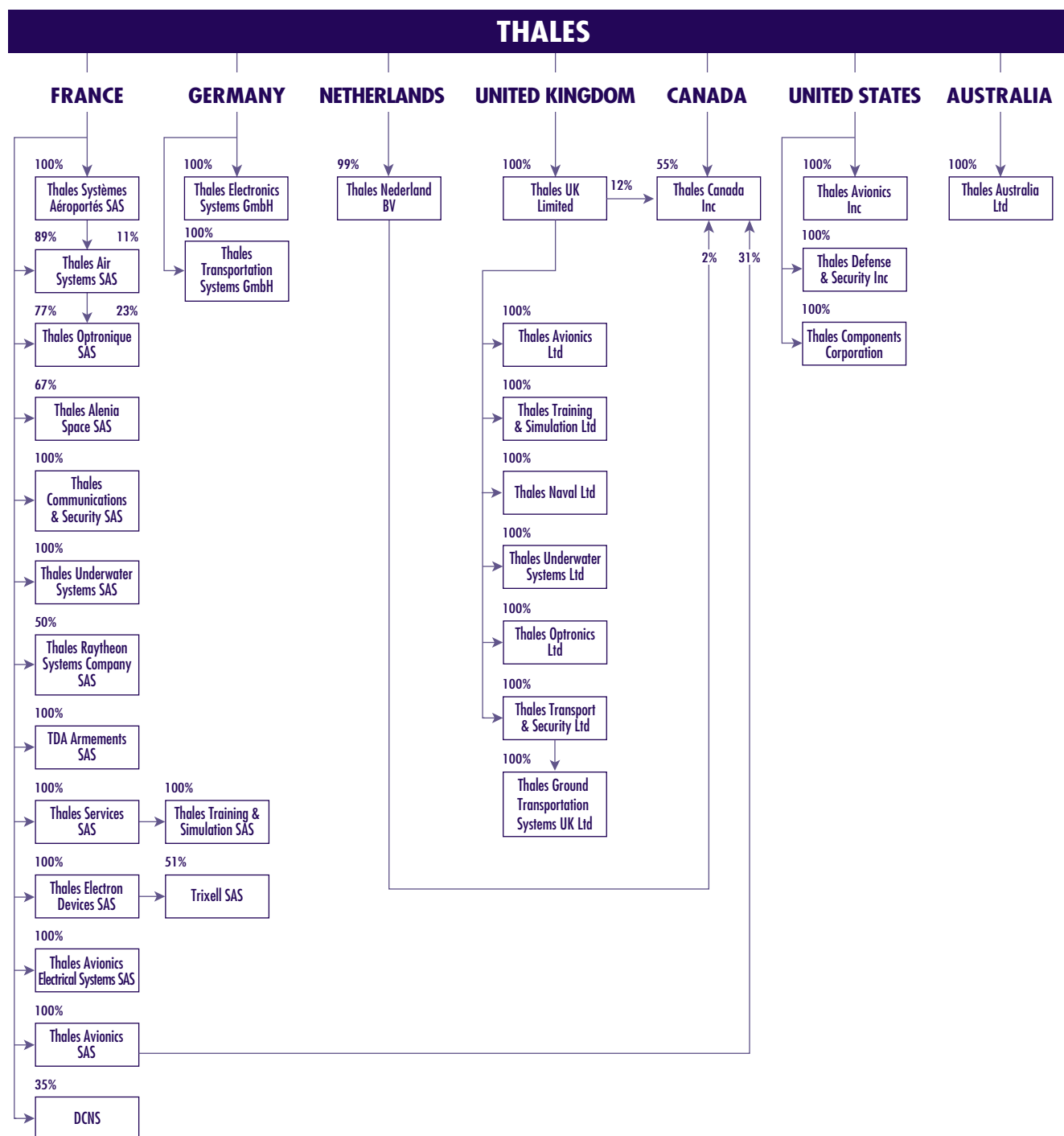
This disruptive technology has been patented by Thales and offers the Group's clients affordable new underwater acoustic surveillance capabilities: a large coverage area, remote enquiry at very long distances, a compact format and ease of installation, compatible with use at extreme depths.

## 2.3 Relations between Thales and its subsidiaries

### 2.3.1 SIMPLIFIED ORGANISATIONAL CHART OF THALES AT 31 DECEMBER 2014

This simplified organisational chart includes, in the main countries in which the Group operates, fully consolidated companies that account for more than 0.5% of consolidated sales.

The companies consolidated under the equity method are not included in this chart (with the exception of DCNS).



### 2.3.2 **ROLE OF THALES PARENT COMPANY WITHIN THE GROUP**

---

The parent company acts as a holding company for the Group:

- it holds shares in the Group's major subsidiaries;
- it manages Group-level functions such as corporate strategy, trading policy, legal and financial policy, operational monitoring, human resources policy and communications;
- it provides subsidiaries with specialist assistance, including legal, fiscal and financial expertise, for which the subsidiaries pay a fee;
- it provides financing, cash pooling and, where necessary, guarantees.

In addition to these functions, the parent company conducts its own research, described on page 131 *et seq.* of this document.

A list of the main consolidated companies can be found below.

### 2.3.3 **FINANCIAL FLOWS BETWEEN THE PARENT COMPANY AND ITS SUBSIDIARIES**

---

The parent company receives dividends from its subsidiaries, as approved by their respective General Meetings of Shareholders, and in accordance with the applicable legislation and regulations in their countries of operation.

In addition to these dividends and the payment of fees for shared services, the main financial flows between Thales the parent company and its subsidiaries relate to cash pooling.

As a rule, the cash surpluses of subsidiaries are transferred to the parent company under a centralisation system known as cash pooling. In return, the parent company meets the cash flow requirements of the subsidiaries, conducting operations in financial markets to arrange the necessary investments and loans to meet its own requirements and those of its subsidiaries. Except in special cases, this system applies to all subsidiaries in which Thales has majority control.

## 2.4 Information about major operational subsidiaries and manufacturing sites

### 2.4.1 LIST OF THE MAIN CONSOLIDATED COMPANIES (AS OF 31 DECEMBER 2014)

The materiality criteria used to prepare these tables have also been applied to the list of the main consolidated companies on note 17 to the consolidated financial statements.

#### 2.4.1.1 Controlled companies (fully consolidated)

Company name	Registered office/city	Nationality	% of capital held by Thales	% of voting rights held
Live TV LLC	Melbourne, Florida	United States	100%	100%
TDA Armements SAS	La Ferté Saint-Aubin	France	100%	100%
Thales Alenia Space SAS	Cannes-La-Bocca	France	67%	67%
Thales Alenia Space Italia SpA	Rome	Italy	67%	67%
Thales Air Systems SAS	Rungis	France	100%	100%
Thales Australia Ltd	Potts Point	Australia	100%	100%
Thales Austria GmbH	Vienna	Austria	100%	100%
Thales Avionics SAS	Velizy-Villacoublay	France	100%	100%
Thales Avionics Inc	Irvine	United States	100%	100%
Thales Avionics Electrical Systems SAS	Chatou	France	100%	100%
Thales Canada Inc	Saint-Laurent	Canada	100%	100%
Thales Communications & Security SAS	Gennevilliers	France	100%	100%
Thales Defense & Security Inc	Clarksburg	United States	100%	100%
Thales Electronic Systems GmbH	Stuttgart	Germany	100%	100%
Thales Espana Grp SAU	Madrid	Spain	100%	100%
Thales Electron Devices SAS	Velizy-Villacoublay	France	100%	100%
Thales Italia SpA	Milan	Italy	100%	100%
Thales Nederland BV	Hengelo	Netherlands	99%	99%
Thales Norway AS	Oslo	Norway	100%	100%
Thales Optronique SAS	Elancourt	France	100%	100%
Thales Transportation Systems GmbH	Stuttgart	Germany	100%	100%
Thales Ground Transportation Systems UK Ltd	Addlestone	United Kingdom	100%	100%
Thales-Raytheon Systems Company SAS <sup>(a)</sup>	Massy	France	50%	50%
Thales Services SAS	Velizy-Villacoublay	France	100%	100%
Thales Solutions Asia Pte Ltd	Singapore	Singapore	100%	100%
Thales Systèmes Aéroportés SAS	Elancourt	France	100%	100%
Thales Transport & Security Ltd	Weybridge	United Kingdom	100%	100%
Thales Training & Simulation SAS	Osny	France	100%	100%
Trixell SAS <sup>(a)</sup>	Moirans	France	51%	51%
Thales Underwater Systems SAS	Valbonne	France	100%	100%
Thales UK Ltd <sup>(b)</sup>	Weybridge	United Kingdom	100%	100%

(a) Following a modification of the shareholders' agreement leading to taking full control of Thales-Raytheon Systems Company SAS and Trixell SAS within the meaning of IFRS 10. See note 3 to the consolidated financial statements.

(b) In 2014, Thales UK Ltd included the activities of Thales Air Defence Ltd, Thales Avionics Ltd, Thales Naval Ltd, Thales Optronics Ltd, Thales Underwater Systems Ltd and Thales Training & Simulation Ltd.

### 2.4.1.2 Joint ventures (consolidated by the equity method)

Company name	Registered office/city	Nationality	% of capital held by Thales	% of voting rights held
Air Command Systems International SAS (ACSI)	Massy	France	50%	50%
Citylink Telecommunications Holding Ltd	London	United Kingdom	33%	33%
DCNS	Paris	France	35%	35%
Diehl Aerospace GmbH	Überlingen	Germany	49%	49%
Junghans Microtec GmbH	Dunningen-Seedorf	Germany	45%	45%
Samsung Thales Co. Ltd	Gumi-City	South Korea	50%	50%
Sofradir SAS	Chatenay-Malabry	France	50%	50%

### 2.4.1.3 Associated companies (consolidated by the equity method)

Company name	Registered office/city	Nationality	% of capital held by Thales	% of voting rights held
Aviation Communications & Surveillance Systems	Wilmington	United States	30%	30%
Air Tanker Holdings Ltd	Weybridge	United Kingdom	13%	13%
Cloudwatt	Boulogne-Billancourt	France	22%	22%
Elettronica SpA	Rome	Italy	33%	33%
ESG Elektroniksystem & Logistik GmbH	Fürstentfeldbruck	Germany	30%	30%
Thales-Raytheon Systems Company LLC	Fullerton	United States	50%	50%
Telespazio SpA	Rome	Italy	33%	33%

## 2.4.2 MAJOR MANUFACTURING SITES

As of the end of 2014, there were fourteen sites employing more than 1,000 staff:

At 31 December 2014	Headcount	Owned	Size (m <sup>2</sup> )
<b>France</b>			
Bordeaux (South-west)	2,126	Leased (Le Haillan), and Owned (Pessac)	59,000
Brest (Brittany)	1,399	Leased	56,000
Cannes (Provence)	1,899	Owned-Leased	83,000
Cholet	1,150	Leased	51,000
Gennevilliers (Île-de-France)	3,413	Leased	86,000
Élancourt (Île-de-France)	2,987	Leased	104,000
Massy (Île-de-France)	1,045	Leased	26,000
Meudon-la-Forêt/Vélizy (Île-de-France)	4,551	Leased	130,000
Rungis (Île-de-France)	1,095	Leased	31,000
Toulouse (South-west)	3,727	Owned-Leased	142,000
<b>United Kingdom</b>			
Crawley	1,867	Leased	34,000
<b>Netherlands</b>			
Hengelo	1,348	Owned	87,000
<b>Australia</b>			
Sydney	1,079	Leased	60,000
<b>Germany</b>			
Stuttgart	1,500	Leased	59,000

## JOINT SHAREHOLDING BETWEEN THE FRENCH STATE AND DASSAULT AVIATION

### THREE AGREEMENTS

Shareholders' agreement

Agreement on the protection of strategic national interests

Specific agreement

#### PRINCIPAL PROVISIONS:

- Definition of corporate governance and members of Thales corporate governing bodies;
- Veto right and commitments of Dassault Aviation (the «Industrial Partner») to the French State (the «Public Sector»);
- Restrictions concerning the transfer or disposal of «strategic interests»;
- A shareholders' agreement valid until December 2016, tacitly renewable for periods of five years.

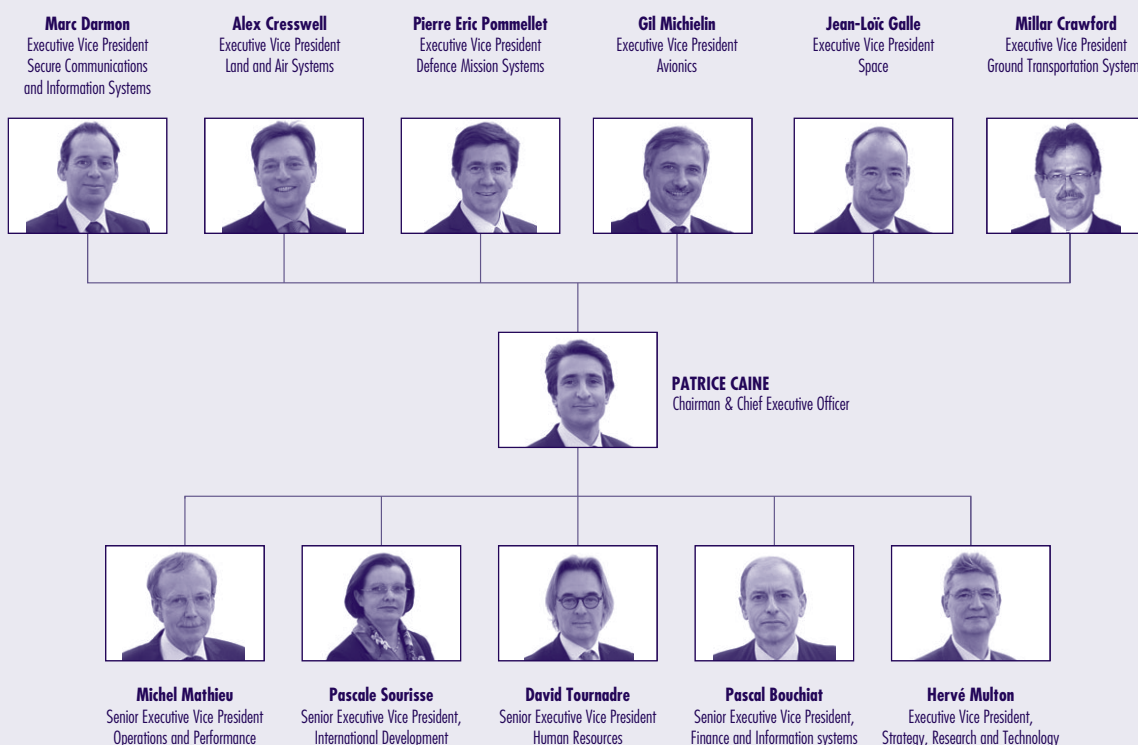
### BOARD OF DIRECTORS AT 31 DECEMBER 2014

- 16 members, including 14 elected by the General Shareholders' Meeting, of whom 1 representative of employee shareholders, and 2 representatives elected by employees.
- 3 independent members, 6 women on the Board of directors (of whom one employee representative).
- Reduction from 6 to 4 years in the length of the terms of directors, approved by the General Shareholders' Meeting of 24 May 2013.
- Board met 10 times in 2014, with an attendance rate of 95%.

#### THREE COMMITTEES:

- Strategic Committee (2 meetings in 2014 with an attendance rate of 100%);
- Audit & Accounts Committee (4 meetings in 2014 with an attendance rate of 100%);
- Governance & Remuneration Committee (5 meetings in 2014 with an attendance rate of 100%).

### EXECUTIVE COMMITTEE AT 1 APRIL 2015





## 3

# CORPORATE GOVERNANCE

<b>3.1</b>	<b>MEMBERS OF THE BOARD OF DIRECTORS AT 31 DECEMBER 2014</b>	<b>140</b>
3.1.1	Directors	140
3.1.2	Other persons attending Board meetings (without voting rights)	147
<b>3.2</b>	<b>CHAIRMAN'S REPORT TO THE GENERAL MEETING OF 13 MAY 2015 ON CORPORATE GOVERNANCE, INTERNAL CONTROL AND RISK MANAGEMENT</b>	<b>148</b>
3.2.1	Corporate Governance	148
3.2.2	Internal control and risk management	154
<b>3.3</b>	<b>STATUTORY AUDITORS' REPORT PREPARED IN ACCORDANCE WITH ARTICLE L.225-235 OF THE FRENCH COMMERCIAL CODE (CODE DE COMMERCE) ON THE REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS OF THALES</b>	<b>161</b>
<b>3.4</b>	<b>GENERAL MANAGEMENT</b>	<b>162</b>
3.4.1	Executive Committee at 1 April 2015	162
3.4.2	Compensation of directors and officers	162
<b>3.5</b>	<b>INCENTIVES AND PROFIT-SHARING</b>	<b>173</b>
3.5.1	Profit-sharing	173
3.5.2	Incentives scheme	173
<b>3.6</b>	<b>STATUTORY AUDITORS</b>	<b>174</b>
3.6.1	Principal statutory auditors	174
3.6.2	Alternate statutory auditors	174
3.6.3	Fees paid to auditors	175



## 3.1 Members of the Board of directors at 31 December 2014

### 3.1.1 DIRECTORS

#### Appointed at General Meeting

##### PATRICE CAINE (44)

**Chairman & Chief Executive Officer**

**Chairman of Strategic Committee**

**First appointed:** 23 December 2014.

**Current term expires:** 2018 OGM.

**Number of shares held:** 726 Thales shares (including shares in the Thales employee shareholding FCPE/investment fund).

##### CAREER

Patrice Caine was born on 7 January 1970 and is a French citizen. He graduated from the École polytechnique and Mines ParisTech and is a Chief Engineer of the Corps des Mines. He began his career in 1992 at Fournier, a pharmaceutical company, before working as a consultant in M&A and Corporate Strategy at Charterhouse Bank Limited in London.

From 1995 to 1998, he was a special advisor to the Prefect of France's Franche-Comté region while heading up the Industrial Development and Energy Department at the Direction Régionale de l'Industrie de la Recherche et de l'Environnement (DRIRE).

From 1998 to 2000, he formed part of the Conseil Général des Mines as head of human resources for the Corps des Mines. During this time, he oversaw the training of graduate engineers for the civil service at MINES ParisTech. From 2000

to 2002, he worked as a technical adviser on energy on the staff of the Minister of the Economy, Finances and Industry.

In 2002, he joined Thales' Strategy Department before taking up managerial positions in the Aviation & Naval, Communications, Navigation & Identification, Air Systems, Radio Communication Products, Network & Infrastructure Systems and Protection Systems units.

He is a recipient of the bronze National Defence Medal (*Médaille de la Défense Nationale*). In 2014, he was made a Knight of the National Order of Merit (*Chevalier de l'Ordre national du Mérite*).

In February 2013, Patrice Caine joined Thales' senior management as Senior Executive Vice President, Operations & Performance.

On 23 December 2014, he was appointed Chairman & Chief Executive Officer of Thales by the Board of directors. He also chairs the Strategic Committee.

##### APPOINTMENTS AND OTHER POSITIONS HELD IN COMPANIES IN FRANCE AND ABROAD

###### Appointments held:

**In France:** director of DCNS.

**Abroad:** none.

###### Other positions held by Mr Caine in the last five years:

**In France:** Director of Thales-Raytheon Systems Company SAS, Thales Global Services SAS, Thales Air Systems SAS and Opale Defense.

**Abroad:** director of Samsung Thales Co, Ltd (South Korea) and Omnisys (Brazil).

##### LAURENCE BROSETA (46)

**First appointed:** 14 May 2014.

**Current term expires:** 2018 OGM.

**Number of shares held:** 500 Thales shares.

In addition, her husband, Xavier Broseta, holds:

- 450 Thales shares;
- 52 Thales shares under the group savings scheme;
- 17,500 Thales shares subscription options.

##### CAREER

Born on 22 September 1968, a French citizen, Laurence Broseta graduated from the École polytechnique and the École Nationale Supérieure des Télécommunications.

She began her career at RATP where she oversaw operations at its bus, tram and underground departments and took part in new rail infrastructure projects in the UK and South Africa, starting up and managing a local subsidiary in the latter.

In 2008, she became head of RATP Dev's international business unit operating transport services (bus, rail, underground, tram) in nine countries and leading business development.

Since March 2013, she has been France General Director of Transdev (€2.5 billion turnover, 35,000 employees).

##### APPOINTMENTS AND OTHER POSITIONS HELD IN COMPANIES IN FRANCE AND ABROAD

###### Appointments held:

**In France:** director of Transdev (passenger transport), VE Airport (airport services) and the Union des Transports Publics et Ferroviaires (Public Transport and Rail Union).

###### Other positions held by Ms Broseta in the last five years:

**In France:** director of the RATP Foundation and Veolia Transport Ratp Asia.

**Abroad:** director of Veolia Transport Ratp Korea LT (South Korea), Veolia Transport Ratp China LT (China), Mumbai Metro One Operation (India), Bombela Operating Company (South Africa), Ratp Dev Italia (Italy), Seta (Emilia-Romagna, Italy), GEST (Florence, Italy), Ratp El Djazair (Algeria), Fullington Bus Co and McDonald Transit associates (USA).

## LAURENT COLLET-BILLON (64)

**First Appointed:** 1 July 2014.

**Current term expires:** 2016 OGM.

**Number of shares held:** Not obliged to hold Thales shares (state representative under Article 139 of the NRE Act).

### CAREER

Laurent Collet-Billon was born on 1 July 1950 and is a French citizen. He graduated from the École Nationale Supérieure de l'Aéronautique et de l'Espace and is a General Armaments Engineer, Exceptional Class. He began his career in 1974 at the Ministry of Defence's Armaments Procurement Agency (DGA). In 1987, he was appointed technical adviser on strategic, industrial and armament affairs to the staff of the then Minister of Defence, André Giraud. In 1988, he was put in charge of the DGA's Horus Programme dealing with air-to-ground nuclear weapons before taking over the DGA's Space Department in 1992. Since 1994, he has held various managerial posts overseeing land weapons, electronics and computer science.

He was appointed architect of the Strategic and Mobility Unit at its inception in 1997. In August 1997, he became head of the DGA's Observation, Telecommunications

and Intelligence Service (SPOTI). On 2 May 2001, the French Council of Ministers appointed him Deputy Managing Director of the DGA and Director of Weapons Systems. He was also appointed as French representative to the Board of Supervisors of the Organisation for Joint Armament Cooperation (OCCAR). In July 2006, he joined Alcatel as a consultant on its defence and security businesses. On 28 July 2008, the French Council of Ministers appointed him Managing Director of the DGA. He is a Commander of the French Legion of Honour (*Commandeur de la Légion d'Honneur*) and an Officer of the French National Order of Merit (*Officier de l'Ordre National du Mérite*). He is a former auditor with the Centre des Hautes Études de l'Armement (CHEAr).

### APPOINTMENTS AND OTHER POSITIONS HELD IN COMPANIES IN FRANCE AND ABROAD

#### Appointments held:

**In France:** state representative on the Board of directors of the École polytechnique.

**Abroad:** none.

#### Other positions held by Mr Collet-Billon in the last five years:

**In France and abroad:** none.

## CHARLES EDELSTENNE (76)

### Member of the Strategic Committee

**First appointed:** 19 May 2009.

**Current term expires:** 2018 OGM.

**Number of shares held:** 509 Thales shares.

### CAREER

Born on 9 January 1938, a French citizen, Charles Edelstenne is a qualified chartered accountant.

He spent his career at Dassault Aviation, where he started in 1960 as head of the Financial Studies Department. He became Corporate Secretary in 1975, then Vice President for Economic and Financial Affairs in 1986.

Since 2000, he has been Chairman & Chief Executive Officer of Dassault Aviation. In January 2013, Charles Edelstenne became Chief Executive Officer of Groupe Industriel Marcel Dassault.

He was the founder, Managing Director then Chairman & Chief Executive Officer, and is now Chairman of the Board of directors of Dassault Systèmes.

### APPOINTMENTS AND OTHER POSITIONS HELD IN COMPANIES IN FRANCE AND ABROAD

#### Appointments held:

**In France:** Chairman of the Board of directors of Dassault Systèmes SA<sup>(1)</sup>, Chief Executive Officer and member of the Supervisory Board of Groupe Industriel Marcel Dassault SAS, Honorary Chairman of Dassault Aviation SA<sup>(1)</sup>; director of Dassault Aviation SA<sup>(1)</sup>, Carrefour SA<sup>(1)</sup> and Sogitec Industries SA; Honorary Chairman of Gifas, and Manager of the non-trading companies Arie, Arie 2, Nili and Nili 2.

**Abroad:** director of SABCA<sup>(1)</sup> (Belgium) and Dassault Falcon Jet Corp. (USA).

#### Other positions held by Mr Edelstenne in other companies in the last five years:

**In France:** Chairman & Chief Executive Officer of Dassault Aviation SA<sup>(1)</sup>, Chairman of Gifas and Cidef.

**Abroad:** Chairman of Dassault Falcon Jet Corp. (USA), Chairman of Dassault International Inc. (USA).

(1) Listed company.

**YANNICK D'ESCATHA (66)****Independent director****Chairman of the Governance and Remuneration Committee****First appointed:** 19 May 2009.**Current term expires:** 2016 OGM.**Number of shares held:** 500 Thales shares.**CAREER**

Born on 18 March 1948, a French citizen, Yannick d'Escatha is an engineer who graduated from the École polytechnique and École des Mines de Paris.

In 1972, he was a lecturer at the École polytechnique, at the Ecoles des Mines de Paris and at ENSTA, the French engineering and research institute.

In 1973, as a technical expert with the French Ministry of Industry, he took part in the drafting and subsequent implementation of the French technical regulations relating to nuclear-fired water boilers.

In 1978, he was appointed head of the control office for nuclear construction where he was responsible for government technical control of the application of this regulation to the French electronuclear programme.

In 1982, he was seconded to Technicatome, a subsidiary of the CEA (French Atomic Energy Commission), whose main activity is industrial general contracting in the field of nuclear propulsion for French naval vessels. Having been director of the Cadarache and Aix en Provence sites, Yannick d'Escatha was appointed Deputy Chief Executive Officer of Technicatome on 1 January 1987.

On 1 March 1990, he was asked by the Executive Director of the CEA to accept the post of director of the newly created advanced technologies division, and became Deputy Executive Director of the CEA on 14 September 1992.

He was appointed Managing Director of the CEA on 1 July 1995 and Chairman of the holding company CEA-Industrie on 28 June 1999.

On 1 January 2000, he was appointed Executive Vice President Industry at EDF. As the head of EDF's industry cluster, he was responsible for the Company's production and engineering activities and industrial policy.

In January 2002, he became co-Chief Executive Officer at EDF.

In February 2003, the French Council of Ministers named Yannick d'Escatha Chairman of the National Centre for Space Studies (CNES), and renewed his appointment in February 2010, until he reached the age limit of 65 in 2013.

Since May 2013, he has been advisor to the Chairman of Sofinel (*Société Française d'Ingénierie Électronucléaire et d'assistance pour l'exportation*).

**APPOINTMENTS AND OTHER POSITIONS HELD IN COMPANIES IN FRANCE AND ABROAD****Appointments held:**

**In France:** Chairman of the Board of directors of the Technology University of Troyes, member of the Académie des technologies.

**Abroad:** none.

**Other positions held by Mr d'Escatha in the last five years:**

**In France:** Chairman of the National Space Research Centre (CNES), Chairman of the Board of directors of the École polytechnique, member of the Board of directors of RATP and EDF<sup>(1)</sup>, Permanent Representative of the CNES on the Board of directors of Arianespace SA and Permanent Representative of the CNES on the Board of directors of Arianespace Participation.

**Abroad:** none.

(1) Listed company.

**PHILIPPE LÉPINAY (61)****Representative of employee shareholders****Member of the Strategic Committee**

**First appointed:** 8 March 2007, effective 1 April 2007, ratified by the General Meeting of 16 May 2007.

**Current term expires:** 2017 OGM.

**Number of shares held:** 2,668 Thales shares (41 bearer, 510 registered and 2,117 in the Group savings plan) including shares in the Thales employee shareholding FCPE/investment fund.

**CAREER**

Born on 3 December 1953, a French citizen, Philippe Lépinay is a graduate engineer from the Institut de Marketing International, Université Paris VII. Between 1977 and 1986, he held a variety of sales and marketing jobs for the groups Appalette & Tourtellier Systèmes, Radiall and Sopema. In 1986, he joined Thales

Electron Devices as an export sales engineer, and in 2000 he became head of development at Thales Engineering & Consulting.

He joined Thales International in 2003. Since 2010, he has been International Relations Director at Thales.

**APPOINTMENTS AND OTHER POSITIONS HELD IN COMPANIES IN FRANCE AND ABROAD****Appointments held:**

**In France:** President of the French Federation of Associations of Employee Shareholders (FAS), Vice President of the Federation of Associations of Employee Shareholders of Thales (FAST), member of the Supervisory Committee of the Thales Employee Shareholding FCPE/investment fund, and member of the Steering Committee for Participation, Profit-sharing, Savings and Employee Shareholding (COPIESAS).

**Abroad:** none.

**Other positions held by Mr Lépinay in the last five years:**

**In France and abroad:** none.

**HENRI PROGLIO (65)****First appointed:** 23 December 2014.**Current term expires:** 2016 OGM.**Number of shares held:** 500 Thales shares.**CAREER**

Henri Proglio was born on 29 June 1949 and is a French citizen. He graduated from the École des Hautes Études Commerciales de Paris (HEC Paris).

In 1972, he joined Compagnie Générale des Eaux and in 1990 he was appointed Chairman & Chief Executive Officer of Compagnie Générale d'Entreprises Automobiles (CGEA). In 1999, he was appointed Senior Executive Vice-President of Vivendi, Manager of Compagnie Générale des Eaux and Chief Executive Officer

of Vivendi Water. In 2000, he became Chairman of the Board of directors of Veolia Environnement and was its Chairman & Chief Executive Officer from 2003 to November 2009.

From November 2009 to November 2014, he was Chairman & Chief Executive Officer of EDF. He had been nominated as a director of EDF in September 2004.

**APPOINTMENTS AND OTHER POSITIONS HELD IN COMPANIES IN FRANCE AND ABROAD****Appointments held:**

**In France:** director of Dassault Aviation<sup>(1)</sup> and Natixis<sup>(1)</sup>.

**Abroad:** director of FCC (Fomento de Construcciones y Contratas SA) (Spain) and ABR Management (Russia).

**Other positions held by Mr Proglio in the last five years:**

**In France:** Chairman & Chief Executive Officer of EDF<sup>(1)</sup>; Chairman of Electra, the EDF Foundation, Véolia Environnement<sup>(1)</sup>, Véolia Propreté, Véolia Transport and the European foundation for tomorrow's energies; member of the supervisory boards of Dalkia SAS and Véolia Eau; director of CNP Assurances<sup>(1)</sup>, Dalkia, EDF Énergies nouvelles, EDF International and Véolia Propreté.

**Abroad:** Chairman of EDF Energy (UK), EDF Energy Holdings Ltd, Edison SpA and Transalpina di Energia Srl (Italy); Vice Chairman of Eurelectric (Belgium); director of FCC (Spain), South Stream Transport AG (Switzerland), Southstream Transport BV (Netherlands), Véolia Environnement North America Operations (USA), and B98 (Spain).

(1) Listed company.

**JEANNE-MARIE PROST (56)****Member of the Audit & Accounts Committee****First appointed:** 15 May 2012.**Current term expires:** 2018 OGM.**Number of shares held:** Not obliged to hold Thales shares (state representative under Article 139 of the NRE Act).**CAREER**

Born on 22 September 1958, a French citizen, Jeanne-Marie Prost is a graduate of the Institut d'Études Politiques in Paris and an alumnus of the ENA.

On leaving ENA in 1984, Jeanne-Marie Prost had various responsibilities at the Ministry of the Economy, Finances and Budget (June 1984 - July 1996) then at France Télévision (July 1996 - October 1999) of which she became Finance Director (October 1999 - September 2000).

On 1 September 2000, Jeanne-Marie Prost was appointed as first counsellor in London, UK, for one year. In September 2001, she became a partner in the Brunswick group Ltd in London. From July 2007 to October 2008, she was research director at the London School of Economics. Since January 2009, Jeanne-Marie Prost has been the deputy head of the Médiation Nationale du Crédit aux Entreprises. From January 2013 to December 2014, she was France's National Credit Mediator.

**APPOINTMENTS AND OTHER POSITIONS HELD IN COMPANIES IN FRANCE AND ABROAD****Appointments held:**

**In France:** member of the Supervisory Board of the Fonds de Consolidation et de Développement des Entreprises, director representing the French State on the Board of directors of Semmaris (a joint public/private company which owns the Rungis market in Paris).

**Abroad:** none.

**Other positions held by Ms Prost in the last five years:**

**In France:** member of the Supervisory Board of Aéroport de Strasbourg-Entzheim.

**Abroad:** none.

**LOÏK SEGALEN (54)****Member of the Audit & Accounts Committee****First appointed:** 19 May 2009.**Current term expires:** 2018 OGM.**Number of shares held:** 509 Thales shares.**CAREER**

Born on 27 March 1960, a French citizen, Loïk Segalen graduated from the École Centrale de Lyon and ESSEC. He started his career in 1986 in the Finance Department of Dassault International.

Financial advisor to Dassault Aviations Vice President for Economic and Financial affairs in 1990, he subsequently became Deputy Director (1998-1999), then Director.

In January 2009, Loïk Segalen was appointed Vice President for Economic and Financial Affairs at Dassault Aviation. Loïk Segalen has been Vice President for Economic and Social Affairs at Dassault Aviation since September 2011. In January 2013, he became Deputy Chief Executive Officer of Dassault Aviation. He is a member of the Dassault Aviation Management Committee.

**APPOINTMENTS AND OTHER POSITIONS HELD IN COMPANIES IN FRANCE AND ABROAD****Appointments held:**

**In France:** director of Sogitec, member of the Board of Gifas.

**Abroad:** director of Dassault Falcon Jet (USA), Dassault International (USA) Inc, Dassault Procurement Services (USA), Midway (USA), SABCA<sup>(1)</sup>, Sabca Limburg (Belgium) and Dassault Belgique Aviation.

**Other positions held by Mr Segalen in the last five years:**

**In France:** Chairman of Dassault Réassurance and Dassault Assurances Courtage, director of SIAE, Manager of Dassault Aéroservice and Permanent Representative of Dassault Aviation<sup>(1)</sup> on the Board of Corse Composites Aéronautiques.

**Abroad:** none.

(1) Listed company.

**ANNE-CLAIRE TAITTINGER (65)****Independent director****Chairman of the Audit & Accounts Committee****First appointed:** 15 May 2012.**Current term expires:** 2018 OGM.**Number of shares held:** 500 Thales shares.**CAREER**

Born on 3 November 1949, a French citizen, Anne-Claire Taittinger is a graduate of the Institut d'Études Politiques de Paris, holder of a master's degree in Urban Sociology, a DESS in Urbanism and Planning and an MBA HEC (CPA Paris).

Anne-Claire Taittinger began her career in 1975 at the Urban Planning Departmental subsidiaries of the Caisse des Dépôts et des Consignations, as manager for urban operations at Villepinte, Sevrans, Les Ulis and Lyon (1976-1979).

She joined the Groupe du Louvre in 1979 as Secretary General, then became Chairwoman & Chief Executive Officer of the Compagnie Financière Deville. She was successively Chairwoman & Chief Executive Officer of the Compagnie Financière Leblanc, ELM-Leblanc, Vice Chairwoman & Chief Executive Officer of

the Industriel division of Deville, and Chairwoman & Chief Executive Officer of Annick Goutal perfumes, then Baccarat. She became Chief Executive Officer then Chairwoman of the Management Board of the Société du Louvre in 1997, then, in 2002, Chairwoman of the Management Board of Groupe Taittinger and Chief Executive Officer of its subsidiary Groupe du Louvre in the context of separating the functions of Chairwoman of the Board and Chief Executive Officer. She left these positions in July 2005 after leading the sale of Groupe Taittinger to an investment fund. In September 2006, she formed part of a pool of investors that bought Champagne Taittinger.

**APPOINTMENTS AND OTHER POSITIONS HELD IN COMPANIES IN FRANCE AND ABROAD****Appointments held:**

**In France:** director of Carrefour<sup>(1)</sup> and Club Méditerranée<sup>(1)</sup>, Chairwoman of SAS Le Riffay.

**Abroad:** none.

**Other positions held by Ms Taittinger in the last five years**

**In France (until October 2013):** director of FinanCités, the IFA (French Institute of Directors) and the PlanetFinance Foundation; member of the Supervisory Board of Planet Finance.

**Abroad:** none.

(1) Listed company.

## ANN TAYLOR (67)

**Independent director**

**First appointed:** 15 May 2012.

**Current term expires:** 2018 OGM.

**Number of shares held:** 500 Thales shares.

### CAREER

Born on 2 July 1947, a UK citizen, Ann Taylor studied at the University of Bradford, where she obtained a bachelor's degree in political science and history, and the University of Sheffield, where she obtained a master's degree in economic history.

In 1974, she was elected MP (Labour) for Bolton West, holding this seat until 1983.

She subsequently became head of the Housing Corporation and a lecturer at the Hansard Society (a member of Birkbeck College) from 1983 to 1987.

In 1987, Ann Taylor was elected MP (Labour) for Dewsbury. She then held various ministerial roles, notably from 1990 to 1997 as Under Secretary of State for Education and Under Secretary of State for the Environment. In 1998, she reported directly to the Prime Minister and sat on most government committees.

In 2001, she chaired the Intelligence and Security Committee under the direct authority of the Prime Minister.

In 2005, she entered the House of Lords (with a life peerage) where she is a representative at the Parliamentary Assembly of the Council of Europe (political committee) and the Western European Union (Defence Committee).

In 2007, as a British State Minister in the House of Lords, Ann Taylor became responsible for matters of defence, notably as Minister for Defence Equipment and Support in 2007 and 2009, and then as Minister for International Defence and Security from 2008 to 2010.

Ann Taylor is currently a member of the House of Lords and sits on the National Security Strategy Joint Committee.

### APPOINTMENTS AND OTHER POSITIONS HELD IN COMPANIES IN FRANCE AND ABROAD

#### Appointments held:

**In France:** none.

**Abroad:** member of the Advisory Board of Thales UK PLC<sup>(1)</sup>.

#### Other positions held by Baroness Taylor in the last five years:

**In France and abroad:** none.

(1) A Thales group company

## ÉRIC TRAPPIER (54)

**Member of the Governance and Remuneration Committee**

**First appointed:** 19 May 2009.

**Current term expires:** 2018 OGM.

**Number of shares held:** 500 Thales shares.

### CAREER

Born on 1 June 1960, a French citizen, Eric Trappier is a graduate of the Institut National Telecom.

He started his career in 1984 in the Technical Department of Dassault Aviation as head of systems development for the ATL2 and Mirage 2000. In 1991, he became director of sales in India, Asia, and then the United Arab Emirates in 1996. Head

of Middle-East & Africa in 2000, head of military exports in 2001, he became Deputy Chief Executive Officer (International) in 2002. In 2006, Eric Trappier became the International Vice President of Dassault Aviation. He was appointed Chairman & Chief Executive Officer in January 2013. He was awarded the French National Order of Merit and French Legion of Honour.

### APPOINTMENTS AND OTHER POSITIONS HELD IN COMPANIES IN FRANCE AND ABROAD

#### Appointments held:

**In France:** Chairman & Chief Executive Officer of Dassault Aviation SA<sup>(1)</sup>, first Vice Chairman of Gifas, Chairman of the Defence Committee of the ASD, Chairman of the Defence Commission of Cidef/Gifas, Director of Sogitec Industries, Managing Director of the GIE Rafale International (until 26 June 2014) and Managing Director of Dassault International (until 17 June 2014).

**Abroad:** Chairman of Dassault Falcon Jet and Dassault International Inc. (USA).

#### Other positions held by Mr Trappier in the last five years:

**In France:** Permanent Representative of Dassault Aviation on the Boards of Sofresa, Odas, Sofema and Eurotradia.

**Abroad:** none.

(1) Listed company.

**RÉGIS TURRINI (55)****Member of the Governance and Remuneration Committee****Member of the Strategic Committee****First appointed:** 16 September 2014.**Current term expires:** 2016 OGM.**Number of shares held:** Not obliged to hold Thales shares (state representative under Article 139 of the NRE Act).**CAREER**

Born on 14 March 1959, a French citizen, Régis Turrini is a lawyer and a member of the Paris Bar. He holds degrees from the faculties of literature and law and the Institut d'Études Politiques de Paris and is an alumnus of the École Nationale d'Administration.

He began his career as a conseiller de Tribunal Administratif et de Cour Administrative d'Appel (counsel at the administrative court and administrative court of appeal) before joining Cleary Gottlieb Steen & Hamilton (1989-1992) and then Jeantet & Associés (1992-1995) as a corporate lawyer.

In 1995, he joined Arjil & Associés Banque (Lagardère) as an Executive Director and then served as a Managing Director and, since 2000, a general partner.

In 2003, he joined Vivendi where he was a member of the Management Board and Director of Strategy and Development until July 2014.

On 30 July 2014, he was appointed Commissaire aux Participations de l'État and Directeur Général de l'Agence des Participations de l'État (chief administrator and head of the agency overseeing the state's holdings in various listed firms).

**APPOINTMENTS AND OTHER POSITIONS HELD IN COMPANIES IN FRANCE AND ABROAD****Appointments held:****In France:** director of EDF<sup>(1)</sup>, BPIFrance and Renault<sup>(1)</sup>.**Abroad:** none.**Other positions held by Mr Turrini in the last five years:****In France:** director of SFR and Groupe Canal+.**Abroad:** director of Activision Blizzard<sup>(1)</sup>, Universal Music Group, Maroc Telecom<sup>(1)</sup> and GVT.<sup>(1)</sup> Listed company.**MARIE-FRANÇOISE WALBAUM (64)****First appointed:** 17 September 2013.**Current term expires:** 2018 OGM.**Number of shares held:** 500 Thales shares.**CAREER**

Born on 18 March 1950, Marie-Françoise Walbaum, a French citizen, is a graduate in economics and sociology from Paris X University. Marie-Françoise Walbaum began her career at BNP Paribas in 1973 and held various posts in retail banking and credit analysis until 1981. From 1981 to 1994, she served as Senior Auditor of BNP's Inspectorate General, Chief Executive Officer for mutual

funds and Chief Executive Officer of the brokerage firm Patrick Dubouzet SA. In 1994, Marie-Françoise Walbaum became Head of Listed and Unlisted Equity Investments and Private Equity Portfolio Manager at BNP Paribas, a firm she left in the summer of 2012 after a career spanning 39 years.

**APPOINTMENTS AND OTHER POSITIONS HELD IN COMPANIES IN FRANCE AND ABROAD****Appointments held:**

**In France:** independent director of Esso (and Chairwoman of the Audit Committee), FFP (and member of the Audit Committee and Investment and Shareholdings Committee), Imerys (and member of the Audit Committee) and Vigeo; non-voting director of Isatis Capital.

**Abroad:** none.**Other positions held by Mrs Walbaum in the last five years:****In France and abroad:** none.**Elected by employees****DOMINIQUE FLOCH (56)****Director elected by employees****Member of the Governance and Remuneration Committee****Member of the Strategic Committee****First appointed:** 19 May 2008.**Current term expires:** 8 December 2016.**Number of shares held:** 565 Thales shares (including shares in the Thales employee shareholding FCPE/investment fund).**CAREER**

Born on 10 August 1958, a French citizen, Dominique Floch began his career in 1978 in a Thales subsidiary in Brest (Thales Systèmes Aéroportés SAS) where he

held various positions, including milling machine operator and then mechanical controller, before being promoted to Industrial Segment buyer in March 2004.

**APPOINTMENTS AND OTHER POSITIONS HELD IN COMPANIES IN FRANCE AND ABROAD**

No appointments or positions in other companies.



## MARTINE SAUNIER (57)

Director elected by employees

Member of the Audit & Accounts Committee

First appointed: 9 December 2010.

Current term expires: 8 December 2016.

Number of shares held: 500 Thales shares.

### CAREER

Martine Saunier was born on 8 May 1957 and is a French citizen. After earning a degree in physical measurements and spending a year in a British secondary school working as a French assistant, Martine Saunier began her career in 1979 in a Thales subsidiary in Saint-Egrève (Thales Electron Devices) as screen development

technician for electronic tubes and plasma screens, before moving to technical support and after-sales service for international customers for radiology products manufactured at the Moirans plant.

### APPOINTMENTS AND OTHER POSITIONS HELD IN COMPANIES IN FRANCE AND ABROAD

No appointments or positions in other companies.

### TO THE KNOWLEDGE OF THALES:

- there are no family ties between members of the Board of directors;
- no Board member has been convicted of fraud in the last five years;
- no Board member has been involved in the last five years as a senior executive in a bankruptcy, receivership or liquidation, or has been charged and/or officially disciplined by statutory or regulatory authorities;
- no Board member has been barred in the last five years by a court from acting as a member of a body dedicated to the administration, management or supervision of an issuer, or from being involved in the management or running of such a company's affairs;
- no conflict of interest exists between the Board members' private interests and their duties to Thales.

## 3.1.2 OTHER PERSONS ATTENDING BOARD MEETINGS (WITHOUT VOTING RIGHTS)

In addition to the secretary of the Board of directors and members of general management who may be invited by the Chairman to attend Board meetings, depending on the agenda, the following persons are invited to attend all Board meetings in an advisory capacity:

### Representative of the French State's golden share

**Bertrand Le Meur**, 49 years of age, General Armaments Engineer.

Appointed by decree of the Minister of the Economy, Manufacturing Recovery and Digital Technology on 3 July 2014.

Representing the French State on the Thales Board of directors in application of decree no. 97-190 of 4 March 1997 concerning the French State's golden share (see page 185 and pursuant to Article 10 of the Company's Articles of Association).

### Government commissioner

**Paul Fouillard**, 59 years of age, General Army Inspector on special assignment (*Contrôleur Général des Armées en mission extraordinaire*).

Appointed government commissioner to Thales and its subsidiaries by decision of the Minister of Defence of 15 September 2014, under the statutory and regulatory provisions concerning defence contractors and companies engaged in the manufacture and sale of defence equipment.

### Representative of the Central Works Council

**Gilles Bracon**, 62 years of age, trade union representative.

Appointed by the Central Works Council as its representative on the Board of directors of Thales, pursuant to Article L.2323-65 of the French Employment Code.

### The statutory auditors

Are invited to attend at least the Board meetings relating to the audit or approval of the financial statements, as provided for by law. They may also be invited by the Chairman to attend other Board meetings when their presence is apt to enrich discussion. The following were invited to Board meetings during the 2014 financial year:

- **Ernst & Young Audit**, represented by Michel Gauthier, partner;
- **Mazars**, represented by Jean-Marc Deslandes, partner.



## 3.2 Chairman's report to the General Meeting of 13 May 2015 on corporate governance, internal control and risk management

Based on the recommendation of the two committees concerned<sup>(1)</sup>, the Board of directors approved, at its meeting on 25 February 2015, this report on corporate governance, internal control and risk management, drawn up in

accordance with the provisions of Article L.225-37 of the French Commercial Code, and asked the Chairman to present it to the Annual General Meeting of 13 May 2015.

### 3.2.1 CORPORATE GOVERNANCE

Under the law of 3 July 2008 transposing Directive 2006/46/EC, the Company decided in 2008 to refer voluntarily, when preparing the Chairman's report, to the Corporate Governance Code for Listed Companies published by the AFEP and MEDEF – the latest update of which was released in June 2013.

The AFEP-MEDEF code is available on the MEDEF website (<http://eng.medef.com/>), and on the AFEP website (<http://www.afep.com/en>).

#### Application of the "comply or explain" rule

The Company complies with the recommendations contained in the AFEP-MEDEF code as revised in June 2013, except for those concerning:

Heading	AFEP-MEDEF	Thales 25-02-2015	Explanation
<b>A- Independent directors (ratios):</b>			The terms of the shareholders' agreement (see below) do not allow compliance with the ratios of the AFEP-MEDEF code.
■ Board of directors	1/3 (controlled companies)	23%	
■ Audit & Accounts Committee	2/3	1/3	
■ Governance and Remuneration Committee	>1/2	1/3	

#### 3.2.1.1 Members and procedures for the organisation and functioning of the Board

##### Restatement of the rules of the shareholders' agreement and composition of the Board

The Company is a *société anonyme* (French public limited company) with a Board of directors. Under the terms of the shareholders' agreement between the Public Sector and the Industrial Partner (Dassault Aviation), as published by the AMF (the French Monetary Authority), the Board is composed as of December 31, 2014 of 16 directors, 14 of whom are appointed by the General Meeting and two of whom are elected by employees of the French companies, in accordance with the law (Article L.225-27 *et seq.* of the French Commercial Code) and Articles of Association (Article 10).

Of the 14 directors appointed by the General Meeting, four are "external directors" selected jointly by the Public Sector and Dassault Aviation, one is the employee shareholders' representative, and the others are recommended to the General Meeting by the Public Sector (5) and by Dassault Aviation (4).

The Shareholders' Agreement also requires the Chairman & Chief Executive Officer to be chosen based on the joint proposal of the Public Sector and Dassault Aviation (or the Chairman of the Board and the Chief Executive Officer if the separation of these roles has been jointly agreed by the two shareholders) and at least one director representing each of the parties to sit on each of the Board committees.

The shareholders' agreement was amended at the end of February 2015, chiefly to increase the number of directors from 16 to 18: Public Sector 6 (instead of 5), Industrial Partner 5 (instead of 4), with no other changes.

(1) The Governance & Remuneration Committee for the part relating to corporate governance, the Audit & Accounts Committee for the part concerning internal control and risk management.

Directors at 31 December 2014	1st appointment	Positions currently held	
		Starts	Ends
<b>Appointed at General Meeting</b>			
Patrice Caine, Chief Executive Officer	23/12/2014	23/12/2014	2018 OGM
Laurence Broseta	14/05/2014	14/05/2014	2018 OGM
Laurent Collet-Billon (representative of the French State)	01/07/2014	01/07/2014	2016 OGM
Charles Edelstenne	19/05/2009	14/05/2014	2018 OGM
Yannick d'Escatha	19/05/2009	20/05/2010	2016 OGM
Philippe Lépinay	01/04/2007	18/05/2011	2017 OGM
Henri Proglio	23/12/2014	23/12/2014	2016 OGM
Jeanne-Marie Prost (representative of the French State)	15/05/2012	15/05/2012	2018 OGM
Loïk Segalen	19/05/2009	15/05/2012	2018 OGM
Anne-Claire Taittinger	15/05/2012	15/05/2012	2018 OGM
Ann Taylor	15/05/2012	15/05/2012	2018 OGM
Eric Trappier	19/05/2009	15/05/2012	2018 OGM
Régis Turrini (representative of the French State)	16/09/2014	16/09/2014	2016 OGM
Marie-Françoise Walbaum	17/09/2013	14/05/2014	2018 OGM
<b>Elected by employees</b>			
Dominique Floch	19/01/2008	09/12/2010	08/12/2016
Martine Saunier	09/12/2010	09/12/2010	08/12/2016

The other positions of the members of the Board of directors are listed in the biography for each director, which can be found in this registration document, identifying, as recommended by the AMF, any positions held in Group companies and in other publicly traded companies<sup>(1)</sup>.

The term of office of directors was reduced from six to four years by the General Meeting of 24 May 2013, effective from the 2014 General Meeting.

The average age of directors was slightly over 59 at the end of 2014. At 31 December 2014, in the absence of a specific provision in the Articles of Association, the age of directors was governed by common law:

- the number of directors over the age of 70 may not exceed one third of directors in office (French Commercial Code, Article L.225-29);
- the age limit for the Chairman is 65 (French Commercial Code, Article L.225-48).

Moreover, on 23 December 2014, the Company announced, in the context of the succession process following the resignation of Mr Jean-Bernard Lévy on 27 November 2014, that it intended to appoint Mr Henri Proglio as Chairman of the Board (after extension of the age limit to 69 with an amendment to the Articles of Association) and Mr Patrice Caine as Chief Executive Officer.

On 27 January 2015, the General Meeting called to approve the amendments to the Articles of Association was postponed at the request of the two main shareholders, without a future date being set. A General Meeting has been called for 13 May 2015 for the purpose of appointing two additional directors (see above), in order to restore the predominant influence of the French State (with six directors) in its arrangement with Dassault Aviation (five directors), and to return the number of external directors to four.

## Increase in the number of women on the Board of directors

As regards increasing the number of women on the Board of directors, the targets set by the AFEP-MEDEF code and law 2011-103 of 27 January 2011 are identical, but with a lag of one year. Therefore, for a Board of 16 members increased to 18 members in May 2015, the applicable legislation requires these targets to be as follows:

- three women (not including the elected employee representative) on the date of the 2013 General Meeting (AFEP-MEDEF code) or 2014 General Meeting (law), for a Board of 16 directors;
- seven women (not including the elected employee representative) on the date of the 2016 General Meeting (AFEP-MEDEF code) or 2017 General Meeting (law), for a Board of 18 directors.

Appointments of directors made at the General Meeting of 15 May 2012 (Ms Prost, Ms Taittinger and Ms Taylor) enabled the Company to have a Board that was 25% composed of women on that date and to achieve (and exceed) the objective of 20% women a year ahead of AFEP-MEDEF and two years ahead of the legal deadline. Since the co-opting of Marie-Françoise Walbaum in 2013 and then of Laurence Broseta in 2014, the number of female directors comes to five (excluding the elected employee representative) out of a total of 14 directors (excluding elected directors) i.e. a ratio of 36%. On 13 May 2015, subject to approval at the General Meeting, the Board will number six women (excluding elected directors) out of a total of 16 directors (excluding elected directors), i.e. a ratio of 38%.

(1) See pages 140-147 of this document.

## Independence of directors

On the recommendation of the Governance & Remuneration Committee, the Board of directors has decided to retain the strict approach adopted in previous years: directors appointed by the General Meeting on the recommendation of a shareholder ("Public Sector" or "Industrial Partner"), or a category of shareholders (employees), or directors elected by employees, cannot be considered independent within the meaning of the aforementioned AFEP-MEDEF code.

Having examined the situation of the three directors who are "external to the Company" (see Table above), the Board decided that the only directors who can be declared independent under the criteria in force, pursuant to the recommendation of the Governance & Remuneration Committee, are Mmes Anne-Claire Taittinger, Ann Taylor and Mr Yannick d'Escatha.

As of 25 February 2015, the Board of directors provisionally had three independent directors, or 23% of members (excluding employees and the employee representative – as stipulated by the revised AFEP-MEDEF code of June 2013). The proportion is however less than the one third recommended in controlled companies.

## Internal rules for the Board and its committees

The Board's internal rules, adopted in July 2004 and regularly updated since then, do not supersede the provisions of the law or of the Company's Articles of Association applicable to the Board and its committees, or the provisions of the Code of Ethics or the Code on Insider Trading, certain provisions of which apply to directors, since together these rules represent a code of professional conduct for directors (see in particular the Section on the "Prevention of insider trading" below).

In addition to the specific provisions of the shareholders' agreement, the Board's internal rules indicate best practice in respect of corporate governance, particularly those contained in the aforementioned AFEP-MEDEF code. The Governance & Remuneration Committee is in charge of periodic updates and of sending the Board the revisions that it deems necessary. The following remained in force for the whole of 2014.

The Board's internal rules are divided into five sections:

### I- Members of the Board of directors (Board membership, independence, availability, primary duty, transparency, confidentiality and compensation)

It is stipulated that members of the Board of directors must notify the Chairman of any situation that presents – or may present – a conflict of interest with the Company. In this regard, the directors have unanimously approved the following statement:

"To the knowledge of Thales,

- there are no family ties between members of the Board of directors;
- no Board member has been convicted of fraud in the last five years;
- no Board member has been involved in the last five years as a senior executive in a bankruptcy, receivership or liquidation, or has been charged and/or officially disciplined by statutory or regulatory authorities;
- no Board member has been barred in the last five years by a court from acting as a member of a body dedicated to the administration, management or supervision of an issuer, or from being involved in the management or running of such a company's affairs;
- no conflict of interest exists between the Board members' private interests and their duties to Thales."

### II- Powers of the Board of directors (representation and corporate interests, specific powers and shareholders' agreement)

The annual budget, under the rolling three-year strategic plan, the appointment and dismissal of the Chairman & Chief Executive Officer (or the appointment of a Chairman and a Chief Executive Officer in the event of separation or potential separation of these functions), the acquisitions or disposals of investments or assets with a value exceeding €150m, as well as strategic alliance agreements and agreements on technological and industrial cooperation, are automatically submitted to the Board for approval, it being understood that the shareholders' agreement stipulates that such decisions must also be made by the majority of directors representing the Industrial Partner (Dassault Aviation).

Any transactions exceeding €50m are also submitted to the Board for approval if they involve a change in the Group's strategy as previously approved by the Board.

### III- Board information (communication and training)

It is specifically envisaged that:

- Board documents shall be sent to participants in a timely manner;
- the State representative responsible for the golden share, the government commissioner and the representative of the Central Works Council shall receive all documents sent to directors and are invited to attend Board meetings;
- new directors shall receive, upon their appointment, the appropriate documents for their office and shall attend a briefing about Thales, its organisation and business, given by the Group's senior executives. Thereafter, each director may request additional training.

### IV- Board committees (formation and responsibilities, organisation, information, Audit and Accounts Committee, Governance & Remuneration Committee and Strategic Committee)

It is stipulated that, in addition to the responsibilities of each committee (see relevant sections below), each committee is entitled to ask general management for any additional information that it deems necessary for the performance of its duties, and may ask the Board of directors, in exceptional cases, to hire external consultants. This option was not exercised in 2014.

### V- Functioning of the Board of directors (meetings, attendance and representation, annual assessment and updating the internal rules)

This chapter is covered in the annual report as required by law and can be found in Section 3.2.1.2 below.

## Prevention of insider trading

In order to take into account the recommendations contained in the AMF guide, Thales, with effect from 2011, has extended its system of "blackout periods" (no-trading periods): in addition to the periods relating to the annual and half-yearly financial statements (at least 30 calendar days, in each case), which already existed, two new periods have been introduced for quarterly reporting (Q1 and Q3) of 15 days each. In each case, the period includes the day after the publication of the financial press release.

The financial calendar for the following six months is published on the Company's website after the third quarter financial press release (including the date of the General Meeting). The calendar is updated for the whole year when the previous year's annual results are published.

Directors may, if they wish, consult the Group secretary or the Group General Counsel prior to dealing in any shares. However, this prior consultation is not compulsory.

In addition, the directors have been informed of the provisions concerning the planned management mandate, but the Company has not explicitly recommended this course of action. At the date of the Board meeting that approved this report, the Company was not aware of any such mandates.

## Notice of General Meetings

General Meetings are convened by the Board in accordance with current legal and regulatory provisions. The Board of directors ensures, in the interests of all shareholders, that the period of notice for meetings is much longer than the minimum requirements. All shareholders, regardless of the number of shares they own, are entitled to take part in General Meetings. The date of the General Meeting is published on the Company's website approximately six months in advance.

At least 21 days prior to the meeting, all documentation is provided on the website <http://www.thalesgroup.com>. The results of votes on resolutions are put online by the day following the meeting.

## Key factors likely to have an impact in the event of a public offering

As provided for by Article L.225-37 with regard to the information required under Article L.225-100-3 of the French Commercial Code, the two major shareholders, who together hold more than the majority of capital and voting rights, have declared that they are acting in concert under a shareholders' agreement, and that any crossing of the thresholds of one-tenth of the capital or voting rights, or any multiple thereof, requires the prior consent of the French Minister for the Economy.

## Remuneration and benefits of all types granted to directors

### Attendance Fees

In 2008, the General Meeting set the total amount of attendance fees at €600,000 per year, to be divided among directors and non-voting members for services to the Board, including remuneration payable to directors who are committee members in respect of their participation in these committees. This total allocation has not been changed since that date.

The Board decided that directors would receive:

- for services to the Board, fixed remuneration of €14,000 per annum (prorated in the event of appointment or resignation during the year), subject to the maximum ceiling on variable remuneration, and variable remuneration based on attendance at meetings amounting to €2,500 per meeting;
- for services to the committees, remuneration (entirely variable), based on attendance fees of €1,250 per meeting, with the Chairman of each committee receiving an additional €2,000 per annum (prorated based on the number of meetings chaired, if applicable).

If, on account of the high number of meetings (variable remuneration being paid first), the total amount of €600,000 per financial year (gross amount before any deductions) is likely to be exceeded, the fixed component of directors' remuneration will be duly reduced in order to remain within

the annual budget approved by the shareholders. For 2014, the fixed component was thus reduced to €10,000 for the full year.

Non-voting members receive €2,500 per Board meeting, i.e. the same variable remuneration as directors, but excluding any fixed remuneration. Since 18 May 2009, there have no longer been non-voting members on Thales' Board of directors.

For 2014, the attendance fees due (gross amount before any deduction or levy) total €598,090 (compared with €560,000 for 2013); partial payment was made in July 2014, with the balance being settled in January 2015. The total of €598,090 was predominantly composed of variable compensation, as recommended by the AFEP-MEDEF code, while the fixed portion was €159,590 (just below 27% of the total).

As a guide, the gross amount (before any deduction or levy) paid during the 2014 financial year (excluding any waiver) totalled €631,250 (compared with €552,500 in 2013). The limit of €600,000 applies to attendance fees due for one year, irrespective of the payment schedule.

The AMF tables relating to executive compensation (Table 2 – Company representatives and Table 3 – Non-executive corporate officers give details of names (see pages 166 and 167).

The General Meeting on 13 May 2015 will vote on an increase in total gross attendance fees, from €600,000 to €675,000, to reflect the increase in the number of directors from 16 to 18, thereby maintaining the average gross amount at €37,500 per director per year.

## Remuneration policy for the Chairman & Chief Executive Officer

The remuneration of the Chairman & Chief Executive Officer is decided each year by the Board of directors at the meeting to approve the financial statements for the year, based on the proposal of the Governance & Remuneration Committee. As for directors, it is composed of a fixed and variable component. It is calculated taking into account performance over the previous financial year and salary surveys or market data, as well as the recommendations of the AMF code on remuneration (see AMF Table 2):

- fixed remuneration remaining unchanged over a period of at least three years;
- permanence of the quantitative criteria for variable remuneration.

Jean-Bernard Lévy was granted neither stock options (which Thales discontinued in 2012) nor performance shares. In accordance with the "say on pay" rule, a Table summarising the components of his compensation package is given to shareholders with the meeting documents (see heading 3.4.2.1 of this registration document).

The 10 AMF tables contained in the registration document also provide details of the compensation of the Chairman & Chief Executive Officer, which is consistent with the recommendations of the revised AFEP-MEDEF code.

## Summary of director share dealing in 2014

The summary statement (provided for in Article 223-26 of the AMF General Regulations) of share dealing in 2014 by persons required to file a declaration (directors, non-voting directors, members of the Executive Committee and related persons can be found on page 28 and 190 of the registration document).

### 3.2.1.2 Report on Board activity in 2014

#### Number/duration of meetings and attendance rate

The Board of directors met 10 times in 2014. The average attendance rate by directors was 95%. One meeting was held outside the head office, at one of the Group's industrial sites, and was attended by the site's operational management.

The statutory auditors are invited to meetings relating to the audit of the annual and half-year financial statements. Nonetheless, they may be invited to other Board meetings when a report on the work carried out by the Audit & Accounts Committee is presented.

#### Key topics covered

In addition to recurrent topics within the remit of the Board of directors (annual budget and update of forecasts, strategic plan, preparation of annual consolidated and corporate financial statements, examination of the consolidated half-year financial statements, calculation of the Chairman & Chief Executive Officer remuneration and indication of the quantitative and qualitative criteria for his variable remuneration, dividend and interim dividend proposal, approval of Annual Meeting documents and notice of the General Meeting, announcement of blackout periods for trading in the Company's shares, prior approval if applicable for commitments or regulated agreements, various delegations of powers to the Chairman & Chief Executive Officer and reporting on the use of such powers, annual review of the independence of the directors, etc.), the agendas of these meetings included the following items in 2014, in some cases with reports from the relevant Board committee:

- oversight of strategic decisions and review of projects in progress;
- the performance plan;
- the finetuning of the rules of procedure for the Board and its committees;
- the Group's overall compensation policy;
- the transfer of the registered office;
- the introduction of an annual long-term incentive (LTI) plan, with performance conditions over three years according to the level of responsibility of the beneficiaries;
- annual assessment of the Board's performance;
- corporate social responsibility;
- at the end of the year, the scheduling of a General Meeting to amend the Articles of Association (see above).

### 3.2.1.3 Preparatory work for Board meetings

#### Information for directors

##### Board papers

A provisional timetable for meetings is drafted halfway through the year for the following year.

Since 29 September 2009, the Board's internal rules have set the minimum period for the notice of meeting and submission of documents at five working days, unless this is impossible or there is an emergency – in which case three days is considered a desirable minimum.

Each notice includes the agenda and meeting documents (or at least the main points, if these cannot be completed at the time of dispatch) and the draft minutes of the previous meeting, usually sent out (for the first time) no later than 30 days after each meeting. In some cases, additional material is sent to directors after the notice of meeting, or may even be handed out during the meeting, if the matter is urgent.

The directors are also sent a press review and a selection of financial analyses relating to the Company. National press releases are also sent to them by e-mail.

#### Additional training

In accordance with the Board's internal rules, directors may ask to receive additional training.

#### Organisation and operation of Board committees

##### Audit & Accounts Committee

The order of 8 December 2008, implementing Directive 2006/43/EC, sets out the powers and duties of this committee, reproduced in full in the Board's rules of procedure (rule 16):

"The Audit & Accounts Committee is specifically responsible, without prejudice to the powers of the Board of directors, for monitoring:

- a) the preparation of financial information;
- b) the efficiency of internal control and risk management systems;
- c) the statutory audit of the Company's financial statements and consolidated financial statements by the statutory auditors;
- d) the independence of the statutory auditors.

It consults the statutory auditors on the following:

- a) their general work programme as well as the various sample tests they have performed;
- b) changes that they believe should be made to the financial statements to be published or to other accounting documents, making any relevant comments on the assessment methods used in their preparation;
- c) any irregularities and inaccuracies that they may have identified;
- d) the conclusions resulting from the aforementioned comments and adjustments to the profits for the period compared to those of the previous period.

It also examines, jointly with the statutory auditors, the risks to their independence and the safeguards applied to mitigate these risks. It consults the statutory auditors on significant internal control weaknesses they may have identified, as regards procedures relating to the preparation and processing of accounting and financial information, and each year receives from them:

- a) a statement of independence;
- b) an update of the information provided for their appointment, detailing services provided by members of the network to which the statutory auditors belong, as well as services rendered in respect of work relating directly to this assignment.

For this purpose, the committee relies in particular on the work of the Finance Department and the Internal Audit Department. It approves the annual programme of the Internal Audit Department and examines the activity reports.

It supervises the selection procedure for the statutory auditors and issues a recommendation on the statutory auditors proposed for appointment by the General Meeting.

It analyses the operational plans of the statutory auditors, as well as their recommendations and the follow-up on these recommendations. It may interview statutory auditors without Company representatives being present. Each year the committee examines the budget for professional fees for the statutory auditors. It reviews and analyses the professional fees paid to the statutory auditors for the financial year ended.

It reports regularly on its work to the Board of directors and informs it immediately of any problem encountered."

In addition, committee members decided in 2010, in accordance with the final AMF audit committee report of 22 July 2010, to schedule a discussion with the statutory auditors at the end of each meeting without Thales representatives being present.



On 31 December 2014, the members of the committee were:

- Anne-Claire Taittinger, Chair and independent director;
- Jeanne-Marie Prost;
- Martine Saunier;
- Loïk Segalen.

The composition of the Audit & Accounts Committee is consistent with the Executive Order of 8 December 2008: the committee members are all directors, and one director, in addition to being classed as an independent director, has the requisite financial and accounting expertise (see biography of Anne-Claire Taittinger on page 144).

Conversely, the committee is only one-third composed of independent directors, and not two-thirds, as recommended by the AFEP-MEDEF code (the employee director is not included in this calculation). As previously mentioned, this is due to the terms of the shareholders' agreement, which stipulates that one representative from each of the two shareholders in the agreement must sit on each committee.

The committee met four times in 2014, with an average attendance rate of 100%.

The statutory auditors, invited to each Committee meeting, are involved in all discussions, except when there is a conflict of interests (e.g. during a review of the appointment of statutory auditors or renewal of their terms of office). Twice a year, they submit their report on the audit of the accounts (annual and half-year), and specify the accounting options used and the highlights of their audit of the financial statements.

The Senior Executive Vice President, Finance and Information Systems, Group secretary and Director of Audit, Risks & Internal Control are invited to all meetings, as is the Group Director of Financial Control and, periodically and depending on the agenda, other representatives of the Finance Department and the Group General Counsel.

In addition to the annual and interim financial statements, in 2014 the committee also examined:

- the performance of difficult contracts and their accounting implications;
- the follow-up to the main disputes;
- the external audit plan and statutory auditors' fees;
- the organisation of internal control, updates to risk mapping and assessment of the implementation of the 2013 audit plan;
- the implementation of the 2014 audit plan and feedback on the most critical audit findings;
- the IT system security plan;
- the internal audit plan for 2015, adopted at the end of 2014;
- the financial position of DCNS;
- the preparation for the selection of statutory auditors and the implementation, with the agreement of the Board, of a restricted tender process;
- In addition to the Section of the Chairman's report on internal control and risk management (see Section 3.2.2 below).

During meetings more specifically devoted to audit and internal control, the committee reviewed the reports of the Audit, Risks & Internal Control Department. It laid out its recommendations for the follow-up on assignments.

At the meeting devoted to the 2014 financial statements, the committee acknowledged the memorandum on the Group's risk exposure and major off-balance sheet commitments, in accordance with AFEP-MEDEF recommendations. This memorandum, which was circulated to all the directors, is reiterated in the Section of the registration document on "risk factors".

The committee has also been involved in the preparation of announcements of results.

Following the meetings – which, in the case of the closing or examination of the financial statements, are held at least two (and wherever possible three) days prior to the Board meeting – a written report is produced and submitted to all directors at the next Board meeting. Pursuant to the AMF

recommendation in its audit committee report of 22 July 2010, this report is systematically included or attached to the minutes of the next Board meeting after being approved by the committee. In addition, the committee proceedings are recorded in minutes, which may be more detailed.

## Governance and Remuneration Committee

In compliance with rule 17 of the Board's rules of procedure, the Governance & Remuneration Committee has the task of examining:

- the remuneration policy for the Company's senior executives;
- the remuneration of the Chairman & Chief Executive Officer and any regulated commitment concerning him, directors' remuneration (attendance fees) and, if applicable, that of other Company representatives;
- the long-term incentive (LTI) plans, which are subject to the Board's approval;
- employee share ownership schemes;
- candidates for directorships belonging to the category of external directors regarding which there was consultation between the two major shareholders pursuant to the provisions of the aforementioned shareholders' agreement;
- at least once a year, the independence of directors;
- and in general, any issues relating to the application of the AFEP-MEDEF Corporate Governance Code for Listed Companies.

The committee is also responsible for preparing the Board's assessment of its own performance (see Section 3.2.1.4) and reporting to the Board in order to facilitate discussion.

Furthermore, the Chairman & Chief Executive Officer provides additional information on his choices for the appointment of members of general management through discussions with the committee.

On 31 December 2014, the members of the committee were:

- Yannick d'Escatha, Chairman and independent director;
- Dominique Floch;
- Éric Trappier;
- Régis Turrini.

It met five times in 2014, with an attendance rate of 100%.

The ratio of independent directors recommended by the AFEP-MEDEF code (at least half) is not satisfied for the reasons mentioned earlier: because of the shareholders' agreement, the ratio is actually one third.

The Senior Executive Vice President, Human Resources, and the Group secretary were invited to all committee meetings, and the Chairman & Chief Executive Officer was invited to some of the meetings, depending on the agenda or in cases where his presence could be of particular value to the discussion.

The items reviewed by the committee in 2014 included:

- the Group's long-term incentive (LTI) policy and the preparation of a plan with performance conditions according to the level of responsibility of the beneficiaries;
- the examination of the remuneration package of the Chairman & Chief Executive Officer, and in particular the qualitative criteria applicable to his variable remuneration;
- corporate social responsibility and the NRE (French New Economic Regulations) social report;
- the independence of directors;
- the terms for the annual assessment of the operation of the Board of directors and the report presented to the Board;
- as well as this Section of the Chairman's report on corporate governance.

For all of these items, the committee presented its recommendations to the Board: each meeting was systematically recorded in minutes issued to all directors at the following Board meeting. In addition, the committee proceedings are recorded in minutes, which may be more detailed.

## Strategic Committee

In compliance with rule 18 of the Board's rules of procedure, the Strategic Committee's main tasks are to assess the Group's strategy in its key business segments, and in particular:

- to examine the Group's strategic approach in each of its major fields of operation, before these are submitted to the Board of directors;
- to analyse the framework for submission of the budget and the three-year rolling plan to the Board, and to examine the proposed annual budget in the context of this plan;
- to analyse major acquisitions and asset disposal plans (in excess of €150m), as well as proposed strategic agreements or partnerships.

On 31 December 2014, the members of the committee were:

- Patrice Caine, Chairman;
- Charles Edelstenne;
- Dominique Floch;
- Philippe Lépinay;
- Régis Turrini.

Henri Proglio, who became a director on 23 December 2014, was appointed as a member of this committee in January 2015.

No independence criterion is imposed for directors on this type of committee by the AFEP-MEDEF code or by the law.

The committee met twice in 2014, with a 100% attendance rate, mainly to examine the 2014 budget, to follow up on strategic decisions, and to review various M&A projects and the strategic plan.

In 2014, the Senior Executive Vice President, Finance and Information Systems, the Group secretary and the Executive Vice President Strategy were invited to meetings by the committee Chairman. Minutes of each meeting were presented at the following Board meeting by the Chairman & Chief Executive Officer, as committee Chairman, either verbally or accompanied by a report.

Minutes are taken during Strategic Committee meetings.

### 3.2.1.4 **Assessment of the Board's performance**

As recommended by the AFEP-MEDEF code and pursuant to the Boards rules of procedure, one item on the Board meeting agenda each year is dedicated to a discussion about its performance.

At the end of 2014, as in the previous year, the Group secretary conducted personal interviews with each director to improve dialogue and carry out an in-depth assessment using an internal questionnaire, as recommended by the Governance and Remuneration Committee.

From this assessment, it emerged that Thales directors consider the Board to function satisfactorily on the whole, generally at the same level year-on-year.

The Board found that the implementation of earlier recommendations had been of benefit and should be continued, particularly with regard to following up on Board decisions (for which a follow-up Table was introduced in 2014 on the committee's recommendation), extending the work of certain committees, and continuing to hold Board meetings outside the head office whenever possible.

In addition, the committee reiterated the benefits of holding an annual strategy seminar after adoption by the Board of the strategic business plan (SBP). There was also a recommendation to examine the feasibility of a secure platform to enable directors to access the information they need to carry out their work.

### 3.2.1.5 **Restrictions, if any, to the Chief Executive Officer's powers**

In accordance with the provisions of the French New Economic Regulations (NRE), the possibility of separating the functions of the Chairman of the Board of directors from those of the Chief Executive Officer was introduced into the Company's Articles of Association at the General Meeting held on 16 May 2002.

On 23 December 2014, the company announced its intention to implement the separation of the roles of Chairman and Chief Executive Officer, attributed respectively to Henri Proglio and Patrice Caine.

As of 31 December 2014, and pending the amendment of the Articles of Association relating to the age limit of the Chairman, Patrice Caine assumed the functions of Chairman and Chief Executive Officer without any other limitation of powers than those stipulated in the applicable legislation, with respect to the specific powers of the Board of directors or the General Meeting.

As stipulated above in Section 3.1.2.1 on the internal rules, the practice leads to automatic submission for Board approval of any acquisitions or disposals exceeding €150m, as are any non-strategic transactions that exceed €50m. This practice effectively limits the powers of the Chief Executive Officer.

## 3.2.2 **INTERNAL CONTROL AND RISK MANAGEMENT**

This Section was submitted to the Audit & Accounts Committee at its meeting of 12 February 2015, attended by the statutory auditors. It was prepared on the basis of the main conclusions from the internal audit and risk management work carried out by the Group in 2014. The results of this work were reviewed at the various meetings of the Risk Assessment Committee and the Risk Management Committee during the year, and also at meetings of the Audit & Accounts Committee held in 2015.

This Section is based on the AMF reference framework on risk management and internal control systems, updated on 22 July 2010.

It covers all the suggested items, albeit sometimes in a different order.

Since 2006, the Audit, Risks & Internal Control Departments submitted voluntarily to certification by IFACI<sup>(1)</sup>, which ensures that its practices comply with the international standards of the profession. The certification was renewed on 5 February 2013 for a further three-year period. As is customary, two audits were carried out by IFACI, at the end of 2013 and the end of 2014.

(1) French Audit and Internal Control Institute (Institut Français de l'Audit et du Contrôle).

### 3.2.2.1 Objectives and definitions

#### a) Objectives of risk management

Thales adheres to the risk management objectives formalised by the AMF in its reference framework

Risk management is a vector for management of the Thales group which helps to:

- **Create and preserve the value, assets and reputation of the Group**

Risk management identifies and analyses the main threats and potential opportunities of the Group. It is intended to anticipate risks instead of undergoing them, and thus preserve the value, assets and reputation of the Group.

- **Secure the Group's decision-making and processes to help it achieve its objectives**

Risk analysis is designed to identify the principal events and situations which could significantly impact the achievement of the Group's objectives. Controlling such risks helps to achieve those objectives.

Risk management is integral to the Group's decision-making and operational processes. It is one of the tools for steering and assisting in decision-making.

Risk management gives executives an objective and comprehensive vision of potential threats and opportunities for the Group and enables them to take measured and considered risks, helping them reach decisions on the allocation of human and financial resources.

- **Promote the consistency of actions with the values of the Group**

The Group's risk management approach is consistent with its values, particularly with regard to the strict compliance of its business activities with national and international rules and legislation.

- **Mobilise the Group's employees around a shared vision of the main risks and make them aware of the risks inherent in their work**

#### b) Definition of internal control at Thales

The Group relies on the international standards of COSO (Committee of Sponsoring Organizations of the Treadway Commission) and the IFACI.

According to the definition used by Thales, internal control is a process that the organisation implements with the intention of providing reasonable assurance as to the achievement of the Group's objectives, through:

- the effectiveness and efficiency of internal processes;
- accounting and financial internal control, which aims to ensure the reliability of the information distributed and used internally for management and monitoring purposes, insofar as they contribute to the preparation of the published accounting and financial information; and
- legal compliance, which is intended to ensure compliance with regulatory requirements.

#### c) Scope of application and limits

Thales implements its corporate risk management and internal control approach in the companies it controls.

These internal control and risk management processes contribute to the achievement of the Group's objectives without providing an absolute guarantee because of the limitations inherent in any system, such as the need to take into account the cost/benefit ratio leading to acceptance of a certain level of risk, and due to the uncertainties of the outside world.

### 3.2.2.2 Control environment

For most of its operations, the Group is subject to a control environment imposed by its customers and regulatory authorities (ministries of defence and industry, authorities in its customers' countries, civil aviation authorities, etc.), which require strict certification and controls.

These specific constraints are in addition to its statutory obligations and are an integral part of the Group's audit environment.

#### a) The main parties in risk management and internal control

Since 2013, Thales has been organised according to a matrix structure: Global Business Units and countries.

- The Global Business Units are organised into business lines, which cover a coherent range of products, solutions and services. The business lines may be divided into business segments.

For the products, solutions and services entrusted to them, the business lines are responsible worldwide for strategy, product policy and marketing, competitiveness, customer access, contractual commitments, engineering, development, production, integration, quality and services, industrial organisations, optimisation of resources, and economic performance (contribution to EBIT and cash flow).

- In the region assigned to them, country managers are responsible for the successful implementation of every aspect of Group policy and handle relations with customers and local partners.

The major countries share responsibility with the Global Business Units for local bids and projects. Country managers are involved in all decisions taken by the Global Business Units in terms of organisation and appointments, or relating to bids, projects and centres of excellence of any kind in their territories. They are responsible for HR development and the optimisation of industrial resources. They are also responsible for Thales's institutional relations and communication.

In each of the six main countries (excluding France) in which the Group operates (see list below), a member of the Executive Committee acts as the "Non-Executive Chairman". The Country Manager reports to the Non-Executive Chairman. The Non-Executive Chairman acts an interface between the country and head office and liaises between the Country Manager and Executive Committee.

For the other countries in Europe (apart from those with a Non-Executive Chairman, see above), the Country or Regional Manager reports to the Europe and International Operations Department, which in turn reports to the Senior Executive Vice President, Operations and Performance.

In all other cases, the Country or Regional Manager reports to the International Development Department, which is responsible for emerging markets.

The countries are grouped as follows:

- **main countries in which the Group is based:** Germany, Australia & New Zealand, Canada, the United States, France, the Netherlands and the United Kingdom;
- **other European countries;**
- **emerging markets:** all countries not in the previous two categories: Africa, Latin America, Asia and the Middle East.

The Group defines common processes, provides units with the corresponding tools and sets up umbrella departments to implement these.

The rules on delegation reflect this sharing of responsibility and are implemented in legal entities coordinated at national level.



## The Group's managing bodies

These consist of Global Business Units, countries and functional departments and are ultimately responsible for the Group's entire internal control system, relying in particular on the Risk Management Committee and the Risk Assessment Committee.

The Group's governance is founded on the key principle of the responsibility of the directors of Group companies or operational entities, who are charged with establishing and maintaining the risk management and internal control system within their operational entities.

## The corporate risk assessment function

Since 2007, the Audit, Risks & Internal Control Department has included a risk analysis function. This is the responsibility of a dedicated team, separate from the audit team, which provides support to all operational and functional managers to help them identify and assess the risks to which their activities are exposed and to institute the means to manage or reduce these risks. It is also responsible for the development of internal control assessment tools provided to the entities.

## The financial function

The Groups Finance Department drives the Company's accounting and financial operations. Its central organisation comprises:

- an accounting and consolidation function, responsible for preparing and presenting the Group's consolidated financial statements;
- a management and budget control function, which analyses the Group's financial data and produces monthly reports on any variances with respect to the budget and comparable periods of the previous year. On this occasion, financial forecasts for the current half-year and financial year are reviewed and discussed so as to steer the business in order to achieve the objectives set;
- a tax function, which provides support to the operational entities on legislation and during tax audits. It also monitors tax consolidation within the Group and ensures their overall coherence;
- an insurance and risk management function, which manages all insurance policies for Group companies, optimises insurance costs, verifies that the subsidiaries are properly covered against all insurable risks that they incur and monitors any significant losses;
- a treasury and financing function, which coordinates and optimises the management of financial resources and exchange rate risk at Group level.

The Group's Finance Department is represented in each entity and in each of the main countries by a Finance Director who is functionally assigned to it. The implementation of the accounting and financial internal control is carried out by these Finance Directors, who have local or decentralised teams in the operational units within their scope of responsibility to ensure that the financial information is prepared in compliance with the rules on internal control.

At the closing of the annual and interim financial statements, the chief executives and their Finance Directors issue a representation letter to the Group's Finance Department, certifying the fair presentation and completeness of the financial data submitted for consolidation.

## Legal and Contracts function

The Group's Legal and Contracts Department, as well as "country structures", provides support to units with regard to local and international laws, in order to manage any potential legal risks that may be incurred in the various fields of the law.

The Human Resources Department also has a network of legal advisers who specialise in employment law and who provide support to the Group's units, either in-house or in collaboration with law firms.

## Internal communication

Internal communication seeks to guarantee the support and motivation of all employees by providing them with the necessary information on Group strategy and the events taking place. It relies on different channels that uphold Thales's values:

- information resources ensure communications with all Group employees, such as the Group's intranet (updated regularly), the "Login to Thales" publications (an in-house newsletter) and newflashes circulated by e-mail;
- welcome seminars bring together new executives and the management team to share the Group's vision, strategy, culture and values;
- shared knowledge bases that are freely accessible online, or protected depending on their content, and designed to facilitate dissemination of the principles adopted and the implementation of best practices in respect of internal control.

## Quality assurance function

The Group's Quality Assurance Department defines the quality assurance policy and objectives, and drives improvements in customer satisfaction. It steers the process management framework (Chorus 2.0) applicable to all Group entities. Each process is entrusted to a manager who is responsible for defining rules and setting targets, as well as for their implementation and effectiveness, ensuring that process targets are achieved through risk reduction.

Quality assurance procedures for projects and products are delegated to operational units. Quality assurance is thus an integral part of each business, which ensures that systems, equipment and services meet customers' requirements and response times are minimised.

## b) Thales's operating principles and procedures

Thales' operating principles and procedures underpin the Group's internal control. This set of organisational rules, policies and procedures, which includes rules on ethical conduct and corporate responsibility, is available on the Group intranet and is provided to all new employees in their welcome pack.

## The reference system

Thales has created a process-based reference system called Chorus 2.0, which defines the organisation, rules, practices and methods to be implemented at each Group entity. Organisational memoranda are also stored in Chorus 2.0.

Thanks to its modular design, it can be adapted to the business context and can be augmented within each entity or country, by local rules and practices detailed in a technical reference system.

Chorus 2.0 is accessible via the intranet which makes it easy to locate the policies, procedures, instructions, models and forms which need to be used. Chorus 2.0 covers nine headline processes, sub-divided into 26 processes. These processes, which are closely interfaced - and identify activities that require attention with regard to the potential for risks to occur - precisely define how Thales works according to the roles, rules, practices and operating modes described.

This reference system has an international reach as it gives all Group companies a shared language and a unified management process. Chorus 2.0 is also aimed at organisational alignment within each country/company across the Group.

Chorus 2.0 is therefore a vital tool to enable each entity to have its management systems certified - on a Group-wide platform - in terms of quality, health, safety and environment and with regard to the norms and standards applicable to each activity.

Chorus 2.0 is thus a vital tool for the Group's internal control and is a natural component of the reference frameworks used in the missions of the Audit, Risks & Internal Control Department.

## Internal rules of the Board of directors

Section 3.2.1 of the corporate governance report provides more details on the Board of directors, its internal rules and its operation.

## Codes and guides for conduct

The Code of Ethics, available in eight languages, describes the rules of conduct and the values that the Group wishes to promote. It covers relationships with customers and suppliers, co-workers, shareholders and financial markets, as well as protection of the environment.

The Code of Ethics is supplemented with a special Section on ethical business practices. The Group distributes and provides to its employees tools and guides for best practices that reflect international regulations, professional standards and behaviours promoted by Thales to fight corruption, in ethical business conduct, sales promotion, and gifts and other tokens of hospitality.

The reference guide on export control sets out the issues and implications arising from the Group's export activities and outlines current international regulations on controlling exports of military and dual-use equipment. It defines the responsibilities and the monitoring and control processes necessary to ensure that Thales's operations comply with all these requirements.

As part of its policy of preventing insider trading, the Group has adopted a code on insider trading for directors, and regularly updates the list of insiders (see Section 3.2.1).

There is now an e-learning platform to raise employee awareness in a targeted manner about the prevention of insider trading, competition law, risks of infringement of intellectual property rights and export control, as well as business ethics and corporate responsibility.

## Internal audit charter

The Group's internal audit charter defines the basic principles of internal control and internal audit, the scope and limits of its responsibilities and its interaction with the units.

The internal audit is thus equipped to intervene in all corporate processes throughout the Group, complying with the joint venture agreements which may impose specific audit models, in order to assess risk management and the quality of internal control, acting on its own initiative where required.

## c) Group risk mapping

The Group has mapped its major operational, strategic, compliance and financial risks, which are updated each year.

Each risk factor identified has been set out in risk scenarios prioritised on the basis of two analysis criteria, before and after mitigation: likelihood of occurrence and financial impact.

In 2014, the Audit, Risks & Internal Control Department, in association with the Group's risk advisers, updated the map in order to:

- monitor changes in the COSO model, by identifying four risk categories operational, strategic, financial and compliance;
- clearly define the main scenarios leading to each risk.

The Group has assigned each of these risks to a risk advisor who is in charge of coordinating the management of this risk at Group level under the supervision of the Risk Assessment Committee. This consists of defining the risk management mechanisms, overseeing their deployment, monitoring major incidents and continuously improving the system.

### 3.2.2.3

## Principal corporate risks and their management

The Section on risk factors in the Group management report describes the measures taken by the Group to address operational, strategic, legal and compliance, financial and risks related to insurance.

### a) Centralised activities

Some complex or risky operations are carried out solely by central departments, which ensure the consistency and coordination of the Group's practices. A specific internal control framework has been put in place to manage the risks associated with these operations.

## Investments and divestments

Total or partial corporate takeovers and disposals come under the exclusive remit of the Group's general management. The Global Business Units propose projects at periodic meetings of the Mergers & Acquisitions Committee, made up of the main central departments.

## Financing, treasury management and foreign exchange risk

The Group's financial resources are managed centrally by the Group Treasury and Financing Department. The Group's subsidiaries are not authorised to undertake financing operations themselves, apart from any exceptions due to tax or other regulatory constraints and authorising any overdrafts required for efficient account management.

Every day, the bank accounts of the local entities in the main countries are balanced by transfers to or from the corporate treasury account (cash pooling – zero balancing system). Financial agreements have been established with all Group companies which manage these relations in compliance with the relevant local regulations.

The Group Treasury and Financing Department also manages the overall foreign exchange risk, while in-depth monitoring of this risk is carried out by the operational units. Foreign currency transactions are analysed prior to any financial commitment and are hedged at Group level against foreign exchange risk as soon as the probability of being awarded the sales contract and/or signing a purchase order becomes significant, excluding special cases.

## Financing of export operations

Export financing operations (guarantees, buyer credits, documentary credits or more complex transactions) are prepared by local specialists who report to the local Finance Departments. These specialists also report to the International Financial Affairs Department. Transactions involving amounts in excess of €10m or of a certain complexity are handled solely by this department at Group level.

## Real estate management

All real estate transactions come under the exclusive remit of the Group's Real Estate Department. It may delegate certain operations, especially outside France, to a national organisation, or to a local company, while ensuring proper supervision.

## Disputes, litigation and legal compliance

With the exception of disputes concerning relationships with employees and trade unions, which are handled by HR, other disputes are monitored by the Legal and Contracts Department.

## Insurance and claims

All insurance policies of Group companies are handled by Thales Insurance and Risk Management, a specialist subsidiary that optimises the cost of insurance for the Group and ensures that the subsidiaries are insured against the insurable risks to which they are exposed. This entity also monitors any significant claims.

## Commercial intermediation

The commercial environment for the Group's international operations is managed by a specialist company, Thales International. This company possesses the expertise and appropriate procedures to drive these operations in compliance with the applicable laws and regulations. Thales International or its subsidiaries are therefore exclusively authorised to sign – or to delegate the signature and management on a case-by-case basis under a specific procedure described in Chorus 2.0 – commercial intermediation contracts with external business advisers in export operations. For domestic operations, in countries where the Group has a significant manufacturing and commercial presence, procedures are in place to improve customer relations while increasing the security of commercial operations in compliance with the laws and regulations in force.

## b) Development and processing of published financial and accounting information

### Accounting and financial procedures

The Group has several procedural manuals applicable in all entities and reiterated in the processes defined in Chorus 2.0.

The Finance Directors of each unit are accountable to the Group Finance Department for compliance with these procedures.

### Manual of accounting standards and policies

This manual provides a detailed description of the accounting standards and policies to be applied during the preparation of the consolidated financial statements in accordance with IFRS.

### Budgetary control manual

This manual describes the hierarchy and reporting levels required by the Group, the financial cycles, the responsibilities of the Finance Department in operational processes and the rules to be followed by all Group entities.

### Reporting manual

This manual describes the content and format of periodic reports and contains a glossary to help standardise financial aggregates.

### Cash management manual

This manual describes the respective roles of the central teams and teams within each unit in respect of cash flow and financing operations.

It also details the procedures for short-term cash flow management, operation of the exchange risk hedging system and the related reporting rules.

### Guide to financial structuring

This document defines the respective roles of central teams and teams within each unit, as well as the procedures for the preparation and monitoring of the financial set-up proposed for commercial bids. The objective is to optimise the cost of the financial structure and ensure the best possible hedging against financial risks.

### Internal control questionnaire

The internal control questionnaire and the accompanying instructions provide an additional framework and help to improve the reliability of financial reporting while at the same time preventing the risk of fraud. These elements, which have gradually been incorporated within the framework for process

management and distributed to the entire Group, are effectively equivalent to an internal financial control manual.

## Budget process

There are three stages in setting the annual budgetary targets:

- the Group's Global Business Units draw up a strategic plan over a minimum period of four years, which can be adjusted depending on their business models; this is then presented to and approved by Group general management;
- each Global Business Unit, each major country, the Europe and International Operations Department and the International Development Department then present a detailed three-year budget plan to the Group's general management. This plan is based on the sales forecasts and assumptions prepared by the marketing and sales departments, in accordance with the strategic plans prepared by the Global Business Units;
- finally, the general management sets targets for the main countries and for the Europe and International Operations Department and the International Development Department, ensuring the overall consistency of these. The first year of the plan is then analysed monthly and is used as a reference for steering the Group.

## Financial reporting

The system includes some of the key factors described earlier in this report, such as accounting and financial procedures and a centralised consolidation process supported by a single tool.

Monthly results are analysed in order to identify any budget deviations and to update annual forecasts for orders, sales, profits and cash flow. This procedure is carried out by each unit and provides a consolidated view at Global Business Unit and Group level. It also makes it possible to identify any action plans necessary to achieve the objectives set.

## Consolidation of the financial statements

Thales uses the same consolidation software throughout the Group, selected from those available on the market, which enables it to upload the accounting information of the Group's various units with consistency checks carried out at source. Transfers of accounting entries to head office are authorised only after validation. Training sessions and personalised support on the tool within the Group's consolidation teams ensure that users operate the software effectively.

## 3.2.2.4 Ongoing improvement process

Thales has introduced internal and external assessments, based on international standards, enabling the Group to identify any areas requiring continuous improvement, to prioritise these and to monitor the associated action plans.

### a) Ongoing improvement of operational processes

#### Development activities

Thales has opted for the international CMMI® (Capability Maturity Model Integration) model, which is suited to its operations and recognised by many customers as a tool for improvement and assessment of the maturity of operational processes: using different models (Development, Acquisition and Services) covers aspects such as bid and project management, system engineering, hardware and software, supplier management and support activities.

CMMI® assessments carried out by auditors accredited by the Software Engineering Institute (SEI), enable improvements in the maturity of organisations to be measured according to a progressive tiered system: the CMMI® levels of maturity. In addition, for information system developments, when relevant, Thales uses the dedicated ITIL (Information Technology Infrastructure Library) model and ISO 20000.

## Production activities

Thales has adopted the international Supply Chain Operations Reference (SCOR) model and the corpus of the APICS (Association for Operations Management) as standards for its supply chain performance measurement tool.

Its supply chain performance measurement refers to the measurement of the maturity and efficiency of its services in relation to the provision of the end products.

This measurement covers all activities forming part of the supply chain, incorporating the preparation, production, and planning of supplies and production, purchases and supplies, workshop management, delivery management and the treatment of customer feedback.

## Process management

The Thales group has obtained and maintains, within its different sites and activities, certifications that attest to its ability to manage its processes to meet the needs of its clients.

For quality and for all Group activities, the certification standard is ISO 9001, and, depending on the activities, the following standards are also used (non-exhaustive list):

- AQAP 2110, NATO quality standard for the defence sector;
- EN 9100, European standard describing a quality assurance system for the aerospace industry;
- EASA Part 21 subpart G for production activities (Europe);
- EASA Part 145 (Europe) and FAR 145 (USA) for maintenance activities;
- EASA Part 147 for aeronautical training and maintenance;
- ISO 14001 and OHSAS 18001 for Environment, Health & Safety at work.

## b) Self-assessment and ongoing improvement of corporate risk management

The Group has required a corporate risk management process since 2008 for all the businesses and subsidiaries it controls.

In 2014, the Group's risk mapping process identified and measured the potential frequency and impact of 65 risk scenarios, with operational responsibility for each being specifically allocated to one of the following three management structures:

- local entities or countries;
- Global Business Units or business lines;
- central functions.

The processes defined in Chorus 2.0, the insurance policy, the self-assessment and internal control tools, and the internal and external audits form part of the management of these risks.

A key element in self-assessment and internal control is a questionnaire completed each year by the heads of the operational units and the management teams (yearly attestation letter) involving a total of 400 control points. The replies to these questionnaires are analysed by the Audit, Risks & Internal Control Department, and by the network of risk advisers.

## c) Self-assessment and ongoing improvement of internal financial control

Since 2008, the entities have used an internal control questionnaire based on internal control objectives linked to the Group's processes and accounting cycles (customers/suppliers/assets, etc.) to identify their areas of improvement, whether these are due to control objectives that have not yet been completely achieved, insufficient control in practice, or procedures that need to be improved.

The Group has geared this questionnaire towards the reliability of financial processes and the prevention of fraud. It has based it on the AMF recommendation entitled "Reference framework for risk management

and internal control systems". This questionnaire was revised in 2014. It now requires further detail, and was extended to non-financial risk factors. Moreover, this questionnaire has been combined with the yearly attestation letter, with the aim of implementing an integrated approach to internal control within the Group's operational units.

Each year, the Group's consolidated entities update their replies and add to the attestation letter signed by the heads of the entities at the end of the year by including a summary of the self-assessment and the resulting progress plans.

Lastly, in addition to the self-assessment system, the Audit, Risks & Internal Control Department conducts around 30 audits on Group entities on a rotation basis each year to facilitate an understanding of the system and improve the reliability of the results.

## 3.2.2.5 Oversight of the internal control and risk management system

### a) Monitoring and control bodies

The Board of directors exercises control over the management of the Group, either directly or through its committees. Detailed information on the organisation of the Board's work and, more generally, the performance of the Board and its committees, is given in Section 3.2.1.1 of the corporate governance report.

### Audit & Accounts Committee

At the annual closing of accounts, the Senior Executive Vice President, Finance and Information Systems submits a memorandum to the Audit & Accounts Committee on procedures applied to identify and control major risks and off-balance sheet commitments.

Each year, the Audit, Risks & Internal Control Department submits an audit plan to the Audit & Accounts Committee covering various aspects relating to the Group in respect of compliance with legislation and regulations, assessment of internal control and risk identification and management.

At the meetings of this committee, the resources employed, actions taken to improve internal control and risk identification and monitoring are reviewed. In 2014, this committee met four times.

### The Risk Management Committee

This committee, chaired as of 31 December 2014 by the Chairman & Chief Executive Officer, is charged with defining the level of risk deemed acceptable by the Group, allocating risk management and control responsibilities, and more generally, ensuring that the risk assessment and management system that is as comprehensive as possible in order to maximise risk mitigation. It is supported by the work of the Risk Assessment Committee. In 2014, this committee met on 26 May.

### The Risk Assessment Committee

This Committee is chaired by the Group Audit, Risks & Internal Control Director. It is responsible for analysing risks and evolving threats, updating and prioritising risk scenarios, ensuring that responsibility for each risk scenario is allocated within the Group, and formulating recommendations for the Risk Management Committee, with a view to improving the overall management and mitigation of Group risks.

In 2014, the Risk Assessment Committee met seven times.

### Ethics & Corporate Responsibility Committee

Thales has an Ethics & Corporate Responsibility Committee. This committee is made up of members of the Executive Committee, functional departments and the main countries in which the Group is based. It is responsible for guaranteeing compliance with the Code of Ethics and contributes to the definition and implementation of the Thales ethics and corporate responsibility policy. In 2014, this committee met three times.

### **Group Internal Audit, Risks & Internal Control Department**

Reporting to the Group General Secretary, the Audit, Risks & Internal Control Department principally works with the Audit & Accounts Committee, the Risk Management Committee, the Risk Assessment Committee, the Group general management and the statutory auditors.

It ensures proper risk management and the maintenance of adequate internal control by conducting audits and bid and project reviews throughout the Group.

#### **b) Audit of financial information**

Each year, the Finance Department reviews the financial audit manual with the statutory auditors. This manual describes the phases for the use of external auditors.

Consolidated companies are placed in one of three categories, according to their size and the risks to which they may be exposed. They may be subject to an in-depth review, a limited review or a review for statutory requirements.

In the first two types of review, as well as assessing the financial statements, the statutory auditors recommend improvements in terms of internal control. Detailed recommendations are presented to the Group management during the closing of the accounts at 31 December, and the main recommendations are presented to the Audit & Accounts Committee.

### 3.3 Statutory auditors' report prepared in accordance with Article L.225-235 of the French Commercial Code (Code de commerce) on the report of the Chairman of the Board of directors of Thales

*This is a free translation into English of a report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and professional standards applicable in France.*

Year ended 31 December 2014

To the Shareholders,

In our capacity as statutory auditors of Thales and in accordance with Article L.225-235 of the French Commercial Code (Code de commerce), we hereby report on the report prepared by the Chairman of your company in accordance with Article L.225-37 of the French Commercial Code (Code de commerce) for the year ended 31 December 2014.

The Chairman is responsible for preparing and submitting for the approval of the Board of directors' approval a report describing the internal control and risk management procedures implemented by the Company and disclosing other information as required by Article L.225-37 of the French Commercial Code (Code de commerce) relating to matters such as corporate governance.

Our own responsibility is to:

- Report to you any observations we may have as to the information contained in the Chairman's report and relating to the Company's internal control and risk management procedures in the area of the preparation and processing of financial and accounting information; and
- Attest that this report includes the other disclosures required by Article L.225-37 of the French Commercial Code (Code de commerce). It should be noted that we are not responsible for verifying the fair presentation of those other disclosures.

We have performed our work in accordance with professional standards applicable in France.

#### Information relating to the Company's internal control and risk management procedures in the area of the preparation and processing of financial and accounting information

Our professional standards require the application of procedures designed to assess the fair presentation of the information contained in the Chairman's report and relating to the Company's internal control and risk management procedures in the area of the preparation and processing of financial and accounting information.

Those procedures involve in particular:

- obtaining an understanding of the underlying internal control and risk management procedures in the area of the preparation and processing of financial and accounting information presented in the Chairman's report, and of the related documentation;
- obtaining an understanding of the work performed as a basis for preparing that information and the existing documentation;
- determining if any major internal control weaknesses in the area of the preparation and processing of financial and accounting information identified by us during the course of our engagement have been appropriately disclosed in the Chairman's report.

On the basis of the procedures performed, we have nothing to report on the information relating to the Company's internal control and risk management procedures in the area of the preparation and processing of financial and accounting information contained in the report of the Chairman of the Board of directors in accordance with Article L.225-37 of the French Commercial Code (Code de commerce).

#### Other disclosures

We hereby attest that the report of the Chairman of the Board of directors includes the other disclosures required by Article L.225-37 of the French Commercial Code (Code de commerce).

Paris-La Défense and Courbevoie, 25 February 2015

The statutory auditors

French original signed by

**MAZARS**

Jean-Marc Deslandes  
Anne-Laure Rousselou

**ERNST & YOUNG Audit**

Philippe Diu  
Michel Gauthier



## 3.4 General management

### 3.4.1 EXECUTIVE COMMITTEE AT 1 APRIL 2015

---

A committee comprising the main operational and functional managers is responsible for the general management of the Company and the Group, under the authority of the Chairman and Chief Executive Officer.

At 1 April 2015, the members of the Executive Committee were as follows:

- Patrice Caine, Chief Executive Officer;
- Pascal Bouchiat, Senior Executive Vice President, Finance and Information Systems;
- Michel Mathieu, Senior Executive Vice President Operations & Performance;
- Patrice Caine, interim Group secretary;
- Pascale Sourisse, Senior Executive Vice President, International Development;
- David Tournadre, Senior Executive Vice President, Human Resources;
- Hervé Multon, Executive Vice President, Strategy, Research and Technology;
- Alex Cresswell, Executive Vice President, Land & Air Systems;
- Marc Darmon, Executive Vice President, Secure Communications and Information Systems;
- Millar Crawford, Executive Vice President Ground Transportation Systems;
- Jean-Loïc Galle, Executive Vice President, Space;
- Gil Michielin, Executive Vice President, Avionics;
- Pierre Éric Pommellet, Executive Vice President, Defence Mission Systems.

### 3.4.2 COMPENSATION OF DIRECTORS AND OFFICERS

---

#### 3.4.2.1 **Remuneration policy for the Chairman & Chief Executive Officer, Thales' only company representative, in 2014**

The company representative's compensation consists of a fixed and a variable part, in the same way as that adopted by Thales for its senior executives. The Board of directors of Thales decided on the components of the Chairman's compensation package after taking into account salary surveys and market information.

During 2014, there were three successive company representatives:

- Mr Jean-Bernard Lévy, appointed Chairman & CEO on 20 December 2012, company representative until 27 November 2014, when he resigned his mandate;
- Mr Philippe Logak, appointed interim Chairman & CEO between 27 November and 23 December 2014;
- Mr Patrice Caine, Chairman & CEO since 23 December 2014.

The details of the compensation paid to each of them is indicated below:

a) **Mr Jean-Bernard Lévy, Chairman & CEO until 27 November 2014.**

The decisions with regard to the 2014 compensation for Mr Jean-Bernard Lévy were taken during the Board of Director's meeting on 19 February 2014.

Components of compensation	Board decisions on 19 February 2014	Comments	Due for 2014
Fixed compensation	€450,000	<p>The Board of directors, during its meeting of 19 February 2014, on the recommendation of the Governance &amp; Remunerations Committee, set the fixed and variable compensation of Mr Jean-Bernard Lévy for the fiscal year 2014.</p> <p>If the quantitative targets are exceeded, the variable compensation may be increased to a maximum of €713,750 which would represent total maximum annual compensation (fixed + variable) of €1,163,750 (limited to 146% of the target for quantitative criteria and 100% for qualitative criteria).</p> <p>The criteria for setting variable compensation are as follows, based on a weighting determined by the Board of directors at its meeting on 19 February 2014:</p> <p><b>Quantitative</b> criteria representing a total of 75% of variable compensation (in decreasing order of importance):</p> <ul style="list-style-type: none"> <li>■ 22.50% based on adjusted net income per share;</li> <li>■ 22.50% based on EBIT;</li> <li>■ 15% based on operating cash flow;</li> <li>■ 15% based on order intake.</li> </ul> <p>The targets are set by the Board of directors during the budgetary process but are not made public for reasons of confidentiality.</p> <p><b>Qualitative</b> criteria make up the remaining 25% of variable compensation. For 2014, the Board decided to apply the following qualitative criteria:</p> <ul style="list-style-type: none"> <li>■ Present a marketing plan before the end of the year;</li> <li>■ Develop initiatives promoting innovation in addition to the existing practices and procedures, in order to develop new growth drivers;</li> <li>■ Implement "proactive job management" plans in France;</li> <li>■ Alignment of structures with the industrial activities in the UK;</li> <li>■ Corporate Social Responsibility: demonstrate tangible progress in the three themes chosen in 2014 for France: Promotion of gender equality, support for professional development and promotion of the quality of life at work;</li> <li>■ Quality of the relations with Shareholders, the Board of directors and its Committees.</li> </ul>	€412,500
Variable compensation	Target: €530,000 Maximum: €713,750		€299,214
Total annual compensation	Target: €980,000 Maximum: €1,163,750		€711,714
Attendance Fees		Attendance fees paid to Mr Jean-Bernard Lévy	€31,041
Exceptional compensation	–	None	–
Deferred or multi year variable compensation	–	None	–
Grant of stock options and/or performance shares and/or performance units	–	None	
Deferred progressive and conditional compensation <sup>(a)</sup>		<p>The Company representative of Thales is eligible for a deferred progressive and conditional compensation, the amount of which is determined based on an identical allocation method to the collective supplementary pension scheme in operation within Thales at the date of the Board meeting for Group executives, whose compensation exceeds the contributions ceiling set by Agirc, the French executive pension fund.</p> <p>Entitlement to the rights acquired by the Company representative, calculated in points as for the Agirc mechanism, was not subject to the condition of presence in the Company at the time of payment of the retirement benefits. It was deemed to have been acquired from 1 January 2015, but remained subject to the following performance condition: if the average level of achievement of the annual operating margin targets set by the Board of directors for the Company representative is equal to or greater than 80% for the last three full financial years.</p> <p>The increase (doubling) of the deferred progressive and conditional compensation was contingent on the Chairman &amp; Chief Executive Officer remaining in office for three years from the date of joining the Group.</p> <p>As Mr Jean-Bernard Lévy resigned before the 1 January 2015, he lost the benefit of this mechanism.</p>	€12,547 of annual annuity Or 2.79% of the fixed compensation

[a] Regulated commitment (Articles L. 225-42-1 and R.225-34-1 of the French Commercial Code) called gradual and conditional retirement in the 2013 Reference Document (see note [b] on page 164).



Components of compensation	Board decisions on 19 February 2014	Comments	Due for 2014
Severance pay <sup>(a)</sup>		Compensation may be paid, following a decision of the Board of directors and under the conditions envisaged by the AFEP-MEDEF code which the Company has declared it applies, to Mr Jean-Bernard Lévy owing to the termination of his appointment. This compensation was set, after one year's employment, or from 1 January 2014, at €225,000 gross, increasing by €100,000 each quarter to reach a maximum amount of compensation of €1,500,000 (this ceiling being reached on 30 March 2017). Under no circumstances could compensation for termination of the employment contract exceed the total amount (fixed + variable) received during the last 24 months of employment. This compensation was subject to fulfilment of the performance condition set by the Board of directors, namely the achievement of an average of at least 80% of the targeted annual operating margin set by the Board for the Company representative over the previous three financial years. As Mr Jean-Bernard Lévy resigned, no compensation was paid to him.	
Private unemployment insurance <sup>(a)</sup>		Mr Jean-Bernard Lévy was entitled to private unemployment insurance subject to fulfilment of the same performance conditions as those envisaged for severance pay. Mr Jean-Bernard Lévy did not benefit from this unemployment insurance following his departure.	
Private healthcare		Mr Jean-Bernard Lévy was eligible during his mandate for the private healthcare scheme of French employees and received an annual health check in common with other Thales executives.	
Directors' liability insurance		Mr Jean-Bernard Lévy was covered by directors' liability insurance, including criminal liability.	
Chauffeur-driven car		Mr Jean-Bernard Lévy had the use of a chauffeur-driven car for his business travel.	€3,655
Independent legal and tax advice		Mr Jean-Bernard Lévy benefited from external legal and fiscal assistance.	€36,435

**Compliance with the recommendations of the AFEP-MEDEF code**

Recommendations of the AFEP-MEDEF code	Thales provisions for Mr Jean-Bernard Lévy, company representative up to 27 November 2014
<b>Severance pay</b>	
Only in the event of forced departure	Yes
Performance conditions over two years	Performance conditions over the last three financial years
Maximum amount: two years' compensation (fixed and variable)	Amount gradually increasing after one year of employment Ceiling of €1,500,000 reached in March 2017 (less than two years' projected salary)
<b>Supplementary pension</b>	
Not applicable <sup>(b)</sup>	

(a) Regulated commitment (Articles L. 225-42-1 and R. 225-34-1 of the French Code).

(b) The "Deferred progressive and conditional compensation for the Thales Company Representative" is a mechanism inspired by pension plans, but which does not come under Article L. 137.11 of the Social Security Code or Article 23.2.6. of the AFEP-MEDEF governance code. Its benefit is not subject to the condition of finishing the career in the Company. This Thales mechanism provides, subject to seniority of mandate and performance, a deferred compensation paid in the form of an annuity when the beneficiary draws his statutory pension rights. The calculation modalities for this deferred compensation and the corresponding amounts meet the principles with regard to executive compensation as defined by Article 23-1 of the AFEP-MEDEF governance code.

b) **Mr Philippe Logak, Chairman & CEO from 27 November to 23 December 2014.**

The decisions on the 2014 compensation for Mr Philippe Logak, Interim Chairman & CEO from 27 November to 23 December 2014, were taken, based on recommendations from the Governance & Remunerations Committee, by the Board of directors during its meeting on 9 December 2014.

Components of compensation	Board decisions on 9 December 2014	Comments	Due for 2014
Fixed compensation during the interim mandate		The Board of directors decided that the current compensation paid to Mr Philippe Logak should remain unchanged	€19,916
Exceptional compensation for the interim mandate		The Board of directors decided to pay exceptional compensation in the amount of €34,000 during the interim mandate.	€34,000
Attendance Fees			€5,712
Private unemployment insurance <sup>(a)</sup>		Mr Philippe Logak was covered by private unemployment insurance during the interim mandate period. Due to the limited duration of this mandate, Mr Philippe Logak did not benefit from this provision.	

(a) Regulated commitment (Articles L. 225-42-1 and R.225-34-1 of the French Commercial Code).

c) **Mr Patrice Caine, Chairman & CEO since 23 December 2014.**

Over the period (9 days) relating to 2014, Mr Patrice Caine retained his existing compensation. The decisions with regard to his compensation as company representative from 1 January 2015 were taken by the Board of directors during its meeting on 25 February 2015; they are presented on page 169.

Components of compensation	Board of directors' decisions	Comments	Due for 2014
Compensation		Unchanged	€7,863
Attendance Fees			€2,747

■ **TABLE 1: REMUNERATION, OPTIONS AND SHARES GRANTED TO THE EXECUTIVE COMPANY REPRESENTATIVE**

(€ thousand)	2014	2013
<b>Jean-Bernard Lévy – Chairman &amp; Chief Executive Officer up to 27 November 2014</b>		
Remuneration due for the year (detailed in Table 2)	782.8	1,067.9
Value of stock options granted during the financial year	–	–
Value of performance shares granted during the financial year	–	–
<b>Philippe Logak – Interim Chairman &amp; Chief Executive Officer from 27 November to 23 December 2014</b>		
Remuneration due for the year	59.6	
Value of stock options granted during the mandate	–	
Value of performance shares granted during the mandate	–	
<b>Patrice Caine - Chairman &amp; Chief Executive Officer from 23 December 2014</b>		
Remuneration due for the year	10.6	
Value of stock options granted during the mandate	–	
Value of performance shares granted during the mandate	–	
<b>TOTAL</b>	<b>853.0</b>	<b>1,067.9</b>

■ TABLE 2: REMUNERATION OF THE EXECUTIVE COMPANY REPRESENTATIVE

( <i>€ thousand</i> )	2014		2013	
	Due for the financial year	Paid during the financial year	Due for the financial year	Paid during the financial year
<b>Jean-Bernard Lévy – Chairman &amp; Chief Executive Officer up to 27 November 2014</b>				
Fixed compensation	412.5	450	450	426.3
Variable compensation <sup>(a)</sup>	299.2	558	558	–
Exceptional compensation	–	–	–	–
Attendance Fees	31.0	42.2	38.5	14.2
Benefits in kind <sup>(b)</sup>	40.1	40.1	21.4	19.2
<b>Total Jean-Bernard Lévy</b>	<b>782.8</b>	<b>1,090.3</b>	<b>1,067.9</b>	<b>467.7</b>
<b>Philippe Logak – Interim Chairman &amp; Chief Executive Officer from 27 November to 23 December 2014</b>				
Fixed compensation	19.9	3.1	–	–
Variable compensation	–	–	–	–
Exceptional compensation	34.0	–	–	–
Attendance Fees	5.7	–	–	–
Benefits in kind <sup>(b)</sup>	–	–	–	–
<b>Total Philippe Logak</b>	<b>59.6</b>	<b>3.1</b>	<b>–</b>	<b>–</b>
<b>Patrice Caine - Chairman &amp; Chief Executive Officer from 23 December 2014</b>				
Fixed compensation	7.9	–	–	–
Variable compensation	–	–	–	–
Exceptional compensation	–	–	–	–
Attendance Fees	2.7	–	–	–
Benefits in kind <sup>(b)</sup>	–	–	–	–
<b>Total Patrice Caine</b>	<b>10.6</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>TOTAL</b>	<b>853.0</b>	<b>1,093.4</b>	<b>–</b>	<b>–</b>

(a) The Board of directors meeting of 19 February 2014 decided that for Mr Jean-Bernard Lévy the amount of target variable compensation was €530,000, with a maximum of €713,750 if the targets are exceeded (limited to 146% of the target for quantitative criteria and 100% for qualitative criteria). The criteria for setting variable compensation, based on a weighting determined by the Board of directors, were quantitative at an overall level of 75% (by decreasing order of importance): 22.50% based on adjusted net income per share, 22.50% based on EBIT, 15% based on operating cash flow, 15% based on order intake for 2014. The targets are set by the Board of directors during the budgetary process but are not made public for reasons of confidentiality. Qualitative criteria make up the remaining 25% of variable compensation. For 2014, the Board decided to apply the following qualitative criteria: Present a marketing plan before the end of the year, develop initiatives promoting innovation in addition to the existing practices and procedures, in order to develop new growth drivers; implement "proactive job management" plans in France; alignment of structures with the industrial activities in the UK; Corporate Social Responsibility: demonstrate tangible progress on the three themes chosen in 2014 for France, i.e. promoting gender equality, support for professional development and the promotion of quality of life at work; lastly, the quality of the relations with Shareholders, the Board of directors and its Committees.

During their meeting on 25 February 2015, the Board of directors examined the results obtained with regard to some of the quantitative criteria fixed previously, i.e.:

- Adjusted net income per share for 2014;
- EBIT for 2014;
- operating cash-flow for 2014;
- order intake for 2014; and
- other qualitative criteria.

Following this examination and the proposal by the Governance and Remuneration Committee, the Board of directors decided that €299,214 (gross amount) of variable compensation should be paid in 2015 to Mr Jean-Bernard Lévy for 2014.

(b) The Company representative benefits from the services of a chauffeur-driven car, and external legal and fiscal assistance.

■ TABLE 3: ATTENDANCE FEES AND OTHER REMUNERATION RECEIVED BY NON-EXECUTIVE CORPORATE OFFICERS IN 2014 AND 2013  
(GROSS AMOUNTS BEFORE ANY DEDUCTION AT SOURCE OR OTHER LEVY)

Beneficiary (in euros)	Paid in 2014	Paid in 2013	Notes
R. Freeman	-	5,664	
Ph. Lepinay	40,250	36,500	(a)
D. Lombard	31,500	31,500	
Inter CFDT (D. Floch + M. Saunier)	84,250	74,250	
Treasury Accountant – art.139 NRE (D. Azéma - O. Bourges + B. Parent + J.-M. Prost)	114,500	97,336	
Ch. Edelstenne	40,250	36,500	
Y. d'Escatha	44,750	37,250	(b)
S. Gentili	37,750	32,750	
P. Mutz	-	5,164	
L. Segalen	41,500	37,750	
A. de Sèze	9,934	21,500	
A.-C. Taittinger	43,500	33,586	
A. Taylor	34,000	23,836	
E. Trappier	40,250	35,250	
Société TSA	-	5,164	
M.-F. Walbaum	21,566	-	
L. Broseta	5,000	-	
<b>TOTAL (EXCLUDING COMPANY REPRESENTATIVE(C))</b>	<b>589,000</b>	<b>514,000</b>	
See Table 2	42,250	38,500	
<b>TOTAL GROSS AMOUNT OF ATTENDANCE FEES<sup>(d)</sup></b>	<b>631,250</b>	<b>552,500</b>	

(a) Philippe Lépinay has informed the Company that he paid to the Thales' employee shareholder association (APAT), around a third of the amounts received in 2014 (and half the amounts received in 2013), after associated tax and expenses.

(b) Mr Yannick d'Escatha decided not to be paid the attendance fees due to him in January 2013. Consequently, the only amount received by him in 2013 was €11,250 before tax in July 2013.

(c) Attendance fees paid to the Company representative are shown in AMF Table 2 (Remuneration of the Company representative).

(d) Above are gross amounts paid in 2014 and 2013. For these two years, the gross amounts of attendance fees are respectively €598,090 and €560,000, lower than the annual envelope authorised by the Shareholders' meeting.

■ TABLE 4: STOCK OPTIONS AND SHARE PURCHASE OPTIONS GRANTED DURING THE YEAR TO THE COMPANY REPRESENTATIVE BY THE ISSUER OR BY ANY OTHER GROUP COMPANY

Director's name	Date of Plan	Nature of options	Option value based on method used for consolidated accounts	Number of performance options granted during the period	Valuation of total options granted to the Company representative based on method used for consolidated accounts	Exercise price	Exercise period
Jean-Bernard Lévy							
Philippe Logak				NONE			
Patrice Caine							

■ TABLE 5: STOCK OPTIONS OR SHARE PURCHASE OPTIONS EXERCISED DURING THE YEAR AS COMPANY REPRESENTATIVE

Name of company representative	Date of plan	Number of options exercised during the period as company representative	Exercise price
Jean-Bernard Lévy			
Philippe Logak		NONE	
Patrice Caine			

■ TABLE 6: PERFORMANCE SHARES ALLOTTED DURING THE YEAR TO THE COMPANY REPRESENTATIVE

Director's name	Date of Plan	Number of shares allotted	Value of shares based on method used for consolidated accounts	Vesting date	Availability date	Performance condition
Jean-Bernard Lévy						
Philippe Logak			NONE			
Patrice Caine						

The Company did not allocate performance shares in 2014.

■ TABLE 7: PERFORMANCE SHARES MADE AVAILABLE DURING THE YEAR FOR THE COMPANY REPRESENTATIVE

Director's name	Date of Plan	Number of shares made available	Vesting conditions
Jean-Bernard Lévy			
Philippe Logak		NONE	
Patrice Caine			

■ TABLE 8: HISTORICAL RECORD OF STOCK OPTIONS AND/OR SHARE PURCHASE OPTIONS ALLOTTED TO THE COMPANY REPRESENTATIVE  
None

■ TABLE 9: STOCK OPTIONS OR SHARE PURCHASE OPTIONS ALLOTTED TO THE TOP TEN EMPLOYEES WHO ARE NOT COMPANY REPRESENTATIVES, AND OPTIONS EXERCISED BY THE TEN EMPLOYEES WITH THE HIGHEST NUMBER OF OPTIONS PURCHASED OR SUBSCRIBED DURING 2013

	Total number of options	Weighted average price
Options granted during the year by the issuer and any company within the scope of the allotment of options, to the ten employees of the issuer and any company within that scope, having the highest number of options thus granted	None	None
Options held on the issuer and the companies referred to above and exercised during the financial year by the ten employees of the issuer and of these companies, having the highest number of options thus purchased or subscribed	115,500	€32.73

The Company has not granted stock options or share purchase options since 2012.

■ TABLE 10

Company representative	Employment contract		Supplementary pensions scheme		Compensation or other benefits in connection with termination/change of function		Compensation for restrictive covenant	
	Yes	No	Yes	No	Yes	No	Yes	No
Jean-Bernard Lévy Chairman & Chief Executive Officer up to 27 November 2014		X		X <sup>(a)</sup>	X			X
Philippe Logak Chairman & Chief Executive Officer from 27 November to 23 December 2014		X				X		X
Patrice Caine Chairman & Chief Executive Officer from 23 December 2014		X		(b)	(b)		(b)	

(a) See note (b) page 164

(b) Decisions taken in 2015

## Deferred progressive and conditional compensation

### Jean-Bernard Lévy, Company Representative up to 27 November 2014

Following the decision by the Board of directors on 1 February 2013, renewed during the Board meeting on 19 February 2014, the Company representative of Thales benefits from a deferred, progressive compensation, which was determined based on an identical points method to the collective supplementary pension scheme in operation at the date of the Board meeting for Group executives whose compensation exceeds the contributions ceiling set by Agirc, the French executive pension fund.

This provision is inspired by the defined benefit plans but does not come under Article L.137.11 of the Social Security Code as its benefit is not subject to the condition of finishing a career in the Company.

Entitlement to the rights acquired by the Company representative, calculated in points as for the Agirc mechanism, is not subject to the condition of presence in the Company at the time of payment of the retirement benefits. It was deemed to have been acquired from 1 January 2015, but remained subject to the following performance condition: reaching the average level of achievement of the annual operating margin targets set by the Board of directors for the Company representative equal to or greater than 80% for the last three full financial years. The increase (doubling) in pension was contingent on the Chairman & Chief Executive Officer remaining in office for three years after joining the Group.

In 2014, Mr Jean-Bernard Lévy potentially acquired 28,831 points under this plan, which represents €12,547, or 2.79%, of his basic target salary.

Mr Jean-Bernard Lévy having left the Company before 1 January 2015, lost the benefit of this provision.

## Benefits and rights upon the termination of office of the Company representative

### Jean-Bernard Lévy, company representative up to 27 November 2014

Subject to the fulfilment of the performance condition set by the Board of directors, compensation may be paid, subject to a decision of the Board and under the conditions set forth in the AFEP-MEDEF code applied by the Company (see Table on page 164), to Jean-Bernard Lévy on account of the termination of his office as Chairman & Chief Executive Officer, except in the event of resignation or serious or gross misconduct.

The amount of this compensation was set on 1 January 2014 at €225,000 gross, increasing by €100,000 per quarter to a maximum amount of compensation of €1,500,000. Under no circumstances could compensation for termination of the employment contract exceed the total amount (fixed + variable) received during the last 24 months of employment.

A decision had also been made to take out private unemployment insurance based on the same performance criteria as for severance pay.

In accordance with current legislation, the regulated commitments (retirement, compensation and unemployment insurance) for the benefit of Mr Jean-Bernard Lévy were published on the Company's internet site five days after the Board of directors' meeting on 19 February 2014 which took these decisions. They were subject to a vote at the Shareholders' meeting on 14 May 2014 following a special report by the statutory auditors.

Mr Jean-Bernard Lévy left Thales without benefiting from these provisions.

## Fiscal year 2015

On the recommendation of the Governance & Remuneration Committee, the Board of directors decided for fiscal year 2015 at the meeting of 25 February 2015.

For Mr Patrice Caine, Chairman & Chief Executive Officer:

- fixed compensation at €440,000 (gross amount);
- target variable compensation at €400,000, with a maximum of €600,000 in the event of the targets being exceeded.

These decisions are applicable from 1 January 2015. The other components of the overall compensation for the Chairman & Chief Executive Officer are presented on page 193.

### 3.4.2.2 Compensation of other Group executives

Total compensation paid in 2014 to Executive Committee members (proportionate to the time spent on the committee) excluding the Chairman & Chief Executive Officer, was €6,039,000 including 35.47% in variable compensation for 2013<sup>(1)</sup>. As is the case for the Chairman & Chief Executive Officer, the variable component is based on quantitative and qualitative performance criteria.

(1) Variable compensation for 2013 was paid in 2014.

## Details of remuneration paid to the Executive Committee (excluding the Chairman & Chief Executive Officer) in 2013 and 2014

	2014	2013
(€ thousand)	Paid during the financial year	Paid during the financial year
<b>Executive Committee (excl. Chairman &amp; Chief Executive Officer)</b>		
Fixed compensation	3,845	3,582
Variable compensation	2,142	1,988
Exceptional compensation	-	1,414
Benefits in kind	52	34
<b>Total before contributions</b>	<b>6,039</b>	<b>7,018</b>
Employer contributions	1,949	3,057
<b>TOTAL EXPENSE</b>	<b>7,988</b>	<b>10,075</b>

In addition, at the end of December 2014, the members of the Executive Committee, other than the Chairman, together had a total of 386,695 stock options, 61,787 performance shares and 50,000 performance units. The breakdown by allotment date and the detailed features, as well as any options exercised, are shown in the tables on pages 28 and 190 of the summary of operations carried out by directors, non-voting directors and related persons.

### 3.4.2.3 Share-based payments

#### Description of the different plans allotted by the Group

The Group regularly allots its employees and directors stock options, share purchase options (until 2011) and/or free shares (since 2007), as part of its standard management policy for the performance of the Group's employees. These different plans are described below.

#### Outstanding options at 31 December 2014

At 31 December 2014, the following were outstanding:

- 117,800 share purchase options at a weighted average exercise price of €42.76;
- 5,841,789 share subscription options at a weighted average exercise price of €36.58, of which 658,682 performance-based shares.

#### ■ OUTSTANDING PURCHASE OPTIONS PLANS

Date of Board decision	25/11/2008	04/07/2007
Allotment discount	None	None
Performance conditions	No	No
Exercise period	From 25 Nov. 2012 to 24 Nov. 2018	From 4 July 2011 to 3 July 2017
Exercise price	€38.50	€44.77
<b>NUMBER OF OPTIONS OUTSTANDING AT 31/12/2014, NET OF OPTIONS CANCELLED<sup>(a)</sup> AND EXERCISED</b>	<b>37,800</b>	<b>80,000<sup>(b)</sup></b>
of which exercisable options at 31/12/2014	37,800	80,000
of which outstanding options at 31/12/2014 held by:		
■ the Chairman & Chief Executive Officer, Patrice Caine	-	-
■ other members of the Executive Committee	15,000	-
<b>NUMBER OF BENEFICIARIES OF OUTSTANDING OPTIONS</b>	<b>8</b>	<b>1</b>
of which members of the Executive Committee (excluding the Chairman) at 31/12/2014	1	-
Total allotted to top 10 beneficiaries (at plan date)	72,200	80,000

(a) Notably due to termination of the employment contract between the beneficiary and the Group since the allotment date.

(b) Because the former corporate officer Denis Ranque's options have been maintained.

## ■ OUTSTANDING SUBSCRIPTION OPTIONS PLANS

Date of Board decision	15/09/2011	23/09/2010	25/06/2009	01/07/2008
Allotment discount	None	None	None	None
Performance conditions	Yes	Yes	No	No
Exercise period <sup>(a)</sup>	From 15 Sep. 2015 to 14 Sep. 2021	From 23 Sep. 2014 to 22 Sep. 2020	From 25 Jun. 2013 to 24 Jun. 2019	From 1 July 2012 to 30 June 2018
Exercise price	€26.34	€26.34	€32.88	€38.50
<b>NUMBER OF OPTIONS OUTSTANDING AT 31/12/2014, NET OF OPTIONS CANCELLED<sup>(b)</sup> AND EXERCISED</b>	<b>310,832</b>	<b>347,850</b>	<b>857,492</b>	<b>1,108,717</b>
of which exercisable options at 31/12/2014	–	347,850	857,492	1,108,717
of which outstanding options at 31/12/2014 held by:				
■ the Chairman & Chief Executive Officer, Patrice Caine <sup>(c)</sup>	1,537	1,900	5,000	4,200
■ other members of the Executive Committee	71,195	88,000	62,000	58,400
<b>NUMBER OF BENEFICIARIES OF OUTSTANDING OPTIONS</b>	<b>105</b>	<b>99</b>	<b>778</b>	<b>871</b>
of which members of the Executive Committee (excluding Chairman) at 31/12/2014	9	8	7	9
Total allotted to top 10 beneficiaries (at plan date)	124,000	161,500	222,000	230,000

(a) Allotment prior to his nomination as Chief Executive Officer.

Date of Board decision	04/07/2007	09/11/2006	30/06/2005	01/07/2004
Allotment discount	None	None	None	None
Performance conditions	No	No	No	No
Exercise period <sup>(a)</sup>	From 4 Jul. 2011 to 3 Jul. 2017	From 9 Nov. 2010 to 8 Nov. 2016	From 30 June 2009 to 29 June 2015	From 1 Jul. 2008 to 30 Jun. 2014
Exercise price	€44.77	€36.47	€34.01	€29.50
<b>Number of options outstanding at 31/12/2014, net of options cancelled<sup>(b)</sup> and exercised</b>	<b>1,225,355</b>	<b>1,160,610</b>	<b>830,933</b>	<b>-</b>
of which exercisable options at 31/12/2014	1,225,355	1,160,610	830,933	-
of which outstanding options at 31/12/2014 held by:				
■ the Chairman & Chief Executive Officer, Patrice Caine <sup>(c)</sup>	4,200	–	–	–
■ other members of the Executive Committee	52,300	31,200	8,600	-
<b>Number of beneficiaries of outstanding options</b>	<b>1,009</b>	<b>1,051</b>	<b>796</b>	<b>-</b>
of which members of the Executive Committee (excluding the Chairman) at 31/12/2014	9	5	3	-
Total allotted to top 10 beneficiaries (at plan date)	240,000	235,000	275,000	285,000

(a) Applicable to France for plans awarded prior to 2009 and to all countries since 2010.

(b) Primarily because of the termination of the employment contract between the beneficiary and the Group since the allotment date or because of the elimination related to partial or complete failure to achieve the performance conditions.

(c) Allotment prior to his nomination as Chief Executive Officer.

**Conditions of exercise of stock options**

All Thales stock options are granted for a 10-year period, at no discount to the market price.

Stock purchase and subscription stock options granted between 1 July 2003 and 23 September 2010 can already be exercised in full.

The options allotted on 15 September 2011 are contingent upon the achievement of internal performance targets over the next three financial years. The three criteria used are EBIT, the operating cash flow and order

intake, each of these criteria having a 60%, 25% and 15% weighting respectively.

Options may be vested in tranches of one-third once the Board of directors has approved the Group consolidated accounts of the related periods. The number of shares vested will not exceed the number of shares initially allotted. For all beneficiaries, options may be exercised only from the fourth anniversary of the allotment date.



## ■ VALIDATION OF THE PERFORMANCE CONDITIONS FOR FINANCIAL YEAR 2014

Option, share and unit plans subject to performance conditions	Validation of the first third of the allotment		Validation of second third of the allotment		Validation of third third of the allotment	
	Reference year	% achievement of performance conditions	Reference year	% achievement of performance conditions	Reference year	% achievement of performance conditions
23 September 2010	2011	100%	2012	100%	2013	100%
15 September 2011	2012	100%	2013	100%	2014	42.71%
20 December 2012	2013	100%	2014	42.71%	2015	–
17 September 2013	2014	44.51%	2015	–	2016	–
16 September 2014	2015	–	2016	–	2017	–

## ■ OPTIONS GRANTED AND EXERCISED IN 2014

	Number of options allotted/shares subscribed or purchased	Exercise price	Date of maturity	Date of plan
<b>1 – Directors</b>				
Options granted in 2014				
Jean-Bernard Lévy	None			
<b>2 – The 10 biggest awards of options allotted to employees</b>				
Options granted in 2014				
<b>3 – The 10 biggest exercises of options by employees<sup>(a)</sup></b>				
Options exercised in 2014				
	20,000	29,50 €	–	01/07/2004
	17,000	29,50 €	–	01/07/2004
	15,000	34,01 €	–	30/06/2005
	15,000	32,88 €	–	25/06/2009
	10,000	26,34 €	–	23/09/2010
	8,000	44,77 €	–	04/07/2007
	8,000	38,50 €	–	01/07/2008
	8,000	32,88 €	–	25/06/2009
	7,500	34,01 €	–	30/06/2005
	7,000	34,01 €	–	30/06/2005

(a) For all Group companies combined.

## 3.5 Incentives and profit-sharing

### 3.5.1 PROFIT-SHARING

The Group agreement on pooled profitsharing for the employees of Thales group companies, signed on 23 December 2004 by all trade unions represented at Group level, resulted in France in 2014, for fiscal year 2013, in the payment of profit-sharing rights totalling €15.34m. This agreement illustrates solidarity among Group companies, since all employees benefit from the same agreement and from a single profit-sharing fund distributed on the basis of common criteria.

### 3.5.2 INCENTIVES SCHEME

Each company in France may also negotiate an incentive agreement (accord d'intéressement) on the basis of indicators which represent its key objectives. Under the terms of the Group profit-sharing agreement in France, it is mandatory to comply with the rule which sets an upper limit on the amount of the premium (total incentives + profit share) in relation to payroll.

24 French Group companies paid incentives in 2014 for fiscal year 2013 totalling €43.45m.

#### ■ GROSS AMOUNTS PAID OUT IN INCENTIVES AND PROFIT-SHARING IN RECENT YEARS

(€ million)	2014	2013	2012	2011	2010
In the Group in France					
Profit share paid	15.34	22.56	24.29	36.52	39.15
Incentives paid	43.45	42.38	45.15	23.99	15.13
<b>By Thales (parent company)</b>					
Incentives paid	4.12	3.83	4.80	–	–

*Note: The data presented for 2014 is consistent with the new scope of consolidation. Some companies included in the 2013 scope are no longer included in the 2014 scope.*

## 3.6 Statutory auditors

For the period covered by the historical financial data, the Thales groups statutory auditors were as follows:

### 3.6.1 PRINCIPAL STATUTORY AUDITORS

---

#### **Mazars**

61 rue Henri Regnault

92400 Courbevoie

Represented by Jean-Marc Deslandes and Anne-Laure Rousselou.

Current term approved by the General Meeting of 24 May 2013 and expiring with the audit of the 2018 financial statements.

#### **Ernst & Young Audit**

1/2, place des Saisons

92400 Courbevoie - Paris-La Défense 1

represented by Michel Gauthier and Philippe Diu.

Current term approved by the General Meeting of 19 May 2009 and expiring with the audit of the 2014 financial statements.

### 3.6.2 ALTERNATE STATUTORY AUDITORS

---

#### **Hervé Hélias**

61 rue Henri Regnault

92400 Courbevoie

Current term approved by the General Meeting of 24 May 2013 and expiring with the audit of the 2018 financial statements.

#### **Auditex**

1/2, place des Saisons

92400 Courbevoie - Paris-La Défense 1

Current term approved by the General Meeting of 19 May 2009 and expiring with the audit of the 2014 financial statements.

## 3.6.3 FEES PAID TO AUDITORS

Fees paid to auditors in 2014 and 2013 are detailed below<sup>(a)</sup>:

	Mazars				Ernst & Young Audit			
	Amount (pre-tax)		%		Amount (pre-tax)		%	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>AUDIT</b>								
Auditing, certification, examination of individual and consolidated accounts <sup>(b)</sup>								
■ Issuer	695	695	13%	13%	770	804	15%	15%
■ Fully consolidated subsidiaries	4,123	3,905	75%	73%	3,596	3,916	71%	70%
Other efforts and services directly associated with the assignment of the auditor <sup>(c)</sup>								
■ Issuer	302	256	5%	5%	106	140	2%	2%
■ Fully consolidated subsidiaries	410	506	7%	9%	318	360	7%	7%
<b>Sub-total</b>	<b>5,530</b>	<b>5,348</b>	<b>100%</b>	<b>100%</b>	<b>4,790</b>	<b>5,220</b>	<b>95%</b>	<b>94%</b>
<b>OTHER SERVICES PROVIDED BY THE NETWORKS TO FULLY CONSOLIDATED SUBSIDIARIES<sup>(d)</sup></b>								
Legal, tax and employee-related	5	11	-	-	272	342	5%	6%
Other (if >10% of audit fees)	-	-	-	-	-	-	-	-
<b>Sub-total</b>	<b>5</b>	<b>11</b>	<b>--</b>	<b>--</b>	<b>272</b>	<b>342</b>	<b>5%</b>	<b>6%</b>
<b>TOTAL</b>	<b>5,535</b>	<b>5,359</b>	<b>100%</b>	<b>100%</b>	<b>5,062</b>	<b>5,562</b>	<b>100%</b>	<b>100%</b>

(a) With regard to the period under consideration, these are services performed in respect of a financial year charged to the income statement.

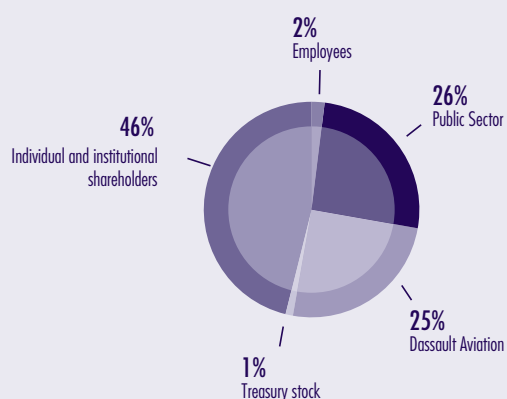
(b) Including the services of independent experts or members of the statutory auditors' network which the auditor uses in connection with certifying the financial statements.

(c) This heading includes directly associated diligences and services that are rendered to the issuer or its subsidiaries:

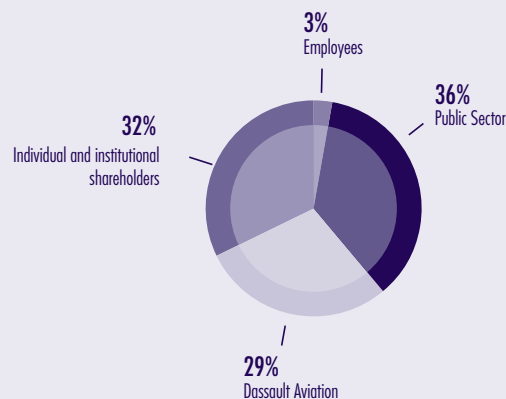
- by the statutory auditor in compliance with the provisions of Article 10 of the French Code of Conduct for statutory auditors;
- by a member of the network in compliance with the provisions of Articles 23 and 24 of the French Code of Conduct for statutory auditors.

(d) These are services not relating to certification rendered, in compliance with the provisions of Article 24 of the French Code of Conduct for statutory auditors, by a member of the network to the subsidiaries of the issuer whose financial statements are being certified.

## BREAKDOWN OF SHAREHOLDERS AT 31 DECEMBER 2014



## BREAKDOWN OF VOTING RIGHTS AT 31 DECEMBER 2014



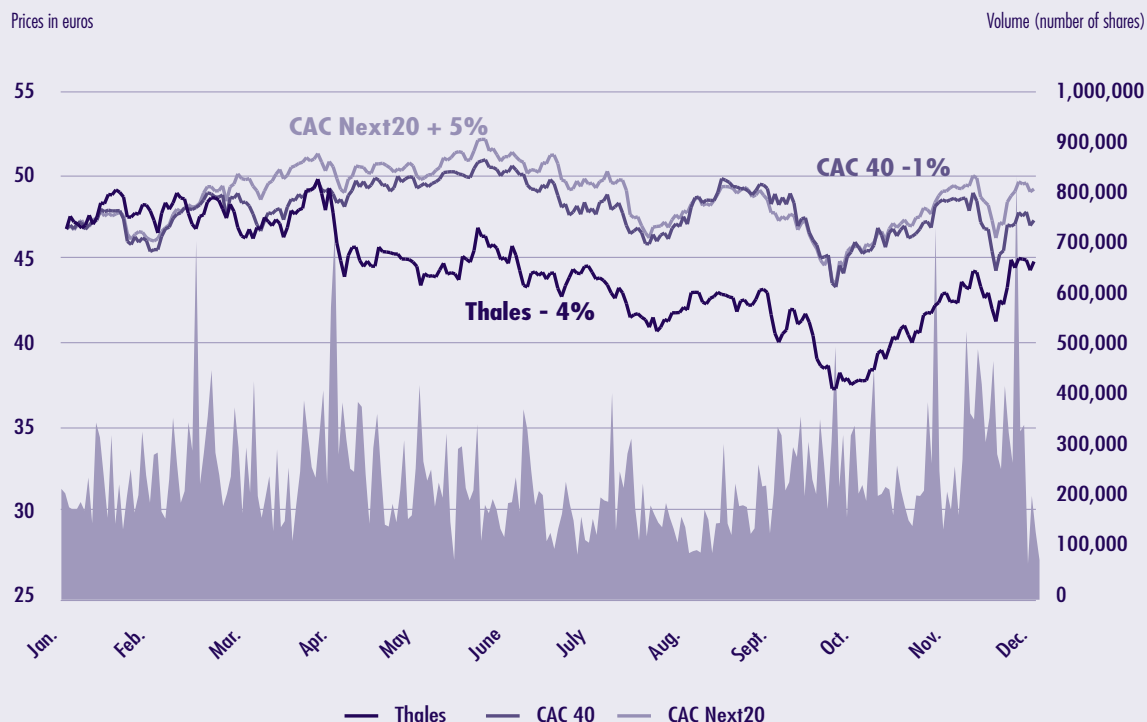
(1) The French State holds shares directly or indirectly, through TSA, a holding company 100% owned by the French State.  
 (2) Exercisable at that date.

## THALES SHARE PRICE COMPARISON WITH CAC 40 AND CAC NEXT 20

Thales's stock is listed on the Euronext Paris regulated market (Compartment A). It is eligible for the SRD deferred settlement system.

Closing price of Thales shares:

- 2 January 2014: €46.915.
- 31 December 2014: €44.995.
- 2014 high: €50.000.
- 2014 low: €36.400.





# 4

## COMPANY AND SHARE CAPITAL

4.1	GENERAL INFORMATION ABOUT THE COMPANY	178
4.2	GENERAL MEETINGS	179
4.2.1	Notice of meetings and conditions for attendance	179
4.2.2	Double voting rights and exercise of voting rights	179
4.2.3	Notification of exceeding statutory thresholds	179
4.3	SHARE CAPITAL AND SHAREHOLDERS	180
4.3.1	Information on the distribution of capital issued	180
4.3.2	Potential capital	182
4.3.3	Shareholders	182
4.4	REGULATED COMMITMENTS	193
4.4.1	Agreements and commitments authorised after closing	193
4.4.2	Agreements and engagements authorised during 2014	193
4.4.3	Agreements authorised during previous financial years	194
4.4.4	Statutory Auditors' report on related party agreements and commitments	195
4.5	STOCK MARKET INFORMATION FINANCIAL COMMUNICATION	198
4.5.1	Thales shares	198
4.5.2	Financial communication policy	201
4.5.3	Other market securities	203

## 4.1 General information about the Company

### Company name

Thales

### Legal structure

Thales is a public limited company with a Board of directors. It is governed by French law, particularly the French Commercial Code and certain provisions of the amended law on privatisation of 6 August 1986, since the French State owns more than 20% of the share capital.

### Registered office

Tour Carpe Diem 31, Place des Corolles – Esplanade Nord 92400 Courbevoie – France. Telephone: +33 1 57 77 80 00.

### Registration

No. 552 059 024 in the Nanterre Register of Trade and Companies; APE business identifier code: 7010 Z.

### Term

Initially constituted on 11 February 1918 for 99 years, the Company saw its term extended by the Annual General Meeting of 24 May 2013. The expiry date is now set to 23 May 2112.

### Corporate purpose

The corporate purpose is, directly or indirectly, in all countries:

1. the design, construction, installation, maintenance, running, manufacture, purchase, sale, exchange, supply or hire of all equipment, tools, stations, appliances, finished or semi-finished products, materials, substances, components, systems, devices, processes and, in general, all products relating to electronic applications in any field.  
For this purpose, the registration, purchase, sale, exchange, supply, concession or use of all business and manufacturing patents, licences and trademarks;
2. the research, obtention, acquisition, disposal, exchange, supply, hire or use of all concessions or enterprises, whether private or public, training of staff, and the provision of all services pertaining thereto;
3. the creation of any company or association, or investment in any form whatsoever in any company or enterprise, having a similar or related purpose to that of the Company;
4. and in general, all commercial, industrial, financial and movable or immovable property transactions which relate directly or indirectly to the aforementioned activities.

### Financial year

The Company's financial year covers a period of 12 calendar months from 1 January to 31 December.

Corporate documents and information about the Company can be consulted at the head office through the Group secretary.

### Distribution of profits as per the Articles of Association

Profits are distributed in compliance with current legislation. Under the Articles of Association, the General Meeting called to approve the financial statements for the previous financial year is empowered to grant each shareholder the option to receive payment of all or part of the dividend distributed either in cash or in shares.

## 4.2 General Meetings

### 4.2.1 NOTICE OF MEETINGS AND CONDITIONS FOR ATTENDANCE

---

All shareholders, regardless of the number of shares they own, are entitled to take part in General Meetings. They are sent a notice of meeting and business is transacted according to the law; the date and place of the meeting, the agenda and the draft resolutions of the meeting are published in the French official bulletin of legal notices (Bulletin des annonces légales obligatoires) at least 35 days prior to the date of the meeting, with the final notice of meeting being sent no later than 15 days prior to the meeting. At least 21 days prior to the meeting, all documentation required by current regulations is provided on the Company's website. It is available for shareholders at the Registered Office within the statutory deadline.

To date, Thales' Articles of Association do not allow voting at General Meetings by electronic means.

Participation in General Meetings, in any form whatsoever, is conditional upon registration of the shares in accordance with the conditions and within the time limits provided for under the current regulations.

Any shareholder who has already voted by post or by proxy, or requested an admittance card or share ownership certificate, may sell all or some of his shares at any time.

However, in accordance with the regulations in force since the 1 January 2015, should the intermediary accountholder notify Thales of a disposal occurring before midnight (Paris time) on the second trading day prior to the General Meeting, the Company will invalidate or modify the vote, proxy, admittance card or share ownership certificate, as the case may be.

No sale or other operation carried out after midnight (Paris time) on the second trading day prior to the meeting, irrespective of the means used, is required to be notified by the approved intermediary or taken into consideration by the Company, notwithstanding any agreement to the contrary.

The right to vote, and consequently the right to attend General Meetings, belongs to the beneficial owner at Ordinary General Meetings, and to the bare owner at Extraordinary General Meetings. Owners of pledged shares retain their voting rights. Co-owners of shares are represented at General Meetings by one of the co-owners or by a joint proxy who, in the event of disagreement, is appointed by the court at the request of the co-owner who acts first.

Each person present at the General Meeting has one vote for each share owned or represented, without limit, subject to the following provisions on the right to a double vote, and to the exceptions provided by law.

### 4.2.2 DOUBLE VOTING RIGHTS AND EXERCISE OF VOTING RIGHTS

---

Shareholders who can prove ownership of shares, because these are registered in their name in the Company's share register (kept by Société Générale, duly authorised for this purpose - see Section 4.3.1 below), for at least two years without interruption are entitled to double voting rights at General Meetings for each share so held. Registered shares which have been granted to a shareholder as free shares in respect of shares they already hold with double voting rights attached are also entitled to double voting rights as soon as the shares have been granted.

Double voting rights automatically end for any share that is converted to bearer form or is transferred (except in the case of inheritance, either intestate

or by will, spousal community property, or gifts inter vivos to a spouse or relative who may inherit, or in the case of a transfer as a result of a merger or demerger of a shareholding company).

Double voting rights may be abolished by a decision of an Extraordinary General Meeting, following the approval of a special General Meeting of Shareholders entitled to double voting rights.

Under the Articles of Association, there is no limit on voting rights.

In accordance with the law, shares owned by Thales itself do not carry voting rights.

### 4.2.3 NOTIFICATION OF EXCEEDING STATUTORY THRESHOLDS

---

Any natural person or legal entity owning a number of shares equal to or higher than 1% of the share capital (but not voting rights), or any multiple thereof, is required to inform the Company of the total number of shares held within five trading days of the date on which this threshold is exceeded.

This obligation to inform the Company applies, under the same conditions, when the number of shares held falls below one of the thresholds mentioned in the previous paragraph.

In the event of failure to comply with this obligation, the shareholder shall be deprived of the voting rights attached to any shares exceeding the first undeclared threshold, subject to the conditions and limitations defined by law.

Pursuant to the applicable regulations, every month, the Company publishes on its website the number of shares comprising the share capital and the total number of voting rights - based on all threshold excesses (statutory and legal).



## 4.3 Share capital and shareholders

### 4.3.1 INFORMATION ON THE DISTRIBUTION OF CAPITAL ISSUED

At 31 December 2014, the share capital stood at €623,523,333 divided into 207,841,111 shares with a par value of €3 each.

Pursuant to the applicable regulations, each month the Company publishes on its website ([www.thalesgroup.com](http://www.thalesgroup.com)) under "Investors/Regulated Information", information pertaining to the total number of voting rights (theoretical and exercisable) and the number of shares making up the share capital, and forwards this information to the news distribution service.

Changes in share capital and shareholders' rights are governed by the applicable laws.

Shares in the Company may be held in either registered or bearer form, at the shareholders discretion. The share register is kept on behalf of the Company by Société Générale (Département Titres & Bourse - 32 Rue du Champ de Tir - BP 81 236 - 44312 Nantes cedex - France).

The share capital is fully paid-up. It includes a golden share resulting from the conversion of an ordinary share belonging to the French State, as decided by decree no. 97-190 of 4 March 1997, implementing the law on privatisation of 6 August 1986 (see page 185).

#### 4.3.1.1 Changes in the share capital over the last five financial years

Date	Type of transaction	Acquisition, issue and merger premiums	Number of shares created	Nominal amount of the changes in capital	Amount of share capital	Aggregate number of shares making up the capital
<b>31 December 2009</b>		<b>3,655,636,120</b>			<b>597,071,796</b>	<b>199,023,932</b>
Fiscal year 2010	Exercise of stock options	1,459,014	58,095	174,285		
<b>31 December 2010</b>		<b>3,657,095,134</b>			<b>597,246,081</b>	<b>199,082,027</b>
Fiscal year 2011	Exercise of stock options or payment of dividend in shares	74,304,866	3,246,430	9,739,290		
<b>31 December 2011</b>		<b>3,731,400,000</b>			<b>606,985,371</b>	<b>202,328,457</b>
Fiscal year 2012	Exercise of stock options	220,794	11,217	33,651		
<b>31 December 2012</b>		<b>3,731,620,794</b>			<b>607,019,022</b>	<b>202,339,674</b>
Fiscal year 2013	Exercise of stock options	94,942,634	3,404,826	10,214,478		
<b>31 December 2013</b>		<b>3,826,563,428</b>			<b>617,233,500</b>	<b>205,744,500</b>
Fiscal year 2014	Exercise of stock options	63,313,408	2,096,611	6,289,833		
<b>31 DECEMBER 2014</b>		<b>3,889,876,836</b>			<b>623,523,333</b>	<b>207,841,111</b>

4.3.1.2

## Changes in the distribution of capital and voting rights over the last three financial years

At 31 December 2014, the total number of exercisable voting rights was 300,139,135. This includes double voting rights attached to shares which have been registered for at least two years under the conditions set out in the Articles of Association (see page 179).

As previously mentioned, the number of shares and voting rights (theoretical and exercisable) is published monthly on the Company's website ([www.thalesgroup.com](http://www.thalesgroup.com), under "Investors/Regulated information").

	31 December 2014			31 December 2013			31 December 2012		
	Number of shares	% of share capital	% of voting rights	Number of shares	% of share capital	% of voting rights	Number of shares	% of share capital	% of voting rights
TSA <sup>(a)</sup>	54,786,654	26.36%	36.51%	54,786,654	26.63%	36.83%	54,786,654	27.08%	37.01%
French State (inc. 1 golden share)	2,060	-	-	2,060	-	-	2,060	-	-
Public Sector <sup>(a)</sup>	54,788,714	26.36%	36.51%	54,788,714	26.63%	36.83%	54,788,714	27.08%	37.01%
Dassault Aviation <sup>(b)</sup>	52,531,431	25.28%	29.05%	52,531,431	25.53%	29.31%	52,531,431	25.96%	29.50%
Thales	1,876,732	0.90%	-	2,490,177	1.21%	-	2,795,564	1.38%	-
Employees	4,151,060	2.00%	2.70%	4,373,955	2.13%	2.86%	6,169,074	3.05%	3.99%
Other shareholders	94,493,174	45.46%	31.74%	91,560,223	44.50%	31.00%	86,054,891	42.53%	29.50%
<b>TOTAL</b>	<b>207,841,111</b>	<b>100%</b>	<b>100%</b>	<b>205,744,500</b>	<b>100%</b>	<b>100%</b>	<b>202,339,674</b>	<b>100%</b>	<b>100%</b>

(a) Under the terms of the shareholders' agreement with Dassault Aviation (the "Industrial Partner", see AMF 27-11-2008), the "Public Sector" is represented by the Company TSA, excluding the State directly. All Thales shares held directly and indirectly by the French State have been in directly registered form for more than two years and thus have a double voting right on 31 December 2014.

(b) Dassault Aviation has held 34,654,349 shares in directly registered form for more than two years, and thus double voting rights on 31 December 2014, and 17,877,082 shares in bearer form.

4.3.1.3

## Major changes in share ownership over the last five years

The Company held 1.79% of the capital at 31 December 2009.

**During 2010**, the number of treasury shares increased due to the following transactions:

- 1,368,874 shares were purchased under a liquidity contract;
- 1,207,329 shares were sold under a liquidity contract;
- 760 shares were sold to employees due to free shares delivery.

Treasury shares thus amounted to 1.87% of the capital, i.e. 3,717,478 shares, at 31 December 2010.

**During 2011**, the number of treasury shares was reduced due to the following transactions:

- 1,322,476 shares were purchased under a liquidity contract;
- 1,242,309 shares were sold under a liquidity contract;
- 283,850 shares were sold to employees due to free shares delivery;
- 740,650 shares were purchased directly throughout the year;
- 712,272 shares were sold to employees under the 2011 employee shareholding scheme.

Treasury shares thus amounted to 1.75% of the capital, i.e. 3,542,173 shares, at 31 December 2011.

**During 2012**, the number of treasury shares was reduced due to the following transactions:

- 1,043,357 shares were purchased under a liquidity contract;
- 1,504,941 shares were sold under a liquidity contract;
- 285,025 shares were sold to employees due to free shares delivery.

Treasury shares thus amounted to 1.38% of the capital, i.e. 2,795,564 shares, at 31 December 2012.

**During 2013**, the number of treasury shares was reduced due to the following transactions:

- 524,861 shares were purchased directly;
- 1,582,469 shares were purchased under a liquidity contract;
- 1,624,034 shares were sold under a liquidity contract;
- 306,130 shares were assigned as free shares;
- 8,900 shares were assigned as stock options allocations;
- 473,653 shares were sold to employees under the 2013 employee shareholding scheme.

Treasury shares thus amounted to 1.21% of the capital, i.e. 2,490,177 shares, at 31 December 2013.

**During 2014**, the number of treasury shares was reduced due to the following transactions:

- 2,146,816 shares were purchased under a liquidity contract;
- 2,216,116 shares were sold under a liquidity contract;
- 544,145 shares were assigned as free shares.

Treasury shares thus amounted to 0.9% of the capital, i.e. 1,876,732 shares, at 31 December 2014.

4.3.1.4

## Notification of legal thresholds exceeded in 2014

The Company has no knowledge of the exceeding of legal thresholds in 2014.

## 4.3.2 POTENTIAL CAPITAL

### 4.3.2.1 Maximum potential capital at 31 December 2014

	In number of shares with par value of €3
Share capital at 31/12/2014	207,841,111
Current stock option plans	5,841,789
30 June 2005 plan: 830,933 options at €34.01	
9 November 2006 plan: 1,160,610 options at €36.47	
4 July 2007 plan: 1,225,355 options at €44.77	
1 July 2008 plan: 1,108,717 options at €38.50	
25 June 2009 plan: 857,492 options at €32.88	
23 September 2010 plan: 347,850 options at €26.34	
15 September 2011 plan: 310,832 options at €26.34	
Maximum potential capital (+2.85%)	213,682,900

### 4.3.2.2 Securities in circulation giving access to share capital (bonds, warrants and options)

At 31 December 2014, excluding the exercise of stock options, if any, there were no other securities in circulation providing immediate or future access to the share capital.

As a convenience, even though they have no impact on the potential capital since they involve existing shares, share purchase options have been presented with subscription shares options in the Section on the financial statements of the parent company (see pages 104 and after).

### Stock options

At 31 December 2014, the following were outstanding:

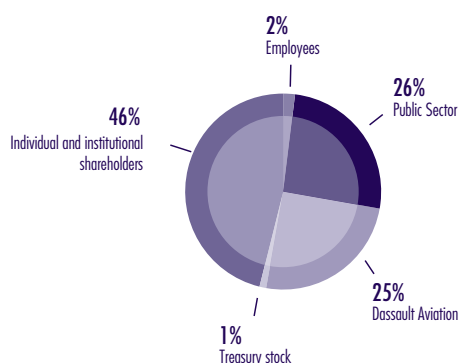
- 117,800 share purchase options at a weighted average exercise price of €42.76;
- 5,841,789 share subscription options at a weighted average exercise price of €36.58, of which 658,682 are performance-based shares.

Thales decided to stop granting options in 2012.

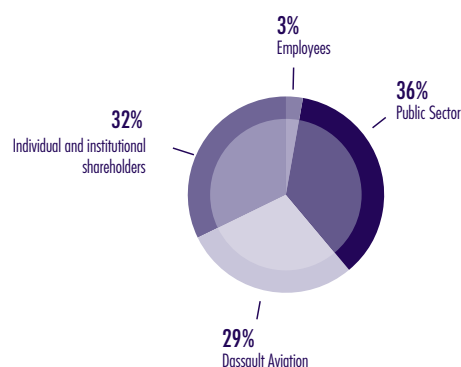
## 4.3.3 SHAREHOLDERS

### 4.3.3.1 Breakdown of shareholders at 31 December 2014

**BREAKDOWN OF SHAREHOLDERS**



**BREAKDOWN OF VOTING RIGHTS<sup>(1)</sup>**



(1) Exercisable at that date.

#### 4.3.3.2 **Shareholders acting in concert**

##### 4.3.3.2.1 **"Public Sector" (TSA)**

TSA is a holding company wholly owned by the French State. It directly holds 54,786,654 Thales shares. Following merger transactions, Sofivision (a wholly owned subsidiary of TSA) was absorbed by TSA in 2012 and the Thales shares formerly held by Sofivision are now owned by TSA.

The French State directly holds 2,060 shares, including a golden share which gives it the rights<sup>(1)</sup> described on page 185.

##### 4.3.3.2.2 **"Industrial Partner" (Dassault Aviation)**

Dassault Aviation, whose shares are listed on the Euronext Paris market, is a public limited company which owns 25.28% of Thales' share capital, i.e. 52,531,431 Thales shares at 31 December 2014.

Dassault Aviation is 50.55% owned by Groupe Industriel Marcel Dassault.

##### 4.3.3.3 **Shareholders' agreement, agreement on the protection of strategic national interests and specific agreement**

By signing an "adherence convention" with the French State and Alcatel-Lucent, Dassault Aviation assumed in 2009 the rights and obligations of Alcatel-Lucent, subject to certain amendments, by endorsing the agreements signed on 28 December 2006 - namely the shareholders' agreement and the agreement on the protection of strategic national interests in Thales<sup>(2)</sup>.

##### 4.3.3.3.1 **Shareholders' agreement between the "Public Sector" and the "Industrial Partner"**

On 28 December 2006, TSA and Alcatel-Lucent signed a shareholders' agreement, which governs relations between the Public Sector and the Industrial Partner within Thales. This agreement came into effect on the date of transfer of assets from Alcatel-Lucent Participations (5 January 2007).

The agreement was signed pursuant to the cooperation agreement entered into on 1 December 2006 between Thales, Alcatel-Lucent and TSA, which replaced the previous cooperation agreement signed on 18 November 1999 by Alcatel, Thales and GIMD<sup>(3)</sup>. This agreement essentially reproduces the terms of the shareholders' agreement signed on 14 April 1998, which it replaced<sup>(4)</sup>.

On 19 May 2009, when Dassault Aviation acquired the Thales shares previously owned by Alcatel-Lucent, an agreement took effect under which Dassault Aviation endorsed the shareholders' agreement existing between Alcatel-Lucent and the Public Sector, subject to amendments. The agreement in the framework of which TSA and Dassault Aviation act in concert with

regard to Thales under Article L.233-10 of the French Commercial Code, as TSA had a majority within the concert, sets out the following provisions:

#### **Members of the executive bodies of Thales**

Thales' Board of directors, which has 16 members, has to be divided at 31 December 2014 as follows:

- 5 members proposed by the Public Sector;
- 4 members proposed by Dassault Aviation;
- 2 employee representatives;
- 1 representative of employee-shareholders;
- 4 external individuals, selected jointly by the Public Sector and Dassault Aviation.

The number of directors appointed upon the proposal of Dassault Aviation may not be higher than the number of directors appointed upon the proposal of the Public Sector. The number of Directors for each will be at least equal to the higher of the following two numbers: (i) the number of directors other than the employee representatives and external individuals, multiplied by the percentage of Thales shares held by Dassault Aviation, compared to the amount of Public Sector and Dassault Aviation holdings and (ii) the number of directors representing the employees.

Should Dassault Aviation's shareholding exceed that of the Public Sector, the parties to the agreement will increase the total number of Thales directors from 16 to 17, so as to be represented by five directors each.

The Chairman & Chief Executive Officer is chosen on the joint proposal of the parties.

Furthermore, the parties have agreed that, in the event of a change of Chairman & Chief Executive Officer in accordance with the terms of the shareholders' agreement, they do not intend to propose as candidate any employee, manager or senior executive belonging to the Dassault group or having recently left this group.

Finally, it is specified that at least one director representing each of the parties must sit on each of the committees formed within the Thales Board of Directors.

#### **Decisions to be submitted to the Thales Board of Directors**

The parties undertake to submit for mandatory approval by the majority of the Directors representing Dassault Aviation, decisions of the Thales Board of directors relating in particular to the appointment and dismissal of the Chairman & Chief Executive Officer, the adoption of the annual budget and the multi-year strategic plan, and significant acquisitions and disposals of shareholdings or assets (in excess of €150m) as well as strategic alliance agreements on technological and industrial cooperation.

However, Dassault Aviation has expressly undertaken to forego the exercise of the veto right which it has, by virtue of the agreement, over some strategic operations of Thales; this decision concerns a series of potential acquisitions or disposals; in return, the Public Sector has foregone its right to terminate the agreement in the event of persistent disagreement regarding a strategic operation likely to have an adverse impact on its strategic interests<sup>(5)</sup>.

Should Dassault Aviation exercise its right of veto over the appointment of the Chairman & Chief Executive Officer, after a consultation period of three months, either of the parties may terminate the agreement.

(1) Pursuant to Article 3 of the decree no. 97-190 of 4 March 1997.

(2) See Decision no.207C0013 of 2 January 2007, published in the French Official Bulletin of Legal Notices of 5 January 2007.

(3) Published in the Official Journal of the French Republic on 12 December 2006 (see the Official Journal website: [www.journal-officiel.gouv.fr](http://www.journal-officiel.gouv.fr)) taken in accordance with the provisions of Article 1 - 1° of the decree 93-1041 of 3 September 1993 and in application of the law no. 86-912 of 6 August 1986.

(4) This pact is presented in the annex to the Thales Board of Directors' report to the Extraordinary General Meeting of 5 January 2007, recorded by the AMF of 19 December 2006 under the number E.06-194 ([www.thalesgroup.com](http://www.thalesgroup.com)).

(5) Acquisition and Transfer transactions, identified by the French State as having potentially a major importance with regard to its strategic defence interests and having the objective of strengthening the industrial and technological defence base in France.

## Shareholder interests

Dassault Aviation must hold at least 15% of the share capital and voting rights in Thales and remain the largest private shareholder in Thales. The Public Sector must take all measures enabling Dassault Aviation to comply with this undertaking.

The Public Sector undertakes to restrict its shareholding to 49.9% of Thales' share capital and voting rights.

## Term of the shareholders' agreement

In the absence of termination at the contract expiration on 31 December 2011, the agreement was tacitly renewed for a period of five years, expiring on 31 December 2016. It may be tacitly renewed for 5-year periods.

The agreement will be automatically terminated and the concerted action between TSA and Dassault Aviation will also automatically cease should one of the parties commit, without prior consultation with the other party, an action which creates an obligation to make a public offer for Thales.

## Option of unilateral termination of the agreement and agreement to sell to the Public Sector

The Public Sector has the option of terminating the agreement and of asking Dassault Aviation to suspend the exercise of the voting rights that it holds above a threshold of 10%, or to reduce its shareholding to less than 10% of Thales' share capital, in the event of:

- a serious breach by Dassault Aviation of its obligations so as to compromise substantially the protection of the strategic interests of the French State, given that said obligations are subject to an "agreement on the protection of strategic national interests in Thales" (see below);
- change in control of Dassault Aviation.

In this respect, Dassault Aviation gives, irrevocably and definitely, to the Public Sector, an undertaking to sell all shares that Dassault Aviation holds upon confirmation that Dassault Aviation's shareholding of Thales has remained above 10% of Thales' share capital within six months following the Public Sector's request to reduce its shareholding.

In addition, the Public Sector<sup>(1)</sup> commits to keeping a shareholding in Thales giving it at least 10% of voting rights, after the agreement has reached its normal expiry date and until the first of the following three dates: (i) 31 December 2014, (ii) three years from the agreement expiry, (iii) the date at which Dassault Aviation ceases to hold at least 15% of Thales' share capital.

### 4.3.3.3.2 Agreement on the protection of strategic national interests

Furthermore, on 19 May 2009 Dassault Aviation endorsed the "agreement on the protection of strategic national interests in Thales" signed on 28 December 2006 by Alcatel-Lucent and the French State in the presence of TSA. This endorsement gives rise to the following obligations for Dassault Aviation:

- keeping Dassault Aviation's head office and operational headquarters in France;
- Thales' directors proposed by Dassault Aviation must be nationals of the European Union;
- access to sensitive information concerning Thales is strictly controlled within Dassault Aviation;
- managers who are responsible for Dassault Aviation's holdings in Thales are French nationals;
- Dassault Aviation uses its best efforts to prevent any action or influence in the governance and businesses of Thales by foreign national interests. In this respect, in the event of (i) a serious and unremedied breach by

Dassault Aviation of its obligations under the agreement on the protection of strategic national interests or if it emerges that the application of a foreign law by Dassault Aviation creates constraints for Thales that substantially compromise the protection of the strategic interests of the French State, or (ii) a change in control within Dassault Aviation, contrary to the strategic interests of the Public Sector, the Public Sector may:

- terminate the rights that Dassault Aviation enjoys under the shareholders' agreement; and, if it sees fit,
- ask Dassault Aviation either to suspend the exercise of any voting rights it holds in excess of 10%, or
- ask it to reduce its shareholding to less than 10% of Thales' share capital through the divestment of shares on the market (under conditions which are consistent with its financial interests and market constraints). At the end of a six-month period from the date on which it is asked to reduce its shareholding, if the shareholding of Dassault Aviation is still in excess of 10% of Thales' share capital, the French State may proceed with the aforementioned undertaking to sell.

### 4.3.3.3.3 Exceeding thresholds and declaration of intent

Following the substitution of Alcatel-Lucent Participations by Dassault Aviation, within the Group formed with the Public Sector vis-à-vis Thales and the disposal of Thales shares owned by GIMD to Dassault Aviation, the latter exceeded, jointly with the Public Sector, on 19 May 2009, the thresholds of 25% of the voting rights, 33.3% of the share capital and voting rights and 50% of the voting rights of Thales and, on 20 May 2009, the threshold of 50% of the share capital of Thales.

On 20 May 2009, the Public Sector exceeded, together with Dassault Aviation, the threshold of 50% of the share capital of Thales.

These changes were granted dispensation from the obligation to submit a proposal for a public offer. This decision is reproduced in *Décisions et Informations* 208C2115 of 27 November 2008 and published in the French legal gazette, or *Bulletin officiel des annonces légales* (BALO), of 1 December 2008.

It is available for consultation on the AMF's website at <http://www.amf-france.org/inetbdif/viewdoc/affiche.aspx?id=43671&txsch=> or on the BALO website at <http://balo.journal-officiel.gouv/html/2008/1201/200812010814709.htm>.

Dassault Aviation announced it had individually exceeded the 25% threshold of voting rights on 9 July 2012 and individually held 52,531,431 Thales shares representing 86,531,431 voting rights, representing 25.96% of the capital and 29.33% of the voting rights at that date.

This threshold was crossed due to the allocation of double voting rights to Dassault Aviation on a portion of its holding.

Dassault Aviation declared the following intentions for the 12 months after these thresholds were exceeded:

- "it acts in concert with TSA and Sofivision;
- the acquisition of Thales shares by Dassault Aviation is in line with the long-term industrial investment policy that the Company has long been implementing. Dassault Aviation does not intend to purchase any more shares in Thales;
- Dassault Aviation has no intention of acquiring sole control of Thales, given that the Group acting in concert already holds control;
- in accordance with the shareholders' agreement dated 28 December 2006, endorsed by Dassault Aviation as described in AMF decision no. 208C2115 of 27 November 2008, which has been tacitly renewed, four directors nominated by Dassault Aviation and four external directors nominated after consultation with the Public Sector were appointed to

(1) TSA and Sofivision in the sense of the AMF decision no. 208C2115. The Sofivision company was absorbed by TSA during the second half-year 2012.

the Board of directors of Thales. Dassault Aviation does not intend to seek an amendment to the allocation of directors as provided for in said agreement;

- none of the transactions listed in Article 223-17 I, 6° of the General Regulations is expected;
- there is no temporary sale agreement for the issuer's shares or voting rights;
- no financing has been put in place since the threshold was crossed following an allocation of double voting rights".

#### 4.3.3.3.4 Specific agreement

On 28 December 2006, the French State (Ministry of Defence and Ministry of the Economy) and Thales signed an agreement to give the French State control not only over the transfer of assets already mentioned in the annex to decree no. 97-190 of 4 March 1997, but also over shares in Thales Alenia Space SAS (hereinafter referred to as the "Strategic Assets"). This agreement, to which the Industrial Partner is not party, was therefore not amended by the substitution of AlcatelLucent by Dassault Aviation in May 2009 and thus continues to be effective.

##### a) Where the Strategic Asset is a company (the "Strategic Company"):

- any proposed transfer of shares in the Strategic Company to a third party such that the third party exceeds the threshold of 33.3% of the share capital;
- any proposed transfer of shares in the Company that directly or indirectly controls the Strategic Company to a third party such that the third party exceeds the threshold of 33.3% of the share capital.

##### b) Where the Strategic Asset is an isolated asset, unincorporated division or branch of the business (the "Strategic Division"):

- any proposed transfer of shares in the Company which owns the Strategic Division to a third party such that the third party exceeds the threshold of 33.3% of the share capital;
- any proposed transfer of shares in the Company that directly or indirectly controls the Strategic Company to a third party such that the third party exceeds the threshold of 33.3% of the share capital.

##### c) Any proposed transfer of sensitive assets to a third party.

##### d) And any proposal intended to confer or having the effect of conferring particular rights on a third party.

Shall be disclosed to the French State, which undertakes to issue its acceptance or rejection decision within thirty (30) working days from the receipt of said notification. Failure by the French State to communicate its decision during said time is deemed as acceptance of the proposed operation.

#### 4.3.3.3.5 Golden share held by the French State

The golden share held by the French State<sup>(1)</sup> entitles it to the following rights:

- "Any increase in the direct or indirect holding of securities, irrespective of the nature or legal form, beyond a threshold of one-tenth, or a multiple thereof, of the capital or voting rights of the Company, by any natural person or legal entity, whether acting alone or in concert, must be approved in advance by the Minister for Economic Affairs (...);"
- "Upon the proposal of the Minister of Defence, a representative of the French State, appointed by decree, sits on the Board of directors of the Company as a non-voting director";

- "(...) decisions to dispose of or assign by way of guarantee the assets specified in the annex to this decree may be opposed".

These assets include the capital of the following companies:

Thales Systèmes Aéroportés SAS, Thales Optronique SAS, Thales (Wigmore Street) Ltd, Thales Communications & Security SAS, Thales Air Systems SAS, Thales Nederland BV, Thales Avionics SAS, Thales Training & Simulation SAS and Thales Underwater Systems NV.

#### 4.3.3.4 Treasury shares

At 31 December 2014, Thales held 1,876,732 treasury shares (0.9% of the capital), i.e. the balance after shares bought and sold on the market or elsewhere in compliance with the authorisations, described hereinafter, granted to the Board of directors by the General Meeting. At 27 February 2014, it held 1,890,332 shares, including 38,000 bearer shares under the liquidity contract.

Treasury shares are not subject to any restrictions and may be freely disposed of.

##### 4.3.3.4.1 Authority to trade in its own shares

The Combined Annual and Extraordinary Shareholders' Meeting of 10 March 1999, pursuant to the memorandum of 18 February 1999 (COB approval no. 99-142), authorised the Board of directors to implement a share repurchase scheme if necessary. The General Meeting of 29 June 1999 authorised an extension to the objectives of this programme (memorandum of 18 May 1999, COB approval no. 99-621). The General Meetings of 23 May 2000 (memorandum of 7 May 2000, COB approval no. 00-703), of 16 May 2001 (memorandum of 24 April 2001, COB approval no. 01-432), of 16 May 2002 (memorandum of 24 April 2002, COB approval no. 02-440), of 15 May 2003 (memorandum of 24 April 2003, COB approval no. 03-312), of 11 May 2004 (memorandum of 20 April 2004, AMF approval no. 04-295) and 17 May 2005 (memorandum of 29 April 2005, AMF approval no. 05-330) authorised the continuation of this programme.

In accordance with the authorisations granted to the Board of directors by the General Meeting, the Company carried out the following transactions:

- **in 1999**, repurchase of 1.9 million shares;
- **in 2001**, as part of the transfer to Alcatel of its shareholding in Alcatel Space : the amount of the transaction, of €795m, was paid for half in cash and for half in Thales shares, i.e. 8.8 million shares;
- **in 2002**, 1.1 million shares were sold on the market;
- **in 2004**, 1.2 million shares were sold on the market, directly and by proxy, 1.3 million shares were sold under a liquidity contract, and approximately 520,000 shares were transferred to employees as part of an employee stock offer;
- **in 2005**, 2 million shares were sold on the market, directly and by proxy, 1 million shares were sold under a liquidity contract, and approximately 300,000 shares were transferred to employees as options vested. 87,000 shares were transferred to Group employees in the United Kingdom who had subscribed to an employee shareholding scheme in December 2004;
- **in 2006**, approximately 457,000 shares were purchased and 388,000 shares sold under a liquidity contract, and approximately 98,000 shares sold to employees as purchase options vested;
- **in 2007**, 793,295 shares were purchased and 782,021 shares sold under a liquidity contract. 582,811 shares were sold for the exercise of options, and 369,065 shares were purchased on the market to be allocated to employee shareholding schemes;
- **in 2008**, 1,271,294 shares were purchased and 1,020,515 shares sold under a liquidity contract. Purchase of 3,176,127 shares in the market and transfer of 2,519,280 shares to Thales employees as part

(1) Pursuant to Article 3 of the decree no. 97-190 of 4 March 1997.



of the 2008 employee shareholding scheme. 96,473 shares were transferred for vested options;

- **in 2009**, purchase of 916,054 shares and disposal of 911,370 shares as part of the liquidity contract. 191,373 shares were sold for the exercise of options and as part of a free share delivery;
- **in 2010**, purchase of 1,368,874 shares and disposal of 1,207,329 shares as part of the liquidity contract. 760 shares were sold as part of a free share delivery;
- **in 2011**, 1,322,476 shares were purchased and 1,242,309 shares sold under a liquidity contract. Purchase of 740,650 shares in the market and transfer of 712,272 shares to Thales employees as part of the 2011 employee shareholding scheme. 283,850 shares were transferred as part of a free share delivery;
- **in 2012**, 1,043,357 shares were purchased and 1,504,941 shares sold under a liquidity contract. 285,025 shares were transferred as part of a free share delivery;
- **in 2013**, 1,582,469 shares were purchased and 1,624,034 shares sold under a liquidity contract. Purchase of 524,861 shares in the market and transfer of 473,653 shares to Thales employees as part of the 2013 employee shareholding scheme. 315,030 shares were transferred as part of a free share and stock options delivery;
- **in 2014**, 2,146,816 shares were purchased and 2,216,116 shares sold under a liquidity contract. 544,145 shares were transferred as part of a free share delivery.

#### 4.3.3.4.2 Authorisation to cancel the Company's shares

The 24-month authorisation granted to the Board of directors by the General Meeting of 17 May 2005 to cancel - on one or more occasions - shares owned by the Company, up to a limit of 10% of the share capital, as part of an authorisation to buy back its own shares, expired on 16 May 2007 without having been utilised. This authorisation was renewed by the General Meeting of 16 May 2007 for a period of 24 months under the

same conditions. It expired on 15 May 2009 without having been used. This authorisation was renewed by the General Meeting of 18 May 2011 for a period of 24 months under the same conditions. It expired on 17 May 2013 without having been used. This authorisation was renewed by the General Meeting of 24 May 2013 for a period of 24 months under the same conditions (expiry 23 May 2015).

#### 4.3.3.4.3 Allotment of free shares

##### Allotment of free shares and/or performance shares

No free share allotment plan was implemented in 2014.

##### For information: Principles and rules for the allotment of free shares

###### Free Shares

- All designated beneficiaries of the plan are allotted shares at the end of a four-year vesting period subject to compliance with the employment conditions stipulated under the plan's rules.

###### Shares subject to performance conditions

- The shares allotted are subject to the fulfilment of internal performance conditions during the three financial years following the allotment date. The performance criteria are EBIT (after restructuring), operating cashflow and order intake, with a weighting of 60%, 25% and 15% respectively;
- Options may be validated in tranches of one-third once the Board of directors has approved the Group consolidated accounts of the related periods;
- The number of shares vested will not exceed the number of shares initially allotted;
- All designated beneficiaries of the plan are allotted shares validated at the end of a four-year vesting period subject to compliance with the employment conditions stipulated under the plan's rules.

Date of Board decision	17/09/2013		20/12/2012		15/09/2011		23/09/2010	
	Free Shares	Performance shares	Free Shares	Performance shares	Free Shares	Performance shares	Free Shares	Performance shares
Number of beneficiaries at allotment date	4,161	341	5,186	336	5,178	314	5,355	327
Share price at allotment date	€39.16	€39.16	€27.47	€27.47	€25.16	€25.16	€26.40	€26.40
Number of shares allotted	424,830	299,460	487,940	230,350	485,690	145,300	487,680	144,050
Number of free shares at 31/12/2013	422,040	298,100	475,580	228,500	456,350	135,290	440,490	127,250
Cancellation of allotments during the financial year <sup>(a)</sup>	7,930	57,137	18,020	50,646	19,100	32,756	14,990	5,400
Early allotments during the financial year <sup>(b)</sup>	320	-	250	-	370	-	-	-
Adjustments posterior to closing <sup>(c)</sup>			1090 <sup>(c)</sup>		320 <sup>(c)</sup>	450 <sup>(c)</sup>		
Number of shares delivered at expiration of the plan	N/A	N/A	N/A	N/A	N/A	N/A	425,500	121,850
Number of beneficiaries of delivery at expiration	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Balance of free shares net of cancellations and early allotments at 31/12/2014	413,790	240,963	458,400	177,854	437,200	102,984	-	-
Number of beneficiaries remaining at 31/12/2014	4,043	333	4,885	317	4,617	274	-	-
Vesting period	From 17/09/2013 to 17/09/2017		From 20/12/2012 to 20/12/2016		From 15/09/2011 to 15/09/2015		From 23/09/2010 to 23/09/2014	

(a) Due to the departure of the beneficiary or, for the plans concerned, due to eliminations related to the partial or total non-achievement of the performance conditions.

(b) Due to death of the beneficiary during the vesting period.

(c) Eliminated by error.

#### 4.3.3.4.4 Allotment of units or units subject to performance conditions indexed on the value of the Thales share

A unit plan indexed on the value of the Thales share and for which some units are subject to performance conditions was implemented in 2014. This plan has two sub-plans:

The Chairman & Chief Executive Officer (the only company representative) is not entitled to benefit from this plan.

##### Unit plan subject to condition of presence

- each unit allotted gives a right, at the end of the four-year vesting period and subject to the condition of presence stipulated in the regulations, to the payment of a monetary value;
- this monetary value will be calculated at the end of the vesting period, and will be equal to the average of the daily opening prices for the Thales share during the vesting period. Extreme upwards and/or downwards valuations of the price will be neutralised;

- the amount due at the expiry date to the beneficiaries that meet the conditions of presence will be equal to the number of units allotted multiplied by the value of the unit. The amount due will be paid to the beneficiaries for half by share transfer and for half by a monetary payment.

##### Unit plan subject to condition of presence and performance conditions

- the units subject to performance conditions follow the same rules as for units, i.e. vesting period and condition of presence, but the number of units that are effectively issued at the expiry date will depend on the fulfilment of internal performance conditions over the three financial years following their allotment date, units may be validated in tranches of one-third once the Board of directors has approved the Group consolidated accounts of the related periods;
- the number of units validated may not exceed the initially allotted amount;
- the three performance criteria retained for the 2014 plan are EBIT, operating cash flow and order intake, with a weighting of 60%, 15% and 25% respectively.

Date of Board decision	16/09/2014	
	Free units	Performance units
Number of beneficiaries at allotment date	3,684	310
Unit price at allotment date	€42.42	€42.42
Number of units allotted	425,920	281,050
Cancellation of allotments during the financial year <sup>(a)</sup>	1,370	800
Unit balance 31/12/2014	424,550	280,250
Number of beneficiaries remaining at 31/12/2014	3,669	309
Vesting period	From 17/09/2013 to 17/09/2017	

(a) Due to the departure of the beneficiary or, for the plans concerned, due to eliminations related to the partial or total non-achievement of the performance conditions.

#### Unit allotments in financial year 2014

The ten largest allotments of units to employees during the year	Number of units allotted	Unit price at allotment date	Date of plan
Units	3,900		
Units subject to performance conditions	50,000	€42.42	16/09/2014

During the 2014 financial year, the allotment of units subject to performance conditions to employees of the Company or its subsidiaries, excluding Thales company representatives was between 350 and 6,500 shares.

The allotment of units to employees of the Company or its subsidiaries, excluding Thales company representatives was between 80 and 600 shares.

#### 4.3.3.4.5 Validation of the performance conditions for financial year 2014

Option, share and unit plans subject to performance conditions	Validation of the first third of the allotment		Validation of second third of the allotment		Validation of third third of the allotment	
	Reference year	% achievement of performance conditions	Reference year	% achievement of performance conditions	Reference year	% achievement of performance conditions
23 September 2010	2011	100%	2012	100%	2013	100%
15 September 2011	2012	100%	2013	100%	2014	42.71%
20 December 2012	2013	100%	2014	42.71%	2015	–
17 September 2013	2014	44.51%	2015	–	2016	–
16 September 2014	2015	–	2016	–	2017	–



**4.3.3.4.6 Description of the share buy-back programme adopted by the General Meeting on 14 May 2014**

- Maximum proportion of capital subject to repurchase: 10% at the repurchase date.
- Maximum number of shares that may be purchased: 20,784,111.
- Maximum amount of the programme: 1,247,046,660.
- Maximum unit purchase price: €60.

**Objectives of the programme in descending order of priority:**

- to sell or allot shares to Group employees and senior executives in the manner stipulated by law, particularly when share plan options are exercised or existing free shares allotted, or when shares are sold and/or supplemented under an employee shareholding scheme transaction on existing shares;
- to retain shares for later use in connection with external growth transactions;
- to ensure trading in the shares through a liquidity contract prepared in accordance with a Code of Conduct approved by the AMF;
- to cancel shares in accordance with a General Meeting resolution in force.

■ **Duration of the programme:** eighteen months from the date of approval of the resolution that has been submitted to the General Meeting of 14 May 2014, i.e. no later than 14 November 2015.

■ **Liquidity contract:** in November 2004, Thales signed a liquidity contract with Exane BNP-Paribas, in accordance with the AFEI Code of Conduct, in order to regulate share trading. The contract was modified to comply with the AFEI Code of Conduct appended to the AMF decision of 22 March 2005. From 30 October 2014, the contract was transferred to Kepler-Chevreux.

**4.3.3.5 Shares owned by the public**

The Company is entitled at all times, as provided by law, to ascertain the identity of, and the number of shares held by, holders of bearer shares which now or in the future represent a specific fraction of its share capital (the "TPI" Identifiable Bearer Security procedure).

Based on the most recent surveys on identifiable holders of bearer shares carried out by Euroclear France, and the Company's information on employee shareholders, private ownership of Company shares is estimated as follows:

<i>(in thousands of shares)</i>	<b>01/01/2015</b>	<b>01/01/2014</b>
French institutional investors	32,961	28,842
Non-resident institutional investors	52,954	55,467
Employee shareholders	4,151	4,374
Individual shareholders and associations <sup>(a)</sup>	6,911	6,020
Not identified	1,667	1,231
<b>S/Total Entire public</b>	<b>98,644</b>	<b>95,934</b>
<b>TOTAL NUMBER OF SHARES</b>	<b>207,841</b>	<b>205,745</b>

*(a) Mainly French residents.*

	As % of the total capital		As % of the free float (excluding directly held)	
	01/01/2015	01/01/2014	01/01/2015	01/01/2014
French institutional investors	15.8%	14.0%	33.4%	30.0%
Non-resident institutional investors	25.5%	27.0%	53.7%	57.8%
Employee shareholders	2.0%	2.1%	4.2%	4.6%
Individual shareholders and associations	3.3%	2.9%	7.0%	6.3%
Not identified	0.8%	0.6%	1.7%	1.3%
<b>ENTIRE PUBLIC</b>	<b>47.4%</b>	<b>46.6%</b>	<b>100%</b>	<b>100%</b>

To the Company's knowledge, and on the basis of the TPI survey carried out on 31 December 2014 and the number of shares registered at that date, the number of shareholders of the Company can be estimated at approximately 51,000 at the end of 2014. This figure represents 99.2% of the total capital identified, and includes around 39,000 bearer shareholders and around 12,000 registered shareholders.

Furthermore, an additional survey was carried out at the beginning of 2015 with leading French and foreign institutional investors operating on the Paris market. This information, more recent than the TPI survey and containing more details about the nationality of the institutional investors, is given in the Table below.

	Number of shares held (thousands)	In % of total share capital	Number of investors
France	28,789	13.8%	87
Continental Europe (exc. France)	17,179	8.2%	137
North America	17,128	8.2%	84
United Kingdom & Ireland	16,729	8.5%	49
Rest of the world	1,918	0.9%	21
<b>TOTAL</b>	<b>81,743</b>	<b>39.3%</b>	<b>378</b>

#### 4.3.3.6 Employee shareholdings at 31 December 2014

At 31 December 2014, Group employees held, in the sense of Article L.225-102 of the French Commercial Code, 4,151,060 Thales shares, representing 2.00% of share capital (and 2.70% of voting rights)

through the Group Savings Scheme (PEG), either directly or via the Company Mutual Fund (FCPE) or equivalent in the UK.

At 31 December 2014, more than 70% of the Thales shares held by employees were freely transferable (compared with 70% at 31 December 2013 and 50% at 31 December 2012).

Holding by country	In number of shares	In % of employee shareholders <sup>(d)</sup>	In % of capital	Related voting rights as % of total voting rights
France and World (four dedicated funds <sup>(a)</sup> )	3,950,158	95.16%	1.90%	2.61%
Netherlands (three dedicated funds <sup>(b)</sup> )	77,467	1.87%	0.04%	0.05%
United Kingdom (SIP trust <sup>(c)</sup> )	89,167	2.15%	0.04%	0.03%
Shares directly held in the PEG (offers 2002, 2008 and 2013)	34,268	0.83%	0.02%	0.02%
Total Article L.225-102 of the French Commercial Code	4,151,060	100.00%	2.00%	2.70%
Total number of shares held by employees	4,151,060	100.00%	2.00%	2.70%
<b>TOTAL SHARE CAPITAL</b>	<b>207,841,111</b>			

(a) "Thales Actions", "World Classic", "Action Protect 2011" and "Action Protect 2013" funds.

(b) "Netherlands Classic", "Netherlands Action Protect 2011" and "Netherlands Action Protect 2013" funds.

(c) Share Incentive Plan.

(d) L. 225-10 of the French Commercial Code.

4.3.3.7

**Summary statement of share transactions in 2014 carried out by directors, non-voting directors and related persons**

In accordance with Article 223-26 of the General Regulations of the French Financial Markets Authority (AMF).

In accordance with Article L.621-18-2 a) of the French Monetary and Financial Code, the members of the Board of directors are subject to this disclosure requirement.

Pursuant to Article L.621-18-2 b) of the French Monetary and Financial Code, the Company has declared to the AMF that all members of the Executive Committee come under the category of non-voting directors in respect of obligations to declare share transactions.

Related persons in the sense of Article L.621-18-2 c) of the French Monetary and Financial Code are people who have, under the conditions defined by decree in the Council of State, close personal relations with the people indicated in Article L.621-18-2 a) and b) above.

To the best of the Company's knowledge, the following disclosures have been made to the AMF for publication on its website (<http://www.amffrance.org>):

Director's name	Financial instrument	Type of transaction	Total amount of transaction (euros)	Unit price (euros)
<b>Patrice Caine</b>	Other financial instruments	Exercise of stock options	35,400.00	29.50
	Other financial instruments	Exercise of stock options	102,030.00	34.01
	Other financial instruments	Exercise of stock options	109,410.00	36.47
<b>Physical person related to P. Caine</b>	Shares	Sale	322,759.44	44.8277
<b>Alex Cresswell</b>	Other financial instruments	Exercise of stock options	44,655.13	34.01
	Other financial instruments	Exercise of stock options	151,248.00	32.88
	Other financial instruments	Exercise of stock options	263,400.00	26.34
	Shares	Sale	61,054.50	46.50
	Shares	Sale	213,900.00	46.50
	Shares	Sale	448,041.80	44.8041
	FCPE investment fund units	Sale	18,912.47	62.16
	FCPE investment fund units	Sale	7,199.53	48.05
<b>Jean-Loïc Galle</b>	Other financial instruments	Exercise of stock options	56,050.00	29.50
	Shares	Sale	82,175.00	43.25
<b>Michel Mathieu</b>	Other financial instruments	Exercise of stock options	136,040.00	34.01
	Other financial instruments	Exercise of stock options	136,040.00	34.01
	Other financial instruments	Exercise of stock options	7,890.32	34.01
	Other financial instruments	Exercise of stock options	128,149.68	34.01
	Shares	Sale	167,984.39	41.996
	Shares	Sale	168,840.00	42.21
	Shares	Sale	10,024.72	43.21
	Shares	Sale	162,815.28	43.21
<b>Physical person related to M. Mathieu</b>	Shares	Sale	14,968.80	41.58
	Shares	Sale	14,979.60	41.61
	Shares	Sale	15,123.60	42.01
	Shares	Sale	15,066.00	41.85
	Shares	Sale	15,066.00	41.85
	Shares	Sale	15,164.16	42.1226
<b>Hervé Multon</b>	Other financial instruments	Exercise of stock options	29,500.00	29.50
	Shares	Sale	44,500.00	44.50
<b>Pierre Éric Pommellet</b>	Other financial instruments	Exercise of stock options	493,200.00	32.88
	Other financial instruments	Exercise of stock options	120,351.00	36.47
	Other financial instruments	Exercise of stock options	255,075.00	34.01
	Shares	Sale	345,675.00	46.09
	Shares	Sale	152,097.00	46.09
	Shares	Sale	691,350.00	46.09

#### 4.3.3.8 Trading in Company shares during 2014

In 2014, Thales traded in Company shares as part of its share repurchase programme drawn up in accordance with the AMF General Regulations (Article 241-1 *et seq.*).

These transactions were carried out as part of the share repurchase programme authorised at the Annual General Meeting on 24 May 2013

for transactions performed between 1 January 2014 and 14 May 2014, and in accordance with the authorisation given by the Annual General Meeting on 14 May 2014 for transactions performed between 15 May 2014 and 31 December 2014.

At 1 January 2014, Thales held 2,490,177 treasury shares, representing 1.21% of the capital, compared with 1,876,732 treasury shares at 31 December 2014.

The net balance of 2014 trading was the disposal of 613,445 shares, broken down by objective as follows:

a) Net disposal or allotment of shares to Group employees and senior executives as stipulated by law, particularly when share purchase options are exercised or existing shares are granted free of charge, and company savings plans	(544,145)
b) Regulation of the market price by a liquidity contract drawn up in accordance with the AFEI Code of Conduct	(69,300)

#### Breakdown of treasury shares by objective at 31 December 2014

The total number of shares held at that date was 1,876,732, representing 0.9% of Thales' share capital. The breakdown by objective was as follows:

a) Disposal or allotment of shares to Group employees and senior executives as stipulated by law, particularly when share purchase options are exercised or existing shares are granted free of charge	1,852,732
b) Regulation of the market price by a liquidity contract drawn up in accordance with the AFEI Code of Conduct	24,000

#### Market value of the portfolio at 31 December 2014

€84,443,556.34, at the closing price on 31 December 2014, i.e. €44.995.

	Aggregate gross amounts from 1 January 2014 to 31 December 2014		Positions open on the date of the programme description					
			Open purchase positions			Open sales positions		
	Purchases	Sales	Calls purchased	Puts sold	Forward purchases	Calls purchased	Puts sold	Forward sales
No. of shares	2,146,816	2,760,261						
Average maximum maturity								
Average transaction price ( <i>in euro</i> ) including possible discounts and free shares	43.49	35.02						
Average exercise price								
Amounts ( <i>in euro</i> )	93,365,028	96,664,340						

Thales did not have recourse to derivatives (futures sales) as part of this redemption programme.

#### 4.3.3.9 General Meeting authorisations valid at 31 December 2014

Table established in application of Article L.225-100 of the French Commercial Code summarising the use of authorisations (valid at 31 December 2014) granted by the Annual General Meeting for increases in capital:

General Meeting Authorisations	Used by the Board of Directors	Observations
<b>General Meeting of 14/05/2014</b>		
<b>Issue of securities giving access to equity capital:</b> <ul style="list-style-type: none"> <li>■ Limits with pre-emptive subscription rights (fourteenth resolution): 30 million shares and €2.5bn debt securities.</li> <li>■ Limits without pre-emptive subscription rights (fifteenth resolution) with possibility of priority subscription period: 20 million shares and €1.7bn debt securities.</li> <li>■ Limits without pre-emptive subscription rights with private placement (sixteenth resolution): same as without pre-emptive subscription rights above.</li> <li>■ Possibility of over-allotment ("<i>Green shoe</i>") (seventeenth resolution) in each of the cases: <ul style="list-style-type: none"> <li>– max 15% of issues carried out within the limits above.</li> </ul> </li> </ul> Valid for 26 months, i.e. <b>until 13 July 2016.</b>	No utilisation.	Overall ceiling (nineteenth resolution) for transactions coming under resolutions 15 to 17: 20 million shares and €1.7 bn debt securities.
<b>Issue of new shares</b> (eighteenth resolution) up to a maximum of 20.5 million shares as <b>consideration for contributions</b> of the securities of third-party companies. Valid for 26 months, i.e. <b>until 13 July 2016.</b>	No utilisation.	Overall ceiling (nineteenth resolution) for transactions coming under resolutions 15 to 17: 20 million shares and €1.7 bn debt securities.
<b>Issue of new shares reserved for employees who are members of a group savings plan</b> (twentieth resolution - as legal consequence of resolutions of capital increase in cash above). Ceiling: 2 million shares. Maximum discount: 20% for a 5-year employee savings plan and 30% for a 10-year holding period. Valid for 26 months, i.e. <b>until 13 July 2016.</b>	No utilisation.	Employee shareholding operations are now conducted using existing shares, which have previously been bought back by the Company under a current share repurchase programme.

In addition, authorisations to issue shares and other securities resulting from the General Meetings of 18 May 2011 and 15 May 2012, which expired respectively on 17 July 2014 and 14 July 2014, were not used.

#### 4.3.3.10 **Key factors likely to have an impact in the event of a public offering (information covered by Article L.225-100-3 of the French Commercial Code)**

The structure of share ownership and the distribution of voting rights mean that Thales is unlikely to be affected by any public offer. Furthermore:

- A.** the two main shareholders (Dassault Aviation and TSA) have declared that they are acting in concert within the framework of a shareholders' agreement, the key terms of which are described on page 183.

- B.** in the absence of termination at the contract expiration on 31 December 2011, the agreement was tacitly renewed for a period of 5 years, expiring on 31 December 2016. It may be tacitly renewed for five-year periods.
- C.** any crossing of the thresholds of one-tenth of the capital or voting rights, or any multiple thereof, requires the prior consent of the French Minister for the Economy.

## 4.4 Regulated commitments

### 4.4.1 AGREEMENTS AND COMMITMENTS AUTHORISED AFTER CLOSING

On 25 February 2015, the Board of directors authorised three regulated commitments under Article L.225-42-1 of the French Commercial Code, relating to:

1. Compensation payments likely to be payable to Mr Patrice Caine, Chairman & Chief Executive Officer, upon termination of his term of office as company representative.

Subject to the fulfilment of the performance conditions imposed by the Board of directors and if so decided by the Board, compensation may be paid to Mr Patrice Caine, if his term of office as company representative should be terminated, except in the case of resignation, serious misconduct or gross negligence.

The amount of compensation is fixed at 12 months of his reference salary (fixed and variable compensation paid over the last 12 months of activity).

Payment of this compensation will be subject to the Board's assessment as to whether the performance criteria set by the Board have been met under the following conditions:

- if the departure takes place before the closure of fiscal year 2017, the payment will take place if the average level of achievement of the annual operating profit objectives is equal to or greater than 80%, depending on the financial criteria available for the period between the start and end of the mandate;
- if the termination occurs after the closure of the 2017 fiscal year,

compensation will be paid if the average level of achievement of the annual operating profitability targets is equal to or greater than 80% over the last three full financial years;

if that is not the case, no compensation payment will be due.

2. The private unemployment insurance that the Company has decided to subscribe to the benefit of Mr Patrice Caine and for which entitlement to this insurance is subject to the same performance condition as the above-mentioned compensation for termination.
3. The deferred progressive and conditional compensation scheme for the "company representative" applicable to Mr Patrice Caine, from 1 January 2015.

The amount of this compensation is calculated based on the point allocation method identical to that used for employees entitled to the additional group retirement scheme applicable within Thales group.

It is only deemed to have been acquired on the condition of carrying out a full mandate, and its benefit is subject to the achievement of the following condition of performance: if the average level of achievement of the annual operating margin targets set by the Board of directors for the Company representative is equal to or greater than 80% for the last three full financial years.

The increase in this deferred compensation is subject to a minimum of 10 years' service as part of the Thales Executive Committee.

### 4.4.2 AGREEMENTS AND ENGAGEMENTS AUTHORISED DURING 2014

#### Board of directors meeting on 1 July 2014

With Mr Charles Edelstenne, Eric Trappier and Loïc Segalen, company representatives of the Dassault group

#### Land acquisition in Mérignac (Gironde)

The Board has approved the acquisition by SNC Thales Mérignac, subsidiary of Thales, of land located in Mérignac with the aim of constructing a group of buildings for industrial and commercial use by two Thales subsidiaries. The said land was sold on 4 November 2014 to SNC Thales Mérignac by the Urban Community of Bordeaux (CUB) who had previously acquired from the Industrial Group Marcel Dassault (GIMD) a larger piece of land for the requirements of a development project for an industrial and economic zone known as "Bordeaux Aéroport".

#### Board of directors' meeting of 9 December 2014

With Mr Philippe Logak, at that date Chairman & Chief Executive Officer

#### Subscription of unemployment insurance for the Company representative

Due to the change in status of Mr Philippe Logak, previously employed by Thales group as General Secretary and named Chairman and CEO by the Board of directors on 27 November 2014, an unemployment insurance was subscribed for his benefit from that date and up to 23 December 2014, the date at which he resigned from his function as Chairman & CEO and Administrator following the definitive decision with regard to the Group's governance, to return to his status as employee.

This commitment did not take effect in 2014. It is invalid since the 23 December 2014.

### 4.4.3 AGREEMENTS AUTHORISED DURING PREVIOUS FINANCIAL YEARS

The agreements authorised by the Board of directors and approved by the General Meeting in previous financial years which continued to be performed in 2014 have been disclosed to the auditors in accordance with the applicable regulations. They are also described in a special report presented to the General Meeting called to approve the 2014 financial statements.

#### **Board of Directors' meeting of 6 March 2008**

##### **FSTA: commitments to be undertaken by the parent company, authorised by the Board of Directors on 6 March 2008**

Having noted the characteristics of the "FSTA" public-private partnership, which has a significant importance and high visibility for the Group, and which thus consolidates its presence in the United Kingdom, the Board of directors:

- has approved the operation to be carried out by Thales UK Ltd, in its capacity as member of the consortium, and Thales Avionics Ltd, Thales Training & Simulation Ltd and Thales UK Ltd (Thales Air Operations) in their capacity as sub-contractors;
- has approved the issue of the three required guarantees (Resources and Materials Parent Company Guarantee, Opco Primary Subcontracts Parent Company Guarantee and Deed of Indemnity and Security) as per the terms submitted to it;
- has delegated to the Chairman, who may sub-delegate, all powers necessary for the fulfilment of these guarantees, for the signature of any deeds or documents, and in general to do what is necessary for carrying out this operation.

For the period from 28/10/2013 to 27/10/2014, Thales invoiced Air Tanker in the amount of £312,668 (or €371,516), pursuant to letters of credit in force.

#### **Board of Directors meeting on 29 September 2009**

##### **Assistance agreement between Thales and TSA**

For 2014, the services invoiced by Thales to TSA under the assistance agreement, covering the provision of administrative, legal and financial services provided by Thales to TSA, came to €474,042.64 excluding tax.

#### **Board decisions on 19 February 2014 (renewing commitments authorised by the Board meeting of 1 February 2013 and the General Meeting of 14 May 2013)**

The Board meeting of 19 February 2014 renewing the commitments authorised by the Board of 1 February 2013, had authorised under a suspensive condition of renewal of his mandate at the General Meeting of 14 May 2014 and his re-election as Chairman and Chief Executive Officer, the following commitments for the benefit of Mr Jean-Bernard Lévy (Chairman and CEO from 20 December 2012 to 27 November 2014):

##### **Progressive and supplementary deferred compensation scheme applicable to Mr Jean-Bernard Lévy**

In accordance with the renewal of the mandate of Mr Jean-Bernard Lévy as Chairman and Chief Executive Officer, the Board of directors of 19 February 2014, on the proposal by the Governance & Remunerations Committee, authorised the renewal of the progressive and supplementary deferred compensation scheme, according to the conditions described below.

The annuity amount is based on the point allocation method identical to that used for employees entitled to the additional group retirement scheme applicable within Thales group.

However, entitlement to the rights acquired by the Company representative is not subject to the condition of presence in the Company at the time of payment of the retirement benefits, but it is subject to:

1. his presence in the Company after 1 January 2015;
2. the achievement of the following performance condition: if the average level of achievement of the annual operating margin targets set by the Board of directors for the Company representative is equal to or greater than 80% for the last three full financial years.

with a doubling of the annuity conditional on the maintenance of the Chairman & Chief Executive Officer's term of office for a minimum of three years from the date of joining the Group.

This commitment was rejected by the shareholders' meeting on 14 May 2014. This commitment is invalid since 27 November 2014 and was not applied in 2014.

##### **Commitments related to compensation payments that may be due to the Chairman & Chief Executive Officer upon discontinuation of his term of office as company representative**

In accordance with the renewal of the mandate of Mr Jean-Bernard Lévy, the Board of directors of 19 February 2014, on the proposal of the Governance & Remuneration Committee, authorised the renewal of the commitment with regard to the compensation likely to be due to Mr Jean-Bernard Lévy when he ceased to exercise his function as company representative, according to the conditions described below.

Subject to the fulfilment of the performance condition set out by the Board of directors and upon the Board's decision, compensation may be paid to Mr Jean-Bernard Lévy, if his term of office should be discontinued, except for serious misconduct or gross negligence.

The amount of this compensation is maintained at six months of the fixed portion of the annual remuneration, i.e. €225,000, this amount increasing by €100,000 per quarter, with a ceiling on the maximum compensation of €1,500,000. Under no circumstances can compensation for termination of the employment contract exceed the total amount (fixed + variable) received during the last 24 months of employment.

The performance condition would be deemed to have been fulfilled:

- in the intermediate period, i.e. until the term of office has covered three complete financial years, if at least 80% of the targeted operation margin in terms of monthly, quarterly or half-yearly average is reached;
- beyond that, at least 80% of the targeted operating margin on a 3-year average is reached.

If that is not the case, no compensation payment will be due.

This commitment is invalid since 27 November 2014 and was not applied in 2014.

##### **Commitments related to a private unemployment insurance scheme**

In accordance with the renewal of the mandate of Mr Jean-Bernard Lévy, the Board of directors meeting of 19 February 2014, on the proposal of the Governance & Remuneration Committee, authorised the renewal of the commitment with regard to the subscription of a private unemployment insurance for the benefit of Mr Jean-Bernard Lévy in accordance with the conditions described below.

This insurance is capped in terms of its duration and amount, as per the same terms of the standard unemployment insurance scheme for employees. Entitlement to this insurance is subject to the same performance condition as the above-mentioned compensation for termination.

This commitment is invalid since 27 November 2014 and was not applied in 2014.



#### 4.4.4 STATUTORY AUDITORS' REPORT ON RELATED PARTY AGREEMENTS AND COMMITMENTS

*This is a free translation into English of a report issued in French and it is provided solely for the convenience of English-speaking users. This report should be read in conjunction with, and is construed in accordance with, French law and professional standards applicable in France.*

To the Shareholders

In our capacity as your company's statutory auditors, we hereby report to you on regulated agreements and commitments.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, without commenting on their relevance or substance or identifying any undisclosed agreements or commitments. Under the provisions of article R. 225-31 of the French commercial code, it is the responsibility of the shareholders to determine whether the agreements and commitments are appropriate and should be approved.

Where applicable, it is also our responsibility to provide shareholders with the information required by article R. 225-31 of the French commercial code in relation to the implementation during the year of agreements and commitments already approved by the Shareholders' Meeting.

We performed the procedures that we deemed necessary in accordance with the guidance issued by the French Institute of statutory auditors (Compagnie nationale des commissaires aux comptes) for this type of engagement. These procedures consisted in verifying that the information given to us is consistent with the underlying documents.

#### Agreements and engagements submitted for approval by the general shareholders' meeting approval

#### Agreements and commitments authorized during the last year

In accordance with article L. 225-40 of the French commercial code, we have been informed of the following agreements and commitments previously authorized by the Board of Directors.

**With Groupe Industriel Marcel Dassault (GIMD), shareholder controlling Dassault Aviation according to article L. 233-16 of the French Commercial Code, holding 25,28% shares in Thales**  
**Land acquisition in Mérignac**

The Board of Directors on 1 July 2014 has approved the acquisition by SNC Thales Mérignac, subsidiary of Thales, of land located in Mérignac with the aim of constructing a group of buildings for industrial and commercial use by two Thales subsidiaries. The said land was sold on 4 November 2014 to SNC Thales Mérignac by the Urban Community of Bordeaux (CUB) who had previously acquired from the Industrial Group Marcel Dassault (GIMD) a larger piece of land for the requirements of a development project for an industrial and economic zone known as «Bordeaux Aéroport»

The selling price agreed amounted to 5,385,481 euros including value added tax.

**With Mr Philippe Logak, Chairman and Chief Executive Officer from 27 November 2014 to 22 December 2014**

#### **Commitment related to a private unemployment insurance scheme**

The Board of Directors on 9 December 2014 has approved the subscription of a private unemployment insurance for the benefit of Mr Philippe Logak, from the date of his appointment as Chairman and Chief Executive Officer on 27 November 2014.

This commitment did not take effect in 2014. It is invalid since the 23 December 2014.

#### Agreements and commitments authorized after the year-end

We have been informed of the following agreements and commitments authorized after the yearend by the Board of Directors on 25 February 2015, on the proposal of the Selection and Remuneration Committee.

**With Mr Patrice Caine, Chairman and Chief Executing Officer since 23 December 2014**

#### **Commitment related to compensation payments likely to be payable to Mr Patrice Caine upon termination of his term of office as company representative**

Subject to the fulfilment of the performance conditions imposed by the Board of Directors and if so decided by the Board, compensation may be paid to Mr Patrice Caine, if his term of office as company representative should be terminated, except in the case of resignation, serious misconduct or gross negligence.

The amount of compensation is fixed at 12 months of his reference salary (fixed and variable compensation paid over the last 12 months of activity).

Payment of this compensation will be subject to the Board's assessment as to whether the performance criteria set by the Board have been met under the following conditions:

- if the departure takes place before the closure of fiscal year 2017, the payment will take place if the average level of achievement of the annual operating profit objectives is equal to or greater than 80%, depending on the financial criteria available for the period between the start and end of the mandate;
- if the termination occurs after the closure of the 2017 fiscal year, compensation will be paid if the average level of achievement of the annual operating profitability targets is equal to or greater than 80% over the last three full financial years;

If that is not the case, no compensation payment will be due.

#### **Commitment related to a private unemployment insurance scheme for Mr Patrice Caine**

The private unemployment insurance that the Company has decided to subscribe to the benefit of Mr Patrice Caine and for which entitlement to this insurance is subject to the same performance condition as the above-mentioned compensation for termination.

#### **Commitment related to the deferred progressive and conditional compensation scheme applicable to Mr Patrice Caine, since his appointment as Chairman and Chief Executing Officer on 23 December 2014**

The amount of this compensation is calculated based on the point allocation method identical to that used for employees entitled to the additional group retirement scheme applicable within Thales Group.

It is only deemed to have been acquired on the condition of carrying out a full mandate, and its benefit is subject to the achievement of the following condition of performance: if the average level of achievement of the annual operating margin targets set by the Board of Directors for the company representative is equal to or greater than 80% for the last three full financial years.

The annuity increase is subject to a minimum of 10 years' service as part of the Thales Executive Committee.



## Agreements and commitments of prior years not approved by the shareholders' meeting

We draw your attention to the following agreements and commitments, authorized during 2014 financial year, which were included in our report on regulated agreements and commitments for the financial year 2013 but which were not approved by the Shareholders' Meeting for the approval of the financial statements for the financial year 2013.

**With Mr Jean-Bernard Levy, Chairman and Chief Executive Officer from 20 December 2012 to 27 November 2014**

### **Commitment related to the progressive and supplementary deferred compensation scheme applicable to Mr Jean-Bernard Levy**

In accordance with the renewal of the mandate of Mr Jean-Bernard Levy as Chairman and Chief Executive Officer, the Board of Directors of 19 February 2014, on the proposal by the Selection & Remunerations Committee, authorized the renewal of the progressive and supplementary deferred compensation scheme, according to the conditions described below.

The annuity amount is based on the point allocation method identical to that used for employees entitled to the additional group retirement scheme applicable within Thales Group.

However, entitlement to the rights acquired by the company representative is not subject to the condition of presence in the Company at the time of payment of the retirement benefits, but it is subject to:

1. his presence in the company after 1 January 2015;
2. the achievement of the following performance condition: if the average level of achievement of the annual operating margin targets set by the Board of Directors for the company representative is equal to or greater than 80% for the last three full financial years.

with a doubling of the annuity conditional on the maintenance of the Chairman & Chief Executive Officer's term of office for a minimum of three years from the date of joining the Group.

This commitment was rejected by the shareholders' meeting on 14 May 2014. This commitment is invalid since 27 November 2014 and was not applied in 2014.

## Agreements and commitments previously approved by the shareholders' meeting

### Agreements and commitments approved in previous years which have been pursued during the last year

In accordance with article R. 225-30 of the French commercial code, we have been informed of the following agreements and commitments approved in prior years and which remained current during the last year.

**With Thales UK, a wholly-owned subsidiary of Thales**

### **Commitments to be undertaken by the parent company within the public-private partnership "FSTA"**

Within the public-private partnership "FSTA", Thales granted guarantees to the British companies of the Group.

The concerned companies are Thales UK Ltd, as a member of the consortium Air Tanker, and Thales Avionics Ltd, Thales Training & Simulation Ltd and Thales UK Ltd (Thales Air Operations) as subcontractors.

The Board of Directors meeting on 6 March 2008 approved the issuance of the three required guarantees («Resources and Materials Parent Company Guarantee», «Opco Primary Subcontracts Parent Company Guarantee» and «Shareholder Deed of Indemnity and Security») as per the terms submitted to it.

Pursuant to letters of credit in force, Thales invoiced Air Tanker the total amount of £ 312,668 in 2014.

**With TSA (shareholder of 27.08 % of Thales)**

### **Rider to the agreement on assistance to TSA**

The Board of Directors meeting on 29 September 2009 authorized the conclusion of a rider to the agreement on assistance between Thales and TSA.

Under this agreement, Thales provides TSA with assistance from the Group's specialist financial, legal and administrative services, since TSA no longer has the internal resources to operate alone.

Royalties invoiced by Thales in 2014 under this agreement amounted to €474,042.64 excluding taxes.

## Agreements and commitments approved during the last year

We have been informed of the implementation, during the last year, of the following agreements and commitments, previously approved by the Shareholders' Meeting of 14 May 2014, as indicated in the statutory auditors' special report of 19 February 2014.

**With Mr Jean-Bernard Levy, Chairman and Chief Executing Officer from 20 December 2012 to 27 November 2014**

### **Commitments related to compensation payments that may be due upon discontinuation of his term of office as company representative**

In accordance with the renewal of the mandate of Mr Jean-Bernard Levy, the Board of Directors of 19 February 2014, on the proposal of the Selection & Remuneration Committee, authorised the renewal of the commitment with regard to the compensation likely to be due to Mr Jean-Bernard Levy when he ceased to exercise his function as company representative, according to the conditions described below.

Subject to the fulfilment of the performance condition set out by the Board of Directors and upon the Board's decision, compensation may be paid to Mr Jean-Bernard Levy, if his term of office should be discontinued, except for serious misconduct or gross negligence.

The amount of this compensation is maintained at six months of the fixed portion of the annual remuneration, i.e. €225,000, this amount increasing by €100,000 per quarter, with a ceiling on the maximum compensation of €1,500,000. Under no circumstances can compensation for termination of the employment contract exceed the total amount (fixed + variable) received during the last 24 months of employment.

The performance condition would be deemed to have been fulfilled:

- in the intermediate period, i.e. until the term of office has covered three complete financial years, if at least 80% of the targeted operation margin in terms of monthly, quarterly or half-yearly average is reached;
- beyond that, at least 80% of the targeted operating margin on a 3-year average is reached.

If that is not the case, no compensation payment will be due.

This commitment is invalid since 27 November 2014 and was not applied in 2014.

#### ■ **Commitments related to an unemployment insurance scheme**

In accordance with the renewal of the mandate of Mr Jean-Bernard Levy, the Board of Directors meeting of 19 February 2014, on the proposal of the Selection and Remuneration Committee, authorised the renewal of the commitment with regard to the subscription of a private unemployment insurance for the benefit of Mr Jean-Bernard Levy in accordance with the conditions described below.

This insurance is capped in terms of its duration and amount, as per the same terms of the standard unemployment insurance scheme for employees. Entitlement to this insurance is subject to the same performance condition as the above-mentioned compensation for termination.

This commitment is invalid since 27 November 2014 and was not applied in 2014.

Paris La Défense and Courbevoie, 25 February 2015

The Statutory Auditors

#### **MAZARS**

Jean-Marc Deslandes  
Anne-Laure Rousselou

#### **ERNST & YOUNG Audit**

Philippe Diu  
Michel Gauthier

## 4.5 Stock market information financial communication

### 4.5.1 THALES SHARES

---

#### 4.5.1.1 Listing markets

Thales stock is listed on the NYSE Euronext Paris regulated market (Compartment A). It is eligible for the SRD deferred settlement system.

ISIN Code<sup>(1)</sup>: FR0000121329

Reuters: TCFP. PA

Bloomberg: HO FP

#### 4.5.1.2 Index listing

At 31 December 2014, Thales stock was included in the following main indices:

- NYSE Euronext Paris indices: CAC Next20<sup>(2)</sup>, SBF 120<sup>(3)</sup>, SBF 250, CAC Large60<sup>(2)</sup> and CAC All-Shares.

The market capitalisation used to select stocks in the NYSE Euronext Paris indices is calculated on the basis of the free float<sup>(4)</sup> and not on the total number of shares outstanding.

For information, based on the 2014 closing price, Thales's total market capitalisation was €9,352m, which is 6.09% of the CAC Next20 market capitalisation. Thales's free float market capitalisation, as defined by the NYSE Euronext Indices Steering Committee, was €4,438m;

- international indices: DJ Euro Stoxx, FTSEurofirst 300.

(1) International Securities Identification Numbers.

(2) Since 20 December 2013.

(3) Since 31 December 1990.

(4) In accordance with the definition used by the NYSE Euronext Paris Indices Steering Committee, the free float represents the total capital less treasury shares, shares held directly or indirectly by founders and/or by the State, controlling interests, as well as shares tied up under a shareholders' agreement not falling into one of the aforementioned categories and interests considered stable.

### 4.5.1.3 Share price and trading volumes on NYSE Euronext Paris

#### 4.5.1.3.1 Monthly data from January 2013 to December 2014 (share prices in euros)

	No. of trading days	No. of shares traded	Total value traded (in €m)	Aver. daily volume	Weighted average price	High price	Low price	Closing price
<b>2014</b>								
January	22	4,777,644	229.31	217,166	47.996	49.900	46.475	48.325
February	20	5,796,309	278.66	289,815	48.076	49.500	45.950	48.100
March	21	4,753,075	224.89	226,337	47.314	48.735	46.000	48.130
<b>Q1 2014</b>	<b>63</b>	<b>15,327,028</b>	<b>732.86</b>	<b>243,286</b>	<b>47.815</b>	<b>49.900</b>	<b>45.950</b>	<b>48.130</b>
April	20	6,775,408	316.78	338,770	46.755	50.000	44.095	45.850
May	21	4,629,771	206.58	220,465	44.620	46.225	43.200	43.910
June	21	4,526,926	204.13	215,568	45.091	47.165	43.000	44.175
<b>Q2 2014</b>	<b>62</b>	<b>15,932,105</b>	<b>727.49</b>	<b>256,969</b>	<b>45.662</b>	<b>50.000</b>	<b>43.000</b>	<b>44.175</b>
July	23	4,077,838	178.35	177,297	43.735	45.195	42.160	42.520
August	21	3,220,298	134.68	153,348	41.822	43.260	40.550	42.495
September	22	4,471,032	188.89	203,229	42.247	43.855	40.000	42.175
<b>Q3 2014</b>	<b>66</b>	<b>11,769,168</b>	<b>501.91</b>	<b>178,321</b>	<b>42.647</b>	<b>45.195</b>	<b>40.000</b>	<b>42.175</b>
October	23	6,385,233	250.07	277,619	39.164	42.750	36.400	39.590
November	20	4,770,629	197.51	238,531	41.401	43.180	39.070	42.670
December	21	7,107,102	310.42	338,433	43.678	45.410	41.095	44.995
<b>Q4 2014</b>	<b>64</b>	<b>18,262,964</b>	<b>758.00</b>	<b>285,359</b>	<b>41.505</b>	<b>45.410</b>	<b>36.400</b>	<b>44.995</b>
<b>TOTAL 2014</b>	<b>255</b>	<b>61,291,265</b>	<b>2,720.27</b>	<b>240,358</b>	<b>44.383</b>	<b>50.000</b>	<b>36.400</b>	<b>44.995</b>
<b>2013</b>								
January	22	5,547,010	148.08	252,137	26.695	27.765	25.750	26.515
February	20	3,912,205	105.53	195,610	26.975	27.840	26.300	26.985
March	20	10,878,404	349.28	543,920	32.107	34.340	29.525	32.995
<b>Q1 2013</b>	<b>62</b>	<b>20,337,619</b>	<b>602.88</b>	<b>328,026</b>	<b>29.644</b>	<b>34.340</b>	<b>25.750</b>	<b>32.995</b>
April	21	4,881,907	157.88	232,472	32.339	33.845	30.900	32.980
May	22	6,822,412	245.89	310,110	36.041	38.430	32.510	37.570
June	20	5,446,647	201.56	272,332	37.006	38.290	35.145	35.875
<b>Q2 2013</b>	<b>63</b>	<b>17,150,966</b>	<b>605.32</b>	<b>272,238</b>	<b>35.294</b>	<b>38.430</b>	<b>30.900</b>	<b>35.875</b>
July	23	5,435,171	203.77	236,312	37.492	39.000	35.075	38.750
August	22	3,787,403	146.55	172,155	38.693	39.945	37.100	37.280
September	21	5,398,917	217.34	257,091	40.256	41.400	36.965	40.635
<b>Q3 2013</b>	<b>66</b>	<b>14,621,491</b>	<b>567.66</b>	<b>221,538</b>	<b>38.823</b>	<b>41.400</b>	<b>35.075</b>	<b>40.635</b>
October	23	6,781,171	293.50	294,834	43.281	45.200	40.610	45.200
November	21	3,984,013	178.35	189,715	44.767	45.990	43.715	44.925
December	20	3,876,958	172.33	193,848	44.450	46.800	42.800	46.800
<b>Q4 2013</b>	<b>64</b>	<b>14,642,142</b>	<b>644.18</b>	<b>228,783</b>	<b>43.995</b>	<b>46.800</b>	<b>40.610</b>	<b>46.800</b>
<b>TOTAL 2013</b>	<b>255</b>	<b>66,752,218</b>	<b>2,420.04</b>	<b>261,773</b>	<b>36.254</b>	<b>46.800</b>	<b>25.750</b>	<b>46.800</b>

#### 4.5.1.3.2 Annual data from 2013 and 2014 (share prices in euros)

##### ■ PRICE AND PERFORMANCE

	2014	2013
Closing price	44.995	46.800
Session high	50.000	46.800
Session low	36.400	25.750
Weighted average price	44.383	36.254
Net dividend in respect of the previous year	1.12	0.88
Total shareholder return (TSR) <sup>(a)</sup>	-1.26%	+82.47%
Change in Thales share over the period (%)	-3.86%	+78.32%
CAC 40 performance over the period (%)	-0.54%	+17.99%
CAC Next 20 performance over the period (%)	+4.72%	+27.69%

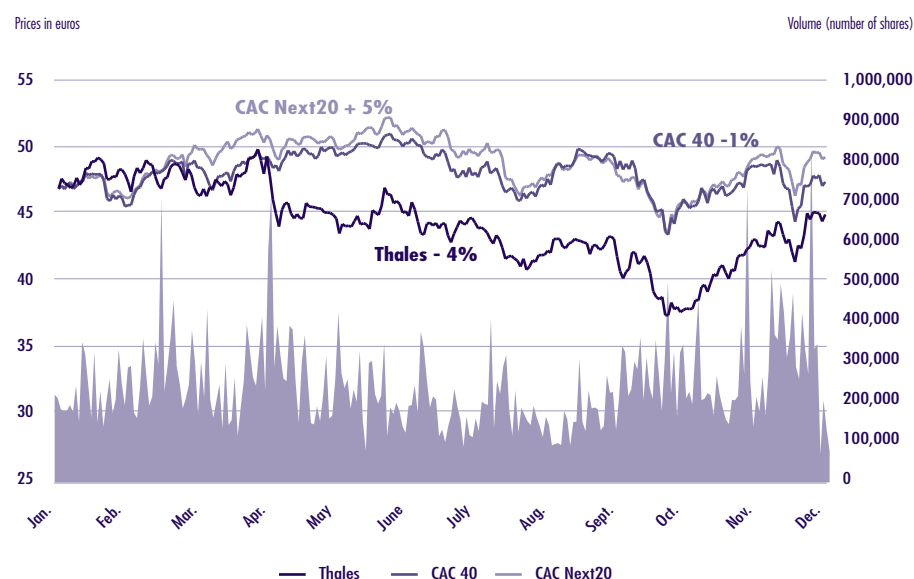
(a) Total Shareholder Return: differential between annual closing prices, plus dividend after tax credit paid during the year in respect of the previous year, relative to the opening price.

	2014	2013
Average number of shares traded daily (thousands)	240	262
Total number of shares traded over the period (millions)	61	67
Total value traded over the period (€m)	2,720	2,420
Average number of shares traded per month (thousands)	5,108	5,563
Average value traded per month (€m)	226.69	201.67
Total number of shares in capital (period-end – millions)	207.8	205.7
Total number of shares in free float (period-end – in millions) <sup>(a)</sup>	98.6	95.9

(a) At the end of the period and in accordance with the definition of free float used by the NYSE Euronext Paris Indices Steering Committee.

#### 4.5.1.3.3 Graph and notes on the change in price and volumes traded from 1 January 2014 to 31 December 2014

##### ■ CHANGE IN SHARE PRICE AND TRADED VOLUME FROM 1 JANUARY 2014 TO 31 DECEMBER 2014



Closing price of Thales shares:

- 2 January 2014: €46.915;
- 31 December 2014: €44.995.
- 2014 high: €50.000;
- 2014 low: €36.400.

#### a) Comments on share price in 2013 and 2014

- **in 2014**, following strong growth in 2013 the Thales's shares price decreased by 4%, compared with the CAC 40, which decreased slightly over the period (-1%); the CAC Next20, on the other hand, rose by 5%.
- **in 2013**, the Thales share price increased by 78%, compared with 22% for the CAC 40 and 28% for the CAC Next20, on the back of a continued recovery in European equity markets, a rerating in "aerospace/defence" stocks and the Thales stock "catching up" on industry peers.

#### b) Comments on traded volumes in 2013 and 2014

- **in 2014**, daily traded volumes reached an average of 240,358 shares, a decrease from 2013. Traded volumes had one-off increases during the year: when the annual results were announced at the end of February, and then at the time of the "investor day" in April and during the period of the Shareholders' Meeting and the ex-dividend date at the end of May, and finally during the last quarter when announcements were made with respect to the Group's corporate governance.
- **in 2013**, daily traded volumes reached an average of 261,773 shares, an increase from 2012. Traded volumes reached several significant peaks during the year: the first in connection with the announcement of annual results at the end of February and of the investor roadshows during the first half of March, the second during the period of the Shareholders' Meeting and the ex-dividend date at the end of May, the third at the time of the half-year roadshows in September and, finally, following publication of the Group's sales and orders for the third quarter at the end of October.

#### 4.5.1.4 Dividend policy

Dividends are paid to the holders of shares in accordance with the law. The Company uses the Euroclear direct payment procedure.

As a reminder, the Thales Annual General Meeting on 14 May 2014 approved the payment of a dividend of €1.12 per share for 2013, entirely in cash. As an interim dividend of €0.27 per share had been paid on 13 December 2013, the balance of the dividend for 2013 of €0.85 per share was paid after the Annual General Meeting. The Board of directors announced that it was targeting a distribution rate equal to 35% of adjusted net income.

On 16 September 2014, the Board of directors of the Company decided to pay an interim dividend of €0.34 per share for 2014. This interim dividend was paid on 12 December 2014.

For 2014, the payment of the dividend recommended by the Board of directors to shareholders at the Annual General Meeting on 13 May 2015 will be entirely in cash. As an interim dividend of €0.34 per share was paid on 12 December 2014, this payment will represent the balance of the dividend for 2014 of €0.78 per share, subject to the approval by the shareholders at the Annual General Meeting on 13 May 2015 of the dividend recommended by the Board of directors of €1.12 per share for 2014. Any dividend not claimed within a period of five years will be time-barred by law and paid to the Treasury.

As required by law, the per-share dividend information for the last three financial years is given below. In accordance with the French General Tax Code, dividends paid in respect of 2011, 2012 and 2013 qualified for a possible tax credit of 40%.

#### ■ DIVIDENDS PAID FOR THE LAST FIVE YEARS

(euros)	2014 <sup>(a)</sup>	2013	2012	2011	2010
Dividend before tax credit	1.12	1.12	0.88	0.78	0.50

(a) Subject to the approval of the Annual General Meeting of 13 May 2015, which will vote on the 2014 financial statements. The ex-dividend date is 27 May 2015 and to be paid on 29 May 2015.

## 4.5.2 FINANCIAL COMMUNICATION POLICY

### 4.5.2.1. General

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

In addition to this registration document, submitted to the French financial markets authority (AMF), which includes details of all the consolidated financial statements and associated analysis, business activities and results by business segment, the main statutory information about the Company, and its corporate responsibility policy, Thales also publishes an interim report and a letter to shareholders as well as regular financial press releases and statements. Other publications include a corporate activity report with key information about the Group, a corporate social responsibility report and a social report providing a detailed description of its commitments and achievements in these areas.

All Thales information documents, presentations and financial press releases are available on the Thales website: [www.thalesgroup.com](http://www.thalesgroup.com).

Thales also holds briefings for the financial community, by teleconference where appropriate, particularly when announcing results (annual and interim financial statements and quarterly information) or important strategic or financial operations.

Regular meetings between Thales executives and institutional investors are held in Europe and North America, typically as part of roadshows or "investor days". These include more detailed presentation about the Company's business activities and performance.

Thales also publishes information on its corporate social responsibility policy for Socially Responsible Investors (SRI). These reports cover corporate, social, environmental and governance issues, and information about management of commercial activities especially as regards prevention of corruption and control of exports of equipment or defence technologies or dual-use devices and technologies.

Finally, Thales also maintains an ongoing dialogue with international financial analysts and institutional investors to provide them with information about the Company's business activities and strategy.

Having been distinguished at the Transparency Awards for the quality of its financial disclosure in 2012 and 2013, Thales was once more recognised in 2014, winning the Trophy for Best Investor Relations "All Categories," granted by a jury including the *Société Française des Analystes Financiers* (SFAF – French Society of Financial Analysts), the *Association Française de Gestion* (AFG – French Management Association), Euronext and the *Institut Française des Administrateurs* (IFA – French Institute of Directors).

#### 4.5.2.2 **Provisional financial reporting calendar for 2015**

##### **26 Feb. 2014 consolidated results**

6 May Q1 2015 financial information

##### **13 May Annual General Meeting of Shareholders**

29 May Payment of 2014 dividend (ex-dividend date of 27 May 2014)

##### **23 July 2015 interim consolidated results**

21 Oct. Q3 2015 financial information

#### 4.5.2.3 **Contacts**

##### **Investor Relations Department**

Tour Carpe Diem  
31 Place des Corolles  
CS 20001  
92098 Paris La Défense – France  
Tel: +33 (0)1 57 77 89 02  
e-mail: [ir@thalesgroup.com](mailto:ir@thalesgroup.com)

#### 4.5.2.4 **Annual Information Document: Key information for shareholders**

This section lists information published in the 12 months preceding the filing of this registration document, pursuant to the provisions of Article 221-1-1 of the AMF General Regulations.

The public can obtain Thales's Articles of Association and financial information about the Group from its website ([www.thalesgroup.com](http://www.thalesgroup.com)).

##### **2013 annual results**

In the "Investors" section, under the heading "Releases and publications":

- press release – 19 February 2014: 2013 annual results;
- presentation – 19 February 2014: 2013 annual results;
- 2013 consolidated annual results.

##### **Quarterly information at 31 March 2014**

In the "Investors" section, under the heading "Releases and publications":

- press release 29 April 2014: order intake and sales 30 March 2014;
- presentation 29 April 2014: order intake and sales 30 March 2014.

##### **2014 Annual General Meeting of Shareholders**

In the "Investors" section, under the heading "Annual General Meetings":

- notice of AGM – (*Balo* [French legal gazette] 3 March 2014);
- publication in *Les Échos*, issue of 3 March 2014;
- number of shares and voting rights as of the date of the notice of AGM – Article R. 225.73-1 (2<sup>nd</sup>);
- Articles of Association – 9 January 2014;
- registration document 2013;
- notice of meeting (*Balo* [French legal gazette] 7 April 2014);
- notice of availability of documents;
- meeting brochure – AGM 14 May 2014;
- brochure specified in Article R. 225-83 – AGM 14 May 2014;
- 2014 Combined Annual and Extraordinary Shareholders' Meeting – Presentation;
- AGM 14 May 2014 – press release;
- AGM 14 May 2014 – quorum and voting results;

##### **2014 first-half results**

In the "Investors" section, under the heading "Releases and publications":

- press release – 24 July 2014: 2014 first-half results;
- presentation – 24 July 2014: 2014 first-half results;
- 2014 interim condensed consolidated financial statements.

##### **Quarterly information at 30 September 2014**

In the "Investors" section, under the heading "Releases and publications":

- press release 23 October 2014: order intake and sales at 30 September 2014;
- presentation 23 October 2014: order intake and sales at 30 September 2014.

##### **2014 annual results**

In the "Investors" section, under the heading "Releases and publications":

- press release – 26 February 2015: 2014 annual results;
- presentation – 26 February 2015: 2014 annual results;
- 2014 consolidated annual results.

### 4.5.3 OTHER MARKET SECURITIES

---

#### 4.5.3.1 Bond maturing in 2016

In October 2010, Thales issued a €600m bond at a fixed rate of 2.75% (including €400m swapped to variable rate). This bond is listed on the Paris stock exchange and matures in October 2016.

#### 4.5.3.2 Bond maturing in 2018 and 2021

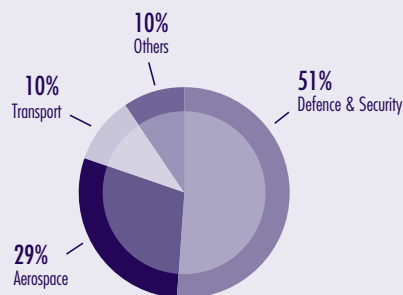
In March 2013, Thales issued a €800m bond, structured in the form of a 5-year €500m tranche with a coupon of 1.625% (including €300m swapped to variable rate) and an 8-year €300m tranche with a coupon of 2.25% (wholly swapped to variable rate), in order to refinance the €600m bond that matured in April 2013.



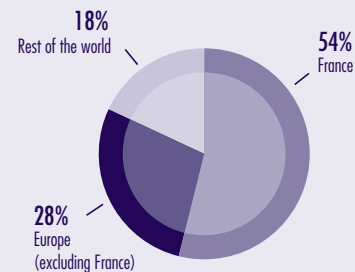
## THALES, A RESPONSIBLE EMPLOYER

- High-quality social dialogue: 87% of the Group's employees in the world are covered by collective conventions or agreements;
- Anticipation to support professional development: around 89.8% of employees had a professional development discussion with their manager during 2014;
- Continuing training programme: 75.22% of the Group's employees received training in 2014;
- A salary policy that enables employees to share in the Group's results, primarily through employee savings and employee shareholding plans;
- A concrete and committed social policy for gender equality (women representing 22% of the Group's workforce and 28% of new hires in 2014). In France, since 2006, Thales has set aside a specific annual budget equal to 0.1% of the payroll for dealing with any unjustified pay differences between men and women;
- An active policy to support diversity and to fight against discrimination, particularly age- or disability-related.

### SECTORAL DISTRIBUTION OF EMPLOYEES MANAGED



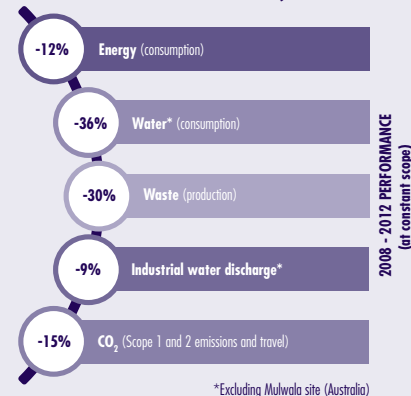
### GEOGRAPHICAL DISTRIBUTION OF EMPLOYEES MANAGED



## LONG-STANDING ENVIRONMENTAL COMMITMENTS

- First Environment Master Plan launched in 1997;
- A structured and dedicated organisation, adapted to the area, country and site level and enhanced with the "Environment/Product managers" eco-design network;
- Programmes promoting the control and reduction of water and energy consumption, recycling and elimination of waste, limiting atmospheric emissions and the discharge of industrial water, and combating nuisance (noise and smells). ISO 14001 certification includes the environment in products and services (tenders, projects, design, development);
- A key player in combating climate change, whether in transport, innovation in green technologies, eco-design of products or the Group's involvement in the dissemination of best environmental practice;
- An ambitious environmental policy delivering results.

### PERFORMANCES 2008-2012 (AT CONSTANT SCOPE)



## A BROAD VIEW OF CORPORATE SOCIAL RESPONSIBILITY



- A long-standing policy of fair business practices, in particular to prevent corruption, that has been incorporated in a continuing improvement process;
- Thales, a leading player in the international effort to promote best practices with professional associations in the Aerospace and Defence sector, international organisations and non-governmental agencies. To this end, Thales has been a member of the United Nations Global Compact since 2003 and in 2012 qualified for "Global Compact Advanced" status;
- A responsible approach with suppliers: more than 2,900 suppliers have signed the Purchasing and Corporate Responsibility Charter;
- An active local contribution to economic and social life in the countries and regions;
- Thales conducts local actions with charitable organisations in a number of countries in which the Group is developing its operations.


**5**

# CORPORATE RESPONSIBILITY

<b>5.1</b>	<b>SOCIAL INFORMATION</b>	<b>206</b>
5.1.1	A responsible employment policy	206
5.1.2	High-quality social dialogue	210
5.1.3	Support for professional development	211
5.1.4	A Group employee profit-sharing policy	213
5.1.5	A safe and healthy working environment: workplace health and safety	214
5.1.6	Gender Equality and Diversity	215
<b>5.2</b>	<b>ENVIRONMENTAL INFORMATION</b>	<b>220</b>
5.2.1	General policy on environmental issues	220
5.2.2	Pollution and waste management	223
5.2.3	Sustainable use of resources	224
5.2.4	Fighting climate change	225
5.2.5	Preservation of biodiversity	227
5.2.6	Products and environment	228
5.2.7	Environmental indicators	230
5.2.8	Environmental reporting rules	231
<b>5.3</b>	<b>SOCIETAL INFORMATION</b>	<b>232</b>
5.3.1	Territorial, economic and social impact of the business	232
5.3.2	Stakeholder relationships	233
5.3.3	Relations with suppliers: a responsible approach	234
5.3.4	Fair practices	235
5.3.5	Societal indicators	238
<b>5.4</b>	<b>STATUTORY AUDITORS' INDEPENDENT THIRD-PARTY REPORT ON CONSOLIDATED SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION PUBLISHED IN THE MANAGEMENT REPORT</b>	<b>239</b>
<b>5.5</b>	<b>SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION</b>	<b>241</b>

## 5.1 Social Information

### Introduction

Aware that its success depends on innovation, expertise, and its employees' capacity for teamwork, the Group has chosen to invest in sustainable and responsible relations with its employees and its customers.

For that reason, the Group's strategic vision, "Ambition 10", the principles of which were defined in 2013, places employees at the heart of the Group's long-term growth plans and relies on a structured Human Resources policy, backed up by a quality corporate dialogue and adapted to the challenges faced by the Group.

In 2014, these ambitions led the Group to promote a leadership model and to take a new performance management approach that focuses on skills and collaboration as well as to encourage mobility, especially international mobility, even more than before. The General Management's desire to more fully realise its corporate social responsibility (CSR) commitments also resulted in the incorporation into the objectives set for the highest levels of management in France of a CSR criterion relating to one of the three major pillars of the Human Resources' policy, which are the advancement of women, professional development and quality of life at work.

As part of its Human Resources policy, Thales is committed to fostering a set of common values that constitute a distinctive characteristic and drive its

performance. The principles of promoting management-labour dialogue, ensuring employee development, ensuring a safe and healthy work environment, encouraging respect for equality between men and women, promoting diversity, and committing to the fight against discrimination are all included in the Group's Code of Ethics, which was drafted in 2001 and distributed to all employees.

Thales signed the United Nations Global Compact in 2003 and complies with its ten principles relating to Human Rights, the right to work inspired by the Universal Declaration of Human Rights, and the declaration of the International Labour Organisation relating to the fundamental principles and rights of work. These commitments are implemented on the basis of the agreements and best practices that guarantee the Group's responsible approach to the conduct of its activities. Since 2012, Thales has achieved the "Global Compact Advanced" level in the differentiation programme of the United Nations Global Compact.

### 5.1.1 A RESPONSIBLE EMPLOYMENT POLICY

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. The data for 2014 demonstrate the stability of the Group's social dimension.

#### 5.1.1.1 Employment in the Group

The breakdown of the Thales group's 61,709 employees<sup>(1)</sup> by geographic area and level of responsibility demonstrates:

- its international footprint, with 28,417 employees working outside France at the end of 2014, representing 46% of the total workforce;
- its highly skilled workforce, 75.4% of whom hold a position equivalent to engineer, specialist or manager;
- the presence of women, who make up 22% of the global workforce;
- the proportion of long-term jobs, i.e. permanent contracts (97.8%); and

- the volume of full-time jobs (93.5%).

By comparison with the previous year and at a constant scope of consolidation<sup>(2)</sup>, the workforce being managed remained relatively stable in 2014 as compared with 2013 (61,709 as compared with 61,763). In addition, Thales recruited 3,230<sup>(3)</sup> employees this year pursuant to open-ended employment agreements, showing the Group's hiring momentum.

#### 5.1.1.1.1 Breakdown of employees worldwide

The international footprint of the Group is one of the pillars of Thales' strategy and is seen as the Company's long-term development model. While the diversity of its geographical footprint shows the Group's international character, Europe remains its principal employment zone, including 50,725 active employees, or 82% of the total workforce. Independent of the impact of any acquisitions, Australia, the United States, Canada and Germany are some of the countries with the strongest workforce growth.

(1) By "employee", Thales means, for the purposes of this chapter, the entire active headcount.

(2) The comparison is made at constant scope. In other words, the companies excluded from the scope in 2014 were also excluded from the scope as consolidated in 2013 for the purposes of comparison.

(3) This number does not include recruitment of employees with short-term employment agreements (973) or recruitment for work-study contracts (1,094) during 2014. It also does not include conversions of short-term employment agreements or apprenticeship agreements into open-ended employment agreements.

		2014	2013
<b>France</b>	France <sup>(d)(e)</sup>	33 292	33,859
<b>Major industrial countries</b>	Germany	3 136	3,089
	Australia	3 258	3,155
	Canada	1 324	1,255
	United States	2 550	2,049
	Netherlands	1 842	1,888
	United Kingdom <sup>(e)</sup>	6 419	6,794
<b>Rest of Europe</b>	Austria	315	301
	Belgium	749	688
	Spain	995	891
	Greece	31	32
	Hungary	28	20
	Italy	2 637	2,746
	Latvia	19	22
	Norway	222	205
	Poland	231	188
	Portugal	251	238
	Romania	238	215
	Switzerland	206	198
	Others <sup>(a)</sup>	114	106
<b>Emerging markets</b>	South Africa	193	247
	Saudi Arabia <sup>(e)</sup>	576	594
	Brazil	202	195
	Chile	20	23
	China/Hong Kong <sup>(e)</sup>	438	405
	South Korea <sup>(e)</sup>	19	23
	India	246	272
	Israel	89	97
	Japan	50	49
	Malaysia <sup>(e)</sup>	53	48
	Mexico	283	244
	Middle East (excl. Saudi Arabia) <sup>(b)(c)(e)</sup>	374	354
	Russia	30	26
	Singapore	610	573
	Taiwan	26	25
	Thailand	21	20
	Turkey	107	114
	Venezuela	28	23
	Others <sup>(a)</sup>	487	492
<b>WORLD</b>		<b>61 709</b>	<b>61,763</b>

(a) Other countries with fewer than twenty employees and permanent establishments: Algeria, Argentina, Cameroon, Colombia, Denmark, Egypt, India, Indonesia, Kazakhstan, Morocco, Panama, Peru, Czech Republic, Dominican Republic, Sweden, Vietnam.

(b) Thales' workforce in these countries also includes those with a permanent establishment belonging to Thales Communications & Security in Qatar.

(c) The Middle East includes the UAE, Egypt, Jordan, Kuwait, Lebanon, Oman, Qatar.

(d) Headcount in France as of 31 December 2014 was 36,128.

(e) Information presented for both years has been prepared using the Group's new scope of consolidation. Certain companies that were within the 2013 scope of consolidation but not within the 2014 scope of consolidation have been excluded.

**Note: Scope**

The definition of the companies taken into account for the purposes of preparation of the CSR report and the registration document was modified this year in accordance with the new financial consolidation standards of IFRS 10 and 11. Thales' headcount as of 31 December 2014 now includes only the headcount of companies controlled by Thales within the meaning of Article L.233-3 of the French Commercial Code, as well as companies meeting those criteria but below the threshold for financial consolidation.

As a result, certain companies were excluded from the 2014 report (see Note on Methodology).

With respect to information reported last year, the removal of the above-mentioned companies from the scope of consolidation automatically reduces the Group's 2013 headcount by 3,429 employees. In addition, the Group's scope of consolidation changed slightly in 2014 due to acquisitions and disposals<sup>(1)</sup>.

**5.1.1.1.2 Breakdown of active employees by operating segment**

The breakdown of employees among Thales' three operating segments remained broadly unchanged.

	Defence & Security	Aerospace	Transport	Others	Total
<b>2014</b>	<b>31,599</b>	<b>17,951</b>	<b>6,331</b>	<b>5,828</b>	<b>61,709</b>
2013	32,368	17,752	6,079	5,564	61,763

Note: 2013 headcount has been restated in accordance with the new IFRS standard.

**5.1.1.1.3 Breakdown of employees by type of contract**

The preponderance of the Group's employees have open-ended employment agreements and work full time. This trend is a major characteristic of Thales' workforce and applies to all of the countries where it does business. 97.8% of the Group's employees have open-ended employment agreements and 93.5% work full time. Lastly, the use of temporary workers has remained relatively limited; in 2014, the Group used only 2,327 temporary workers worldwide, as compared with 2,123 in 2013. In France, the Group's companies used 709 temporary workers (720 in 2013).

certain countries, the Group recruited 5,297 employees in 2014: 3,230 pursuant to open-ended employment agreements, 973 pursuant to short-term employment agreements, and 1,094 work-study agreements. However, the recruitment rate was slightly down from the reference year, decreasing from 9% in 2013 to 8.6% in 2014. The countries with the highest recruitment levels were France, Australia, the United Kingdom, and the United States. A large majority of new recruits were offered permanent employment (open-ended contracts). In addition, between 1 January and 31 December 2014, the Group signed 1,094 work-study contracts, mainly in France (946), Canada, Germany and the United Kingdom. This increase (from 1,076 contracts signed in 2013) illustrates the Group's commitment to the integration of young people into the work force.

**5.1.1.1.4 Breakdown of employees by level of responsibility**

Thales classifies all of its jobs throughout the world according to 12 levels of responsibility (LR), calculated on the skills and experience required, the complexity and demands of the objectives and the difficulties associated with the working environment. Levels 1 to 6 of the classification correspond to positions for operators, administrative staff, supervisors and technicians. Levels 7 to 12 include positions at levels equivalent to engineers, specialists or managers. At 31 December 2014, 75.4% of Thales employees held a position equivalent to engineer, specialist or manager level (LR 7 to 12).

In France, of the 2,421 employees recruited in 2014, 946 were hired pursuant to work-study agreements (665 apprenticeship agreements, 281 training agreements) and 398 pursuant to open-ended employment agreements. In addition to recruitment, internal mobility was particularly encouraged in 2014.

**5.1.1.1.5 Breakdown of employees by age category**

Thales, in common with peer groups in the sector, reports data related to length of time with the Company and average age, which are relatively high but stable. Many employees remain with Thales throughout their career. Thales favours both the employment of "over-fifties" (almost 36% of employees are aged 50 or over) and the integration of young people (33% of employees are under the age of 40).

In France, the average age of employees was 45 at 31 December 2014, with an average of 17 years' service with the Company. In France, 36% of employees are over 50 years of age and more than 33% are under 40 years of age.

**5.1.1.3 Departures**

In 2014, 3,998 employees (or 6.5% of the total 2014 workforce) left the Group, excluding disposals and expiration of short-term employment agreements, as compared with 4,574 in 2013 (or 7% of the total 2013 workforce). Departures are mainly due to resignations (1,613) and retirement (1,282), which together represent 72% of departures. Across the board, redundancies represent 22% of contract terminations (863 redundancies in 2014 versus 1,538 in 2013).

Economic redundancies (477) were significantly lower than in 2013. Redundancies in 2014 were the result, in particular, of lower levels of activity in certain areas (Spain), the completion of certain projects (Australia, the Middle East) and the reduction of government budgets, especially defence budgets (United Kingdom). Countries that had to resort to economic redundancy took a series of measures (such as transfers, support and outplacement) to limit the effect on employment.

The number of departures in France - excluding the expiry of fixed-term contracts and apprenticeship contracts - stood at 1,652 mainly due to retirement (1,034) and resignations (371).

**5.1.1.2 Recruitments**

Thanks to an employment policy adapted to its needs, and despite the slowdown in certain employment markets and necessary efforts to adapt in

(1) In Canada and the United States, the integration of 412 employees due to the acquisition of Live TV, in Spain, the integration of 170 employees following an increase in Thales Spain's equity investment in Amper Programas Electronica y Comunicaciones and the acquisition of System Engineering and Assessment Ltd, resulting in the integration of 45 employees in the United Kingdom. Disposals led to the departure from the scope of consolidation of 18 employees in Italy (disposal of SAP Business) and of 66 employees in South Africa (disposal of Global Telematics SA PTY Ltd).

#### 5.1.1.4 Attractiveness policy

To support its international growth, the Group is continuing and stepping up its search for new talent by recruiting employees with a wide range of profiles in terms of training, experience and knowledge. Thales' success and performance effectively depend on its ability to recruit employees from different labour markets (both in France and abroad) and the commitment of its employees.

##### 5.1.1.4.1 Renewal of the Group's Employer Brand

In 2014, in order to attract recruits, the Group particularly worked on its communication and its "Employer" brand, especially to attract diverse and international talent. A new "Global Resourcing" position was created to support the Group's "Ambition 10" strategic vision, in order to reinforce its ability to recruit the best talent. In that regard, a new employer brand, "Together We", was launched in 2014 to consolidate Thales' attractiveness on its markets.

The "Together We" brand was tested in certain countries during the fourth quarter of 2014. The results were particularly encouraging, resulting in the United Kingdom, for example, in a significant increase in job applications from women as compared with 2013. In 2015 the brand will be deployed in all the countries where Thales does business.

##### 5.1.1.4.2 An attractive website

Thales has increased its online presence to allow job candidates to find the latest information about the Group and to apply online for vacancies. Collaborations with various recruitment sites (including Monster, RegionJob, Jobtic, etc.) were renewed at the end of 2014. The steady rollout since 2011 of the Multiposting solution within the Group means that vacancies are "multicast" to around 50 job sites. A significant number of applications are now received via social networks and online recruitment sites. In France, such applications represent 61% of job applications (a total of more than 160,000 applications).

Thales has also developed innovative interactive interfaces to encourage people to learn about the Group. The mobile app "Thales World 4U", for example, enables its users to discover job postings, the diversity of career paths, and the Group's recruitment meetings, as well as a selection of products. Available in the 56 countries in which Thales operates, "Thales World 4U" helps to reinforce the Group's employer brand.

##### 5.1.1.4.3 Educational partners and links with schools and students

Thales maintains long-lasting and close links with schools and attaches great importance to the sharing of experience and knowledge between students and businesses. The Group is keen to foster an interest in science and technology careers among young people (both boys and girls) in secondary education. To encourage young people to choose this career path, Thales invites its employees to take part in events organised by their children's schools to introduce them to the various aspects of the business.

To that end, the Group has developed interactive media in three dimensions for lecturers to use in presenting Thales.

In the same spirit, the Group's French companies participated in 2014 in a campaign called "First Internship with a Company" in partnership with the non-profit organisation "Elles Bougent" ("They move"). Internships were announced on the internet aimed at young female students in Year 10. The Group has partnerships with schools in many countries (Australia, the Netherlands, Germany, the United Kingdom, Romania etc.) and promotes the development of experience, innovation and knowledge-sharing.

In France, more than 150 programmes were conducted with schools in 2014, and the Group participated in about 50 forums. Thales also received third place in the rankings of the most attractive employers for students at French engineering schools (ranking by the research institute Universum). Recognition that demonstrates the success of its recruitment policy.

##### 5.1.1.4.4 Thales and the professional integration of young people

In connection with its Human Resources policy, Thales has implemented a recruitment policy for young people intended not only to respond to Thales' needs but also to help young people join the working world. As a method of training, work-study contracts are an important component for Thales for integrating young people. In 2014 for example, the Group signed 1,094 work-study contracts worldwide notably in France (946), Canada, the United Kingdom, Germany and Australia.

In France, as of 31 December 2014, the Group's companies included 1,201 apprentices (665 of whom had been hired during that year), 364 young people with training contracts (281 of whom had been recruited during that year) and 114 people with CIFRE fellowships.

Continuing its programmes to promote the integration of young people into business, in 2014 Thales deployed a Group-France agreement called the "Generation Agreement"<sup>(1)</sup>, which was entered into in 2013. This agreement reinforces the Group's work-study policy by targeting an increase in the number of work-study students to 5% of the average annual workforce at the end of the agreement.

It also supports the policy to recruit young people by providing that 30% of the Group's recruitment in France must consist of people under the age of 26 (with the objective of hiring 2,000 people under the age of 30 under open-ended employment agreements before the end of 2016). The agreement also provides for deployment of support programmes in favour of diversity through the creation of a prize called the "Thales Education Prize". Twenty scholarships were awarded in December 2014.

The Group's French locations also invited around 2,000 junior high, high school and college students to a presentation of its businesses and activities during the "Semaine de l'Industrie" (Industry Week). These sessions were carried out in collaboration with the non-profit organisations "Nos quartiers ont des talents" ("Our neighbourhoods have talent") and "Elles Bougent" ("They move"). These sessions presented the jobs performed at Thales, not only to trainees at the schools targeted by the Group, but also to young graduates from priority neighbourhoods or disadvantaged social backgrounds.

(1) Group agreement on "Thales' commitment towards the employment of young people and senior workers and support for knowledge transfer".



## 5.1.2 HIGH-QUALITY SOCIAL DIALOGUE

In all areas of common interest, Thales promotes cooperation with its employees and their representatives, and provides them with quality information, in particular by maintaining and encouraging social dialogue.

### 5.1.2.1 Collective bargaining

#### 5.1.2.1.1 Collective bargaining in countries around the world

At the end of 2014, 87% of Thales group employees worldwide were covered by collective bargaining agreements, including the European agreements signed by the Group. Each country can add locally-negotiated agreements to this framework. Close to 70 new collective bargaining agreements were entered into inside the Group, showing the importance of management/labour dialogue.

#### 5.1.2.1.2 Collective bargaining at the European level

By involving employee representatives at a transnational level, Thales has endeavoured to strengthen social dialogue at European level since 2009. In June 2009, Thales signed its first European agreement with the European Metalworkers' Federation (EMF, now IndustriAll European Trade Union) on improving professional development through effective anticipation. The IDEA (Improving professional Development through Effective Anticipation<sup>(1)</sup>) agreement concerns more than 50,000 employees and defines very specific objectives for the improvement of employee professional development, through about 20 programmes.

The dynamic created at the European level by the IDEA agreement led in April 2010 to the entry into a second European agreement with the EMF: The TALK (Transparent annual Activity discussion for mutual Listening and developing professional Knowledge<sup>(2)</sup> agreement). This agreement sets a clear framework and reference points for the practice of the annual activity discussion. It defines the basic principles designed to ensure that discussions are held in optimal conditions and that the rights and responsibilities of all parties are respected.

In 2014, it was agreed that there would be an evaluation of the performance of these agreements, in order to create an assessment of their implementation and to define priority actions for the years to come.

#### 5.1.2.1.3 Collective bargaining in France

En France, numerous Group agreements have been entered into since 2006 which have formed a basis common to all employees, whichever company they work for. Such is the case, in particular, of the Group "Anticipation" agreement, renewed in 2013, which defines a shared and transparent approach to projected employment and skills management, of the Group benefits agreement, which harmonises employee benefits, and of the Group framework agreement on professional equality between women and men (amendment of 27 June 2012). In connection with this social dialogue, four particularly structured new Group agreements were entered into during 2014:

- the Group agreement on "consultation on strategic guidelines and the implementation of an economic and labour database at Thales", signed on 23 October 2014 by three representative union organizations;
- the mechanisms implemented by the Group agreement on the "Quality of life at work", entered into in 2009, were profoundly enriched by entry into a new agreement on 4 February 2014;

- the Group agreement on the exercise of union rights and Social Dialogue was signed unanimously on 18 November 2014. It consolidates and enriches the Group agreement entered into on the same subject in November 2006, which had already been the subject of three revisions;
- lastly, in July 2014, Thales renewed its commitment to people with disabilities by entering into its eighth Group agreement on that subject. This agreement is part of the proactive policy that Thales has led for more than 20 years and reinforces the actions promoting and facilitating the maintenance of employment, professional development and the hiring of people with disabilities within the Group.

Apart from compulsory annual negotiations, the Group's French subsidiaries also entered into several agreements in 2014. The main areas under negotiation were: gender equality, profit-sharing agreements; the terms for seconding employees within the same employment area, and the adaptation of Active Job Management measures at the company in question.

### 5.1.2.2 Appropriate social dialogue bodies

#### 5.1.2.2.1 European Works Council

Created by an anticipation agreement, the European Works Council (EWC) comprises representatives from Thales' 11 main European countries. Its resources were adapted and increased in 2002 and 2007.

Its operations revolve around the following principles:

- two ordinary Annual Meetings and further meetings convened in exceptional circumstances;
- a Select Committee that meets in order to guarantee regular information;
- information and discussion meetings on strategic outlooks at the level of the Global Business Units (GBU).

In 2014, three plenary meetings and two meetings of the EWC Select Committee took place. In addition, six informational meetings and exchanges took place within the framework of the European Works Council, at the level of the Group's GBUs, for the GBUs to exchange strategic and social perspectives.

#### 5.1.2.2.2 European Anticipation Commission/ National Anticipation Commissions/ European Convention

The European IDEA agreement stipulates that a European Anticipation Commission should be set up to conduct a forward-looking analysis of job families and discuss the annual training priorities of Thales University. National Anticipation Commissions have also been set up since 2009 in the European countries covered by the IDEA agreement. These bodies play a vital role in anticipating changes in the various job families.

In 2014 the Group decided to organise a new meeting of the European Anticipation Commission, in early 2015, in particular in order to draft an assessment of the implementation of the European agreements and to define areas for priority action in the years to come.

(1) "Improving professional professional development".

(2) Agreement relating to the Annual Activity Discussion.

A convention bringing together about 60 participants, HR and union representatives, to take place during the first half of 2015, will ensure the implementation of new action plans and the pursuit of exchanges on best practices identified in the countries covered by the agreements.

#### 5.1.2.2.3 Group consultation/negotiation body and structure of trade union coordination at Group level in France

Alongside the traditional negotiation structures, the Group has a "consultation/negotiation" body comprising all of the trade union organisations representing Group employees in France. Thales recognises the existence of Intercentres, dedicated structures set up to liaise with the management of representative

union organisations at Group level, which have one permanent representative per union organisation, their own budget and dedicated resources. This is the framework in which all Group agreements implemented in Group companies in France were concluded.

#### 5.1.2.2.4 Group Works Council in France

The Thales group Works Council was created in 2000 as the result of an agreement whose provisions were revised by all trade unions organisations in 2011. The 30-member Group Works Council is an information, deliberation and discussion body aimed at developing dialogue between corporate management and employee representatives on the situation and main strategic orientations of the Group's main businesses. The Group Works Council met three times in plenary sessions in 2014.

### 5.1.3 SUPPORT FOR PROFESSIONAL DEVELOPMENT

Thales believes that the individual development of each employee is necessary for the Group's success as a whole. In a constantly changing economic and technological environment, the Group's professional development policy relies, in particular, on anticipation, and results in the business's capacity, first, to identify key changes or innovations in advance and to prepare action plans to deal with them, and second, to train and support each employee with a view to diversifying his or her experience, to provide him or her with opportunities and thus to design a better career.

#### 5.1.3.1 Management of job families

Thales has identified 15 generic job families of equal importance for the Group's success. The architecture of these job families worldwide has been fundamentally adjusted to meet ongoing developments in the Group's markets and to better enhance employee skills. Each is guided at the highest level and benefits from the expertise of an operational leader with an operational committee, an HR contact person and a training support team to anticipate changes and future trends, and to propose a collective professional-development action plan (recruitment, training, professions to develop, etc.)

**Management of key skills:** in a very competitive economic environment, employees' technical skills are a major advantage. In that connection, the Group generalises to all of its job families a procedure of "management of key skills" centred on the identification and sharing of available technical skills. This approach, which relies on an inventory of skills, provides concrete responses to technical problems identified in programmes or helps to form new teams that will secure bids and projects. To date, close to 31,000 employees worldwide have already listed their skills.

**Management of specialists:** Thales' technological innovation relies largely on a community of specialists/experts. The Group recognises their contribution to all levels of responsibility and within each job family. Thus, at a comparable level of responsibility, specialists/experts and managers are treated in an identical way based on a two-tier career development scale, implemented at an international level. Lateral mobility is encouraged.

#### 5.1.3.2 Anticipation in support of the security of career paths

The anticipation process, supported by negotiations led with the Group's French and European social partners, contributes to the success of the job families management mechanisms. It guides Thales's social policy in Europe and strongly mobilises three players:

- the employer, who chooses to share job-related information and actions in an effort to improve transparency and makes that information available to employees, as well as the support mechanisms, with online tools to facilitate the construction of a professional plan;
- employee representatives, who, having a greater awareness and part in future developments within job families, are well versed in these analysis methods and will voice their opinion on the short, medium and long-term action plans proposed;
- the employee, who himself becomes a full participant through new and significant involvement in the progression of his career, and who may benefit from a permanent and reasoned vision of the evolution of his job family within the Group, as well as from continual access to all of the mechanisms and tools implemented.

The Group has recognised the fundamental role of employee representation bodies in setting up a policy for anticipating changes within the various job families and business lines. In France, the Group collective agreement of 23 April 2013 forms part of the approach instigated by the agreement of 23 November 2006 aimed at developing workforce planning and skills management. It also defines the conditions, procedure and measures associated with active employment management in the case of foreseeable economic difficulties linked to new skills requirements, or even in the case of technological breakthroughs that could have an impact on the future of certain job families. This active employment management, based on the two-fold aspiration of the Company and employees, was implemented in eight Group companies in 2014 after staff representatives had been informed and consulted about the economic forecasts, their effects on employment and the timeliness of implementing the initiative.



### 5.1.3.3 **The employee as active participant in his professional development**

Thales believes that each employee should be an active player in his/her career. An analysis of the changes in job families and professions and the communication of the corresponding results enables each employee to construct a career plan in phase with changes in his/her profession and the associated skills.

The Group also ensures that each year its employees receive a Professional Development Meeting (*Entretien de Développement Professionnel*) (EDP). This individual meeting is an important step in the process of professional development and constitutes, for the employee, a special moment permitting him to take stock with his manager as to the way to develop in his current position and to define his career path. This meeting also enables employees and managers to jointly define an associated action plan that includes training, but also all other actions aimed at professional development. Thus, each year, during their Professional Development Discussion, employees are individually informed by their line manager of trends in their job family and business line, as well as about resources that could contribute to their professional development. In 2014, 89.8% of Thales's employees worldwide benefited from this Professional Development Discussion with their manager.

Thales also makes computer tools available to its employees to permit them, through applications, to list and update their experience, skills and requests for professional development (e-HR Together), to look at job offers on the internal job exchange, to submit their CVs online (e-HR Staffing), to see the trainings that are available and to enrol themselves for the offered session dates (e-HR Training).

"Professional Areas", places for information and exchanges where employees can meet with HR professionals and experts and receive individualised advice in planning their careers, are available at many sites in France and throughout Europe.

### 5.1.3.4 **Mobility and career paths**

Faced with increasingly competitive markets, employee mobility and professional development increase the Group's capacity to adapt to future changes and allow employees to be offered rich and varied career paths. Active career management is encouraged.

Mobility also offers the opportunity to increase skills in a matrix organisation within which the "market" vision must complement the "product" vision of the Global Business Units.

Professional mobility is integral to each job family and business segment in order to strengthen and enhance skills. In addition, "career gateways" (from one job family to another, from one business line to another in the same job family, and/or from one establishment to another) are identified by the job family list applicable to the Group as a whole.

Facilitating the geographical mobility of employees is also a key issue. The Group has taken steps to help employees in that process, in particular by harmonising support measures in each of the European countries. Thales guarantees each employee the ability to access information about job vacancies on a confidential basis in the context of internal mobility. In France, common rules to facilitate the process, whether during a change in position or a geographical relocation or both, have been defined (relocating, help in finding housing, moving bonus, etc.). Seven hundred and sixty-four employees in France chose to relocate in 2014.

The Group also has several processes to encourage international mobility:

- in 2014, The "International Business Volunteers" programme allowed about 50 young people of between 18 and 28 years of age from the European Economic Area (including 25 new departures each year) to go abroad for assignments of six to 24 months in a foreign country;
- the "Career 1st" programme offered about 25 employees, young graduates or young professionals with less than five years' experience, the opportunity to work outside their country of origin for a limited period, whereas the "Career Plus" programme, designed to match local operational needs with the preferences of employees of all kinds for a temporary international position, placed about 20 employees;
- expats: the Group's expat policy is mainly aimed at employees with more than five years' professional experience. Overseas secondments depend on the requirements of the various countries.

In 2014, close to 620 Group employees had expat status.

### 5.1.3.5 **Training**

Thales' training commitment stems from the view that building a successful career means constantly maintaining each employee's expertise as a guarantee of employability. The Group's training policy addresses a two-fold aim:

- meeting the needs of the Group's companies by implementing performance improvement and change management projects;
- taking into account employees' individual aspirations in terms of skills development as part of their job or professional mobility.

### **Key training figures for 2014**

75.22% of Group employees received training in 2014. This figure demonstrates the Group's commitment to invest in training its employees, who on average received 21.88 hours of training this year. Overall, the total number of training hours in the Group stood at 1,308,278 hours in 2014. Compared with 2013, the average number of training hours increased in Spain, Norway and Switzerland.

In France, the average number of training hours per employee (21.9) increased as compared with 2013 (20.51). The level of training expenses remained stable at 3.71% of the payroll (3.72% in 2013).

### **Thales University: "to share knowledge and transform Thales"**

Present in ten countries<sup>(1)</sup> (representing approximately 85% of the total workforce), Thales' internal university (Thales University) participates in employees' professional development in the various countries where the Group does business, whilst ensuring a common culture that reinforces cohesion around the Group's key values.

Thales University enables employees to adapt their individual and collective skills, while supporting the Group's strategic goals. In 2014, Thales University was asked to assist in the deployment of the Group's large transformation programmes, in particular "Ambition 10" and "Ambition Boost".

The number of employees having received training from Thales University in France in 2014 was 11,217 (as compared with 10,718 in 2013). The number of training hours delivered by Thales University in France in 2014 was 200,259 (206,348 in 2013).

(1) Germany, France, Italy, the Netherlands, the United Kingdom, Canada, the United States, the United Arab Emirates, Australia and Singapore.

In 2014, Thales University redesigned its training in accordance with the Group's strategic vision "Ambition 10" and its variant, "Ambition Boost".

## Training programmes to meet the needs of the Group and its employees

Other than the University, the organisation of training in France has been structured since 2007 as a shared department in order to:

- create a mutualised organisation in the service of the Group's companies, deploying a joint team providing advice, administrative processes and tools that are homogeneous and shared. Training purchases are optimised, as is financing;
- position the companies' action and the Group's challenges ("Ambition 10"/"Ambition Boost") around principal subjects such as the definition of training guidelines, the definition of priorities for action and the construction of training plans;

- develop expertise in providing training advice to support the Group's entities in implementing training plans and to serve employees and their professional development, by creating an integrated network of specialists to provide training.

### 5.1.3.6 Development of a leadership model

In 2014 the Group promoted a new model of leadership. Developed with the support of managers, the new leadership model defines the conduct expected of leaders. It is composed of six key skills, described through desirable and undesirable behaviour. One of the six key skills, "Perform through cooperation", for example, served as the common theme for setting objectives for the Group's managers occupying strategic positions.

Written and available in several languages (French, English, and German), this model was introduced in all of the Group's major countries over the course of 2014. To date, more than 3,000 managers have learned about the leadership models through participatory workshops with about 15 participants each. The plan for deploying this model will continue to be rolled out in 2015 throughout the Group.

## 5.1.4 A GROUP EMPLOYEE PROFIT-SHARING POLICY

A real component of its corporate policy, the Group's salary policy joins collective results and individual performance and is deployed through a process based on transparency, equity and dialogue.

An annual activity discussion is held at the beginning of the year between managers and each member of their teams. An ideal time to define the year's individual objectives and situate them in relation to the teams' collective objectives, the annual activity discussion is also an opportunity to discuss the appraisal of the results achieved over the past year and the level of proficiency in the job. Worldwide, 92% of employees benefited from this discussion.

### 5.1.4.1 Remuneration and salary progression

Individual pay rises depend on the length of employment, attainment of annual targets, market positioning and allocated budget. Since 2000,

the compensation and benefits policy applied in all Group companies has also included a global variable pay plan for employees in a post with a responsibility level of 8 to 12, which defines a target rate of variable pay for each level of responsibility. This variable compensation plan aims to recognise the individual results of the employees concerned (50% of the amount of variable pay depends on the level of achievement of the annual individual objectives and the permanent objectives of the position), to encourage teamwork and involve team members in the business results of the group and the company to which they belong, as assessed on economic indicators.

In 2014, salaries rose by over 2.5% in France. This increase includes both individual pay rises and, for the employees concerned, the collective pay rises negotiated with the trade unions.

Payroll, including profit-sharing and incentives (excluding DCNS) totalled €5,456 million in 2014 as compared with €5,372 million in 2013, at constant scope, excluding 2014 acquisitions.

(€ million)	2014	2013 <sup>(a)</sup>
France	3,246	3,208
Europe excluding France	1,413	1,393
USA, Canada, Australia	593	583
Rest of world	204	188
<b>TOTAL</b>	<b>5,456</b>	<b>5,372</b>

(a) At 2014 scope.

**Note:** the changes in payroll in France shown in this Table differ from the progression in average compensation of the headcount listed above because it takes into account changes in headcount, its structure and the evolution of the age pyramid, as well the evolution of profit-sharing and incentive schemes.

**5.1.4.2 Incentives and profit-sharing in France**

In order to reinforce employees' loyalty beyond their local entity and solidarity between the Group's French entities, in 2004 these entities entered into a pooled profit-sharing agreement. The amount of the global profit-sharing reserve distributed in 2014 for financial year 2013 amounted to €15.34 million.

Independently of their membership of the pooled profit-sharing agreement, a large majority of the Group's French companies have signed a three-year profit-sharing agreement designed to involve employees in the Company's results and performance. In 2014, 24 of the Group's companies in France paid incentive rights for 2013 totalling €43.45 million (the amount paid in 2013<sup>(1)</sup>) for 2012 incentives was €42.38 million).

The parent company paid €4.12 million in incentives in 2014 for 2013. As a reminder, €3.83 million in incentives were paid in 2013 for 2012, and €4.8 million in incentives were paid in 2012 for 2011.

**5.1.4.3 Group savings scheme**

The Group savings schemes are made up of a Thales group savings plan (PEG) set up in France in 1998 and, since 2007, a collective retirement savings plan (PERCO).

At 31 December 2014, the total savings generated by Group schemes amounted to €673 million (compared with €644.7 million in 2013), held by close to 50,000 former and current Group employees.

**5.1.4.3.1 Group savings scheme and employee shareholding**

At the end of 2014, assets under management in the Group savings scheme stood at around €455 million, including over €291 million in diversified assets. Within the Group savings scheme, the employee shareholding fund is the framework under which Group employees hold company shares. Set up for the employee share offer in 1998, the fund holds shares acquired during the offers in 2000, 2002, 2004, 2008, 2011 and most recently in 2013.

At 31 December 2014, assets under management consisting of Thales company shares managed within the Thales group savings plan on behalf of around 23,000 shareholders amounted to approximately €164 million. Employee shareholding in Thales (irrespective of the type of holding) amounted to 2% of Thales capital at 31 December 2014.

**5.1.4.3.2 Collective Retirement Savings Plan in France (PERCO)**

Set up in 2007, the PERCO collective retirement savings plan gives employees the opportunity to set aside savings for their retirement with the Company's help. By amendment dated 29 March 2011, the parties that set up the PERCO made two changes to the agreement. First, in accordance with changes in the legislation, employees can now assign unused days of leave to the PERCO, up to five days per year. Secondly, where employees make a voluntary payment, the amount of help from the Company is significantly increased.

At 31 December 2014, assets under management as part of the PERCO scheme amounted to €218 million, on behalf of 28,971 holders.

**5.1.4.4 Grants of units or units subject to performance conditions**

On 16 September 2014 Thales's Board of directors approved a plan for the grant of units and a plan for the grant of units subject to performance conditions. Each unit allotted gives a right, at the end of the four-year vesting period and subject to the condition of presence stipulated in the regulations, to the payment of a monetary value in the form of shares plus a cash payment. The monetary value of a unit, calculated at the end of the vesting period, shall be equal to the average daily opening sale price of Thales' shares during the vesting period.

The two plans cover a total of 4,000 beneficiaries, managers, experts and technicians, but also other key contributing employees, in 26 countries where the Group does business. 312 of these, executive officers, received units subject to performance conditions.

**5.1.5 A SAFE AND HEALTHY WORKING ENVIRONMENT: WORKPLACE HEALTH AND SAFETY**

Providing a safe and healthy work environment to all employees, in compliance with applicable law, through monitoring proceedings, preventing health and professional risks, and training employees is at the heart of the Group's priorities.

**5.1.5.1 A dedicated organisation**

The Group has established a dedicated organisation designed to prevent risks to health and safety at work. This organisation has been in place for three years and applies to all countries.

Within the Group, the Human Resources and Health, Safety and Environment Departments share the vast domain of health & safety (H&S). They define the principles of the H&S policy which are also related to employee health and safety at work and which are implemented in the countries in accordance with national laws and requirements.

Under the coordination of the Risks and Internal Control Committee, the risk management process includes risks liable to affect employees in the world, on site and at construction sites. Regular monitoring of the risks to which the Group's employees may be exposed is performed each year on the basis of dedicated indicators.

**5.1.5.2 Concrete procedures and measures**

Concrete procedures aimed at anticipating and managing major health risks that could occur internationally and/or nationally were formalised in 2012 in the Group's commitments to make them even more visible. They rely on:

- a permanent medical unit responsible for health monitoring;
- a crisis centre in the event of a major international health risk;
- a management procedure for assignments in countries with a major health risk.

*(1) Note: The data presented for 2014 is consistent with the new scope of consolidation. Certain companies, such as ACSI, Junghans T2M, and UMS, which were taken into account in the 2013 scope, were therefore excluded from the 2014 scope.*

In France, the "Quality of life at work" agreement signed on 4 February 2014 defined a general framework for Thales' health and safety policy and established a system for identifying and preventing occupational risks. The agreement is based on a preventive approach involving all players in occupational health. It is mainly aimed at preventing the occurrence of psychosocial risks through collective action and individual monitoring of each employee. New undertakings to improve employees' quality of life at work were also defined. The 4 February 2014 agreement enriched the process for the prevention of psychosocial risks, in particular by focusing on the primary prevention of these risks and by formalising actions to prevent their appearance in a document annexed to the single risk evaluation document. Lastly, a Central Quality of Life at Work Committee supported all of these initiatives.

Several actions have also been initiated in other Group countries to improve the health and safety of Group employees. In the United Kingdom and Australia, Thales has carried out programmes to deploy a true "safety culture" involving managers in particular. The launch of the "Safety Leadership Programme" in Australia involved close to 500 managers. Audits are also carried out to assess working conditions on sites, as well as within international projects (Malaysia, Brazil, Australia, Germany, etc.).

A large number of the Group's companies have obtained the OHSAS 18001 certificate, which attests to their ability to manage and evaluate risks relating to health, safety and the environment. As of 31 December 2014, 90 of these certificates have been issued, representing 72% of worldwide headcount, a strong increase over previous years (57% in 2011).

#### 5.1.5.3 **Information on work-related accidents and absenteeism**

Worldwide, the Group's overall absenteeism rate is 2.63%.

In France, the total rate of absenteeism calculated in accordance with the corporate assessment was 3.11% in 2014. This latter rate has been stable for the last three years (3.07% in 2013, 3.06% in 2012, 3.10% in 2011). The rate of absenteeism is 2.77% excluding parental leave. The proportion of accidents at work, commuting accidents and occupational illnesses is relatively stable by comparison with the previous year and remains consistently low.

For accidents at work, the overall frequency rate worldwide is 2.32 for 2014 and the severity rate is 0.08. The rates differ substantially for each country, depending in particular on the activities carried out there. However, in the majority of countries, the frequency and severity rates are relatively low. In France, for 2014, the frequency rate of accidents at work was 2.87 and the severity rate was 0.12.

It should be noted that the inherent difficulty in the definition of the concept of occupational illness in countries has not allowed this information to be consolidated across all countries in which the Group is established. The information on occupational illness is consequently shown only for France. In France, 1,919 working days were lost due to occupational illness in 2014.

#### 5.1.5.4 **Solid welfare cover**

Offering employees quality health and pension coverage to accompany them throughout their professional life. Some countries have brought in specific measures in this regard. In France, since the conclusion of the Group agreement on welfare provisions on 23 November 2006, employees have had a harmonised collective status across all companies and identical welfare cover, whatever the legal entity concerned.

#### 5.1.5.5 **Working time**

For the Group, the organisation of working time should allow a balance between professional and personal life, with each country adapting working time according to the applicable legislation, agreements and regulations.

93.5% of the Group's employees are full time; part-time contracts generally represent the employee's choice.

89% of the Group's employees are covered by working time regulations, which in several countries (such as France, Spain, Germany, and the Netherlands) result from collective bargaining agreements limiting working time. In total, 75.4% of Group employees are of a level equivalent to engineer, specialist or manager, which means that few employees are subject to unconventional working hours (nights, alternating shifts, etc.).

Within the Group, many employees work on the basis of 40 hours per week. For example, Spain, Italy, Norway, Austria, South Africa, the Netherlands, Poland, Portugal, Switzerland and China (including Hong Kong) operate a 40-hour week. In certain countries the work week is shorter than this pursuant to legal or contractual provisions. In the United Kingdom, most of Thales' activities are organised pursuant to a 37-hour work week. In Germany, collective branch agreements give a working time of 35, 38 or 40 hours per week, depending on the region. In France, most of the Group's companies have signed agreements including framework agreements on working time, entered into in 2000, which for non-managerial staff, provide for working time of 35 hours per week on average over the year, with reduced working time days granted; for managerial staff, it provides for a flat-rate system in hours or days over the year based on 210 working days a year (excluding the solidarity day).

The total amount of overtime worked in France was equal to 51,237 hours in 2014, as compared with 55,781 hours in 2013.

### 5.1.6 **GENDER EQUALITY AND DIVERSITY**

The Group is especially committed to equality of treatment, which requires avoiding all discrimination on the basis of origin, customs, sex, age, political or religious opinions, union membership or disability.

Building a worldwide, diversified business is one of the challenges in the Group's strategic vision "Ambition 10".

#### 5.1.6.1 **Actions to promote equality**

The Group has maintained its commitment to ensure that women are even more involved in its development, based on a committed, concrete policy supported by constructive social dialogue. At 31 December 2014, women represented 22% of the total workforce, 22.3% of the European workforce

and 23.4% of employees in France. This data shows a slight improvement in France and Europe. Within the Group, the employment of women is also characterised by its sustainable and skilled nature. 97.2% of women employees work pursuant to open-ended employment agreements, and 62.5% (as compared with 60.5% in 2013) hold positions at the level equivalent to engineer, specialist or manager (Responsibility Levels 7 to 12).

#### 5.1.6.1.1 Commitments

The Group has long been committed to a dynamic process towards professional equality.

In 2004 in France, the Group deployed strong action in this area, in cooperation with the representative union organisations (action plans negotiated that were prepared on the basis of comparative situation reports).

In Europe, the IDEA agreement signed in 2009 brought commitments in all areas of equality between women and men: recruitment, career development, equal compensation, and work-life balance.

Lastly, in 2014, the Group's Senior Management clearly reaffirmed its desire to promote gender equality within the Group at all levels of responsibility, through the deployment of a specific action plan.

#### 5.1.6.1.2 Concrete achievements

- **Recruitment:** steps taken to promote recruitment resulted in the Group's companies hiring 1,531 women in 2014, which represents 28.9% of worldwide recruitment (as compared with 27.52% in 2013) and 26.7% in Europe (as compared with 28.3% in 2013). This year, women represented 34.24% of recruitment in France (against 31% in 2013). Certain countries made particular efforts to recruit women (in Spain, 41% of recruits were women, 35.7% in South Africa, and 31.6% in Germany). A specific plan implemented in Saudi Arabia led to the recruitment of six Saudi women.
- **Career:** Efforts to promote the career development of women employees were increased in 2014. Stereotype sensitivity sessions were conducted for 200 managers throughout the Group in France. Co-development efforts were conducted in Europe to encourage the promotion of women. Women employees participated in personal development sessions dedicated to women, intended to help them progress in their careers. Mentoring programs were also launched, in particular in Germany.  
A study to discover any glass ceilings was commissioned from ANACT<sup>(1)</sup> and conducted throughout 2014. It should enable the Group to identify new possible actions to support women's careers. Finally, new spaces for women to express themselves were created (Germany) or expanded (the Win network in France).
- **Compensation:** Thales is vigilant in maintaining equality of treatment with respect to compensation. Since 2006, Thales has set aside an annual budget in France equal to 0.1% of wage and salary costs specifically dedicated to dealing with any unjustified pay differences between men and women. In 2014, 832 women benefited from the measure, as well as from an individual average pay increase of 2.56%. This budget was also used in connection with the promotion programmes.
- **Work/life balance:** Thales is committed to supporting working parents and improving their work/life balance. In France, Thales has been involved since 2010 in setting up inter-company crèches, which look after more than 310 children at around a dozen sites. A comparable initiative was launched in Germany in 2014.

### 5.1.6.2 Diversity and non-discrimination

#### 5.1.6.2.1 Promoting cultural diversity

As an international group, the Group respects and encourages a range of cultures in the workplace. In the context of an increasingly globalised employment market, cultural diversity emerges as a source of wealth and contributes to the Group's strength. The Group pays particular attention to the recruitment of employees in the countries where it is present.

The European 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 non-discrimination. In addition, the long-term strategic vision "Ambition 10" seeks to integrate a more global dimension of the Group by promoting greater diversity within teams.

In France, the "Generation Contract" also supports equality of opportunity in education and encourages diversity. This has resulted, for example, in the conclusion of a partnership between Thales and the non-profit organisation "Nos Quartiers ont des Talents" ("Our Neighbourhoods Have Talent") on 27 November 2013, deployed over the course of 2014.

#### 5.1.6.2.2 The employment of people with disabilities throughout the world

Whatever country they operate in, the Group's companies make a point of complying with the legal requirements and all local regulations and recommendations designed to promote the employment of people with disabilities.

While some of these national regulatory frameworks are essentially aimed at banning all forms of discrimination (the UK, the Netherlands, Australia and Norway), others (Germany, Austria, Spain, Italy and South Africa) contain an employment obligation, and companies that do not fulfil the obligation are generally made to pay a specific contribution. In a different approach, some legislative systems (e.g. in Portugal) provide for paying financial incentives to companies that adopt 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.

#### 5.1.6.2.3 The employment of people with disabilities in France

Due to the deployment of multi-year Group agreements in France, first concluded in 2004, in 2007, and then on 21 October 2011 by unanimous agreement of the trade union organisations, the employment rate for people with disabilities in the Group has continually risen, standing at 5.83% at the end of 2014, compared with 5.1% in 2011.

The provisions of the 2011 agreement provided for the recruitment of 120 disabled people (60% of whom will have open-ended contracts) and 240 interns in the period 2012-2014, subcontracting more activities to specialised disabled work centres and sheltered workshops and launching new projects through which Thales uses its technology and expertise to help disabled people train and find jobs.

In 2014, Thales signed a new Group France agreement with all of the representative union organisations for the years 2015-2017, aimed at intensifying the actions implemented pursuant to the previous agreements. This agreement was approved by the Board of directors on 2 December 2014.

(1) Agence nationale pour l'amélioration des conditions de travail (National Agency for Improved Working Conditions).

Thales has long had a specific organisation that integrates a dedicated Group structure: "Mission insertion", the head of which leads a network of disability contacts for each labour pool and Disability Employment Commissions in each company with 250 or more employees.

In 2014, the Group also stepped up the partnerships formed in previous years with AGEFIPH and the GESAT network in order to facilitate and strengthen subcontracting to sectors working with the disabled, as well as with rectorates and universities, in order to support young people with disabilities in their studies and professional insertion.

In 2014, four of the Group's sites in France obtained certificates of compliance with the AFNOR X50-783 standard (a standard for disability-friendly organisations).

#### 5.1.6.2.4 Combating age discrimination

The 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, the Group's desire to give fresh impetus to its efforts by adopting new measures to boost employment of over-fifties led to the conclusion in 2009 of an agreement on over-fifties employment in the Thales group. As this accord had expired, a Group agreement called the "Generation Contract" reiterated, to a large extent, the provisions intended to prevent any risk of age discrimination, to anticipate the evolution of careers, to develop the skills of seniors, to improve their working conditions and to take into consideration personal situations of mismatched work or painful work situations, to develop the second half of employees' careers and to oversee the transition between work and retirement. Quantifiable objectives have also been set, aimed at increasing the proportion of new hires over the age of 57 to 2% and increasing the proportion of employees over the age of 55 to 15% of the official workforce by 2016.

#### ■ SCOPE OF DATA VERIFICATION

Indicators	2014 Data	Scope covered	Data verification	
			Registration document	Social Report
<b>TOTAL HEADCOUNT<sup>(a)</sup> AT 31 DECEMBER 2014</b>	<b>61,709</b>	<b>100%</b>	✓	✓
<b>Headcount by country</b>				
Headcount France	33,292	100%	✓	✓
Headcount Europe (including France)	50,725	100%	✓	✓
Headcount outside France	28,417	100%	✓	✓
<b>Headcount by gender</b>				
% of women	22.04%	98.1%	✓	✓
% of men	77.96%	98.1%	✓	✓
% of women in France	23.4%	98.1%	✓	✓
<b>Headcount by type of contract</b>				
% of permanent contracts	97.8%	98.1%	✓	✓
% of full-time contracts	93.5%	98.1%	✓	✓
<b>Headcount by age group</b>				
< 30	9.9%	98.1%	✓	✓
30-39	23.3%	98.1%	✓	✓
40-50	30.9%	98.1%	✓	✓
> 50	35.9%	98.1%	✓	✓
<b>Headcount by LR</b>				
LR 1 to 6	14,874	97.9%	✓	✓
LR 7 to 12	45,534	97.9%	✓	✓
Number of temporary staff	2,327	98.2%	✓	✓
<b>Departures by type</b>				
Number of departures	3,998	98.1%	✓	✓
% Resignations	40.4%	98.1%	✓	✓
% Redundancies	21.6%	98.1%	✓	✓
% Retirement	32%	98.1%	✓	✓
% Other departures (including death)	6%	98.1%	✓	✓

(a) Headcounts shown are active headcounts.

✓ Indicators reviewed by Mazars for the 2014 reporting period and included in moderate assurance conclusion.



Indicators	2014 Data	Scope covered	Data verification	
			Registration document	Social Report
Recruitments				
Total number of recruitments	5,297	98.1%	✓	✓
Of which open-ended agreements	3,230	98.1%	✓	✓
Of which short-term agreements	973	98.1%	✓	✓
Of which work-study agreements	1,094	98.1%	✓	✓
% recruitment of women	28.9%	98.1%	✓	✓
Training				
% of employees benefiting from a PDD <sup>(b)</sup>	89.8%	97.1%	✓	✓
% of employees trained	75.22%	97.8%	✓	✓
% of women trained	78.2%	97.8%	✓	✓
Average number of hours' training per employee	21.9%	96.9%	✓	✓
Total number of hours' training	1,308,278	96.9%	✓	✓
% of employees covered by a collective bargaining agreement	87%	97.8%	✓	✓
% of employees covered by a regulation on work time	89%	98.6%	✓	✓
Health and safety				
Global absenteeism rate World	2.63%	96.9%	✓	✓
Total rate of absenteeism in France (corporate assessment) excluding parental leave	2.77%	100%	✓	✓
Total rate of absenteeism in France (corporate assessment)	3.11%	100%	✓	✓
Severity rate of accidents at work World	0.08	96%	✓	✓
Severity rate of accidents at work France	0.12	100%	✓	✓
Frequency rate of accidents at work World	2.32	96%	✓	✓
Frequency rate of accidents at work France	2.87	100%	✓	✓
Number of days off due to occupational illness in France	1,919	100%	✓	✓
Others				
Staff costs World	€5,456 billion		✓	✓
Employment rate of people with disabilities in France	5.83%		✓	✓
Number of jobs created by G�ris in 2014	405		✓	✓
Number of new business creation or takeover projects supported by G�ris in 2014	61		✓	✓
Proportion of purchases from EU suppliers	78%		✓	✓
% of purchases from suppliers in France	43%		✓	✓
Volume of industrial subcontracting services in France	�1.3 billion		✓	✓

(b) PDD: Professional Development Discussion.

✓ Indicators reviewed by Mazars for the 2014 reporting period and included in moderate assurance conclusion.

## NOTE ON METHODOLOGY

### Social reporting method

The data presented in this registration document are taken from the Thales 2014 social report, which provides a more detailed description of the social actions undertaken by the Group. The social report provides detailed information on social data, policy and its impacts, practices and actions

that come under the Group's corporate social responsibility. It reflects its international dimension. The information it contains presents the situation of the Thales group at 31 December 2014. The social report is available to download from the Group's website [www.thalesgroup.com](http://www.thalesgroup.com), under the heading "Corporate responsibility".

## Organisation and methodology

To ensure that the data collected are accurate and reliable, a dedicated organisational structure and suitable methodology have been implemented. Thus, continuing the process initiated in 2011 through the deployment of the computerised reporting tool "e-Social Responsibility Reporting", the information contained in the social report is approved by the country directors of Human Resources. These directors have to complete a qualitative and quantitative questionnaire covering indicators that, while satisfying current legislative requirements, are also based on the indicators proposed by the "Global Reporting Initiative"<sup>(1)</sup> or negotiated with social partners, particularly at the European level. The data reported by each country are consolidated by the Group HR Department, which checks for consistency before drafting the report.

## Scope

The definition of the companies taken into account for the purposes of preparation of the CSR report and the registration document was modified this year in accordance with the new financial consolidation standards of IFRS 10 and 11. Managed headcount as of 31 December 2014 now includes only the headcount of companies controlled by Thales within the meaning of Article L.233-3 of the French Commercial Code, as well as companies meeting those criteria but below the threshold for financial consolidation.

Accordingly, the following companies that fell within the scope of reported data in previous years were excluded from the report for 2014: In China, Beijing Easy Sky Technology Co Ltd (16), Nanjing Thales Panda Transport System Co., Ltd (5), Shanghai Thales Electronics Tubes Co., Ltd (STET) (87), Thales CETC Avionics Co Ltd (25), Thales SAIC Transportation Ltd (294) Beijing Thales Transport Automation Control Systems Co., Ltd (29) Kunming North Thales Optics (21) – In France, Air Command Systems International SAS (ACSI) (44) Helisim (47) Junghans T2M SAS (92) MOSS SAS (76) Société Française de Détecteurs Infrarouge - Sofradir (526), Thales Geodis Freight & Logistics SA (100), Ulis (143), United Monolithic Semiconductors SAS (UMS) (158) – In South Korea Samsung Thales Co Ltd (1682) – In the Middle East, Thales Advanced Solutions LLC Abu Dhabi (13) – In Saudi Arabia, AASC (2) – In Malaysia, Sapura Thales Electronics Sdn (67) – In the United Kingdom – A 400 M Training Services Ltd (2).

In addition, the Group's scope of consolidation changed slightly in 2014 due to acquisitions and disposals<sup>(2)</sup>.

Moreover, the scope of the social report is specified for each figure: for greater transparency, the percentage of employees covered is stated for all responses. For each piece of quantitative data, the Table of scope of verification of quantitative data provides the percentage of the workforce covered.

## Details

- Active headcount managed as included in the registration document does not take into account apprenticeships and training contracts. However, these contracts have been accounted for under the recruitment section.
- The total number of recruits includes the conclusion of work-study contracts in 2014, but does not include the conversion of short-term employment agreements or apprenticeship agreements into open-ended employment agreements during the year. It also does not include current apprentice contracts, internships, International Business Volunteering (*Volontariat International en Entreprise*, or VIE) or Research Training Fellowships (*Conventions Industrielles de Formation par la Recherche*, or CIFRE).
- The total number of departures does not include the expiry of short-term employment agreements (including the expiry of work-study agreements).
- Data on absenteeism and the frequency and severity of accidents at work have been calculated with reference to the number of days theoretically worked within each country. These figures have been obtained from reconciling data entered in the HR Department's and Environment Department's reporting tools.

The overall absenteeism rate corresponds to the percentage of the number of days off for any reason, work-related or otherwise, relative to the number of days theoretically worked in the various countries. Authorised leave such as annual leave, sabbatical leave, maternity/paternity leave or personal leave is excluded.

The total rate of absenteeism in France is calculated in accordance with the corporate assessment, and corresponds to the percentage of days lost for each type of disability, whether or not of professional origin, out of the number of days theoretically worked. Authorised leave, for maternity/paternity or for family events is included.

The frequency rate represents the number of lost-time accidents over the course of the year multiplied by 1 million, as a proportion of the number of hours theoretically worked during the year.

The severity rate represents the number of days of lost time due to a work-related accident, multiplied by 1,000, as a proportion of the number of hours theoretically worked during the year.

- The rate of employment of workers with disabilities corresponds to the overall numbers of beneficiary units (disabled workers and use of subcontracting from the disability-friendly sector).

(1) The "Global Reporting Initiative" (GRI) is a non-profit organisation that develops a common working framework for the preparation of sustainable development reports. Created in 1997, the GRI published a first version of its guidelines in 1999. Compliance with this publication by businesses is entirely voluntary.

(2) In Canada and the United States, the integration of 412 employees due to the acquisition of Live TV, in Spain, the integration of 170 employees following an increase in Thales Spain's equity investment in Amper Programas de Electronica y Comunicaciones and the acquisition in the UK of System Engineering and Assessment Ltd, resulting in the integration of 45 employees. Disposals led to the departure from the scope of consolidation of 18 employees in Italy (disposal of SAP Business) and of 66 employees in South Africa (disposal of Global Telematics SA PTY Ltd).



## 5.2 Environmental information

### 5.2.1 GENERAL POLICY ON ENVIRONMENTAL ISSUES

#### 5.2.1.1 Long-standing commitments

Environmental responsibility is one of the Thales group's core ethical principles, reflecting the strength of executive management's commitment to environmental issues. To engage all the players involved in environmental management, Thales deploys its environmental responsibility policy at all Group sites. 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:

- by reducing and controlling the impact of the environment on health;
- by respecting biodiversity and cultural heritage.

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

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

Consumption of fewer natural resources:

- by limiting dependence on fossil fuels;
- by saving water.

Significant reduction in CO<sub>2</sub> emissions:

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

Fostering a spirit of innovation with regard to the environment:

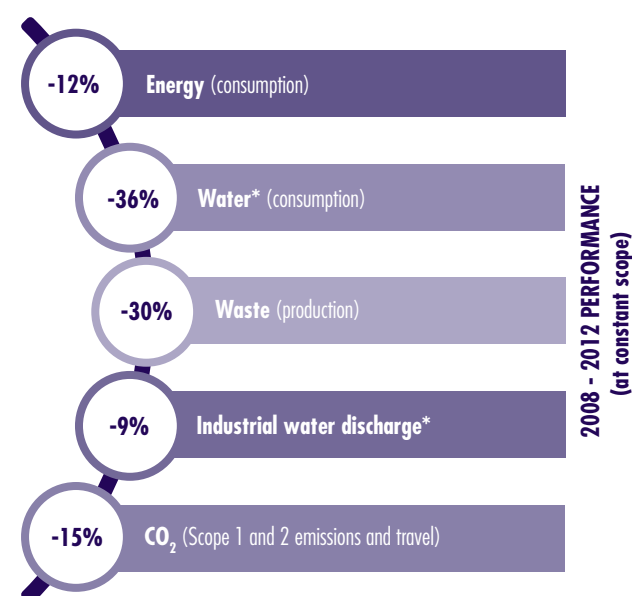
- by sharing expertise;
- by communicating transparently;
- by encouraging the involvement of employees, suppliers and other stakeholders.

This pro-environment commitment has been a guiding principle for the Group for over 15 years and entails taking account of environmental impacts and risks in all its activities and in the different levels 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.

#### PERFORMANCES 2008/2012

(at constant scope)



\*Excluding Mulwala site (Australia)

## 2013-2015 targets

	2012-2014 performances	2015 target
<b>Natural resources</b>		
energy consumption by sales	(10.5)	(10) <sup>(a)</sup>
water consumption by sales		
<b>CO<sub>2</sub> emissions</b>		
energy and substances by sales (scopes 1 and 2)	(7)	(10) <sup>(a)</sup>
business travel by sales (scope 3)		
<b>Non-hazardous waste</b>		
quantity per person	7.5 <sup>(b)</sup>	10 <sup>(a)(b)</sup>
recycling rates		
<b>Responsible purchasing</b>		
evaluation of class A suppliers <sup>(c)</sup>	36%	100%
buyer training	62%	80%
<b>Eco-design</b>		
product policies integrating environmental criteria	Unknown	20%
training for product line	66%	100%

(a) Average index for both indicators of the same topic.

(b) In absolute terms.

(c) Suppliers representing 80% of purchasing volumes.

### 5.2.1.2 Environmental organisation

In a bid to steadily improve its environmental performance and prevent risks, the Group has set up a two-tier organisation: a Corporate environmental team - responsible for defining the strategy, policy and processes and supervising their implementation throughout the Group - and a global network of Environmental officers responsible for the application of Group policy at country and entity level, particularly for site-related aspects (buildings, infrastructure, energy, etc.) and operations (industrial processes, substances, waste, etc.). In addition, to apply the environmental approach to products, the organisation has been extended to a network of "Environment-Product managers", chiefly in Europe.

At the end of 2014, the sites/operations environment network involved 359 people and the environment product network 182, either full time or by sharing time with other assignments.

Given that the environmental risks and issues in the Group's different business lines require employees with managerial or technical skills in environmental matters, these networks are seated within a dedicated professional family to enhance their skills, determine the need for recruitment and training, predict future developments and share their expertise within a single community.

### 5.2.1.3 Stakeholder training and information

#### 5.2.1.3.1 Employee training and information

To underpin the Group's skills in environmental matters, dedicated training modules are advertised in the Thales University brochure. These modules are designed for Environment officers as well as for different job families (Purchasing, Design, Sales, etc.). Some of these have their own specific environmental modules. By the end of 2014, 692 buyers (or 62% of the population concerned) and 201 Product Line Managers (or 66% of the

population concerned) in charge of product policy were trained on how to take the environment into account in their day-to-day work.

Given that an environmental approach necessarily requires the commitment of all employees, the aim is to shed fresh light on this theme and take it into account in day-to-day business practices. Thales offers various communication tools and forums for all employees: dedicated intranet, notices, competitions, events, articles in the Group's quarterly magazine, etc.

Online e-learning modules are also available to educate Group employees on the basic aspects of environmental risk control, general themes such as Eco-responsibility or specific issues such as the REACH (Registration, Evaluation and Authorisation of Chemicals) regulation or the new labelling system for hazardous chemicals.

A collaborative IT platform provides a forum for hundreds of members from 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.

#### 5.2.1.3.2 Involving suppliers

To extend its eco-responsible approach to all its suppliers, Thales requires them to sign the Company Purchasing and Corporate Responsibility Charter, a contractual document intended to align suppliers' policies and internal processes with all the principles that Thales is committed to respecting. At the end of 2014, 4,488 supplier sites around the world had made this commitment (as compared with 2,935 in 2013).

Moreover, within the framework of the selection process, potential suppliers identified are requested to complete a self-assessment enabling them to measure the maturity of their environmental management and commit to a process of continuous improvement. This self-assessment may subsequently be verified during supplier audits, which may also lead to a request for an improvement plan, or even to Thales deciding to remove the supplier from its list if certain essential criteria are not met.

To reinforce this approach, the Group Purchasing Department has set the target of assessing the environmental maturity of all of its class A suppliers (representing 80% of purchasing volumes). At the end of 2014, 1,377 supplier sites underwent this assessment; 36% of the panel concerned were class A.

In the call for tenders phase, the environment is now included in the purchasing requirements, as well as in the weighted criteria for supplier selection, based on their commitment as well as their responses to various environmental requirements established by the Group.

Thales has also maintained very close partnerships over many years with certain suppliers to work together on shared actions for progress.

#### 5.2.1.3.3 Relations with stakeholders

Thales is keen to communicate in a totally transparent way - with local authorities as well as its local neighbours.

Where there are particular operational requirements, sites will be proactive and volunteer information such as when certain activities are going to be exceptionally noisy, when emissions have exceeded the authorised threshold, or when a pollution incident occurs. Procedures are also in place to deal with all complaints swiftly and to provide an appropriate response.

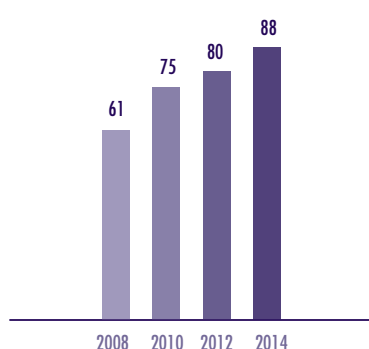
To meet the requirements of society in general, investors, rating agencies and clients, Thales provides its environmental data on its website. It is also possible to send questions to the Environment Department using a dedicated e-mail address.

In the course of its partnerships, particularly with schools, Thales promotes preservation of the environment through programs on climate change and natural resources, or by working with universities.

#### 5.2.1.4 Control and prevention of environmental risks and pollution

##### 5.2.1.4.1 Continuous improvement and prevention process

#### EMPLOYEES WORKING ON ISO 14001 CERTIFIED SITES (%)



In view of the environmental issues at stake, Thales offers more visibility on the subject of controlling environmental impacts and risks in its Group management system, which is available to all employees and in all entities worldwide.

An Environmental Management System has been implemented at all sites as part of a dedicated process. This seeks to ensure the control and limitation of

environmental risks and impacts of operational activities (buildings, industrial plant, equipment, sites) and products delivered (design, bids, projects).

It supplies best practice, methodological guides and rules applicable at all levels of the organisation. The new process has been integrated into various functions, such as Bids, Projects, Purchasing, Quality and Real Estate, and is being rolled out to cover all functions and activities within the Group, thereby helping to embed environmental considerations into the design and development of all of the Group's products and services.

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

At the end of 2014, 117 Group entities were ISO 14001 certified, representing 88% of the Group's workforce. Among these sites, 80 incorporate the design/development of products within their certification scope.

#### 5.2.1.4.2 Risk mapping

Environmental risks are one of the risk factors that may have an impact on the Group's financial situation (see Section 1.1.2.1.9). For many years, Thales has conducted regular analyses and updates of environmental risks to keep pace with changes in its business activities, scientific and technical developments and emerging environmental challenges.

This analysis, represented by risk mapping, is intended to:

- ensure that employees and local residents are not exposed to health and environmental risks;
- check that activities do not present a threat to the environment;
- ensure the compliance of activities and products;
- analyse the impact of new regulations, including on product design.

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

Since 2007, the Group's Risks & Internal Control 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 the internal audit teams as well as by external auditors for ISO 14001 certification or prevention visits.

To reinforce its analysis, the Group has, with an external partner, put prevention engineering measures into place aimed at improving the risk profile of industrial activities on strategic sites and thus limiting potential damages (fire, natural events, pollution, machinery breakdown, water damage, etc.) liable to cause major accidents and severely disrupt the supply chain. The prevention visits thus conducted on over 130 sites lead to recommendations aimed at reducing the probability of incidents and limiting their consequences.

Since 2011, and in this context, Thales has continually assessed the exposure of Group sites to natural disasters. This analysis consists not only of identifying the potential risks of flooding, storms and earthquakes, but also of identifying the consequences of these events: environmental, property damage, impact on the business, etc. In a further analysis of these vulnerable areas, the assessment and audit process has focused on 44 sites since 2011.

Thales has also mapped its water risks at around 160 sites worldwide. The analysis of existing and future risks included the social dimension (access to water and sanitation, availability of water for local inhabitants), economic (conflict of use) and environmental (water consumption relative to the level of water stress in the river basin). The risk was scored based on a series of indicators, using international data to ensure a uniform assessment. From this mapping process, it emerged that ten sites were located in vulnerable zones. The majority of them are offices, whose low water consumption

only has a very minor impact. For three of the more industrial sites, a more detailed analysis of water stress at the local level will allow their impact to be assessed in terms of water usage.

Management of environmental risks also encompasses disposals or acquisitions of assets, in respect of which it is important to limit the type, value and duration of any guarantees provided.

#### 5.2.1.4.3 Accidents and site pollution

Since 1998, the Group has also been engaged in an extensive pollution risk assessment programme. Few sites have shown significant signs of contamination, and where contamination has been identified, it is usually due to earlier industrial practices.

When available techniques allow, steps are taken to remove pollution even if this is not a regulatory requirement. The impact on the available environmental resources is then reduced to a minimum by preferring in situ treatment to transferring pollution to another site. The water Table is periodically monitored at industrial sites and sites located in industrial areas.

Risks arising from accidents (such as fire or pollution) are managed locally, with the support of the Corporate organisation if necessary. Accident prevention and management procedures, as well as procedures for handling specific complaints, are in place for such cases. An accident reporting tool makes it possible to analyse accidents that do occur and draw suitable lessons from them. In 2014, eight accidents occurred; they had no significant impact on health and the environment as corrective measures were immediately taken.

#### 5.2.1.5 Guarantees, provisions and compensation

Thales was not cited in any environmental dispute that gave rise to compensation or granted any specific guarantee in terms of the environment during asset disposals in 2014. At 31 December 2014, the amount of reserves for environmental contingencies at Group level amounted to €8.1 million.

## 5.2.2 POLLUTION AND WASTE MANAGEMENT

### 5.2.2.1 Limiting discharges

#### 5.2.2.1.1 Industrial atmospheric discharges

In general, Thales's activities do not generate atmospheric discharges, except for those linked to site operation (in particular heating). A few sites discharge industrial atmospheric emissions which are channelled and treated where necessary (filters, scrubbers, etc.) and regularly checked. These mainly consist of solvents.

#### 5.2.2.1.2 Solvent discharges to the atmosphere

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 the emanations are not systematically collected.

Only 64 (out of over 150) entities purchase solvents; three of these entities account for 90% of purchases. The Mulwala site alone accounts for 87% of purchases and 92% of discharges resulting from the manufacture of propellants requiring a large quantity of solvents. Optimised manufacturing processes have reduced the amount of discharges per quantity of manufactured propellant by 8% between 2013 and 2014.

It should be noted that several sites have stopped using solvents or replaced them with detergents.

#### 5.2.2.1.3 Industrial wastewater discharge

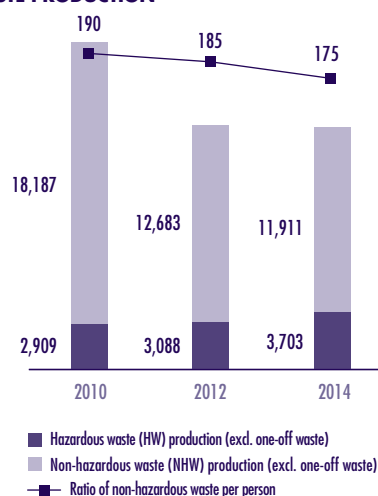
Thales's activities generate little in the way of industrial wastewater: 90% of these are discharged from six sites, and 62% from the Mulwala site alone (Australia).

Despite the increases in production at certain sites, these discharges have fallen by 5% compared with 2013, as a result of ongoing plant optimisation and modernisation measures and wastewater recycling.

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.

### 5.2.2.2 Preventing production, recycling and eliminating waste

#### TREND IN WASTE PRODUCTION



Since 2007, in view of its waste targets, Thales has sought to reduce the quantity of waste it produces, as well as the amount sent to landfill. In order to strengthen this process, the target for 2015 once again is to reduce the quantity of non-hazardous waste per person and improve the recycling rate.

Having reduced the quantity of non-hazardous waste per person by 30% between 2008 and 2012, Thales achieved an additional 6% reduction in 2014.

To achieve this, various measures associated with waste recycling, the search for optimum treatment streams and changes in behaviour have been introduced, including printing policy, reusing cardboard and other packaging that will help reduce waste production and improve waste treatment.

Hazardous waste has also been a specific target. Dedicated areas for collection and storage have helped to manage this type of waste.

As a result of measures taken since 2007, 82% of all waste was recovered and 51% recycled in 2014, a respective increase of 8 and 6 points from 2012.

### 5.2.2.3 Fighting pollution

#### 5.2.2.3.1 Noise

Noise is also a concern for Thales, despite the fact that its activities generate little in the way of noise pollution. Cooling systems are the commonest sources of noise pollution, and precautions are taken to limit noise levels associated with this equipment. Noise levels are periodically checked and the few sites where noise is a particular issue are equipped with acoustic

attenuation systems, or only conduct noise-generating activities within specific time periods. In addition, local residents are always notified of future activities that will generate exceptional amounts of noise. The increasing use of computer simulations for pyrotechnic testing, for example, also helps to reduce noise.

#### 5.2.2.3.2 Odours

Thales's activities do not generally generate odour, except for one entity in Australia. At this site, systems to capture atmospheric emissions have been installed and are regularly checked. The redevelopment under way at this site will modernise the facility concerned and eliminate these odours.

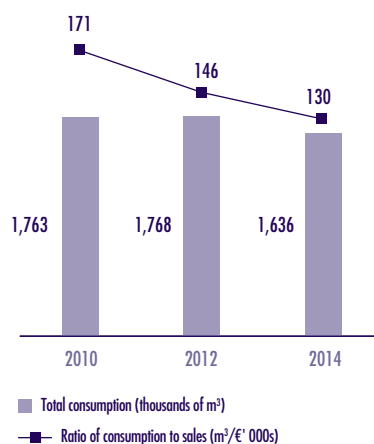
In addition, immediate measures have been taken to limit odours at the two sites where complaints have been received from the neighbourhood.

## 5.2.3 SUSTAINABLE USE OF RESOURCES

For several years, Thales has developed a strategy dedicated to natural resources and has launched various schemes to help manage and reduce consumption, including in relation to the energy efficiency of buildings and industrial processes, and optimisation of water use. To support these measures, it is crucial to raise employee awareness of best practices. Various initiatives have been undertaken alongside awareness campaigns launched by the Group, such as the UK campaign entitled "10 for 10" (ten actions to reduce energy consumption by 10%). Throughout the year, employees are reminded of the simple things they can do to reduce energy consumption, while particularly motivated individuals can go on to become "Green champions". In Spain, an identical initiative, "DesconéscThales", has been launched, also aimed at reminding staff of what they can do to improve energy efficiency.

### 5.2.3.1 Consumption of water and measures to improve its efficient use

#### TREND IN WATER CONSUMPTION



Water is a vital resource to be protected. Accordingly, since 2000, Thales has been engaged in a far-reaching programme to reduce its consumption by, among other things, dealing with leaks, centralising the management

of its networks, replacing energy-intensive equipment, optimising industrial processes and re-using water.

In 2014, water consumption fell by 7% compared to 2012 and by 34% since 2007.

Excluding the Mulwala (Australia) site, which alone accounts for 36% of Thales's water consumption, the Group's total water consumption has fallen by 49% since 2007, proof of the collective effort made at all sites.

For example, in 2014, the Ulm (Germany) site improved its recycling and re-use of wastewater from its manufacturing processes to the point of reducing its water consumption by 35% and its water discharges by 36%.

These achievements are also due to higher employee awareness and making best and widespread use of best practices.

### 5.2.3.2 Consumption of raw materials and measures to improve their efficient use

Thales designs, develops and supplies equipment, systems and services in aeronautics, space, transport, security and defence. The raw materials consumed by Thales are natural resources (see sections 5.2.3.1 and 5.2.3.3) and various materials used in the manufacture of products by Thales and its subcontractors.

The search for new technologies and the design of new equipment involve restricting the use of materials to cut down on size and mass and to facilitate dismantling (see Section 5.2.6). These requirements are conveyed to suppliers of the equipment and components that Thales assembles at its sites. The manufacturing processes are also optimised to limit loss of materials and quantities of discharge and waste.

Thales has also reduced its use of materials such as wood, cardboard and plastic by limiting and reusing packaging. This is the case for supplies to Thales sites as well as for the transfer of equipment from one site to another.

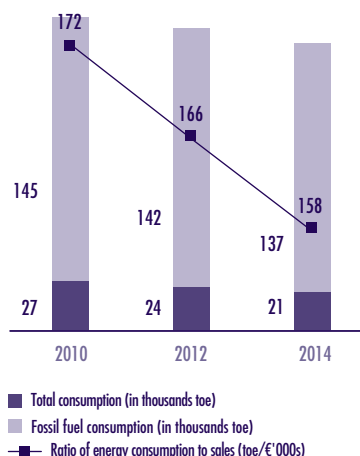
## 5.2.3.3

### Energy consumption and, where applicable, measures to improve energy efficiency and renewable energy use

Thales has defined targets for reducing energy consumption since 2007 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 reducing consumption by an extra 5% between 2012 and 2014.

#### TREND IN ENERGY CONSUMPTION



To achieve this energy efficiency, various audits have been conducted at some of the biggest energy-consuming sites. These have given rise to reduction programmes deployed at all Group sites, with a particular effect on lighting, office equipment, heating and process-related equipment. Thales is redoubling its efforts to manage parameters such as heating temperature, plant operating schedules and the replacement of energy-intensive equipment. By optimising its equipment and system settings outside clean room operating hours, Thales Research & Technologies in Palaiseau (France) was able to reduce its electricity consumption by 23% between 2013 and 2014.

The Group's carbon footprint has also been reduced by restricting the use of fossil fuels (gas, fuel oil, coal), the consumption of which continued to fall in 2014 (-13% compared with 2012). The percentage of electricity from renewable sources now represents 18% of electricity consumption.

New energy-efficient buildings help to reduce consumption (see Section 5.2.4.1.2). 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 led to a cut in energy consumption of over 10% in some cases.

## 5.2.3.4

### Land use

The Group considers environmental criteria when choosing location for its sites: climate and geological risks, the impact of its activities on the human and natural environment, and land use. The objective is to optimise compatibility between the Group's activities and the environment. Some activities, such as pyrotechnics, require a specific site due to the risks they generate and need to be bounded by extensive security areas. These areas account for approximately 79% of the Group's land area (two sites in Australia and one in France). However, steps are taken to enhance their ecological value either by promoting biodiversity or by converting them into pasture or even arable land. Due to their activity, the majority of other Group sites tend to be in industrial areas (60% of land area excluding pyrotechnics sites).

Soil erosion is also taken into account, either locally whenever warranted by geographical conditions or externally. For example, Thales Systèmes Aéroportés and Thales Avionics launched an agroforestry project in the Vikas tea plantations in the Himalayas. The intensive monoculture of tea in the district of Darjeeling (northeast India) has heavily eroded the slopes of the Himalayan foothills. Planting trees has brought tangible benefits by helping to fight soil erosion, capture carbon, promote biodiversity and combat climate change. Thales's initiative led to the planting of 2,000 trees.

Since 1998, the Group has also been engaged in an extensive pollution risk assessment programme for soil and groundwater (see Section 5.2.1.4.3).

## 5.2.4 FIGHTING CLIMATE CHANGE

Climate change is a major concern and one to which Thales aims to respond in a way that is consistent with its activities through a policy of reducing CO<sub>2</sub> emissions at source but also by contributing - through programmes, partnerships, products and services - to a better understanding of the effects of climate change and the reduction of its clients' emissions and those of civil society. In addition to the technical measures put in place, the climate change strategy initiated by Thales necessarily relies on all its employees signing up to it. Supporting this change in behaviour is one of the key points for the success of such an approach.

## 5.2.4.1

### Reduction of greenhouse gas emissions from activities

## 5.2.4.1.1

#### Carbon footprint

Since Thales introduced CO<sub>2</sub> emissions indicators 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. To measure its greenhouse gas emissions, Thales has developed a methodology that is consistent with its activities and is based on the Greenhouse Gas Protocol created in 1998 by the World Resources Institute and the World Business Council for Sustainable Development.



	2014	2012	2010
SCOPE 1 <sup>(a)</sup>	94,906	99,200	124,028
SCOPE 2 <sup>(b)</sup>	159,142	167,749	167,576
Sub-total (1+2)	254,048	266,949	291,605
SCOPE 3 <sup>(c)</sup>	110,349	107,395	111,441
<b>TOTAL (IN TONNES)</b>	<b>364,397</b>	<b>374,344</b>	<b>403,046</b>

The scopes group together CO<sub>2</sub> emissions related to:

(a) Gas, coal, fuel oil, substances, mobile energy sources;

(b) Electricity and steam;

(c) Business travel.

In addition to reducing the energy consumption of buildings, particular attention is paid to improving industrial processes, especially those using fluids that contribute heavily to global warming.

Thales is also increasing its initiatives to reduce emissions from business travel by making use of modern information technologies, car pooling, electric vehicles, travel diagnostics and by highlighting the benefits of alternative means of transport to its employees.

#### 5.2.4.1.2 Eco-efficient buildings and processes

The impact of buildings on climate change is closely related to energy consumption.

Refurbishing and renovating certain buildings to the most ecological standards and changing equipment and consumption habits are all measures taken to improve energy efficiency and thereby help to reduce CO<sub>2</sub> emissions. The choice of buildings and equipment (architecture, materials, technical building management, comfort, access, car parks specifically for car pooling, vehicle recharging stations, etc.) contribute to the fight against climate change. The new Thales sites incorporate environmental criteria in the provision of the premises.

The headquarters of Thales Austria, "Rivergate", houses the greenest offices in Austria and has already obtained the EU Green Building certificate and LEED (Leadership in Energy and Environmental Design) Platinum certification on account of various measures taken on water, energy and materials use, for example. The site is well served by public transport, offering fast access to the city centre and airport, and is close to an extensive cycle network. The site joins the headquarters of Thales USA which was certified LEED Platinum in 2012 due to various measures put into place to reduce energy consumption and CO<sub>2</sub> emissions, recycle waste and use recycled and/or locally sourced construction materials. In 2014, the new German headquarters at Ditzingen, near Stuttgart, was certified LEED Gold. The Ditzingen building uses rainwater for its sewage and industrial systems. The building is also fitted with energy production and distribution equipment and is run according to strict energy parameters. Sustainable mobility is also encouraged by means of parking spaces reserved for car pooling and green vehicles and places for recharging electric vehicles.

Beyond reductions in energy consumption (see Section 5.2.3.3.), substances that deplete the ozone layer are monitored and reduced, especially those cited in the Kyoto Protocol that are mainly used in refrigeration systems. Of these, SF<sub>6</sub> accounts for nearly 57% of Thales's CO<sub>2</sub> emissions linked to Protocol substances. This gas, used in a specific industrial process to insulate electronic tubes during high-voltage tests, has a very high global warming potential. It is used by very few sites; those that do implemented ambitious plans to reduce emissions by 67% between 2007 and 2014, such as manufacturing tubes without using SF<sub>6</sub> or changing installations functioning with this gas.

#### 5.2.4.1.3 Cleaner modes of transport

In addition to the reduction of CO<sub>2</sub> emissions related to energy, especially from fossil fuels, Thales has increased its initiatives to reduce emissions from business travel (road, air and rail). After reducing CO<sub>2</sub> emissions from transport by 14% per person arising from business travel between 2007 and 2010, efforts have continued: incentives to use videoconferencing or conference calls, car pooling, leasing of fuel-efficient or electric cars.

Overall, CO<sub>2</sub> emissions have decreased since 2010. This decrease has been driven by focusing efforts on company cars and vehicle leasing, where emissions have decreased respectively by 39% and 13% since 2010. This is the result of actions implemented with partners managing the car fleet and individual sites.

In France, some 20 sites have analysed the commuting journeys made by their staff. This analysis is part of the Business Travel Plan, which is aimed at encouraging the use of public transport (subsidised season tickets, provision of bus stops, carpooling, etc.).

#### 5.2.4.2 Contribution to fighting climate change

##### 5.2.4.2.1 In air and ground transport

Thales operates in the air, rail and road transport markets and contributes to reducing greenhouse gas emissions by developing technologies and products that help to cut energy consumption.

In aviation, the European SESAR programme, in which Thales is a key player, should provide a response to the challenges posed by the 2020 horizon - the doubling of air traffic and the tenfold improvement in flight safety - while reducing the consumption of commercial aircraft by 5%. The European Clean Sky programme, of which Thales is a founding member, aims to reduce aeroplane noise pollution by 50%, CO<sub>2</sub> emissions by 40% and nitric oxide emissions by 60% by 2020.

Thales is also leading a Clean Sky research initiative titled Systems for Green Operations which will optimise aeroplane fuel consumption by improving flight trajectories, in particular the takeoffs and approach phases. In addition to more efficient aircraft engines, navigation enhancements play an active role in reducing CO<sub>2</sub> emissions. Thales's Flight Management System (FMS) calculates optimum trajectories based on aircraft data, weather forecasts and the desired time of arrival. The optimum trajectories thus calculated bring about a reduction in noise, emissions and fuel consumption during the takeoff, cruising, descent and approach phases.

Thales is also a leading industrial player in the control of automated trains using CBTC (Communications Based Train Control) technology. CBTC

significantly increases the number of trains that can run on a line and is being used for all newly built metros and to modernise existing lines. Thales's functionalities and solutions also allow rail operators to cut their energy consumption, thereby contributing to a further reduction in the carbon footprint of rail transport.

For example, the green solution SelTrac® CBTC reduces a train's energy consumption by 15% by loading efficient speed profiles into the train's on-board system. Algorithms are used to limit energy-intensive stop/start cycles and to switch off power so that trains run on their accumulated power whenever possible. For a standard metro line, CO<sub>2</sub> emissions are reduced by around 14,000 tonnes per year, equivalent to taking 6,000 cars off the road. The "ATS soft Energy Saving" solution takes advantage of interactions between trains to save energy by optimising real-time traffic management: use of slow speed profiles when the operating circumstances allow this and optimisation of current recovery from train braking by synchronising the acceleration of some trains with the braking of others.

In today's increasingly urbanised world, creating sustainable conditions for urban mobility and inter-city travel is an important way of reducing CO<sub>2</sub> emissions. Thales plays an important role in this by supplying transport operators with the systems they need to operate their infrastructures more efficiently while improving the service they provide to customers. For example, Thales deploys interconnected public transport fare collection systems that allow passengers to use different modes of transport within and between towns and cities, at regional or national level, with a single ticket.

#### 5.2.4.2.2 In the deployment of renewable energies

Thales provides its expertise and adapts its product range to promote the deployment of renewable energies.

Wind farms interfere with civil aviation, defence and meteorology radars by creating a masking effect and triggering false alarms. This problem has led many countries to defer their plans to build wind farms.

In order to address this, Thales has developed a material that absorbs broadband radiofrequency, which reduces the Equivalent Radar Surface (ERS) of the objects coated with it, reducing or eliminating the interference. This reduces the radar signature of wind turbines by 99%.

This solution has now been added to an existing solution consisting of a series of algorithms enabling radars to determine whether an echo has been sent by an aircraft or a wind turbine, thus reducing the risk of transmitting erroneous information to air traffic controllers. Thales has proved the effectiveness of its system at Inverness airport in Scotland. This site was chosen because it is surrounded by 141 wind turbines.

Another example is the Stratobus project under consideration, an autonomous geostationary stratospheric platform designed among other things to harness the sun's rays in all seasons; it will feature a number of technological innovations such as a power generation system coupling photovoltaic panels to a solar power amplification system patented by Thales and an energy storage system based on an ultralight regenerative fuel cell.

#### 5.2.4.2.3 In climate monitoring

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 Group contributes to most European climate missions and is a partner to global agencies. For example, the Sentinel 3 satellite will collect essential information for climate prediction and monitoring of the general status of plant life: topography of the surface of the oceans, ice floes and land surfaces; observation of ocean currents, pollution and marine life; the increasing temperature on the surface of the sea and land; and the global status of vegetation to better manage its development.

The development of the third-generation Meteosat (MTG) will guarantee Eumetsat's continued geostationary capacity to monitor the weather through to the 2030s.

Imaging and atmospheric probing data will also provide unprecedented information on water vapour and temperature profiles. The increase in the volume of historic data will help climatologists gain a better understanding of climate change. Thales Alenia Space will continue to provide its meteorological findings to around half the world's population.

#### 5.2.4.2.4 In the definition of international standards and partnerships

In addition to reducing greenhouse gas emissions from its own activities, Thales encourages its partners to take a responsible attitude to the issue. To illustrate this, since 2009 Thales has been joint chair of the "Carbon" working party of the French aeronautics and space industry group GIFAS and is a member of the greenhouse gas working party of the IAE (International Aerospace Environmental Group) to define international standards. Thales is also engaged in partnerships with other industry players as well as research laboratories and government agencies.

Since 2005, Thales has opted for complete transparency on its climate change strategy and changes in CO<sub>2</sub> emissions on the Carbon Disclosure Project (CDP) website. This association brings together more than 722 institutional investors with \$87 billion in assets under management worldwide. Its aim is to inform the investment decisions of its members by making them aware of the consequences of climate change for companies. In 2014, Thales scored 90A for climate change performance (90 indicates transparency and A indicates performance), making it one of the best-performing companies in the CDP Climate Leadership Index.

### 5.2.5 PRESERVATION OF BIODIVERSITY

The preservation of biodiversity is a response to new environmental challenges. Preserving species and their habitat, keeping dedicated areas for flora and protecting the natural historic heritage must now be part of daily behaviour to support any decision to promote protection of the environment.

The Group has taken this environmental challenge into account for many years. As early as 2006, Thales drew up a preliminary inventory of its sites in France near or within protected areas for flora and fauna and their habitat

and, on certain sites, assessed the impact of activities on biodiversity and the degree of dependence on the ecological services provided by nature.

At the same time, Thales embarked on biodiversity risk mapping at 140 sites in 26 countries in order to obtain, as part of a macroscopic approach, a homogeneous overview of Group sites situated in the most vulnerable zones in terms of biodiversity. Indicators were defined with a view to comparative risk analysis, based on international databases. They were also designed



to factor in ordinary biodiversity and to understand the constraints for any future developments within a 2 km radius around the sites. The indicators were examined with a view to producing a shortlist: size of natural zones in percentage terms; size of protected areas in percentage terms; consideration of their importance and proximity to the site; number of species present in a 2 km radius around each site.

Although the global impact of the Group's activities on biodiversity is low, flora and fauna are of particular concern at a number of locations and the Group encourages its sites and employees to preserve and promote biodiversity.

Locally, a variety of initiatives have been taken worldwide to encourage flora and fauna. Inventories are carried out at some sites by volunteers or in partnership with local authorities or biodiversity protection agencies, and ad hoc 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 Butterfly. The aim is to encourage its population to stabilise and then expand as part of a wider programme set up by the National Parks and Wildlife Service.

Other sites will focus on outdoor features to preserve the natural habitat and encourage fauna (bird boxes, feeders, species survey by an expert, etc.) or to re-establish native species by offering a relatively safe and protected habitat for a wide variety of plants, fungi and animals.

Having won first prize in the 2013 biodiversity contest, the Cheadle Heath site (United Kingdom) used the prize money to recreate a pond that had once been on the site according to map dating from 1844. It also set up bee hives and habitats for small vertebrates, birds and insects.

As part of grouping together two of its sites near Bordeaux (France), Thales is building a vast new 16 ha site called Air innov' in line with the Prevent-Reduce-Compensate principle. The impact of the new site on biodiversity informed its location and building procedures. Among the measures taken to make up for the clearing of trees off the new site, Thales has set land aside to replant trees and recreate parks previously destroyed by storms. Wetlands affected by the new site are being restored in alternative protected areas. Protected species such as newts and salamanders found on the site were relocated to a dedicated area nearby, while spaces dedicated to amphibians were recreated in suitable areas near a natural reserve.

For sites with large areas of plains or forests, particular precautions are taken for the fauna and flora by promoting soft natural techniques for mowing and grazing.

At other sites, employee awareness will be raised through photographic exhibitions of the forest, agroforestry and the species present on the site, allowing beekeepers to place their hives on the site, and also by keeping a register of species and creating a dedicated online review.

## 5.2.6 PRODUCTS AND ENVIRONMENT

The Group's environmental system factors the environmental dimension into all relevant processes. These include improving the analysis of environmental risks when tendering for projects, as well as product policies and the development, design, maintenance and end-of-life phases. To ensure regulatory adherence, anticipate future regulations and requirements in this area, and guarantee traceability during the life cycle by looking ahead to dismantling, Thales is developing methods and tools to help product designers and architects make environmentally responsible choices and to leverage environmental information. These include guides, questionnaires, checklists, computers and dedicated software such as the database on hazardous substances in components, regularly updated following regulatory changes or impact analyses.

A permanent dedicated network of environment product managers was set up (see also Section 5.2.1.2) in order to supervise the incorporation of environmental aspects upstream and during the product development phase. Its purpose is to facilitate action to anticipate and research appropriate alternative solutions to substances that are not recommended or prohibited.

This approach has been underpinned since 2013 by including an environmental module in the training provided to 200 product line and engineering managers. This represents 66% of the target for 2015. Thales has also set itself the target of 20% of product lines with improved environmental performance by 2015.

At the end of 2014, 80 of the 117 ISO 14001 certificates awarded to the Group's entities included product design/development in their certification criteria.

### 5.2.6.1

## Innovation for the development of green technologies

Thales puts innovation at the heart of its strategy and is committed to developing equipment that combines innovative technologies with a smaller environmental footprint, in spite of the tough security and reliability constraints on the majority of products. Breakthrough technologies and new architectures are key to reconciling these two elements while at the same time maintaining basic functionalities and adapting to external change. In order to illustrate Thales's commitment to green technologies, next-generation radar incorporates innovative principles to reduce energy consumption: using gallium nitride (GaN) and low-consumption multilayer processes (identical to mobile telephony), eliminating high-energy rotating parts.

New system architectures help reduce energy consumption, limiting the amount of on-board equipment as well as making it more compact so that it is easier to transport, thereby cutting CO<sub>2</sub> emissions. The integrated modular avionics featured on the A380 made it possible to streamline computing requirements and reduce the weight of hardware by 15-20% while increasing computing capacity and the useful life of equipment.

Another example of environmentally-friendly innovation is the Stratobus project, an autonomous geostationary stratospheric platform run by Thales Alenia Space in partnership with Zodiac Marine and CEA-Liten. The project embodies a new concept for an autonomous airship operating at an altitude of 20 kilometers in the lower reaches of the stratosphere, above jet streams and air traffic.

Stratobus covers a wide range of potential applications such as border and maritime surveillance, boosting GSM network capacity for public events and augmenting GPS over areas of dense traffic.

Stratobus will measure 70-100 meters in length and 20-30 meters in diameter and offer tangible environmental benefits. It will run on solar energy only and will not require a launcher to be put into position. It will be made from recyclable subsystems; the use of hydrogen or helium will considerably reduce the risk of pollution in the event of an accident. It is designed among other things to harness the sun's rays in all seasons and will feature a number of technological innovations such as a power generation system coupling photovoltaic panels to a solar power amplification system patented by Thales and an energy storage system based on an ultralight regenerative fuel cell.

Thales is also careful to identify replacement products if a substance presents a risk or is threatened with being banned. Conscious of the issue of prohibiting the use of certain chemicals in its processes and products, Thales has launched a programme to control them. Conducted internally or with industrial partners, substitution surveys are intended to validate the characteristics and implementation processes of the new substance and ensure that the expected performance of the product will be maintained. In some cases it is necessary to redesign products and interfaces and rescope industrial tools.

### 5.2.6.2 **Eco-responsible products**

Thales has long been engaged in efforts, on all the markets in which the Group is present, to miniaturise and reduce energy consumption to meet the needs of clients and the expectations of environmentalists. Relentless efforts are made to incorporate the environment into the entire life cycle of products from cradle to grave while maintaining the strictest security, safety and reliability standards expected by the Group's customers. The systems and high-tech products and services offered to the aeronautics, space, defence, transport and security markets sometimes sit uneasily with an environmental approach.

Nevertheless, Thales is committed to a responsible approach aimed at limiting the impact of its products and services on the environment in order to comply with multiplying regulations along with the demands of the market and civil society.

Beyond regulatory constraints, incorporating environmental factors into product design generates the creativity and dynamism needed to make progress in areas such as developing new materials, saving energy and reducing weights.

Group companies are thus engaged in various initiatives to reduce the environmental impact of civil and military products starting from the design stage. Although the majority of Thales products are subject to severe constraints, allowing little flexibility in terms of design, a certain number of product lines already have environmental criteria which have been assessed during the life-cycle analysis.

Thales has also developed an innovative energy hybridisation solution which aims to provide, for on-board systems in military vehicles and shelters, a comprehensive energy management system for energy production, storage and consumption. Known as DYON, this 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 absence of a heat signature. It also reduces the logistical footprint by cutting fuel consumption and thus the number of convoys needed to transport the fuel. In environmental terms, it reduces the quantities of CO<sub>2</sub> emitted by tens of thousands of tonnes, and addresses the constraints linked to lead batteries.

In e-ticketing systems and automatic doors in public transport, the "DreamGate" automatic door represents an innovative approach and a technological breakthrough by offering more security and safety for operators and passengers. It also improves operating efficiency while reducing the environmental impact: more compact, lightweight and energy-efficient, with fewer components (3D camera, intelligent motors), it is easier to install and maintain.

### 5.2.6.3 **Products to serve the environment**

Thales also designs products aimed at serving the environment, in the various markets in which the Group is present.

As living conditions worsen and the planet and its inhabitants draw ever nearer to a climate and environmental crisis, the industrial and scientific communities are working to find solutions. Thales is one of the key players in space-based Earth observation programmes, promoting a better understanding of climate change and more effective environmental monitoring through its high-resolution optical and radar imaging systems.

For example, EDISOFT, a Thales joint venture in Portugal, has spent over 10 years developing and supplying Earth observation equipment and services with a particular focus on ocean observation. EDISOFT was chosen by the European Maritime Safety Agency to contribute to the CleanSeaNet programme. The CleanSeaNet programme provides European Union member states with satellite imagery to monitor and detect illegal or accidental salting out of fuel in territorial waters. It relies on data received by the satellite ground station at Santa Maria (the Azores) from satellites such as Envisat, Radarsat 1 & 2 and soon Sentinel-1, the first satellite launched under the European Space Agency's Copernicus Programme.

The European Space Agency chose Thales Alenia Space to build the Sentinel 3 satellite under the GMES programme (Global Monitoring for Environment and Security programme). The mission of Sentinel 3 will be to study the topography and status of the oceans, ice caps and land mass. It will also provide information on the general status of plant life in order to manage its development and to provide data on the surface temperatures of the oceans and land mass. Meanwhile, the third-generation Meteosat (MTG) system ensures continuity of the geostationary meteorological surveillance capability.

While complying with its requirements for reliability and security, the Group has also launched a far-reaching programme to reduce the environmental impact of civil aviation. Known as Green ATM, Thales's initiative offers the airline sector the opportunity to benefit from its numerous investigations in this area, working for example to enhance the benefits of continuous descent approaches where this is possible, and to optimise the consumption of kerosene thanks to a better exchange of information between the control tower and the cockpit crew, or even to limit on-ground waiting times before takeoff, another source of fuel savings.

## 5.2.7 ENVIRONMENTAL INDICATORS

The Table below contains a number of items for assessing trends in the Group's environmental performance on a comparable basis. In 2014, 28 countries and 144 sites were in-scope. This scope represents 97% of sales and 96% of the Group's workforce.

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

		Units	2007-2010 change	2010-2012 change	2012	2014	2012-2014 trend
<b>ENERGY</b>							
Electricity consumption	✓	'000s toe	-5%	-4%	139	135	-3%
Per sales electricity consumption	✓	toe/€k		-5%	11.6	10.7	-7%
Fossil energy consumption	✓	'000s toe	-42%	-11%	24	21	-13%
Per sales fossil energy consumption	✓	toe/€k		-13%	1.99	1.65	-17%
Total energy consumption	✓	'000s toe	-11%	-5%	166	158	-5%
Per sales total energy consumption	✓	toe/€k		-6%	13.82	12.54	-9%
<b>WATER</b>							
Water consumption	✓	000s m <sup>3</sup>	-21%	-1%	1,768	1,636	-7%
Per sales water consumption	✓	m <sup>3</sup> /€k		-2%	146	130	-12%
<b>WASTE</b>							
Total waste production <sup>(b)</sup>	✓	tonnes	-14%	-20%	15,771 <sup>(a)</sup>	15,614	-1%
Per sales total waste production <sup>(b)</sup>	✓	kg/€k	-9%	-21%	1.31 <sup>(a)</sup>	1.24	-5%
Ratio of non-hazardous waste <sup>(b)</sup>	✓	%			80	76	-5%
Non-hazardous waste per person <sup>(b)</sup>	✓	kg/pers	-20%	-11%	185 <sup>(a)</sup>	175	-6%
Recycling rate of non-hazardous waste	✓	%	39%	8%	52	57	9%
Recycling rate of hazardous waste	✓	%	10%	-8%	24	34	43%
<b>INDUSTRIAL DISCHARGE</b>							
Industrial wastewater discharge	✓	000s m <sup>3</sup>	-57%	47%	782	638	-18%
Air emissions		tonnes		-30%	862 <sup>(a)</sup>	919	+7%
<b>CO<sub>2</sub></b>							
CO <sub>2</sub> emissions from energy use	✓	'000s tonnes CO <sub>2</sub>	-18%	-5%	228	211	-7%
Per sales CO <sub>2</sub> emissions from energy use	✓	kg CO <sub>2</sub> /€k	-33%	-6%	19	17	-11%
CO <sub>2</sub> emissions linked to Kyoto Protocol substances	✓	'000s tonnes CO <sub>2</sub>	-10%	-49%	19.1	21.5	+12%
o/w CO <sub>2</sub> emissions linked to SF6	✓	'000s tonnes CO <sub>2</sub>	-28%	-56%	11.4	12.2	+7%
CO <sub>2</sub> emissions from business travel (company-wide)	✓	'000s tonnes CO <sub>2</sub>	-15%	-4%	107	110	+3%
Per sales CO <sub>2</sub> emissions from transport	✓	kg CO <sub>2</sub> /€k	-	-5%	8.9	8.8	-1%
<b>CO<sub>2</sub> SCOPES ACCORDING TO GHG PROTOCOL</b>							
Scope 1 (gas, fuel oil coal, substances, mobile energy sources)	✓	'000s tonnes CO <sub>2</sub>	-31%	-21%	99	95	-4%
Scope 2 (electricity, steam)	✓	'000s tonnes CO <sub>2</sub>	-6%	-1%	168	159	-5%
Scope 3 (business travel by air, rail, road)	✓	'000s tonnes CO <sub>2</sub>	-15%	-4%	107	110	+3%
Total scopes 1, 2 and 3	✓	'000s tonnes CO <sub>2</sub>	-16%	-8%	374	364	-3%
Total scopes 1, 2 and 3 per sales	✓	kg CO <sub>2</sub> /€k			31	29	-7%
<b>OTHER</b>							
ISO 14001 certified entities	✓		70%		124	117	
Staff concerned as percentage of total workforce	✓	%	15%		80%	88%	

(a) Values adjusted following an error

(b) Excluding one-off waste

✓ Indicators reviewed by Mazars for the 2014 reporting period and included in moderate assurance conclusion

## 5.2.8 ENVIRONMENTAL REPORTING RULES

### 5.2.8.1 Scope

The consolidation scope of environmental data is based on the financial consolidation scope. However, due to restricted activity and/or workforce or the absence of operational control by Thales, certain establishments have not been included.

#### 5.2.8.1.1 Criteria

Only companies meeting the following criteria are included:

<b>Equity interest and operational control</b>	<ul style="list-style-type: none"> <li>■ THALES equity interest of 50% or more</li> <li>■ THALES exercises operational control over the Company</li> </ul> <p>Companies and joint ventures not meeting the above criteria are not included in Thales' environmental reporting</p>
<b>Activity/Workforce</b>	<ul style="list-style-type: none"> <li>■ "company/site" involved in an industrial activity (surface treatment, painting, pyrotechnics, shipbuilding, etc.) irrespective of the number of employees</li> <li>■ "company/site" involved in a semi-industrial activity only (testing, integration, R&amp;D, etc.) with more than 50 employees</li> <li>■ "company/site" involved in a tertiary activity only (head office, service facility, sales office, etc.) with more than 100 employees</li> </ul>
<b>Environmental Management System</b>	All "companies/sites" that are ISO 14001 and/or EMAS certified are included in the scope irrespective of the criteria related to activity

#### 5.2.8.1.2 Changes to scope

- Disposals/acquisitions: company to be included as soon as one full calendar year has been completed and if the Company meets the scope selection criteria.
- New business: company to be included as soon as one full calendar year has been completed and if the Company meets the scope selection criteria.
- Inter-site transfers: data taken into account in the reporting:
  - of the departure site from 1 January N to the date of transfer;
  - of the arrival site from the date of transfer to 31 December N.
- Intra-Group merger: integration of data of the absorbed entity for the period 1 January N to the date of absorption in the data of the absorbing entity.

### 5.2.8.2 Reporting procedure

The Group-wide reference system includes an environmental reporting procedure with instructions for each successive stage of data entry, validation and consolidation. It also defines the roles of each person involved and includes the recording of data (traceability, archiving, etc.).

### 5.2.8.3 Indicators

Environmental concerns change over time. Environmental performance indicators therefore have to evolve to stay abreast of developments and reflect the Groups policy priorities. Different interpretations of certain indicators can lead to conflicting data from different countries. Thales is therefore adapting the indicators to make the environmental reporting system more efficient, building on lessons learned from previous years and refocusing the reporting effort on current and future environmental concerns. The indicators are described in the reporting tool. Information is also available on the calculation of the carbon footprint.

#### 5.2.8.3.1 Reporting tool

An environmental reporting and management tool for the entire scope of consolidation of the Thales group is available on the corporate intranet. This tool consolidates the data from each entity, country and geographic area, and for the Group as a whole. It checks data consistency and suggests country-specific units of measurement, conversion factors, etc. The same tool provides access to the rules for data entry, validation and consolidation defined in the reporting procedure.

#### 5.2.8.3.2 Analysis of performance

For easier analysis of environmental data, the Group reporting system incorporates the following principles:

- changes in scope specifically related to disposals and acquisitions. For each family of indicators, a gross figure is given (e.g. water consumption in m<sup>3</sup>) and a ratio supplements the information to take account of changes in scope (e.g. water consumption per person);
- Group targets are set for a given period. During that period:
  - changes in performance are assessed on a like-for-like basis (i.e. at constant scope of consolidation),
  - coefficients such as emission factors for CO<sub>2</sub> emissions are constant;
- if emission factors are modified at the start of a new period, the performance data for the reference year are recalculated using the new coefficients;
- methodological guides to environmental reporting and calculation of CO<sub>2</sub> emissions are available in the Group reference system.

## 5.3 Societal information

The Group's strong commitments, formalised in its Code of Ethics, bear witness to its desire to act responsibly. Certain actions conducted by Thales taken in connection with its corporate responsibility policy target stakeholders other than its own employees.

### 5.3.1 TERRITORIAL, ECONOMIC AND SOCIAL IMPACT OF THE BUSINESS

#### 5.3.1.1 The regional policies and action of Geris Consultants SAS in France

The Group's regional policies rely on close ties with economic and social players and local institutions and communities. Its sub-contractors and suppliers are chosen locally, to the extent possible, in order to support regional business.

In France, Thales aims to mobilise all of the relevant players in Thales' labour pool in order to develop a Regional Jobs and Skills Plan. This strategy takes into account the specificities of the regions in question as well as Thales' local challenges. The Group "Anticipation" Agreement, signed on 26 April 2013, actively supports local actions by creating a commission dedicated to regionalism and by assigning the job of monitoring regional action to the Group "Anticipation" representative, in coordination with the "Jobs/Anticipation" contacts on the ground in the various regions and the "Anticipation" contacts appointed by each trade union organisation having signed the agreement.

In France, Thales has created seven labour pools in order to better coordinate its actions. Within each labour pool, a Thales representative coordinates regional actions in cooperation with the local and regional authorities and the societal and economic players (including Geris Consultants SAS), universities, schools and training centres.

Thales also makes use of a dedicated company, Geris Consultants SAS, which makes its expertise available to groups and local authorities in order to assist, in the form of advice and financial assistance, SMEs and SMLs (in formation or development) that create long-term jobs in regions affected by the loss of industrial jobs. The revitalisation projects led by Geris Consultants SAS since 2009 have led to the creation of more than 3,800 jobs in France (including 405 in 2014) with approximately 570 SMEs/SMLs.

In a flexible and confidential framework, Geris Consultants SAS also supports Thales employees who create or acquire businesses in their plans. In 2014, 61 new employees attempting to create businesses were supported, thus bringing the number of active projects to 135.

Geris Consultants SAS also conducts experiments in HR engineering in order to develop SME/SML skills in the sectors or regions where it is active and, to that end, runs the *Pass'Compétences* process to stimulate the development of SMEs by seconding experts employed by large groups such as Thales, Alcatel, and Schneider Electric, for assignments of 12 to 18 months.

#### 5.3.1.2 Group initiatives to support people with disabilities

In France in 2014, the Group expanded its partnerships for the training and guidance of young people with disabilities:

- partnerships with universities to supervise and support disabled students in finding employment: Pierre et Marie Curie (UPMC Paris), University of Nice Sophia Antipolis (UNICE), Bordeaux 1, Toulouse University, University of West Brittany (UBO Brest);
- entry into agreements with the Rectorates of Toulouse, Nice, Orléans-Tours and Bordeaux pursuant to which regional businesses support disabled middle school and high school students in achieving higher education and then employment;
- partnership with the University of Paris Créteil to set up an inter-university diploma for disabled employment in the public and private sectors;
- development of the Hanval association, whose mission is to place people with disabilities in employment in the field of aeronautics.

Thales also participates in the development of innovative projects based on technologies developed within the Group in order to provide concrete assistance to people with disabilities, such as:

- the "Eyeschool" system, which enables young visually-impaired people to capture what the teacher writes on the board on their computers and to vocalise the documents distributed in class;
- the "GUIDEO" guidance system, which enables a smartphone user who is blind or visually impaired to move autonomously through a building;
- a "smart wheelchair guidance system" based on artificial intelligence technologies, with the participation of Fondation Garches in connection with a three-year partnership with the ISEN.

In 2012, Thales had participated, in cooperation with AFNOR, in implementing the "OK Pilot" tool, which enables a company to conduct a self-evaluation of its compliance with the disabled-friendly standard and to define the necessary action plans for improvement. In 2013, this evaluation tool was used in an audit of 18 Thales sites and to prepare action plans for coming into full compliance. The deployment of these action plans has already enabled four sites to come into compliance with the standard.

## 5.3.2 STAKEHOLDER RELATIONSHIPS

### 5.3.2.1 Partnerships with professional, international and non-governmental organisations

Through partnerships with numerous organisations, Thales has been able to share its best practices with other companies, to anticipate changes in regulations and standards, and to promote the conditions for equal competition among the players in its industry.

In that regard, Thales works closely with numerous bodies, including the following:

- the United Nations, and in particular the United Nations Global Compact; in 2014, for the third consecutive year, Thales achieved the Global Compact Advanced level of the differentiation programme of the United Nations Global Compact, which, by complying with 21 specific criteria, is the highest reporting and performance standard for responsible development. It should be noted that this year, the Advanced Level programme required an external evaluation, which Thales successfully passed in a peer review. Finally, of the 8,300 companies that are members of the Global Compact, fewer than 400 have obtained the Global Compact Advanced level to date, including 40 French companies;
- the Organisation for Economic Cooperation and Development (OECD);
- the European Commission;
- the International Chamber of Commerce (ICC);
- the Mouvement des Entreprises de France (MEDEF – the French employers' confederation): International Committee, CSR Committee, Ethics and Guiding Principles Committee, Economic Intelligence Committee, Internationalization Committee;
- the Association Française des Entreprises Privées (AFEP – the French Association of Private Companies);
- the Association française des investor relations (CLIFF – the French Investor Relations Association);
- the AeroSpace and Defence Industries Association of Europe (ASD);
- the Aerospace Industries Association of America (AIA);
- the Groupement des Industries Françaises Aéronautiques et Spatiales (GIFAS – the Group of French Aeronautic and Space Industries);
- the initiative of American companies in the defence sector with respect to commercial ethics and business conduct (DII – Defense Industry Initiative);
- various forums set up by the main British companies in the defence industry, including: UK National Defence Business Ethics Forum, ADS Supply Chain 21 Task Force, Institute of Business Ethics ;
- the Ethics Network Australian Defence Industry (ENADI);
- the Observatoire sur la Responsabilité Sociétale des Entreprises (ORSE – Centre for Corporate Social Responsibility);
- the International Aerospace Environmental Group (IAEG);
- Entreprises pour l'Environnement (EpE – Companies for the Environment);
- the Association pour la promotion de la Conformité Réglementaire Santé Sécurité Environnement (ACORES – Association for the Promotion of Compliance with Health, Safety and Environmental Regulations).

In connection with this policy and dialogue, Thales chairs the working group on ethics and corporate social responsibility within the Group of French Aeronautics and Space Industries (GIFAS) as well as the Business Ethics Committee of the AeroSpace and Defence Industries Association of Europe (ASD).

The Group is also a founding member of the International Forum on Business Ethical Conduct (IFBEC<sup>(1)</sup>), whose last worldwide forum took place in Brussels in November 2014.

Thales actively participates in the work of the Business 20 Anti-Corruption Working Group, which presented and obtained approval of its 2015-2016 action plan at the last G20 Summit in Australia on 15 and 16 November 2014. Through five priorities, this action plan aims to increase transparency in tender processes, to promote businesses that have implemented integrity programs, to reinforce the fight against solicitation in both the public and private sectors, and to promote best practices in supply chains.

In 2014, Thales signed the *Call to Action: Anti-Corruption and the Global Development Agenda* initiated by the United Nations Global Compact. This appeal from the private sector, addressed to governments, urges governments to adopt measures in the fight against corruption and to implement them through effective policies in order to establish the basis for a sustainable global economy; 274 companies throughout the world have signed on to this initiative, including five in the Aeronautics and Defence Industry.

In the United States, in 2002, Thales was the first non-US company to sign the Defense Industry Initiative (DII). In the United Kingdom, the Group's UK subsidiary was one of the first members of the UK National Defence Business Ethics Forum (formerly known as the Defence Industry Anti-Corruption Forum), set up by the main defence companies present in the country and by the industry's professional associations.

Thales is also developing a policy of regular, high-quality dialogue with its stakeholders, in particular the financial community, socially responsible investment funds, the ratings agencies, non-financial analysts, etc. This policy is based on a rigorous and proactive approach to ethics and corporate social responsibility.

Finally, Thales also maintains regular contact with NGOs such as Transparency International, in particular on questions related to business ethics, and Amnesty International and Saferworld on the question of Human Rights.

### 5.3.2.2 Thales initiatives with charitable organisations

#### Thales, a global commitment through its company foundation

The Thales Foundation was created in July 2014 and launched in September of the same year.

Through its Foundation, Thales hopes to innovate for the good of humanity and make its contribution to the societal challenges that face us all. To succeed in doing so, the Foundation calls on the commitment of Thales' employees, who can harness their energy and skills in the service of the two overall themes chosen by the Foundation: education and humanitarian aid.

In the area of education, the Foundation will develop projects relating to science and pedagogical innovation, prioritising children and their teachers in order to reinforce students' interest, curiosity and abilities in the sciences. The goal is to give young people a taste for innovation and to make them more agile in a world that changes more and more quickly.

The Foundation also wishes to respond to humanitarian needs, by contributing Thales' technologies and the know-how of its employees, in order to anticipate and decrease the impact of natural and environmental disasters. The needs in that area are immense and many. Thus, the Foundation decided

(1) International Forum on Business Ethical Conduct.



to concentrate its efforts and to prioritise investment in the prevention of risks, in order to anticipate and better prepare for emergency intervention.

The Thales Foundation is a laboratory for the development of innovative projects and programmes to change the world at least a little.

The Thales Foundation is governed by French law. It has a Board of directors to guide the Foundation's general policy. The Board meets twice per year and is composed of 12 members, seven from Thales and five external members:

- Albert Fert, Nobel Prize Winner in Physics and Scientific Director of the Thales/CNRS research laboratory;
- General Jean-Louis Georgelin, army general and Grand Chancellor of the Legion of Honour;
- Jean-Marc de la Sablière, Ambassador of France;
- Patrick Meier, Director of Social Innovation at the Qatar Computing Research Institute, expert in emergency humanitarian technologies;
- Kiran Bir Sethi, Founder of the Riverside and Design for Change School, the referent for the Education theme.

The Foundation also runs a network of Thales employees charged with promoting and mobilising Thales employees to work on Foundation projects.

### Thales is also involved locally

Several of the Group's companies maintain associations in the countries in which they are located, to which they provide financial and material support. For example:

- in Spain, Thales participates in projects in which the employees are directly involved. Any employee of Thales in Spain may ask for help to start

a charity project in connection with the Thales commitment programme. In 2014, Thales collaborated on around ten projects brought by various foundations or associations on behalf of children and disadvantaged people;

- in Australia, Thales continued to pursue its national partnership with Legacy and SoldierOn, for the support of wounded veterans and their families, to promote their professional development and employment. Trainings intended for young people affiliated with these organisations are held several times per year;
- in the United States, Thales financed and supported a team of students participating in a national science contest, the Team America Rocketry Challenge. In Arlington, Thales supported a pedagogical innovation project at an elementary school to improve science education, for which employees were also invited to come and speak about the interest of having a career in science. Some thirty Thales employees also participated in footraces and bicycle races, the Army 10 Miler Race and the Air Force Cycling Classic, to benefit associations supporting veterans;
- in 2014, Thales sponsored an operation organised by the *Institut Français* (French Institute) on the occasion of the 50<sup>th</sup> anniversary of the establishment of Franco-Chinese diplomatic relations, with more than 400 events organised throughout 2014 in China and in France.

## 5.3.3 RELATIONS WITH SUPPLIERS: A RESPONSIBLE APPROACH

At 31 December 2014, the Group's annual volume of purchases remained stable at €5.7 billion compared with 2013, which represents nearly 45% of consolidated sales. Given the nature of its business, over 78% of the Group's purchases are sourced from suppliers located in European Union countries, including 43% in France.

In 2014, the Group's industrial sub-contracting services represent an amount of more than €1.3 billion; sub-contractors are considered to be similar to suppliers with regard to respecting corporate citizenship principles (Human Rights, employment law, environmental protection, ethical business conduct).

The aim of the Thales purchasing policy is to work with a bedrock of high quality and reliable suppliers, capable of helping Thales achieve its sales objectives while complying, in particular, with the requirements of export control, environmental, financial, ethical and social obligations as well as national and international regulations.

In 2010, Thales signed a best practices charter between order placers and SMEs called the *Charte des Relations Fournisseurs Responsables* (Responsible Supplier Relations Charter). This charter commits the Group by defining ten practices for responsible purchasing. It contributes towards building, on the basis of mutual trust, balanced relationships between suppliers and customers based on awareness and the execution of their respective rights and obligations.

In 2012, Thales was awarded, for its entities in France, the *Label Relations Fournisseur Responsables* (Responsible Supplier Relations Label), a distinction awarded for the first time by the *Médiation Inter-entreprises* and the *Compagnie des Dirigeants et Acheteurs de France* (CDAF), to four large groups having demonstrated their ability to forge particularly sustainable and balanced relationships with their suppliers. After an annual audit conducted

by an external organisation, Thales was granted this label in 2013, then again in 2014.

Member of the "Global Compact Network" which aims to define and implement practices "encouraging a more positive relationship between business and society", Thales requires its suppliers to respect the corporate citizenship principles defended by the Global Compact, particularly in the following fields: Employment Law, corporate governance, environmental protection, ethical business conduct and export control.

During 2014, the attachment of Thales to respecting a corporate responsibility principle with regard to suppliers was particularly reflected by the continued deployment of the "Purchasing and Corporate Responsibility" charter, under which Thales requires its suppliers throughout the world to adhere to its Corporate Responsibility approach and to respect both the principles of its Code of Ethics and those of the Global Compact and the OECD in the field of Human Rights, Employment Law, regulations concerning the environment, corporate governance and a self-assessment questionnaire with a view to deploying the principles of the "Purchasing and Corporate Responsibility" charter, through a set of sixteen questions: nine about Employment Law, three concerning environmental protection, two about governance, one on business ethics and one on export control.

The reviews of this approach launched towards the supplier network in 2010 revealed, at end 2014, that over 4,400 Thales suppliers (50% more than in 2013) had signed the "Purchasing and Corporate Social Responsibility" charter and completed the assessment questionnaire. On this basis, the overall performance of the suppliers in terms of environmental, social responsibility and governance (ESG) was 9 on a scale of 10;

The “Innovative SME Charter”, signed in 2012 for its scope of activity in France, aims to reinforce the commitment of Thales towards SMEs to help them with their innovation projects and contribute to their future development, in exchange for access to their innovative technology.

Pursuing this corporate responsibility approach, in 2013 Thales signed a bilateral agreement with the French Ministry of Defence aimed in particular at facilitating the access of SMEs to Defence markets and establishing a balanced partnership between SMEs and Industrial Project Managers such as Thales.

A first barometer for measuring the quality of relations with its French suppliers was conducted with a sample of around 250 of them, a sample comprised of SMEs and Mid-Sized Businesses (MSBs). Proving its attentive listening with regard to its suppliers, Thales has committed itself to making headway with the identified subjects. Displaying its determination to include this quality of relationship in a continuous improvement process, Thales presented the same

sample of companies at end 2013 with the solutions adopted in terms of best practices concerning each of these subjects.

Thales continued with this approach in 2014 by launching a second supplier barometer enabling it to measure the progress made.

Furthermore, Thales committed itself very quickly to the Association Pacte PME, an association bringing together large Groups, professional organisations and centres of excellence representing SMEs, in order to work towards facilitating the growth of SMEs and the emergence of new MSBs.

Its commitment was rendered concrete both in 2013 and 2014, by the notification of a positive opinion by the Comité de Suivi Paritaire de Pacte PME (SME Pact Joint Steering Committee), thus reflecting recognition of the actions undertaken in France for SMEs, with the association communicating this notification to the Ministry of the Economy, thus signifying the compliance of Thales with its commitments from the “Innovative SME Charter” signed in 2012.

## 5.3.4 FAIR PRACTICES

### 5.3.4.1 Anti-corruption

#### 5.3.4.1.1 An internal compliance programme

Corruption represents a major risk for multinationals and particularly those which bid for public contracts. Solicitation, extortion and passive corruption are still very common in countries with weak governance. These types of practice expose companies and their managers to criminal and civil sanctions and, are, furthermore, harmful in terms of reputation.

At the end of the 1990s, in order to protect itself against these risks, Thales put in place a corruption risk prevention policy, since included in a continuous improvement process.

The Group's corruption risk prevention programme is regularly assessed and readjusted on the basis of legislative amendments as well as internal and external risks. The procedures are, consequently, developed and readjusted in the light of the assessment of the levels of corruption risk and impacts identified.

This worldwide corruption risk prevention programme is based on:

- an international organisation and dedicated resources tasked with implementing anti-corruption programmes and procedures;
- integrating corruption risk prevention procedures into the company's operational processes, in particular during sales transactions in which third parties are involved;
- internal alert systems available to employees;
- a robust internal control and auditing system;

- information, awareness and training programmes for the Group's employees aimed firstly at the job families potentially the most exposed (marketing, sales, projects, purchasing).

In July 2014, the Thales group corruption risk prevention programme was certified by the consultancy Mazars and by ADIT. The ADIT/Mazars benchmark is compliant with national and international laws and regulations concerning the fight against corruption (French law, the United Kingdom Bribery Act, the United States Foreign Corrupt Practices Act (FCPA), the OECD Anti-Bribery Convention on Bribery of Foreign Public Officials in International Business Transactions), the tenth principle of the United Nations Global Compact and best practices in terms of anti-corruption procedures. Furthermore, this benchmark is focused on five main areas (control environment, risk assessment, control, monitoring, information and communication) set out in over 200 control points. It was validated by an International Advisory Board and by the Central Anti-Corruption Service (SCPC – Service Central de Prévention de la Corruption) of the French Ministry of Justice.

The “zero tolerance” policy concerning all acts of corruption has the full support of the Group's General management and Board of directors.

The involvement of the Thales group in professional, intergovernmental and non-governmental organisations also represents one of the key aspects of its anti-corruption, sharing and circulating of best practices policy. Thales has contributed to establishing directives and standards common to all the sectors of activity such as the OECD's “Good Practice Guidance on Internal Controls, Ethics and Compliance” or, more specifically for the Aerospace and Defence industry, the Common Industry Standards at European level and the Global Principles of Business Ethics published by IFBEC<sup>(1)</sup>, the common structure of the Aerospace and Defence Industries Association of Europe (ASD) and the Aerospace Industries Association of America (AIA).

(1) International Forum on Business Ethical Conduct.



## AN ETHICS POLICY BACKED BY A SOLID ORGANISATION

Thales has governance bodies and an organisation aiming to design, deploy, manage and monitor a coherent system of ethical standards in terms of the prevention of the corruption risk, and to instil a corporate responsibility culture across the whole Group. Confirming the central role of ethics and corporate responsibility in the Group's strategy, Thales formed an Ethics & Corporate Responsibility Committee in 2001. The tasks of this Group Committee are based on three strands: (i) strategy: contributing to defining the Thales policy in terms of ethics and corporate responsibility; alerting and proposing ethical orientations with regard to the standards and procedures concerning sales, environmental, social and societal issues; (ii) ownership: ensuring the updating of the Code of Ethics and its deployment within Thales; defining training objectives and the suitable means of communications; coordinating and monitoring the Country Ethics Committees, Ethics Officers; (iii) arbitration: handling the ethical issues submitted to it; expedite, if necessary, the appropriate enquiries and suggesting possible adapted actions/sanctions to management. The Group's Ethics and Corporate Responsibility Committee is chaired by the Group secretary.

The role of the Ethics & Corporate Responsibility Department is to implement the policy defined by the Committee. It contributes to changing behaviour within the Group – defining and deploying best practices – and fixes the internal standards and processes relating to ethical business conduct – more specifically anti-corruption, working closely and in a cross-functional manner with all the Group Departments. It is also tasked with preventing non-compliance with the Code of Ethics – which sets out the general rules and values which Thales wishes to promote.

Ethics Officers ensure the circulation of the Code of Ethics and its principles in all the Group's units. Their role consists of overseeing the training and awareness of the personnel, replying to questions concerning the application of the code, as well as adjusting the Group's ethics approach to local customs and practices and legislation.

Compliance officers ensure compliance with national laws and standards decreed by the Group in the fields of business ethics and anti-corruption.

In order to reinforce the Thales ethics and corporate responsibility approach, and to ensure each employee is involved in the prevention of risks, a set of ethics alerts authorised by CNIL<sup>(1)</sup> is available to all the Group's employees. This system enables them:

- to obtain information and advice, in the event of questions or doubts, regarding the application or interpretation of the rules of the Code of Ethics;
- to notify:
  - acts in the accounting, financial or banking areas as well as the fight against corruption or against practices that are prohibited by unfair trading laws,
  - acts of discrimination, harassment or serious acts relating to failure to respect legislation concerning hygiene, endangering the physical or mental health of employees which are liable to seriously impact the Group's business or result in it being held liable.

In order to facilitate the use of this tool, a user guide is available for employees.

### 5.3.4.1.2 Strict anti-corruption processes in dealings with third parties

The risks inherent in sales are borne in mind in all the business management processes. These operational processes anticipate, starting in the upstream phases, the implementation of action plans designed to reduce the sales risk, with great attention paid to anti-corruption.

Thales strictly supervises the use of agents and consultants (Business Advisers) by means of a very detailed procedure including, in particular, in-depth checks and controls upstream (due diligence) – backed up by analysing alerts or risk factors – as well as appropriate declarations and undertakings on the part of these advisers. Designed by the Group's Ethics & Corporate Responsibility Department, this procedure is regularly revised in conjunction with the Group's Legal Department and the Sales Department. Moreover, to back up its strategy of strengthening its role on the international stage and to gain a strong foothold in the targeted countries, Thales qualifies and chooses its Key Industrial Partners. The qualification and selection process is designed to secure sustainable partnerships with domestic industrial players meeting a set of criteria relating to integrity and business ethics, competence and expertise. This system, updated in 2014, is part of a process of deploying adapted and reasonable measures for prior verification (due diligence) concerning third parties.

An international organisation, dedicated and independent from the operational commercial units, performs the necessary verifications – backed up by external studies and analyses conducted by companies specialising in financial monitoring – during the phases of qualifying and selecting agents and consultants, in addition to the local Industrial Partners of Thales.

Furthermore, using risk mapping and rigorous internal control, the Group's Auditing, Risks & Internal Control Department conducts, at regular intervals, compliance and integrity audits covering all the business risk management systems.

Furthermore, since 2012, Thales has been ranked by Transparency International, an NGO that combats corruption throughout the world, among the ten best companies in the industry<sup>(2)</sup>. The next rankings will be published in 2015.

### 5.3.4.2 Health and safety of consumers

Not applicable.

The products, technologies and services of Thales are exclusively aimed at governmental customers in a "B to G" (Business to Government) positioning, in particular in the Defence and Security sectors, or private in "B to B" (Business to Business), notably in the aeronautics, railway transport and space sectors.

(1) Commission Nationale de l'Informatique et des Libertés (National Committee for Information Technology and Civil Liberties)

(2) Defence Companies Anti-corruption Index 2012 – Transparency International – <http://companies.defenceindex.org/report>.

### 5.3.4.3 Actions to support Human Rights

Thales signed the United Nations Global Compact in 2003 and complies with its ten principles relating to Human Rights and the right to work inspired by the Universal Declaration of Human Rights and the declaration of the International Labour Organisation relating to the fundamental principles and rights of work. These ten principles are applied on the basis of agreements and best practices which ensure its business activities are compliant with responsible conduct. Proof of the relevance of the actions conducted in terms of corporate responsibility came in the form of Thales reaching, for the third year running, the "Global Compact Advanced" level of the Differentiation Programme of United Nations Global Compact which, by respecting 21 specific criteria, is the leading benchmark in respect of reporting and performance in the field of sustainable development; among the 8,300 member countries of the Global Compact, fewer than 400 have obtained the Global Compact Advanced level to date, including 40 French companies.

Furthermore, to ensure strict control of its exports, both at a national and international level, Thales has put in place a robust global organisation and permanently reinforces its internal measures and procedures. This strong commitment is intended to protect the national security of democratic states and to contribute to the fight against the spread of weapons of mass destruction. Accordingly, Thales and the European aerospace and defence companies support the United Nations Arms Trade Treaty which came into force on 24 December 2014.

Since 2004, Thales has also ceased all activity in the field of cluster munitions, opting to respond in a proactive manner to the expectations of the NGOs involved in the field of Human Rights issues, as well as anticipating the principles and definitions of the Convention on Cluster Munitions.

Thales is also extending its own commitments in the area of corporate responsibility with regard to its suppliers and sub-contractors, in particular through its Purchasing and Corporate Social Responsibility Charter, in order to share a common base of values and principles, in particular the ten principles of the United Nations Global Compact. This action was seen by the Global Compact as a positive contribution to the Millennium Development Goals and this was made known in a publication entitled The Global Compact for Development.

Lastly, within a framework of global and multiparty dialogue, Thales took part, along with nine other major French groups operating on the international stage, in the United Nations Forum on Human Rights organised in Geneva in December 2014. This forum, attended by almost 2,000 participants from the public and private sectors, international organisations, research laboratories and universities, as well as civil society, was marked by a strong process of inclusion of companies in a constructive dialogue within the framework of the implementation of the United Nations' guidelines relating to Human Rights (called the "Ruggie Principles").

5.3.5 **SOCIETAL INDICATORS**

Performance indicators	Description	2014 data	Scope <sup>(a)</sup>	Comments/References
<b>G4-SO3</b>	<b>Total number and percentage of sites having been assessed with regard to corruption risk and significant risks identified</b>	125 <sup>(b)</sup>	100%	Corruption risk, just like the other major risks on the Group's risk mapping, is an integral part of the overall Thales risk management system. See paragraph on: <i>Risk factors/Legal and compliance risks/Compliance with laws and regulations/Management of commercial activities.</i> See also the paragraph on: <i>Fair practices/Anti-corruption/An internal compliance programme.</i>
<b>G4-SO4</b>	<b>Communication and training with regard to anti-corruption policies and procedures</b>	640 <sup>(c)</sup>	100%	Delivered by two multilingual trainers who are specialists in the field of ethical business conduct, this four-hour course takes place either on the Thales University campuses across the world or directly on site. It is essentially intended for employees working in the Purchasing, Sales and Marketing, Offers and Projects job families. An e-learning programme comprising three 30-minute modules (in French, English and German) is also made available to all Group employees. See paragraph on: <i>Risk factors/Legal and compliance risks/Compliance with laws and regulations/Management of commercial activities.</i>
<b>G4-SO5</b>	<b>Proven cases of corruption and measures taken</b>	No case reported	100%	In order to master corruption risk, Thales manages its local entities through a dedicated international organisation comprised of five global branches, tasked, amongst other things, with ensuring the integrity of the partners chosen. These global regional branches are the only entities within the Group that are duly designated, authorised and experienced, and they therefore coordinate the process of qualification of partners which, in particular, includes controls via a third party. See also the paragraph on: <i>Fair practices/Anti-corruption/An internal compliance programme.</i> At the same time, Thales has a global professional alert system, authorised by the Commission nationale de l'informatique et des libertés (CNIL – National Committee for Information Technology and Civil Liberties) in 2011, enabling all of the Group's employees to notify acts in the accounting, financial or banking areas as well as the fight against corruption or against practices that are prohibited by unfair trading laws, in addition to acts of discrimination, harassment or failure to respect health and safety legislation. None of the incidents reported in 2014 concerned a case of corruption. See also the paragraph on: <i>Fair practices/Anti-corruption/An internal compliance programme.</i>

(a) The scope covered is formed by all of the financially consolidated companies within the Group.

(b) 120 operational entities (entities controlled by Thales) in addition to five regional branches (Southern & South-East Asia/Middle East and Western Asia/Europe/Africa/South America) of the international organisation.

(c) Between 2008 and 2014, 6,310 employees were trained worldwide, 640 of them in 2014.

## 5.4 Statutory auditors' independent third-party report on consolidated social, environmental and societal information published in the management report

### Year ended 31 December 2014

To the Shareholders,

As independent third-party, members of Mazars' network, statutory auditor's of Thales, whose accreditation application was accepted by the French National Accreditation Body (COFRAC) under the number 3-1058<sup>(1)</sup>, we hereby present our report on the consolidated social, environmental and societal information provided in the management report prepared for the year ended 31 December 2014, (hereinafter referred to as "CSR Information"), pursuant to Article L.225-102-1 of the French Commercial Code (Code de commerce).

### Responsibility of the Company

The Board of directors of Thales is responsible for preparing a management report including the CSR Information required under Article R.225-105-1 of the French Commercial Code, in accordance with the reporting criteria used by Thales (the "Reporting Criteria") and available on request at the Company's Headquarters

### Independence and quality control

Our independence is defined by regulatory texts, the profession's Code of Ethics and by the provisions of Article L.822-11 of the French Commercial Code. Furthermore, we have set up a comprehensive quality control system that includes documented policies and procedures designed to ensure compliance with deontological rules, professional standards and applicable legal texts and regulations.

### Responsibility of the Independent Third-Party

Based on our work, our role is to:

- attest that the required CSR Information is disclosed in the management report or, that an explanation has been provided if any information has been omitted, in accordance with the third paragraph of Article R.225-105 of the French Commercial Code (Attestation of completeness);
- provide limited assurance that, on the whole, the CSR Information is fairly presented, in all material respects, in accordance with the adopted Reporting Criteria (Fairness report regarding CSR Information).

Our work was carried out by a team of 13 people between September 2014 and mid-February 2015, for a period of about 13 weeks.

We conducted the work described below in accordance with the professional standards applicables in France and the legal order dated 13 May 2013 determining the methodology according to which the independent third party body conducts its mission and, regarding the fairness report, in accordance with ISAE 3000<sup>(2)</sup>.

### 1. Attestation of completeness of the CSR Information

We got acquainted with the direction that the Group is taking in terms of sustainability, with regard to the social and environmental consequences of the Company's business and its societal commitments and, where appropriate, the actions or programs that stemmed from it.

We compared the CSR Information presented in the management report with the list set forth in Article R.225-105-1 of the French Commercial Code.

In the event of omission of certain consolidated information, we verified that explanations were provided in accordance with the third paragraph of the Article R.225-105 of the French Commercial Code. We verified that the CSR Information covers the consolidated scope, which includes the Company and its subsidiaries within the meaning of Article L.233-1 of the French Commercial Code (Code de commerce) and the companies that it controls within the meaning of Article L.233-3 of the French Commercial Code (Code de commerce), subject to the limits set forth in the methodological notes presented in the management report.

Based on our work and taking into account the limitations mentioned above, we attest that the required CSR Information has been disclosed in the management report.

### 2. Fairness report with respect to CSR Information

#### Nature and scope of procedures

We conducted about twenty interviews with the persons responsible for the preparation of CSR Information from departments in charge of the process of gathering information and, where appropriate, responsible of the internal control and risk management to:

- assess the appropriateness of the Reporting Criteria in terms of its relevance, completeness, neutrality, clarity and reliability, by taking into consideration, when relevant, the sector's best practices;
- verify the set-up within the Group of a process to collect, compile, process and check the CSR Information with regard to its completeness and consistency. We familiarized ourselves with the internal control and risk management procedures relating to the compilation of the CSR Information.

We determined the nature and extent of tests and controls depending on the nature and importance of CSR Information in relation to the characteristics of the Company, the social and environmental issues of its operations, its strategic priorities in relation to sustainable development, and the Industry best practices.

(1) The scope of which is available on the website [www.cofrac.fr](http://www.cofrac.fr).

(2) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

Concerning the CSR Information that we considered to be most significant<sup>(1)</sup>:

- at Group level, we consulted source documents and conducted interviews to corroborate the qualitative information (organization, policies, actions), we implemented analytical procedures on the quantitative and verified, on the basis of sampling techniques, the calculations and consolidation of the information and we verified its consistency with the other information contained in the management report;
- at the level of a representative sample of entities<sup>(2)</sup> that we selected based on their activity, their contribution to consolidated indicators, their location and a risk analysis, we conducted interviews to verify the proper application of procedures and conducted substantive tests, using sampling basis, to verify the calculations performed and reconciled data with supporting evidence.

The selected sites contribution to Group data equals to 31% of headcount and between 11% to 28% of the quantitative environmental information tested.

Regarding the other CSR consolidated Information, we assessed its fairness and consistency based on our knowledge of the Group. Finally, we assessed the relevance of the explanations relating to, where necessary, the omission of certain information.

We deem that the sampling methods and sample sizes we have learned by exercising our professional judgment allow us to formulate a conclusion providing limited assurance; a higher level of assurance would have required more extensive work. Because of the use of sampling techniques, and because of other limits inherent to any information and internal control systems, the risk of not detecting a material misstatement in the CSR Information cannot be completely eliminated.

## Conclusion

Based on our work, we did not identify any material misstatements that cause us to believe that the CSR Information, taken as a whole, has not been fairly presented, in all material respects, in accordance with the Reporting Criteria.

Paris La Défense, 25 February 2015

French original signed by

The Independent Third-Party

### Mazars SAS

Anne-Laure Rousselou  
Partner

Emmanuelle Rigaudias  
Sustainable development Partner

(1) Social Information: global headcount and breakdown by gender, pyramids by age, number of recruitments, number of redundancies, absenteeism rate, number of training hours.  
Environmental Information: Energy consumption: annual electricity consumption, annual fossil energy consumption, total annual energy consumption, GHG (greenhouse gas) emissions: GHG emissions from energy consumption (tCO<sub>2</sub>), GHG emissions from Kyoto substances (tCO<sub>2</sub>), GHG emissions from transportation (professional travels) (tCO<sub>2</sub>); GHG emissions (Scope 1, 2 and 3 emissions); Industrial Wastewater Discharges, Annual Water Consumption Waste production: common waste production (tons), hazardous waste production (tons), common waste recovery (%), hazardous waste recovery (%); Management system: number of entities and % of Group manpower present in an ISO 14001 certified entity, actions taken for the development of Biodiversity, and to prevent noise and local nuisance. Have also been reviewed, the importance of subcontracting, and the integration of environmental challenges in the procurement policy and in the relationship with suppliers and subcontractors.  
Societal Information: Number of employment creation in France in 2014 in the context of the revitalization missions conducted by Géris Consultants, number of new projects in 2014 accompanied by Géris Consultants, overall performance of suppliers in environmental, social and governance responsibility (ESG) in 2014, «communication and training on policies and procedures in the fight against corruption» in 2014.

(2) Social Information: Thales Avionics (TAV), Thales Alenia Space (TAS), Thales Air Systems (TR6), Thales Optronique SA (TOSA), Thales (parent company), Thales UK limited.  
Environmental Information: Thales Alenia Space, Thales Alenia Space (Gorgonzola), Thales Alenia Space (Toulouse), TSA Brest, TUS Brest, Thales Optronique (Élancourt), Thales Service (Élancourt Euclide), Thales Service (Élancourt Nungesser), TSA (Élancourt Nungesser), Thales Netherlands B.V. (Hengelo), Suppliers Relationship Direction.  
Societal Information: Geris Consultants, Suppliers Relationship Direction and Corporate Responsibility Direction.

## 5.5 Social, environmental and societal information

### TABLE OF RECONCILIATION DECREE NO. 2012-557 OF 24 APRIL 2012

In accordance with decree no. 2012-557 of 24 April 2012 and with Article R.225-105-1 of the French Commercial Code on transparency obligations for companies on social and environmental matters, Thales provides information in its management report on the Group's social, environmental and societal issues. This information, which has been

verified by a declaration of inclusion and an assurance report moderated by independent verifiers, presented on pages 239 *et seq.* for the social, environmental and societal data, is presented in full in chapter 5 on "Corporate Responsibility" in this registration document.

Decree no. 2012 – 557 of 24 April 2012	Page	Section	
<b>1) SOCIAL INFORMATION</b>	<b>206</b>	<b>5.1</b>	<b>SOCIAL INFORMATION</b>
<b>a) Employment</b>	206	5.1.1	Employment in the Group
Total workforce and breakdown of employees by gender, age and geographical area	206 215	5.1.1.1 5.1.6	Employment in the Group Gender equality and diversity
Recruitments and redundancies/dismissals	208 208	5.1.1.2 5.1.1.3	Recruitments Departures
Remuneration and salary progression	213	5.1.4	A Group employee profit-sharing policy
<b>b) Organisation of work</b>			
Organisation of working hours	215	5.1.5.5	Working time
Absenteeism	215	5.1.5.3	Information on work-related accidents and absenteeism
<b>c) Employee relations</b>			
Organisation of social dialogue, especially procedures for providing information to and consulting with staff and negotiating with them	210 210	5.1.2.1 5.1.2.2	Collective bargaining Appropriate social dialogue bodies
Summary of collective agreements			
<b>d) Health &amp; safety</b>			
Health and safety conditions at work	214	5.1.5	A safe and healthy working environment: workplace health and safety
Summary of health and safety agreements entered into with trade union organisations or employee representatives with regard to health and safety at work and safety			
Frequency and severity of work-related accidents and sick leave and occupational influences	215	5.1.5.3	Information on work-related accidents and absenteeism
<b>e) Training</b>			
Policies implemented for training	212	5.1.3.5	Training
Total number of training hours			
<b>f) Equal opportunities</b>			
Measures taken to promote gender equality	215	5.1.6	Gender equality and diversity
Measures taken to promote the employment and integration of disabled persons	216 216 232	5.1.6.2.2 5.1.6.2.3 5.3.1.2	The employment of people with disabilities throughout the world The employment of people with disabilities in France Group initiative to support people with disabilities
Anti-discrimination policy	215 216	5.1.6 5.1.6.2	Gender equality and diversity Promoting cultural diversity

Decree no. 2012 – 557 of 24 April 2012	Page	Section	
<b>g) Promotion of and compliance with the International Labour Organisation fundamental conventions:</b>			
Respect for freedom of association and right to collective bargaining	214 215	5.1.5 5.1.6	Promoting social responsibility Gender equality and diversity
Elimination of discrimination in respect of employment and occupation			
Elimination of forced or compulsory labour			
Effective abolition of child labour			
<b>2) ENVIRONMENTAL INFORMATION</b>	<b>220</b>	<b>5.2</b>	<b>ENVIRONMENTAL INFORMATION</b>
<b>a) General policy</b>	<b>220</b>	<b>5.2.1</b>	<b>General policy on environmental issues</b>
Organisation of the Company to take account of environmental questions and, if applicable, environmental assessment and certification processes	221 222	5.2.1.2 5.2.1.4	Environmental organisation Control and prevention of environmental risks and pollution
Employee training and information training initiatives on protection of the environment	221	5.2.1.3	Stakeholder training and information
Measures taken to prevent environmental risks and pollution	222	5.2.1.4	Control and prevention of environmental risks and pollution
Amount of provisions and guarantees set aside for environmental risks	223	5.2.1.5	Guarantees, provisions and compensation
<b>b) Pollution and waste management</b>	<b>223</b>	<b>5.2.2</b>	<b>Pollution and waste management</b>
Measures taken to prevent, reduce and clean up discharges into the air, water and soil that seriously affect the environment	223 230	5.2.2.1 5.2.7	Limiting discharges Environmental indicators
Measures taken to prevent, recycle and eliminate waste	223 230	5.2.2.2 5.2.7	Preventing production, recycling and eliminating waste Environmental indicators
Mitigation of noise and other forms of pollution related to a business activity	224	5.2.2.3	Fighting pollution
<b>c) Sustainable use of resources</b>	<b>224</b>	<b>5.2.3</b>	<b>Sustainable use of resources</b>
Water consumption and supply in accordance with local constraints	224 230	5.2.3.1 5.2.7	Consumption of water and measures to improve its efficient use Environmental indicators
Consumption of raw materials and measures taken to improve efficiency of their use	224 228	5.2.3.2 5.2.6.1	Consumption of raw materials and measures to improve their efficient use Innovation for the development of green technologies
Energy consumption, measures taken to improve energy efficiency and use of renewable energy	225 230	5.2.3.3 5.2.7	Energy consumption and, where applicable, measures to improve energy efficiency and renewable energy use Environmental indicators
Land use	225	5.2.3.4	Land use
<b>d) Climate change</b>	<b>225</b>	<b>5.2.4</b>	<b>Fighting climate change</b>
Greenhouse gas emissions	225 230	5.2.4.1 5.2.7	Reduction of greenhouse gas emissions from activities Environmental indicators
Adaptation to the consequences of climate change	226	5.2.4.2	Contribution to fighting climate change
<b>e) Protection of biodiversity</b>	<b>227</b>	<b>5.2.5</b>	<b>Protection of biodiversity</b>
Measures taken to preserve and develop biodiversity	227	5.2.5	Protection of biodiversity

Decree no. 2012 – 557 of 24 April 2012	Page	Section	
<b>3) INFORMATION ON SOCIETAL COMMITMENTS IN FAVOUR OF SUSTAINABLE DEVELOPMENT</b>	<b>232</b>	<b>5.3</b>	<b>SOCIETAL INFORMATION</b>
<b>a) Territorial, economic and social impact of the Company's activities</b>	<b>232</b>	<b>5.3.1</b>	<b>Territorial, economic and social impact of the Group's activities</b>
In terms of regional employment and development on resident or local populations	232	5.3.1.1	Regional policies and actions of Geris Consultants SAS in France
<b>b) Relations with people or organisations with an interest in the Company's activities, especially associations for inclusion, teaching establishments, associations for defence of the environment, consumer associations and local residents' associations</b>	<b>233</b>	<b>5.3.2</b>	<b>Stakeholder relationships</b>
Conditions for dialogue with these people or organisations	233	5.3.2.1	Partnerships with professional, international and non-governmental organisations
Partnership or sponsorship operations	209 227	5.1.1.4.3 5.2.4.2.4	Educational partners and links with schools and students In the definition of international standards and partnerships
	227	5.2.5	Protection of biodiversity
	233	5.3.2.2	Thales initiatives with charitable organisations
<b>c) Subcontractors and suppliers</b>	<b>234</b>	<b>5.3.3</b>	<b>Relations with suppliers: a responsible approach</b>
Recognition of social and environmental issues in the procurement policy	221 234	5.2.1.3.2 5.3.3	Involving suppliers Relations with suppliers: a responsible approach
Importance of subcontracting and recognition of subcontractors' and suppliers' corporate responsibility in relations with them	222 227	5.2.1.3.3 5.2.4.2.4	Relations with stakeholders In the definition of international standards and partnerships
	227	5.2.5	Protection of biodiversity
	234	5.3.3	Relations with suppliers: a responsible approach
<b>d) Fair business practices</b>	<b>235</b>	<b>5.3.4</b>	<b>Loyal practices</b>
Actions undertaken to prevent corruption	235 238	5.3.4.1 5.3.5	Anti-corruption Societal indicators
Measures taken to ensure consumer health and safety	236	5.3.4.2	Health and safety of consumers
<b>e) Other actions undertaken to promote Human Rights</b>	<b>235</b>	<b>5.3.4</b>	<b>Loyal practices</b>
	214	5.1.5	A safe and healthy working environment: workplace health and safety
	215	5.1.6	Gender equality and diversity
	229	5.2.6.2	Eco-responsible products
	237	5.3.4.3	Actions to support Human Rights
	239	<b>5.4</b>	<b>Statutory auditors' independent third-party report on consolidated social, environmental and societal information published in the management report</b>



# DECLARATION BY PERSON RESPONSIBLE

## Declaration from the person responsible for the Registration Document

I hereby certify that, after having taken all reasonable measures to this effect, to the best of my knowledge, the information contained in this Registration Document is accurate and does not omit any material fact.

I certify that, to the best of my knowledge, the financial statements have been prepared in accordance with applicable accounting standards and give a fair view of the assets, liabilities, financial position and results of the Company and of all the entities taken as a whole included in the consolidation, and that the management report included on page 8 of this document presents a fair view of the development and performance of the business and financial position of the Company and of all the entities taken as a whole included in the consolidation, as well as a description of the main risks and uncertainties to which they are exposed.

I have received a letter from the statutory auditors confirming that they have completed the work they undertook to audit the information related to the financial situation and the financial statements included in this document, as well as a review of this document in its entirety.

The historic financial information presented in this Registration Document is the subject of reports from the statutory auditors. The reports on the consolidated financial statements for 2014 on pages 85 and 86 of this document and the parent company financial statements for 2014 on page 119 of this document have been issued without reservation and include some observations. The reports on the consolidated financial statements for 2012 and 2013, included by reference in this 2014 Registration Document, were issued without reservation and they include some observations.

Paris La Défense, 1 April 2015

**Patrice Caine**

Chairman & Chief Executive Officer

## Detailed table of contents

Chairman & chief executive officer's foreword

Overview of the Group

History

Key data

## FINANCIAL INFORMATION 2014

<b>1.1</b>	<b>Group management report</b>	<b>8</b>
<b>1.1.1</b>	<b>REPORT ON OPERATIONS AND RESULTS</b>	<b>8</b>
1.1.1.1	Key figures (adjusted)	8
1.1.1.2	Presentation of financial information	8
1.1.1.3	Order intake	10
1.1.1.4	Sales	11
1.1.1.5	Adjusted results	12
1.1.1.6	Consolidated results	12
1.1.1.7	Financial position at 31 December 2014	13
1.1.1.8	Proposed dividend	13
1.1.1.9	Outlook for 2015	13
<b>1.1.2</b>	<b>RISK FACTORS</b>	<b>14</b>
1.1.2.1	Operational and strategic risks	14
1.1.2.2	Legal and compliance risks	18
1.1.2.3	Financial risks	20
1.1.2.4	Insurance	23
<b>1.1.3</b>	<b>SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION</b>	<b>25</b>
<b>1.1.4</b>	<b>EVENTS SINCE YEAR-END</b>	<b>27</b>
<b>1.1.5</b>	<b>SUMMARY STATEMENT OF SHARE TRANSACTIONS IN 2014 CARRIED OUT BY DIRECTORS, NON-VOTING DIRECTORS AND RELATED PERSONS</b>	<b>28</b>
<b>1.2</b>	<b>Consolidated financial statements</b>	<b>29</b>
<b>1.2.1</b>	<b>CONSOLIDATED PROFIT AND LOSS ACCOUNT</b>	<b>29</b>
<b>1.2.2</b>	<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME</b>	<b>30</b>
<b>1.2.3</b>	<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY</b>	<b>31</b>
<b>1.2.4</b>	<b>CONSOLIDATED BALANCE SHEET</b>	<b>32</b>
<b>1.2.5</b>	<b>CONSOLIDATED STATEMENT OF CASH FLOWS</b>	<b>34</b>
<b>1.2.6</b>	<b>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>35</b>
Note 1	Accounting standards framework	36
Note 2	Segment information	40
Note 3	Impact of changes in scope of consolidation	43
Note 4	Tangible and intangible assets	44
Note 5	Investments in joint ventures and associates	47
Note 6	Financing and financial instruments	50
Note 7	Income tax	58
Note 8	Equity and earnings per share	61
Note 9	Long-term benefits	63
Note 10	Current operating assets and liabilities	71
Note 11	Cash flows	75
Note 12	Litigation	76
Note 13	Events after reporting period	76
Note 14	Accounting policies	76
Note 15	Fees paid to auditors	82
Note 16	Other disclosures	82
Note 17	List of main consolidated companies	83
<b>1.2.7</b>	<b>STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>85</b>
<b>1.3</b>	<b>Parent company management report and financial statements</b>	<b>87</b>
<b>1.3.1</b>	<b>PARENT COMPANY MANAGEMENT REPORT 2014</b>	<b>87</b>
1.3.1.1	Activity and results	87
1.3.1.2	Balance sheet at 31 December 2014	87
1.3.1.3	Outlook for the current year	88

1.3.1.4	Proposed allocation of earnings and dividend policy	88
1.3.1.5	Cross-reference table of the management report of Thales the parent company	89
<b>1.3.2</b>	<b>PARENT COMPANY FINANCIAL STATEMENTS</b>	<b>90</b>
1.3.2.1	Income statement by nature	90
1.3.2.2	Balance sheet	91
1.3.2.3	Statement of cash flows	92
1.3.2.4	Statement of changes in equity	93
1.3.2.5	Notes to the parent company financial statements	94
Note 1	Accounting principles	95
Note 2	Change in Thales' direct investments	95
Note 3	Income (loss) from operations	95
Note 4	Net financial income (expense)	95
Note 5	Net extraordinary items	97
Note 6	Income tax	97
Note 7	Tangible and intangible assets	98
Note 8	Equity investments	99
Note 9	Other financial investments	100
Note 10	Financial group accounts receivable (payable)	101
Note 11	Cash at banks and equivalents	102
Note 12	Financial debt	102
Note 13	Equity	103
Note 14	Treasury shares	104
Note 15	Plans of shares/Options granted to the employees	105
Note 16	Receivables and payables	109
Note 17	Reserves for contingencies	110
Note 18	Legal and environment risks	111
Note 19	Off-balance sheet commitments	112
Note 20	Market risks	113
Note 21	Related parties	114
Note 22	Events after reporting period	115
Note 23	Subsidiaries and equity affiliates	116
1.3.2.6	Results of the Company for the last five years	118
<b>1.3.3</b>	<b>STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS</b>	<b>119</b>

## BUSINESS REVIEW

## 121

<b>2.1</b>	<b>Operating segments</b>	<b>122</b>
<b>2.1.1</b>	<b>AEROSPACE SEGMENT</b>	<b>122</b>
2.1.1.1	Key data	122
2.1.1.2	Avionics	122
2.1.1.3	Space	123
<b>2.1.2</b>	<b>TRANSPORT SEGMENT</b>	<b>124</b>
2.1.2.1	Key data	125
2.1.2.2	Ground Transportation Systems	125
<b>2.1.3</b>	<b>DEFENCE &amp; SECURITY SEGMENT</b>	<b>126</b>
2.1.3.1	Key data	126
2.1.3.2	Secure Communications and Information Systems	126
2.1.3.3	Land and Air Systems	128
2.1.3.4	Defence Mission Systems	129
<b>2.2</b>	<b>Research and innovation</b>	<b>131</b>
<b>2.2.1</b>	<b>RESEARCH AND DEVELOPMENT - THE KEY TO COMPETITIVENESS AND GROWTH</b>	<b>131</b>
<b>2.2.2</b>	<b>FOUR KEY TECHNICAL DOMAINS</b>	<b>131</b>
<b>2.2.3</b>	<b>THALES AT THE HEART OF INNOVATION ECOSYSTEMS</b>	<b>132</b>
<b>2.2.4</b>	<b>A DYNAMIC APPROACH TO INTELLECTUAL PROPERTY MANAGEMENT</b>	<b>133</b>
<b>2.3</b>	<b>Relations between Thales and its subsidiaries</b>	<b>134</b>
<b>2.3.1</b>	<b>SIMPLIFIED ORGANISATIONAL CHART OF THALES AT 31 DECEMBER 2014</b>	<b>134</b>
<b>2.3.2</b>	<b>ROLE OF THALES PARENT COMPANY WITHIN THE GROUP</b>	<b>135</b>
<b>2.3.3</b>	<b>FINANCIAL FLOWS BETWEEN THE PARENT COMPANY AND ITS SUBSIDIARIES</b>	<b>135</b>

<b>2.4</b>	<b>Information about major operational subsidiaries and manufacturing sites</b>	<b>136</b>
<b>2.4.1</b>	<b>LIST OF THE MAIN CONSOLIDATED COMPANIES (AS OF 31 DECEMBER 2014)</b>	<b>136</b>
2.4.1.1	Controlled companies (fully consolidated)	136
2.4.1.2	Joint ventures (consolidated by the equity method)	137
2.4.1.3	Associated companies (consolidated by the equity method)	137
<b>2.4.2</b>	<b>MAJOR MANUFACTURING SITES</b>	<b>137</b>

## CORPORATE GOVERNANCE 139

<b>3.1</b>	<b>Members of the Board of directors at 31 December 2014</b>	<b>140</b>
<b>3.1.1</b>	<b>DIRECTORS</b>	<b>140</b>
<b>3.1.2</b>	<b>OTHER PERSONS ATTENDING BOARD MEETINGS (WITHOUT VOTING RIGHTS)</b>	<b>147</b>
<b>3.2</b>	<b>Chairman's report to the General Meeting of 13 May 2015 on corporate governance, internal control and risk management</b>	<b>148</b>
<b>3.2.1</b>	<b>CORPORATE GOVERNANCE</b>	<b>148</b>
3.2.1.1	Members and procedures for the organisation and functioning of the Board	148
3.2.1.2	Report on Board activity in 2014	152
3.2.1.3	Preparatory work for Board meetings	152
3.2.1.4	Assessment of the Board's performance	154
3.2.1.5	Restrictions, if any, to the Chief Executive Officer's powers	154
<b>3.2.2</b>	<b>INTERNAL CONTROL AND RISK MANAGEMENT</b>	<b>154</b>
3.2.2.1	Objectives and definitions	155
3.2.2.2	Control environment	155
3.2.2.3	Principal corporate risks and their management	157
3.2.2.4	Ongoing improvement process	158
3.2.2.5	Oversight of the internal control and risk management system	159
<b>3.3</b>	<b>Statutory auditors' report prepared in accordance with Article L.225-235 of the French Commercial Code (Code de commerce) on the report of the Chairman of the Board of directors of Thales</b>	<b>161</b>
<b>3.4</b>	<b>General management</b>	<b>162</b>
<b>3.4.1</b>	<b>EXECUTIVE COMMITTEE AT 1 APRIL 2015</b>	<b>162</b>
<b>3.4.2</b>	<b>COMPENSATION OF DIRECTORS AND OFFICERS</b>	<b>162</b>
3.4.2.1	Remuneration policy for the Chairman & Chief Executive Officer, Thales' only company representative, in 2014	162
3.4.2.2	Compensation of other Group executives	169
3.4.2.3	Share-based payments	170
<b>3.5</b>	<b>Incentives and profit-sharing</b>	<b>173</b>
<b>3.5.1</b>	<b>PROFIT-SHARING</b>	<b>173</b>
<b>3.5.2</b>	<b>INCENTIVES SCHEME</b>	<b>173</b>
<b>3.6</b>	<b>Statutory auditors</b>	<b>174</b>
<b>3.6.1</b>	<b>PRINCIPAL STATUTORY AUDITORS</b>	<b>174</b>
<b>3.6.2</b>	<b>ALTERNATE STATUTORY AUDITORS</b>	<b>174</b>
<b>3.6.3</b>	<b>FEES PAID TO AUDITORS</b>	<b>175</b>

## COMPANY AND SHARE CAPITAL 177

<b>4.1</b>	<b>General information about the Company</b>	<b>178</b>
<b>4.2</b>	<b>General Meetings</b>	<b>179</b>
<b>4.2.1</b>	<b>NOTICE OF MEETINGS AND CONDITIONS FOR ATTENDANCE</b>	<b>179</b>
<b>4.2.2</b>	<b>DOUBLE VOTING RIGHTS AND EXERCISE OF VOTING RIGHTS</b>	<b>179</b>
<b>4.2.3</b>	<b>NOTIFICATION OF EXCEEDING STATUTORY THRESHOLDS</b>	<b>179</b>
<b>4.3</b>	<b>Share capital and shareholders</b>	<b>180</b>
<b>4.3.1</b>	<b>INFORMATION ON THE DISTRIBUTION OF CAPITAL ISSUED</b>	<b>180</b>
4.3.1.1	Changes in the share capital over the last five financial years	180
4.3.1.2	Changes in the distribution of capital and voting rights over the last three financial years	181
4.3.1.3	Major changes in share ownership over the last five years	181
4.3.1.4	Notification of legal thresholds exceeded in 2014	181
<b>4.3.2</b>	<b>POTENTIAL CAPITAL</b>	<b>182</b>
4.3.2.1	Maximum potential capital at 31 December 2014	182
4.3.2.2	Securities in circulation giving access to share capital (bonds, warrants and options)	182
<b>4.3.3</b>	<b>SHAREHOLDERS</b>	<b>182</b>
4.3.3.1	Breakdown of shareholders at 31 December 2014	182
4.3.3.2	Shareholders acting in concert	183
4.3.3.3	Shareholders' agreement, agreement on the protection of strategic national interests and specific agreement	183
4.3.3.4	Treasury shares	185
4.3.3.5	Shares owned by the public	188
4.3.3.6	Employee shareholdings at 31 December 2014	189
4.3.3.7	Summary statement of share transactions in 2014 carried out by directors, non-voting directors and related persons	190
4.3.3.8	Trading in Company shares during 2014	191
4.3.3.9	General Meeting authorisations valid at 31 December 2014	191
4.3.3.10	Key factors likely to have an impact in the event of a public offering (information covered by Article L.225-100-3 of the French Commercial Code)	192
<b>4.4</b>	<b>Regulated commitments</b>	<b>193</b>
<b>4.4.1</b>	<b>AGREEMENTS AND COMMITMENTS AUTHORISED AFTER CLOSING</b>	<b>193</b>
<b>4.4.2</b>	<b>AGREEMENTS AND ENGAGEMENTS AUTHORISED DURING 2014</b>	<b>193</b>
<b>4.4.3</b>	<b>AGREEMENTS AUTHORISED DURING PREVIOUS FINANCIAL YEARS</b>	<b>194</b>
<b>4.4.4</b>	<b>STATUTORY AUDITORS' REPORT ON RELATED PARTY AGREEMENTS AND COMMITMENTS</b>	<b>195</b>
<b>4.5</b>	<b>Stock market information financial communication</b>	<b>198</b>
<b>4.5.1</b>	<b>THALES SHARES</b>	<b>198</b>
4.5.1.1	Listing markets	198
4.5.1.2	Index listing	198
4.5.1.3	Share price and trading volumes on NYSE Euronext Paris	199
4.5.1.4	Dividend policy	201
<b>4.5.2</b>	<b>FINANCIAL COMMUNICATION POLICY</b>	<b>201</b>
4.5.2.1	General	201
4.5.2.2	Provisional financial reporting calendar for 2015	202
4.5.2.3	Contacts	202
4.5.2.4	Annual Information Document: Key information for shareholders	202
<b>4.5.3</b>	<b>OTHER MARKET SECURITIES</b>	<b>203</b>
4.5.3.1	Bond maturing in 2016	203
4.5.3.2	Bond maturing in 2018 and 2021	203

## CORPORATE RESPONSIBILITY 205

### 5.1 Social Information 206

#### 5.1.1 A RESPONSIBLE EMPLOYMENT POLICY 206

5.1.1.1	Employment in the Group	206
5.1.1.2	Recruitments	208
5.1.1.3	Departures	208
5.1.1.4	Attractiveness policy	209

#### 5.1.2 HIGH-QUALITY SOCIAL DIALOGUE 210

5.1.2.1	Collective bargaining	210
5.1.2.2	Appropriate social dialogue bodies	210

#### 5.1.3 SUPPORT FOR PROFESSIONAL DEVELOPMENT 211

5.1.3.1	Management of job families	211
5.1.3.2	Anticipation in support of the security of career paths	211
5.1.3.3	The employee as active participant in his professional development	212
5.1.3.4	Mobility and career paths	212
5.1.3.5	Training	212
5.1.3.6	Development of a leadership model	213

#### 5.1.4 A GROUP EMPLOYEE PROFIT-SHARING POLICY 213

5.1.4.1	Remuneration and salary progression	213
5.1.4.2	Incentives and profit-sharing in France	214
5.1.4.3	Group savings scheme	214
5.1.4.4	Grants of units or units subject to performance conditions	214

#### 5.1.5 A SAFE AND HEALTHY WORKING ENVIRONMENT: WORKPLACE HEALTH AND SAFETY 214

5.1.5.1	A dedicated organisation	214
5.1.5.2	Concrete procedures and measures	214
5.1.5.3	Information on work-related accidents and absenteeism	215
5.1.5.4	Solid welfare cover	215
5.1.5.5	Working time	215

#### 5.1.6 GENDER EQUALITY AND DIVERSITY 215

5.1.6.1	Actions to promote equality	215
5.1.6.2.1	Promoting cultural diversity	216
5.1.6.2.2	The employment of people with disabilities throughout the world	216
5.1.6.2.3	The employment of people with disabilities in France	216
5.1.6.2.4	Combating age discrimination	217

### 5.2 Environmental information 220

#### 5.2.1 GENERAL POLICY ON ENVIRONMENTAL ISSUES 220

5.2.1.1	Long-standing commitments	220
5.2.1.2	Environmental organisation	221
5.2.1.3	Stakeholder training and information	221
5.2.1.4	Control and prevention of environmental risks and pollution	222
5.2.1.5	Guarantees, provisions and compensation	223

#### 5.2.2 POLLUTION AND WASTE MANAGEMENT 223

5.2.2.1	Limiting discharges	223
5.2.2.2	Preventing production, recycling and eliminating waste	223
5.2.2.3	Fighting pollution	224

#### 5.2.3 SUSTAINABLE USE OF RESOURCES 224

5.2.3.1	Consumption of water and measures to improve its efficient use	224
5.2.3.2	Consumption of raw materials and measures to improve their efficient use	224
5.2.3.3	Energy consumption and, where applicable, measures to improve energy efficiency and renewable energy use	225
5.2.3.4	Land use	225

5.2.4	FIGHTING CLIMATE CHANGE	225
5.2.4.1	Reduction of greenhouse gas emissions from activities	225
5.2.4.2	Contribution to fighting climate change	226

#### 5.2.5 PRESERVATION OF BIODIVERSITY 227

#### 5.2.6 PRODUCTS AND ENVIRONMENT 228

5.2.6.1	Innovation for the development of green technologies	228
5.2.6.2	Eco-responsible products	229
5.2.6.3	Products to serve the environment	229

#### 5.2.7 ENVIRONMENTAL INDICATORS 230

#### 5.2.8 ENVIRONMENTAL REPORTING RULES 231

5.2.8.1	Scope	231
5.2.8.2	Reporting procedure	231
5.2.8.3	Indicators	231

### 5.3 Societal information 232

#### 5.3.1 TERRITORIAL, ECONOMIC AND SOCIAL IMPACT OF THE BUSINESS 232

5.3.1.1	The regional policies and action of Geris Consultants SAS in France	232
5.3.1.2	Group initiatives to support people with disabilities	232

#### 5.3.2 STAKEHOLDER RELATIONSHIPS 233

5.3.2.1	Partnerships with professional, international and non-governmental organisations	233
5.3.2.2	Thales initiatives with charitable organisations	233

#### 5.3.3 RELATIONS WITH SUPPLIERS: A RESPONSIBLE APPROACH 234

#### 5.3.4 FAIR PRACTICES 235

5.3.4.1	Anti-corruption	235
5.3.4.2	Health and safety of consumers	236
5.3.4.3	Actions to support Human Rights	237

#### 5.3.5 SOCIETAL INDICATORS 238

#### 5.4 Statutory auditors' independent third-party report on consolidated social, environmental and societal information published in the management report 239

#### 5.5 Social, environmental and societal information 241

Declaration by person responsible	244
-----------------------------------	-----

European cross-reference table	248
--------------------------------	-----

Annual financial report reconciliation table	252
--	-----

# EUROPEAN CROSS-REFERENCE TABLE

To facilitate reading of this Registration Document, the following European Cross-Reference table allows the identification of the main information required by Annex 1 of the European Regulation No. 809/2004.

## EC REGULATION NO. 809/2004

No.	Heading	Page(s)
<b>1</b>	<b>Persons responsible</b>	
1.1	Persons responsible for the information given in the Registration Document	244
1.2	Declaration by persons responsible for the Registration Document	244
<b>2</b>	<b>Statutory auditors</b>	
2.1	Names and addresses of the Company's statutory auditors	174
2.2	Statutory auditors having resigned, been removed or not having been re-appointed during the period covered	n/a
<b>3</b>	<b>Selected financial information</b>	
3.1	Selected historical financial information	5, 6, 40 to 42, 120
3.2	Selected financial information for interim periods	n/a
<b>4</b>	<b>Risk factors</b>	<b>14 to 24</b>
<b>5</b>	<b>Information about the issuer</b>	
5.1	History and development of the Company	4
5.1.1	Legal and commercial name of the Company	178
5.1.2	Place of registration of the Company and its registration number	178
5.1.3	Date of incorporation and length of life of the Company	178
5.1.4	Domicile and legal form of the Company, the legislation under which the Company operates, its country of incorporation, and the address and telephone number of its registered office	178
5.1.5	Important events in the development of the Company's business	4
5.2	Investments	
5.2.1	Principal investments realised by the Company for each financial year for the period covered by the historical financial information up to the date of the Registration Document	13, 34, 43 and 44, 75
5.2.2	Principal investments of the Company which are in progress	n/a
5.2.3	Principal future investments on which the Company's management bodies have already made firm commitments	n/a
<b>6</b>	<b>Business overview</b>	
6.1	Principal activities	122 to 130
6.1.1	Nature of the Company's operations and its principal activities	122 to 130
6.1.2	Significant new products or services introduced	122 to 130
6.2	Principal markets	122 to 130
6.3	Exceptional events influencing the information given pursuant to items 6.1. and 6.2.	n/a
6.4	Extent to which the Company is dependent on patents or licences, industrial, commercial or financial contracts, or new manufacturing processes	20
6.5	Basis for statements made by the Company regarding its competitive position	122 to 130
<b>7</b>	<b>Organisational structure</b>	
7.1	Description of the Group and the Company's position within the Group	3, 134 and 135
7.2	List of the Company's significant subsidiaries	136 and 137
<b>8</b>	<b>Property, plant and equipment</b>	
8.1	Existing or planned material tangible fixed assets	44 to 46, 137
8.2	Environmental issues that may affect the Company's utilisation of the tangible fixed assets	16, 112, 220 to 231

No.	Heading	Page(s)
<b>9</b>	<b>Operating and financial review</b>	
9.1	Financial condition, changes in financial condition and results of operations for each year and interim period for which historical financial information is required	8 to 13
9.2	Operating income	8 to 13
9.2.1	Significant factors, including unusual or infrequent events or new developments, materially affecting the Company's income from operations	8 to 13
9.2.2	Reasons for material changes in net sales or sales	8 to 13
9.2.3	Governmental, economic, fiscal, monetary or political policies or factors that have materially affected, or could materially affect, directly or indirectly, the Company's operations	8 to 24
<b>10</b>	<b>Capital resources</b>	
10.1	Information concerning the Company's capital resources (both short and long term)	13, 50 to 54, 75, 180
10.2	Sources and amounts and description of the Company's cash flows	13, 34, 75
10.3	Information on the borrowing requirements and funding structure of the Company	50 to 54, 203
10.4	Information regarding any restrictions on the use of capital resources that have materially affected, or could materially affect, directly or indirectly, the Company's operations	14 to 24
10.5	Information regarding the anticipated sources of funds needed to fulfil commitments referred to in items 5.2.3. and 8.1.	13, 50 to 52, 75, 180
<b>11</b>	<b>Research and development, patents and licences</b>	<b>20, 131 to 133</b>
<b>12</b>	<b>Trend information</b>	
12.1	Significant trends in production, sales and inventory, and costs and selling prices since the end of the last financial year to the date of the Registration Document	n/a
12.2	Known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Company's prospects for at least the current financial year	13
<b>13</b>	<b>Profit forecasts or estimates</b>	
13.1	Statement setting out the principal assumptions upon which the Company has based its forecast or estimate	n/a
13.2	Report prepared by independent accountants or auditors	n/a
13.3	Profit forecast or estimate prepared on a basis comparable with the historical financial information	n/a
13.4	Statement setting out whether or not the profit forecast is still correct as at the time of the Registration Document, and an explanation of why such forecast is no longer valid if that is the case	n/a
<b>14</b>	<b>Administrative, management and supervisory bodies and senior management</b>	
14.1	Name, business address, functions at the issuer and principal activities performed outside the issuer by (a) members of the administrative, management or supervisory bodies; (b) partners with unlimited liability, in the case of a partnership limited by shares; (c) founders, if the Company has been established for fewer than five years; and (d) any senior manager who is relevant to establishing that the issuer has the appropriate expertise and experience for the management of the issuer's business. The nature of any family relationship between any of those persons. In the case of each member of the administrative, management or supervisory body of the Company and of each person mentioned in points (b) and (d) above, details of that person's relevant management expertise and experience and the following information: (a) the names of all companies and partnerships of which such person has been a member of the administrative, management or supervisory bodies or partner at any time in the previous five years; (b) any convictions in relation to fraudulent offences for at least the previous five years; (c) details of any bankruptcies, receiverships or liquidations for at least the previous five years; (d) details of any official public incrimination and/or sanctions of such person by statutory or regulatory authorities and whether such person has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer for at least the previous five years. Statement to the effect that there is no such information to be disclosed	140 to 147, 162
14.2	Administrative, management and supervisory bodies and senior management conflicts of interests, and any arrangement or understanding reached	140 to 147, 150
<b>15</b>	<b>Remuneration and benefits</b>	
15.1	Amount of remuneration paid and benefits in kind granted by the Company and its subsidiaries	163 to 172
15.2	Total amount set aside or accrued by the Company or its subsidiaries to provide pension, retirement or similar benefits	163 to 172
<b>16</b>	<b>Board practices</b>	
16.1	Date of expiration of the current term of office and period during which the person has served in that office	149
16.2	Information about members of the administrative, management or supervisory bodies' service contracts with the Company or any of its subsidiaries providing for benefits upon termination of employment, or an appropriate negative statement	193 to 194, 150
16.3	Information about the Company's audit committee and remuneration committee	152 to 153
16.4	Statement as to whether or not the Company complies with the corporate governance regime in operation in its country of incorporation	148, 164

No.	Heading	Page(s)
<b>17</b>	<b>Employees</b>	
17.1	Number of employees at the end of the period or the average for each financial year for the period covered by the historical financial information, and breakdown of persons employed by main category of activity and geographic location	63, 120, 206 to 208
17.2	Shareholdings and stock options. Information as to share ownership and options of Company directors	67 to 70, 104 to 108, 163 to 172, 213 and 214
17.3	Arrangements for involving the employees in the capital of the Company	173, 213 and 214
<b>18</b>	<b>Major shareholders</b>	
18.1	Name of any person, other than a member of the administrative, management or supervisory bodies who, directly or indirectly, has an interest in the Company's capital or voting rights which must be disclosed under the applicable national law, together with the amount of such interest or, if there are no such persons, an appropriate negative statement	28, 190
18.2	Whether the Company's major shareholders have different voting rights, or an appropriate negative statement	179
18.3	Direct or indirect ownership or control of the Company	182 to 189
18.4	Description of any arrangements, known to the Company, the operation of which may, at a subsequent date, result in a change in control of the Company	n/a
<b>19</b>	<b>Related party transactions</b>	<b>49, 114</b>
<b>20</b>	<b>Financial information concerning the issuer's assets and liabilities, financial position and profits and losses</b>	
20.1	Historical financial information	5, 29 to 84
20.2	Pro forma financial information	n/a
20.3	Financial statements	29 to 84, 90 to 118
20.4	Auditing of historical annual financial information	
20.4.1	Statement that the historical financial information has been audited	85 and 86, 119
20.4.2	Other information in the Registration Document which has been audited by the auditors	161, 195 to 197, 239 and 240
20.4.3	Indication of the source of financial data in the Registration Document which is not extracted from the Company's audited financial statements and a statement that this data is unaudited	n/a
20.5	Age of latest audited financial information	36
20.6	Interim and other financial information	
20.6.1	Quarterly or half yearly financial information published since the date of last audited financial statements, with audit or review report if applicable	n/a
20.6.2	If the Registration Document is dated more than nine months after the end of the last audited financial year, it must contain interim financial information, which may be unaudited, covering at least the first six months of the financial year	n/a
20.7	Dividend policy	
20.7.1	Dividend per share	13, 62, 88, 201
20.8	Legal and arbitration proceedings	20, 76, 110
20.9	Significant change in the financial or trading position	n/a
<b>21</b>	<b>Additional information</b>	
21.1	Share capital	
21.1.1	Amount of issued capital, number of shares authorised, number of shares issued and fully paid, and issued but not fully paid, par value per share, and reconciliation of the number of shares outstanding at the beginning and end of the year	180 to 182, 185 to 189
21.1.2	Shares not representing capital	n/a
21.1.3	Number, book value and par value of shares in the Company held by or on behalf of the Company itself or by its subsidiaries	185 to 189
21.1.4	Amount of convertible, exchangeable or cum warrant securities	n/a
21.1.5	Information about the terms of any acquisition rights or obligations over authorised but unissued capital or an undertaking to increase the capital	182
21.1.6	Information about the capital of any member of the Group which is under option or agreed conditionally or unconditionally to be put under option	n/a
21.1.7	History of share capital for the period covered by the historical financial information	180 to 182, 185 to 189
21.2	Memorandum and Articles of Association	
21.2.1	Corporate purpose	178
21.2.2	Members of the administrative, management and supervisory bodies	140 to 147, 149, 162

No.	Heading	Page(s)
21.2.3	Rights, preferences and restrictions attaching to each class of the existing shares	178 and 179
21.2.4	Action necessary to change the rights of shareholders	178 and 179
21.2.5	Conditions governing the manner in which Annual General Meetings and Extraordinary General Meetings of Shareholders are called, including the conditions of admission	178 and 179
21.2.6	Any provisions of the Company's memorandum and Articles of Association, charter or bylaws that would have the effect of delaying, deferring or preventing a change in control of the Company	192, 183 to 185
21.2.7	Any provisions of the Company's memorandum and Articles of Association, charter or bylaws governing the ownership threshold above which share ownership must be disclosed	179, 181
21.2.8	Conditions imposed by the memorandum and Articles of Association, charter or bylaws governing changes in the capital, where such conditions are more stringent than is required by law	192, 183 to 185
<b>22</b>	<b>Material contracts (other than contracts entered into in the ordinary course of business)</b>	<b>n/a</b>
<b>23</b>	<b>Third party information, statements by experts and declarations of interest</b>	
23.1	Information about persons issuing statements or reports	174 and 175
23.2	Confirmation that information has been faithfully reproduced and that no facts have been omitted which would render the reproduced information inaccurate or misleading	n/a
<b>24</b>	<b>Documents on display</b>	<b>202</b>
<b>25</b>	<b>Information on holdings</b>	<b>83 and 84, 116 to 118, 134 to 137</b>



# ANNUAL FINANCIAL REPORT RECONCILIATION TABLE

To facilitate reading of the Registration Document, the following European Cross-Reference table allows the identification of information that constitutes the Annual Financial Report in accordance with Articles L. 451-1-2 of the French Monetary and Financial Code and 222-3 of the AMF General Regulations.

Parent company financial statements	90
Consolidated financial statements	29
Parent company management report	87
Group management report	8
Statutory auditors' report on the parent company financial statements	119
Statutory auditors' report on the consolidated financial statements	85
Declaration by person responsible	244
Chairman's report to the Annual General Meeting of 13 May 2015 on corporate governance and internal control	148
Statutory auditors' report on the Chairman's report	161
Statutory auditors' fees	175
List of all information published by the Group and made public in the last twelve months	202

This document is printed in compliance with ISO 14001.2004 for an environment managment system

# THALES

Tour Carpe Diem  
31 place des Corolles - CS 20001  
92098 Paris La Défense  
France  
Tél. : +33 (0)1 57 77 80 00  
[www.thalesgroup.com](http://www.thalesgroup.com)