

Registration Document 2015

Annual Financial Report



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Registration document

Including the Annual Financial Report

2015



This registration document was filed with the Autorité des Marchés Financiers (AMF) on 31 March 2016, 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 an offering circular authorised by the AMF. It was drawn up by the issuer and its signatories accept liability.

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 presented 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, presented respectively on pages 5 and 8 to 30 of the 2013 registration document filed with the AMF on 1 April 2014;
- the consolidated financial statements and corresponding audit reports presented on pages 29 to 86 of the 2014 registration document filed with the AMF on 1 April 2015;
- the Group's financial information, key figures and management report, presented respectively on pages 5 and 8 to 28 of the 2014 registration document filed with the AMF on 1 April 2015.

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



Patrice Caine, Chairman & Chief executive officer

CHAIRMAN & CHIEF EXECUTIVE OFFICER'S FOREWORD

In 2015, Thales saw renewed sustainable growth.

2015 represented an important step in the success of our profitable growth strategy, Ambition 10.

Orders were up 31% compared to 2014, reaching a record level of €18.9 billion. At the same time, our sales figures returned to solid growth after several years of relative stability.

This very positive performance was achieved thanks to the involvement of all Thales teams who, together, made the initiatives undertaken as part of our "Ambition Boost" performance plan a success. I am referring in particular to our success in emerging markets and the realisation of several major contracts, as well as our marketing approach, which focuses on creating value for our customers.

Our sales in emerging markets have continued to grow strongly: up 16% compared to 2014, and by 40% compared to 2012. Our order intake across these markets reached €6 billion in 2015, compared to only €3 billion in 2012.

In 2015, Thales signed 24 large contracts over €100 million, with five jumbo contracts worth more than €500 million each in every major sector: the signalling for four lines on the London Underground, orders linked to Egypt and Qatar's purchase of Rafale combat aircraft, more than 1,000 Hawkei vehicles for the Australian Defense Force and a military satellite communication system for France (ComSat NG). This strong commercial momentum was not limited to large contracts: the essential base formed by the intake of orders of less than €10 million, which represent almost 50% of our activity, also grew by 6%.

As of the end of 2015, our Group's balance sheet is particularly strong. We are debt-free and can finance investments and targeted acquisitions generating strong synergies, such as the acquisition of LiveTV in 2014 and the acquisition of Vormetric completed in March 2016.

Our performance in 2015 strengthens my belief that Thales is experiencing renewed sustainable growth. This growth will, in turn, lead to new challenges that the company looks forward to rising to in the future.

Thanks to the work of all its teams, Thales is undergoing a profound transformation, which will foster a profitable and sustainable growth.

Patrice Caine

Chairman & Chief Executive Officer



OVERVIEW

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 decision-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 an 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.

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

*Together – Safer –
Everywhere*

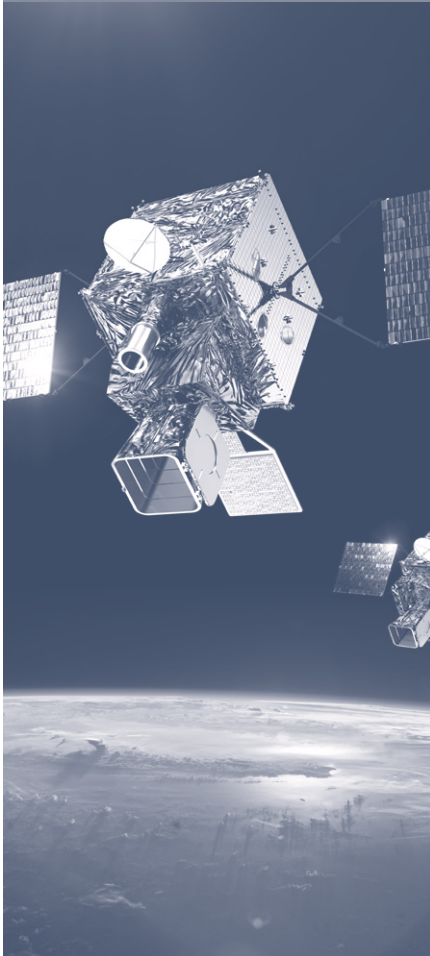
Thales sets the global standard for space systems that provide communications and navigation services, monitor our environment and the oceans, help us to gain a better understanding of climate change and drive scientific progress.

In **Ground Transportation**, Thales works in partnership with customers to deliver innovative, integrated, end-to-end signalling, supervision and ticketing 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 cybersecurity, 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 62,000 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, electroacoustics 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 interest in DCNS to 35%.



KEY FIGURES

(€ million)	2015	2014
Order book at year-end	32,292	27,285
Order intake	18,880	14,363
Sales ^(a)	14,063	12,974
France	3,421	3,419
Rest of Europe	4,422	4,252
North America	1,533	1,350
Australia/New Zealand	726	667
Emerging markets ^(b)	3,962	3,286
EBIT ^(c)	1,216	985
Adjusted net income, Group share ^(d)	809	562
Free operating cash flow ^(e)	1,110	501
Net operating investments	(458)	(443)
Net financial investments	(37)	(374)
Self-funded R&D ^(f)	(707)	(675)
Net cash at year-end	1,978	1,006
Equity, Group share	4,646	3,782
Consolidated workforce at year-end	62,194	61,709

(a) Sales by destination.

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

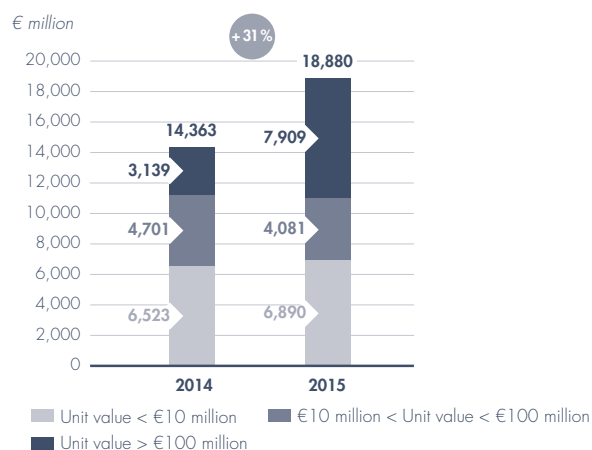
(c) An adjusted operating aggregate, corresponding to income from operations, plus the share of the net income of equity-accounted companies, before amortisation of purchased intangible assets (purchase price allocation, PPA). See presentation of financial information in the Group management report on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

(d) Adjusted net income excludes (i) the amortisation of purchased intangible assets, (ii) the "gains and losses on disposals, changes in scope and other movements" (as presented in the consolidated financial statements), (iii) change in the value of foreign exchange derivatives (recorded in "other financial results" in the consolidated financial statements), as well as (iv) the actuarial gains and losses on long-term benefit plans (recorded as "finance cost on pensions and other long-term benefits" in the consolidated financial statements), net of tax effects. See presentation of financial information in the Group management report on page 8.

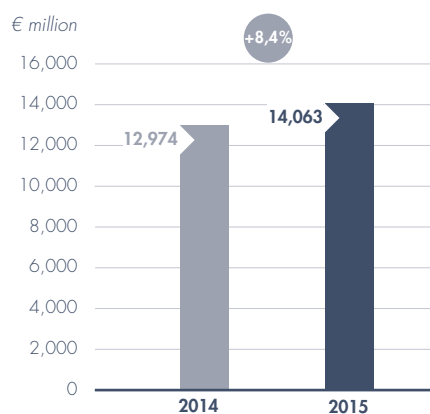
(e) See definition on page 8.

(f) Of which capitalised R&D at €15 million in 2015 and €34 million in 2014.

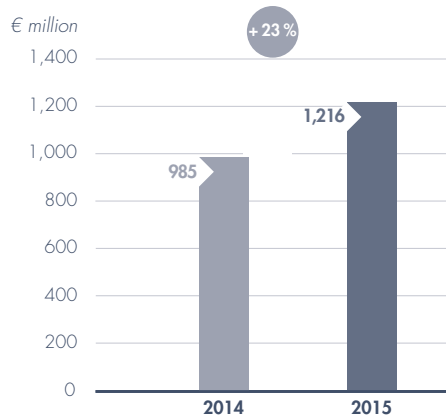
ORDER INTAKE



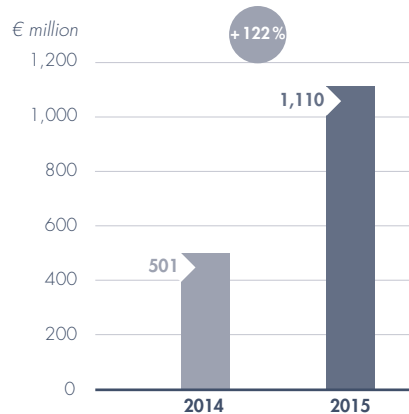
SALES



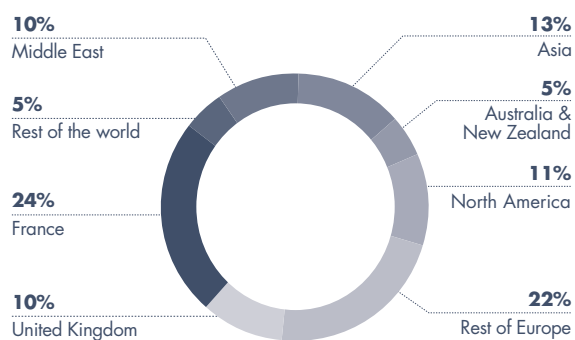
EBIT



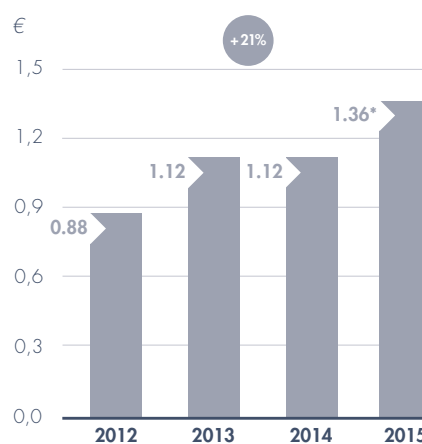
FREE OPERATING CASH FLOW



SALES BY DESTINATION



DIVIDEND



*Proposed



FINANCIAL **INFORMATION** 2015

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1.1 Management report

1.1.1 REPORT ON OPERATIONS AND RESULTS

1.1.1.1 KEY FIGURES (ADJUSTED)

(in millions of euros except income and dividends per share)	2015	2014	Total change	Organic change
Order intake	18,880	14,363	+31%	+28%
Order book at end of period	32,292	27,285	+18%	+17%
Sales	14,063	12,974	+8.4%	+4.5%
EBIT ^(a)	1,216	985	+23%	+18%
in % of sales	8.6%	7.6%	+1pt	+1pt
Adjusted net income, Group share ^(a)	809	562	+44%	
Adjusted net income, Group share, per share ^(a)	3.89	2.75	+42%	
Consolidated net income, Group share	765	714	+7%	
Dividend per share ^(b)	1.36	1.12	+21%	
Free operating cash flow ^(a)	1,110	501	+122%	
Net cash at year-end	1,978	1,006	+97%	

(a) Non-GAAP measures, see definitions in section 1.1.1.2, and computations page 9.

(b) Proposed to the Shareholders' Meeting on 18 May 2016.

In 2015, Thales achieved a record level of orders. Sales experienced solid growth after remaining virtually stable for several years. Profitability grew in line with medium-term targets.

The Group exceeded all financial targets set for 2015, which were to achieve a low-single digit sales growth and an EBIT of between €1,130 million and €1,150 million.

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 2015.

These principles, described in note 14 of the consolidated financial statements (pages 73 to 77), are consistent with those applied for the year ended 31 December 2014, with the exception of the first time adoption of the new IFRIC 21 interpretation on public levies, and the amendment to IAS1 (presentation of financial statements).

Definitions of non-GAAP financial indicators

In order to facilitate better monitoring and benchmarking of its financial and operating performance, the Group presents three key non-GAAP indicators, which allow it to exclude non-operating and non-recurring items. 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-accounted companies, before the impact of entries relating to the amortisation of intangible assets acquired (purchase price allocation, "PPA") recorded as part of significant business combinations;
- **adjusted net income** corresponds to the net income, excluding the following items, net of the corresponding tax effects:
 - amortisation of acquired intangible assets,
 - results of disposals of assets, change in scope of consolidation and others,
 - change in fair value of derivative foreign exchange instruments (recorded in "other financial results" in the consolidated accounts),
 - actuarial gains (losses) on long-term benefits (accounted within the "finance cost on pensions and other long-term benefits" in the consolidated accounts);
- **free operating cash-flow** corresponds to the net cash flow from operating activities before contributions to reduce the pension deficit in the United Kingdom, and after deducting net operating investments.

It is reminded that only the consolidated financial statements at 31 December were audited by the statutory auditors. The consolidated financial statements include the EBIT, the calculation of which is outlined in note 2 "segment information" to the consolidated financial statements, page 40. 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 statements for 2014 and 2015 is reflected in the tables on pages 9 and 10. Calculation of free operating cash-flow is outlined on page 11.

In this management report, the amounts expressed in millions of euros are rounded to the nearest million. As a result, the sums of the rounded amounts may differ very slightly from the reported totals. All ratios and variances are calculated based on underlying amounts, which feature in the consolidated financial statements.

➤ IMPACT OF ADJUSTMENT ENTRIES IN THE INCOME STATEMENT – 2015

(€ million)	Adjustments					2015 adjusted P&L
	2015 consolidated P&L	Amort. of intangible assets (PPA)	Income (loss) from disposals and others	Change in fair value of FX derivatives	Actuarial differences long-term benefits	
Sales	14,063					14,063
Cost of sales	(10,688)					(10,688)
R&D expenses	(692)					(692)
Marketing and selling expenses	(981)					(981)
General and administrative expenses	(532)					(532)
Restructuring costs	(94)					(94)
Amortisation of acquired intangible assets (PPA)	(112)	112				0
Income from operations	965					N/A
Impairment of non-current operating assets ^(a)	0					–
Disposal of assets, changes in scope and others	53		(53)			0
Share of net income (loss) in equity affiliates	113	27				140
Income from operations after income from equity affiliates	1,131					–
EBIT	N/A					1,216
Impairment of non-current operating assets ^(a)	–					0
Cost of net financial debt	4					4
Other financial income (expenses)	(42)			32		(10)
Financial cost on pensions and other long-term benefits	(60)				(12)	(73)
Income tax	(220)	(38)	(1)	(11)	4	(266)
Net income (loss)	813	100	(55)	21	(8)	871
Non-controlling interests	(48)	(13)		(2)		(62)
NET INCOME, GROUP SHARE	765	88	(55)	19	(8)	809
<i>Average number of shares (thousands)</i>	208,112					208,112
NET INCOME, GROUP SHARE, PER SHARE <i>(in euros)</i>	3.68					3.89

(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 – 2014

(€ million)	Adjustments					2014 adjusted P&L
	2014 consolidated P&L	Amort. of intangible assets (PPA)	Income (loss) from disposals and others	Change in fair value of FX derivatives	Actuarial differences long-term benefits	
Sales	12,974					12,974
Cost of sales	(9,792)					(9,792)
R&D expenses	(641)					(641)
Marketing and selling expenses	(914)					(914)
General and administrative expenses	(519)					(519)
Restructuring costs	(114)					(114)
Amortisation of acquired intangible assets (PPA)	(104)	104				0
Income from operations	889					N/A
Impairment of non-current operating assets ^(a)	0					–
Income from disposals, changes in scope and others	249		(249)			0
Share of income (loss) in equity affiliate companies	(34)	27				(7)
Income from operations after income from equity affiliates	1,104					–
EBIT	N/A					985
Impairment of non-current operating assets ^(a)	-					0
Cost of net financial debt	2					2
Other financial income (expenses)	(40)			12		(27)
Financial cost on pensions and other long-term benefits	(90)				13	(77)
Income tax	(214)	(35)	(1)	(4)	(4)	(258)
Net income (loss)	762	95	(249)	8	9	625
Non-controlling interests	(48)	(15)				(62)
NET INCOME, GROUP SHARE	714	80	(249)	8	9	562
Average number of shares (thousands)	204,774					204,774
NET INCOME, GROUP SHARE, PER SHARE (in euros)	3.49					2.75

(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.

➤ DETERMINING FREE OPERATING CASH-FLOW

(€ million)	2015	2014
Operating cash-flow before interest and tax	1,643	1,466
Change in working capital requirements and in reserves for contingencies	143	(287)
Payment of pension benefits, excluding contributions related to the reduction of the UK pension deficit	(124)	(122)
Net financial interest paid	9	(14)
Income tax paid	(102)	(98)
Net cash-flow from operating activities, excluding contributions related to the reduction of the UK pension deficit	1,569	944
Net operating investments	(458)	(443)
FREE OPERATING CASH-FLOW	1,110	501
Net (acquisitions)/disposals	37	(374)
Contributions related to the reduction of the UK pension deficit	(101)	(69)
Dividends	(234)	(243)
Exchange rate and others	159	114
CHANGE IN NET CASH	971	(71)

1.1.1.3 ORDER INTAKE

The **new orders** booked in 2015 amounted to **€18,880 million, an increase of 31%** compared to 2014 (+28% at constant scope and exchange rates⁽¹⁾). The **book-to-bill ratio** was **1.34** for the 2015 financial year.

(€ million)	2015	2014	Total change	Organic change
Aerospace	6,279	5,024	+25%	+20%
Transport	2,826	1,651	+71%	+66%
Defence & Security	9,704	7,608	+28%	+24%
Total – operating segments	18,809	14,284	+32%	+28%
Others	71	79		
TOTAL	18,880	14,363	+31%	+28%

Thales also benefited from a particularly high number of **large orders (with a unit value over €100 million)**: 24 large orders in all Group segments, following on from 19 in 2013 and 2014:

- 12 large orders in the Aerospace segment, including the installation of a new generation of individual screens across the entire A320 fleet of US airline JetBlue, the supply of two military satellite systems for the French Army (Ceres and ComSat NG), two telecommunications satellites (Bangladesh, Eutelsat), the construction of 8 additional satellites for the O3B constellation, a new phase of the Cosmo-SkyMed contract (Italy), a contract as part of the Galileo global navigation system and 4 contracts for the European Space Agency in observation and exploration (Sentinel 1C/1D, Sentinel 3C/3D, additional tranches of the Euclid and Exomars programs);
- 3 large orders in the Transport segment, for the supervision and signalling in the subway systems of London, Doha (Qatar) and Hong Kong;
- 9 large orders in the Defence & Security segment, including the upgrade of the French army's air defence system (Aster B1NT), optronics systems for "Scout" armoured vehicles in the UK, "Hawkei" light protected vehicles for the Australian Defense Force, contracts for the Rafale fighter aircraft in Egypt and Qatar, airport security in Oman, an air defence system in Malaysia as well as the sale of military equipment to two customers in the Middle East.

In 2015, the Group signed **5 "jumbo" contracts** with a unit value over €500 million: the signalling for 4 lines of the London Underground network, orders relating to the acquisition of the Rafale fighter aircraft by Egypt and Qatar, the order for over 1,000 vehicles by the Australian Defense Force ("Hawkei"), and a military satellite communications system for France (ComSat NG).

The positive dynamic order trend was not restricted to large contracts: **orders with a unit value under €10 million** were up 6% compared to 2014.

From a geographical perspective, orders were up sharply both in mature markets (€12,701 million, +26%, including France: +14%, United Kingdom: +68%, Australia/New Zealand: +58%) and in emerging markets (€6,179 million, +45%, including Asia: +17% and the Middle East: +93%).

Order intake for the **Aerospace** segment rose sharply to **€6,279 million**, compared to €5,024 million in 2014 (+25%). Avionics orders increased, boosted by continued growth in commercial and military avionics, both original equipment and support. In the in-flight entertainment (IFE) business, the Group signed several large contracts, including with JetBlue, Singapore Airlines, Saudi Arabian Airlines and Japan Airlines. There was a strong commercial momentum in the Space business, in the institutional segment for observation, navigation and exploration satellites as well as in the telecommunications segment, with the signing of the previously mentioned large contracts.

(1) Given a positive exchange rate effect of €399 million and a net positive scope effect of €47 million, mainly related to the consolidation of Live TV on 1st July 2014 (Aerospace segment).

In the **Transport** segment, orders were up 71% on 2014, at **€2,826 million**, thanks in particular to the "jumbo" contract awarded by London Underground for the renovation of the signalling for four major lines on its network.

Order intake in the **Defence & Security** segment totaled **€9,704 million** compared to €7,608 million in 2014 (+28%). As previously explained,

this segment enjoyed numerous commercial successes in Land & Air Systems (provision of "Hawkei" light protected vehicles to the Australian Defense Force, the French army's air defence system upgrade, optronics for "Scout" armoured vehicles in the UK, etc.) and in Defence Mission Systems (equipments for the Egyptian and Qatari Rafales, submarine systems...). Orders in the Secure Communications and Information Systems business line fell slightly, but remained above sales.

1.1.1.4 SALES

(€ million)	2015	2014	Total change	Organic change
Aerospace	5,381	5,014	+7.3%	+1.7%
Transport	1,519	1,402	+8.4%	+4.1%
Defence & Security	7,084	6,480	+9.3%	+6.8%
Total – operating segments	13,985	12,895	+8.5%	+4.5%
Others	78	79		
TOTAL	14,063	12,974	+8.4%	+4.5%

Sales for 2015 amounted to **€14,063 million**, compared to €12,974 million in 2014, up 8.4% on a reported basis⁽¹⁾, and up 4.5% at constant scope and exchange rates ("organic" change), while in 2014, they fell organically by 1.1% compared to 2013.

Geographically speaking, this performance can be explained both by the return of organic growth in mature markets (+0.5%) and by continued solid growth in emerging markets (+16%, following on from +12% in 2014).

In the **Aerospace** segment, sales amounted to **€5,381 million**, up 7.3% compared to 2014 (+1.7% at constant scope and exchange rates). The Avionics business continued to benefit from a favourable currency impact and the acquisition of Live TV, as well as the increased sales of commercial avionics and in-flight entertainment systems. However, sales of helicopter avionics, tubes and imaging systems were down. Revenues in the Space business increased slightly, with the momentum in observation, exploration and navigation activities offsetting the fall in revenues seen from telecommunication satellites.

In the **Transport** segment, sales amounted to **€1,519 million**, up 8.4% compared to 2014 (+4.1% at constant scope and exchange rates). Despite execution difficulties on a number of contracts, this segment returned to growth after two years of organic decline in sales, thanks to main line rail signalling, supervision, and especially urban rail signalling projects, which are growing once again.

Sales in the **Defence & Security** segment reached **€7,084 million**, up 9.3% compared to 2014 (+6.8% at constant scope and exchange rates). All activities contributed to this positive trend. The Land & Air Systems business saw strong growth, specifically in missile systems, "Bushmaster" and "Hawkei" armoured vehicles, and civil and military radars. The Defence Mission Systems business benefited from the ramp-up of the SSOP (Sensors Support Optimisation Project) contract in the United Kingdom, and the start of the Rafale contract in Egypt. In addition to the good performance seen in cyber-security activities, the Secure Communications and Information Systems business did well in terms of radio-communications and started to book revenues on the Oman airports project.

⁽¹⁾ Given a positive exchange rate effect of €413 million and a net positive scope effect of €78 million, mainly related to the consolidation of Live TV on 1st July 2014 (Aerospace segment).

1.1.1.5 ADJUSTED RESULTS

➤ EBIT

For 2015, the Group reported an **EBIT⁽¹⁾ of €1,216 million**, which represents **8.6%** of sales, compared to €985 million (7.6% of sales) in 2014.

(€ million)	2015	2014	Total change	Organic change
Aerospace	518	505	+2%	-3%
<i>in % of sales</i>	9.6%	10.1%		
Transport	(37)	32	NM	NM
<i>in % of sales</i>	(2.4%)	2.3%		
Defence & Security	760	620	+23%	+18%
<i>in % of sales</i>	10.7%	9.6%		
Total – operating segments	1,241	1,158	+7%	+3%
<i>in % of sales</i>	8.9%	9.0%		
Others – excluding DCNS	(47)	(56)		
Total – excluding DCNS	1,194	1,102	+8%	+4%
<i>in % of sales</i>	8.5%	8.5%		
DCNS (share at 35%)	22	(117)		
TOTAL	1,216	985	+23%	+18%
<i>in % of sales</i>	8.6%	7.6%		

The EBIT for the **Aerospace** segment increased again to **€518 million (9.6% of sales)** compared to €505 million (10.1% of sales) in 2014. The EBIT margin, which reached a high level in 2014, was down slightly, due primarily to the effect of higher R&D spending.

The **Transport** segment reported an EBIT of **-€37 million (-2.4% of sales)** compared to €32 million (2.3% of sales) in 2014. As part of the in-depth review of the contract portfolio carried out during the first half of 2015, additional charges were booked, which had a major impact on the profitability of this segment. In line with the recovery plan implemented by the new management team, this segment achieved breakeven in the second half of 2015 (+€2 million).

After 2016, which should see breakeven achieved, the current recovery plan should allow this business to gradually return to profitability in the coming years.

The EBIT for the **Defence & Security** segment increased significantly, totaling **€760 million (10.7% of sales)** compared to €620 million in 2014 (9.6% of sales). In addition to the very satisfactory level of contract execution, the rise in margins was driven by the healthy commercial dynamics, particularly in the Land & Air Systems and Secure Communications and Information Systems businesses.

The contribution made by **DCNS** to EBIT stood at **€22 million** in 2015, compared with -€117 million in 2014. DCNS is implementing its recovery plan as expected. DCNS results in 2015 were a little higher than expected, mainly due to non-recurring items.

Adjusted financial results

The amount of **net financial interest** remained low, at €4 million in 2015 compared to €2 million in 2014, while **other adjusted financial results⁽²⁾** were improving (-€10 million in 2015 compared to -€27 million in 2014). **Adjusted financial income on pensions and other employee benefits⁽²⁾** fared slightly better than in 2014 (-€73 million compared to

-€77 million), since the discount rates at the end of 2014, which were used to determine the 2015 financial cost, were lower than the 2013 rates.

Adjusted net income

The **adjusted net income, Group share⁽²⁾** stood at **€809 million**, compared to €562 million in 2014, after an adjusted tax charge⁽²⁾ of €266 million compared to €258 million in 2014. The effective tax rate is 27%, compared to 29% in 2014.

The **adjusted net income, Group share, per share⁽²⁾** amounted to **€3.89**, up sharply on 2014 (€2.75).

1.1.1.6 CONSOLIDATED RESULTS

Income from operations

Income from operations amounted to **€965 million** against €889 million in 2014, up 9%. This increase reflects the improvement in gross profitability and tighter control of indirect costs, up only 5%.

Income from operations after income from equity-accounted companies

Income from operations after income from equity-accounted companies came to **€1,131 million**, compared to €1,104 million in 2014. The limited increase, in spite of the increase in income from operations, reflected two items:

- gain on disposal amounted to €53 million, significantly lower compared to the level recorded in 2014 (€249 million), which was driven by a significant fair value adjustment on Thales Raytheon Systems SAS and Trixell SAS, after an amendment to the shareholders'

(1) Non-GAAP measures, see definitions in section 1.1.1.2, page 8 and computation, page 10.

(2) Non-GAAP measures, see definitions in section 1.1.1.2, page 8, and computation pages 9 and 10.

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;

- the share of income of equity-accounted companies amounted to €113 million, after a loss in 2014 related to the substantial net loss posted by DCNS for that year.

Net income

Consolidated net income, Group share, totaled **€765 million** compared with €714 million in 2014, after tax of €220 million versus €214 million in 2014, and including an improvement in the financial costs on pensions and other long-term benefits (€60 million versus €90 million in 2014).

1.1.1.7 FINANCIAL POSITION AT 31 DECEMBER 2015

Free operating cash flow, the calculation for which is given in Section 1.1.1.2, amounted to **€1,110 million**. It increased sharply compared to 2014 (€501 million), despite an increase in net operating investments (€458 million compared to €443 million in 2014) as part of the optimisation of the Group's industrial base. Above and beyond the improvement in EBIT, it benefited from advance payments received on orders recorded during the year.

At 31 December 2015, **net cash** amounted to **€1,978 million** compared to €1,006 million at the end of December 2014. The acquisition of Vormetric, announced in October 2015, is expected to be completed in the first half of 2016.

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 in highly competitive markets, both in terms of international groups and in terms of local or niche companies in certain market segments. This competitive pressure could negatively impact Thales's commercial position, sales and profits.

It could also intensify in an unfavourable economic environment and there is no guarantee that Thales will be able to position itself successfully against 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 more competitive and differentiating

Equity, Group share, stood at **€4,646 million** compared to €3,782 million at the end of December 2014, due primarily to consolidated net income, Group share, of €765 million.

1.1.1.8 PROPOSED DIVIDEND

At the Annual General Meeting on 18 May 2016, the Board of Directors will propose the distribution of a **dividend of €1.36** per share to the shareholders, an increase of 21% on 2014.

If approved, the ex-dividend date will be 30 May 2016 and the payment date will be 1st June 2016. The dividend will be paid fully in cash and will amount to €1.01 per share, after deducting the interim dividend of €0.35 per share already paid in December 2015.

1.1.1.9 OUTLOOK

After the record level seen in 2015, new orders are expected to remain high in 2016, close to the level observed in 2013-2014⁽¹⁾. Sales should see a mid-single digit organic growth compared to 2015.

This positive trend, combined with continuing efforts to improve competitiveness, should result in Thales posting an EBIT between €1,300 and €1,330 million (based on exchange rates in February 2016), which will represent an increase between 7% and 9% compared to 2015.

In this context, Thales is upgrading its medium-term sales growth target. The Group is now aiming for mid-single digit organic growth in 2017 and 2018. It also confirms its EBIT margin target of 9.5 to 10% in the same time frame.

elements, and it also works to upgrade its product offer in order to meet the needs of its customers in both the defence and civil markets.

1.1.2.1.2 Cyclical nature of 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.

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's profitability and financial position.

(1) Average 2013-14 order intake: €13.6 billion.

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 its business portfolio (with exposure to the civil aviation market limited 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 and civil operations, each accounting for 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 €100 million. Finally, the broad geographic spread of Thales's 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's 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 customer country, preventing it from honouring its financial commitments to 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's interest in a local company, or, more broadly, discriminatory measures that compromise Thales's operations in a country;
- a security situation entailing a risk of bodily harm for its employees and/or security breaches at its facilities, which severely 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 implemented a global procedure for employee security, crisis detection and response, protection and monitoring (see paragraph 1.1.2.1.10 on Security breaches in respect of sites and staff).

1.1.2.1.5 Control of bids and programmes

Many of Thales's 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's 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.

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 and Global Business Units) and, as needed, by Group 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 sharpen 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 the supply chain, by increasing its global dimension and enhance the growing maturity of emerging countries in project implementation;

- improve methods, practices and tools, to make them more relevant to international products/projects. In particular for emerging countries, this involves the implementation of a project management tool, SAP by Design, adapted to these countries;
- introduce advanced training for project managers to obtain International Project Management Association (IPMA) certification. At the end of 2015, nearly 1,000 project managers within the Group had gained IPMA certification, with approximately 210 certified during the year.

1.1.2.1.6 Supplier risk

Purchases constitute a very significant proportion of Thales's business, representing nearly half its sales for 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, which 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.

Risk 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 or components, major political instability, natural disaster, etc.) or through mismanagement. The supplier's management performance is monitored both in operating terms (poor 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.

Consequently, faced with this risk of a supply shortage, Thales implements a dual sourcing (or alternative-source) policy as frequently as possible 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 approach. Based on close cooperation between buyers and financial teams, it is aimed at identifying, from among its critical suppliers, those that would be particularly susceptible 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 (covering quality control,

industrial maturity, flow optimisation, compliance with environmental regulations, expertise in technical and technological processes, financial strength, 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.

Risk 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 (vertical approach) and for the main countries where the Group is established (France, the UK, the Netherlands, etc.). If the commitment rate exceeds 50% for more than two consecutive years, an action plan coordinated with internal specifiers and internal users is drawn up and implemented in order to return to a commitment rate of 25%.

The purchasing policy, supplier selection and performance monitoring processes and supervisory and risk mitigation measures are also all designed to reduce these risks, during both the bidding phase and the project implementation 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) Workplace health and safety

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, and to manage major health crises that could occur internationally.

Regular monitoring of the risks to which the Group's employees may be exposed is performed each year.

Practical measures are also implemented by the Group's Human Resources Department and Health, Safety and Environment Department in relation to employee health and safety in the workplace. Thales is also committed to increase the quality of life in the workplace. In France, for example, a three-year 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, the agreement defines a general framework for prevention and aims to place particular focus on psychosocial risks by implementing individual and collective preventive actions.

Proof of the Group's continuing commitment to certification, 95 Thales entities (representing 76% of the workforce) had obtained OHSAS 18001 certification by the end of 2015.

b) Talent development

If Thales is not attractive enough to recruit the qualified staff it needs in a timely manner and to retain and motivate its employees to develop and run its business, sales and operating profitability could be negatively affected. Thales's 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 for global management of the talents required for the development of its activity worldwide.

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 is also building up its image in all the countries where the Group is already present or plans to develop, with the "Attractiveness" programme. Currently in the implementation stage, this programme aims to expand recognition of the Thales employer brand using communication campaigns and partnerships with leading universities. 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 identifying and managing talent within the Group has also been reinforced, by encouraging interaction 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, conducts a yearly analysis of changes in jobs, expertise, and the needs of the Company, and establishes action plans (for 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. Significant work has been carried out to identify employees' soft skills, namely for those employees attached to the R&D Systems, R&D Hardware and R&D Software job families. This work helps to more precisely identify training and recruitment requirements. This approach is now being extended to other job families such as Purchasing and Project Management.

Lastly, in 2013, the Group signed agreements in support of the following, with the unanimous agreement of the trade union organisations in France: taking on young people, either on work-study training schemes or post-qualification, and transferring knowledge to them (the Generation Contract); and developing diversity in the organisation (the Gender Equality Agreement) or taking a forward-looking approach to jobs and skills.

In the months and years to come, these agreements will allow the Group to better manage the integration of young graduates in France, improve the development of its critical skills, promote diversity and better anticipate changes within the Group.

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 organisational structure and associated action plans, either at Group level or locally, based on the results of this analysis.

To support this analysis, an Environmental Management System has been rolled out at all sites in order to ensure that the environmental impacts of products and operations are controlled and limited. Part of the Group reporting arrangement, this management system encompasses the different functions, such as engineering, manufacturing, supply chain, purchasing, contract management, auditing and risk management, etc. Special training, communication tools and the sharing of experience are used to support the approach.

At the end of 2015, 117 entities had been certified to ISO 14001, representing 88% of the Group's workforce.

At 31 December 2015, the amount of reserves for environmental contingencies stood at €8.0 million.

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 and movement around 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 implemented a global procedure for employee security, crisis detection and response, 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 infrastructures 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 or obsolescence). Any such malfunction or failure could have an impact on the Group's operations and its financial results.

To guard against these risks, the Group has implemented multi-year plans to deal with part of the IT systems being temporarily or permanently unavailable, as well as any cyber-security threats to these systems.

The disaster recovery plan for each country in case of failure of part of the IT systems sets out arrangements for the implementation of disaster recovery solutions appropriate to the degree of risk and its operational impact.

Furthermore, a plan to protect against risks related to cyber-security has been defined and implemented in countries where the Group currently operates, using "CyberSecurity Operation Centres". As well as continuing to adapt the means of protection already in place, the plan includes the implementation of new measures to strengthen the protection of sensitive information, and the development of systems for early identification and prompt correction of any non-compliances.

The plan is completed by ongoing efforts to raise employees' awareness of these threats.

Lastly, the Thales IT system security and anti-cyber crime strategy has been approved by Group 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's 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, contractual arrangements and risk management). In addition, Thales follows a policy of maintaining appropriate insurance coverage (see Section 1.1.2.4 on Insurance).

1.1.2.1.13 Risk of lower impact of performance improvement measures

In 2014, to support its medium-term financial targets, Thales launched the "Ambition Boost" performance plan to increase the entire Group's performance.

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 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. Moreover, the cost of implementing these initiatives could end up being higher than expected, which is why Thales has introduced specific monitoring for performance improvement initiatives. The Group's corporate management regularly reviews the progress of the main initiatives.

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 into Thales could prove more difficult and take longer than envisaged,

requiring 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's 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's interest and specify the necessary conditions and parameters to ensure a successful outcome. The newly acquired company is then integrated into Thales's 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 2015, these companies are consolidated using the equity method⁽¹⁾.

Moreover, the share in net income of equity affiliates is included in Thales's EBIT⁽²⁾ and adjusted net income⁽²⁾. A deterioration in the performance of these companies may therefore impact on the Group's income and financial position.

Since Thales's influence 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's 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.

(1) See the list of companies consolidated using the equity method on pages 78 and 79.

(2) Non-GAAP measures, see definition and computation in Section 1.1.1.2, pages 8 to 10.

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 rulings 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 measures rely for these needs on networks of compliance officers who may be specialists (in export control), on risk advisors responsible for 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.

a) Business ethics

Thales's business encompasses a variety of sectors in more than 50 countries. Infringement of applicable laws and regulations may have severe legal and financial consequences and seriously harm the Group's reputation.

A strict corruption and integrity risk prevention programme, introduced to all Group entities over 15 years ago, is regularly amended to reflect changes in the legislative and regulatory framework and increasing societal expectations. The Code of Ethics provides the foundation for Thales's culture of integrity. With a preface by the Chairman & Chief Executive Officer, it reaffirms in particular the principle of zero tolerance for any act of corruption. In 2015, a new edition of the Code of Ethics was personally addressed to all Group employees. The corruption risk prevention programme, which is assessed regularly and amended 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.

An international, dedicated network, independent of the operational commercial structures, conducts the verifications required during the vetting and selection phases for agents, consultants and local industrial partners for Thales. These verifications are backed up by external studies

and diagnostics performed by companies that specialise in business intelligence.

The risk factors inherent in business are handled by the various processes that govern the management of bids and projects in the Thales reporting system (Chorus 2.0). 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 by means of a highly 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 commitments 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.

To strengthen its role on the international stage and to gain a strong foothold in target countries, Thales chooses and qualifies its key industrial partners. The selection and qualification 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 is part of a process of applying appropriate and reasonable measures for prior verification (due diligence) with regard to third parties.

The players in the supply chain are also stakeholders in the integrity policy: at the end of 2015, 7,660 suppliers and subcontractors in the portfolio pledged to adhere to the terms of the Thales Company Purchasing and Corporate Responsibility Charter.

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 wide range of guides (reference guide and ethical business conduct guides) and training (both face-to-face and via e-learning) is available to employees throughout their careers. Special focus is given to employees involved in the sales processes, bid management, project management, and purchasing. The training plan for "Business Ethics and Preventing Corruption", which is worldwide in scope, is a priority intended for this group of employees. More than 7,000 employees have been trained since 2008.

In addition to its rigorous internal control procedures, the Audit, Risks & Internal Control Department conducts regular compliance and integrity audits on the various components of the model.

In 2015, the Thales corruption risk prevention and integrity programme earned recognition from several renowned institutions, resulting in Thales's inclusion in the Europe and World Dow Jones Sustainability Indices. In addition, the Group is now one of the four leading European companies in Transparency International's "Corruption Perceptions Index" for 2015 covering companies in the defence sector. Moreover, the Group has renewed its support for the principles of the United Nations Global Compact. It is one of 400 companies around the world that have submitted their Communication on Progress to the UN with "Global Compact Advanced" status.

The overall system is completed by Thales's active participation in various initiatives in the fight against corruption. Thales also actively participates in national professional organisations (MEDEF, GIFAS, ADS⁽¹⁾, etc.) and international organisations (Business Ethics Committee of ASD⁽²⁾, ICC⁽³⁾, B20⁽⁴⁾, IFBEC⁽⁵⁾, etc.) dealing with business ethics, and has an active presence within the working groups of intergovernmental organisations (OECD, United Nations, ISO⁽⁶⁾, etc.).

(1) Association of UK aerospace, defence security & space industries.

(2) The AeroSpace and Defence Industries Association of Europe.

(3) International Chamber of Commerce.

(4) International business community bringing together 22 employer organisations.

(5) International Forum on Business Ethical Conduct.

(6) International Organization for Standardization.

b) Export control

Exports account for a significant proportion of Thales's 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's 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 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's business, profitability and financial position.

Thales has introduced 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's business. Operating units have access to a network of specialists within the Group, who are responsible for monitoring the application within operating units of compliance rules decided at Group level as well as monitoring the necessary authorisations and the conformity of their implementation.

c) Competition law

Thales's 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, and could also have a serious impact on the Group's reputation.

To avoid any such infringements, Thales has initiated a programme to raise awareness of these rules, in particular through dedicated 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 a process to identify and manage 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's extensive intellectual property portfolio (over 16,500 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's 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.

The Group's intellectual heritage is a significant asset. Thales may face the risk of third party infringement of its intellectual property rights. To limit this risk, Thales contractually protects its rights in its contracts and agreements, has an active policy of filing and maintaining patents, carries out technological monitoring of equipment and systems marketed by third parties in order to ensure that its own intellectual property rights are not infringed, and, where appropriate, takes all necessary steps to enforce its rights.

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 dispute resolution mechanisms. 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 commercial and criminal litigation and claims. These are handled by the Corporate Legal Affairs 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 from a common customer claiming an amount which allegedly should not be below the \$260 million figure and for which the group of French manufacturers might be jointly liable towards the claimant. This request for arbitration is related to the execution of old contracts by the group of French manufacturers. Pursuant to an agreement signed by all the parties in 2003, the claimant withdrew its request for arbitration.

In November 2012, the claimant filed a new request for arbitration for a revised amount of €226 million of which Thales' share would be around 28% of the amount claimed. The manufacturers are strongly disputing this demand and at this date it is not possible to evaluate any potential financial risk. Consequently, Thales has not recognised any provision. This process is still pending.

There are no other government, judicial or arbitration claims, of which the Group is aware, which are pending or threatened, which could have, or which had, in the course of the last 12 months, any significant effect on the financial position or the profitability of the Company and/or the Group.

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's 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.

By consolidating and centralising the 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 2015, cash recorded under consolidated assets amounted to €3,450.2 million (compared with €2,481.4 million at end-2014), including:

- €2,949.8 million held by the parent company and available for immediate use (€2,051.4 million in 2014);
- €500.4 million in the bank credit balances of subsidiaries (€430 million in 2014), 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 invested solely 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's credit risk ratings were as follows:

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

A decrease in Thales's 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 €1.5 billion (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's exposure to interest rate risk and uses 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's debt by type of interest rate is described in Note 6 to the consolidated financial statements page 54. The table below summarises the Group's exposure to interest rate risk before and after hedging. Based on the average net cash (taking into account hedging instruments), a 1% rise in interest rates would increase financial interest, net by €11.4 million in 2015 (€8.4 million in 2014).

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	
	Interest rates fixed	Variable rate	Interest rates fixed	Variable rate	Interest rates fixed	Variable rate
Financial liabilities	(612.1)	(77.5)	(792.2)	(18.3)	(1,404.3)	(95.8)
Financial assets	–	3,477.7	–	–	–	3,477.7
Net exposure before taking account of derivatives	(612.1)	3,400.2	(792.2)	(18.3)	(1,404.3)	3,381.9
Derivatives	395.5	(395.5)	585.3	(585.3)	980.8	(980.8)
Net exposure after accounting for derivatives	(216.6)	3,004.7	(206.9)	(603.6)	(423.5)	2,401.1

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.

- a. As a general rule, Thales is structurally immune to exchange rate fluctuations for a significant part of its business activity. Around 40% of Thales's 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.
- b. 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.
- c. For certain Group businesses (civil avionics and tubes, civil space, etc.), the US dollar ("\$\$") is the reference transaction currency. For business activities outside the dollar zone (the in-flight entertainment and connectivity business is based essentially in the United States and is therefore naturally 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 \$, after accounting for corresponding purchases in \$. For these transactions, net exposure to dollar risk represents around 3.5% of the Group's total sales for 2015;
- for longer-term programmes in markets traditionally denominated in \$ (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 \$, 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 \$ on an ad hoc basis.

Overall, net exposure amounted to around 3.5% of the Group's total sales for 2015;

- as well as this direct dollar risk, which thus concerned around 7% in total of consolidated sales at end-2015, 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. 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:

- \$3,309 million, the amount of financial instruments hedging net firm commitments (\$ risk against the euro, Canadian dollar and pound sterling) at 31 December 2015 compared with \$ 3,191 million at 31 December 2014;
- \$124 million, the amount of financial instruments hedging bids in \$ against the euro, Canadian dollar and pound sterling at 31 December 2015 compared to \$ 198 million at 31 December 2014.

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 €153 million at 31 December 2015, compared with €132 million at 31 December 2014. The premium/discount component is not eligible to cash flow hedge accounting and is recognised through profit and loss. In 2015, the change in market value of the premium/discount was €-15 million.

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) income by approximately €1 million at 31 December 2015, compared with €2 million at 31 December 2014.

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 operations involved;
- the structure of Thales's 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 2015 FOR THE MAIN CURRENCIES

(€ million)	GBP	\$	AUD
Assets	2,119.5	1,372.2	852.3
Liabilities	2,008.5	938.5	455.0
Net position before management	111.0	433.7	397.3
Off-balance-sheet position	-	-	-
NET POSITION AFTER MANAGEMENT	111.0	433.7	397.3

1.1.2.3.4 Shares

Thales was not exposed to any significant equity risk at end-2015, excluding the risk on treasury shares.

At 31 December 2015, Thales held 839,254 treasury shares, representing 0.40% 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 Group employees, mainly in the United Kingdom, and are externally funded by the Company under the provisions of the applicable national legislation. As such, at 31 December 2015, Thales's commitments in the United Kingdom to current employees (access to these plans has been closed to new employees), former employees and retired employees amounted to €4,294.5 million, hedged by €3,274.6 million in investments, representing an underlying shortfall of €1,019.9 million.

In addition, certain employees, particularly in France and Germany, have other long-term benefits (retirement award, long-service awards, etc.) which are also of a defined-benefit nature but for which external funding is not systematically put in place.

At 31 December 2015, the total of all defined-benefit commitments was €5,891.7 million, covered by €3,572.8 million in invested assets, to the extent of:

- 31% in equities;
- 36% in fixed-rate bonds;
- 11% in inflation-linked bonds;
- 9% in alternative liquid investments;
- 12% in alternative long-term investments (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 2015, 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 underlying shortfall; 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 the UK, 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 €3 billion regularly delegated to the Chairman & 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 Corporate Financing & Treasury Department reports to the Board on the level of use of this envelope, based on the monitoring carried out by the Department.

At 31 December 2015, outstanding guarantees issued by the parent company in support of its subsidiaries stood at €15,127 million. 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 Customer 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's revenues. 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.

b) 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 2015, only two customers accounted for annual sales for Thales in excess of €500 million: the French State (around €2.5 billion) and the UK government (approx. €1 billion). At 31 December 2015, these two countries still had first-class or high-quality ratings (France was rated AA by S&P and Aa2 by Moody's; the UK was rated AAA by S&P and Aa1 by Moody's).

1.1.2.4 INSURANCE

Thales's 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;
- assembling and testing;
- 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 harmful events were notified to insurers, the Group had no major loss in 2015.

Thales's 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.

In 2015, the maximum coverage limit for insurance against damage to property and consequent operating losses was €1.3 billion. This limit

takes into account the estimated maximum possible loss caused to an industrial site which the Group could incur in this regard.

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 \$ 2 billion.

The insurance industry depends on the financial markets. There are also no guarantees that Thales will be able to maintain current levels of insurance under similar financial conditions in the future.

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 €12 million per year, for damage to property and consequent operating losses, transport, general third-party liability, assembling and testing, development and space risks;
- transfer to insurers of payment for catastrophic losses.

In parallel, 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 2015, 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.

Furthermore, Thales continues to roll out an insurance policy for its staff to cover them in the context of their professional activity. Lastly, specific and/or local cover has been arranged to comply with the regulations in force and to satisfy the specific requirements of certain business activities or projects, particularly public-private partnerships.

1.1.3 HUMAN RESOURCES, ENVIRONMENTAL AND SOCIAL 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 human resources and environmental matters, in its management report, Thales provides information on the Group's human resources, environmental and social issues. This information is set out in full in Chapter 5 of this registration document, entitled "corporate responsibility", pages 195 to 233. An independent verifier issued a declaration of inclusion and a limited assurance report on consolidated social, environmental and societal information, which can be found on pages 229 *et seq.*

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Decree no. 2012 – 557 of 24 April 2012	Page	Section
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1.1.4 EVENTS SINCE YEAR-END

No significant events after reporting period.

1.1.5 SUMMARY STATEMENT OF SHARE TRANSACTIONS CARRIED OUT IN 2015 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 disclose 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.

Details of the corresponding operations can be found in Section 4.3.3.7 of this document, pages 182 and 183.

1.2 Consolidated financial statements

1.2.1 CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€ million)	Notes	2015	2014
Sales	Note 2	14,063.2	12,973.6
Cost of sales		(10,688.1)	(9,791.8)
Research and development expenses		(692.0)	(641.4)
Marketing and selling expenses		(980.9)	(914.4)
General and administrative expenses		(531.8)	(519.3)
Restructuring costs	Note 10.2	(94.3)	(114.4)
Amortisation of intangible assets acquired (PPA) ^(a)	Note 4.2	(111.6)	(103.7)
Income from operations	Note 2	964.5	888.6
Disposal of assets, changes in scope of consolidation and other	Note 3.2	53.4	248.9
Impairment of non-current operating assets		—	—
Income of operating activities before impact of equity affiliates		1,017.9	1,137.5
Share in net income (loss) of equity affiliates		112.8	(34.0)
Of which, share in net income (loss) of joint ventures	Note 5.1	55.8	(83.5)
Of which, share in net income (loss) of associates	Note 5.2	57.0	49.5
Income of operating activities after impact of equity affiliates		1,130.7	1,103.5
Financial interests on gross debt		(15.5)	(20.2)
Financial income from cash at bank and equivalents		19.3	22.4
Financial interests, net	Note 6.1	3.8	2.2
Other financial income (expense)	Note 6.1	(41.8)	(39.6)
Finance costs on pensions and other employee benefits	Note 9.3	(60.1)	(90.1)
Income tax	Note 7.1	(219.9)	(214.3)
NET INCOME (LOSS)		812.7	761.7
Attributable to:			
Shareholders of the parent company		765.1	714.2
Non-controlling interests		47.6	47.5
Basic earnings per share (in euros)	Note 8.2	3.68	3.49
Diluted earnings per share (in euros)	Note 8.2	3.63	3.44

(a) This line corresponds to acquired intangible assets amortisation (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)	2015			2014		
	Total attributable to:			Total attributable to:		
	Shareholders of the parent company	Non-controlling interests	Total	Shareholders of the parent company	Non-controlling interests	Total
NET INCOME (LOSS)	765.1	47.6	812.7	714.2	47.5	761.7
Cumulative translation adjustment (note 8.1)	9.6	1.3	10.9	55.0	1.0	56.0
Deferred tax (note 7.2)	(1.3)	–	(1.3)	(0.7)	–	(0.7)
Joint-ventures (note 5.1)	11.6	–	11.6	23.9	–	23.9
Associates (note 5.2)	27.6	–	27.6	29.0	–	29.0
Net	47.5	1.3	48.8	107.2	1.0	108.2
Cash flow hedge (note 8.1)	(186.9)	(4.1)	(191.0)	(241.1)	(30.2)	(271.3)
Deferred tax (note 7.2)	44.3	1.4	45.7	84.8	10.4	95.2
Joint-ventures (note 5.1)	0.8	–	0.8	(5.8)	–	(5.8)
Associates (note 5.2)	(16.5)	–	(16.5)	(13.0)	–	(13.0)
Net	(158.3)	(2.7)	(161.0)	(175.1)	(19.8)	(194.9)
Financial assets available-for-sale	0.6	–	0.6	(0.2)	–	(0.2)
Joint-ventures (note 5.1)	–	–	–	0.3	–	0.3
Net	0.6	–	0.6	0.1	–	0.1
Items to be subsequently reclassified to P&L	(110.2)	(1.4)	(111.6)	(67.8)	(18.8)	(86.6)
Actuarial gains (losses) on pensions: subsidiaries (note 9.3)	268.9	2.6	271.5	(617.6)	(9.4)	(627.0)
Deferred tax (note 7.2)	5.9	(0.8)	5.1	86.3	3.1	89.4
Joint-ventures (note 5.1)	5.1	–	5.1	0.9	–	0.9
Associates (note 5.2)	(1.9)	–	(1.9)	(14.8)	–	(14.8)
Items that will not be reclassified to P&L	278.0	1.8	279.8	(545.2)	(6.3)	(551.5)
Other comprehensive income (loss) for the period, net of tax	167.8	0.4	168.2	(613.0)	(25.1)	(638.1)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	932.9	48.0	980.9	101.2	22.4	123.6

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
AT 31 DECEMBER 2013	203,254	617.2	3,826.6	(331.7)	56.6	1.5	(241.9)	(81.4)	3,846.9	238.2	4,085.1
Impact of IFRIC interpretation 21 (note 1.1)	–	–	–	10.3	–	–	–	–	10.3	0.6	10.9
AT 1 JANUARY 2014 RESTATED^(a)	203,254	617.2	3,826.6	(321.4)	56.6	1.5	(241.9)	(81.4)	3,857.2	238.8	4,096.0
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)
Total comprehensive income (loss) for 2014	–	–	–	169.0	(175.1)	0.1	107.2	–	101.2	22.4	123.6
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
AT 31 DECEMBER 2014 RESTATED^(a)	205,964	623.5	3,889.9	(421.2)	(118.5)	1.6	(134.7)	(58.9)	3,781.7	299.1	4,080.8
Net income (loss)	–	–	–	765.1	–	–	–	–	765.1	47.6	812.7
Other comprehensive income (loss)	–	–	–	278.0	(158.3)	0.6	47.5	–	167.8	0.4	168.2
Total comprehensive income (loss) for 2015	–	–	–	1,043.1	(158.3)	0.6	47.5	–	932.9	48.0	980.9
Employee share issues	3,120	9.4	105.5	–	–	–	–	–	114.9	–	114.9
Parent company dividend distribution (note 8.1)	–	–	–	(234.0)	–	–	–	–	(234.0)	–	(234.0)
Third party share in dividend distribution of subsidiaries	–	–	–	–	–	–	–	–	–	(51.3)	(51.3)
Share-based payments (note 9.4)	–	–	–	22.2	–	–	–	–	22.2	–	22.2
Acquisitions/disposals of treasury shares (note 8.1)	1,038	–	–	(15.0)	–	–	–	33.7	18.7	–	18.7
Other	–	–	–	9.3	–	–	–	–	9.3	0.1	9.4
Changes in scope of consolidation	–	–	–	0.2	–	–	–	–	0.2	–	0.2
AT 31 DECEMBER 2015	210,122	632.9	3,995.4	404.6	(276.8)	2.2	(87.2)	(25.2)	4,645.9	295.9	4,941.8

(a) New IFRIC interpretation 21, mentioned in note 1.1, prescribes a retrospective application. Consequently, the financial statements presented for comparative periods have been restated accordingly.

1.2.4 CONSOLIDATED BALANCE SHEET

ASSETS

(€ million)	Notes	31/12/2015	31/12/2014 ^(a)
Goodwill, net	Note 4.1	3,215.9	3,212.6
Other intangible assets, net	Note 4.2	862.9	946.2
Tangible assets, net	Note 4.2	1,696.7	1,557.0
Total non-current operating assets		5,775.5	5,715.8
Investment in joint ventures	Note 5.1	1,126.4	1,104.2
Investment in associates	Note 5.2	359.5	385.5
Non consolidated investments	Note 6.3	71.1	60.4
Other non-current financial assets	Note 6.3	131.2	138.4
Total non-current financial assets		1,688.2	1,688.5
Non-current derivatives - assets	Note 6.5	36.2	44.1
Deferred tax assets	Note 7.3	967.0	942.4
NON-CURRENT ASSETS		8,466.9	8,390.8
Inventories and work in progress	Note 10.1	2,560.8	2,437.6
Construction contract assets	Note 10.1	2,042.6	1,996.4
Advances to suppliers	Note 10.1	383.0	326.0
Accounts, notes and other current receivables	Note 10.1	4,404.2	4,129.1
Current derivatives - assets	Note 6.5	154.2	108.2
Total current operating assets		9,544.8	8,997.3
Current tax receivables		70.8	60.3
Current financial assets	Note 6.2	27.5	56.8
Cash at bank and equivalents	Note 6.2	3,450.2	2,481.4
Total current financial assets		3,477.7	2,538.2
CURRENT ASSETS		13,093.3	11,595.8
TOTAL ASSETS		21,560.2	19,986.6

(a) New IFRIC interpretation 21, mentioned in note 1.1, prescribes a retrospective application. Consequently, the financial statements presented for comparative periods have been restated accordingly.

EQUITY AND LIABILITIES

(€ million)	Notes	31/12/2015	31/12/2014 ^(a)
Capital, paid-in surplus and other reserves		4,758.3	3,975.3
Cumulative translation adjustment		(87.2)	(134.7)
Treasury shares		(25.2)	(58.9)
Total attributable to shareholders of the parent company		4,645.9	3,781.7
Non-controlling interests		295.9	299.1
TOTAL EQUITY	Note 8.1	4,941.8	4,080.8
Financial debt: long-term	Note 6.2	837.6	1,467.8
Pensions and other employee benefits	Note 9.3	2,318.9	2,556.8
Deferred tax liabilities	Note 7.3	257.9	265.3
NON-CURRENT LIABILITIES		3,414.4	4,289.9
Advances received from customers on contracts	Note 10.1	4,317.2	3,676.4
Refundable grants	Note 10.1	127.6	130.4
Construction contract liabilities	Note 10.2	1,021.0	1,072.3
Reserves for contingencies	Note 10.2	1,022.9	1,038.0
Accounts, notes and other current payables	Note 10.1	5,547.6	5,254.4
Current derivatives – liabilities	Note 6.5	405.3	282.2
Total current operating liabilities		12,441.6	11,453.7
Current tax payables		63.7	54.0
Financial debt: short-term	Note 6.2	698.7	108.2
CURRENT LIABILITIES		13,204.0	11,615.9
TOTAL EQUITY AND LIABILITIES		21,560.2	19,986.6

(a) New IFRIC interpretation 21, mentioned in note 1.1, prescribes 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	2015	2014
Net income (loss)		812.7	761.7
Add (deduct):			
Income tax expense (gain)		219.9	214.3
Financial interests, net expense (gain)		(3.8)	(2.2)
Share in net (income) loss of equity affiliates (net of dividends received)		(112.8)	34.0
Dividends received from equity-accounted: joint ventures		51.8	44.6
Dividends received from equity-accounted: associates		31.6	25.1
Depreciation and amortisation of tangible and intangible assets	Note 4.2	381.3	345.9
Depreciation and amortisation of intangible assets acquired	Note 4.2	111.6	103.7
Provisions for pensions and other employee benefits	Note 9.3	165.9	172.5
Loss (gain) on disposal of assets, change in scope of consolidation and other	Note 3.2	(53.4)	(248.9)
Net allowances to restructuring provisions	Note 10.2	(16.8)	(10.7)
Other items		54.9	25.6
Operating cash flows before working capital changes, interests and tax		1,642.9	1,465.6
Change in working capital requirement and in reserves for contingencies	Note 10.1	143.0	(287.1)
Payment of contributions/pensions benefits (defined benefit plans):	Note 9.3	(225.1)	(190.5)
➤ related to reduction of the UK deficit		(101.0)	(68.8)
➤ related to future service (recurrent contributions)		(124.1)	(121.7)
Financial interests paid		(25.3)	(31.4)
Financial interests received		34.5	17.0
Income tax paid		(102.3)	(98.4)
NET CASH FLOWS FROM OPERATING ACTIVITIES	- I -	1,467.7	875.2
Capital expenditure on tangible and intangible assets		(473.4)	(472.6)
Proceeds from disposal of tangible and intangible assets		15.1	29.2
Net operating investment	Note 11.2	(458.3)	(443.4)
Acquisitions of subsidiaries, net	Note 11.3	(51.2)	(378.2)
Disposals of subsidiaries, net	Note 11.3	87.8	4.4
Decrease (increase) in loans and other non-current financial assets		23.3	21.9
Decrease (increase) in other current financial assets		15.2	152.7
Net financial investment		75.1	(199.2)
NET CASH FLOWS FROM INVESTING ACTIVITIES	- II -	(383.2)	(642.6)
Parent company dividend distribution		(234.0)	(242.8)
Third party share in dividend distributions of subsidiaries		(51.3)	(130.9)
Increase in equity (exercise of subscription options)		116.2	75.0
Purchase/sale of treasury shares		9.2	3.2
Increase in financial debt		40.4	46.1
Repayment of financial debt		(2.5)	(94.2)
NET CASH FLOWS FROM FINANCING ACTIVITIES	- III -	(122.0)	(343.6)
Effect of exchange rate variations and other	- IV -	6.3	28.7
TOTAL INCREASE (DECREASE) IN CASH AT BANK AND EQUIVALENTS	I+II+III+IV	968.8	(82.3)
Cash at bank and equivalents at beginning of period		2,481.4	2,563.7
CASH AT BANK AND EQUIVALENTS AT END OF PERIOD		3,450.2	2,481.4

The Group net cash position and its changes during both periods are presented in notes 6.2 and 11.1.

1.2.6 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1 Accounting standards framework

On 22 February 2016, the Board of Directors approved, and authorised for issue, Thales's consolidated financial statements for the year ended 31 December 2015. In accordance with French legislation, the financial statements will be finally approved by the shareholders of Thales S.A. at the Annual General Meeting on 18 May 2016.

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 2015 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 2015⁽¹⁾.

These principles, described in note 14, are consistent with those applied for the year ended 31 December 2014, with the exception of the first time adoption of the new IFRIC interpretation 21 and the amendment to IAS 1 described hereafter.

The 2014 consolidated balance sheet have been restated accordingly (impacts have been determined at opening of the first presented period, at 1 January 2014):

Consolidated balance sheet at 31 December 2014	31/12/2014 Published	IFRIC 21 impacts	31/12/2014 Restated
Non-current assets	8,394.9	(4.1)	8,390.8
Current assets	11,595.8	–	11,595.8
TOTAL ASSETS	19,990.7	(4.1)	19,986.6
Equity, shareholders of the parent company	3,771.4	10.3	3,781.7
Non-controlling interest	298.5	0.6	299.1
Non-current liabilities	4,289.9	–	4,289.9
Current liabilities	11,630.9	(15.0)	11,615.9
TOTAL EQUITY AND LIABILITIES	19,990.7	(4.1)	19,986.6

The interpretation does not have any impact on the 2014 profit and loss account.

Other standards applicable in 2015

- The amendment to IAS 1 (Presentation of financial statements), that aims at improving the relevance of information provided in the financial statements, has been early adopted by the Group.
- Moreover, IFRS annual improvements for 2011-2013 cycle, mandatorily applicable in 2015, have no impact on the Group's financial statements.

IFRIC interpretation 21 (Levies)

IFRIC interpretation 21 (Levies) has been adopted by the European Union in June 2014 and is retrospectively applicable for the Group from 1 January 2015. This interpretation sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what is the obligating event that gives rise to pay a levy and when a liability should be recognised. In particular, a liability should be recognised progressively only if the obligating event occurs over time.

The Group is mainly affected by levies in France (C3S levy based on French companies turnover as well as property taxes). Application of this new text leads to:

- recognise C3S levies one year later than previously done (due at 1 January N for levy related to N-1 turnover);
- recognise C3S levies as well as some property taxes fully at 1 January, while they used to be recognised linearly over the year.

(1) Available on the following website: http://ec.europa.eu/internal_market/accounting/ias_fr.htm.

1.2 NEW MANDATORY STANDARDS APPLICABLE AFTER 31 DECEMBER 2015

The following standards have been adopted by IASB and will be applicable for periods indicated below, subject to their adoption by the European Union:

Standard	Description	First application	EU adoption
IFRS 15 (Revenue from contracts with customers)	Replaces standards IAS 18 (revenue) and IAS 11 (construction contracts) and linked interpretations	1 January 2018	In progress
IFRS 9 (Financial instruments)	Replaces all standards related to financial instruments	1 January 2018	In progress
IFRS 16 (Leases)	Replaces IAS 17. Removes distinction between operating leases and financial leases, all contracts being recognised on the balance sheet.	1 January 2019	In progress
Amendments to IAS 16 (tangible assets) and IAS 38 (intangible)	Aim at clarifying the acceptable amortization methods	1 January 2016	Yes
Amendment to IFRS 11 (Joint arrangements)	Relates to accounting for acquisitions of interests in joint arrangements	1 January 2016	Yes
Amendment to IAS 19 (Employee benefits)	Clarifies the accounting treatment of contribution from employees (or third parties) prescribed by a system's clauses in order to contribute to financing the benefits	1 January 2016	Yes
Annual IFRS improvements: cycle 2012-2014	Slightly amends IFRS 5, IFRS 7, IAS 19 and IAS 34	1 January 2016	Yes

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

The Group has set up a project structure to analyse the differences between IFRS 15 (Revenue from contracts with customers) and existing standards (IAS 18 – Revenue and IAS 11 – Construction contracts).

In particular, the Group is carefully studying the new recognition criteria for sales recognised using the percentage of completion method: conditions for gradual transfer of control and appropriate methods to measure percentage of completion of contracts.

1.3 CONVERSION

Main exchange rates used to translate financial statements of entities when their functional currency is not the Euro are the following:

Euros	31 December 2015		31 December 2014		31 December 2013	
	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
Australian Dollar	1.4897	1.4837	1.4829	1.4723	1.5423	1.3936
Pound Sterling	0.7340	0.7242	0.7789	0.8031	0.8337	0.8501
U.S. Dollar	1.0887	1.1046	1.2141	1.3211	1.3791	1.3308

1.4 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 incomes, 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 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, particularly for the following matters:

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). 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. The recoverable amount of goodwill by each 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) 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 employee benefits (note 9.3)

Benefit obligations in respect of pensions and other long-term employee benefits are estimated on statistical and actuarial bases in accordance with the policies outlined in the note 14. 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 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 presented business segments are described in note 14.

In order to monitor the operational and financial performance of the Group entities, the Group's executives regularly consider two main non-GAAP indicators determined as follows:

- **EBIT**, an adjusted operating metric presented by business segment below, corresponds to income from operations increased by the share in net income of equity affiliates. It excludes the amortisation of acquired intangible assets (purchase price allocation PPA);
- **the adjusted net income**, as defined in note 14, is considered as relevant by the Group because it enables the exclusion of non-recurring items.

Reconciliation of these indicators with published financial statements is presented in paragraph 2.2.

2015	Aerospace	Transport	Defence & Security	Oth. elim and non allocated	Thales
Consolidated order backlog ^(a)	9,766.4	4,841.5	17,611.0	73.2	32,292.1
Consolidated order intake	6,278.5	2,826.0	9,704.0	71.4	18,879.9
Consolidated sales	5,381.4	1,519.2	7,084.4	78.2	14,063.2
Inter segment sales	81.5	10.4	264.5	(356.4)	–
Total sales	5,462.9	1,529.6	7,348.9	(278.2)	14,063.2
EBIT	517.7	(36.9)	760.2	(25.3)	1,215.7
Of which, in DCNS	–	–	–	21.9	21.9
Of which, DCNS excluded	517.7	(36.9)	760.2	(47.2)	1,193.8
Capital expenditures	161.5	11.4	104.8	195.7	473.4
Dep. and amort. of tangible and intang. assets	162.3	7.9	106.1	105.0	381.3

(a) At the end of the period.

2014	Aerospace	Transport	Defence & Security	Oth. elim and non allocated	Thales
Consolidated order backlog ^(a)	8,686.9	3,615.1	14,914.6	68.2	27,284.8
Consolidated order intake	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 intang assets	139.1	8.4	109.8	88.6	345.9

(a) At the end of the period.

Data related to order backlog, new orders and sales appearing in the "Other, elim and non allocated" column relate 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 the Group's share (35%) in the net income of DCNS, 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 expenses related to share-based payments) are reallocated to business segments proportionally to their respective ex-Group sales.

2.2 ADJUSTED RESULTS

Adjusted results are determined as follows:

	2015 Published	Amort. of acquired intangible assets	Disposal of assets and other	Change in fair value/ dérivatives	Actuarial gains & losses/other long-term benefits	2015 Adjusted
Income from operations	964.5	111.6	–	–	–	1,076.1
Share in net income (loss) of equity affiliates	112.8	26.8	–	–	–	139.6
EBIT						1,215.7
Impairment of non-current operating assets	–	–	–	–	–	–
Disposal of assets and other	53.4	–	(53.4)	–	–	–
Net financial interests	3.8	–	–	–	–	3.8
Other financial income (expense)	(41.8)	–	–	32.2	–	(9.6)
Financial income on pension and other	(60.1)	–	–	–	(12.4)	(72.5)
Income tax	(219.9)	(38.0)	(1.4)	(11.1)	4.0	(266.4)
<i>Effective tax rate</i>	25.4%					26.7%
Less, non-controlling interests' income	(47.6)	(12.4)	–	(1.7)	–	(61.7)
NET INCOME (EXPENSE), GROUP SHARE	765.1	88.0	(54.8)	19.4	(8.4)	809.3
<i>Average number of shares outstanding</i>	208,112					208,112
<i>Net income (expense) per share, Group share</i>	3.68					3.89

	2014 Published	Amort. of acquired intangible assets	Disposal of assets and other	Change in fair value/ dérivatives	Actuarial gains & losses/other long-term benefits	2014 Adjusted
Income from operations	888.6	103.7	–	–	–	992.3
Share in net income (loss) of equity affiliates	(34.0)	26.7	–	–	–	(7.3)
EBIT						985.0
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)
<i>Effective tax rate</i>	28.2%					29.0%
Less, non-controlling interests' income	(47.5)	(14.8)	–	0.2	–	(62.1)
NET INCOME (EXPENSE), GROUP SHARE	714.2	80.4	(249.4)	8.3	8.9	562.4
Average number of shares outstanding	204,774					204,774
Net income (expense) per share, Group share	3.49					2.75

2.3 INFORMATION BY COUNTRY/REGION OF DESTINATION

➤ CONSOLIDATED ORDER INTAKE (DIRECT AND INDIRECT) BY COUNTRY/REGION OF DESTINATION

	2015	2014
France	4,101.9	3,593.8
United Kingdom	2,226.6	1,325.9
Rest of Europe	3,483.2	3,173.0
Europe	9,811.7	8,092.7
North America	1,364.0	1,036.2
Australia and New Zealand	1,525.2	967.0
Middle East	3,726.4	1,929.0
Asia	1,982.3	1,701.4
Rest of the world	470.3	636.7
Emerging markets	6,179.0	4,267.1
TOTAL	18,879.9	14,363.0

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

	2015	2014
France	3,420.5	3,419.0
United Kingdom	1,382.1	1,314.4
Rest of Europe	3,039.8	2,937.5
Europe	7,842.4	7,670.9
North America	1,533.4	1,349.7
Australia and New Zealand	725.6	667.3
Middle East	1,430.6	911.8
Asia	1,898.3	1,823.4
Rest of the world	632.9	550.5
Emerging markets	3,961.8	3,285.7
TOTAL	14,063.2	12,973.6

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.

	2015	2014
Construction contracts	7,009.8	6,270.6
Sales of goods and equipment	3,405.9	3,344.2
Services	3,550.5	3,267.6
Other	97.0	91.2
TOTAL	14,063.2	12,973.6

NOTE 3 Impact of changes in scope of consolidation

3.1 MAIN CHANGES IN SCOPE OF CONSOLIDATION

In 2015

- In March 2015, Thales sold its 22% stake in Cloudwatt to Orange, for an amount of €8.9 million. In the consolidated financial statements, the gain on this disposal amounts to €1.1 million.
- In August 2015, Thales sold its 30% stake in ESG Elektroniksystem- und Logistik GmbH to Munich investment holding for an amount of €75.2 million. In the consolidated financial statements, the gain on this disposal amounts to €47.2 million.
- In October 2015, Thales signed an agreement to acquire Vormetric, a leading provider of data protection solutions, for an amount of \$400 million (€353 million), aiming at strengthening its cybersecurity capabilities.

The acquisition, subject to various regulatory approvals, should be completed in the first quarter of 2016. The entity will be fully consolidated in the Group financial statements.

In 2014

- 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.
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. This resulted in a goodwill of €38.0 million.
- In June 2014, the shareholders' agreement related to the joint venture Trixell SAS has been amended. This company is owned by Thales at 51%, Siemens at 24.5% and Philips Medical Systems International

at 24.5%. 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. This resulted in goodwill of €63.3 million.

- In June 2014, Thales completed the acquisition for \$392.5 million (€287.4 million) of the US company Live TV from JetBlue. Live TV is the market leader in TV and broadband connectivity for aircraft. The company is fully consolidated at 30 June 2014. The provisional goodwill amounted to €86.5 million after taking into account adjustments to the opening balance sheet and allocation of the purchase price to acquired assets and liabilities. The allocation of the purchase price was finalized in June 2015 and resulted in an adjustment of the goodwill of +€3.6 million.
- 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 amount of £6.5 million (of which £5 million (€6.2 million) paid at 31 December 2014 and the balance in 2015).
- In October 2014, Thales acquired from its joint shareholder Amper S.A., 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. 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.
- At the end of December 2014, Thales acquired the cyber security services and secure communications activities of Alcatel-Lucent for an amount of €40.6 million, of which €37.7 million paid on the 31st December 2014 and the balance in 2015.
The goodwill amounts to €20.3 million, after taking into account adjustments to the opening balance sheet and allocation of the purchase price to acquired assets and liabilities.

3.2 DISPOSAL OF ASSETS, CHANGES IN SCOPE OF CONSOLIDATION AND OTHER

	2015	2014
Fair value adjustments^(a):	–	229.6
Thales-Raytheon Systems Company SAS (50%)	–	80.1
Trixell SAS (51%)	–	140.8
Amper Programmas (49%)	–	8.7
Disposal of investments:	42.3	(2.2)
ESG Elektroniksystem-und Logistik GmbH (30%)	47.2	–
Other	(4.9)	(2.2)
Disposal of other assets:	1.0	15.0
Real estate assets	0.7	14.4
Equipments	0.3	0.6
Impact of curtailments and settlements of pensions plans and long-term benefits (note 9.3)	10.1	6.5
TOTAL	53.4	248.9

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

In October 2014, Thales acquired from its joint shareholder Amper S.A., 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.

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 goodwill related to the full consolidation of the entity (note 4.1).

NOTE 4 Tangible and intangible assets

4.1 GOODWILL

Change in goodwill

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

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

	31/12/2014	Acquisitions	Disposals	Impairment	Exchange rate var. and other	31/12/2015
Avionics	456.7	3.6	–	–	11.7	472.0
Space	467.0	5.2	–	–	0.5	472.7
Aerospace	923.7	8.8	–	–	12.2	944.7
Transport	875.3	–	–	–	–	875.3
Secure Communications & information Systems	642.5	(19.0) ^(a)	–	–	1.6	625.1
Land and Air Systems	309.9	–	–	–	(0.1)	309.8
Defence Mission Systems	461.2	–	–	–	(0.2)	461.0
Defence and Security	1,413.6	(19.0)	–	–	1.3	1,395.9
TOTAL	3,212.6	(10.2)	–	–	13.5	3,215.9

(a) Of which €39.3 million related to the acquisition of cyber security services and secure communications activities. The goodwill was allocated in 2015 for an amount of €19 million.

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

(a) Of which €86.5 million related to the acquisition of Live TV (increased by €3.6 million in 2015) and €63.3 million related to the full consolidation of Trixell SAS.

(b) Of which €39.3 million related to the acquisition of cyber security services and secure communications activities. The goodwill was allocated in 2015 for an amount of €19 million.

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

Impairment tests

Goodwill is subject to annual impairment tests in accordance with the Group budgetary schedule. 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.

At the end of 2015, as in 2014, impairment tests were performed with the initial assumption of a 8.5% discount rate for every CGU (the latter presenting a similar level of risk, taking CGU specific risks into consideration in the projections).

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 operating income from the three-year strategic plans, with a 2% limited growth).

In some specific cases (recent acquisitions, non-normative annual results etc.), terminal value is based on projections carried out on an appropriate duration. Thus, given the additional difficulties in the implementation of some projects of its Transport activities, the Group completed, in late June 2015, an update of forecast data for the period 2015-2020. As part of closing for the period ended 30 June, forecast cash flows and the CGU terminal value were re-estimated accordingly. These tests were updated at the end of the year 2015.

At the end of 2015, the overall recoverable amount of the Group's activities remains higher than its carrying amount.

Sensitivity of values in use

Tests of sensitivity allow to confirm accounting values: at the end of 2015, a 1% increase of the discount rate, a 1% decrease of the growth rate or a 2% decrease of the operational profitability of the Group CGUs would not lead to book significant additional impairments.

4.2 OTHER TANGIBLE AND INTANGIBLE ASSETS

Change in net tangible and intangible assets

	Acquired intangible assets (PPA)	Development costs	Other intangible assets	Tangible assets	Total
Net value at 1 January 2014	296.3	130.3	101.2	1,322.3	1,850.1
Acquisitions/capitalisations	–	33.9	36.4	402.3	472.6
Disposals	–	–	–	(29.2)	(29.2)
Amortisation of acquired intangible assets	(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
Net value at 31 December 2014	715.5	147.2	83.5	1,557.0	2,503.2
Acquisitions/capitalisations	–	15.0	54.9	403.5	473.4
Disposals	–	–	–	(15.1)	(15.1)
Amortisation of acquired intangible assets	(111.6)	–	–	–	(111.6)
Other depreciation and amortisation	–	(42.0)	(38.2)	(301.1)	(381.3)
Scope. foreign exchange rates and other	45.3	3.1	(9.8)	52.4	91.0
NET VALUE AT 31 DECEMBER 2015	649.2	123.3	90.4	1,696.7	2,559.6

Detail of the balance sheet items

	31/12/2015			31/12/2014	01/01/2014
	Gross	Depreciation and impairment	Net	Net	Net
Acquired technologies	668.7	(329.0)	339.7	385.8	50.9
Customer relationship: long-term	486.5	(247.4)	239.1	269.0	231.7
Customer relationship: backlog	276.3	(241.0)	35.3	47.0	–
Other	65.1	(30.0)	35.1	13.7	13.7
Acquired intangible assets (business combinations)	1,496.6	(847.4)	649.2	715.5	296.3
Development costs	960.6	(837.3)	123.3	147.2	130.3
Other	685.6	(595.2)	90.4	83.5	101.2
Intangible assets	3,142.8	(2,279.9)	862.9	946.2	527.8
Lands	52.8	(1.5)	51.3	50.1	51.6
Buildings	1,424.6	(808.3)	616.3	600.7	521.1
Plants and equipment	2,331.8	(1,743.1)	588.7	577.1	472.1
Other	1,111.6	(671.2)	440.4	329.1	277.5
Tangible assets	4,920.8	(3,224.1)	1,696.7	1,557.0	1,322.3

4.3 COMMITMENTS RELATED TO OPERATION LEASES

Binding lease and rental commitments at 31 December 2014 and 2015 are analysed below:

	Rent payable			
	Total	< 1 year	1 to 5 years	> 5 years
31 DECEMBER 2015	1,361.0	215.2	615.9	529.9
31 December 2014	1,482.5	207.7	641.7	633.1

NOTE 5 Investments in joint ventures and associates

5.1 JOINT VENTURES

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	
	31/12/2015	31/12/2014	2015	2014	2015	2014
DCNS (35%)	680.9	678.6	(3.5)	(142.3)	2.2	(139.6)
Other joint ventures ^(a)	445.5	425.6	59.3	58.8	71.1	59.7
TOTAL	1,126.4	1,104.2	55.8	(83.5)	73.3	(79.9)

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

Change in investment in joint ventures

	31/12/2015	31/12/2014
Investment in joint ventures at opening	1,104.2	1,412.5
Share in net income (loss) of joint ventures	55.8	(83.5)
Cumulative translation adjustment	11.6	23.9
Cash-flow hedge	0.8	(5.8)
Financial assets available-for-sale	–	0.3
Actuarial gains (losses) on pensions	5.1	(14.8)
Share in other comprehensive income (loss)	73.3	(79.9)
Dividends paid	(51.8)	(44.6)
Changes in scope ^(a)	–	(171.9)
Other	0.7	(11.9)
INVESTMENT IN JOINT VENTURES AT CLOSING	1,126.4	1,104.2

(a) In 2014, 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.

DCNS summarized financial information

Thales has a 35% stake in the share capital of DCNS, a company jointly controlled with the French State. DCNS is a French industrial group specialised in naval defence, nuclear energy and marine infrastructures.

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

Summarized balance sheet at 100%	31/12/2015	31/12/2014
Non-current assets	2,599.4	2,671.6
Current assets	7,527.4	6,309.7
Total assets	10,126.8	8,981.3
Restated equity attrib. to the shareholders of the Company	1,111.2	1,104.5
Non-controlling interests	22.4	32.0
Non-current liabilities	710.7	724.9
Current liabilities	8,282.5	7,119.9
Total equity and liabilities	10,126.8	8,981.3
Cash at bank and equivalents	2,296.3	1,428.6
Available-for-sale investments	424.2	566.1
Non-current financial liabilities	(192.8)	(187.4)
Net cash (debt)	2,527.7	1,807.3

Integration in Thales accounts:	31/12/2015	31/12/2014
Restated equity attrib. to the shareholders of the Company	1,111.2	1,104.5
% of Thales's interests	35%	35%
Thales's share	388.9	386.6
Goodwill	292.0	292.0
Share in net assets of the joint venture	680.9	678.6

Summarized profit and loss account at 100%	2015	2014
Sales	3,038.8	3,065.9
Income from operating activities after impact of equity affiliates ^(a)	(51.0)	(617.8)
Financial interests, net	20.8	36.4
Tax	10.3	163.7
Restated net income^(a)	(19.9)	(417.7)
<i>Of which, attrib. to the shareholders of the Company</i>	<i>(9.9)</i>	<i>(406.5)</i>
<i>Of which, non-controlling interests</i>	<i>(10.0)</i>	<i>(11.2)</i>

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

Integration in Thales accounts:	2015	2014
Restated net income, attrib. to the shareholders of the Company	(9.9)	(406.5)
% of Thales's interests	35%	35%
Share in income (loss) of the joint venture	(3.5)	(142.3)
<i>Of which, impact of PPA</i>	<i>(25.4)</i>	<i>(25.3)</i>
<i>Of which, share in income (loss) before PPA</i>	<i>21.9</i>	<i>(117.0)</i>
<i>Dividends received from the joint venture</i>	<i>–</i>	<i>3.0</i>

Commitments toward joint ventures

At 31 December 2015, the outstanding of sureties, endorsements and guarantees, given by Thales parent company to support its joint ventures amounts to €332.9 million (€259.8 million at 31 December 2014).

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 to get counter-guarantees by the other shareholder in proportion to its interest.

Transactions with joint ventures (related party)

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

	2015	2014
Sales	575.8	505.4
Purchases	178.5	199.7
Loans and financial assets	44.2	40.9
Financial debts	13.8	9.3

5.2 ASSOCIATES

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

Changes in investment in associates

	31/12/2015	31/12/2014
Investment in associates at opening	385.5	246.8
Share in net income (loss) of associates	57.0	49.5
Cumulative translation adjustment	27.6	29.0
Cash-flow hedge	(16.5)	(13.0)
Actuarial gains (losses) on pensions	(1.9)	0.9
Total comprehensive income (loss)	66.2	66.4
Dividends paid	(31.6)	(25.1)
Dividends declared, not paid	(2.2)	(5.7)
Changes in scope ^(a)	(58.5)	110.3
Other	0.1	(7.2)
INVESTMENT IN ASSOCIATES AT CLOSING	359.5	385.5

(a) Thales-Raytheon Systems LLC in 2014, Cloudwatt and ESG Elektroniksystem-und Logistik GmbH in 2015.

Commitments toward associates

The Group has no significant commitment toward associates.

NOTE 6 Financing and financial instruments

6.1 FINANCIAL INCOME

Net financial interests

	2015	2014
Interest expense:		
➤ on gross debt	(37.2)	(37.5)
➤ on interest rate swaps	21.7	17.3
Total interest expenses	(15.5)	(20.2)
Interest income on cash at bank and equivalents	19.3	22.4
TOTAL	3.8	2.2

Other financial income (expense)

	2015	2014
Foreign exchange gains (losses)	4.4	2.0
Change in fair value of derivative exchange instruments ^(a)	(32.2)	(12.3)
Cash flow hedge inefficiency/foreign exchange instruments	(6.9)	(1.8)
Net foreign exchange gains (losses)	(34.7)	(12.1)
Dividends received	5.0	2.3
Net financial costs on operating loans/debts	1.8	(5.3)
Impairment of investments in shares (available-for-sale), loans and financial assets	(7.9)	(3.3)
Expenses related to confirmed credit line, not used	(2.2)	(5.4)
Other	(3.8)	(15.8)
TOTAL	(41.8)	(39.6)

(a) Includes the variation of forward points fair value (-€15.5 million in 2015 and +€6.8 million in 2014), the time value of the derivatives qualified for hedge accounting (-€6.3 million in 2015 and -€6.0 million in 2014), and also includes the fair value variation of derivatives non qualified for hedge accounting.

6.2 NET CASH (NET DEBT)

The Group's net cash is as follows:

	31/12/2015	31/12/2014
Current financial assets	27.5	56.8
Cash at bank and equivalents	3,450.2	2,481.4
Cash and other short-term financial assets (I)	3,477.7	2,538.2
Long-term financial debt	837.6	1,467.8
Short-term financial debt	698.7	108.2
Fair value of interest rate derivatives ^(a)	(36.2)	(44.1)
Total gross financial debt (II)	1,500.1	1,531.9
NET CASH (I - II)	1,977.6	1,006.3

(a) 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 and 14-h).

Current financial assets

	31/12/2015	31/12/2014
Current accounts receivable with affiliated companies	17.5	34.0
Marketable securities	6.3	3.7
Accrued interests	3.7	19.1
CURRENT FINANCIAL ASSETS	27.5	56.8

Cash at bank and equivalents

At 31 December 2015, the cash recorded under consolidated assets amounts to €3,450.2 million (€2,481.4 million at 31 December 2014). It includes:

- €2,949.8 million held by the parent company and available for immediate use (€2,051.4 million at 31 December 2014). These amounts include €2,585.2 million (€1,725.6 million at 31 December 2014) of short-term deposits, euros market funds, negotiable debt securities, other investments with maturities of less than 3 months;

- €500.4 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 (€430.0 million at 31 December 2014).

Gross financial debt

	31/12/2015	31/12/2014
Bond maturity 2021	314.0	314.8
Bond maturity 2018	504.3	504.1
Bond maturity 2016	605.6	611.4
Project financing debt ^(a)	19.4	30.4
Current accounts payable with affiliated companies	28.4	13.2
Subscription commitments	5.4	53.2
Other borrowings	18.4	8.3
Bank overdrafts	24.3	23.8
Accrued interests	16.5	16.8
Fair value of interest rate derivatives (note 6.5)	(36.2)	(44.1)
GROSS FINANCIAL DEBT	1,500.1	1,531.9

(a) Non-recourse, or limited recourse debt for which interest and principal repayments are covered by project sales contractually due by the customers. Fixed-rate loans (or floating-rate loans swapped to fixed-rate loans) maturing in years up to 2020.

Key features of the financial bonds	Nominal value	Maturity date	Nature	Rate	
				Nominal	Effective
				(excluding effect of hedging)	
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%

Breakdown of gross financial debt by maturity

Contractual cash flows scheduled in:

31/12/2015	Total	2016	2017	2018	2019	>2019
Gross financial debt on balance sheet ^(a)	1,500.1	689.6	7.0	501.7	5.5	296.3
Contractual cash outflow	1,543.1	693.4	15.8	514.5	9.5	309.9

(a) After deduction of interest rate derivatives' fair value.

Contractual cash flows scheduled in:

31/12/2014	Total	2015	2016	2017	2018	>2018
Gross financial debt on balance sheet ^(a)	1,531.9	108.2	616.7	5.3	501.3	300.4
Contractual cash outflow	1,600.8	111.8	638.6	16.4	515.4	318.6

(a) After deduction of interest rate derivatives' fair value.

Breakdown of gross financial debt by currency

	31/12/2015	31/12/2014
Euro	1,453.6	1,461.2
Pound sterling	19.8	20.4
US Dollar	7.6	22.7
Other	19.1	27.6
TOTAL	1,500.1	1,531.9

After incidence of the corresponding derivative instruments.

6.3 NON-CURRENT FINANCIAL ASSETS

Non-consolidated available-for-sale investments

	31/12/2015	31/12/2014
Investments held by Thales International Offsets ^(a)	28.2	28.2
Investments held by Thales Corporate Ventures (venture capital)	4.5	4.2
Other	38.4	28.0
TOTAL	71.1	60.4

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

Non-current financial assets

	31/12/2015	31/12/2014
Loans to related parties	67.5	69.1
Loans and other financial assets at amortised cost	52.1	46.6
Loans and other financial assets at fair value	19.4	30.6
Gross value	139.0	146.3
Depreciation	(7.8)	(7.9)
NET	131.2	138.4

6.4 SUMMARY OF FINANCIAL ASSETS AND LIABILITIES

Financial assets

At 31 December 2015	At fair value					Total
	Loans and receivables at amortised cost	Financial assets		Derivatives		
		Through P&L	Available-for-sale	Hedge accounting	Not qualified for hedge accounting	
Non-current financial assets						
Available-for-sale investments	–	–	71.1	–	–	71.1
Loans and financial assets, non-current	111.8	19.4	–	–	–	131.2
Non-current derivatives, asset	–	–	–	36.2	–	36.2
Current financial assets						
Current derivatives, asset	–	–	–	134.7	19.5	154.2
Current financial assets	27.5	–	–	–	–	27.5
Cash at bank and equivalents	2,260.1	1,190.1				3,450.2
TOTAL		1,209.5	71.1	170.9	19.5	
Methods used to measure fair value						
Valuation at cost		–	71.1	–	–	71.1
Quoted price in active markets (level 1)		1,190.1	–	–	–	1,190.1
Valuation based on observable market data (level 2)		19.4	–	170.9	19.5	209.8

At 31 December 2014	At fair value					Total
	Loans and receivables at amortised cost	Financial assets		Derivatives		
		Through P&L	Available- for-sale	Hedge accounting	Not qualified for hedge accounting	
Non-current financial assets						
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
Current financial assets						
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
TOTAL		286.2	60.4	142.3	10.0	
Methods used to measure fair value						
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

Trade receivables, as detailed in note 10.1, are accounted for as financial assets and evaluated at amortised cost in accordance with IAS 32/39.

Financial liabilities

At 31 December 2015	At fair value				Total
	At amortised cost	Financial liabilities	Derivatives		
			Hedge accounting	Not qualified for hedge accounting	
Non-current financial liabilities					
Financial debt-long-term	809.6	28.0	–	–	837.6
Non-current derivatives, liability	–	–	–	–	–
Current financial liabilities					
Current derivatives, liability	–	–	392.7	12.6	405.3
Financial debt-short-term	690.5	8.2	–	–	698.7
TOTAL		36.2	392.7	12.6	
Methods used to measure fair value					
Valuation based on observable market data (level 2)		36.2	392.7	12.6	441.5

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

As detailed in 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 the carrying amount, except for financial debts.

The fair value of debt obligation is measured on the basis of quoted prices (Level 1). The fair value of other financial debts is determined for each loan by discounting future cash flows at 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 €1,545.2 million at 31 December 2015 and €1,596.8 million at 31 December 2014.

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...) 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 2015 and 2014.

6.5 FINANCIAL RISK MANAGEMENT

The financial risk management policy is described in details in the management report (chapter 1 of this registration document § 1.1.2).

Market risk management

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:

	31/12/2015		31/12/2014	
	Assets	Liabilities	Assets	Liabilities
Non-current derivatives				
➤ foreign exchange derivatives	–	–	–	–
➤ interest rate derivatives	36.2	–	44.1	–
Current derivatives				
➤ foreign exchange derivatives	154.2	402.0	108.2	278.2
➤ interest rate derivatives	–	3.3	–	4.0
Foreign exchange derivatives, net	(247.8)		(170.0)	
Interest rate derivatives, net	32.9		40.1	

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.

At 31 December 2014 and 2015, the amount of derivatives in the portfolio can be analysed as follows:

FOREIGN EXCHANGE DERIVATIVES

	31/12/2015					31/12/2014	
	\$	GBP	Other	Total	Market value	Total	Market value
Negotiations and trade operations hedges							
Hedge accounting							
Forward currency sales	4,808.8	718.2	2,267.0	7,794.0		6,178.2	(151.3)
Forward currency purchases	1,852.6	808.9	1,375.9	4,037.4	(223.0)	3,117.8	
Currency sales (call and put options)	45.9	–	–	45.9	0.8	93.7	0.5
Currency purchases (call and put options)	–	–	–	–	–	51.5	
Not qualified for hedge accounting							
Forward currency sales	13.8	–	–	13.8		9.5	–
Forward currency purchases	0.5	98.7	–	99.2	(0.7)	5.5	
Currency sales (call and put options)	86.1	19.4	66.3	171.8		163.3	1.5
Currency purchases (call and put options)	31.4	12.4	54.4	98.2	0.8	148.5	
Hedges related to cash pooling							
Currency sales: foreign exchange swaps	32.6	–	169.1	201.7		222.9	(1.3)
Currency purchases: foreign exchange swaps	–	597.2	612.0	1,209.2	7.7	973.9	
Hedges related to net foreign assets (hedge accounting)							
Currency sales: foreign exchange swaps	382.1	–	135.1	517.2		369.2	(19.4)
Currency purchases: foreign exchange swaps	–	339.9	–	339.9	(33.4)	325.9	
NET ASSET					(247.8)		(170.0)

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.

Regarding the derivative instruments designated 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

€153 million at 31 December 2015 compared to €132 million at 31 December 2014.

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 €1 million at 31 December 2015, compared to €2 million at 31 December 2014.

Interest rates

Thales is exposed to interest rates 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. At 31 December 2014 and 2015, the amount of derivatives in the portfolio can be analysed as follows:

Interest rate derivatives	31/12/2015		31/12/2014	
	Nominal	Market value	Nominal	Market value
Fair value hedge (swaps with variable-rate payable)				
➤ swaps related to bond with maturity 2021	300.0	19.9	300.0	21.0
➤ swaps related to bond with maturity 2018	300.0	8.1	300.0	8.3
➤ swaps related to bond with maturity 2016	400.0	8.2	400.0	14.8
		36.2		44.1
Cash flow hedge (financing of projects at variable-rate swapped to fixed-rate)	19.4	(2.4)	23.1	(3.4)
Swaps not designated as hedge				
➤ cross-currency swap with fixed-rate payable, related to a loan	16.0	(0.5)	2.1	–
➤ swap with fixed-rate payable, related to a loan	8.7	(0.4)	11.1	(0.6)
NET ASSET		32.9		40.1

The table below summarises the Group's exposure to interest rate risk before and after hedging these risks.

31/12/2015	< 1 year		> 1 year		Total	
	Fixed-rate	Variable-rate	Fixed-rate	Variable rate	Fixed-rate	Variable-rate
Gross financial debt ^(a)	(612.1)	(77.5)	(792.2)	(18.3)	(1,404.3)	(95.8)
Financial assets, cash at bank and equivalents	–	3,477.7	–	–	–	3,477.7
NET EXPOSURE BEFORE IMPACT OF DERIVATIVE INSTRUMENTS	(612.1)	3,400.2	(792.2)	(18.3)	(1,404.3)	3,381.9
Hedging derivatives	395.5	(395.5)	585.3	(585.3)	980.8	(980.8)
NET EXPOSURE AFTER IMPACT OF DERIVATIVE INSTRUMENTS	(216.6)	3,004.7	(206.9)	(603.6)	(423.5)	2,401.1

(a) After deduction of interest rate derivatives fair value.

31/12/2014	< 1 year		> 1 year		Total	
	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate
Gross financial debt ^(a)	(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
NET EXPOSURE BEFORE IMPACT OF DERIVATIVE INSTRUMENTS	(22.2)	2,452.2	(1,387.2)	(36.5)	(1,409.4)	2,415.7
Hedging derivatives	(4.9)	4.9	981.8	(981.8)	976.9	(976.9)
NET EXPOSURE AFTER IMPACT OF DERIVATIVE INSTRUMENTS	(27.1)	2,457.1	(405.4)	(1,018.3)	(432.5)	1,438.8

(a) After deduction of interest rate derivatives fair value.

Based on the average net cash (taking into account hedging instruments), a 1% rise in interest rates would increase financial income by €11.4 million in 2015 (€8.4 million in 2014).

Client Credit risks

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 analyses of the ability of customers to meet their obligations. When necessary, Thales may request bank guarantees or corporate guarantees, or may use credit insurers.

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 2015 and 2014, the ageing of these accounts and notes receivable is as follows:

Accounts and notes receivables overdue

At 31 December 2015	Total	< 3 months	3 to 6 months	> 6 months
Overdue accounts & notes receivables not depreciated				
State and assimilated	132.1	101.1	8.5	22.5
Others	377.7	246.4	51.6	79.7

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

Credit risks related to banking counterparts

Financial investments are diversified. They relate to high ranking debt and are negotiated with leading banks.

Thales Group trades OTC derivatives with leading banks under agreements which provide offset of the 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.

Impact of other netting agreements

At 31 December 2015	Gross book value (before netting)	Offset amounts on Balance sheet	Net balances presented in balance sheet	Netting agreements	Financial collaterals	Net
Derivatives – Assets	190.4	–	190.4	(172.0)	–	18.4
Derivatives – Liabilities	405.3	–	405.3	(172.0)	–	233.3

Liquidity risks

Thales's liquidity risk corresponds to the risk of being unable to face its monetary needs. It depends particularly on 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 2020) as backup for the commercial paper programme and representing, as such, a financing reserve.

The parent company's financing programmes are rated by Standard & Poor's and Moody's. 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	Stable outlook	Stable outlook
Commercial paper & short-term loans	Prime-1	A-2

The decrease of Thales's credit risk rating would not trigger the financial covenants included in its financing contracts. The coming into effect of the unique clause of accelerated repayment would only apply in the event that the French State would no longer hold its golden share and, simultaneously, the ratio of consolidated net financial debt to EBITDA⁽¹⁾ would 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 a decrease in the applicable margin (with a minimum threshold). Other fundings do not provide "covenants" based on financial ratios.

NOTE 7 Income tax

Determination of the income tax charge takes into account the specific local rules, 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

	2015	2014
Current tax ^(a)	(197.9)	(159.3)
Deferred tax	(22.0)	(55.0)
TOTAL	(219.9)	(214.3)

(a) This amount excludes operational taxes, mainly composed of property taxes, the Company value-added contribution (cotisation sur la valeur ajoutée des entreprises – CVAE) in France (€69.0 million in 2015 and €67.5 million in 2014), as well as the social solidarity contribution. All these taxes are recorded as operational expenses in the income from operations.

(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 amortization of goodwill. This figure is determined in accordance with French accounting principles.

Effective tax rate

	2015	2014
Net income (loss)	812.7	761.7
Less: income tax	219.9	214.3
Less: share in net income (loss) of equity affiliates	(112.8)	34.0
Less: disposal of assets, changes in scope of consolidation and other	(53.4)	(248.9)
Profit before tax, disposals and impact of equity affiliates	866.4	761.1
Average tax rate	31.3%	32.0%
Theoretical tax gain (expense)	(271.5)	(243.6)
Reconciliation items:		
➤ Tax credits ^(a)	69.6	72.0
➤ Other non taxable items	(7.5)	(1.5)
➤ Variation of previously unrecognised deferred tax assets	30.1	2.3
➤ Taxes not taken into account in the theoretical rate ^(b)	(15.9)	(16.7)
➤ Prior year adjustments	(9.4)	(14.2)
➤ Impact of dividends paid	(13.8)	(14.1)
➤ Impact of change in the deferred tax rate	(1.4)	1.5
➤ Tax related to disposal of assets, changes in scope of consolidation and oth.	1.4	0.5
➤ Other	(1.5)	(0.5)
ACTUAL TAX GAIN (EXPENSE)	(219.9)	(214.3)
Effective tax rate	25.4%	28.2%

(a) Includes:

- The effect of not taxing research tax credits (€153.5 million in 2015, €151.4 million in 2014) and tax credit for encouraging competitiveness and jobs (CICE), recorded in the non-taxable income from operations;
- The fiscal benefits related to the research, recorded in the income tax (including Australia and Netherlands).

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

The average tax 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 is calculated by applying the local tax rate to the income before tax.

Thus, the average tax rate depends on the contribution of the different countries to the Group's income before tax. France, where the tax rate amounts to 34.43% before additional contributions, represents more than 70 % of the income before tax in 2015, as in 2014.

7.2 DEFERRED TAX ALLOCATED TO EQUITY

	2015		2014	
Entities fully consolidated	Base	Tax	Base	Tax
Translation of the financial statements of foreign subsidiaries	7.0	—	53.9	—
Net foreign investments hedge	3.9	(1.3)	2.1	(0.7)
Cash flow hedge	(191.0)	45.7	(271.3)	95.2
Available-for-sale investments	0.6	—	0.1	—
Items subsequently reclassified to P&L	(179.5)	44.4	(215.5)	94.5
Actuarial gains and losses/pensions - United Kingdom	140.6	43.5	(334.6)	— ^(a)
Actuarial gains and losses/pensions - Other countries	130.9	(38.4)	(292.4)	89.4
Items not subsequently reclassified to P&L	271.5	5.1	(627.0)	89.4
Payment in shares		0.5		1.0
TOTAL DEFERRED TAX ALLOCATED TO EQUITY		50.0		184.9

(a) Depreciation of deferred taxes assets related to pensions in the UK, partially reversed in 2015.

7.3 TAX ASSETS AND LIABILITIES PRESENTED IN THE BALANCE SHEET

	01/01/2015	Income (expense)	Recognised through equity	Cash flow impact	Changes in exch. rate, scope and other	31/12/2015
Current income tax assets	60.3	–	–	10.5	–	70.8
Current income tax liabilities	(54.0)	(197.9)	–	91.8	96.4	(63.7)
Current income tax, net	6.3	(197.9)	–	102.3	96.4	7.1
Deferred tax assets	942.4	(41.3)	50.0	–	15.9	967.0
Deferred tax liabilities	(265.3)	19.3	–	–	(11.9)	(257.9)
Deferred tax, net	677.1	(22.0)	50.0	–	4.0	709.1
TOTAL		(219.9)	50.0	102.3		

	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)
Current income tax, net	(27.6)	(159.3)	–	98.4	94.8	6.3
Deferred tax assets	798.4	(74.3)	184.9	–	33.4	942.4
Deferred tax liabilities	(149.1)	19.3	–	–	(135.5)	(265.3)
Deferred tax, net	649.3	(55.0)	184.9	–	(102.1)	677.1
TOTAL		(214.3)	184.9	98.4		

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".

Deferred tax

➤ CHANGES BY NATURE

	At 01/01/2015	(Expense)/ Income of the period	Recognised through equity	Changes in exch. rate, scope and other	At 31/12/2015
Temporary differences:	838.3	21.7	(33.6)	20.3	846.7
➤ Pensions and other employee benefits	608.4	(20.5)	(81.9)	25.1	531.1
➤ Intangible assets	(126.2)	24.0	–	(10.8)	(113.0)
➤ Reserve for losses at completion	131.3	(12.8)	–	0.1	118.6
➤ Other	224.8	31.0	48.3	5.9	310.0
Tax loss carry-forwards	316.1	(73.8)	–	5.7	248.0
TOTAL	1,154.4	(52.1)	(33.6)	26.0	1,094.7
Part not recognised in the balance sheet	(477.3)	30.1	83.6	(22.0)	(385.6)
TOTAL NET DEFERRED TAX ASSETS	677.1	(22.0)	50.0	4.0	709.1

	At 01/01/2014	(Expense)/ Income of the period	Recognised through equity	Changes in exch. rate, scope and other	At 31/12/2014
Temporary differences:	659.3	10.8	251.8	(83.6)	838.3
➤ Pensions and other employee 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	231.2	20.2	82.1	(108.7)	224.8
Tax loss carry-forwards	376.4	(68.1)	–	7.8	316.1
TOTAL	1,035.7	(57.3)	251.8	(75.8)	1,154.4
Part not recognised in the balance sheet	(386.4)	2.3	(66.9)	(26.3)	(477.3)
TOTAL NET DEFERRED TAX ASSETS	649.3	(55.0)	184.9	(102.1)	677.1

➤ EXPIRATION OF TAX LOSSES CARRIED-FORWARD

Total tax losses carried-forward represent a potential tax saving of €248.0 million at 31 December 2015 (€316.1 million at 31 December 2014). Corresponding expiry dates are:

	31/12/2015		31/12/2014
2016	0.4	2015	0.5
2017-2020	1.0	2016-2019	0.1
Beyond 2020	29.7	Beyond 2019	27.1
Without any time limit	216.9	Without any time limit	288.4
Total	248.0	Total	316.1
Of which not recognised in the balance sheet	(165.4)	Of which not recognised in the balance sheet	(157.9)
NET DEFERRED TAX ASSET	82.6	NET DEFERRED TAX ASSET	158.2
<i>Of which, in France</i>	<i>56.8</i>	<i>Of which, in France</i>	<i>107.9</i>

Only deferred tax assets related to tax losses which the Group expects to recover, in accordance with note 14-i, are recognised in the balance sheet. In particular, the Group takes into account potential restriction of tax losses carried-forward.

NOTE 8 Equity and earnings per share

8.1 EQUITY

Share capital

The share capital of Thales parent company amounts to €632,884,212 and is made of 210,961,404 shares with an individual value of €3, compared with 207,841,111 shares at 31 December 2014. This represents an increase of 3,120,293 shares resulting from the exercise of share subscription options by the beneficiaries of the plans.

Outstanding securities giving access to the share capital of the Company

At 31 December 2015, 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.

Treasury shares

Thales (parent company) held 839,254 of its own shares at 31 December 2015. They are accounted for as a €25.2 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 2014 and 2015:

	2015	2014
Treasury shares at 1 January	1,876,732	2,490,177
Purchases as part of the liquidity contracts	807,144	2,146,816
Sales as part of the liquidity contracts	(822,144)	(2,216,116)
Transfer to employees as part of the employee share purchase offering	(457,596)	–
Delivery of free shares	(535,532)	(544,145)
Exercise of share purchase options	(29,350)	–
TREASURY SHARES AT 31 DECEMBER	839,524	1,876,732

At 31 December 2015, as in 2014, relating to the liquidity contract entrusted to Kepler Cheuvreux, the liquidity account had the following means:

	31/12/2015	31/12/2014
Number of shares	9,000	24,000
Value (€ million)	31.9	29.8

Translation adjustment

Translation adjustment results 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.

This translation adjustment is 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:

	2015	2014
Translation adjustment at 1 January	(134.7)	(241.9)
Changes in value	9.6	56.0
Reclassified to profit and loss	–	(1.0)
Gross variation	9.6	55.0
Deferred tax	(1.3)	(0.7)
Joint-ventures and associates	39.2	52.9
TRANSLATION ADJUSTMENT AT 31 DECEMBER	(87.2)	(134.7)
<i>Of which:</i>		
<i>Hedge of net foreign investments</i>	<i>3.9</i>	<i>3.0</i>

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 impact profit and loss.

	2015	2014
Cash flow hedge at 1 January	(118.5)	56.6
Changes in value	(308.7)	(219.7)
Reclassified to profit and loss	121.7	(11.6)
Scope and exchange rate variations	0.1	(9.8)
Gross variation	(186.9)	(241.1)
Deferred tax	44.3	84.8
Joint-ventures and associates	(15.7)	(18.8)
CASH FLOW HEDGE AT 31 DECEMBER^(a)	(276.8)	(118.5)

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

Parent company dividends distribution

Dividends per share amounted to €1.12 in 2014, as in 2013.

On 22 February 2016, the Board of Directors decided to offer the shareholders, who will be convened to a general meeting on 18 May 2016, the payment of a total amount of €1.36 per share. Given the down payment of €0.35 per share, the balance of €1.01 per share will be distributed on 30 May 2016.

Dividends paid in 2014 and 2015 are described below:

Full year	Approved by	Description	Dividend per share	Payout date	How paid	Total (€ million)
2015	Board of Directors meeting on 17 September 2015	2015 interim dividend	€0.35	Dec. 2015	Cash	€73.3 million
	Shareholders' meeting on 13 May 2015	Balance for 2014	€0.78	May 2015	Cash	€160.7 million
	Total dividends paid in 2015					€234.0 million
2014	Board of Directors meeting on 16 September 2014	2014 interim dividend	€0.34	Dec. 2014	Cash	€70.0 million
	Shareholders' meeting on 14 May 2014	Balance for 2013	€0.85	May 2014	Cash	€172.8 million
	Total dividends paid in 2014					€242.8 million
2013	Board of Directors meeting on 17 September 2013	2013 interim dividend	€0.27	Dec. 2013	Cash	€54.9 million

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 interest in Thales-Raytheon Systems Company SAS (50%).

The contribution of these minority shareholders in the main financial figures 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 non-dilutive instruments. The dilutive effect of share subscription and share purchase options, of free shares and units awarding, is calculated using the treasury stock method, taking into account the average market price for the share over the period said.

		2015	2014
Numerator (in millions of euros)			
Net income (loss) attributable to shareholders of the parent company	(a)	765.1	714.2
Denominator (in thousands)			
Average number of outstanding shares	(b)	208,112	204,774
Share subscription and share purchase options ⁽¹⁾		1,403	1,100
Free shares and units plans ⁽²⁾		1,421	1,447
Diluted average number of outstanding shares	(c)	210,936	207,321
Earnings per share (in euros)	(a)/(b)	3.68	3.49
Diluted earnings per share (in euros)	(a)/(c)	3.63	3.44
Average share price		€57.86	€44.38

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

(2) Performance shares/units are only taken into account when performance targets are achieved.

NOTE 9 Employee 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 2015 it represents 61,848 employees (60,781 at the end of 2014).

9.2 PERSONNEL EXPENSES

	2015	2014
Wages and salaries and social charges ^(a)	(5,640.0)	(5,351.9)
Defined benefit pension expense (note 9.3)	(115.9)	(88.9)
Share-based payment (before social security contributions – note 9.4)	(28.1)	(15.0)
TOTAL	(5,784.0)	(5,455.8)

(a) Profit-sharing, incentive plans and defined contribution pension expenses included.

9.3 PENSION AND OTHER EMPLOYEES BENEFITS

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.). 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 charge for the Company is thus limited to the 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 mainly includes the UK.

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

In the Netherlands, employees had a defined benefit plan, the indexation of which depended on the level of financing achieved, as assessed by the local prudential rules. In late 2015, this plan's regulation has been amended in agreement with social partners and the plan was turned into a collective defined contribution plan. Future contributions from the employer no longer depend on the pension fund's financial condition. At 31 December 2015, the remaining provision mainly relates to an early-retirement plan.

Provisions recognised in the balance sheet

	2015	2014
Provision at 1 January	(2,556.8)	(1,857.9)
Current service cost (a)	(115.9)	(88.9)
Amendments and settlements (b)	10.1	6.5
Interest cost	(213.5)	(229.5)
Expected return on plans assets	146.8	157.9
Net interest	(66.7)	(71.6)
Pension fund management cost	(5.8)	(5.5)
Actuarial gain & losses/other long-term benefits	12.4	(13.0)
Finance costs on pensions and other employee benefits (c)	(60.1)	(90.1)
Total pension cost of the period (a)+(b)+(c)	(165.9)	(172.5)
Actuarial gains & losses (other comprehensive income (loss) of the period)	271.5	(627.0)
Benefits and contributions paid	225.1	190.5
➤ Of which deficit payment in the United Kingdom	101.0	68.8
➤ Of which, other benefits & contribution	124.1	121.7
Exchange rate variation	(77.6)	(70.1)
Changes in scope of consolidation and other	(15.2)	(19.8)
PROVISION AT 31 DECEMBER	(2,318.9)	(2,556.8)
Of which: Post-employment benefits	(2,138.2)	(2,370.6)
Other long-term benefits	(180.7)	(186.2)

Changes in defined benefit obligations and plans assets, by category of country

	Externally funded countries			Countries mainly internally funded			
31 December 2015	UK	Netherlands	Total	France	Other	Total	Total
OBLIGATIONS AT 1 JANUARY	(4,135.4)	(1,293.9)	(5,429.3)	(1,072.0)	(494.4)	(1,566.4)	(6,995.7)
Current service cost	(25.7)	(18.0)	(43.7)	(48.8)	(23.4)	(72.2)	(115.9)
Interest cost	(160.7)	(24.3)	(185.0)	(15.8)	(12.7)	(28.5)	(213.5)
Plan participant's contribution	(12.7)	(9.8)	(22.5)	–	(1.7)	(1.7)	(24.2)
Amendments / settlements	7.7	1,238.0	1,245.7	–	–	0.0	1,245.7
Experience gains (losses)	(21.5)	5.0	(16.5)	(32.5)	3.2	(29.3)	(45.8)
Actuarial gains (losses)/ financial assumptions	154.1	45.8	199.9	66.2	20.5	86.7	286.6
Actuarial gains (losses)/ demographic assumptions	–	–	0.0	–	2.5	2.5	2.5
Actuarial gains (losses) on long-term benefits	–	0.3	0.3	7.9	4.2	12.1	12.4
Benefits paid from plan assets	151.6	29.4	181.0	2.4	8.1	10.5	191.5
Benefits paid by employer ^(a)	0.6	0.3	0.9	52.0	18.3	70.3	71.2
Scope, exch. rate var. and other	(252.5)	0.2	(252.3)	(1.6)	(52.6)	(54.2)	(306.5)
OBLIGATIONS AT 31 DECEMBER	(4,294.5)	(27.0)	(4,321.5)	(1,042.2)	(528.0)	(1,570.2)	(5,891.7)
PLAN ASSETS AT 1 JANUARY	2,989.2	1,200.6	4,189.8	128.4	120.7	249.1	4,438.9
Expected return on plan assets	118.0	22.8	140.8	2.0	4.0	6.0	146.8
Employer's contribution ^(a)	124.5	19.5	144.0	3.2	6.9	10.1	154.1
Plan participants' contribution	12.7	9.8	22.5	–	1.7	1.7	24.2
Amendments / settlements	–	(1,235.6)	(1,235.6)	–	–	–	(1,235.6)
Benefits paid from plan assets	(151.6)	(29.4)	(181.0)	(2.4)	(8.1)	(10.5)	(191.5)
Experience gains (losses)	8.1	13.6	21.7	7.8	(1.3)	6.5	28.2
Scope, exch. rate var. and other	173.7	(1.3)	172.4	0.2	35.1	35.3	207.7
PLAN ASSETS AT 31 DECEMBER	3,274.6	(0.0)	3,274.6	139.2	159.0	298.2	3,572.8
PROVISIONS AT 31 DECEMBER	(1,019.9)	(27.0)	(1,046.9)	(903.0)	(369.0)	(1,272.0)	(2,318.9)

(a) Contributions/benefits paid amount to €225.1 million in 2015, compared to €190.5 million in 2014.

	Externally funded countries			Countries mainly internally funded			
31 December 2014	UK	Netherlands	Total	France	Other	Total	Total
OBLIGATIONS AT 1 JANUARY	(3,332.7)	(981.5)	(4,314.2)	(896.8)	(402.4)	(1,299.2)	(5,613.4)
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)
Amendments / 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 from plan assets	128.1	29.1	157.2	2.2	4.3	6.5	163.7
Benefits paid by employer ^(a)	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)
OBLIGATIONS AT 31 DECEMBER	(4,135.4)	(1,293.9)	(5,429.3)	(1,072.0)	(494.4)	(1,566.4)	(6,995.7)
PLAN ASSETS AT 1 JANUARY	2,553.9	958.0	3,511.9	121.9	121.7	243.6	3,755.5
Expected return on plan assets	114.2	35.3	149.5	4.0	4.4	8.4	157.9
Employer's contribution ^(a)	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
Amendments / settlements	–	–	–	–	(7.9)	(7.9)	(7.9)
Benefits paid from 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	186.8	(1.3)	185.5	(0.3)	3.2	2.9	188.4
PLAN ASSETS AT 31 DECEMBER	2,989.2	1,200.6	4,189.8	128.4	120.7	249.1	4,438.9
PROVISIONS AT 31 DECEMBER	(1,146.2)	(93.3)	(1,239.5)	(943.6)	(373.7)	(1,317.3)	(2,556.8)

(a) Contributions/benefits paid amount to €225.1 million in 2015, compared to €190.5 million in 2014.

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:

2015	UK	Netherlands ^(a)	France	Germany ^(b)
Inflation rate	3.02%	–	1.60%	1.60%
Discount rate	3.96%	–	2.03%	2.61%
Average duration of the plans	17 years	–	11 years	19 years

(a) Main pension plan liquidated in 2015.

(b) Main country of the category « others ».

2014	UK	Netherlands ^(a)	France	Germany ^(b)
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 pension plan liquidated in 2015.

(b) 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). For each country, the Group refers to the Iboxx Corporate AA index, adjusted in accordance with the duration of the obligations.

At 31 December 2015, 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%	-1%
Decrease (increase) in provision (€ million)	219.2	(228.6)	423.4	(473.9)	799.5	(1,008.7)

In the UK, an increase of the inflation rate of 25 basis points would generate an increase of the obligation by €106.7 million. A decrease of the inflation rate of 25 basis points would generate a decrease of the obligation by €103.4 million.

Return on plan assets

In 2015, plan assets have an actual average return of 4%, compared to 14% in 2014. At 31 December 2015, plan assets are invested as follows:

	2015	2014
Fixed rate bonds	36%	39%
Index-linked bonds	11%	11%
Equities	31%	34%
Liquid alternative investments	9%	7%
Illiquid alternatives (property...)	12%	8%
Liquidities	1%	1%
TOTAL	100%	100%

Funding

Thales is subject to funding obligations in respect of its defined benefit pension obligations in the UK.

In accordance with the regulations in force, the funding level of its pension obligations is measured every three years. Following this measurement, the appropriateness of a new funding plan and/or the establishment of guarantees in favour of the plan is decided, in consultation with the trustees.

In 2015, negotiations were entered into ahead of the evaluation of the funding level of the Thales UK scheme, the main Thales plan in the UK, in order to set the annual contribution for future years. These negotiations should end in 2016. The contribution increase during 2015 is not representative of the future annual contribution as it takes into account the mechanical effect of the decrease in discount rates between 2011 and 2014, before any negotiation.

In addition, Thales Holdings UK Plc granted a guarantee covering future liabilities of the relevant subsidiaries in the United Kingdom under this funding plan. At 31 December 2015 the balance of the guarantee was £ 779 million, this amount will be reduced by any amount paid in accordance with the funding plan. This guarantee is underwritten by Thales (parent company).

9.4 SHARE-BASED PAYMENT

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

Between 2007 and 2013, Thales granted free shares and/or performance shares in line with the employee performance management policy.

Since 2014, the Group stopped free shares grants and replaced them with Units plans indexed to the value of the Thales share, including units subject to performance conditions.

Each unit granted gives the 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 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. Extreme stock market price variations, whether up or down, 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 unit value. Half of the payment will be satisfied in shares, while the other half will be paid in cash.

At 31 December 2015, the following options, shares and units were outstanding:

- 88,450 share purchase options at a weighted average exercise price of €44.17;
- 2,615,865 share subscription options at a weighted average exercise price of €36.32, of which 399,948 performance shares;
- 1,263,137 free shares, of which 407,507 performance shares;
- 1,300,510 units, of which 507,600 performance units.

In addition, in 2015 the Group implemented an employee share purchase plan the characteristics of which are described in paragraph f below.

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. Amounts (before social security contributions) are 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 31/12/2015	2015 Expense ^(c)	2014 Expense ^(c)
Share subscription options						
15/09/2011	435,300	€25.20	2.3	–	–	0.2
Total				–	–	0.2
Free shares^(a)						
17/09/2013	724,290	€39.16	22.8	9.2	(5.4)	(5.2)
20/12/2012	718,290	€27.47	16.1	3.6	(3.7)	(3.5)
15/09/2011	630,990	€25.20	13.0	–	(2.0)	(2.5)
23/09/2010	631,730	€26.40	13.6	–	–	(2.2)
Total					(11.1)	(13.4)
Units^(b)						
16/09/2014	706,970	€42.42	24.2	16.1	(8.1)	(1.8)
17/09/2015	608,840	€61.75	30.8	28.4	(2.4)	–
Total					(10.5)	(1.8)
Company savings scheme					(6.5)	–
TOTAL					(28.1)	(15.0)
Of which, counterpart						
Equity					22.2	14.1
Debt					5.9	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 plans, according to a Monte-Carlo model, takes into account the following assumptions, respectively in 2014 and 2015: volatility of 22% then 23%, distribution rate of future results of 2.7% then 2% and risk free rates of 0.14% then 0.10%.

(c) Before social security contributions.

Outstanding purchase option plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31/12/2014	Options exercised in 2015	Options cancelled in 2015	Number of options outstanding at 31/12/2015
25/11/2008	From 25 Nov. 2012 to 24 Nov. 2018	€38.50	37,800	(29,350)	–	8,450
04/07/2007	From 4 July 2011 to 3 July 2017	€44.77	80,000	–	–	80,000

Outstanding option subscription plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31/12/2014	Options exercised in 2015	Options cancelled in 2015 ^(b)	Number of options outstanding at 31/12/2015
15/09/2011 ^(a)	From 15 Sept. 2015 to 14 Sept. 2021	€26.34	312,444	(82,561)	(5,050)	224,833
23/09/2010 ^(a)	From 23 Sept. 2014 to 22 Sept. 2020	€26.34	347,850	(170,835)	(1,900)	175,115
25/06/2009	From 25 June 2013 to 24 June 2019	€32.88	857,492	(341,653)	(1,140)	514,699
01/07/2008	From 1 st July 2012 to 30 June 2018	€38.50	1,108,717	(421,032)	(28,470)	659,215
04/07/2007	From 04 July 2011 to 03 July 2017	€44.77	1,225,355	(718,420)	(5,320)	501,615
09/11/2006	From 09 Nov. 2010 to 08 Nov. 2016	€36.47	1,160,610	(616,422)	(3,800)	540,388
30/06/2005	From 30 June 2009 to 29 June 2015	€34.01	830,933	(769,370)	(61,563)	—

(a) Plans contingent upon the achievement of internal performance targets over the three financial years following the attribution date.

(b) Including, for the involved plans, options written-off when performance targets are not, partially or totally, achieved (73,368 options written-off in 2014 on the 2011 plan after final adjustment).

Free share plans

Date of Board decision	Vesting period	Share price at grant date	Number of free shares at 31/12/2014	Shares cancelled in 2015 ^(b)	Shares delivered in 2015	Number of free shares at 31/12/2015
17/09/2013	From 17/09/2013 to 17/09/2017	€39.16	413,790	(7,180)	(600)	406,010
			240,963 ^(a)	(7,260)	—	233,703
20/12/2012	From 20/12/2012 to 20/12/2016	€27.47	458,400	(7,830)	(950)	449,620
			177,854 ^(a)	(4,050)	—	173,804
15/09/2011	From 15/09/2011 to 15/09/2015	€25.20	437,200	(3,730)	(433,470)	—
			102,984 ^(a)	(2,422)	(100,562)	—

(a) Plans contingent upon the achievement of internal performance targets over the three financial years following the attribution date.

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

Plans in units indexed to the value of the Thales share

Date of the allocation decision	Vesting period	Share price at grant date	Number of units at 31/12/2014	Units allocated in 2015	Units cancelled in 2015 ^(b)	Units delivered in 2015	Number of units at 31/12/2015
16/09/2014	From 16/09/2014 to 16/09/2018	€42.42	424,550	—	(7,180)	(330)	417,040
			280,250 ^(a)	—	(4,650)	—	275,600
17/09/2015	From 17/09/2015 to 17/09/2019	€61.75	—	376,840	(970)	—	375,870
			—	232,000 ^(a)	—	—	232,000

(a) Plans contingent upon the achievement of internal performance targets over the three financial years following the attribution date.

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

Employee share purchase plan

Following the decision of the Board of Directors on 25 February 2015, the Group implemented a Thales share purchase plan reserved to its employees with a discount compared to the average market price plus an employer contribution. The shares delivered were existing treasury shares.

The subscription price of €49.85, set on 16 October 2015, corresponds to the average of the opening price of Thales shares on Euronext Paris over the twenty trading days preceding this date, discounted by 20%.

The employees also received an employer contribution corresponding to one free share for two acquired shares up to twenty four shares purchased and one free share for four acquired shares from twenty five to seventy two shares purchased, within the limit of twenty four matching shares.

This plan is part of the Group savings plan, subject to a five-year lock-up period of the investment, except for the United Kingdom where the

share offering is implemented in accordance with the Share Incentive Plan ("SIP").

Thus, in 2015, 311,403 shares were subscribed by employees at the subscription price of €49.85 and 146,193 bonus shares were received. The delivery of shares to UK based employees will be finalised in early 2016.

In the consolidated financial statements, the cost of this plan is measured according to the French CNC (Conseil National de la Comptabilité) recommendation, taking the five-year lock-up period into account. This approach measures the share according to a replication strategy in which the market participant would sell the share at the end of the five-year lock-up period and would borrow the necessary amount to immediately buy a free share by financing the loan by the future sale and dividends paid out during the lock-up period.

➤ ACCOUNTING COST: HYPOTHESIS TAKEN

Five-year free risk interest rate	0.17%
Spread of the banking system (retail)	5.53%
Financing rate for an employee	5.70%
Cost of security loan (repo)	1.0%
Cost for the Group	€6.5 million ^(a)

(a) Before social contributions (€1.7 million) and administrative charges.

9.5 COMPENSATION OF DIRECTORS AND SENIOR CORPORATE OFFICERS

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

	2015	2014
Short-term benefits		
➤ Fixed compensation	4.4	4.3
➤ Variable compensation	3.0	2.9
➤ Employer's social security contribution	2.6	2.5
➤ Contract termination benefits resulting from contract commitments	2.1	–
➤ Employer's social security contribution/contract termination benefits	0.7	–
➤ Compensation for attendance at Board meetings	0.6	0.6
Other benefits		
➤ Post employment benefits	1.3	1.7
➤ Share-based payments	1.0	0.7

NOTE 10 Current operating assets and liabilities

Current operating assets and liabilities include the elements of working capital requirement (WCR) and 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" caption (note 14).

The Group may sell trade receivables, mainly from the French State, and commercial papers. At 31 December 2015, the sold receivables amounted to €103.7 million (€230.0 million at 31 December 2014).

The change in overdue payments at constant perimeter amounts to -€126.3 million in 2015 (+€69 million in 2014).

As these sales, 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 retained by Thales (within the meaning of IFRS 7): the part of dilution risk not transferred to the bank and the remuneration received under the recovery mandate.

10.1 EVOLUTION OF CURRENT OPERATING ASSETS AND LIABILITIES

	01/01/2014	Change in WCR and provisions	Exch. rate, scope and reclass	31/12/2014	Change in WCR and provisions	Exch. rate, scope and reclass	31/12/2015
Inventories and work-in-progress	2,124.1	188.7	124.8	2,437.6	98.3	24.9	2,560.8
Construction contracts assets	1,995.2	(91.0)	92.2	1,996.4	25.1	21.1	2,042.6
Advances to suppliers	285.2	29.3	11.5	326.0	52.0	5.0	383.0
Accounts, notes & other current receivables	3,810.0	223.4	95.7	4,129.1	330.2	(55.1)	4,404.2
Derivative instruments – assets	176.5	(8.1)	(60.2)	108.2	46.3	(0.3)	154.2
Current operating assets	8,391.0	342.3	264.0	8,997.3	551.9	(4.4)	9,544.8
Advances received from cust. on contracts ^(a)	(3,739.3)	220.5	(157.6)	(3,676.4)	(599.6)	(41.2)	(4,317.2)
Refundable grants	(143.0)	12.9	(0.3)	(130.4)	2.2	0.6	(127.6)
Construction contracts liabilities	(1,073.9)	18.5	(16.9)	(1,072.3)	57.6	(6.3)	(1,021.0)
Reserve for contingencies	(1,026.1)	22.4	(34.3)	(1,038.0)	50.8	(35.7)	(1,022.9)
Accounts, notes & other current payables	(4,731.9)	(318.8)	(203.7)	(5,254.4)	(189.1)	(104.1)	(5,547.6)
Derivative instruments - liabilities	(72.9)	–	(209.3)	(282.2)	–	(123.1)	(405.3)
Current operating liabilities	(10,787.1)	(44.5)	(622.1)	(11,453.7)	(678.1)	(309.8)	(12,441.6)
Restructuring provision^(b)	138.3	(10.7)	6.6	134.2	(16.8)	(1.1)	116.3
INCREASE (DECREASE) IN WCR & RESERVES FOR CONTINGENCIES		287.1			(143.0)		

(a) Advances received on construction contracts respectively amount to €2,790.8 million, €2,679.2 million and €3,262.8 million at 1 January 2014, 31 December 2014 and 2015.

(b) To be excluded from reserves for contingencies.

10.2 RESERVES FOR CONTINGENCIES (EXCLUDING CONSTRUCTION CONTRACTS)

	31/12/2014	Increase	Utilisation	Reversal	Scope, exch. rate and other	31/12/2015
Restructuring ^(a)	134.2	81.2	(91.1)	(6.9)	(1.1)	116.3
Litigation	142.5	32.9	(27.3)	(20.4)	–	127.7
Guarantees	230.9	63.3	(50.1)	(13.0)	8.6	239.7
Losses at completion	69.1	40.9	(24.2)	(9.5)	(0.2)	76.1
Provisions on contracts	171.6	32.9	(37.6)	(10.6)	(8.9)	147.4
Other ^(b)	289.7	74.3	(38.3)	(22.2)	12.2	315.7
TOTAL	1,038.0	325.5	(268.6)	(82.6)	10.6	1,022.9

	01/01/2014	Increase	Utilisation	Reversal	Scope / Exch rate	31/12/2014
Restructuring ^(a)	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 ^(b)	295.2	63.2	(59.8)	(12.5)	3.6	289.7
TOTAL	1,026.1	399.0	(324.3)	(89.1)	26.3	1,038.0

(a) The net restructuring costs are as follows:

	2015	2014
Increase in reserves during the period	(81.2)	(92.7)
Reversal in reserves during the period	98.0	103.4
Expenses during the period	(111.1)	(125.1)
RESTRUCTURING COSTS NET	(94.3)	(114.4)

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

10.3 MATURITY OF CURRENT RECEIVABLES AND PAYABLES

Balances presented in the balance sheet are analysed as follows:

31/12/2015

	Total	< 1 year	> 1 year	31/12/2014
Accounts and unbilled receivables, gross	3,189.2	3,043.9	145.3	3,019.6
Provisions on accounts & notes receivable	(102.2)	(57.5)	(44.7)	(109.2)
Accounts and unbilled receivables, net	3,087.0	2,986.4	100.6	2,910.4
Other tax receivables (excluding income tax)	966.6	653.7	312.9	923.6
Other debtors and prepaid expenses, gross	351.7	300.4	51.3	296.7
Related provisions	(1.1)	(1.1)	—	(1.6)
Net	1,317.2	953.0	364.2	1,218.7
ACCOUNTS, NOTES AND OTHER CURRENT RECEIVABLES	4,404.2	3,339.4	464.8	4,129.1
Accounts and notes payable	2,297.5	2,291.4	6.1	2,177.8
Accrued holiday pay and social	1,406.5	1,395.1	11.4	1,368.1
Other tax payables (excluding income tax)	697.5	697.5	—	657.7
Other creditors and accrued liabilities	1,146.1	1,054.2	91.9	1,065.8
ACCOUNTS, NOTES AND OTHER CURRENT PAYABLES	5,547.6	5,438.2	109.4	5,269.4

Changes in depreciations	31/12/2014	Net depreciation (reversal)	Utilisation	Scope, exch. rate	31/12/2015
Depreciation on accounts & notes receivable	(109.2)	(10.3)	13.2	4.1	(102.2)
Depreciation on other receivable	(1.6)	0.4	—	0.1	(1.1)

10.4 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 indemnify

the customer if the Group fails to meet its commitments. At 31 December 2015, bid bonds issued amounted to €66.2 million (€81.5 million at 31 December 2014).

From the signature of a contract up until its completion, the Group may also deliver performance bonds to the benefit of 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 2015, performance bonds amounted to €2,038.6 million (€1,902.9 million at 31 December 2014).

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, estimated on a contract-by-contract basis, is provided for in the Group financial statements as necessary.

In order to finance contract execution, the Group may receive advance payments from its customers, in accordance with contractual terms, which are booked as a liability in the balance sheet. In order to guarantee

The maturity dates of these commitments are:

	< 1 year	1 to 5 years	> 5 years	31/12/2015	31/12/2014
Bid bonds	62.4	3.8	–	66.2	81.5
Performance bonds	609.2	1,246.7	182.7	2,038.6	1,902.9
Advance payment bonds	935.4	1,103.6	144.4	2,183.4	1,882.0
Warranty retention bonds	69.9	13.7	31.6	115.2	259.3
Other bank bonds	64.8	36.0	74.2	175.0	160.0
TOTAL	1,741.7	2,403.8	432.9	4,578.4	4,285.7

In addition, Thales may, on behalf of its subsidiaries, grant so-called “parent company guarantees” to third parties without using a bank as an intermediary. At 31 December 2015, these “corporate” guarantees amounted to €14,688.3 million (€12,767.7 million at 31 December 2014), representing an increase amounting to €1,920 million, of which €667 million is due to the variation of exchange rates.

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

NOTE 11 Cash flows

11.1 CHANGES IN NET CASH (NET DEBT)

	2015	2014
Net cash (debt) at 1 January	1,006.3	1,077.3
Net cash flow from operating activities	1,642.9	1,465.6
Changes in WCR and reserves for contingencies	143.0	(287.1)
Pensions recurrent contributions, interest and taxes paid	(217.2)	(234.5)
Net operating investments	(458.3)	(443.4)
Free operating cash-flow	1,110.4	500.6
Acquisitions of subsidiaries	(51.2)	(378.2)
Disposal of subsidiaries	87.8	4.4
Reduction of UK pension deficits	(101.0)	(68.8)
Variation of loans	23.3	21.9
Dividends paid	(234.0)	(242.8)
Third party share in dividend distributions of subsidiaries	(51.3)	(130.9)
Treasury shares and exercise of subscription options	125.4	78.2
Net cash (debt) of acquired/disposed companies	–	33.6
Exchange rate variation: translation and financing operations	26.6	63.8
Debt/investments in shares (available-for-sale) and other	35.3	47.2
Total variation	971.3	(71.0)
NET CASH (DEBT) AT 31 DECEMBER (NOTE 6.2)	1,977.6	1,006.3

11.2 OPERATING INVESTMENTS

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 INVESTMENTS

Acquisitions of subsidiaries	2015	2014
Live TV	–	(287.4)
Visionix additional price	(12.9)	–
Tronics Stake (19.7%)	(10.3)	–
Activites of cyber security and secure communications of Alcatel-Lucent	(2.7)	(37.7)
Capital increase of the joint-venture ACSI	–	(12.5)
Capital increase of an real estate company	(7.4)	–
Cloudwatt: partial release of capital	(1.3)	(8.9)
Space activities in the UK (SEA)	(2.1)	(6.2)
Remaining earn-out of Sysgo AG	–	(5.3)
Additional acquisition of Amper Programmas (51%)	–	(4.0)
Other	(14.5)	(16.2)
NET INVESTMENT	(51.2)	(378.2)

Disposals of subsidiaries	2015	2014
ESG Elektroniksystem- und Logistik GmbH (30%)	75.2	–
Cloudwatt (22%)	8.9	–
Other	3.7	4.4
NET DISPOSAL	87.8	4.4

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 dispute resolution mechanisms. 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 commercial and criminal litigation and claims. These are handled by the Corporate Legal Affairs 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 from a common customer claiming an amount which allegedly should not be below the \$260 million figure and for which the group of French manufacturers might be jointly liable towards the claimant. This request

for arbitration is related to the execution of old contracts by the group of French manufacturers. Pursuant to an agreement signed by all the parties in 2003, the claimant withdrew its request for arbitration.

In November 2012, the claimant filed a new request for arbitration for a revised amount of €226 million of which Thales' share would be around 28% of the amount claimed. The manufacturers are strongly disputing this demand and at this date it is not possible to evaluate any potential financial risk. Consequently, Thales has not recognised any provision.

This process is still pending.

There are no other government, judicial or arbitration claims, of which the Group is aware, which are pending or threatened, which could have, or which had, in the course of the last 12 months, any significant effect on the financial position or the profitability of the Company and/or the Group.

NOTE 13 Events after reporting period

To the knowledge of the Group, no significant event has occurred after the reporting date.

NOTE 14 Accounting policies

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);
- impact of amendments, curtailments or 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 cash flows enables the analysis of the balance sheet items "Cash at bank and equivalents", as defined in the note 14. 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 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 Segments whose operating performances, based on 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 and to measure operating performance of these sectors. 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 mainly with non governmental customers (aircraft

manufacturers, airlines, satellite operators...) and also, to a lesser extent, with governmental customers (states, space agencies and other paragonmental 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 which develop equipment, systems and services for the armed and security forces as well as the protection of networks and infrastructures, mainly with a governmental defence 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 acquired intangible assets (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 acquired intangible assets (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 employee benefits, included in "financial income on pensions and other employee 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.

The calculation of these indicators is set out in notes 2.1 and 2.2.

Commitments and Contingencies

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

- note 4.3: commitments related to operation leases;
- note 9.3: commitments related to pensions;
- note 10.4: 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.

Section 4.3.3.3 of the 2014 registration document describes the main provisions concerning the shareholders' agreement governing relations between the French State ("Public Sector") and Dassault Aviation ("industrial partner") within Thales, the convention on the protection of national strategic interests and the specific convention binding the State and Thales.

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;
- transactions with companies under joint control and their joint shareholders in note 5.1.

Transactions with 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.

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

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.

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.

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.

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.

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 note 4. 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.

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.

Tangible and intangible fixed assets

Intangible assets

The Group's intangible assets mainly include:

- goodwill (note 14);
- 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).

Intangible assets are submitted to impairment tests.

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.

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. The fair value corresponds to the market price for shares quoted on a regulated market. For other shares, the fair value is usually determined using valuation models provided by independent third parties, or by reference to the net equity contribution held by the Group. 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 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.

Financial instruments relating to exchange rates eligible for hedge accounting are accounted for as follows:

- 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.

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 such time as the hedged flows affect profit and loss.

Deferred taxation

Thales recognises deferred taxes when the tax value of an asset or liability differs from its book value.

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.

Pension and other employee benefits

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, measured in cases of amendments or curtailments of plans, as well as settlements of plans are fully recognised in the profit and loss accounts in the period in which they occurred, within the operating income.
- Net interest expense, determined based on the discount rate of obligations, is recognised in the financial result.

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 give rise to an expense representing the fair value of services received at the grant date. This payroll expense is recognized 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 recognized on a straight-line basis over the vesting period. When appropriate, 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 and in 2015. 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, with any changes in fair value recognized 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.

As 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 (option plans, free share and Company savings plan) 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 2015 and 2014 are presented in the table below^(a):

€ thousands	Mazars				E Y			
	Amount pre-tax		%		Amount pre-tax		%	
	2015	2014	2015	2014	2015	2014	2015	2014
Audit								
Auditing, certification, examination of individual and consolidated accounts ^(b)								
➤ Issuer	730	695	13%	13%	732	770	14%	15%
➤ Subsidiaries fully consolidated	4,019	4,123	74%	75%	3,681	3,596	71%	71%
Other efforts and services directly associated with the assignment of auditor ^(c)								
➤ Issuer	279	302	5%	5%	123	106	2%	2%
➤ Subsidiaries fully consolidated	414	410	8%	7%	287	318	6%	7%
Sub-total	5,442	5,530	100%	100%	4,823	4,790	93%	95%
Other services rendered by the networks subsidiaries fully consolidated^(d)								
Legal, tax-related, social-security-related	—	5	—	—	371	272	7%	5%
Other (if > 10% of audit fees)	—	—	—	—	—	—	—	—
Sub-total	—	5	—	—	371	272	7%	5%
TOTAL	5,442	5,535	100%	100%	5,194	5,062	100%	100%

(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 directly associated services which 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 and Electronic Signalling Services (ESS) GmbH, located at 1 Thalesplatz, 71254 Ditzingen have claimed an exemption from their obligation to publish their respective German financial statements for the fiscal year 2015 by reference to section 264 paragraph 3 German Commercial Code.

NOTE 17 List of main consolidated companies

(excl. Thales, the parent company)

		% stake	
	Country	31/12/2015	31/12/2014
1. Consolidated subsidiaries			
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 Components Corporation	United States	100%	100%
Thales Defense & Security, Inc.	United States	100%	100%
Thales Electronic Systems GmbH	Germany	100%	100%
Thales e-Security, Inc	United States	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 Polska Sp. z.o.o.	Poland	100%	100%
Thales Transportation Systems GmbH	Germany	100%	100%
Thales Ground Transportation Systems UK Ltd	United Kingdom	100%	100%
Thales Rail Signalling Solutions AG	Switzerland	100%	100%
Thales-Raytheon Systems Company SAS	France	50%	50%
Thales Security Solutions & Services Company	Saudi Arabia	100%	100%
Thales Services SAS	France	100%	100%
Thales Solutions Asia Pte Ltd	Singapore	100%	100%
Thales Systèmes Aéroportés SAS	France	100%	100%
Thales Transport & Security (Hong-Kong) Ltd	Hong-Kong	100%	100%
Thales Transport & Security Ltd	United Kingdom	100%	100%
Thales Training & Simulation SAS	France	100%	100%
Trixell SAS	France	51%	51%
Thales Underwater Systems SAS	France	100%	100%
Thales UK Ltd	United Kingdom	100%	100%

		% stake	
	Country	31/12/2015	31/12/2014
2. Joint control (under equity method)			
Thales-Raytheon Systems Air and Missile Defense Command and Control SAS (TRS AMDC2)	France	50%	50%
Citylink Telecommunications Holding Ltd	United Kingdom	33%	33%
DCNS	France	35%	35%
Diehl Aerospace GmbH	Germany	49%	49%
Hanwha Thales Co. Ltd (formerly Samsung Thales Co. Ltd)	South Korea	50%	50%
Sofradir SAS	France	50%	50%
3. Significant influence (under equity method)			
Aviation Communications & Surveillance Systems	United States	30%	30%
Airtanker Holdings Ltd	United Kingdom	13%	13%
Eletronica SpA	Italy	33%	33%
Thales-Raytheon Systems Company LLC	United States	50%	50%
Telespazio SpA	Italy	33%	33%

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.

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 December 31, 2015 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 December 31, 2015 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.

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 1.4 "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 1.4 "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 recognizes income on its contracts, and in particular on its construction contracts in accordance with the methods set out in note 14 "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 December 31, 2015 for a net amount of € 3,215.9 million, was subject to impairment tests in accordance with the methods set out in note 4 "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 business activity under the group's control and checked that notes 4.1 "Goodwill" provides appropriate information.

Deferred tax assets

As stated in notes 14 "Accounting policies - Deferred taxation" and 1.4 "Main sources of estimates" to the consolidated financial statements, the recoverability of net deferred tax assets amounting in the balance sheet as at December 31, 2015 to €709.1 million was assessed by Thales on the basis of forecast data taken from the strategic plans drawn up for each of the consolidated tax group concerned, under the group's control. We reviewed the recoverability tests performed by the group on these deferred tax assets and checked that notes 7.3, 14 and 1.4 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 "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 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, February 22, 2016

The statutory auditors

French original signed by

MAZARS

Jean-Marc Deslandes
Anne-Laure Rousselou

ERNST & YOUNG Audit

Philippe Diu
Serge Pottiez

1.3 Parent company management report and financial statements

1.3.1 PARENT COMPANY MANAGEMENT REPORT 2015

1.3.1.1 ACTIVITY AND RESULTS

Operating income amounts to **€627 million**, compared with €642 million in 2014. Sales came to €209 million, compared with €224 million in 2014.

Operations by sector are described in the notes.

Sales mainly consist of rents re-billed to operating subsidiaries and sales of research, chiefly conducted by the Central Research and Technology Department of Thales Group. The decrease in sales is mainly due to Colombes site releasing.

Other operating income is equivalent to the previous year and amounts to €393 million. It is made up of fees and re-billed rents paid by operating subsidiaries, including general and specific services rendered by the parent company to the subsidiaries and capitalised production. 2014 figure included Vélizy site and new headquarter Paris La Défense construction works activation.

Net loss from operations amounts to **- €70 million**, compared with -€82 million in 2014.

Net financial income amounts to **€849 million** compared with €684 million in 2014.

Provisions for equity investments and subsidiaries risks total -€36 million in 2015 compared with -€19 million in 2014. Provisions reversals for equity investments represent €164 million in 2015 compared with €13 million in 2014. The main reversal concerns equity investments in Thales Holdings UK Plc.

The income related to equity investments amounts to €701 million in 2015, compared with €524 million in 2014.

Extraordinary items represent a net charge of **-€1 million** compared with -€17 million in 2014. The decrease is mainly due to the expenses related to 2014 Neuilly sur Seine site closing.

Corporate income tax represents a net gain of €94 million (€77 million in 2014), almost all of which is due to the tax consolidation applied by Thales and its subsidiaries.

In 2015, expenditures excluded from tax-deductible expenses (pursuant to Articles 223 quarter and 39.4 of the French General Tax Code) amount to €0.2 million.

A net profit of €872 million is recorded in 2015, compared with €663 million in 2014.

1.3.1.2 BALANCE SHEET AT 31 DECEMBER 2015

The total balance sheet stands at €13,809 million at the end of 2015, rising by €1,334 million from €12,475 million at the end of 2014.

Non-current assets, which are at €8,882 million compared with €8,733 million in 2014, mainly reflect long-term financial assets. The €186 million increase in equity investments is mainly due to the increase in equity of Thales USA Inc. (€85 million), and to the reversal on provisions for equity investments, especially in Thales Holdings UK Plc.

Decrease in line "treasury shares non-assigned to a plan" mostly results from the employee share purchase plan implemented in 2015.

Other non-current financial investments decline by -€19 million. This is mainly due to the -€26 million depreciation reserve of loans granted to Thales Security Solutions & Services Company, balanced in liabilities by a €23.9 million reversal of provision for subsidiaries' risks.

Current assets rise by €1,185 million to total €4,927 million at year-end 2015. The €198 million other receivables increase is mainly due to the €220 million foreign exchange revaluation, balanced by a -€15 million decrease in tax receivables from the State.

The main change in "the treasury shares assigned to plans" which amounted to -€17 million is due to the 2011 free shares allocation plan.

The balance of amounts due to and from the financial Group accounts receivable and payable represents a net debt of €3,963 million at 2015 year-end, compared with €3,448 million at the end of 2014.

"Financial debt" amounts to €1,460 million at 2015 year end, compared with €1,492 million in 2014. It mainly includes €1,400 million of bonds, besides debts to subsidiaries and equity affiliates to the Group both in euro and foreign currencies.

At 31 December 2015, share capital stands at €632.9 million and shareholders' equity totals €6,650 million, compared with €5,951 million in 2014.

Information on supplier payment schedules

Thales's 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:

Trade payables at 31/12/2015	Trade payables at 31/12/2015			Trade payables at 31/12/2014		
	Group	Non-Group	Total	Group	Non-Group	Total
(€ million)						
France						
Due in less than two months (not due)	15.5	10.9	25.4	29.1	10.2	39.3
Due in two to four months	0.3	2.1	2.4	0.6	1.8	2.4
Due after four months	0.3	0.3	0.6	0.3	0.2	0.5
	16.1	13.3	29.4	30.0	12.2	42.2
International						
Due in less than two months (not due)	2.0	0.8	2.8	2.1	0.3	2.4
Due in two to four months	1.1	0.2	1.3	0.5	0.1	0.6
Due after four months	1.0	0.3	1.3	0.2	–	0.2
	4.1	1.3	5.4	2.8	0.4	3.2
Sub-total	20.2	14.6	34.8	32.8	12.5	45.4
Charges payable not due			25.5			49.1
TOTAL TRADE PAYABLES			60.3			94.5

1.3.1.3 OUTLOOK FOR THE CURRENT YEAR

2016 results should reflect the dividends paid by some subsidiaries in respect of the 2015 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 2016.

1.3.1.4 PROPOSED ALLOCATIONS OF EARNINGS AND DIVIDEND POLICY

The General Meeting notes that distributable earnings, made up of the net profit for 2015 financial year	€871,882,484.38
Less allocation to the legal reserve	(€936,087.90)
Plus the amount of the interim dividends of €0.35 paid on 11 December 2015	€73,376,443.00
Plus the credit balance brought forward	€949,712,111.21
AMOUNTS TO A TOTAL OF	€1,894,034,950.69

The General Meeting resolves to allocate this profit as follows:

Distribution of unitary dividend of €1.36 to 210,961,404 shares bearing rights as from 1 January 2015	€286,907,509.44
Balance carried forward	€1,607,127,441.25
TOTAL EQUIVALENT TO DISTRIBUTABLE EARNINGS	€1,894,034,950.69

If the 2015 dividend is approved by the Annual Meeting on 18 May 2016, it will be detached on 30 May 2016 and paid out on 1 June 2016. The balance of dividend to be paid amounts to 1.01 per share, taking into account an interim dividend of €0.35 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 a five years lapses by law 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 2012, 2013 and 2014 qualified for a possible tax credit of 40%.

Year	Dividend per share
2012	€0.88
2013	€1.12
2014	€1.12
2015	€1.36^(a)

(a) Subject to the approval of the Annual General Meeting of 18 May 2016, which will vote on the 2015 financial statements.

1.3.1.5 CROSS-REFERENCE TABLE OF THALES PARENT COMPANY MANAGEMENT REPORT

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 "2015 registration document":

Management report French Commercial Code	Chapters/ Notes
1- Annual financial statements of Thales the parent company at 31 December 2015	Chapters 1.3.2.5
➤ Table of subsidiaries and equity affiliates	Note 23
➤ Table of investments made and thresholds crossed in French companies in 2015	Note 23
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1.3.2 PARENT COMPANY FINANCIAL STATEMENTS

1.3.2.1 INCOME STATEMENT BY NATURE

(€ million)	Notes	2015	2014
➤ Re-billing of rents		194.4	208.7
➤ Research		14.2	15.7
Total sales		208.6	224.4
➤ Royalties		201.6	185.7
➤ Re-billing of expenses		190.9	207.3
Total other operating income		392.5	393.0
Reversal of provisions		9.7	8.5
Transfer of expenses		16.4	15.8
Total operating income		627.2	641.7
Other external charges		(429.1)	(473.0)
Personnel expenses		(187.1)	(183.2)
Purchases and changes in inventories and work-in-progress		(40.2)	(32.1)
Taxes not related to income and payroll		(9.5)	(10.2)
Depreciation and amortisation		(22.8)	(17.4)
Provisions		(8.7)	(7.8)
Total operating expenses		(697.4)	(723.7)
Income (loss) from operations	Note 3	(70.2)	(82.0)
Net interest expenses		(5.1)	(6.5)
Income from investments		700.5	523.7
Other financial income		224.5	196.2
Other financial expenses		(70.8)	(29.1)
Net financial income (expense)	Note 4	849.1	684.3
Income (loss) before income tax		778.9	602.3
Net extraordinary items	Note 5	(0.8)	(16.8)
Profit (loss) before income tax		778.1	585.5
Income tax	Note 6	93.8	77.4
NET INCOME		871.9	662.9

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	31/12/2015	31/12/2014
Tangible and intangible assets, net	Note 7	132.2	134.4
Equity investments	Note 8	8,673.3	8,487.1
Treasury shares, non assigned to plans	Note 14	8.2	24.9
Other financial investments, net	Note 9	68.1	86.9
Total non-current assets		8,881.8	8,733.3
Inventories and work-in-progress		4.9	7.0
Advances to suppliers	Note 16	2.7	0.5
Trade receivables	Note 16	179.1	159.2
Other receivables	Note 16	804.0	606.1
Financial Group accounts receivable	Note 10	965.7	864.5
Treasury shares, assigned to plans	Note 14	17.0	34.0
Accrued interests on cash and cash equivalents		3.7	19.1
Cash at banks and equivalents	Note 11	2,949.8	2,051.4
Total current assets		4,926.9	3,741.8
TOTAL ASSETS		13,808.7	12,475.1

Liabilities

(€ million)	Notes	31/12/2015	31/12/2014
Share capital		632.9	623.5
Additional paid-in capital		3,995.4	3,889.9
Reserves and retained earnings		1,149.5	774.7
Net income for the period		871.9	662.9
Total capital and reserves	Note 13	6,649.7	5,951.0
Reserves for contingencies	Note 17	172.3	158.3
Financial debt	Note 12	1,460.5	1,492.5
Financial Group accounts payable	Note 10	4,929.1	4,312.7
Advances received on contracts in progress	Note 16	16.3	14.1
Trade payables	Note 16	60.3	94.5
Other debt	Note 16	520.5	452.0
Total debt		7,159.0	6,524.1
TOTAL LIABILITIES		13,808.7	12,475.1

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	2015	2014
Net profit		871.9	662.9
Add (deduct):			
Net depreciation charges on tangible and intangible assets	Note 7	22.8	17.4
Provisions for pensions and long-term benefits	Note 17	(18.9)	4.8
Net depreciation of equity investments and provision for subsidiary risks	Note 4	(156.7)	5.7
Loss (gain) on disposals of assets	Note 5	(17.8)	0.0
Other elements		17.7	1.0
Operating cash flow		719.0	691.8
Change in working capital requirements and operating reserves for contingencies		(113.5)	(43.2)
CASH FLOW FROM OPERATING ACTIVITIES	- I -	605.5	648.6
Acquisition of tangible and intangible assets		(27.6)	(88.7)
Proceeds from disposal of tangible and intangible assets		0.0	0.0
Net operating investment	Note 7	(27.6)	(88.7)
Investments in subsidiaries and equity affiliates	Note 8	(96.8)	(51.3)
Partial reimbursements of subsidiaries' capital	Note 8	0.5	350.1
Disposal of subsidiaries and equity affiliates	Note 8	12.8	0.6
Decrease (increase) of other financial investments and treasury shares		10.9	11.8
Decrease (increase) financial Group accounts receivable		(91.7)	(233.9)
Net financial investment		(164.3)	77.3
CASH FLOW FROM INVESTING ACTIVITIES	- II -	(191.9)	(11.4)
Dividends distribution	Note 13	(234.0)	(242.8)
Increase in shareholders' equity (exercice of subscription options)		116.1	75.0
Increase in financial debt		27.1	50.2
Repayment of financial debt		(5.0)	(31.1)
Increase (decrease) in financial Group accounts payable		580.6	(488.8)
CASH FLOW FROM FINANCING ACTIVITIES	- III -	484.8	(637.5)
INCREASE (DECREASE) IN CASH AT BANK AND EQUIVALENTS	I+II+III	898.4	(0.3)
Cash at banks and equivalents at beginning of period		2,051.4	2,051.7
CASH AT BANKS AND EQUIVALENTS AT END OF PERIOD		2,949.8	2,051.4

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 share in circulation (thousands)	Share capital	Paid-in surplus emission	Retained earnings	Net income for the period	Total shareholders' equity
At 1 January 2014	205,745	617.2	3,826.6	616.9	400.6	5,461.3
2013 net income allocation	–	–	–	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
At 31 December 2014	207,841	623.5	3,889.9	774.7	662.9	5,951.0
Change in accounting methods on defined benefits commitments	–	–	–	(54.1)	–	(54.1)
At 1 January 2015	207,841	623.5	3,889.9	720.6	662.9	5,896.9
2014 net income allocation	–	–	–	662.9	(662.9)	0.0
Dividend distribution (note 13.2)	–	–	–	(234.0)	–	(234.0)
Capital increase	3,120	9.4	105.5	–	–	114.9
2015 net income	–	–	–	–	871.9	871.9
AT 31 DECEMBER 2015	210,961	632.9	3,995.4	1,149.5	871.9	6,649.7

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

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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.

The 2015 presented statements are similar to those of 2014 regarding the accounting method, except the following items.

2013-02 ANC recommendation, relating to pension and other post-retirement benefit evaluation and recognition, has a retrospective application impact:

For the establishment of its consolidated accounts, Thales Group applies revised IAS 19 as defined by the European Commission in June 2012. Therefore, Thales opted for the convergence toward this norm for its statutory accounts, in accordance with ANC recommendation on 7 November 2013 (2013-02) about pensions and other post-retirement benefit recognition rules.

This recommendation is leading Thales to a full recognition of end-of-career compensation, which until then had been recorded using the "Corridor" method (which consists of spreading actuarial gains and losses over the residual active life of plan beneficiaries).

Consequently:

- the retrospectively computed impact of change is assigned to the "Retained earnings" account at the 2015 opening period. It corresponds to all non-amortized actuarial gains and losses and plan modifications as on 1 January 2015, due to the "Corridor" application for actuarial gains and losses registration and linear spreading for past service costs registration. The impact represents a €54 million increase in "Provisions for risks and charges";
- post 1 January 2015 actuarial gain and losses and impacts due to plan modifications are fully registered in current period income.

NOTE 1 Accounting principles

The public limited company Thales is the parent company of Thales Group.

Thales's 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's direct investments

In March 2015, Thales sold its 22% stake in Cloudwatt to Orange, for an amount of €8.9 million.

In 2014, Thales USA Inc, Thales Deutschland GmbH and Thales Alenia Space SAS partly reimbursed their capital, for a total amount of €350 million.

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 (€208.6 million in 2015 and 224.4 million in 2014), 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)

		2015	2014
Net financial interest		(5.1)	(6.5)
Interest and financial income		28.1	32.1
Interest on financial Group accounts receivable and loans to subsidiaries and equity affiliates (of which, related companies for €4.5 million in 2015 compared with €4.2 million in 2014)		4.5	4.6
Interest on cash at banks and equivalents		23.6	27.5
Interest and financial expense		(46.9)	(50.1)
Interest on financial Group accounts payable and borrowings to subsidiaries and equity affiliates (of which, related companies for- €12.0 million in 2015 compared with -€15.4 million in 2014)		(11.9)	(15.4)
Interest on bonds and other financial debts		(35.0)	(34.7)
Interest on interest rate swaps matched with financial debt		13.7	11.5
Income from investments	Note 23	700.5	523.7
Other financial income		224.5	196.2
Distribution of the share premium of Thales Alenia Space SAS		–	163.0
Reversal of provisions related to equity affiliates ^(a)		192.9	13.4
Decrease in financial provision for end-of-career compensation and other benefits	Note 17	16.4	–
Foreign exchange gains		12.1	8.9
Reversal of provisions for currency risks		–	7.7
Amounts recovered on clawback provisions		0.9	0.7
Others		2.2	2.5
Other financial expenses		(70.8)	(29.1)
Increase in provisions related to equity affiliates ^(a)		(36.2)	(19.1)
Increase in loans to Thales Security Solutions & Services Company ^(b)		(25.5)	–
Increase in financial provisions for end-of-career compensation and other benefits	Note 17	(1.5)	(6.0)
Foreign exchange losses		(2.6)	(0.2)
Increase in provisions for currency risks		(1.7)	–
Others		(3.3)	(3.8)
NET FINANCIAL INCOME (EXPENSE)		849.1	684.3

(a) Provisions related to equity affiliates.

(b) Balanced by reversal on depreciation of investment in shares for €23.9 million (see detail below).

	2015		2014	
	Reversal	Increase	Reversal	Increase
Provisions for impairment of equity investments	164.0	(34.6)	13.4	(15.9)
Thales Holdings UK Plc	135.0	–	–	–
Thales Belgium SA	17.0	–	–	–
Cloudwatt	–	–	–	(7.6)
Avimo Group Ltd	10.5	–	9.8	–
Thales Microélectroniques SAS	–	(18.1)	–	(1.7)
Société de Marchands de Biens pour l'Electronique SAS	–	(7.3)	–	–
Thales SESO SAS	–	(3.4)	–	–
Thales Global Services SAS	–	(3.0)	–	–
Others	1.5	(2.8)	1.6	(6.6)
Provisions for subsidiaries' risks (note 17.2)	28.9	(1.6)	–	(3.2)
Thales Security Solutions & Services Company	23.9	–	–	–
Société de Marchands de Biens pour l'Electronique SAS	4.5	–	–	(1.5)
Others	0.5	(1.6)	–	(1.7)
TOTAL	192.9	(36.2)	13.4	(19.1)

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 noticed not-worked periods 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 recognized as "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 French national chart of accounts (*Plan Comptable Général*) rules 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

	2015	2014
Restructuring costs	(8.5)	(16.8)
Capital gains or losses on disposals:	17.8	0.0
Patents disposal to Thomson Licensing	–	1.4
Disposal of treasury shares relating to employee share purchase plan	12.9	–
Disposal of Thales Programas, Eletronica y Comunicaciones SA	3.9	–
Disposal of treasury shares as part of the liquidity contract	1.6	–
Disposal of Cloudwatt	1.1	–
Disposal of SAS Sartrouville	(0.2)	–
Others	(1.5)	(1.4)
Increase in provisions for extraordinary risks	(10.1)	–
NET EXTRAORDINARY ITEMS	(0.8)	(16.8)

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 2014 and 2015, 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 at 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:

	2015	2014
Income tax received from beneficiary subsidiaries	127.7	90.6
Income tax due to the French State	(54.7)	(28.8)
Income from tax consolidation related to income tax	73.0	61.8
Contribution of 3% on the dividends from beneficiary subsidiaries	18.1	11.7
Contribution of 3% on the dividends due to the French State	(7.0)	(7.3)
Income from tax consolidation related to contribution on the dividends	11.1	4.4
Research tax credit (CIR)	7.6	7.9
Prior periods adjustments and other taxes	2.1	3.3
TAX INCOME	93.8	77.4

In 2015 as in 2014, 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 €0.2 million in 2015, compared to €0.1 million in 2014; 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 (€127.6 million in basis at 31 December 2015 compared with €116.5 million at year-end 2014). 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 2014 the Group's losses from tax consolidation amounted to €224.3 million. They are estimated at €79.3 million at 31 December 2015.

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 straightline 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

	31/12/2015			31/12/2014		
	Gross amount	Cumulated amort. and depr.	Net	Gross amount	Cumulated amort. and depr.	Net
Intangible assets	18.7	(18.7)	–	18.6	(18.5)	0,1
Buildings	209.3	(102.5)	106.8	215.8	(92.7)	123.1
Industrial plant, equipment and machinery	44.6	(41.8)	2.7	44.0	(40.6)	3.4
Other property, plant and equipment	31.2	(8.6)	22.6	24.9	(17.1)	7.8
Tangible assets	285.1	(152.9)	132.2	284.7	(150.4)	134.3
TOTAL	303.8	(171.6)	132.2	303.3	(168.9)	134.4

7.3 CHANGE IN NET TANGIBLE AND INTANGIBLE ASSETS

	Intangible assets	Tangible assets	Total
Net value at 01/01/2014	0.1	51.8	51.9
Acquisitions	0.1	88.6	88.7
Depreciation and amortisation	(0.1)	(17.3)	(17.4)
Other	–	11.2	11.2
Net value at 31/12/2014	0.1	134.3	134.4
Acquisitions	0.1	27.5	27.6
Depreciation and amortisation	(0.2)	(22.6)	(22.8)
Other	–	(7.0)	(7.0)
NET VALUE AT 31/12/2015	0.1	132.2	132.2

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 2% limited growth.

The discount rate used is calculated on the basis of the Group's weighted average cost of capital (8.5% in 2015 as in 2014), 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 consistency between the annual accounting period and the internal process preparing Group strategic plans.

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
VALUE AT 01/01/2014		10,287.9	(1,490.5)	8,797.4
Acquisitions/Capital subscriptions		51.3	–	51.3
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
Partial reimbursement of capital		(350.1)	–	(350.1)
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)
Disposal of Habitat 06		(0.6)	–	(0.6)
Increase in depreciation	Note 4	–	(15.9)	(15.9)
Reversals	Note 4	–	13.4	13.4
Other		(8.4)	–	(8.4)
VALUE AT 31/12/2014		9,980.1	(1,493.0)	8,487.1
Acquisitions/Capital subscriptions		96.8	–	96.8
Increase in capital of Thales USA Inc.		84.8	–	84.8
Increase in capital of SMBPE		7.4	–	7.4
Increase in capital of Thales Communications Ltda		1.8	–	1.8
Increase in capital of SAS Sartrouville		1.5	–	1.5
Release of capital of Cloudwatt		1.3	–	1.3
Partial reimbursement of capital of Sofresa		(0.5)	–	(0.5)
Disposal		(12.8)	–	(12.8)
Disposal of Cloudwatt		(8.9)	–	(8.9)
Disposal of Thales Programas, Eletronica y Comunicaciones SA		(3.9)	–	(3.9)
Increase in depreciation	Note 4	–	(34.6)	(34.6)
Reversals	Note 4	–	164.0	164.0
Others		(58.1)	31.4	(26.7)
VALUE AT 31/12/2015		10,005.5	(1,332.2)	8,673.3

NOTE 9 Other financial investments, non-current

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 also 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

	31/12/2015			31/12/2014		
	Gross value	Depreciation	Net value	Gross value	Depreciation	Net value
Loans to direct subsidiaries and equity affiliates (note 23)	29.0	(26.4)	2.6	24.6	–	24.6
Loans to other Group's subsidiaries	39.0	–	39.0	39.1	–	39.1
Loans to other Group's equity affiliates	8.8	–	8.8	11.1	–	11.1
Other financial investments	21.9	(4.2)	17.7	16.3	(4.2)	12.1
TOTAL	98.7	(30.6)	68.1	91.1	(4.2)	86.9

9.3 BREAKDOWN BY MATURITY AND BY CURRENCY

Breakdown by maturity	31/12/2015	31/12/2014
< 1 year	46.9	52.1
From 1 to 5 years	14.3	25.2
> 5 years	6.9	9.6
TOTAL	68.1	86.9

Breakdown by currency	31/12/2015	31/12/2014
Euro	47.7	44.5
Saudian Ryal	–	21.0
South African Rand	12.5	19.3
Chinese Yuan	6.4	–
Other currencies	1.5	2.1
TOTAL	68.1	86.9

NOTE 10 Financial Group accounts receivables (payables)

10.1 GENERAL FRAMEWORK AND ACCOUNTING PRINCIPLES

The financial Group accounts receivables and payables in the balance sheet represent the debtor or creditor positions 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 receivables and payables have a less than one-year term.

10.2 FINANCIAL GROUP ACCOUNTS RECEIVABLES

	31/12/2015	31/12/2014
Debt of direct subsidiaries and equity affiliates towards Thales (Note 23)	826.4	733.1
Debt of other Group' subsidiaries towards Thales	139.3	131.4
TOTAL	965.7	864.5

10.3 FINANCIAL GROUP ACCOUNTS PAYABLES

	31/12/2015	31/12/2014
Deposits from direct subsidiaries and equity affiliates with Thales (Note 23)	3,867.4	3,317.7
Deposits of Thales Alenia Space (France and Italy) with Thales	284.3	349.8
Deposits of Thales Australia Ltd with Thales	285.7	233.2
Deposits of other Group's subsidiaries with Thales	491.7	412.0
TOTAL	4,929.1	4,312.7

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 2015, the cash at banks and equivalent available for immediate use amounts to €2,949.8 million (€2,051.4 million at 31 December 2014). This amount includes €2,785.2 million (€1,725.6 million in 2014) of term deposits, euros market funds "SICAV", negotiable debt securities, other investments with maturities of less than three months.

NOTE 12 Financial debt

12.1 ACCOUNTING PRINCIPLES

Bonds are recognised at their repayment value. Any issue or reimbursement premium is recognized in the corresponding balance sheet item and amortised on a straight-line basis in financial expense. Bonds issue expenses are recognized on a straight-line basis over the term of the bond.

12.2 DETAIL OF BALANCE SHEET ITEMS

	Nominal rate	Variable rate swaps	31/12/2015	31/12/2014
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			45.5	77.6
Accrued interest			15.0	14.9
GROSS FINANCIAL DEBT			1,460.5	1,492.5

At 31 December 2015, 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 2015, committed and undrawn bank credit facilities total €1,500 million, expiring in 2020. 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⁽¹⁾ 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	31/12/2015	31/12/2014
< 1 year	660.5	78.6
From 1 to 5 years	500.0	1,114.0
> 5 years	300.0	300.0
TOTAL	1,460.5	1,492.5

Breakdown by currency	31/12/2015	31/12/2014
Euro	1,426.0	1,455.0
Singapore dollar	34.5	32.8
South African rand	–	4.7
TOTAL	1,460.5	1,492.5

NOTE 13 Equity

13.1. CAPITAL

Thales's share capital totalling €632,884,212 at 31 December 2015, is composed of 210,961,404 shares with a nominal value of €3 each, compared with 207,841,111 shares at 31 December 2014. This represents an increase of 3,120,293 shares resulting from the exercise of share subscription options by the beneficiaries of the plans. The breakdown of the capital is presented hereafter:

	31/12/2015			31/12/2014		
	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	25.97%	36.04%	54,786,654	26.36%	36.51%
French State (incl. 1 golden share)	2,060	–	–	2,060	–	–
Public Sector ^(a)	54,788,714	25.97%	36.04%	54,788,714	26.36%	36.51%
Dassault Aviation ^(b)	52,531,431	24.90%	28.67%	52,531,431	25.28%	29.05%
Thales ^(c)	839,254	0.40%	–	1,876,732	0.90%	–
Employees	5,684,120	2.69%	3.24%	4,151,060	2.00%	2.70%
Other shareholders	97,117,885	46.04%	32.05%	94,493,174	45.46%	31.74%
TOTAL^(d)	210,961,404	100.00%	100.00%	207,841,111	100.00%	100.00%

(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 2015.

(b) Dassault Aviation holds 34,654,349 shares in directly registered form for more than two years, and thus double voting rights on 31 December 2015 and 17,877,082 shares in bearer form.

(c) Treasury shares totalled 9,000 bearer shares under a liquidity contract, and 830,254 directly registered shares.

(d) During 2015, 3,120,293 shares were created by the exercise of stock options, bearing rights from 1 January 2015.

At 31 December 2015, there is no financial instrument giving access to the Company's capital, with the exception of the stock options described in note 15 hereafter.

13.2 RESERVES AND RETAINED EARNINGS

	31/12/2014	Change in accounting methods on defined benefits commitments	01/01/2015	2014 net income allocation	Balance of 2014 dividend	2015 interim dividend	31/12/2015
Legal reserve	61.7	–	61.7	0.7	–	–	62.4
Blocked reserve	8.3	–	8.3	–	–	–	8.3
Ordinary reserve	128.9	–	128.9	–	–	–	128.9
Other reserves	0.3	–	0.3	–	–	–	0.3
Retained earnings	575.5	(54.1)	521.4	662.2	(160.7)	(73.3)	949.6
TOTAL	774.7	(54.1)	720.6	662.9	(160.7)	(73.3)	1,149.5

Regarding dividends related to 2014, Thales paid €230.7 million (€1.12 per share), including €70.0 million of interim dividend in December 2014, and the balance of €160.7 million in May 2015. For 2015 Thales paid in December 2015 €73.3 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's 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 2015, Thales owns 839,254 treasury shares, including 215,830 shares (0.10% of the capital) that may be freely disposed of, and 623,424 shares (0.30% of the capital) assigned to 20 December 2012 plan of allocated free shares for employees.

	2015			2014		
	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
At 1 January	700,294	1,176,438	1,876,732	626,717	1,863,460	2,490,177
Purchases in the context of liquidity contract	807,144	–	807,144	2,146,816	–	2,146,816
Disposals in the context of liquidity contracts	(822,144)	–	(822,144)	(2,216,116)	–	(2,216,116)
Disposals of shares to employees (Company savings scheme)	(457,596)	–	(457,596)	–	–	–
Delivery of free shares	–	(535,532)	(535,532)	4,095	(548,240)	(544,145)
Exercise of stock options	(29,350)	–	(29,350)	–	–	–
Reclassified shares	17,482	(17,482)	–	138,782	(138,782)	–
Net change	(484,464)	(553,014)	(1,037,478)	73,577	(687,022)	(613,445)
AT 31 DECEMBER	215,830	623,424	839,254	700,294	1,176,438	1,876,732

Change in value

Freely transferable treasury shares	2015	2014
At 1 January	24.9	24.0
Purchases in the context of liquidity contract	43.7	93.4
Disposals in the context of liquidity contract	(44.2)	(96.5)
Disposals of shares to employees (Company savings scheme)	(15.6)	–
Delivery of free shares	–	0.2
Exercise of stock options	(1.0)	–
Reclassified shares	0.4	3.8
AT 31 DECEMBER	8.2	24.9
<i>Of which, acquisition cost</i>	8.2	24.9
<i>Of which, depreciation</i>	–	–
Average share price in December	€69.44	€43.68

Treasury shares assigned to plans	2015	2014
At 1 January	34.0	57.4
Delivery of free shares	(16.6)	(19.6)
Reclassified free shares	(0.4)	(3.8)
AT 31 DECEMBER	17.0	34.0
Reserves for contingencies	(6.3)	(4.3)

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.

Between 2007 and 2013, Thales granted free shares and/or performance shares in reference with the employees performance management policy.

Since 2014, the Group stopped free shares grants and replaced them with Units plans indexed to the value of the Thales share, including units subject to performance 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.

At 31 December 2015, the following options, shares and units were outstanding:

- 88,450 share purchase options at a weighted average exercise price of €44.17;
- 2,615,865 share subscription options at a weighted average exercise price of €36.32, of which 399,948 performance shares;
- 1,263,137 free shares, of which 407,507 performance shares;
- 1,300,510 units, of which 507,600 performance units.

Besides, in 2015 the Group implemented an employee share purchase plan whose characteristics are described in paragraph 15.5 below.

15.1 OUTSTANDING SHARE PURCHASE OPTION PLANS

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31/12/2014	Options exercised in 2015	Options cancelled in 2015	Number of options outstanding at 31/12/2015
25/11/08	From 25/11/2012 to 24/11/2018	€38.50	37,800	(29,350)	–	8,450
04/07/07	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 31/12/2014	Options exercised in 2015	Options cancelled in 2015 ^(b)	Number of options outstanding at 31/12/2015
15/09/2011 ^(a)	From 15/09/2015 to 14/09/2021	€26.34	312,444	(82,561)	(5,050)	224,833
23/09/2010 ^(a)	From 23/09/2014 to 22/09/2020	€26.34	347,850	(170,835)	(1,900)	175,115
25/06/2009	From 25/06/2013 to 24/06/2019	€32.88	857,492	(341,653)	(1,140)	514,699
01/07/2008	From 01/07/2012 to 30/06/2018	€38.50	1,108,717	(421,032)	(28,470)	659,215
04/07/2007	From 04/07/2011 to 03/07/2017	€44.77	1,225,355	(718,420)	(5,320)	501,615
09/11/2006	From 09/11/2010 to 08/11/2016	€36.47	1,160,610	(616,422)	(3,800)	540,388
30/06/2005	From 30/06/2009 to 29/06/2015	€34.01	830,933	(769,370)	(61,563)	—

(a) Plans contingent upon the achievement of internal performance targets over the three following financial years.

(b) Including, for the involved plans, written-off options when performance targets are not, partially or totally, achieved (73,368 written-off options in 2014 on the 2011 plan after final adjustment).

Options granted and exercised in 2015

	Number of options granted/ shares subscribed or purchased	Exercise price	Date of plan
1 – Directors			
Options granted in 2015	None		
2 – The 10 biggest awards of options allotted to employees			
Options granted in 2015	None		
3 – The 10 biggest exercises of options by employees ^(a)			
Options exercised in 2015	20,000	€38.50	01/07/2008
	20,000	€32.88	25/06/2009
	20,000	€26.34	23/09/2010
	15,000	€44.77	04/07/2007
	15,000	€36.47	09/11/2006
	13,000	€32.88	25/06/2009
	12,000	€44.77	04/07/2007
	11,000	€44.77	04/07/2007
	11,000	€44.77	04/07/2007
	11,000	€38.50	01/07/2008

(a) For all Group companies combined.

15.3 ALLOTMENT OF FREE SHARES

Date of Board decision	Vesting period	Share price at grant date	Number of free shares at 31/12/2014	Shares cancelled in 2015 ^(b)	Shares delivered in 2015	Number of free shares at 31/12/2015
17/09/2013	From 17/09/2013 to 17/09/2017	€39,16	413,790 240,963 ^(a)	(7,180) (7,260)	(600) –	406,010 233,703
20/12/2012	From 20/12/2012 to 20/12/2016	€27,47	458,400 177,854 ^(a)	(7,830) (4,050)	(950) –	449,620 173,804
15/09/2011	From 15/09/2011 to 15/09/2015	€25,20	437,200 102,984 ^(a)	(3,730) (2,422)	(433,470) (100,562)	– –

(a) Plans contingent upon the achievement of internal performance targets over the three following financial years.

(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).

15.4 UNITS GRANT, INDEXED TO THE VALUE OF THE THALES SHARE

Date of Board decision	Vesting period	Share price at grant date	Number of units at 31/12/2014	Units allocated in 2015	Units cancelled in 2015 ^(b)	Units delivered in 2015	Number of units at 31/12/2015
16/09/2014	From 16/09/2014 to 16/09/2018	€42,42	424,550 280,250 ^(a)	– –	(7,180) (4,650)	(600) –	417,040 275,600
17/09/2015	From 17/09/2014 to 17/09/2019	€61,75	– –	376,840 232,000 ^(a)	(970) –	– –	375,870 232,000

(a) Plans contingent upon the achievement of internal performance targets over the three following financial years.

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

15.5 EMPLOYEE SHARE PURCHASE PLAN

In accordance with the decision of the Board of Directors on 25 February 2015, the Group implemented a Thales share purchase plan reserved for employees with a declined value compared to the average market price. It consisted of a sale of existing treasury shares.

The subscription price, set on 16 October 2015, corresponds to the average of the opening price of Thales shares on Euronext Paris over the twenty trading days preceding this date, declined by 20%, being €49.85.

The employees received a matching contribution corresponding to one bonus share for two acquired shares up to twenty four shares purchased

and one bonus share for four acquired shares from twenty five to seventy two shares purchased, in the limit of twenty four bonus shares.

This plan is part of the Group Savings Plan, the investment being subjected to a five-year lock-up period, except for the United-Kingdom where the share offering is implemented in accordance with the Share Incentive Plan ("SIP").

Thus, in 2015, 311,403 shares were subscribed by employees at the subscription price of €49.85 and 146,193 bonus shares were received. The delivery of shares to British employees will end in early 2016.

The accounting cost (discount and free shares) has been recharged to subsidiaries involved.

NOTE 16 Receivables and payables

16.1 ACCOUNTING PRINCIPLES

Foreign currency receivables and payables are generally engaged in hedging transactions and are consequently translated at the hedged foreign exchange rate.

Thales parent company hedges the foreign exchange risk for its subsidiaries, arising from contract or current commercial activities. Each closing:

- the derivative instruments contracted by Thales (parent company) with banks are recorded at the market value in the Balance Sheet account "currency translation adjustments" (assets or liabilities);
- the exchanges guarantees granted to subsidiaries are registered at the market value in the Balance Sheet account "currency translation adjustments" (assets or liabilities).

The balance of these accounts corresponds mainly to the cash temporary time-lags between amounts received/paid to subsidiaries and cash in-flows/out-flows from Thales to bank in the context of foreign exchange derivatives management.

16.2 DETAIL OF BALANCE SHEET ITEMS

			31/12/2015	31/12/2014
	Gross	Provision	Net	Net
Advances to suppliers	2.7	–	2.7	0.5
Trade receivables	180.2	(1.1)	179.1	159.2
Other receivables	804.0	–	804.0	606.1
State, income tax (mainly research tax credit)	357.5	–	357.5	372.7
Translation difference and exchange rate adjustment	399.6	–	399.6	180.1
Tax and social security receivables	24.1	–	24.1	23.9
Others	22.8	–	22.8	29.4
TOTAL	986.9	(1.1)	985.8	765.8
Advances received on contracts in progress	16.3	–	16.3	14.1
Trade payables	60.3	–	60.3	94.5
Other debt	520.5	–	520.5	452.0
Tax debts towards integrated subsidiaries	161.4	–	161.4	191.7
Translation difference and exchange rate adjustment	237.0	–	237.0	163.9
Tax debts, excluded income tax	85.4	–	85.4	82.8
Others	36.7	–	36.7	13.6
TOTAL	597.1	–	597.1	560.6

16.3 SCHEDULE OF RECEIVABLES AND PAYABLES AT 31 DECEMBER 2015

		Maturity		
	Net	< 1 year	1 to 5 years	>5 years
Advances to suppliers	2.7	2.7	–	–
Trade receivables	179.1	179.1	–	–
Other receivables	804.0	514.6	289.4	–
TOTAL RECEIVABLES	985.8	696.4	289.4	0.0
Advances received on contracts in progress	16.3	16.3	–	–
Trade payables	60.3	60.3	–	–
Other debt	520.5	396.0	124.5	–
TOTAL PAYABLES	597.1	472.6	124.5	0.0

NOTE 17 Reserves for contingencies

17.1 ACCOUNTING PRINCIPLES

The Group registered 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. It consists mainly in following provisions:

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 Company 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.

As defined in the rule ANC 2013-02, 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 current service cost, which corresponds to the commitment increase over the current year, is recognised in income (loss) from operations;
- the discounting of net commitment as well as changes in actuarial assumptions and experience adjustments – corresponding to the effects of differences between previous actuarial assumptions and what has actually occurred – are recognised in financial income (expense);
- the impact of plan amendments due to renegotiation of employee benefits is recognised in extraordinary items.

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 Thales share 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

	31/12/2014	01/01/2015 restated	Increase	Reversal Utilisation	Reclassification	31/12/2015
Pensions and other employee benefits (17.3)	64.2	118.2	4.7	(23.6)	–	99.3
Subsidiary risks	31.9	31.9	1.6	(28.9)	(1.3)	3.3
Restructuring	12.0	12.0	6.3	(13.5)	–	4.8
Others	50.2	50.2	16.4	(1.7)	–	64.9
TOTAL	158.3	212.3	29.0	(67.7)	(1.3)	172.3

At 1 January 2015, provision for pensions and other employee benefits includes an additional increase of €54 million due to the application of ANC 2013-02 rule on evaluation method of pensions and other benefits commitments.

17.3 PENSIONS AND OTHER EMPLOYEE BENEFITS

The provisions in the balance sheet are analysed as follows:

	Post-employment benefits	Others	Total
Balance sheet position at 31 December 2014	(61.2)	(3.0)	(64.2)
Impact of change in accounting method	(54.0)	–	(54.0)
Balance sheet position at 1 January 2015	(115.2)	(3.0)	(118.2)
Net increase in provisions of which:	19.2	(0.3)	18.9
Current service cost	(2.6)	(0.2)	(2.8)
Financial expense:	15.1	(0.2)	14.9
➤ net interests	(1.4)	(0.1)	(1.5)
➤ actuarial gain (losses)	16.5	(0.1)	16.4
Benefits paid by employer and employer contributions	6.5	0.1	6.6
Others	0.2	–	0.2
Balance sheet position at 31 December 2015	(96.0)	(3.3)	(99.3)
Of which:			
Obligations	(140.5)	(3.3)	(143.8)
Plan assets	44.5	–	44.5

The actuarial assumptions used for the determination are the following:

	31/12/2015	31/12/2014
Discount rate	2.03%	1.50%
Inflation rate	1.60%	1.60%
Average rate of the increase in salary	2.20%	2.70%
Expected average remaining working life	7 years	7 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 disputes resolution mechanisms. 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 commercial and criminal litigation and claims. These are handled by the Corporate Legal Affairs 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 from a common customer claiming an amount which allegedly should not be below the \$260 million figure and for which the group of French manufacturers might be jointly liable towards the claimant. This request for arbitration is related to the execution of old contracts by the group of French manufacturers. Pursuant to an agreement signed by all the parties in 2003, the claimant withdrew its request for arbitration.

In November 2012, the claimant filed a new request for arbitration for a revised amount of €226 million for which Thales might be liable for around 28% of the total amount. The manufacturers are strongly disputing this demand 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 pending.

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

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 2015, 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	31/12/2015	31/12/2014
➤ Guarantees given by Thales under commercial contracts signed by operating entities	10,794.9	9,102.1
➤ Guarantees given to banks for facilities granted to subsidiaries	2,189.0	1,811.9
➤ Counter-guarantee given to trustees to hedge obligations regarding pensions in the United Kingdom	1,146.8	1,072.0
➤ Other guarantees given to Group's subsidiaries	438.8	393.5
➤ Other guarantees given to third parties	557.6	781.7
Total^(a)	15,127.1	13,161.2
➤ Of which, related to direct subsidiaries (Note 23)	4,508.2	3,692.4
➤ Of which, related to other Group's subsidiaries ^(a)	10,164.8	9,112.2
➤ Of which, related to direct and indirect equity affiliates	454.1	356.6
Commitments received	31/12/2015	31/12/2014
Debt write-offs granted to related companies with clawback provisions	120.8	121.7

(a) The increase in guarantees between 2014 and 2015 is due to the change in exchange rate (+€667 million) and the setting-up of new guarantees on significant contracts.

19.2 COMMITMENTS TO LEASE

	31/12/2015	31/12/2014
Operating lease	649.5	753.7
< 1 year	112.4	113.9
1 to 5 years	329.4	358.8
> than 5 years	207.7	281.0

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's 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 2015 and 2014, Thales mainly held the following derivative instruments. All these instruments are qualified as hedge.

	31/12/2015		31/12/2014	
	Nominal	Market value	Nominal	Market value
Swaps with variable-rate payable				
➤ swaps related to bond with maturity 2021	300.0	19.9	300.0	21.0
➤ swaps related to bond with maturity 2018	300.0	8.1	300.0	8.3
➤ swaps related to bond with maturity 2016	400.0	8.2	400.0	14.8
TOTAL	1,000.0	36.2	1,000.0	44.1
Swaps with fixed-rate payable				
➤ swap related to a loan with maturity 2019	8.7	(0.4)	11.1	(0.6)
➤ Cross currency swap related to a loan	16.0	(0.5)	2.1	–
TOTAL	24.7	(0.9)	13.2	(0.6)

20.3 CURRENCY RISKS MANAGEMENT

At 31 December 2015 and 2014 the derivative instruments taken out by Thales with banks are the following:

	31/12/2015					31/12/2014	
	USD	GBP	Others	Total	Market value	Total	Market value
Negotiations and trade operations hedges							
➤ Forward currency purchases	4,818.0	718.2	2,400.1	7,936.3		6,177.2	
➤ Forward currency sales	1,829.6	906.4	1,375.6	4,111.6	(242.3)	3,070.0	(151.5)
➤ Options (call and put): currency sales	132.1	19.4	66.2	217.7		257.1	
➤ Options (call and put): currency purchases	31.4	12.4	54.3	98.1	1.6	200.0	2.0
Hedges related to cash pooling							
➤ Currency sales: foreign exchange swaps	414.7	–	169.1	583.8		592.2	
➤ Currency purchases: foreign exchange swaps	–	937.2	600.3	1,537.5	(11.1)	1,288.1	(20.7)
Hedges related to net foreign investments							
➤ Currency sales: foreign exchange swaps	–	–	–	–	–	–	–
➤ 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.

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'S SHAREHOLDERS

Section 4.3.3.3 of the 2015 registration document describes the main provisions concerning the shareholders' agreement governing relations between the French State ("Public Sector") and Dassault Aviation ("industrial partner") within Thales, the convention on the protection of national strategic interests and the specific convention binding the State and Thales.

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 board directors and the members of the Executive Committee break down as follows:

	2015	2014
Short-term benefits		
➤ Fixed compensation	4.1	4.3
➤ Variable compensation	2.8	2.9
➤ Employer's social security contribution	2.4	2.5
➤ Contract termination benefits resulting from contract commitments	2.1	–
➤ Employer's social security contribution/contract termination benefits	0.7	–
➤ Compensation for attendance at Board meetings	0.6	0.6
Other benefits		
➤ Post employment benefits	1.3	1.7
➤ Share-based payments (Note 15 ^(a))	1.0	0.7

(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's financial position has occurred since yearend.

NOTE 23

Information related to the entity <i>(local currency)</i>				Contribution of subsidiaries and equity affiliates to Thales's 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 (gross)	Carrying amount of investments held (net)	Share of the capital held (%)	Loans advances made by Thales not yet paid	Receivables	Liabilities	Amounts of deposits and guarantees given by Thales	Dividends received by Thales during the year	
<i>(€ million)</i>												
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	-	13.6	726.8	395.2	2,571.7	1,835.0	100%	-	5.8	568.6	-
Thales Avionics SAS	EUR	1,176.7	99.6	175.0	66.2	936.8	936.8	100%	-	-	269.6	195.2
Thales Alenia Space SAS	EUR	-	112.2	918.0	265.5	683.1	683.1	67%	-	0.1	-	338.6
Thales Systemes Aeroportes SAS	EUR	941.5	70.4	93.2	62.2	706.1	706.1	100%	-	-	1,266.6	658.1
Thales Deutschland GmbH	EUR	-	(32.5)	27.1	315.0	545.0	545.0	100%	-	52.0	-	220.0
Thales USA INC	USD	-	(0.7)	118.1	357.0	476.6	476.6	100%	-	-	173.0	466.4
Thales Communications & Security SAS	EUR	1,864.0	123.3	164.0	(4.2)	590.8	590.8	100%	-	-	378.0	1,025.0
Thales International SAS	EUR	-	19.9	313.0	14.5	398.5	398.5	100%	-	188.1	29.0	6.0
Thales Air Systems SAS	EUR	633.0	32.4	126.3	197.9	314.1	314.1	89%	-	-	487.3	193.5
Avimo Group LTD	SGD	-	0.4	22.1	36.2	250.7	72.5	100%	-	-	-	-
Thales Nederland BV	EUR	426.9	6.6	29.5	132.5	235.2	235.2	99%	-	-	150.9	399.1
Thales Underwater Systems NV Pays Bas	EUR	-	-	4.5	4.1	129.2	8.5	100%	-	-	-	-
Thales Services SAS	EUR	414.3	10.5	1.5	(2.8)	126.4	126.4	100%	-	24.0	-	8.7
Sifelec SAS	EUR	-	0.2	38.3	(6.3)	111.8	38.7	100%	-	-	28.3	-
Thales Optronique SAS	EUR	421.3	34.8	56.2	99.5	106.3	106.3	77%	-	0.1	173.4	193.2
Thales Underwater Systems SAS	EUR	418.4	33.1	15.3	(8.8)	96.5	96.5	100%	-	-	277.6	88.8
Thales Holding Norway AS	NOK	-	-	419.8	(186.8)	77.2	77.2	100%	-	-	-	-
Thales Corporate Ventures SAS	EUR	-	0.9	15.0	12.2	73.3	16.7	100%	-	-	12.7	-
Thales Microelectronics SAS	EUR	67.9	0.6	0.5	25.1	88.0	8.7	100%	-	-	10.7	-
Thales Suisse SA	CHF	32.4	10.0	57.2	(11.7)	56.1	56.1	100%	-	-	0.2	-
Tda Armements SAS	EUR	91.8	15.1	0.3	17.1	51.7	51.7	100%	-	14.3	-	4.0
Thales Europe SAS	EUR	-	(19.1)	43.2	(33.1)	43.2	43.2	100%	-	187.9	-	-
Thales Belgium SA	EUR	28.8	1.5	3.4	2.1	41.4	21.6	100%	-	-	3.6	18.6
Thales Electron Devices SAS	EUR	301.6	0.8	31.0	39.1	39.2	39.2	100%	-	72.5	0.0	47.4
Cmt Medical Technologies lid	USD	15.8	0.2	1.0	28.6	21.8	21.8	100%	-	-	6.3	-
Thales Canada Inc	CAD	485.0	(47.9)	6.8	(37.0)	19.7	19.7	55%	-	27.2	7.8	836.9
SNC Thales Merignac	EUR	-	(0.3)	20.0	(0.1)	20.0	19.7	100%	-	59.5	-	-
Thales Avionics Electrical Systems SAS	EUR	126.1	(8.6)	6.9	(13.5)	18.6	18.6	100%	-	78.7	0.1	-

Information related to the entity (local currency)

Contribution of subsidiaries and equity affiliates to Thales's financial statements (EUR)

(€ million)	Prior year sales exc. VAT	Income (loss) for last year ended	Share capital	Share equity other than capital	Carrying amount of investments (gross)	Carrying amount of investments held (net)	Share of the capital held (%)	Loans advances made by Thales not yet paid	Receivables	Liabilities	Amounts of deposits and guarantees given by Thales	Dividends received by Thales during the year
Societe Marchand De Biens Pour L'electronique SAS	EUR	-	(1.4)	0.0	(4.5)	23.5	0.1	100%	-	-	-	-
Thales Seso SAS	EUR	17.7	0.5	0.4	1.8	14.6	11.2	100%	-	6.4	0.0	1.3
Thales Global Services SAS	EUR	432.8	1.2	0.5	5.4	12.4	7.3	100%	-	16.6	0.0	-
SAS Chatellerault Brelandiere	EUR	2.9	0.9	2.0	1.3	10.0	2.5	100%	-	-	1.2	0.4
Thales Communications Ltda	BRL	-	-	14.6	(14.6)	11.0	1.8	100%	-	-	-	-
Thales Angenieux SAS	EUR	70.5	2.9	2.7	13.3	8.1	8.1	100%	-	0.1	3.7	0.5
TOTAL SUBSIDIARIES												
2. Equity Affiliates												
United Monolithic Semiconductors Holding	EUR	0.0	3.0	33.9	10.9	24.3	22.8	50%	-	-	-	-
Electronica Spa	EUR	0.0	20.9	0.0	63.1	26.7	26.7	33%	-	-	-	4.9
Sofradir	EUR	145.9	22.0	6.0	71.1	26.4	26.4	50%	-	-	1.7	10.5
Telespazio Spa	EUR	628.7	(1.5)	50.0	190.2	81.6	81.6	33%	2.6	-	-	5.6
DCNS Group	EUR	3,118.7	62.5	563.0	(380.1)	833.7	833.7	35%	-	-	0.6	-
Thales Systems Ireland Ltd	EUR	-	(0.5)	7.7	0.5	56.3	56.3	23%	-	-	-	0.5
Total equity affiliates												
TOTAL A												

B. General disclosures concerning other subsidiaries and equity affiliates

1. Subsidiaries not listed in section A

French subsidiaries	28.2	18.9	-	31.5	15.9	0.8	3.3
Foreign subsidiaries	0.6	0.1	-	-	-	-	-
Total subsidiaries	28.8	19.1	-	31.5	15.9	0.8	3.3

2. Equity affiliates not listed in section A

In French companies	11.8	11.6	-	1.9	-	-	4.5
In foreign companies	7.4	0.0	26.4	61.6	1.1	239.6	0.1
Total equity affiliates	19.2	11.6	26.4	61.6	3.0	239.6	4.6
TOTAL B	48.0	30.7	26.4	93.1	18.9	240.4	8.0
TOTAL: A + B	10,005.5	8,673.3	29.0	826.4	3,867.4	4,750.9	700.5

Information concerning related companies

Thales's direct subsidiaries (A)	2.6	733.3	3,848.5	4,510.5
Thales's direct subsidiaries (B)	26.4	93.1	18.9	240.4
Other Group's subsidiaries	-	139.3	1,061.7	10,376.2

INVESTMENTS MADE AND THRESHOLDS CROSSED IN FRENCH COMPANIES IN 2015

➤ PERCENTAGE OWNED

Amount of investment (€ thousand)	At 31/12/2014					At 31/12/2015				
	>5%	>20%	>33%	>50%	>66%	>5%	>20%	>33%	>50%	>66%
1. Increases										
2. Decreases										
Cloudwatt	-	22%	-	-	-	-	-	-	-	-
SAS Sartrouville	-	-	-	-	100%	-	-	-	-	-

1.3.2.6 RESULTS OF THE PARENT COMPANY FOR THE LAST FIVE YEARS

(In millions of euros, except for per share data)	2011	2012	2013	2014	2015
1. Share capital at year-end					
Share capital	607.0	607.0	617.2	623.5	632.9
Number of ordinary shares issued	202,328,457	202,339,674	205,744,500	207,841,111	210,961,404
Maximum number of shares to be created in future: by exercise of subscription options	15,056,223	12,294,262	8,186,261	5,841,789	2,615,865
2. Operations and results for the period					
Sales excluding tax	143.9	174.9	205.9	224.4	208.6
Earnings before taxes, employee profit-sharing, depreciation, amortisation and provisions	(224.2)	222.0	379.7	609.3	625.7
Income tax	78.9	48.1	85.8	77.4	93.8
Employee profit-sharing during the period	-	-	-	-	-
Earnings after taxes, employee profit-sharing, depreciation, amortisation and provisions	175.4	306.8	400.6	662.9	871.9
Net income distributed	155.2	175.7	227.6	230.7	73.3 ^(a)
3. Earnings per share					
Earnings after tax and employee profit-sharing but before amortisation, depreciation and provisions	(0.72)	1.34	2.26	3.30	3.41
Earnings after taxes, employee profit-sharing, depreciation, amortisation and provisions	0.87	1.52	1.95	3.19	4.13
Net dividend per share	0.78	0.88	1.12	1.12	1.36 ^(b)
4. Personnel					
Average employee headcount during the year:	985	824	833	852	831
Engineers and managers	808	711	726	749	735
Technicians and supervisors	177	113	107	103	96
Personnel charges of which:	188.9	161.6	177.1	183.2	187.1
Total wage and salary costs for the period	138.4	113.7	123.9	130.2	131.5
Social charges and benefits paid during the Year (Social security, welfare)	50.5	47.9	53.2	53.0	55.6

(a) Interim dividend.

(b) Subject to the approval of the Annual General Meeting of shareholders on 18 May 2016.

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.

2015: Capital increased from €623,523,333.0 to €632,884,212.0 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 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.

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 December 31, 2015, 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 December 31, 2015 and of the results of its operations for the year then ended in accordance with French accounting principles.

Without qualifying our opinion, we draw your attention to the effects of the first application of the ANC's 2013-02 recommendation on the evaluation of pension benefits and similar commitments, as explained in the introduction note to the financial statements.

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 December 31, 2015 for a net amount of € 8,673.30 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 recognize 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 and Paris-La Défense, February 22, 2016

The statutory auditors

French original signed by

MAZARS

Jean-Marc Deslandes
Anne-Laure Rousselou

ERNST & YOUNG Audit

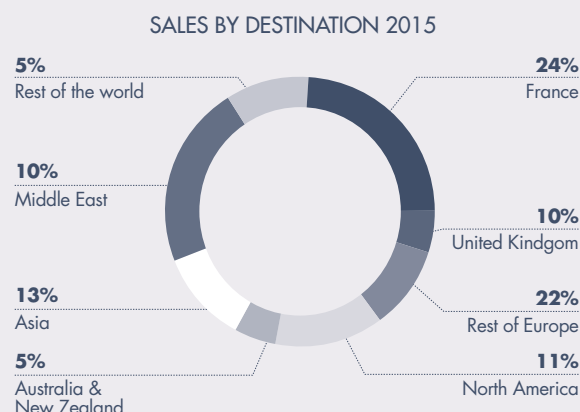
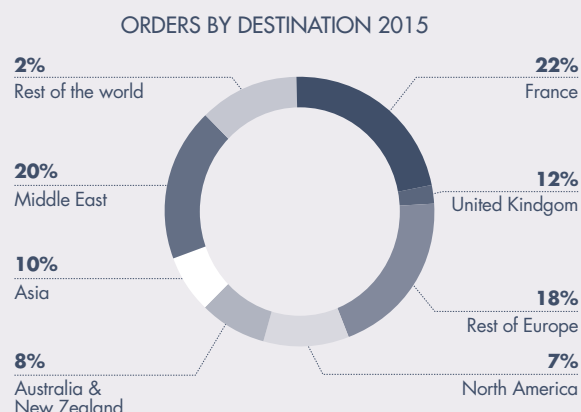
Philippe Diu
Serge Pottiez

A BUSINESS PORTFOLIO BALANCED BETWEEN CIVIL AND DEFENCE ACTIVITIES, SHARING COMMON TECHNOLOGIES

	Aerospace		Transport		Defence & Security		Total	
€ million	2015	2014	2015	2014	2015	2014	2015	2014
Order book	9,766	8,687	4,841	3,615	17,611	14,915	32,292	27,285
Order intake	6,279	5,024	2,826	1,651	9,704	7,608	18,880	14,363
Sales	5,381	5,014	1,519	1,402	7,084	6,480	14,063	12,974
EBIT ⁽¹⁾	518	505	-37	32	760	620	1,216	985
Employees under Group management	17,960	17,951	6,289	6,331	32,207	31,599	62,194	61,709

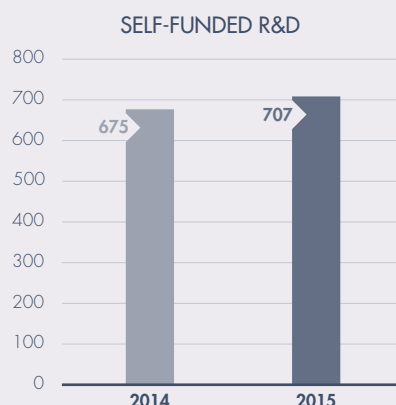
(1) Non-GAAP measure, see Group Management Report, page 8.

A STRONG INTERNATIONAL PRESENCE



INNOVATION AT THE HEART OF THE STRATEGY

- A portfolio of more than 16,500 patents and applications, with almost 400 new applications filed in 2015
- A policy of innovation open to the academic world, research centres and industrial partners: Thales supports almost 200 PhD students worldwide and ten higher education chairs in line with its technical guidelines
- Five Thales Research & Technology laboratories worldwide: France, United Kingdom, Netherlands, Singapore and Canada
- Thales, a major player in the competitiveness clusters in France and the United Kingdom



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2.1 Operating segments

In early 2013, the Group 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 and Air Systems, and Defence Mission Systems);

- an international organisation split into the major industrial countries in which the Group is present (France, Germany, 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.

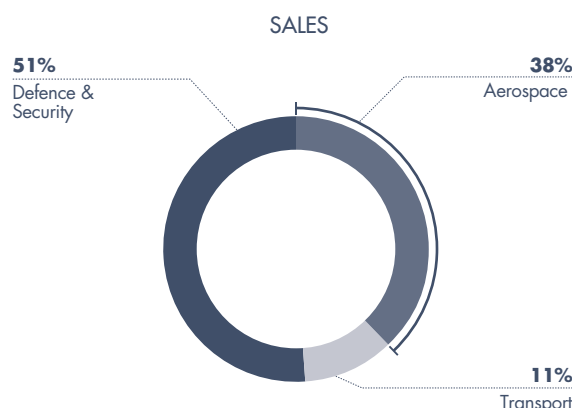
The **Avionics** Global Business Unit offers a large array of equipment and functions for piloting, navigation and aircraft control systems, electrical generation and conversion, and in-flight entertainment and connectivity systems. This activity also includes simulation and training solutions for military 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 for the aviation sector, in addition to its space and air traffic management business.

The **Space** Global Business Unit provides spatial systems and solutions, particularly 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, 33% owned by Finmeccanica) in satellite systems and by Telespazio (33% owned by Thales, 67% owned by Finmeccanica) in related services.

2.1.1.1 KEY DATA

	2015	2014
Order book at 31 December	9,766	8,687
Order intake	6,279	5,024
Sales	5,381	5,014
EBIT ^(a)	518	505
Employees under Group management	17,960	17,951

(a) Non-GAAP indicator. See definition in the section entitled "Presentation of Financial Information" in the management report on page 8.



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. The Group also offers microwave (tubes and power amplifiers) and imaging subsystems.

The portfolio of flight avionics systems and equipment comprises on-board electronics systems, including helmet 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 the Diehl Aerospace joint venture.

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 are aimed at the space and defence markets and also have some telecommunications and civil industrial applications, whereas imaging subsystems are aimed at the medical radiology market.

2.1.1.2.2 Competitive position

As one of the leading players in 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 growth of this business therefore correlates directly to the change in production rates of aircraft manufacturers. The other major players in this field are the US companies Honeywell and Rockwell Collins.

In the passenger cabin systems segment, Thales is one of the world's top two players, with Panasonic Avionics.

There are numerous competitors in the simulation solutions market, particularly 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 2015

In **civil avionics**, Thales supported the increased production of the Airbus A350, the first of which was delivered in late 2014, followed by 14 additional models in 2015. In addition, the Group signed a contract with ATR at the Paris Air Show to strengthen their partnership through collaborative incremental development of the avionics system used in the ATR-600.

A significant milestone was also reached with the laying of the first stone for the new Thales site in Bordeaux, the future global headquarters for the Group's avionics activities.

In **training and simulation**, 2015 was marked by the launch, in cooperation with Rheinmetall Defence Electronics (RDE), of a programme to refurbish and upgrade 20 Tiger combat helicopter simulators to be used by French and German armed forces for the OCCAR (Organisation for Joint Armament Cooperation). Thales, together with Sogitec, was also asked to provide Rafale simulators for the French and Egyptian forces. At the end of the year, Thales won the tender to provide the education and training service for the new H160 from Airbus Helicopters, through its subsidiary Helisim.

In terms of **in-flight entertainment** business, Thales InFlyt Experience was launched at the Aircraft Interiors in Hamburg, marking the consolidation of in-flight entertainment and connectivity activities. For the first time, the AVANT system was incorporated into the A350 XWB delivered to Qatar Airways and into Vietnam Airlines' Boeing B787-9, and was selected to equip the first class cabins of British Airways' B787. 2015 also marked the first anniversary of the acquisition of LiveTV, whose activities have complemented Thales's offering. More than 400 aircraft are now equipped with a Ka-band connectivity offering.

In **helicopter avionics**, after announcing the signing of a MoU (Memorandum of Understanding) in late 2014, Thales and Shanghai AVIC (SAVIC) worked together to develop their partnership in order to provide joint solutions to the Chinese market. Thales and Turbomeca extended their cooperation in the field of engine management (FADEC D) for future engine projects.

In **military avionics**, the year was marked in particular by the initial success of Rafale exports. Furthermore, the first two modernised Mirage 2000s were delivered to the Indian authorities and an A400M was delivered to the Royal Malaysian Air Force.

In **electrical systems**, Thales signed two major contracts with Chinese aircraft manufacturer AVIC for the supply of electrical generation solutions for AC312 and H425 helicopters. This year also marked the maiden flight of the Antonov 178 military aircraft, which was equipped with Thales solutions.

In **airline support**, Thales was included in the list of the top ten Airbus support providers for the ninth consecutive year. Thales also announced the development of a new flight application called "Electronic Flight Bag"

(EFB). The first customer will be Air France, whose ultimate aim is to equip its entire fleet. Thales also announced the signing of several key contracts for the supply of head-up displays (collimators), in particular to China Southern Airlines and Etihad.

In **microwave and imaging sub-systems**, Thales successfully launched its new flat panel detector for radiography. In the space market, the tubes supplied by Thales have contributed to the recent successes of both the Rosetta and the New Horizons scientific missions. Thales was also present on many commercial satellites and has won a major contract with Boeing for Ka-band coverage.

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 is a partner in the Space Alliance along with Telespazio, which is also owned by Thales (33%) and Finmeccanica (67%).

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 the supply of 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 the leading space industry manufacturers. Thales Alenia Space has confirmed its expertise as a leading global player in the field of low/medium earth orbit mobile communications constellations with the Globalstar, Iridium NEXT, O3b and Leosat projects.

In the **military segment**, Thales Alenia Space operates in the design and production of highly 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. Notably, it is a supplier to the French Ministry of Defence and is at the heart of the Franco-Italian cooperation with the Sical and Athena Fidus programmes.

In **Earth observation**, Thales Alenia Space is a leader in high- and very high-resolution optical and radar payloads for military, civilian or dual missions such as information gathering, target designation, map-making and crisis management, meteorology, oceanography and climatology, etc.

For the past three decades, the European Space Agency (ESA) and the European Organisation for the Exploitation of Meteorological Satellites (Eumetsat) have awarded Thales Alenia Space the contract for Europe's meteorological satellites (Meteosat satellites), as well as environmental missions in the Copernicus programme and spatial altimetry, an activity in which Thales Alenia Space's radars set the global standard for ocean and ice surveillance.

Today, Thales Alenia Space is the prime contractor for the flagship ExoMars programme, which is ESA's most ambitious Mars mission and will touch down on the red planet in 2016. The Company is also the prime contractor for EUCLID – one of ESA's scientific satellites that aims to

understand dark matter. It also led the success of the IXV, a mini European Shuttle that has validated technologies for atmospheric re-entry for future manned flights. On the ground, it deployed radioastronomy antennae on the Atacama Plateau in Chile as part of the ALMA programme for the European Southern Observatory (ESO).

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 flights, Thales Alenia Space is a major contributor to the International Space Station (ISS), supplying more than 50% of its pressurised volume. It has significant involvement with the vehicles which have and which will resupply the ISS: ATV (Automated Transfer Vehicle) for ESA, Cygnus for NASA, and soon the Orion spacecraft for NASA.

Thales Alenia Space also contributes to the European policy on access to space by supplying the on-board electronics for the Ariane rocket, the on-board backup system for Soyuz in Guyana and soon that of the Ariane 6.

2.1.1.3.2 Competitive position

The satellite market is dynamic and highly competitive. In the commercial satellite segment, Thales Alenia Space's main competitors are Space Systems/Loral, Airbus Group, Orbital ATK, Boeing and Lockheed Martin. Going forward, the commercial challenge focuses on the ability to offer satellite solutions with electric-only propulsion. It is important to note the gradual arrival in the commercial market of new international players (from Russia, China, India, Israel, Japan, etc.) in the fields of telecommunications and observation. The arrival of GAFA (Google, Apple, Facebook, Amazon) has also changed the commercial landscape with the emergence of new needs in terms of mega-constellations. Space X in particular is proposing to set up its own constellation.

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 2015

In telecommunications, Thales Alenia Space signed the contract for the C/D phase of the Neosat programme with the ESA and won a contract with Eutelsat to supply a broadband satellite for Africa. This is a defining contract for the company as it is the first commercial use of its new product line, the all-electric Spacebus NEO. In addition, contracts were signed with Bangladesh for the Bangabandhu satellite and with Argentina for the ARSAT-3 payload. In constellations, Thales Alenia Space continues to work with LEOSAT on the feasibility and definition of its constellation of 80–120 satellites which are intended to provide broadband internet solutions, and it has also signed a contract to build 8 additional satellites

for the O3b Network. Finally, in defence, Thales Alenia Space signed a 65% partnership agreement for the Comsat NG French military satellite communications programme. The Comsat NG contract involves the construction of two military communication satellites for the French Armed Forces to replace the Syracuse 3A and Syracuse 3B satellites, which were launched in 2005 and 2006 respectively.

In the field of Earth observation, 2015 saw Thales Alenia Space's leadership in terms of space altimetry dedicated to oceanography being demonstrated once again through the signing of the agreement to build the SWOT (Surface Water Ocean Topography) satellite for CNES (the French space agency), the installation of the Poseidon-4 altimeter on the Sentinel 6, and the selection of the Poseidon-3C altimeter for the SWOT satellite.

In high-resolution optical observation, Thales Alenia Space signed a contract for a feasibility study regarding the successor to the Pleiades and CSO satellites. Meanwhile, in radars, the Company signed the COSMO-SkyMed Second Generation contract for the Italian Space Agency and the Italian Ministry of Defence and a ground segment contract for processing data generated by the COSMO-SkyMed satellites for the Polish Ministry of Defence.

Finally, Thales Alenia Space signed a contract with ESA and the European Union to build the C and D models of the Sentinel 1 environmental monitoring satellites as part of the Copernicus programme.

In exploration and science, Thales Alenia Space signed a contract for the phase B study of the scientific satellite PLATO (PLAnetary Transits and Oscillation of stars) for ESA, as well as the contract with Airbus Defence and Space to produce the thermomechanical systems for the European Service Module (ESM) of NASA's Orion spacecraft.

In 2015, Thales Alenia Space participated in 9 launches, including that of the IXV with the success of the mission of the European atmospheric re-entry module, and that of the Sicral 2 which complements the French-Italian cooperation in the defence field following the 2014 launch of Athena-Fidus. It should also be noted that Thales Alenia Space supplied three climate satellites: MSG4, a meteorological satellite launched in July 2015, Jason 3, an oceanographic satellite launched in January 2016, and Sentinel 3A, an environmental satellite, launched from Pletzesk on 16 February 2016.

Also of note in 2015 was the formation of strategic partnerships with Nanyang Technological University in Singapore and the signing of an agreement with the University of Warsaw in Poland.

From an industrial perspective, 2015 saw the introduction of robots, collaborative robots and 3D printing technology in the manufacturing process; 3D parts have already flown on Arabsat 6B and Turkmenspace and will fly on Koreasat. A 3D printer was also delivered to the astronauts on-board the ISS.

Thales Alenia Space's international growth continued in 2015 with the opening of a new subsidiary in Poland and a technology centre in Brazil. In 2015, Thales Alenia Space also inaugurated a new building on the Cannes site for the integration and testing of high-resolution optical observation instruments in order to meet the needs of export markets.

2.1.2 TRANSPORT SEGMENT

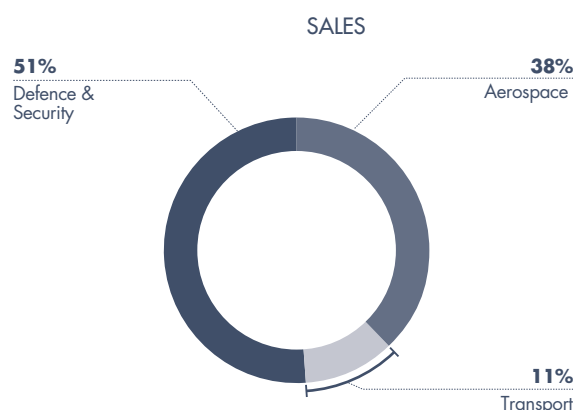
Thales provides ground transportation infrastructure operators and managers with systems and services to leverage their investments to best effect by optimising their operational performance, offering the best passenger experience, and managing the growing complexity of

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

	2015	2014
Order book at 31 December	4,842	3,615
Order intake	2,826	1,652
Sales	1,519	1,402
EBIT ^(a)	(37)	32
Employees under Group management	6,289	6,331

(a) Non-GAAP indicator. See definition in the section entitled "Presentation of Financial Information" in the 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 foremost global players in railway signalling and the control/monitoring of urban transport networks and mainlines. It also offers electronic ticketing solutions.

In rail signalling, Thales provides systems for conventional and high speed long distance networks, in addition to metro, tram and suburban networks. Thales capitalises on its expertise in the field of critical information and cybersecurity systems to offer transport network operators integrated and protected solutions to effectively supervise and control their operations and satisfy their passengers with increased service quality, while helping to improve passengers, staff and infrastructures security.

Thales is also a global player in passenger payment collection solutions, in particular for urban transit operators, and has vast experience with multimodal and multi-operator ticketing systems.

2.1.2.2.2 Competitive position

Thales offers to ground transportation operators, whose growth is linked to a great extent to urban planning, a portfolio of automation and services solutions dedicated to the efficient operation, security and safety of rail infrastructures. Specialised in intelligent critical systems and services, Thales sets itself apart from its "generalist" competitors, who offer ranges of products dominated by rolling stock. These capabilities and skills 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 ticketing, the Group's main competitors are Cubic, Parkeon, Scheidt & Bachmann and Xerox.

2.1.2.2.3 Significant events in 2015

2015 was a record year in terms of order intake for Thales's **urban signalling activity**, with several very significant contracts being won.

In London, spurred on by the success of the modernisation of the Jubilee and Northern lines, Transport for London awarded Thales the contract to modernise the Circle, District, Metropolitan and Hammersmith & City lines,

which make up almost 40% of its network. Upon completion of the project in 2023, the overall capacity on these lines is expected to increase by 30% due to an increased number of trains running at peak times.

In Hong Kong, MTR Corporation, the metro operator, has awarded Thales a major contract for the modernisation of seven lines that will be equipped with CBTC (Communication-Based Train Control) technology from Thales. This will increase capacity, improve reliability and make it easier to maintain the system and the existing infrastructure.

In New York, Thales was selected to supply the signalling for part of the Queens Boulevard subway line which connects Manhattan to Queens. The part of the line covered by CBTC equipment from Thales will be interoperable with other parts of the line that are covered by equipment from other suppliers.

In China, Thales's SAIC Transportation System joint venture won several contracts for new metro lines (in Qingdao, Nanchang, Wuhan and Shijiazhuang) and tramways (in Shanghai).

Thales will also provide signalling, communications and the line control centre for the tramline in Danhai, Taiwan.

In Australia, Thales was chosen to equip the Sydney metro network, Australia's first fully automated rail system.

In Qatar, Thales won the contract to supply signalling and ticketing systems for the new metro in Doha.

In **mainline signalling**, Thales continued to roll out its ETCS (European Train Control System) technology on high-speed lines in Spain. In France, the SNCF has extended Thales's contract to replace the signal control point at Vitry-sur-Seine. The mainline activity is also supported by framework agreements to supply signalling systems in several European countries, including Germany, Austria, Switzerland and Norway.

In **ticketing**, June 2015 saw Thales launch its TransCity™ solution during the International Association of Public Transport conference in Milan. This solution enables passengers to pay directly at the ticket barrier (by contactless bank card, mobile phone or travel card). Among other things, this "cloud-ready" ticketing solution allows operators to analyse the data generated, which simplifies their management. The new solution had its first two export successes with the fitting out of the regional express network in Johannesburg and the modernisation of two lines of the Cairo metro.

2.1.3 DEFENCE & SECURITY SEGMENT

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 ensuring the highest levels of protection.

Thales designs systems for all sectors: land, air, naval, space and cyberspace (digital networks). 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.

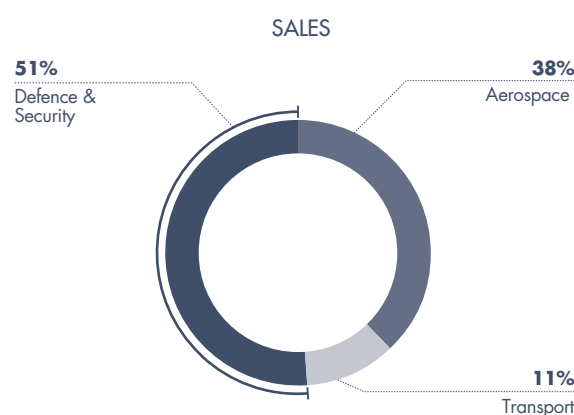
This convergence of defence and security requires new solutions and technologies to be implemented to facilitate the sharing of existing information and communication systems, as well as the protection of networks and infrastructure.

The Defence & Security segment, where the customer base is primarily governments, consolidates Thales's expertise in these various fields, organised around three Global Business Units: Secure Communications and Information Systems (Section 2.1.3.2), Land and Air Systems (Section 2.1.3.3) and Defence Mission Systems (Section 2.1.3.4).

2.1.3.1 KEY DATA

	2015	2014
Order book at 31 December	17,611	14,915
Order intake	9,704	7,608
Sales	7,084	6,480
EBIT ^(a)	760	620
Employees under Group management	32,207	31,599

(a) Non-GAAP indicator. See definition in the section entitled "Presentation of Financial Information" in the management report on page 8.



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 systems, and cybersecurity respond to the needs of markets in which the use of new digital technologies such as 4G mobile communications, cloud computing and big data are of the utmost importance. Thales is present throughout the value chain, from equipment to systems and systems of systems, logistical support and related services.

These activities are developed around four segments:

➤ **Radio communication products.** Thales designs radios and embedded and tactical communications systems for all three sectors (land, air and sea), friend or foe identification systems, (IFF) radio navigation systems and electronic warfare communications solutions. 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 interoperable, secure Software-Defined Radio (SDR) solutions. Thales is the prime contractor for the CONTACT programme which, from 2018, must deliver the first software defined radio solutions for the French

armed forces. It is also present at European level with the ESSOR programme and in the United States with the Rifleman programme.

➤ **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 (healthcare, water, energy, communications, etc.). In this area, Thales offers solutions ranging up to the operation and management of secure networks for the armed forces, even in theatres of operations (for instance, for the ISAF⁽¹⁾ in Afghanistan or EUNAM in the Central African Republic). In France, the Group operates the information, communication and security systems of the Hexagone Balard, the new French Ministry of Defence.

➤ **Protection Systems.** Thales develops information, command and intelligence systems for armed forces (military functions summarised under the abbreviation C4ISR). The Group also responds to the growing safety needs of nations (identity management systems, border control and surveillance), of cities (urban security, smart cities, crisis management, security for large events) and of critical infrastructure (protection of airports, of public transportation, of sensitive sites, and of energy sites). These systems are intended to facilitate rapid decision-making by the operators of the command and control centres or in mobile situations, and by providing users with relevant, clear and immediate information about their environment.

(1) International Security Assistance Force (ISAF). The ISAF is the military component of the coalition that been operating in Afghanistan since 2001 under the authority of NATO and a UN mandate.

➤ **Critical Information Systems and Cybersecurity.** Thales is a major player in cybersecurity in Europe and has both civilian and military customers. Through its network, cloud and mobile equipment protection products, and data security solutions, Thales offers solutions to protect information systems and its customers' critical data. Thales also helps its customers to detect and prevent cyber-attacks by devising secure architectures from the design stage. Thales oversees these architectures and ensures that they are kept in secure working order. Finally, the Group secures the digital transformation programmes of companies and governments alike, to ensure that they benefit from technological advances in mobility, cloud computing and collaborative models while ensuring the protection of their critical data.

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. Airbus Group is a competitor in Europe, as is Rohde & Schwarz, particularly in the areas of naval communications and electronic war, and in Turkey, there is competition from Aselsan, particularly in 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 cybersecurity, 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 2015

In **radio communications products**, Thales's developments in the field of software-defined radio reached a major milestone in 2015 with the ESSOR interoperability testing⁽¹⁾ that was conducted within a European framework in 6 countries. In France, Thales is continuing with the Contact programme, which from 2018 will deliver the first Software-Defined Radio (SDR) solutions for ground, aeronautic and naval armed forces. In exports, Thales received several orders for radios in Egypt where the Group will deliver long-range tactical radio equipment, radio equipment for the Rafale, a communications network and radio equipment for the FREMM frigates.

In the United States, Thales was awarded a contract in 2015 for multiple deliveries of Rifleman radios. The Group was also selected to supply the ground terminals for the future Iridium Next satellite constellation. Lastly, Thales was chosen to manufacture tactical satellite terminals for the US Army.

In aeronautics, Thales was selected to provide a full suite of communications, navigation and identification equipment for the French MRTT⁽²⁾ tanker programme.

Thales was also selected to supply various electronic warfare systems, including the detection system for OPV⁽³⁾ buildings in a Middle Eastern country and a major jamming system for a European country.

Network and Infrastructure Systems. Thales successfully took an important step towards completing the satellite military communications system designed for ground and naval forces in Qatar, with the deployment of an initial operational capability.

In France, Thales played a major role in the overall design of the defence engineering for *Hexagone Balard*, the new headquarters of the French Ministry of Defence opened in November 2015. The Group will oversee the operation and maintenance of information and communication systems at this strategic site of 9,300 people over a 30-year period, as well as its security systems.

Also in France, Thales supplied additional ground terminals for the Syracuse III⁽⁴⁾. Equipped with Thales's "on-the-move" satellite communications, these terminals allow the command to operate while on the move in the theatre of operations.

Lastly, Thales was selected by Qatar and Oman to supply TETRA communication solutions as part of critical infrastructure security projects.

Protection systems. In 2015, Thales recorded numerous successes, in particular in critical infrastructure protection. Thales was selected to secure the new commercial port in Doha, Qatar. This port project is one of the largest ever developed in the world, and also one of the most cutting-edge. In Oman, Thales was selected to supply advanced technologies to Muscat and Salalah airports in order to protect their passengers and infrastructure.

In on-board vehicle electronics ("vetronics"), Thales was notified of a new tranche of the Scorpion contract for developing and launching the production of support equipment for information systems and for battlefield digitisation. In particular, Thales is responsible for the electronic architecture of the vehicles.

Thales consolidated its position as a supplier of C4I⁽⁵⁾ defence systems, with the Land Command Support System (LCSS) programme in Canada, the Command and Intelligence Systems Support Office (CISSEO) programme in Australia, and the SIA (*Système d'Information des Armées – Army Information System*) in France.

In **critical information systems, and cybersecurity** Thales commissioned a new cybersecurity monitoring centre in the Netherlands to serve the local market and Continental Europe.

Furthermore, Thales announced a final agreement to acquire Vormetric, a leading provider of protection solutions for data stored on physical or virtual infrastructure, or in the cloud. The completion of the transaction is subject to customary closing conditions and is expected to be finalised during the first quarter of 2016. This investment will complement the portfolio of solutions from Thales e-Security, a leading player in hardware security modules (HSM), and strengthen Thales's position in this fast-growing strategic segment.

In France, Thales received PASSI accreditation (for audit service providers) from the French agency for information systems security (ANSSI), positioning the Group as a certified trusted partner. The Group also won the secured outsourcing contract from the Ramsay Générale de Santé group, the leading operator of private hospitals in France.

(1) ESSOR: European Secure Software defined Radio.

(2) MRTT: Multi Role Tanker Transport.

(3) OPV: Offshore Patrol Vessel.

(4) Syracuse III stands for **S**ystème de **R**Adio**C**ommunications **U**tilisant un **S**atellite (radio communications system using satellites).

(5) C4I: Command, Control, Communications, Computer & Intelligence.

2.1.3.3 LAND AND AIR SYSTEMS

2.1.3.3.1 General overview

Thales systems and equipment help to make the 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⁽¹⁾ Aviation System Block Upgrades in Europe and the NextGen programme in the United States. Thales remains the leading Industrial Partner of the SESAR⁽²⁾ 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 the prime contractor for NATO's Air Command and Control System (ACCS).

Moreover, Thales offers on 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 **weapon systems** for medium-range (SAMP/T), short-range (Crotale and RAPIDDefender) and very short-range markets (RAPIDFire cannon and RAPIDRanger missile system). The Group also specialises in multirole weapon 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**, the combination of optical and electronic systems, Thales designs and manufactures components and systems for day and night surveillance, reconnaissance, protection, threat detection 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.

Thales designs, manufactures and supports **armoured military vehicles** including the Hawkei and the 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 companies 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 companies 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) and from Israeli suppliers (primarily Elbit). 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 2015

Throughout the year, the company signed many contracts for air traffic management radars and control systems. These contracts were mostly in Europe, Africa (ASECNA and Democratic Republic of Congo) and in Asia (China, Indonesia). Major navais contracts were won in Africa, Europe and the Middle East. During the Paris Air Show, Thales introduced its next generation Air Traffic Management radar, the STAR NG, which is the successor to the market leading STAR 2000 radar.

Thales delivered 18 **radars** from the Ground Master family to several air forces and Thales-Raytheon Systems signed its first contract with Georgia and reaffirmed its relationships with Kazakhstan with a second GM400 contract.

The NATO Air Command and Control system (ACCS) went into operational service in Italy. By the end of 2016, it will be operational in the other 3 major NATO sites in Belgium, France, and Germany, as well as in ten other countries (replication sites). Additionally, Thales-Raytheon Systems signed a contract with the NATO communications and information agency for the ballistic missile defence capacity upgrade.

The US Missile Defence Agency bestowed the «Technology Pioneer Award» to the French and Italian extended air defence teams, for the successful firing against a target representing a tactical ballistic missile.

(1) International Civil Aviation Organization (ICAO).

(2) Single European Sky ATM Research.

In the area of **advanced weapons systems**, two major contracts were won in 2015, confirming the recognition of Thales as provider of systems of systems. Armatisuisse, Switzerland's Defence and Procurement agency, mandated Thales as prime contractor for the procurement preparations phase for the BODLUV 2020 medium range ground-based air defence system.

Thales signed a contract for the ForceSHIELD Integrated Air Defence system and STARStreak missiles for the Malaysian Armed Forces, integrating radars, communications, engagement and fire control systems, launchers and missiles to meet front line users' needs. Thales also signed a contract for the supply of STARStreak missiles to the Royal Thai Army.

The new generation version of the Lightweight Multiple Launcher was introduced on the market, offering swift deployment of either STARStreak or the Lightweight Multi-role munition.

In October 2015, a Royal Netherlands Navy ship using the Thales SMART-L Early Warning Capability radar and a Thales Active Phased Array multi-function radar (APAR) successfully tracked and intercepted a Ballistic Missile in space while at the same time intercepting two targets

with its own Standard Missile (SM-2) and Evolved SeaSparrow Missile (ESSM).

In 2015, several export optronics contracts were won, in particular in the Middle East and in Asia. The activity also benefited from the Rafale export sales, signing the first export contract for its laser designator TALIOS. In France, Optrolead (a joint company between Thales and Safran) received the contract for the renovation of the Scorpion programme optronics suite. In the UK, Thales won the contract for the sights of the SCOUT SV armoured vehicles, and received continuous support and improvement contracts for periscopes for the UK, Australian and Canadian Navy. Thales also confirmed the successful launch of its long range turret thermal imager Kate with more than 1,200 units ordered.

In the field of **armoured vehicles**, Thales won the contract to build 1,100 Hawkei 4x4 vehicles for the Australian Defence forces. The Hawkei is the company's next generation protected mobility vehicle following the life-saving success of the larger Bushmaster vehicle, which has protected Australian and other military troops in some of the most challenging combat environments on earth.

2.1.3.4 DEFENCE MISSION SYSTEMS

2.1.3.4.1 General overview

Thales manufactures electronic systems for airborne combat, intelligence, surveillance and reconnaissance, as well as 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 future combat UAVs, as well as electronic warfare radar 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, incorporate surveillance radars, acoustic sub-systems, electromagnetic measuring 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 range of products including the submarine sonar suite, hull-mounted and towed array sonar for surface ships, anti-mine systems incorporating multiple sonars, including the use of unmanned underwater vehicles, as well as 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 US companies Lockheed Martin, Raytheon and L3.

2.1.3.4.3 Significant events in 2015

Electronic combat systems. The first four modernised Mirage 2000 systems for the Indian Air Force were delivered. Egypt signed the first export contract for Rafale aircraft to equip its Air Force; the first three aircraft of a total of 24 have already been delivered. Qatar also signed a contract to acquire 24 Rafales; these aircraft will be delivered from 2018. The French defence procurement agency successfully fired the first guided long-range air-air Meteor missile, which will be utilised to the full extent of its capabilities thanks to the Rafale's RBE2 active electronically scanned array radar.

Airborne surveillance and intelligence systems. The Jordanian Government selected a new batch of tactical surveillance HMaster radars to equip its Royal Air Force. The French defence procurement agency awarded Thales and its co-prime contractor, Airbus Defence and Space, the contract for the French Ministry of Defence's future electromagnetic space-based signals intelligence system. The British Royal Navy selected the Searchwater radar and the Cerberus mission system for its new surveillance helicopters. The "Watchkeeper" drone flew successfully in civil controlled airspace alongside manned aircraft for the first time. This is the only certified platform of its kind with the ability to fly under these conditions.

Surface naval systems. The Dutch Ministry of Defence and Thales have formed a partnership to support four Smart-L EWC early warning radars that will equip the Royal Navy, as well as supplying and supporting two additional Smart-L EWC radars for the Royal Air Force. In October 2015, during the "At Sea Demonstration 2015" allied exercise, a Royal Netherlands Navy ship (*HNLMs De Zeven Provinciën*) equipped with Smart-L EWC and multifunction radars guided an SM-3 missile launched from a US Navy ship (USS Roth) to successfully intercept a ballistic threat. This was a first in European waters, and it demonstrated the effectiveness and interoperability of NATO forces' systems and equipment.

Underwater warfare systems. Through OCCAr (*Organisme Conjoint de Coopération en matière d'Armement*, Organisation for Joint Armament Cooperation), the French defence procurement agency and the UK Ministry of Defence awarded Thales and BAE Systems the anti-sea mine MMCM (Maritime Mine Counter Measures) contract. This programme helps develop a system with autonomous vehicles designed to detect and neutralise marine mines and underwater improvised explosive devices (UWIED). A modernised version of variable depth sonar for mine hunters was launched.

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 bases its vision of innovation on openness and partnership across multiple dimensions:

- a technological dimension, by collaborating with academic laboratories;
- an entrepreneurial dimension, the development of closer ties with SMEs and start-ups;
- a "market" dimension, by co-innovating usage with customers and their ecosystem.

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 2015, Thales spent €707 million (approx. 5% of sales) purely on self-funded R&D, an essential lever to remain competitive.

A significant part of this budget is devoted to upstream research, conducted both at Thales Research & Technology (TRT) laboratories and the Group's 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 for key technologies is split into four domains:

- **hardware technologies:** electronics, electromagnetism, optronics, acoustics, radiofrequency techniques and management of thermal constraints;

- **software technology:** processing computers, real-time on-board systems, distributed systems, service-oriented architectures, model-driven engineering, and information systems safety and security;
- **information and cognitive sciences:** data fusion, data mining, autonomous systems, synthetic environments, and human factors;
- **systems:** focused on architectural system design, this area provides support for methodology, processes and expertise.

FOCUS 1

REINVIGORATE BY USING FLEDGLING BUSINESSES

Thales is continuing its active partnership policy and its open approach to innovation with start-ups, which create a particularly dynamic and innovative ecosystem.

By staying in touch with innovative businesses, the Group can identify emerging new technologies or new services and business models. These start-ups are potential partners and suppliers, and may also be of interest with regard to a stake in the capital.

To further strengthen its access to fledgling businesses, Thales is a founding member of Starburst, a Paris-based start-up incubator specialising in aerospace. Thales is also a strategic partner of the MIT Media Lab in the US.

In 2015, almost 120 start-ups were approached and 18 concrete projects were launched with Thales operating units, in particular in avionics, optronics and cybersecurity.

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, innovative businesses and industrial groups for joint innovation on applications, business models and technologies.

To develop the technologies it needs, the Group 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 École Polytechnique campus, is 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.

In France, Thales has numerous strategic partnerships, for example, with the CNRS, École Polytechnique, Telecom Paris Tech, Université Pierre et Marie Curie (UPMC-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-LIST for artificial vision and the implementation of formal approaches in critical software, and with UPMC in data mining, etc.

Thales is positioned as a major player in numerous high-tech clusters (including System@tic Paris-Région, Aerospace Valley in southwest France, 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, Bristol and Southampton. 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, the CSIC (Centre for Smart Infrastructure and Construction) based at Cambridge University and the Defense Academic Pathway (DAP) alongside several industrial and academic partners. In the UK, Thales also participates in various think tanks: the Engineering and Physical Science Research Council (EPSRC), the Inter Company Academic Relations Group (ICARG), and lastly the National Centre for Universities and Business (NCUB).

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 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.

Lastly, in early 2015, the Group developed a number of more specific actions aimed at several of the best performing start-up ecosystems. In France, Thales approached various incubators and accelerators set up by public and private initiatives. Thales is also a founding member of the Paris-based Starburst accelerator, which specialises in aerospace. In the US, links are in place with innovation ecosystems in Boston (centred on MIT) and the Silicon Valley. (See Focus 1)

Training also forms part of this overall strategy of linking the Group with the academic world. The Group supports around 200 Ph.D. students worldwide. They work on subjects directly connected with the technical issues facing Thales, which thus reinforces its appeal to young scientists. Thales also supports around ten teaching chairs in line with its technical guidelines. In 2015, Thales announced the creation of the ARISE (*ARchitecture et Ingénierie des Systèmes Embarqués* – architecture and engineering for embedded systems) chair for the period 2016-2020 in conjunction with ISAE-SUPAERO.

FOCUS 2

REINVIGORATING RAILWAY SIGNALLING: AN "ILLUMINATING" MEASUREMENT INSTRUMENT FOR TRAIN POSITIONS

Traditionally, accurate detection of train positions is based on magnetic or electrical sensors counting the axles as they cross the reference areas located on the tracks.

In partnership with an innovative SME, Thales has recently developed a new optical-based approach. The light is transmitted by an optical fibre and its wavelength is changed when the rail is subject to pressure consistent with a train axle passing over it. Detecting and counting these changes in wavelength performs the same function as counting axles.

This breakthrough technology has been patent protected and makes a big difference in terms of equipment cost (heavy copper wiring is no longer required), ease of installation (thanks to its compactness) and environmental footprint (thanks to reduced power consumption).

2.2.4 A DYNAMIC APPROACH TO INTELLECTUAL PROPERTY MANAGEMENT

Thales supports its R&D activities with a dynamic approach to intellectual property management.

Thales filed almost 400 new patent applications in 2015. 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. Once again in 2015, Thales was included in the Thomson Reuters Top 100 Global Innovators ranking, with the

Group standing out for the volume, success and influence of its patents, underlining its commitment to innovation, protection of ideas and commercialisation of inventions.

The Thales portfolio included more than 16,500 patents and patent applications at the end of 2015 and is regularly adapted to operational requirements, particularly to protect Thales's market share.

FOCUS 3

DIGITAL REVOLUTION IN AVIATION

In 2015, the Group inaugurated its xPlor innovation hub in Boston (USA). One of this laboratory's areas of innovation concerns big data analytics in the aviation market. This sector generates extremely large data streams, and analysis of these streams can lead to opportunities for creating value for airlines, airports and navigation services.

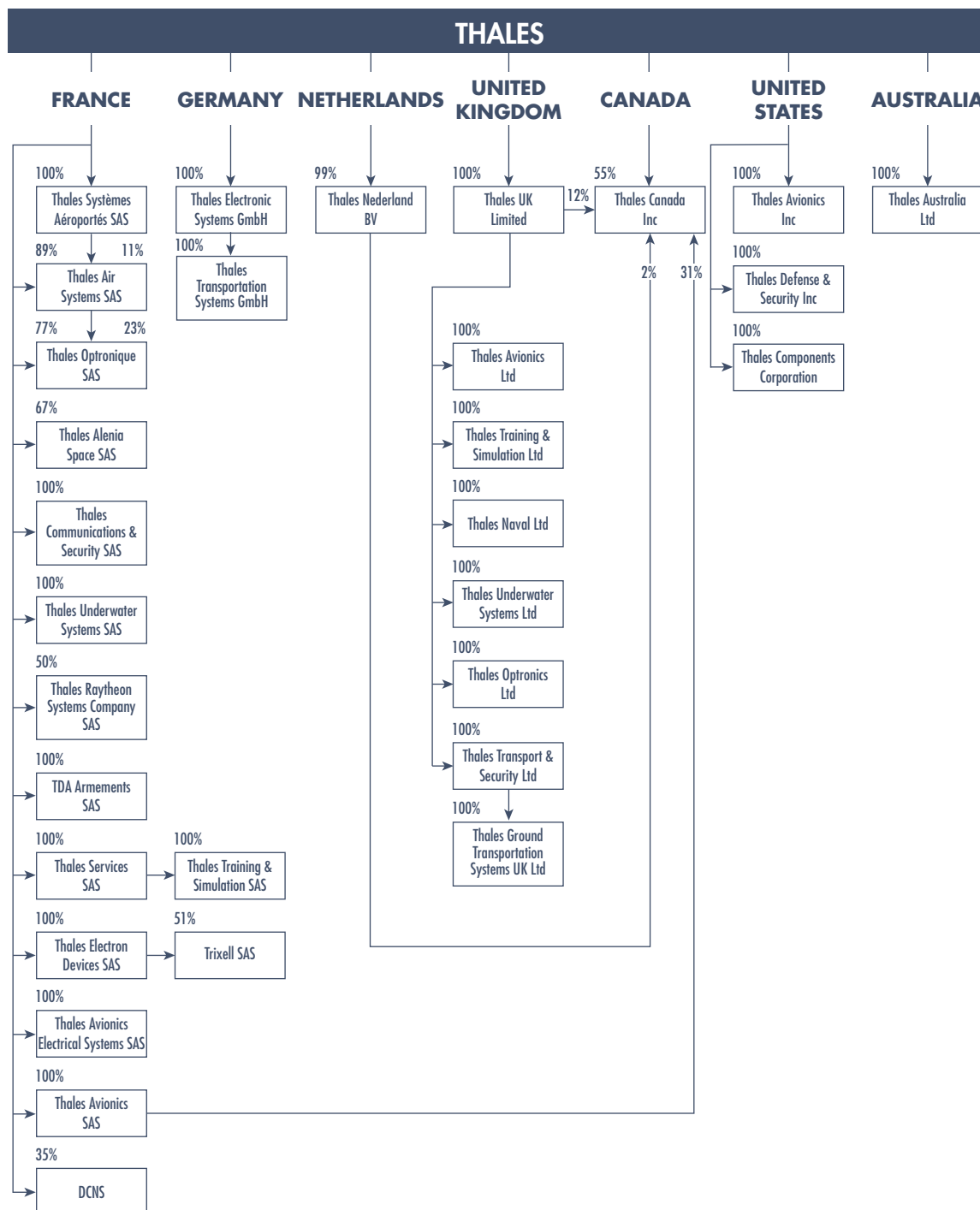
Algorithmic technology for data mining, learning processes, predictive analysis and smart visualisation provide decision-making support based solely on the analysis of this data, helping to optimise and create revenue from customer operations, detect anomalies and predict events linked to traffic or maintenance. The first demonstrations were successfully carried out on the predictive maintenance of on-board multimedia equipment and on correctly predicting flight arrival times.

2.3 Relations between Thales and its subsidiaries

2.3.1 SIMPLIFIED ORGANISATIONAL CHART AT 31 DECEMBER 2015

This simplified organisational chart includes fully consolidated companies that account for more than 0.5% of consolidated sales, in the main countries in which the Group operates.

The companies consolidated under the equity method are not included in this chart (with the exception of DCNS).



2.3.2 ROLE OF THE 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 central functions such as Group strategy, trading policy, legal and financial policy, operational monitoring, human resources policy and communications;
- it provides subsidiaries with specialist assistance, including legal, tax 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 122 *et seq.* of this document.

A list of the main consolidated companies can be found in section 2.4.1, page 127.

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 the Thales 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. The parent company conducts operations in financial markets to arrange the necessary investments and loans, in the context of cash pooling, 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 MAIN CONSOLIDATED COMPANIES

The materiality criteria used to prepare these tables have also been applied to the list of the main consolidated companies in Note 17 to the consolidated financial statements.

Company name	Country	% of capital held by Thales	% of voting rights held
1. Controlled companies (fully consolidated)			
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 Components Corporation	United States	100%	100%
Thales Defense & Security Inc	United States	100%	100%
Thales Electronic Systems GmbH	Germany	100%	100%
Thales e-Security, Inc	United States	100%	100%
Thales Espana Grp SAU	Spain	100%	100%
Thales Electron Devices SAS	France	100%	100%
Thales Italia SpA	Italy	100%	100%
Thales Nederland BV	Netherlands	99%	99%
Thales Norway AS	Norway	100%	100%
Thales Optronique SAS	France	100%	100%
Thales Polska Sp. z o.o.	Poland	100%	100%
Thales Transportation Systems GmbH	Germany	100%	100%
Thales Ground Transportation Systems UK Ltd	United Kingdom	100%	100%
Thales Rail Signalling Solutions AG	Switzerland	100%	100%
Thales-Raytheon Systems Company SAS	France	50%	50%
Thales Security Solutions & Services Company	Saudi Arabia	100%	100%
Thales Services SAS	France	100%	100%
Thales Solutions Asia Pte Ltd	Singapore	100%	100%
Thales Systèmes Aéroportés SAS	France	100%	100%
Thales Transport & Security (Hong-Kong) Ltd	Hong Kong	100%	100%
Thales Transport & Security Ltd	United Kingdom	100%	100%
Thales Training & Simulation SAS	France	100%	100%
Trixell SAS	France	51%	51%
Thales Underwater Systems SAS	France	100%	100%
Thales UK Ltd	United Kingdom	100%	100%

Company name	Country	% of capital held by Thales	% of voting rights held
2. Joint ventures (under equity method)			
Thales-Raytheon Systems Air and Missile Defense Command and Control SAS	France	50%	50%
Citylink Telecommunications Holdings Ltd	United Kingdom	33%	33%
DCNS	France	35%	35%
Diehl Aerospace GmbH	Germany	49%	49%
Hanwha Thales Co., Ltd (formerly, Samsung Thales Co., Ltd.)	South Korea	50%	50%
Sofradir SAS	France	50%	50%
3. Associated companies (under equity method)			
Aviation Communications & Surveillance Systems	United States	30%	30%
Air Tanker Holdings Ltd	United Kingdom	13%	13%
Elettronica SpA	Italy	33%	33%
Thales-Raytheon Systems Company LLC	United States	50%	50%
Telespazio SpA	Italy	33%	33%

2.4.2 MAJOR MANUFACTURING SITES

As of the end of 2015, there were 14 sites employing more than 1,000 staff.

At 31 December 2015	Headcount	Owned	Size (m ²)
France			
Bordeaux (South-west)	2,100	Leased (Le Haillan), and Owned (Pessac)	59,000
Brest (Brittany)	1,423	Leased	56,000
Cannes (Provence)	1,128	Owned-Leased	83,000
Cholet (Pays de la Loire)	1,886	Leased	51,000
Gennevilliers (Île-de-France)	3,432	Leased	86,000
Élancourt (Île-de-France)	3,067	Leased	104,000
Massy (Île-de-France)	1,078	Leased	26,000
Rungis (Île-de-France)	1,066	Leased	31,000
Toulouse (South-west)	3,830	Owned-Leased	142,000
Vélizy (Île-de-France)	4,440	Leased	130,000
United Kingdom			
Crawley	1,712	Leased	34,000
Netherlands			
Hengelo	1,291	Owned	87,000
Australia			
Sydney	1,075	Leased	60,000
Germany			
Stuttgart	1,520	Leased	59,000

JOINT SHAREHOLDING BETWEEN THE FRENCH STATE AND DASSAULT AVIATION

THREE AGREEMENTS

Shareholders' agreement

Agreement on the protection of national interests

Specific agreement

PRINCIPAL PROVISIONS:

- Definition of corporate governance and composition 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 2015

- 16 members, including 14 elected by the General Shareholders' Meeting, including 1 employee shareholder representative, and 2 representatives elected by employees
- 4 independent members, 6 women on the Board of Directors (including one employee representative)
- Reduction in the length of director terms to 4 years, approved by the General Shareholders' Meeting of 24 May 2013
- Board met 9 times in 2015, with an attendance rate of 96%

THREE COMMITTEES:

- Strategic Committee (4 meetings in 2015 with an attendance rate of 100%)
- Audit & Accounts Committee (6 meetings in 2015 with an attendance rate of 100%)
- Governance & Remuneration Committee (5 meetings in 2015 with an attendance rate of 100%)

EXECUTIVE COMMITTEE



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3.1 Composition of the Board of Directors at 31 December 2015

3.1.1 DIRECTORS

Appointed at General Meeting

PATRICE CAINE

(45)

Chairman & Chief Executive Officer

Chairman of Strategic Committee

First appointed: 23 December 2014.

Current term expires: 2018 OGM.

Number of shares held: 1,188 Thales shares.
+3,438 Thales stock options

CAREER

Patrice Caine was born on 7 January 1970 and is a French citizen. Patrice Caine is a graduate of the *École Polytechnique* and the *École des Mines de Paris* and holds the rank of *Ingénieur en Chef* 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 special adviser to the Prefect of the Franche-Comté region of France and head of the Industrial Development and Energy Division at DRIRE, the French agency responsible for industry, research and the environment.

From 1998 to 2000, he was part of the Conseil Général des Mines, in charge 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, Patrice Caine joined the Thales Group's Strategy Department before being appointed to manage the following operating units: Aviation & Naval, Communications, Navigation & Identification, Air Systems, Radio Communication Products, Network & Infrastructure Systems and Protection Systems.

In February 2013, Patrice Caine joined Thales's Executive Committee as Senior Executive Vice President, Chief Operating Officer and Chief Performance Officer.

He was awarded the bronze National Defence Medal (*Médaille de la Défense Nationale*) and in 2014, he was made a Knight of the National Order of Merit (*Chevalier de l'Ordre national du Mérite*).

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 and of "Écoles des mines" engineering school in Paris.

Abroad: none.

Other positions held by MR CAINE in the last five years:

In France: director of Opale Defense.

Abroad: none.

THIERRY AULAGNON

(65)

Director proposed by the Public Sector

First appointed: 23 July 2015.

Current term expires: 2018 OGM.

Number of shares held: 500 Thales shares.

CAREER

A French national born on 24 July 1950, Thierry Aulagnon has a degree in law from the *Institut d'Etudes Politiques* (Institute of Political Studies) in Paris and is a former student of the *École Nationale d'Administration* (French National School of Administration).

Between 1975 and 1996, he held a number of posts at the French Ministry of the Economy and Finance, including Head of the Office of the Minister of Economy and Finance and Head of Financing and Shareholdings at the French Treasury Department.

From 1996 to 1999, he was Chief Executive Officer of the *Groupe des Assurances Nationales* (GAN – the French National Insurance Group).

Since 2000, he has held various posts at Société Générale, initially as a banking consultant with responsibility for major clients, then as director of the Investment Banking division and finally as director in charge of client relations of Investment Banking.

APPOINTMENTS AND OTHER POSITIONS HELD IN COMPANIES IN FRANCE AND ABROAD

No appointments or positions in other companies.

LAURENCE BROSETA

(47)

Director proposed by the Public Sector

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 stock options.

CAREER

Born on 22 September 1968, Laurence Broseta is a French citizen and is a graduate of 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, with responsibility for operating transport services (bus, rail, underground and tram) in nine countries and leading business development.

Since March 2013, she has been **Senior Executive Vice President France of Transdev** (€2.5 billion in revenues and 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).

Abroad: none.

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 (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

(65)

Director proposed by the Public Sector, state representative

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 is a graduate of 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 French 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 given responsibility for 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 systems.

He was appointed architect of the "Strategic and Tactic Mobility Unit" at its inception in February 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 Grand Officer of the French Legion of Honour and an Officer of the French National Order of Merit. 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.

GUYLAINE DYÈVRE

(55)

Independent director

First appointed: 13 May 2015.

Current term expires: 2019 OGM.

Number of shares held: 500 Thales shares.

CAREER

A French national born on 30 November 1960, Guylaine Dyèvre holds a Master's degree in Political Science and a Bachelor's degree in Economics. As part of her 25 years of experience in the financial sector, Ms Dyèvre worked for over 10 years in the field of capital markets. She led various international teams in France and throughout Europe working in the field of foreign exchange derivatives.

She then returned to banking, working in the fields of financing and investment and covering strategic multinational clients, before moving into insurance, where she managed global partnerships.

From 2009 to early 2015, as head of compensation, benefits and expatriation at BNP Paribas, Guylaine Dyèvre was responsible for designing and implementing compensation policies and schemes for all group employees and managing international pension plans.

Since February 2015, she has been **responsible for international compliance** as part of the BNP Paribas Group's financing and investment division.

She is also a director on the Boards of Directors and Supervisory Boards at Rémy-Cointreau and Veolia Eau and a Group Captain in the French Air Force Reserve.

APPOINTMENTS AND OTHER POSITIONS HELD IN COMPANIES IN FRANCE AND ABROAD

Appointments held:

In France: director at Rémy-Cointreau⁽¹⁾ and Veolia Eau

Abroad: none.

Other positions held by MS DYÈVRE in the last five years:

In France and abroad: none.

CHARLES EDELSTENNE

(77)

Director proposed by the Industrial Partner

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. Between 2000 and 2012, he was the 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⁽¹⁾, Chief Executive Officer and member of the Supervisory Board of Groupe Industriel Marcel Dassault SAS, Honorary Chairman of Dassault Aviation SA⁽¹⁾, director at Dassault Aviation SA⁽¹⁾, Carrefour SA⁽¹⁾ 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⁽¹⁾ (Belgium) and Dassault Falcon Jet Corp (USA).

Other positions held by MR EDELSTENNE in the last five years:

In France: Chairman & Chief Executive Officer of Dassault Aviation SA⁽¹⁾, Chairman of Gifas and Cidef.

Abroad: Chairman of Dassault Falcon Jet (USA), Chairman of Dassault International Inc. (USA).

⁽¹⁾ Listed company.

YANNICK D'ESCATHA

(67)

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 the *École des Mines de Paris*.

In 1972, he lectured 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 electro-nuclear 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 Space Research Center (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: Member of the *Académie des technologies* (the National Academy of Technologies of France).

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 University of Technology of Troyes, member of the Board of Directors of EDF⁽¹⁾, 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

(62)

Director representing employee shareholders**Member of the Strategic Committee**

First appointed: 8 March 2007, effective 1 April 2007, ratified by the Annual General Meeting of 16 May 2007.

Current term expires: 2017 OGM.

Number of shares held: 2,847 Thales shares.

CAREER

Born on 3 December 1953, Philippe Lépinay is a French citizen and a graduate engineer of the Institut de Marketing International, Université Paris VII. Between 1977 and 1986, he held a variety of sales and marketing roles with the Appalette & Tourtellier Systèmes, Radiall and Sopema groups. 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 Profit-sharing, Incentives, Savings and Employee Shareholding (COPIESAS).

Abroad: none.

Other positions held by MR LÉPINAY in the last five years:

In France and abroad: none.

LOÏK SEGALEN

(55)

Director representing the Industrial Partner**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, Loïc Segalen is a French citizen and a graduate of the *École Centrale de Lyon* and ESSEC. He started his career in 1986 in the Finance Department of Dassault International.

Financial advisor to Dassault Aviation's Vice President for Economic and Financial Affairs in 1990, he subsequently became Deputy Director (1998-1999), then Director.

In January 2009, Loïc Segalen was appointed Vice President for Economic and Financial Affairs at Dassault Aviation. He 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.

Chevalier of *Ordre National du Mérite* and of *Légion d'Honneur*.

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 Inc. (USA) Inc., Dassault Procurement Services (USA), Midway (USA), SABCA⁽¹⁾, 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⁽¹⁾ on the Board of Corse Composites Aéronautiques.

Abroad: none.

ANNE-CLAIRE TAITTINGER

(66)

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, Anne-Claire Taittinger is a French citizen and a graduate of the *Institut d'Études Politiques de Paris*, and holds a Master's degree in Urban Sociology, a DESS in Urbanism and Planning and an MBA from 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, Sevran, Les Ulis and Lyon (1976-1979).

She joined the Groupe du Louvre in 1979 as Company Secretary, then became Chairwoman & Chief Executive Officer of the Compagnie Financière Deville. She was subsequently Chairwoman & Chief Executive Officer of the Compagnie Financière Leblanc, ELM-Leblanc, Vice Chairwoman & Chief Executive Officer of the Industrial 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 when the functions of Chairwoman of the Board and Chief Executive Officer were separated. 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 at Carrefour⁽¹⁾, Chairman of SAS Le Riffay.

Abroad: none.

Other positions held by MS TAITTINGER in the last five years:

In France: Until October 2013: director at FinanCités, the IFA (French Institute of Directors) and the PlanetFinance Foundation; member of the Supervisory Board of Planet Finance. Until May 2014: director at Club Méditerranée⁽¹⁾.

Abroad: none.

⁽¹⁾ Listed company.

ANN TAYLOR

(68)

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, Ann Taylor is a UK citizen and 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 "Constitution 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⁽¹⁾, sit on the council of Bradford University.**Other positions held by BARONESS TAYLOR in the last five years:****In France and abroad:** none.**ÉRIC TRAPPIER**

(55)

Director proposed by the Industrial Partner**Member of the Governance and Compensation Committee****First appointed:** 19 May 2009.**Current term expires:** 2018 OGM.**Number of shares held:** 500 Thales shares.**CAREER**

Born on 1 June 1960, Eric Trappier is a French citizen and 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 and head of military exports in 2001, he became Deputy Chief Executive Officer (International) in 2002, then Chief Executive Officer (International) in 2006. He was appointed **Chairman & Chief Executive Officer of Dassault Aviation** in January 2013. He is chevalier of the French National Order of Merit and officer of 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⁽¹⁾, first Vice Chairman of Gifas, Chairman of the Defence Committee of the ASD, Chairman of the Defence Committee of Cidef/Gifas, director at Sogitec Industries.**Abroad:** Chairman of Dassault Falcon Jet (USA), director and Chairman at Dassault International Inc. (USA).**Other positions held by MR TRAPPIER in the last five years:****In France:** Managing Director at Rafale International EIG and Dassault International, Permanent Representative of Dassault Aviation on the Boards of Sofresa, Odas, Sofema and Eurotradia.**Abroad:** none.

(1) A Thales group company.

MARTIN VIAL

(61)

Director proposed by the Public Sector, state representative

First appointed: 17 September 2015.

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

A French national born on 8 February 1954, Martin Vial has a degree from ESSEC Business School and the *École Nationale Supérieure des Postes et Télécommunications* (French Higher National School of Post Offices and Telecommunications).

After starting his career as a director at PTT, the former French public administrator of post offices, telegraphs and telephones, in the Finance Department responsible for the postal service, in 1986, he joined the French Treasury Department, where he held supervisory responsibility for banks and marketing operations. In 1988, he was appointed to the office of the French Minister of Post Offices, Telecommunications and Space as a technical advisor, then deputy director, where he was responsible for the institutional reform of the French postal service, La Poste, and French telecoms operator France Télécom.

From 1991 to 1993, he became deputy director then director of the office of the Minister of Public Amenities, Housing, Transport and Space, and was then appointed as director of the office of the Minister of Post Offices, Telegraphs and Telephones. In 1993, Mr Vial was appointed as Chairman and Chief Executive Officer of Aéropostale, an aerospace company operating as a joint subsidiary of Air France, La Poste and TAT. In 1996, he was elected as Chairman of the French Air Transport Trade Union Association (*Chambre syndicale du transport aérien – CSTA*) and the National Federation of Commercial Aviation (*Fédération nationale de l'aviation Marchande – FNAM*).

In late 1997, he became Chief Executive Officer of the La Poste group. In December 2000, he was appointed as Chairman of the La Poste group.

He is also Vice Chairman of the French National Provident Fund (*Caisse nationale de prévoyance – CNP*), a member of the French Economic and Social Council (*Conseil économique et social*) and a member of the Strategic Council on Information Technology (*Conseil stratégique des technologies de l'information*) under the authority of the French Prime Minister. In September 2002, Mr Vial joined the French Court of Auditors (*Cour des comptes*) as a chief auditor.

From 2003 to 2014, he served as Chief Executive Officer of the Europ Assistance Group, a world leader in the care services market with 44 subsidiaries in 33 countries, and as director/Chief Executive Officer of Europ Assistance Holding. He also chairs several Boards of Directors of the group's companies.

In January 2015, he founded Premium Care, a technology-driven company providing care for older people and delivering a complete remote and home care service.

On 24 August 2015, Mr Vial was appointed as **Commissioner for Government Shareholdings and Chief Executive Officer at the French Government Shareholdings Agency (*Agence des Participations de l'Etat*)**.

APPOINTMENTS AND OTHER POSITIONS HELD IN COMPANIES IN FRANCE AND ABROAD

Appointments held:

In France: director at EDF⁽¹⁾, Renault⁽¹⁾ and BPIfrance

Abroad: none

Other positions held by MR VIAL in the last five years:

In France: Chairman of Europ Assistance France, director and Chief Executive Officer at Europ Assistance Holding, director at Homair vacances and Business Solutions Capital.

Abroad: Chairman of CSA and Europ Assistance Brazil, Belgium, UK and USA, director at Europ Assistance South Africa, Germany, China, Spain, Italy and Portugal.

(1) Listed company.

MARIE-FRANÇOISE WALBAUM

(65)

Director representing the Industrial Partner

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 at Esso⁽¹⁾ (and Chairwoman of the Audit Committee), FFP⁽¹⁾ (and member of the Audit Committee and Investment and Shareholdings Committee), Imerys⁽¹⁾ (and member of the Audit Committee). Non-voting director at Isatis Capital.

Abroad: none.

Other positions held by MS WALBAUM in the last five years:

In France: Director at Vigeo.

Abroad: none.

Elected by employees**DOMINIQUE FLOCH**

(57)

Director elected by employees**Member of the Governance and Compensation Committee****Member of the Strategic Committee****First appointed:** 19 January 2008.**Current term expires:** 8 December 2016.**Number of shares held:** 500 Thales shares.**CAREER**

Born on 10 August 1958, a French citizen, Dominique Floch began his career in 1978 at a Thales subsidiary in Brest (Thales Systèmes Aéroportés), 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**

(58)

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 gaining 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 with a Thales subsidiary in Saint-Egrève (Thales Electron Devices) as a 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, 50 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 accordance with decree no. 97-190 of 4 March 1997 concerning the French State's golden share (see page 175 and pursuant to Article 10 of the Company's Articles of Association).

GOVERNMENT COMMISSIONER

Paul Fouilland, 60 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, 63 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 2015 financial year:

- **Ernst & Young Audit**, represented by Philippe Diu, partner;
- **Mazars**, represented by Jean-Marc Deslandes, partner.

3.2 Chairman's report to the General Meeting of 18 May 2016 on corporate governance, internal control and risk management

Based on the recommendation of the two committees concerned⁽¹⁾, the Board of Directors approved, at its meeting on 22 February 2016, 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 18 May 2016.

3.2.1 CORPORATE GOVERNANCE

Under the law of 3 July 2008 transposing Directive no. 2006/46/EC, in 2008 the Company decided to refer voluntarily, when preparing the Chairman's report, to the Corporate Governance Code for Listed Companies published by the AFEP and MEDEF, which was updated most recently in November 2015.

The AFEP-MEDEF Code is available on the MEDEF website (medef.com), and on the AFEP website (afep.com).

Application of the "comply or explain" rule

The Company complies with the recommendations contained in the AFEP-MEDEF Code as revised in November 2015, except for those concerning:

Heading	AFEP-MEDEF	Thales 22/02/2016	Explanation
A. Independent directors (ratios):			
➤ Board of Directors	1/3 (controlled companies)	31%	The terms of the shareholders' agreement (see below) do not allow compliance with the ratios of the AFEP-MEDEF Code.
➤ Audit and Accounts Committee	2/3	1/3	
➤ Governance and Compensation Committee	1/2	1/3	

3.2.1.1 MEMBERS OF AND PROCEDURES FOR THE ORGANISATION AND FUNCTIONING OF THE BOARD OF DIRECTORS

Restatement of the rules of the shareholders' agreement and composition of the Board of Directors

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 Financial Markets Authority), as of 31 December 2015, the Board of Directors is composed of 16 directors, 14 of whom are appointed by the General Meeting and 2 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 the Articles of Association (Article 10).

Of the 14 directors appointed by the General Meeting, 4 are "external directors" selected jointly by the Public Sector and Dassault Aviation, 1 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.

Directors at 31 December 2015	Positions currently held		
	1 st appointment	Starts	Ends
Appointed by the Annual General Meeting (14)			
Proposed by the Public Sector (5)			
➤ Patrice Caine, Chief Executive Officer	23/12/2014	23/12/2014	2018 OGM
➤ Thierry Aulagnon	23/07/2015	24/07/2015	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
➤ Martin Vial (representative of the French State)	17/09/2015	17/09/2015	2016 OGM

(1) The Governance and Compensation Committee in respect of corporate governance, the Audit and Accounts Committee in respect of internal control and risk management.

Directors at 31 December 2015	Positions currently held		
	1 st appointment	Starts	Ends
Proposed by the Industrial Partner (Dassault Aviation) (4)			
➤ Charles Edelstenne	19/05/2009	14/05/2014	2018 OGM
➤ Loïk Segalen	19/05/2009	15/05/2012	2018 OGM
➤ Éric Trappier	19/05/2009	15/05/2012	2018 OGM
➤ Marie-Françoise Walbaum	17/09/2013	14/05/2014	2018 OGM
Representative of employee shareholders (1)			
➤ Philippe Lépinay	01/04/2007	18/05/2011	2017 OGM
External directors (4)			
➤ Guylaine Dyèvre	13/05/2015	13/05/2015	2019 OGM
➤ Yannick d'Escatha	19/05/2009	20/05/2010	2016 OGM
➤ Anne-Claire Taittinger	15/05/2012	15/05/2012	2018 OGM
➤ Ann Taylor	15/05/2012	15/05/2012	2018 OGM
Elected by employees (2)			
➤ 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 held by the members of the Board of Directors are listed in the biography for each director, which can be found in Section 3.1 of this registration document (pages 132 to 139). As recommended by the AMF, the biography identifies any positions held in Group companies and in other publicly traded companies.

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.

At the end of 2015, the average age of the directors was 60.5 years. At 31 December 2015, in the absence of a specific provision in the Articles of Association, the age of the directors was governed by common law:

- the number of directors over the age of 70 may not exceed one-third of the directors in office, in accordance with Article L.225-29 of the French Commercial Code;
- the age limit for the Chairman is 65, in accordance with Article L.225-48 of the French Commercial Code.

Conditions of governance

Upon the appointment of Mr Patrice Caine as Chairman & Chief Executive Officer by the Board on 23 December 2014, the Company announced its intention to separate the roles of Chairman of the Board and Chief Executive Officer from the date of the next General Meeting.

At the Board meeting held on 13 May 2015, the day of the General Meeting, it was decided to confirm Mr Patrice Caine's position as Chairman & Chief Executive Officer.

The Board of Directors ruled that the absence of separation does not affect the active and efficient exercise of its monitoring and supervisory functions, considering that the responsibilities of the Board of Directors, the role of each of its committees, and the limits applying to the powers of the Chairman and Chief Executive Officer are clearly established (see the extract from Section II of the Board's rules of procedure and Section 3.2.1.5 below).

Increase in the number of women on the Board of directors

The objectives set by the AFEP-MEDEF Code regarding gender representation, and those set by French Law no. 2011-103 of 27 January 2011 on gender balance on corporate boards of directors and the monitoring of professional equality are the same, but with a separation of one year. As such, a Board with 16 members must include 6 women (not including the elected employee representative) in order to achieve the quota of 40% at the end of the 2016 meeting (as provided for by the AFEP-MEDEF Code) or the end of the 2017 meeting (as provided for by the law).

On 31 December 2015, 5 out of 14 directors appointed by the General Meeting (i.e. slightly less than 36% of the Board of Directors) were women, as specified in the table above.

Independence of directors

According to the rules of procedure, the Board of Directors, on the recommendation of the Governance and Compensation Committee, has examined the situation of each of its members with reference to the definition of and criteria for independent directors, as defined by the AFEP-MEDEF Code.

Based on the recommendation of the Governance and Compensation 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 either a public sector or industrial partner shareholder, or a category of shareholders (employees), or directors elected by employees, cannot be considered independent within the meaning of the AFEP-MEDEF Code.

After examining the situation of the four "external directors", based in particular on the responses to a detailed questionnaire which they were asked to complete and which covered all the independence criteria defined by the AFEP-MEDEF Code, the Board decided, on the recommendation of the Governance and Compensation Committee, to appoint Guylaine Dyèvre, Anne-Claire Taittinger, Ann Taylor and Yannick d'Escatha as independent directors.

As of 22 February 2016, the Board of Directors had four independent directors, or 31% of its members (excluding employees and the employee representative, as stipulated by the AFEP-MEDEF Code). The proportion is however slightly less than the one-third recommended for controlled companies.

Internal rules for the Board of Directors and its committees

The Board's rules of procedure, 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 include best practice in respect of corporate governance, particularly those contained in the aforementioned AFEP-MEDEF Code. The Governance and Compensation Committee is in charge of periodic updates and of sending the Board the revisions that it deems necessary.

The Board's rules of procedure are divided into five sections:

I) Members of the Board of Directors (Board membership, independence, availability, primary duty, transparency, confidentiality and compensation)

The rules of procedure stipulate that:

- the members of the Board of Directors must inform the Chairman of all management or administrative positions that they hold;
- each company representative must obtain the opinion of the Board before accepting a new corporate office in a listed company;
- Directors must inform the Board of any situation of conflict of interest, even potential, and should, in such cases, refrain from voting on the corresponding matter.

Directors must also inform the Chairman of any proposed agreement involving them directly or indirectly which may, pursuant to the French Commercial Code, need to receive the prior authorisation of the Board of Directors.

In addition, the directors have individually issued a statement regarding the following points:

- 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 private interests of each of the Board members and their duties with regard to Thales.

II) Powers of the Board of Directors (representation and corporate interests, specific powers and shareholders' agreement)

The annual budget, the 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 €150 million, 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 approved by the majority of directors representing the Industrial Partner (Dassault Aviation).

Any transactions exceeding €50 million 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 on the Company, its organisational structure and its 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 and Compensation 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 corporate management for any additional information that it deems necessary for the performance of its duties, and may, in exceptional cases, ask the Board of Directors to hire external consultants. This option was not exercised in 2015.

V) Functioning of the Board of Directors (meetings, attendance and representation, annual assessment and updating the rules of procedure)

This chapter is covered in the minutes of the board's activities required by law. It can be found in the Section 3.2.1.2 below.

Prevention of insider trading

In order to take into account the recommendations contained in the AMF guide, Thales has implemented a 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 of 15 days each have been introduced for quarterly reporting (first and third quarters). 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 Company Secretary or the Group General Counsel prior to dealing in any shares. However, this prior consultation is not compulsory.

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.

All documentation is provided on Thales's website (www.thalesgroup.com) at least 21 days prior to the meeting. 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 of the French Commercial Code with regard to the information required under Article L.225-100-3 of the French Commercial Code, it should be noted that the two major shareholders, who together hold the majority of the 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.

Compensation and benefits of all types granted to directors

Compensation for attendance at Board meetings

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 compensation 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 compensation of €14,000 per annum (prorated in the event of appointment or resignation during the year), subject to the maximum ceiling on variable compensation, and variable compensation based on attendance at meetings amounting to €2,500 per meeting;
- for services to the committees, compensation (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 compensation 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' compensation will be duly reduced in order to remain within the annual budget approved by the shareholders. For 2015, the fixed component was thus reduced to €10,750 for the full year.

Non-voting members receive €2,500 per Board meeting, i.e. the same variable compensation as directors, but excluding any fixed compensation. Since 18 May 2009, there have no longer been non-voting members on Thales's Board of directors.

For 2015, the attendance fees due (gross amount before any deduction or levy) total €599,793 (compared with €598,090 for 2014); partial payment was made in July 2015, with the balance being settled in January 2016. Of the total of €599,793, the variable component is largely predominant, as recommended by the AFEP-MEDEF Code, and reached €428,000 (about 71% of the total).

As an illustration, the gross amount (before any deduction or levy) paid during 2015 (excluding any waiver) totalled €606,840 (compared with €631,250 in 2014). 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 – Directors) give details of names (see Section 3.4, pages 157 and 158).

Compensation policy for the Chairman & Chief Executive Officer

The compensation 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 and Compensation Committee. As for directors of the Group, 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 AFEP-MEDEF Code on compensation (see AMF Table 2):

- fixed compensation remaining unchanged over a period of at least three years;
- permanence of the quantitative criteria for variable compensation.

The Board of Directors decided that in 2015, Patrice Caine, in his capacity as company representative, would not be granted stock options (the Company abandoned the system in 2012), performance shares, or fees for attendance at Board meetings. 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 Section 3.4.2.1 of the registration document).

The ten tables recommended by the AMF are contained in Section 3.4.2 of the registration document. They provide all the information regarding the compensation of the Chairman & Chief Executive Officer, which meets the recommendations of the revised AFEP-MEDEF Code.

Summary of director share dealing in 2015

The summary statement (provided for in Article 223-26 of the AMF General Regulations) of share dealing in 2015 by persons required to file a declaration (directors, non-voting directors, members of the Executive Committee and related persons) can be found in Section 4.3.3.7 (pages 182 and 183) of the registration document.

3.2.1.2 MINUTES OF THE BOARD'S ACTIVITIES DURING 2015

Number/duration of meetings and attendance rate

The Board of Directors met nine times in 2015. The average attendance rate by directors was 96%. One meeting was held away from the registered 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 and Accounts Committee is presented.

Key topics covered

In addition to recurring items within the remit of the Board of Directors (annual budget and update of forecasts, strategic plan, preparation of annual consolidated and corporate financial statements, review of the

consolidated half-year financial statements, calculation of the Chairman & Chief Executive Officer's compensation and indication of the quantitative and qualitative criteria for his variable compensation, 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 2015, in some cases with reports from the relevant Board committee:

- the monitoring of strategic decisions and sensitive files, the review of current M&A projects;
- the selection of a statutory auditor;
- the revision of the rules of procedure for the Board and its committees;
- 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);
- the annual assessment of the Board's performance;
- R&T and major technological trends;
- presentation of anti-corruption procedures within the Group.

3.2.1.3 PREPARATORY WORK FOR BOARD MEETINGS

Information for directors

Board documents

A provisional timetable for meetings is drafted halfway through the year for the following year.

The Board's rules of procedure have set the minimum period for the notice of meeting and provision 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 the documents cannot be completed at the time of dispatch) and the draft minutes of the previous meeting, usually sent out within one month of 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.

Since 2015, the prior sending of documents by email, which can be accessed on dedicated secure tablets, has enabled the timeframe for provision to be optimised; the documents are then sent out in paper form.

Additional training

In accordance with the Board's rules of procedure, directors may ask to receive additional training.

Organisation and operation of Board committees

The Board of Directors has three committees: an Audit and Accounts Committee, a Governance and Compensation Committee and a Strategic Committee.

Audit and 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 and 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 programme of work 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 the 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 Audit, Risks & Internal Control Department (DARCI). 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 problems encountered."

In addition, since 2010, in accordance with the final AMF audit committee report of 22 July 2010, committee members have been able to have a discussion with the statutory auditors at the end of each meeting without Thales representatives being present.

On 31 December 2015, the members of the committee were:

- Anne-Claire Taittinger, Chair and independent director;
- Thierry Aulagnon;
- Martine Saunier;
- Loïc Segalen.

The composition of the Audit and Accounts Committee is consistent with the Executive Order of 8 December 2008: the committee members are all directors, and one director, the Chair of the Committee, in addition to being classified as an independent director, has the requisite financial and accounting expertise (see biography of Anne-Claire Taittinger on page 136).

Nevertheless, independent directors make up only one-third of the committee's membership 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 of each of the two shareholders in the agreement must sit on each committee.

The committee met six times in 2015, with an 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, the Group secretary and the 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 2015 the committee also reviewed:

- the execution of difficult contracts and their accounting implications;
- the follow-up of the main disputes;
- the external audit plan and statutory auditors' fees;
- the organisation of internal control, updates to the risk mapping and assessment of the implementation of the 2014 audit plan;
- the implementation of the 2015 audit plan and feedback on the most critical audit findings;
- the IT system security plan;
- the internal audit plan for 2016, in late 2015;
- 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, which led to a recommendation being made to the Board and an appointment at the General Meeting of 13 May 2015;
- as well as the section of the Chairman's report covering 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 2015 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 included in the section of the registration document on "Risk factors" (Section 1.1.2 of the Management Report, page 14 and illegible).

The committee has also been involved in the preparation of the press release 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 working group report on audit committees 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 Compensation Committee

In compliance with section 17 of the Board's rules of procedure, the Governance and Compensation Committee has the task of examining:

- the compensation policy for the Company's senior executives;
- the compensation of the Chairman & Chief Executive Officer and any regulated commitment concerning him, the compensation of the directors (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 whom 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 the 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 below) and reporting on it 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 2015, the members of the committee were:

- Yannick d'Escatha, Chairman and independent director;
- Dominique Floch;
- Éric Trappier;
- Martin Vial.

It met five times in 2015, 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 2015 included:

- the Group's long-term incentive (LTI) policy and the preparation of a phantom stock plan with performance conditions according to the level of responsibility of the beneficiaries;
- the examination of the compensation package for the Chairman & Chief Executive Officer, and in particular the qualitative criteria applicable for his variable compensation;
- corporate social responsibility and the NRE (French New Economic Regulations) social report;
- the independence of the directors;
- the terms for the annual assessment of the performance of the Board of Directors and the related 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 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 €150 million), as well as proposed strategic agreements or partnerships.

On 31 December 2015, the members of the committee were:

- Patrice Caine, Chairman;
- Charles Edelstenne;
- Dominique Floch;
- Philippe Lépinay;
- Martin Vial.

No independence criterion is imposed for directors on this type of committee by the AFEP-MEDEF Code or by the law.

The committee met four times in 2015, with a 100% attendance rate, mainly to examine the 2015 budget, to follow up on strategic decisions, and to review various M&A projects and the strategic plan, as well as to prepare for the annual strategy seminar.

In 2015, the Senior Executive Vice President of Finance and Information Systems, the Company Secretary, the Senior Executive Vice President of Operations & Performance 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.

3.2.2 INTERNAL CONTROL AND RISK MANAGEMENT

This Section was submitted to the Audit and Accounts Committee at its meeting of 11 February 2016, attended by the statutory auditors. It was prepared on the basis of the main conclusions from the internal audit, internal control and risk management work carried out by the Group in 2015. 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 and 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 Department has submitted voluntarily to certification by IFACI⁽¹⁾, which ensures that its practices comply with the international standards of the profession. This certification has been regularly confirmed by the IFACI through renewal audits (2013)

3.2.1.4 ASSESSMENT OF THE BOARD'S PERFORMANCE

As recommended by the AFEP-MEDEF Code and pursuant to the Board's rules of procedure, one item on the Board meeting agenda each year is devoted to a discussion about its performance.

At the end of 2015, as in the previous year, the Company Secretary conducted individual interviews with each director to carry out an in-depth assessment using an internal questionnaire (updated with new sections in 2015), as recommended by the Governance and Compensation Committee.

From this assessment, it emerged that Thales directors consider that the Board performs satisfactorily on the whole, and generally at the same level year-on-year.

The Board decided that the recommendations from the questionnaires and interviews were beneficial and should be taken into account, particularly as regards the organisation of an annual strategic seminar modelled on the session arranged in July 2015 to the Board's satisfaction, the monitoring of Board decisions (especially regarding acquisitions), regular monitoring of the progress of business and important topics, as well as organizing additional site visits if necessary, regardless of any meeting of the Board of Directors.

3.2.1.5 RESTRICTIONS TO THE CHIEF EXECUTIVE OFFICER'S POWERS

Since 23 December 2014, Patrice Caine has served as Chairman & Chief Executive Officer with no limitation of powers other than those stipulated in the applicable legislation, with respect to the specific powers of the Board of Directors or the Annual General Meeting.

As stipulated in Section 3.2.1.1 above, the policy is for automatic submission for Board approval of any acquisitions or disposals exceeding €150 million, as are any non-strategic transactions that exceed €50 million. This practice effectively limits the powers of the Chief Executive Officer.

or surveillance audits (2014, 2015). In February 2016, a new audit conducted by the IFACI proposed that this certification be renewed for three years.

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.

(1) Institut Français de l'Audit et du Contrôle Interne (French Institute of Auditing and Internal Control).

➤ **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 action with the values of the Group**

The Group's approach to risk management is consistent with its values, particularly with regard to the strict compliance of its business activities with national and international rules and legislation.

➤ **Involve the Group's employees in 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 it contributes to the preparation of the published accounting and financial information;
- 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 control environment.

a) The main parties in risk management and internal control

Thales is organised according to a two-dimensional matrix structure comprising Global Business Units and countries.

- The Global Business Units are organised into business lines, which cover a coherent range of products, solutions and services.

For the products, solutions and services entrusted to them, the business lines have worldwide responsibility 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 main countries in which the Group operates 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 with regard to 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.

The Country Manager of each of the six major industrial countries (excluding France) in which the Group operates (see list below) reports to a Non-Executive Chairman, appointed from among the Group's senior executives. 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:

- **major industrial countries in which the Group operates:** 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;
- a risk insurance 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 unit, each Global Business Unit 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 time of the annual and interim financial statements, the Chief Executive Officers and their Finance Directors issue a letter of representation 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 Department, as well as the legal representatives in the various countries, provide support to the 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 Group's 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.

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, to ensure that systems, equipment and services best meet customers' requirements.

b) Thales's operating principles and procedures

Thales's 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, making it easy to locate the policies, procedures, instructions, templates 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 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 business activity.

Chorus 2.0 is a crucial element of the Group's internal control and is a natural component of the reference systems used in the work of the Audit, Risks & Internal Control Department.

Rules of procedure of the Board of Directors

Section 3.2.1 of this corporate governance report, page 141 provides more details on the Board of Directors, its rules of procedure and its operation.

Codes and guides for conduct

The Code of Ethics, published in eight languages, forms the basis of Thales's culture of integrity. It sets out the rules of conduct and the values which the Group wants to develop. It covers relationships with customers and suppliers, co-workers, shareholders and financial markets, as well as protection of the environment.

A business ethics reference guide is dedicated to prevention of corruption. It describes the rules and regulations that must be respected internally.

Several business ethics conduct guides present the best practices expected from employees with regard to anti-corruption measures, gifts and hospitality, conflicts of interest, lobbying and the use of the professional whistleblowing system.

A registration document entitled "Compliance with export control regulations" describes the compliance requirements and the process of export control. It identifies stakeholders, defines their responsibilities, and sets out best practices in terms of compliance with export control regulations.

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).

An online training (e-learning) platform also helps to educate the Group's employees on topics such as export controls, 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 department may have involvement throughout the Group (Thales parent company and its controlled subsidiaries) as well as with its non-controlled subsidiaries, with the agreement of the internal audit departments of the partner groups. Its scope of involvement covers all areas and processes (governance, administrative, accounting and financial, functional and operational, etc.).

c) Group risk mapping

The Group has mapped its major operational, strategic, compliance and financial risks.

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 2015, the Audit, Risks & Internal Control Department, in association with the Group's risk advisers, updated the risk mapping in order to reflect changes in its analyses and assessments, as well as in the Group's environment.

The Group has assigned each of these risks to a risk advisor who is responsible for 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 (pages 14 to 24) describes the measures taken by the Group to address operational, strategic, legal and compliance and financial risks 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 acquisitions and disposals come under the exclusive remit of the Group's corporate management. The Global Business Units propose

projects at periodic meetings of the Mergers and 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 (using the cash pooling – zero balancing system). Financial agreements have been established with all Group companies involved in order to 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 against foreign exchange risk as soon as the likelihood 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 €10 million 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 the Group's Insurance and Risk Management department, which 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 has the expertise and appropriate procedures to drive these operations in compliance with the applicable laws and regulations. Thales International and 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 corporate 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 Group 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, corporate management sets targets for the Global Business Units, the main countries and for the Europe and International Operations Department and the International Development Department, ensuring that they are consistent overall. 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 from 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: the use of 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 handling 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 business 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 2015, the Group's risk mapping process identified and measured the potential frequency and impact of 61 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 (YAL: Yearly Attestation Letter). 116 YAL questionnaires were completed by the Group's business units in 2015. The responses 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, an internal control questionnaire (ICQ) based on internal control objectives linked to the Group's processes and accounting cycles (customers/suppliers/fixed 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". After reviewing the ICQ questionnaire

with the statutory auditors in 2014, in the past year it has been partly integrated into the yearly attestation letter mentioned above with a view to implementing an integrated approach to internal control within the Group's operational units for all operational risk, compliance and financial risks.

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 and Accounts Committee

Each year, the Audit, Risks & Internal Control Department submits an audit plan to the Audit and 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 2015, this committee met six times.

At the time of the annual closing of the accounts, the Senior Executive Vice President, Finance and Information Systems presented a report on risk exposure and significant off-balance sheet commitments to the Audit and Accounts Committee.

The Risk Management Committee

This committee, chaired by the Chairman & Chief Executive Officer, is responsible for 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 is as comprehensive as possible in order to maximise risk mitigation. It is supported by the work of the Risk Assessment Committee. In 2015, this committee met on 10 June.

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 2015, the Risk Assessment Committee met six times.

Ethics & Corporate Responsibility Committee

Thales has an Ethics & Corporate Responsibility Committee. This committee, chaired by the Group Secretary, is composed of representatives of the functional departments and the main countries in which the Group is based. Its tasks are focused on three areas:

- contributing to determining Thales's policy on Ethics and Corporate Responsibility; providing guidance on standards and procedures relating to trade, environmental, employment and social issues;

- ensuring the development of the Code of Ethics and its implementation within the Company; defining training objectives and appropriate communications; coordinating and monitoring the Country Ethics Committees and Ethics Officers;
- addressing the ethical issues that are submitted to it; conducting, where required, any relevant investigations and proposing possible actions/ appropriate sanctions to management.

In 2015, this committee met three times.

The Ethics and Corporate Responsibility Department implements the ethics and corporate responsibility measures defined by this committee and coordinates Group players in this area.

Group Internal Audit, Risks & Internal Control Department

Reporting to the Group General Secretary, the Audit, Risks & Internal Control Department principally works with the Audit and Accounts Committee, the Risk Management Committee, the Risk Assessment Committee, Group management and the statutory auditors.

It ensures proper risk management and the maintenance of adequate internal control by conducting audits throughout the Group.

In 2015, 82 audits or advisory tasks, arising from the Group's risk analysis and planned according to the criteria set out and approved by the Audit and Accounts Committee, were conducted by teams from the Audit, Risks

& Internal Control Department. These tasks focussed on the following themes:

- Operations: bids and projects, product policy, engineering and industry;
- Compliance: ethics, export control, security of information systems, business continuity plans;
- Governance: organisation, shared services, joint ventures, monitoring of acquisition and divestment transactions;
- Internal control: auditing the accuracy of YAL and ICQ questionnaires.

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 Group management as part of the closure of the accounts at 31 December, and the main recommendations are presented to the Audit and 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.

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 December 31, 2015.

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 provide other information required by article L. 225-37 of the French commercial code (*Code de commerce*) relating to matters such as corporate governance.

Our role is to:

- report on any matters as to the information contained in the chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information, and
- confirm that this report includes the other information required by article L. 225-37 of the French commercial code (*Code de commerce*). It should be noted that our role is not to verify the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

INFORMATION ON THE INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF THE ACCOUNTING AND FINANCIAL INFORMATION

The professional standards require that we perform the necessary procedures to assess the fairness of the information contained in the chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. Those procedures consist in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information presented in the chairman's report, and of the existing documentation;
- obtaining an understanding of the work performed in the preparation of this information and of the existing documentation;

- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our work are properly disclosed in the chairman's report.

On the basis of our work, we have no matters to report on the information relating to the company's internal control and risk management procedures relating to the preparation and processing of the accounting and financial information contained in the report prepared by the chairman of the board of directors in accordance with article L. 225-37 of the French commercial code (*Code de commerce*).

OTHER INFORMATION

We confirm that the report prepared by the chairman of the board of directors also contains the other information required by article L. 225-37 of the French commercial code (*Code de commerce*).

Courbevoie and Paris-La Défense, February 22, 2016

The statutory auditors

French original signed by

MAZARS

Jean-Marc Deslandes
Anne-Laure Rousselou

ERNST & YOUNG Audit

Philippe Diu
Serge Pottiez

3.4 Corporate management

3.4.1 EXECUTIVE COMMITTEE AT 31 MARCH 2016

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 31 March 2016, the members of the Executive Committee were as follows:

- Patrice Caine, Chairman & Chief Executive Officer;
- Pascal Bouchiat, Senior Executive Vice President, Finance and Information Systems;
- Michel Mathieu, Senior Executive Vice President, Operations & Performance;
- Isabelle Simon, Group Secretary;
- Pascale Sourisse, Senior Executive Vice President, International Development;
- David Tournadre, Senior Executive Vice President, Human Resources;
- Philippe Keryer⁽¹⁾, 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 SENIOR CORPORATE OFFICERS

3.4.2.1 COMPENSATION POLICY FOR THE CHAIRMAN & CHIEF EXECUTIVE OFFICER, THALES'S ONLY SENIOR COMPANY REPRESENTATIVE, IN 2015

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.

For the 2015 financial year, in its meeting on 25 February 2015, the Board of Directors set the fixed compensation for the Chairman & Chief Executive Officer at €440,000 and the target variable compensation at €400,000, with a maximum of €600,000. The criteria for determining the variable compensation are set at an overall level of 75% quantitative and 25% qualitative.

The financial indicators for the quantitative objectives in 2015 are as follows:

- 22.50% based on adjusted net income per share;
- 22.50% based on EBIT;
- 15% based on order intake;
- 15% based on free operating cash flow.

These indicators are defined in Note 14-a to the consolidated financial statements. The calculations of adjusted net income per share, EBIT and order intake are set out in Notes 2.1 and 2.2. The calculation of free operating cash flow is shown in Note 11.1.

For the first three financial indicators, the trigger range for payment of the variable compensation is between 90% and 120% of the budgeted target, namely:

- if the indicator for the period is 90% or less of the budgeted target, no payment is due;
- if the indicator for the period is equal to the budgeted target, the amount paid is equal to the target;

- if the indicator for the period exceeds the budgeted target, an amount exceeding the target is paid with a maximum of 166% of target being paid if the outperformance achieves or surpasses 120% of target.

The amount paid is the result of a straight-line calculation between €0 and target or between target and the maximum.

For the final indicator, free operating cash flow, the level attained is set between a minimum – defined as the budgeted target less 2% of budgeted revenues – and a maximum, which equates to the budgeted target plus 2% of total budgeted sales indicator.

- If the indicator for the period is less than or equal to the minimum amount, no payment is due;
- if the indicator for the period is equal to the budgeted target, the amount paid is equal to the target;
- if the indicator for the period exceeds the budgeted target, an amount exceeding the target is paid, with a maximum of 166% of target being paid if the outperformance achieves or surpasses the maximum amount.

The amount payable is evaluated on a straight-line basis between 0% and the target or between the target and the maximum.

The Board decided to adopt the following objectives as qualitative criteria for 2015:

- Competitiveness: accelerating medium-term competitiveness actions of the Ambition Boost performance plan.
- Relations with major customers and profitable growth, particularly through strengthening the Group's international presence.
- Strategy: thorough review of the Group's major strategic options during the annual strategic exercise. Sharing the strategies for the Transport, Space and Naval businesses with the Board of Directors.
- Corporate Social Responsibility: maintaining and extending three objectives to all of the Group's senior executives: promotion of gender equality, support for professional development and promotion of quality of life at work.

(1) Philippe Keryer succeeded Hervé Multon on 27 January 2016.

Mr Patrice Caine, Chairman & Chief Executive Officer since 23 December 2014.

The decisions regarding the structure of compensation payable to Mr Patrice Caine for the 2015 financial year were made during the Board of Directors' meeting on 25 February 2015.

Components of compensation	Board decisions on 25 February 2015	Comments	Due for 2015
Fixed compensation	€440,000	On the recommendation of the Governance and Compensation Committee, the Board of Directors, during its meeting of 25 February 2015, set the fixed and variable compensation for Mr Patrice Caine for the 2015 financial year. If the quantitative targets are exceeded, the variable compensation may be increased to a maximum of €600,000, which would represent total maximum annual compensation (fixed + variable) of €1,040,000 (limited to 166% of target for quantitative criteria and 100% for qualitative criteria). The criteria for setting variable compensation are as follows, based on a weighting determined by the Board of Directors at its meeting on 25 February 2015: ➤ Quantitative criteria representing a total of 75% (see description above). 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 (see description above).	€440,000
Variable compensation	Target: €400,000 Maximum: €600,000		€518,287 €958,287
Total annual compensation	Target: €840,000 Maximum: €1,040,000		
Compensation for attendance at Board meetings		Mr Patrice Caine is not entitled to compensation for attendance at Board meetings.	–
Exceptional compensation	–	None	–
Deferred or multi year variable compensation	–	None	–
Grant of stock options and/or performance shares and/or performance units	–	None	–
Deferred incremental and conditional compensation ^(a)		The Thales company representative is entitled to deferred incremental and conditional compensation, the amount of which is determined on the basis of an identical allocation method to the group 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. 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. This deferred compensation is only deemed to have been acquired on condition that the company representative has carried out a full term in office. This benefit is subject to 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 80% or more for the last three full financial years. The increase in the deferred compensation is subject to a minimum of 10 years' service on the Thales Executive Committee.	€5,097 potential annual deferred compensation Or 1.16% of the fixed compensation
Severance pay ^(a)		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 set at 12 months of his reference salary (fixed and variable compensation paid over the last 12 months of activity).	–

^(a) Regulated commitment (Articles L.225-42-1 and R.225-34-1 of the French Commercial Code).

Components of compensation	Board decisions on 25 February 2015	Comments	Due for 2015
Private unemployment insurance ^(a)		Mr Patrice Caine is entitled to private unemployment insurance subject to fulfilment of the same performance conditions as those envisaged for severance pay.	–
Private healthcare		During his term in office, Mr Patrice Caine is entitled to the private healthcare scheme for French employees and receives an annual health check in common just like other Thales senior executives.	–
Directors' liability insurance		Mr Patrice Caine is covered by directors' liability insurance, including criminal liability.	–
Chauffeur-driven car		Mr Patrice Caine had the use of a chauffeur-driven car for his business travel.	€3,751
Independent legal and tax advice		Mr Patrice Caine benefited from external legal and fiscal assistance.	€52,815

➤ COMPLIANCE WITH THE RECOMMENDATIONS OF THE AFEP-MEDEF CODE

Recommendations of the AFEP-MEDEF Code	Thales provisions for Mr Patrice Caine, company representative since 23 December 2014
Severance pay	
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)	12 months of his reference salary (fixed and variable compensation paid over the last 12 months of activity).
Supplementary pension	
Not applicable ^(b)	

➤ TABLE 1: COMPENSATION, OPTIONS AND SHARES GRANTED TO THE COMPANY REPRESENTATIVE

(€ thousand)	2015	2014
Jean-Bernard Lévy – Chairman & Chief Executive Officer up to 27 November 2014		
Compensation due for the year (detailed in Table 2)	–	782.8
Value of stock options granted during the financial year	–	–
Value of performance shares granted during the financial year	–	–
Philippe Logak – Interim Chairman & Chief Executive Officer from 27 November to 23 December 2014		
Compensation due for the year (detailed in Table 2)	–	59.6
Value of stock options granted during the term of office	–	–
Value of performance shares granted during the term of office	–	–
Patrice Caine – Chairman & Chief Executive Officer from 23 December 2014		
Compensation due for the year (detailed in Table 2)	1,014.9	10.6
Value of stock options granted during the term of office	–	–
Value of performance shares granted during the term of office	–	–
TOTAL	1,014.9	853.0

(a) Regulated commitment (Articles L.225-42-1 and R.225-34-1 of the French Commercial Code).

(b) The deferred incremental and conditional compensation of Thales's representative is an arrangement that is modelled on pension schemes, but which is not governed by Article L.137.11 of the French Social Security Code or Article 23.2.6 of the AFEP/MEDEF Corporate Governance Code. This benefit is not subject to the condition of the recipient serving out the rest of his/her career with the Company. Under this arrangement Thales awards, under conditions relating to seniority in office and performance, deferred compensation paid as an annuity when the beneficiary claims their mandatory pension. The calculation procedures for this deferred compensation, and the corresponding amounts, comply with the principles relating to the compensation of directors as defined by Article 23-1 of the AFEP/MEDEF Governance Code.

➤ TABLE 2: COMPENSATION OF THE COMPANY REPRESENTATIVE

(€ thousand)	2015		2014	
	Due for the financial year	Paid during the financial year	Due for the financial year	Paid during the financial year
Jean-Bernard Lévy – Chairman & Chief Executive Officer up to 27 November 2014				
Fixed compensation	–	-2.8	412.5	450.0
Variable compensation ^(a)	–	299.2	299.2	558.0
Exceptional compensation	–	–	–	–
Compensation for attendance at Board meetings	–	16.0	31.0	42.2
Benefits in kind ^(b)	–	–	40.1	40.1
Total for Jean-Bernard Lévy	–	312.4	782.8	1090.3
Philippe Logak – Interim Chairman & Chief Executive Officer from 27 November to 23 December 2014				
Fixed compensation	–	16.7	19.9	3.1
Variable compensation	–	–	–	–
Exceptional compensation	–	34.0	34.0	–
Compensation for attendance at Board meetings	–	5.7	5.7	–
Benefits in kind ^(c)	–	–	–	–
Total Philippe Logak	–	56.4	59.6	3.1
Patrice Caine – Chairman & Chief Executive Officer from 23 December 2014				
Fixed compensation	440.0	411.2	7.9	–
Variable compensation ^(b)	518.3	–	–	–
Exceptional compensation	–	–	–	–
Compensation for attendance at Board meetings ^(d)	–	2.7	2.7	–
Benefits in kind ^(d)	56.6	56.6	–	–
Total Patrice Caine	1,014.9	470.5	10.6	–
TOTAL	1,014.9	839.3	853.0	1093.4

(a) The variable compensation of Mr J.-B. Lévy for 2014 was decided at the meeting of the Board of Directors on 25 February 2015.

(b) The meeting of the Board of Directors on 25 February 2015 decided that for Mr Patrice Caine, the amount of target variable compensation was €400,000, with a maximum of €600,000 if targets are exceeded (limited to 166% of 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 free operating cash flow and 15% based on order intake for the year. The targets are set by the Board of directors during the budgetary process but are not made public for reasons of confidentiality. For the remaining 25% of variable compensation, the Board decided to apply the following qualitative criteria for 2015:

- Competitiveness: accelerating medium-term competitiveness actions of the Ambition Boost performance plan;
- Relations with major customers and profitable growth, particularly through strengthening the Group's international presence;
- Strategy: thorough review of the Group's major strategic options during the annual strategic exercise. Sharing the strategies for the Transport, Space and Naval businesses with the Board of Directors.

- Corporate Social Responsibility: maintaining and extending three objectives to all of the Group's senior executives: promotion of gender equality, support for professional development and promotion of quality of life at work;

At its meeting of 22 February 2016, the Board firstly examined the results achieved for the quantitative criteria listed hereinafter and noted that the level of achievement was 141.09% of target:

- adjusted net income per share for 2015;
- EBIT for 2015;
- free operating cash-flow for 2015;
- order intake for 2015; and

- the Board also found that the qualitative criteria has been achieved at 95%.

Following this review and the proposal by the Governance and Compensation Committee, the Board of Directors decided that €518,287 (gross amount) of variable compensation should be paid in 2016 to Mr Patrice Caine for 2015, representing 129.57% of total target variable compensation.

(c) Does not receive the fees allocated to him in his role as company representative kept on by the Company (by decision of the Board of Directors on 25/02/15). The amount of fees calculated and unpaid to Patrice Caine in 2015 following this decision is now €13,750.

(d) The company representative is entitled to the services of a chauffeur-driven car, and external legal and tax assistance.

➤ **TABLE 3: ATTENDANCE FEES AND OTHER COMPENSATION RECEIVED BY NON-EXECUTIVE CORPORATE OFFICERS IN 2015 AND 2014 (GROSS AMOUNTS BEFORE ANY DEDUCTION AT SOURCE OR OTHER LEVY)**

Beneficiary (in euros)	Paid in 2015	Paid in 2014	Notes
G. Dyèvre	2,500	-	
Ph. Lépinay	36,250	40,250	(a)
D. Lombard	3,644	31,500	
Inter CFDT (D. Floch + M. Saunier)	81,250	84,250	
Treasury Accountant – art 139 NRE (D. Azéma + L. Collet Billon + O. Bourges + B. Parent + J.-M. Prost + R. Turrini) in portion of the applicable period	114,590	114,500	
Ch. Edelstenne	36,250	40,250	
Y. d'Escatha	44,500	44,750	
S. Gentili	19,753	37,750	
H. Proglio	11,497	-	
L. Segalen	42,500	41,500	
A. de Sèze		9,934	
A.-C. Taittinger	42,000	43,500	
A. Taylor	27,500	34,000	
E. Trappier	42,500	40,250	
M.-F. Walbaum	35,000	21,566	
L. Broseta	28,856	5,000	
TOTAL (EXCLUDING COMPANY REPRESENTATIVE)	568,590	589,000	
Company representative ^(*)	38,250	42,250	
TOTAL GROSS AMOUNT OF ATTENDANCE FEES	606,840	631,250	(b)

(a) Mr Philippe Lépinay has informed the Company that he transferred the sum of €3,400 to the Thales Employee shareholder Association (l'Association du personnel actionnaire de Thales APAT) in 2015 stating that this amount represents around half of net attendance fees received during the financial year, after taxes and expenses applicable to his role.

(b) Above are gross amounts paid in 2015 and 2014. For these two years, the gross amounts of attendance fees are €599,793 and €598,090 respectively, less than the annual envelope of €600,000 authorized by the Annual General Meeting.

(*) Including the amount of fees calculated and unpaid to Patrice Caine (€13,750), retained by the Company.

➤ **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**

None.

➤ **TABLE 5: STOCK OPTIONS OR SHARE PURCHASE OPTIONS EXERCISED DURING THE YEAR BY THE COMPANY REPRESENTATIVE**

As indicated in Table 1, Mr Caine's compensation as company representative does not include stock options or share purchase options. All options exercised during the year were granted to him under his previous salaried positions and prior to his appointment as company representative.

Name of company representative	Date of plan	Number of options exercised during the period as company representative	Exercise price
Patrice Caine	4 July 2007	4,200	€44.77
	1 July 2008	4,200	€38.50
	25 June 2009	5,000	€32.88

➤ **TABLE 6: PERFORMANCE SHARES ALLOTTED DURING THE YEAR TO THE COMPANY REPRESENTATIVE**

None. As indicated in Table 1, Mr Caine's compensation as company representative does not include performance shares.

➤ **TABLE 7: PERFORMANCE SHARES MADE AVAILABLE DURING THE YEAR FOR THE COMPANY REPRESENTATIVE**

As indicated in Table 1, Mr Caine's compensation as company representative does not include performance shares. All performance shares made available during the year were allotted to him under his previous salaried positions and prior to his appointment as company representative.

Director's name	Plan date	Number of shares made available	Vesting conditions
Patrice Caine	15 September 2011	462	

➤ **TABLE 8: HISTORICAL RECORD OF STOCK OPTIONS AND/OR SHARE PURCHASE OPTIONS GRANTED TO THE COMPANY REPRESENTATIVE**

None. Mr Caine has not received any stock options and/or share purchase options during his term in office. He has retained those that had been allocated to him under his previous salaried positions.

➤ **TABLE 9: STOCK OPTIONS OR SHARE PURCHASE OPTIONS GRANTED 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 2015**

	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	148,000	€37.47

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
Patrice Caine Chairman & Chief Executive Officer from 23 December 2014		X		X ^(a)	X ^(b)			X

(a) See note (b) on page 157.

(b) Decisions taken in 2015.

Deferred incremental and conditional compensation

Mr Patrice Caine, company representative since 23 December 2014

Following the decision by the Board of Directors on 25 February 2015, the Thales company representative is entitled to deferred incremental compensation, the amount of which is determined on the basis on an identical points method to the group 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 arrangement is based on defined benefit plans but is not governed by Article L.137.11 of the Social Security Code as its benefit is not subject to the recipient serving out the rest of their career with 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. This deferred compensation is only deemed to have been acquired on condition of serving a full term of office and the benefit is subject to the performance condition of an average level of achievement

of the annual operating margin targets set by the Board of Directors for the company representative of at least 80% for the last three full financial years.

The increase in the deferred compensation is subject to a minimum of 10 years' service on the Thales Executive Committee.

In 2015, Mr Patrice Caine potentially acquired annual deferred compensation of €5,097 (or 1.16% of his fixed compensation).

Benefits and rights upon the termination of office of the company representative

Patrice Caine, company representative since 23 December 2014

Following the decision by the Board and in accordance with the conditions laid down by the AFEP-MEDEF Code (see table on page 157) which the Company has declared that it applies, 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 set 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 end of the 2017 financial year, the compensation will be paid if the average level of achievement of the targets for annual operating profit is at least 80%, depending on the financial criteria available for the period between the start and end of the term of office;
- if the departure takes place after the end of the 2017 financial year, the compensation will be paid if the average level of achievement of the targets for annual operating profit is at least 80% over the last three full financial years.

A decision was also 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 (pension, compensation and unemployment insurance) for the benefit of Mr Patrice Caine were published on the Company's website five days after the Board of Directors' meeting on 25 February 2015 at which these decisions were made. They were put to the vote at the General Meeting on 13 May 2015 following a special report by the statutory auditors.

➤ DETAILS OF COMPENSATION PAID TO THE EXECUTIVE COMMITTEE (EXCLUDING THE CHAIRMAN & CHIEF EXECUTIVE OFFICER) IN 2014 AND 2015

(€ thousand)	2015 Paid during the financial year	2014 Paid during the financial year
Executive Committee (excl. Chairman & Chief Executive Officer)		
Fixed compensation	4,002	3,845
Variable compensation	2,280	2,142
Exceptional compensation	1,049	–
Benefits in kind	26.8	52
Total before contributions	7,357.8	6,039
Employer contributions	2,337.7	1,949
TOTAL EXPENSE	9,695.5	7,988

In addition, at the end of December 2015, the members of the Executive Committee, other than the Chairman, together had a total of 170,941 stock options, 57,389 performance shares and 101,000 performance units. The breakdown by grant date and the detailed features, as well as any options exercised, are shown in the tables on pages 162 and 163 with the summary of operations carried out by directors, non-voting directors and related persons (Section 4.3.3.7, pages 182 and 183).

3.4.2.3 SHARE-BASED COMPENSATION

Description of the different plans allotted by the Group

The Group regularly grants its employees and directors stock options, share purchase options (until 2011) and/or free shares (since 2007), as part of

2016

On the recommendation of the Governance and Compensation Committee, the Board of Directors decided at the meeting of 22 February 2016 that, for the 2016 financial year, it would make a change to the structure of compensation for Mr Patrice Caine, Chairman & Chief Executive Officer, namely:

- fixed compensation of €450,000 (gross amount)
- target variable compensation of €490,000, with a maximum of €735,000 in the event of the targets being exceeded.

For detailed information on the quantitative targets, see paragraph 3.4.2.1 on page 155.

These decisions take effect from 1 January 2016.

The other components of overall compensation for the Chairman & Chief Executive Officer are given on page 155, 156, 158 and 160.

3.4.2.2 COMPENSATION OF OTHER GROUP EXECUTIVES

Total compensation paid in 2015 to Executive Committee members (proportionate to the time spent on the committee) excluding the Chairman & Chief Executive Officer, was €7,357.8, including 30.98% in variable compensation for 2014⁽¹⁾ and 14.25% of exceptional remuneration. As is the case for the Chairman & Chief Executive Officer, the variable component is based on quantitative and qualitative performance criteria.

its standard performance management policy for Group employees. These different plans are described below.

Outstanding options at 31 December 2015

At 31 December 2015, the following options, shares and units were outstanding:

- 88,450 share purchase options at a weighted average exercise price of €44.17;
- 2,615,865 stock subscription options at a weighted average exercise price of €36.32, of which 224,833 are subject to performance conditions.

(1) Variable compensation for 2014 that was paid in 2015.

➤ 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 Jul. 2011 to 3 Jul. 2017
Exercise price	€38.50	€44.77
NUMBER OF OPTIONS OUTSTANDING AT 31/12/2015, NET OF OPTIONS CANCELLED ^(a) AND EXERCISED	8,450	80,000 ^(b)
of which exercisable options at 31/12/2015	8,450	80,000
of which outstanding options at 31/12/2015 held by:		
→ the Chairman & Chief Executive Officer, Patrice Caine	–	–
→ the other members of the Executive Committee	5,000	–
NUMBER OF BENEFICIARIES OF OUTSTANDING OPTIONS	4	1
of which members of the Executive Committee (excluding the Chairman) at 31/12/2015	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 company representative 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 ^(a)	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 Jul. 2012 to 30 Jun. 2018
Exercise price	€26.34	€26.34	€32.88	€38.50
NUMBER OF OPTIONS OUTSTANDING AT 31/12/2015, NET OF OPTIONS CANCELLED ^(b) AND EXERCISED	224,833	175,115	514,699	659,215
of which exercisable options at 31/12/2015	224,833	175,115	514,699	659,215
of which outstanding options at 31/12/2015 held by:				
→ the Chairman & Chief Executive Officer, Patrice Caine ^(c)	1,538	1,900	–	–
→ the other members of the Executive Committee	65,741	47,500	32,000	7,500
NUMBER OF BENEFICIARIES OF OUTSTANDING OPTIONS	74	52	504	519
of whom members of the Executive Committee (excluding the Chairman) at 31/12/2015	9	5	3	2
Total allotted to top 10 beneficiaries (at plan date)	124,000	161,500	222,000	230,000

Date of Board decision	04/07/2007	09/11/2006	30/06/2005
Allotment discount	None	None	None
Performance conditions	No	No	No
Exercise period ^(a)	From 4 Jul. 2011 to 3 Jul. 2017	From 9 Nov. 2010 to 8 Nov. 2016	From 30 June 2009 to 29 June 2015
Exercise price	€44.77	€36.47	€34.01
NUMBER OF OPTIONS OUTSTANDING AT 31/12/2015, NET OF OPTIONS CANCELLED ^(b) AND EXERCISED	501,615	540,388	–
of which exercisable options at 31/12/2015	501,615	540,388	–
of which outstanding options at 31/12/2015 held by:			
→ the Chairman & Chief Executive Officer, Patrice Caine ^(c)	–	–	–
→ the other members of the Executive Committee	11,000	2,200	–
NUMBER OF BENEFICIARIES OF OUTSTANDING OPTIONS	486	484	–
of whom members of the Executive Committee (excluding the Chairman) at 31/12/2015	3	1	–
Total allotted to top 10 beneficiaries (at plan date)	240,000	235,000	–

(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 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

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 30 June 2005 and 15 September 2011 can already be exercised in full.

The options granted on 15 September 2011 were contingent upon the achievement of internal performance conditions over the next three financial years. The three criteria used were EBIT, operating cash flow and order intake, with these criteria having a weighting of 60%, 25% and 15% respectively.

The rights were validated in one-third tranches during the meetings of the Board of Directors to close the accounts for the three financial years concerned, resulting in the validation of 80.90% of the options granted.

➤ VALIDATION OF THE PERFORMANCE CONDITIONS FOR FINANCIAL YEAR 2015

Option, share and unit plans subject to performance conditions	Validation of the 1 st third of the allotment		Validation of the 2 nd third of the allotment		Validation of the 3 rd 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	100%
17 September 2013	2014	44.51%	2015	100%	2016	–
16 September 2014	2015	100%	2016	–	2017	–
17 September 2015	2016	–	2017	–	2018	–

➤ OPTIONS GRANTED AND EXERCISED IN 2015

	Number of options granted/ shares subscribed or purchased	Exercise price	Maturity date	Plan date
1 – Directors				
Options granted in 2015	None			
Patrice Caine	None			
2 – The 10 biggest awards of options granted to employees				
Options granted in 2015	None			
3 – The 10 biggest exercises of options by employees ^(a)				
Options exercised in 2015	20,000	€56.40	–	01/07/2008
	20,000	€56.40	–	25/06/2009
	20,000	€56.40	–	23/09/2010
	15,000	€56.40	–	04/07/2007
	15,000	€50.83	–	09/11/2006
	13,000	€57.00	–	25/06/2009
	12,000	€50.49	–	04/07/2007
	11,000	€68.00	–	04/07/2007
	11,000	€60.00	–	04/07/2007
	11,000	€60.00	–	01/07/2008

(a) For all Group companies combined.

3.5 Incentives and profit-sharing

3.5.1 PROFIT-SHARING

The Group agreement on pooled profit-sharing for the employees of Thales Group companies, signed on 23 December 2004 by all trade unions represented at Group level, resulted in payment in France in 2015 for the 2014 financial year of profit-sharing rights totalling €18.7 million. 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 INCENTIVE 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.

23 French Group companies paid incentives in 2015 for fiscal year 2014 totalling €57.03 million.

➤ GROSS AMOUNTS PAID OUT IN INCENTIVES AND PROFIT-SHARING IN RECENT YEARS

(€ million)	2015	2014	2013	2012	2011
In the Group in France					
Profit share paid	18.70	15.34	22.56	24.29	36.52
Incentives paid	57.03	43.45	42.38	45.15	23.99
By Thales (parent company)					
Incentives paid	4.30	4.12	3.83	4.80	–

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

92 400 Courbevoie

Represented by Mr Jean-Marc Deslandes and Ms 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

92 400 Courbevoie - Paris-La Défense 1

represented by Mr Serge Pottiez and Mr Philippe Diu.

Current term approved by the General Meeting of 13 May 2015 and expiring with the audit of the 2020 financial statements.

3.6.2 ADDITIONAL STATUTORY AUDITORS ---

Hervé Hélias

61 rue Henri Regnault

92 400 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

92 400 Courbevoie - Paris-La Défense 1

Current term approved by the General Meeting of 13 May 2015 and expiring with the audit of the 2020 financial statements.

3.6.3 STATUTORY AUDITORS' FEES

The fees paid to auditors in 2014 and 2015 are presented in the table below ^(a):

	Mazars				E Y			
	Amount pre-tax		%		Amount pre-tax		%	
	2015	2014	2015	2014	2015	2014	2015	2014
Audit								
Auditing, certification, examination of individual and consolidated accounts ^(b)								
➤ Issuer	730	695	13%	13%	732	770	14%	15%
➤ Subsidiaries fully consolidated	4,019	4,123	74%	75%	3,681	3,596	71%	71%
Other efforts and services directly associated with the assignment of auditor ^(c)								
➤ Issuer	279	302	5%	5%	123	106	2%	2%
➤ Subsidiaries fully consolidated	414	410	8%	7%	287	318	6%	7%
Sub-total	5,442	5,530	100%	100%	4,823	4,790	93%	95%
Other services rendered by the networks subsidiaries fully consolidated ^(d)								
Legal, tax-related, social-security-related	-	5	-	-	371	272	7%	5%
Other (if > 10% of audit fees)	-	-	-	-	-	-	-	-
Sub-total	--	5	--	--	371	272	7%	5%
TOTAL	5,442	5,535	100%	100%	5,194	5,062	100%	100%

(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.

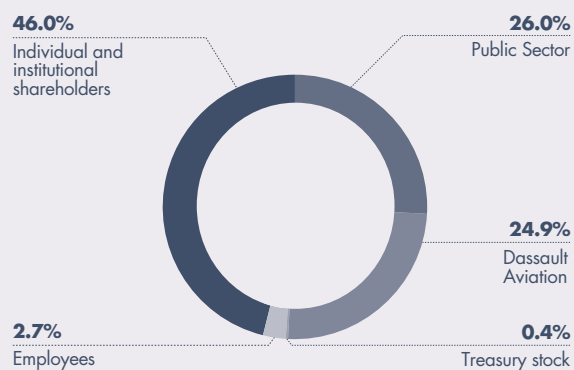
(c) This heading includes diligences and services directly associated that are rendered to the issuer or its subsidiaries:

- 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.

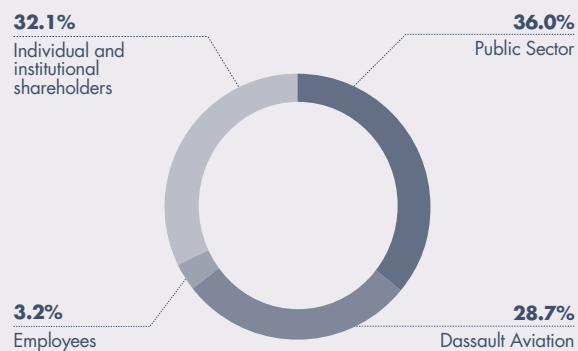
(d) These are services not relating to certification rendered, in compliance with the provisions of article 24 of the French Code of Conduct for statutory auditors, by a member of the network to the subsidiaries of the issuers whose financial statement are being certified.

BREAKDOWN OF SHAREHOLDERS AND VOTING RIGHTS

BREAKDOWN OF SHAREHOLDERS – AT 31 DECEMBER 2015



BREAKDOWN OF VOTING RIGHTS – AT 31 DECEMBER 2015



THALES SHARE PRICE COMPARISON WITH CAC 40 AND CAC NEXT 20

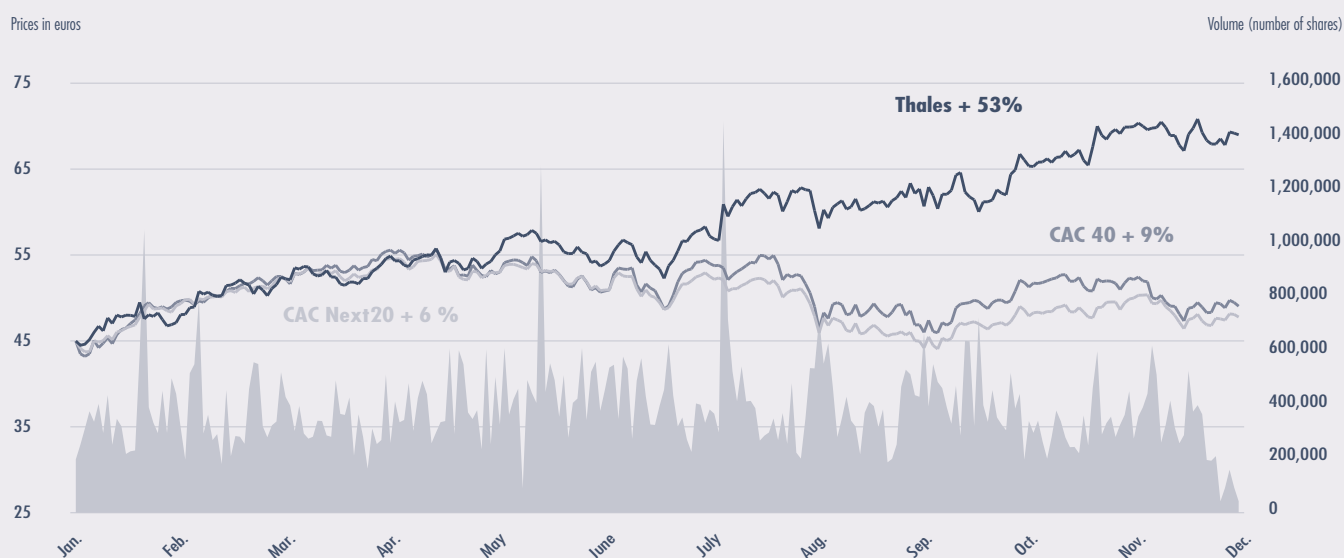
Thales's stock is listed on the Euronext Paris regulated market (Compartment A). It is eligible for the SRD deferred settlement system.

Closing price of Thales shares:

- 2 January 2015: €45.03;
- 31 December 2015: €69.10.

2015 high: €71.67

2015 low: €44.10



COMPANY AND SHARE CAPITAL

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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 (0)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 incorporated 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 at 23 May 2112.

CORPORATE PURPOSE

The corporate purpose is, directly or indirectly, in all countries:

1. the design, construction, installation, maintenance, operation, 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, obtaining, acquisition, disposal, exchange, supply, hire or use of all concessions or undertakings, whether private or public, training of staff, and the provision of all services pertaining thereto;
3. the formation of any company or association, or investment in any form whatsoever in any company or undertaking, 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 registered 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*, BALO) 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.

Shareholders can vote electronically from the General Meeting of 18 May 2016 onwards.

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 their shares at any time.

However, in accordance with the regulations in force since 1 January 2015, should the intermediary account-holder notify the Company 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 limitation, 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 inter vivos gifts 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 approval by 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 the Company 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 exceeding 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 attached – 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 2015, the share capital stood at €632,884,212, divided into 210,961,404 shares with a par value of €3 each.

Pursuant to the applicable regulations, each month the Company publishes on its website (www.thalesgroup.com), under "Investors Publications/ Regulated Information", the 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 shareholder's discretion. The share register is kept on behalf of the Company by Société Générale (Département Titres & Bourse – 32, rue du Champ-de-Tir – BP 81236 – 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
31 December 2010		3,657,095,134			597,246,081	199,082,027
Financial year 2011	Exercise of stock options or payment of dividend in shares	74,304,866	3,246,430	9,739,290		
31 December 2011		3,731,400,000			606,985,371	202,328,457
Financial year 2012	Exercise of stock options	220,794	11,217	33,651		
31 December 2012		3,731,620,794			607,019,022	202,339,674
Financial year 2013	Exercise of stock options	94,942,634	3,404,826	10,214,478		
31 December 2013		3,826,563,428			617,233,500	205,744,500
Financial year 2014	Exercise of stock options	63,313,408	2,096,611	6,289,833		
31 December 2014		3,889,876,836			623,523,333	207,841,111
Financial year 2015	Exercise of stock options	105,567,702	3,120,293	9,360,879		
31 DECEMBER 2015		3,995,444,538			632,884,212	210,961,404

4.3.1.2 CHANGES IN THE DISTRIBUTION OF CAPITAL AND VOTING RIGHTS OVER THE LAST THREE FINANCIAL YEARS

At 31 December 2015, the total number of exercisable voting rights was 304,077,158. 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 Section 4.2.2 page 171).

As previously mentioned, the number of shares and voting rights (theoretical and exercisable) is published monthly on the Company's website (www.thalesgroup.com, under "Investors Publications/Regulated information").

	31 December 2015			31 December 2014			31 December 2013		
	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 ^(a)	54,786,654	25.97%	36.04%	54,786,654	26.36%	36.51%	54,786,654	26.63%	36.83%
French State (incl. 1 golden share)	2,060	–	–	2,060	–	–	2,060	–	–
Public Sector ^(a)	54,788,714	25.97%	36.04%	54,788,714	26.36%	36.51%	54,788,714	26.63%	36.83%
Dassault Aviation ^(b)	52,531,431	24.90%	28.67%	52,531,431	25.28%	29.05%	52,531,431	25.53%	29.31%
Thales	839,254	0.40%	–	1,876,732	0.90%	–	2,490,77	1.21%	–
Employees	5,684,120	2.69%	3.24%	4,151,060	2.00%	2.70%	4,373,955	2.13%	2.86%
Other shareholders	97,117,885	46.04%	32.05%	94,493,174	45.46%	31.74%	91,560,223	44.50%	31.00%
TOTAL	210,961,404	100%	100%	207,841,111	100%	100%	205,744,500	100%	100%

(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 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 2015.

(b) Dassault Aviation has held 34,654,349 shares in directly registered form for more than two years, and thus had double voting rights on 31 December 2015 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 1.87% of the capital 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 transferred as part of a free share delivery;
- 740,650 shares were purchased directly throughout the year;
- 712,272 shares were sold to employees as part of 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 transferred as part of a free share 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 on the market;
- 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 under allocations of stock options;
- 473,653 shares were sold to employees as part of 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.

During 2015, the number of treasury shares was reduced due to the following transactions:

- 807,144 shares were purchased under a liquidity contract;
- 822,144 shares were sold under a liquidity contract;
- 535,532 shares were assigned as free shares;

- 29,350 shares were assigned under allocations of stock options;
- 457,596 shares were sold to employees as part of the 2015 employee shareholding scheme.

Treasury shares thus amounted to 0.4% of the capital, i.e. 839,254 shares, at 31 December 2015.

4.3.2 POTENTIAL CAPITAL

4.3.2.1 MAXIMUM POTENTIAL CAPITAL AT 31 DECEMBER 2015

	In number of shares with par value of €3
Share capital at 31/12/2015	210,961,404
Current stock option plans	2,615,865
9 November 2006 plan: 540,388 options at €36.47	
4 July 2007 plan: 501,615 options at €44.77	
1 July 2008 plan: 659,215 options at €38.50	
25 June 2009 plan: 514,699 options at €32.88	
23 September 2010 plan: 175,115 options at €26.34	
15 September 2011 plan: 224,833 options at €26.34	
Maximum potential capital (+1.24%)	213,577,269

4.3.2.2 SECURITIES IN CIRCULATION GIVING ACCESS TO SHARE CAPITAL (BONDS, WARRANTS AND OPTIONS)

At 31 December 2015, excluding the exercise of stock options, if any, there were no other securities in circulation giving immediate or future access to the share capital.

For convenience, even though they have no impact on the potential capital since they involve existing shares, share purchase options have been presented with stock subscription options in the section on the financial statements of the parent company.

Share purchase and stock subscription options

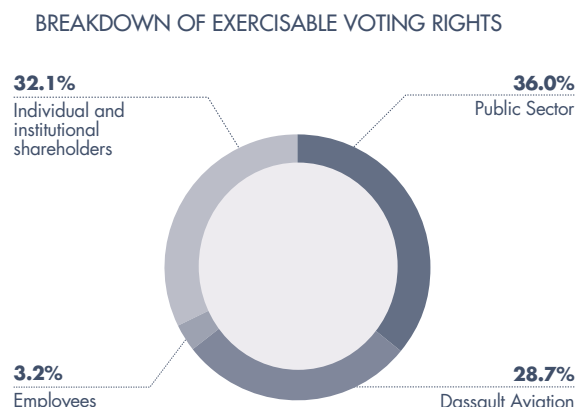
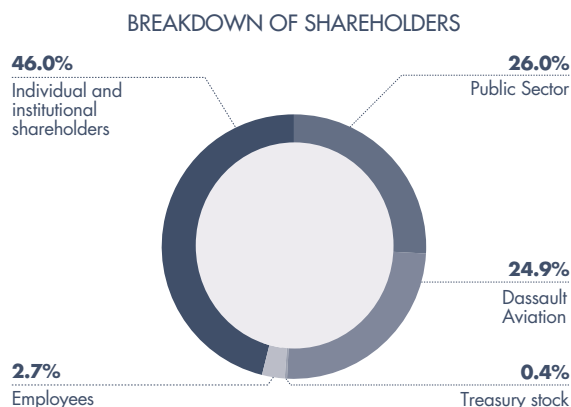
At 31 December 2015, the following options, shares and units were outstanding:

- 88,450 share purchase options at a weighted average exercise price of €44.17;
- 2,615,865 stock subscription options at a weighted average exercise price of €36.32, of which 399,948 are subject to performance conditions.

Thales decided to stop granting options in 2012.

4.3.3 SHAREHOLDERS

4.3.3.1 BREAKDOWN AT 31 DECEMBER 2015



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.

The French State directly holds 2,060 shares, including a golden share which gives it the rights⁽¹⁾ described on section 4.3.3.3.5 page 177.

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 24.90% of Thales's share capital, i.e. 52,531,431 Thales shares at 31 December 2015.

Dassault Aviation is 56.11%-owned by Groupe Industriel Marcel Dassault (GIMD).

4.3.3.3 SHAREHOLDERS' AGREEMENT, AGREEMENT ON THE PROTECTION OF STRATEGIC NATIONAL INTERESTS AND SPECIFIC AGREEMENT

By signing in 2009 an “endorsement agreement” with the French State and Alcatel-Lucent, Dassault Aviation assumed 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⁽²⁾.

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⁽³⁾. This agreement essentially reproduces the terms of the shareholders' agreement signed on 14 April 1998, which it replaced⁽⁴⁾.

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 under which TSA and Dassault Aviation act in concert with regard to Thales under Article L.233-10 of the French Commercial Code, as TSA has a majority within the concert, sets out the following provisions⁽⁵⁾:

Members of the executive bodies of Thales

Thales's Board of Directors, which has 16 members, has to adhere to the following breakdown at 31 December 2015:

- 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 greater 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 a 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 of 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 €150 million) as well as strategic alliance agreements on technological and industrial cooperation.

However, Dassault Aviation has expressly undertaken to forego the exercise of the right of veto which it has, by virtue of the agreement, over some of Thales's strategic operations; 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⁽⁶⁾.

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 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) taken in accordance with the provisions of Article 1 – 1° of decree 93-1041 of 3 September 1993 and pursuant to law No. 86-912 of 6 August 1986.

(4) This agreement is set out in the annex to the Thales Board of Directors' report to the Extraordinary General Meeting of 5 January 2007, registered by the AMF on 19 December 2006 under number E.06-194 (www.thalesgroup.com).

(5) With regard to a proposal to separate the functions of Chief Executive Officer and Chairman, an amendment to the shareholders' agreement regarding Thales was concluded between the Public Sector and Dassault Aviation on 7 April 2015, designed to amend the shareholders' agreement so that the Board of Directors of Thales is composed of 18 members including 6 proposed by the Public Sector, 5 by the Industrial Partner (Dassault Aviation), 2 employee representatives, 1 representative of employee-shareholders and 4 external individuals. As the proposal to separate the functions of Chief Executive Officer and Chairman was rejected, the shareholders' agreement was reverted to its initial version dated 19 May 2009 through a second amendment signed on 13 May 2015, and the stipulations of the agreement therefore remain unchanged. For more details on these amendments, refer to D&I 215C0404 of 7 April 2015 and D&I 215C0643 of 15 May 2015 published on the AMF's website.

(6) Acquisitions or disposals identified by the French State as having potentially significant 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 whatever measures are required to enable Dassault Aviation to comply with this undertaking.

The Public Sector undertakes to restrict its shareholding to 49.9% of Thales's share capital and voting rights.

Term of the shareholders' agreement

In the absence of termination on expiry of the contract 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 five-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's share capital, in the event of:

- a serious breach by Dassault Aviation of its obligations so as to substantially compromise 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);
- a change in control of Dassault Aviation.

In this respect, Dassault Aviation gives the Public Sector an irrevocable and definitive undertaking to sell all shares that Dassault Aviation holds upon confirmation that Dassault Aviation's shareholding of Thales has remained above 10% of Thales's share capital in the six months following the Public Sector's request to reduce its shareholding.

In addition, the Public Sector⁽¹⁾ 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 expiry of the agreement, (iii) the date at which Dassault Aviation ceases to hold at least 15% of Thales's 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 registered office and operational headquarters in France;
- directors of Thales 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 makes 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's 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's 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 Concert formed with the Public Sector vis-à-vis Thales and the disposal of Thales shares owned by GIMD to Dassault Aviation, on 19 May 2009 the latter exceeded, jointly with the Public Sector, 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, together with Dassault Aviation, exceeded 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 official bulletin of legal notices, or *Bulletin officiel des annonces légales obligatoires* (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&txtsch=> or on the BALO website at <http://balo.journal-officiel.gouv.fr/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⁽²⁾ that, on 13 January 2016, it had "fallen below the threshold of 25% of the share capital of the Company and that it individually owns 52,531,431 Thales shares representing 87,185,780 voting rights, or 24.90% of the share capital and 28.59% of the Company's voting rights."

Dassault Aviation also revealed that this threshold crossing was due to an increase in the total number of Thales shares and voting rights and that, on this occasion, the concert party formed by TSA (public sector) and Dassault Aviation had not exceeded any thresholds.

(1) TSA and Sofivision in accordance with the terms of AMF decision no. 208C2115. Sofivision was taken over by TSA in the second half of 2012.

(2) See AMF decision no. 216C0199, available for consultation on the AMF's website.

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 Alcatel-Lucent 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 company referred to in the previous paragraph 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 refusal 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 to signify acceptance of the proposed transaction.

4.3.3.3.5 Golden share held by the French State

The golden share held by the French State⁽¹⁾ 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.

⁽¹⁾ Pursuant to Article 3 of decree No. 97-190 of 4 March 1997.

4.3.3.4 TREASURY SHARES

At 31 December 2015, Thales held 839,254 treasury shares (0.4% 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.

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 General 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**, 1.9 million shares were repurchased;
- **in 2001**, as part of the transfer to Alcatel of its shareholding in Alcatel Space: the amount of the transaction, €795 million, was paid for half in cash and 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 were sold under a liquidity contract, and approximately 98,000 shares were sold to employees as purchase options vested;
- **in 2007**, 793,295 shares were purchased and 782,021 shares were sold under the 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 were sold under the liquidity contract. 3,176,127 shares were purchased in the market and 2,519,280 shares were transferred to Thales employees as part of the 2008 employee shareholding scheme. 96,473 shares were transferred for vested options;

- in 2009, 916,054 shares were purchased and 911,370 shares were sold under the liquidity contract. 191,373 shares were sold for the exercise of options and as part of a free share delivery;
- in 2010, 1,368,874 shares were purchased and 1,207,329 shares were sold under 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 were sold under the 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 were sold under the 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 were sold under the 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 delivery of free shares and stock options;
- in 2014, 2,146,816 shares were purchased and 2,216,116 shares were sold under the liquidity contract. 544,145 shares were transferred as part of a free share delivery;
- in 2015, 807,144 shares were purchased and 822,144 shares were sold under the liquidity contract. 457,596 shares were sold to employees under the 2015 employee shareholding scheme. Lastly, 564,882 shares were transferred as part of a delivery of free shares and stock options.

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. This authorisation was not used and was renewed by the General Meeting of 13 May 2015 for a period of 24 months under the same conditions (expiring on 12 May 2017).

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 2015.

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.

Performance shares

- 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), free operating cash flow and order intake, with weightings of 60%, 25% and 15% respectively;
- Options may be validated in tranches of one-third once the Board of Directors has approved the Group's consolidated financial statements for the three financial years concerned;
- 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	
	Free shares	Performance shares	Free shares	Performance shares	Free shares	Performance shares
Number of beneficiaries at grant date	4,161	341	5,186	336	5,178	314
Share price at grant date	€39.16	€39.16	€27.47	€27.47	€25.16	€25.16
Number of shares allotted	424,830	299,460	487,940	230,350	485,690	145,300
Balance of free shares at 31/12/2014	413,790	240,963	458,400	177,854	437,200	102,984
Cancellation of allotments during the financial year ^(a)	7,180	7,260	7,830	4,050	3,730	2,422
Early allotments during the financial year ^(b)	600	–	950	–	–	–
Post-closing adjustments						
Number of shares delivered on expiry of the plan	N/A	N/A	N/A	N/A	433,470	100,562
Number of beneficiaries of delivery on expiry	N/A	N/A	N/A	N/A	4,568	266
Balance of free shares net of cancellations and early allotments at 31/12/2015	406,010	233,703	449,620	173,804	N/A	N/A
Number of beneficiaries remaining at 31/12/2015	3,961	325	4,776	309	N/A	N/A
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	

(a) Due to the departure of the beneficiary or, for the plans concerned, due to eliminations related to partial or total non-achievement of the performance conditions.

(b) Due to death of the beneficiary during the vesting period.

4.3.3.4.4 Allotment of units or units subject to performance conditions indexed to the Thales share price

Unit plan indexed to the Thales share price and for which some units are subject to performance conditions were implemented in 2014 and 2015. These plans have two sub-plans.

The Chairman & Chief Executive Officer (the only company representative) is not entitled to benefit from this plan.

Units plan subject to a condition of employment

- Each unit allotted confers the right, at the end of the four-year vesting period and subject to the condition of employment 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 or downwards variations in the stock market price will be neutralized.

- The amount due at the expiry date to the beneficiaries that meet the conditions of employment will be equal to the number of units allotted multiplied by the value of the unit. Half of the payment will be made in shares, while the other half will be paid in cash.

Unit plan subject to a condition of employment and performance conditions

- The units subject to performance conditions follow the same rules as for units, i.e. vesting period and conditions of employment, but the number of units that are actually 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's consolidated financial statements for the three financial years concerned.
- The number of units validated may not exceed the amount initially allotted.
- The three performance criteria used for the 2014 and 2015 plans are EBIT, free operating cash flow and order intake, with weightings of 60%, 15% and 25% respectively.

Date of Board decision	17/09/2015		16/09/2014	
	Free units	Performance units	Free units	Performance units
Number of beneficiaries at grant date	3,885	293	3,684	310
Unit price at grant date	€61.75	€61.75	€42.42	€42.42
Number of units allotted	376,840	232,000	425,920	281,050
Balance of units at 31/12/2014	—	—	424,550	280,250
Cancellation of allotments during the financial year ^(a)	970	—	7,180	4,650
Early allotments during the financial year ^(b)			330	—
Balance of units at 31/12/2015	375,870	232,000	417,040	275,600
Number of beneficiaries remaining at 31/12/2015	3,873	293	3,597	303
Vesting period	From 17/09/2015 to 18/09/2019		From 17/09/2013 to 18/09/2017	

(a) Due to the departure of the beneficiary or, for the plans concerned, due to eliminations related to partial or total non-achievement of the performance conditions.

(b) Due to death of the beneficiary during the vesting period.

Unit allotments in financial year 2015

The ten largest allotments of units to employees during the year	Number of units allotted	Unit price at allotment date	Date of plan
Units	3,000		
Units subject to performance conditions	48,000	€61.75	17/09/2015

During the 2015 financial year, the allotment of units subject to performance conditions to employees of the Company or its subsidiaries, excluding Thales executive officers was between 200 and 6,000 units.

The allotment of units to employees of the Company or its subsidiaries, excluding Thales executive officers, was between 70 and 300 units.

4.3.3.4.5 Validation of performance conditions for financial year 2015

Option, share and unit plans subject to performance conditions	Validation of the 1 st third of the allotment		Validation of the 2 nd third of the allotment		Validation of the 3 rd 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	100%
17 September 2013	2014	44.51%	2015	100%	2016	–
16 September 2014	2015	100%	2016	–	2017	–

4.3.3.4.6 Description of the share buy-back programme proposed to the General Meeting of 18 May 2016

- Maximum proportion of capital subject to repurchase: 10% at the repurchase date.
 - Maximum number of shares that may be purchased: 21,096,140.
 - Maximum amount of the programme: 1,793,171,900.
 - Maximum unit purchase price: €85.
- Objectives of the programme:**
- to sell or allot shares to Group employees in the manner stipulated by law, particularly when share purchase options are exercised or existing free shares are 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, or a merger, demerger or contribution;
 - 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;
 - to remit shares in connection with the exercising of rights attached to securities conferring entitlement in any way to the allotment of Company shares.
- Duration of the programme:** eighteen months from the date of approval of the resolution which will be submitted to the General Meeting of 18 May 2016, i.e. no later than 18 November 2018.
- 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 amended 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:

(in thousands of shares)	01/01/2016	01/01/2015
French institutional investors	30,545	32,961
Non-resident institutional investors	59,000	52,954
Company savings scheme	5,684	4,151
Individual shareholders and associations ^(a)	7,354	6,911
Not identified	219	1,667
S/Total Entire public	102,802	98,644
TOTAL NUMBER OF SHARES	210,961	207,841

(a) Mainly French residents.

	As % of the total capital		As % of the free float (excl. treasury shares)	
	01/01/2016	01/01/2015	01/01/2016	01/01/2015
French institutional investors	14.5%	15.8%	29.7%	33.4%
Non-resident institutional investors	28.0%	25.5%	57.4%	53.7%
Company savings scheme	2.7%	2.0%	5.5%	4.2%
Individual shareholders and associations	3.5%	3.3%	7.2%	7.0%
Not identified	0.1%	0.8%	0.2%	1.7%
ENTIRE PUBLIC	48.7%	47.4%	100.0%	100.0%

	Number of shares held (in thousands)	As % of the total capital	Number of investors
France	30,545	34.1%	113
Continental Europe (exc. France)	14,757	16.5%	197
North America	21,797	24.3%	124
United Kingdom & Ireland	19,719	22.0%	70
Rest of the world	2,727	3.0%	36
TOTAL	89,545	100.0%	540

4.3.3.6 EMPLOYEE SHAREHOLDINGS AT 31 DECEMBER 2015

At 31 December 2015, Group employees held, within the meaning of Article L.225-102 of the French Commercial Code, 5,684,120 Thales shares, representing 2.69% of the share capital (and 3.24% 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 2015, around 60% of the Thales shares held by employees were freely transferable (compared with 70% at 31 December 2014 and at 31 December 2013). This reduction is the result of:

- the employee shareholding scheme introduced in 2015 (457,596 shares delivered) of which all of the shares are non-transferable;
- taking into account 1,422,232 free shares, half of which are non-transferable.

Holding by country	In number of shares	In % of employee shareholders L.225-10 ^(d)	In % of capital	Related voting rights as % of total voting rights
France and World (four dedicated funds ^(a))	3,991,264	70.22%	1.89%	2.49%
Netherlands (three dedicated funds ^(b))	79,749	1.40%	0.04%	0.05%
United Kingdom (SIP – Trust ^(c))	77,714	1.37%	0.04%	0.03%
Shares directly held in the Group savings scheme (2002, 2008, 2013 and 2015 schemes)	113,161	1.99%	0.05%	0.05%
Shares directly held resulting from the allotment of free shares (Article L.225-197-1 of the French Commercial Code)	1,422,232	25.02%	0.67%	0.63%
Total Article L.225-102 of the French Commercial Code	5,684,120	100.00%	2.69%	3.24%
Total number of shares held by employees	5,684,120	100.00%	2.69%	3.24%
TOTAL SHARE CAPITAL	210,961,404			

(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 CARRIED OUT IN 2015 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 fall under the category of non-voting directors in respect of obligations to disclose 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 euros)	Unit price (in euros)
Patrice Caine	Other financial instruments	Exercise of stock options	188,034.00	44.77
	Other financial instruments	Exercise of stock options	161,700.00	38.50
	Other financial instruments	Exercise of stock options	164,400.00	32.88
	Shares	Sale	235,200.00	56.00
	Shares	Sale	235,200.00	56.00
	Shares	Sale	280,000.00	56.00
Millar Crawford	Other financial instruments	Exercise of stock options	102,030.44	34.01
	Other financial instruments	Exercise of stock options	109,410.00	36.47
	Other financial instruments	Exercise of stock options	192,511.00	44.77
	Other financial instruments	Exercise of stock options	165,550.00	38.50
	Other financial instruments	Exercise of stock options	151,248.00	32.88
	Other financial instruments	Exercise of stock options	39,510.00	26.34
	Shares	Sale	25,875.00	57.50
	Shares	Sale	168,000.00	56.00
	Shares	Sale	168,000.00	56.00
	Shares	Sale	240,800.00	56.00
	Shares	Sale	240,800.00	56.00
	Shares	Sale	257,600.00	56.00
Alex Cresswell	Other financial instruments	Exercise of stock options	145,880.00	36.47
	Other financial instruments	Exercise of stock options	134,750.00	38.50
	Shares	Sale	201,960.00	50.49
	Shares	Sale	213,080.00	60.88
Marc Darmon	Other financial instruments	Exercise of stock options	102,030.00	34.01
	Other financial instruments	Exercise of stock options	109,410.00	36.47
	Other financial instruments	Exercise of stock options	109,410.00	36.47
	Other financial instruments	Exercise of stock options	156,695.00	44.77
	Other financial instruments	Exercise of stock options	147,741.00	44.77
	Other financial instruments	Exercise of stock options	254,100.00	38.50
	Other financial instruments	Exercise of stock options	192,500.00	38.50
	Other financial instruments	Exercise of stock options	192,500.00	38.50
	Shares	Sale	154,740.00	51.58
	Shares	Sale	157,500.00	52.50
	Shares	Sale	169,200.00	56.40
	Shares	Sale	199,010.00	56.86

Director's name	Financial instrument	Type of transaction	Total amount of transaction (in euros)	Unit price (in euros)
	Shares	Sale	188,100.00	57.00
	Shares	Sale	402,600.00	61.00
	Shares	Sale	335,000.00	67.00
	Shares	Sale	342,500.00	68.50
Jean-Loïc Galle	Other financial instruments	Exercise of stock options	147,960.00	32.88
	Other financial instruments	Exercise of stock options	182,350.00	36.47
	Other financial instruments	Exercise of stock options	132,639.00	34.01
	Other financial instruments	Exercise of stock options	263,400.00	26.34
	Shares	Sale	228,825.00	50.85
	Shares	Sale	254,250.00	50.85
	Shares	Sale	198,315.00	50.85
	Shares	Sale	546,428.35	54.6428
Michel Mathieu	Other financial instruments	Exercise of stock options	364,700.00	36.47
	Other financial instruments	Exercise of stock options	423,500.00	38.50
	Other financial instruments	Exercise of stock options	492,470.00	44.77
	Other financial instruments	Exercise of stock options	145,880.00	36.47
	Shares	Sale	504,900.00	50.49
	Shares	Sale	492,470.00	44.77
	Shares	Sale	663,643.07	60.3311
	Shares	Sale	660,441.42	60.0401
Physical person related to Michel Mathieu	Shares	Sale	242,518.70	60.6296
Gil Michielin	Other financial instruments	Exercise of stock options	120,351.00	36.47
	Other financial instruments	Exercise of stock options	231,000.00	38.50
	Other financial instruments	Exercise of stock options	263,040.00	32.88
	Other financial instruments	Exercise of stock options	179,080.00	47.77
	Shares	Sale	308,040.00	51.34
	Shares	Sale	169,422.00	51.34
	Shares	Sale	446,000.00	55.75
	Shares	Sale	268,840.00	67.21
Hervé Multon	Other financial instruments	Exercise of stock options	57,817.00	34.01
	Shares	Sale	93,500.00	55.00
Pierre-Eric Pommellet	Other financial instruments	Exercise of stock options	165,550.00	38.50
	Other financial instruments	Exercise of stock options	134,310.00	44.77
	Other financial instruments	Exercise of stock options	52,680.00	26.34
	Shares	Sale	217,107.00	50.49
	Shares	Sale	151,470.00	50.49
	Shares	Sale	132,820.00	66.41
Pascale Sourisse	Other financial instruments	Exercise of stock options	671,550.00	44.77
	Other financial instruments	Exercise of stock options	770,000.00	38.50
	Other financial instruments	Exercise of stock options	657,600.00	32.88
	Other financial instruments	Exercise of stock options	526,800.00	26.34
	Shares	Sale	849,500.00	56.63
	Shares	Sale	1,132,666.50	56.63
	Shares	Sale	1,132,666.50	56.63
	Shares	Sale	1,132,666.50	56.63

4.3.3.8 TRADING IN COMPANY SHARES DURING 2015

In 2015, Thales traded in Company shares as part of its share buy-back 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 buy-back programme authorised at the General Meeting of 14 May 2014 for transactions performed between 1 January 2015 and 13 May 2015,

and in accordance with the authorisation given by the General Meeting of 13 May 2015 for transactions performed between 14 May 2015 and 31 December 2015.

At 1 January 2015, Thales held 1,876,732 treasury shares, representing 0.9% of the capital, compared with 839,254 treasury shares at 31 December 2015.

The net balance of 2015 trading was the disposal of 1,037,478 shares, broken down by objective as follows:

a) Net disposal or allotment of shares to Group employees and directors in the manner stipulated by law, particularly when share purchase options are exercised or existing free shares are allotted, and employee shareholding plans	(1,022,478)
b) Regulation of the market price by a liquidity contract drawn up in accordance with the AFEI Code of Conduct	(15,000)

Breakdown of treasury shares by objective at 31 December 2015

The total number of shares held at that date was 839,254, representing 0.4% of Thales's share capital. The breakdown by objective was as follows:

a) Disposal or allotment of shares to Group employees and directors as stipulated by law, particularly when share purchase options are exercised or existing free shares are allotted	830,254
b) Regulation of the market price by a liquidity contract drawn up in accordance with the AFEI Code of Conduct	9,000

Market value of the portfolio at 31 December 2015

€57,992,451.4, at the closing price on 31 December 2015, i.e. €69.10.

	Aggregate gross amounts from 1 January 2015 to 31 December 2015		Positions open on the date of the programme description					
			Open purchase positions			Open sale positions		
	Purchases	Sales	Calls purchased	Puts sold	Forward purchases	Calls purchased	Puts sold	Forward sales
No of shares	807,144	1,844,622	-	-	-	-	-	-
Average maximum maturity			-	-	-	-	-	-
Average transaction price (<i>in euros</i>) including possible discounts and free shares	54.12	32.69	-	-	-	-	-	-
Average exercise price			-	-	-	-	-	-
Amounts (<i>in euros</i>)	43,682,633	60,300,693	-	-	-	-	-	-

Thales did not make use of derivatives (futures sales) as part of this redemption programme.

4.3.3.9 GENERAL MEETING AUTHORISATIONS VALID AT 31 DECEMBER 2015 FOR INCREASES IN CAPITAL (PURSUANT TO ARTICLE L.225-100 OF THE FRENCH COMMERCIAL CODE)

Table prepared pursuant to Article L.225-100 of the French Commercial Code summarising the use of authorisations (valid at 31 December 2015) granted by the Annual General Meeting for increases in capital.

	Used by the Board of Directors	Observations
General Meeting of 14/05/2014		
Issue of securities giving access to equity capital: > Limits with pre-emptive subscription rights (fourteenth resolution): 30 million shares and €2.5 billion in debt securities. > Limits without pre-emptive subscription rights (fifteenth resolution) with possibility of priority subscription period: 20 million shares and €1.7 billion in debt securities. > Limits without pre-emptive subscription rights with private placement (sixteenth resolution): same as without pre-emptive subscription rights above. > Possibility of over-allotment ("Green shoe") (seventeenth resolution) in each of the cases: → Maximum of 15% of issues carried out within the limits above. Term: 26 months, i.e. until 13 July 2016 .	No utilisation.	Overall ceiling (nineteenth resolution) for transactions coming under resolutions 15 to 17: 20 million shares and €1.7 billion in debt securities.
Issue of new shares (eighteenth resolution) up to a maximum of 20.5 million shares as consideration for contributions of the securities of third-party companies. Term: 26 months, i.e. until 13 July 2016 .	No utilisation.	Overall ceiling (nineteenth resolution) for transactions coming under resolutions 15 to 17: 20 million shares and €1.7 billion in debt securities.
Issue of new shares reserved for employees who are members of a Group savings scheme (twentieth resolution – as a legal consequence of resolutions on capital increase in cash above). Ceiling: 2 million shares. Maximum discount: 20% for a five-year employee savings plan and 30% for a ten-year holding period. Term: 26 months, i.e. until 13 July 2016 .	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.

4.3.3.10 KEY FACTORS LIKELY TO HAVE AN IMPACT IN THE EVENT OF A TAKEOVER BID (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 under a shareholders' agreement, the key terms of which are described on page 141.

B. In the absence of termination on expiry of the contract 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 five-year periods.

C. Any acquisitions of shares which would take holdings above the thresholds of one-tenth of the capital or voting rights, or any multiple thereof, require the prior consent of the French Minister for the Economy.

4.4 Regulated agreements

4.4.1 COMMITMENTS AND AGREEMENTS AUTHORISED AFTER YEAR-END

At 31 March 2016, no new regulated commitment covered by Article L.225-42-1 of the French Commercial Code had been authorised by the Board of Directors.

4.4.2 COMMITMENTS AND AGREEMENTS AUTHORISED DURING 2015

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 end of the 2017 financial year, compensation will be paid if the average level of achievement of the targets for annual operating profit is at least 80%, depending on the financial criteria available for the period between the start and end of the term of office;
- if the termination occurs after the closure of the 2017 fiscal year, compensation will be paid if the average level of achievement of

the targets for annual operating profit is at least 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 for the benefit of Mr Patrice Caine and for which entitlement is subject to the same performance condition as the above-mentioned compensation for termination.
3. The deferred incremental 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.

These commitments, authorised by the meeting of the Board of Directors held on 25 February 2015, were approved at the Annual General Meeting of 13 May 2015 (resolutions 14, 15 and 16 respectively).

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 2015 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 financial statements for 2015.

BOARD OF DIRECTORS' MEETING HELD ON 29 SEPTEMBER 2009

Assistance agreement between Thales and TSA

For 2015, 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 €478,777.78 excluding tax.

BOARD OF DIRECTORS' MEETING HELD ON 6 MARCH 2008

FSTA: commitments to be undertaken by the parent company, authorised by the meeting of 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 a 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 guarantees required (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 October 2014 to 27 October 2015, Thales invoiced Air Tanker in the amount of £312,668 (or €431,643), pursuant to letters of credit in force.

4.4.4 STATUTORY AUDITOR'S SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS

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.

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

Agreements and commitments authorized during the last year

We inform you that we have not been advised of any related party agreement nor any commitment which received prior authorization from the Board of directors, to be submitted for approval by the General Shareholders' meeting in accordance with article L. 225-38 of the French Commercial Code (*Code de Commerce*).

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 « 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 to cover the following period 28th October 2014 to 27th October 2015, Thales invoiced Air Tanker the total amount of £ 312,668 (€ 431,643.49).

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 2015 under this agreement amounted to € 478,777.78 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 13 May 2015, as indicated in the statutory auditors' special report of 25 February 2015.

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 this 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 the 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 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.

Courbevoie and Paris-La Défense, February 22, 2016

The Statutory Auditors

French original signed by

MAZARS

Anne-Laure Rousselou
Jean-Marc Deslandes

ERNST & YOUNG Audit

Philippe Diu
Serge Pottiez

4.5 Stock market information and financial communication

4.5.1 THALES SHARES

4.5.1.1 LISTING MARKETS

Thales's stock is listed on the Euronext Paris regulated market (Compartment A). It is eligible for the SRD deferred settlement system.

ISIN Code⁽¹⁾: FR0000121329

Reuters: TCFP. PA

Bloomberg: HO FP

4.5.1.2 INDEX LISTING

At 31 December 2015, Thales stock was included in the following main indices:

➤ NYSE Euronext Paris indices: CAC Next20, SBF 120, SBF 250, CAC Large60 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⁽²⁾ and not on the total number of shares outstanding.

→ For information, based on the 2015 closing price, Thales's total market capitalisation was €14,577 million, which is 15.14% of the CAC Next20 market capitalisation. Thales's free float market capitalisation, as defined by the NYSE Euronext Indices Steering Committee, was €7,103 million;

➤ International indices: DJ Euro Stoxx, FTSEurofirst 300.

4.5.1.3 SHARE PRICE AND TRADING VOLUMES ON EURONEXT PARIS

4.5.1.3.1 Monthly data from January 2014 to December 2015 (share prices in euros)

	No. of trading days	No. of shares traded	Total value traded (€m)	Av. daily volume	Weighted average price	High price	Low price	Closing price
2015								
January	21	7,677,982	362.21	365,618	47.175	49.840	44.100	46.800
February	20	7,837,505	391.70	391,875	49.978	52.600	46.425	51.410
March	22	7,695,618	402.36	349,801	52.285	54.130	50.300	51.700
Q1 2015	63	23,211,105	1,156.27	368,430	49.815	54.130	44.100	51.700
April	20	7,170,889	389.15	358,544	54.268	55.850	51.410	54.240
May	20	9,107,800	508.20	455,390	55.798	58.490	51.730	56.640
June	22	10,285,460	570.32	467,521	55.449	57.240	53.370	54.160
Q2 2015	62	26,564,149	1,467.67	428,454	55.250	58.490	51.410	54.160
July	23	10,485,767	605.48	455,903	57.743	62.770	52.080	61.630
August	21	8,274,733	506.92	394,035	61.261	63.260	56.200	61.410
September	22	8,882,408	547.43	403,746	61.631	63.740	59.770	62.170
Q3 2015	66	27,642,908	1,659.83	418,832	60.045	63.740	52.080	62.170

(1) International Securities Identification Number.

(2) As per the definition of the NYSE Euronext Indices Steering Committee (Conseil Scientifique des Indices), the free float corresponds to the total share capital less treasury shares, shares held directly or indirectly by the founders and/or the French government, controlling interests and shares subject to a shareholders' agreement that do not fall under the above-mentioned categories and shareholdings that are deemed stable.

	No. of trading days	No. of shares traded	Total value traded (€m)	Av. daily volume	Weighted average price	High price	Low price	Closing price
October	22	8,813,723	556.97	400,624	63.193	67.000	59.440	65.930
November	21	6,978,699	475.34	332,319	68.113	70.710	65.140	70.470
December	22	6,654,328	462.07	302,469	69.438	71.670	67.230	69.100
Q4 2015	65	22,446,750	1,494.38	345,335	66.574	71.670	59.440	69.100
TOTAL 2015	256	99,864,912	5,778.14	390,097	57.860	71.670	44.100	69.100
2014								
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
Q1 2014	63	15,327,028	732.86	243,286	47.815	49.900	45.950	48.130
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
Q2 2014	62	15,932,105	727.49	256,969	45.662	50.000	43.000	44.175
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
Q3 2014	66	11,769,168	501.91	178,321	42.647	45.195	40.000	42.175
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
Q4 2014	64	18,262,964	758.00	285,359	41.505	45.410	36.400	44.995
TOTAL 2014	255	61,291,265	2,720.27	240,358	44.383	50.000	36.400	44.995

4.5.1.3.2 Annual data from 2014 and 2015 (share prices in euros)

➤ PRICE AND PERFORMANCE

	2015	2014
Closing price	69.10	44.995
Session high	71.67	50.000
Session low	44.10	36.400
Weighted average price	57.86	44.383
Net dividend in respect of the previous year	1.36	1.12
Total shareholder return (TSR) ^(a)	+ 56.31%	- 1.26%
Change in Thales stock over the period (%)	+ 53.45%	- 3.86%
CAC 40 performance over the period (%)	+ 9.05%	- 0.54%
CAC Next 20 performance over the period (%)	+ 6.22%	+ 4.72%

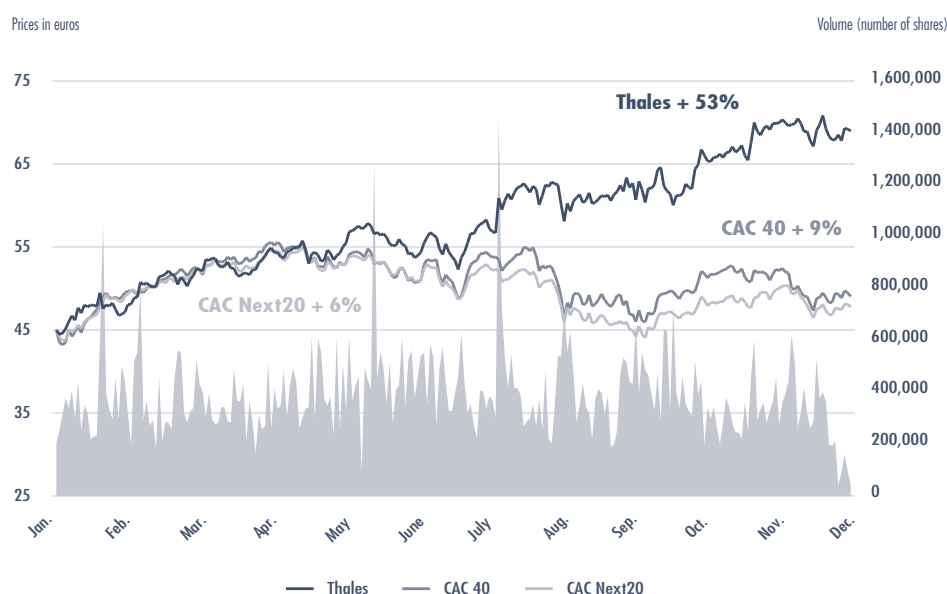
(a) Total shareholder return: differential between annual closing prices, plus dividend after tax credit paid during the year in respect of the previous year, relative to the opening price.

	2015	2014
Average number of shares traded daily (<i>thousands</i>)	390	240
Total number of shares traded over the period (<i>millions</i>)	100	61
Total value traded over the period (€m)	5,778	2,720
Average number of shares traded per month (<i>thousands</i>)	8,322	5,108
Average value traded per month (€m)	481.51	226.69
Total number of shares in capital (period-end – in <i>millions</i>)	210.96	207.84
Total number of shares in free float (period-end – in <i>millions</i>) ^(a)	102.8	98.6

(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 2015 to 31 December 2015

➤ CHANGE IN SHARE PRICE AND TRADED VOLUME FROM 1 JANUARY 2015 TO 31 DECEMBER 2015



Closing price of Thales shares:

- 2 January 2015: €45.03;
- 31 December 2015: €69.10.
- 2015 high: €71.67
- 2015 low: €44.10

Comments on share price in 2014 and 2015

- In 2015, prices recorded strong growth throughout the year, finishing the period up 53%. Over the same period, the CAC 40 and CAC Next 20 indices recorded more moderate performances, up 9% and 6%, respectively.
- In 2014, following strong growth in 2013, Thales's share 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%.

Comments on traded volumes in 2014 and 2015

- In 2015, almost 100 million shares were traded, an increase of around 39% compared to 2014, with daily volumes increasing from 240,000 shares to over 390,000 on average. The peak periods in terms of traded volumes over the year were, as usual, the announcements of annual and quarterly results at the end of February and July and

the dividend payment date, in addition to the profit warning made regarding DCNS' results in January.

- In 2014, daily traded volumes reached an average of 240,358 shares, a decrease from 2013. Traded volumes experienced one-off increases during the year: when the annual results were announced at the end of February, on "investor day" in April, during the period of the Annual General Meeting and the ex-dividend date at the end of May and finally, in the last quarter, when announcements were made with respect to the Group's corporate governance.

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.

The Board of Directors' meeting held on 22 February 2016 proposed to maintain a distribution rate equal to 35% of adjusted net income.

A proposal will therefore be put forward at the Thales Annual General Meeting on 18 May 2016 to pay a dividend of €1.36 per share for 2015, entirely in cash. As an interim dividend of €0.35 per share was paid in December 2015, the amount to be paid after the Annual General Meeting will relate to the balance of the dividend for 2015 of €1.01 per share.

➤ DIVIDENDS PAID FOR THE LAST THREE YEARS

(in euros)	2015 ^(a)	2014	2013	2012
Dividend before tax credit	1.36	1.12	1.12	0.88

(a) Subject to the approval of the Annual General Meeting of 18 May 2016, which will vote on the 2015 financial statements. The ex-dividend date will be 30 May 2016 and the payment date will be 1 June 2016.

4.5.2 FINANCIAL COMMUNICATION POLICY

4.5.2.1 GENERAL OVERVIEW

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 press releases. 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 at 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, "investor days" or visits to operational sites. These include a more detailed presentation of the Company's business activities and strategy.

Thales also regularly exchanges information on its corporate social responsibility policy with the Socially Responsible Investor (SRI) community. These reports cover corporate, social, environmental, governance and international commerce issues, especially as regards anti-corruption measures and the export control of defence equipment and technologies or dual-use goods 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 received recognition at the Transparency Awards for the quality of its financial disclosure in 2012 and 2013, Thales was rewarded once more in 2014, winning the Trophy for Best Investor Relations "All Categories," awarded by a jury including the *Société Française*

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 (Article 158-3, second indent), dividends paid in respect of 2012, 2013 and 2014 qualified for a possible tax credit.

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 2016

4 May	Q1 2016 financial information
18 May	Annual General Meeting
30 May	2015 ex-dividend date
1 June	Payment of 2015 dividend balance
21 July	2016 interim consolidated results
19 October	Q3 2016 financial information

4.5.2.3 CONTACTS

Investor Relations Department

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e-mail: 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.

Thales's Articles of Association and financial information about the Group are publically available from its website (www.thalesgroup.com).

2014 annual results

In the "Investors" section, under the heading "Publications"/"Releases and publications"/"Financial publications":

- press release – 26 February 2015: 2014 annual results;
- presentation – 26 February 2015: 2014 annual results;
- consolidated financial statements at 31 December 2014.

Quarterly information at 31 March 2015

In the "Investors" section, under the heading "Publications"/"Releases and publications"/"Financial publications":

- press release – 6 May 2015: orders and sales at 31 March 2015;
- presentation – 6 May 2015: orders and sales at 31 March 2015;

2015 Annual General Meeting of Shareholders

In the "Investors" section, under the heading "Individual shareholders"/"Annual General Meeting":

- notice of AGM – Balo [French legal gazette] 11 March 2015;
- publication in *Les Échos*, issue of 11 March 2015;
- number of shares and voting rights as of the date of the notice of AGM – Article R.225-73-1;
- Articles of Association – 13 May 2015;
- registration document 2014;
- notice of meeting [Balo [French legal gazette] 13 April 2015];
- notice of availability of documents;
- meeting brochure – AGM 13 May 2015;
- brochure specified in Article R. 225-83 – AGM 13 May 2015;
- 2015 Combined Annual and Extraordinary Shareholders' Meeting – presentation;

- AGM 13 May 2015 – press release;
- AGM 13 May 2015 – quorum and voting results;

2015 first-half results

In the "Investors" section, under the heading "Publications"/"Releases and publications"/"Financial publications":

- press release – 23 July 2015: 2015 first-half results;
- presentation – 23 July 2015: 2015 first-half results;
- consolidated financial statements at 30 June 2015.

Takeover of Vormetric

In the "Investors" section, under the heading "Publications"/"Releases and publications"/"Financial publications":

- presentation of the takeover.

In the "Investors" section, under the heading "Regulated information":

- press release regarding the takeover.

Quarterly information at 30 September 2015

In the "Investors" section, under the heading "Publications"/"Releases and publications"/"Financial publications":

- press release – 21 October 2015: orders and sales at 30 September 2015;
- presentation – 21 October 2015: orders and sales at 30 September 2015;

2015 annual results

In the "Investors" section, under the heading "Publications"/"Releases and publications"/"Financial publications":

- press release – 23 February 2016: 2015 annual results;
- presentation – 23 February 2016: 2015 annual results;
- consolidated financial statements at 31 December 2015.

4.5.3 OTHER MARKET SECURITIES**4.5.3.1 BOND MATURING IN 2016**

In October 2010, Thales issued a €600 million bond at a fixed rate of 2.75% (including €400 million swapped to variable rate). This bond is listed on the Paris stock exchange and matures in October 2016.

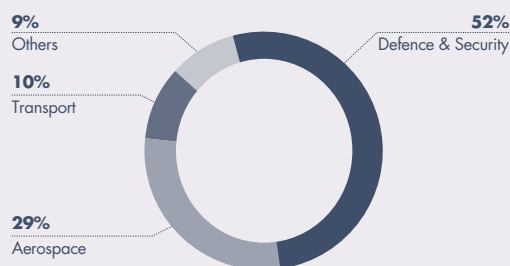
4.5.3.2 BOND MATURING IN 2018 AND 2021

In March 2013, Thales issued a €800 million bond, structured in the form of a five-year €500 million tranche with a coupon of 1.625% (including €300 million swapped to variable rate) and an eight-year €300 million tranche with a coupon of 2.25% (wholly swapped to variable rate), in order to refinance the €600 million bond that matured in April 2013.

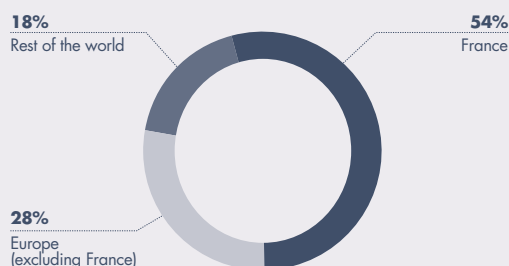
THALES, A RESPONSIBLE EMPLOYER

- Sustainable and quality jobs: 97.9% of employment contracts are permanent and 93% are full-time
- A proactive approach to supporting professional development: around 91% of employees had a professional development discussion with their manager in 2015
- Continuing training programme: more than 1.2 million hours of training were provided in 2015
- 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 on gender equality (women represented 22% of the Group's workforce in 2015). 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-related or disability-related

SECTORAL DISTRIBUTION OF EMPLOYEES MANAGED



GEOGRAPHICAL DISTRIBUTION OF EMPLOYEES MANAGED

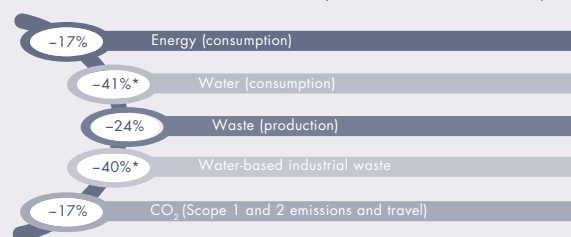


LONG-STANDING ENVIRONMENTAL COMMITMENTS

- First Environment Master Plan launched in 1997
- A structured and dedicated organisation, adapted to the specific area, country and site, that draws on the "Environment-Product managers" eco-design network
- Programmes promoting the control and reduction of water and energy consumption, recycling and the elimination of waste, limiting atmospheric emissions and the discharge of industrial wastewater, and combating pollution (noise and smells). ISO 14001 certification factors environmental concerns into rules governing 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 environmental best practice

PERFORMANCES 2008-2015 (AT CONSTANT SCOPE)



* excluding Mulwala (Australia)

A RESPONSIBLE COMPANY



WE SUPPORT

MEMBER OF

Dow Jones Sustainability Indices

In Collaboration with RobecoSAM

- For fifteen years, Thales has implemented a strong policy of corporate responsibility and has attached great importance to ethical behaviour, transparency and dialogue with regard to its customers and suppliers as well as its employees, its shareholders, the financial markets and civil society. This proactive approach, based on the highest international standards, is mainly carried out on the basis of a Code of Ethics and a dedicated organisation.

- Thales is a leading player in the international effort to promote best practice with professional associations in the Aerospace and Defence sector, international organisations and non-governmental agencies. Thales' approach is also embodied by its involvement in the UN Global Compact; the Group has been a signatory since 2003. Thales is one of 400 companies around the world that has submitted its Communication on Progress to the UN at the "Global Compact Advanced" level.
- In 2015, Thales was added to the Europe and World Dow Jones Sustainability Indices (DJSI) established by the asset management firm RobecoSAM, which has awarded the Group with the highest score in the Aerospace and Defence segment for sustainable performance; Thales' strategy with regard to emerging markets, its environmental policy, the eco-efficiency of its products and services, its social practices and its talent development were all singled out for praise.
- Thales actively contributes to local economic and social life in the countries and regions where the Group operates. These actions are aimed at several associations. Furthermore, in line with its missions and its culture, Thales has established a foundation that focuses its efforts in two key areas: education in the sciences and humanitarian emergencies.

CORPORATE **RESPONSIBILITY**

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5.1 Human resources information

Aware that its success depends on innovation, expertise, and its employees' capacity for teamwork, Thales has chosen to invest in sustainable and responsible relations with its employees and its customers.

This is seen in the Group's strategic vision, "Ambition 10", the principles of which were defined in 2013, which places employees at the heart of the Group's long-term growth plans and relies on a structured Human Resources policy, appropriate to the challenges faced by the Group and supported by high-quality employee relations.

In 2015, these ambitions encouraged the Group to continue to promote its leadership model, to ensure the implementation of the skills- and collaboration-based performance management system and to meet the new skills requirements of employees, with the support of Thales University.

Convinced that diversity is a source of enrichment, innovation and attractiveness and that its workforce should truly reflect its operating environment, the Group also began important initiatives to enhance gender equality and diversity amongst its teams.

Since 2014, corporate management's desire to realise its corporate social responsibility (CSR) commitments more fully has also resulted in the incorporation of a CSR criterion into the objectives set for the most senior managers in France. In 2015, this related to one of the three major pillars of the Human Resources policy: the advancement of women, professional development and quality of life at work.

Thales signed the United Nations Global Compact in 2003 and adheres to 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 on fundamental principles and rights at 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 operation, the Group has been able to rise to the challenges of a fast-changing world. The data for 2015 demonstrate the stability of the Group's social dimension.

5.1.1.1 EMPLOYMENT IN THE GROUP

The breakdown of the Thales group's 62,194 employees⁽¹⁾ by geographic area and level of responsibility demonstrates:

- its international footprint, with 28,739 employees, 46.2% of the total workforce, working outside France at the end of 2015;
- its highly skilled workforce, 76.4% of whom hold a position equivalent to engineer, specialist or manager;
- the presence of women, who make up 22.2% of the global workforce;

- the proportion of long-term jobs, i.e. permanent contracts (97.9%) and
- the volume of full-time jobs (93%).

In comparison to the previous year, employees under Group management increased slightly in 2015 (62,194 versus 61,709 in 2014). In addition, Thales recruited 4,296⁽²⁾ employees this year on open-ended employment contracts, demonstrating the Group's hiring momentum, and its attractiveness.

5.1.1.1.1 Breakdown of employees worldwide

The international footprint of the Group is one of the pillars of Thales's strategy and is seen as the Company's long-term development model. While the diversity of its geographical footprint exemplifies the Group's international character, Europe remains its principal employment zone, including 50,893 active employees, or 81.8% of the total workforce. Workforce growth is strongest in the Middle Eastern countries, the United States and Canada.

		2015	2014
France	France ^(a)	33,455	33,292
Major countries for the Group	Germany	3,152	3,136
	Australia	3,317	3,258
	Canada	1,438	1,324
	United States	2,721	2,550
	Netherlands	1,792	1,842
	United Kingdom	6,298	6,419

(a) Official workforce: 36,503.

(1) In this chapter, Thales uses the term "employee" to designate all active employees.

(2) This figure does not include the 1,194 work-study contracts concluded in 2015. Nor does it include the conversion of short-term employment agreements or apprenticeship agreements into open-ended employment agreements. In 2014, 3,230 employees were recruited on open-ended employment contracts.

		2015	2014
Rest of Europe	Austria	320	315
	Belgium	813	749
	Denmark	103	89
	Greece	27	31
	Hungary	35	28
	Italy	2,653	2,637
	Latvia	16	19
	Norway	222	222
	Poland	249	231
	Portugal	258	251
	Romania	235	238
	Spain	1,017	995
	Switzerland	225	206
	Others ^(a)	23	25
Emerging markets	Brazil	188	202
	Chile	31	20
	China/Hong Kong	485	438
	India	280	246
	Israel	86	89
	Japan	53	50
	Malaysia	65	53
	Mexico	330	283
	Middle East (excluding Saudi Arabia) ^{(b)(c)}	563	374
	Russia	27	30
	Saudi Arabia	601	576
	Singapore	661	610
	South Africa	146	193
	South Korea	24	19
	Taiwan	27	26
	Thailand	18	21
	Turkey	90	107
	Others ^(a)	150	515
WORLD		62,194	61,709

(a) Other countries with fewer than 20 employees and permanent establishments: Algeria, Argentina, Colombia, Czech Republic, Egypt, India, Indonesia, Israel, Kazakhstan, Kenya, Morocco, Panama, Russia, Saint-Domingue, Sweden and Venezuela.

(b) Thales's workforce in this country also includes those employees of a permanent establishment belonging to Thales Communications & Security in Qatar and in Egypt.

(c) The Middle East comprises Egypt, Lebanon, Oman, Pakistan, Qatar and UAE.

5.1.1.1.2 Breakdown of active employees by operating segment

Though the breakdown of employees between Thales's three operating segments remained broadly unchanged, the workforce of the Defence & Security segment increased slightly in 2015.

	Aerospace	Transport	Defence & Security	Others	Total
2015	17,960	6,289	32,207	5,738	62,194
2014	17,951	6,331	31,599	5,828	61,709

5.1.1.1.3 Breakdown of employees by type of contract

The preponderance of the Group's employees have open-ended employment contracts and work full-time. This trend is a major characteristic of Thales's workforce and applies to all of the countries where it does business. 97.9% of Group employees have open-ended employment contracts and 93% work full-time. Lastly, the use of temporary workers has remained relatively limited; in 2015, the Group used only 2,677 temporary workers worldwide. In France, the Group's companies used 837 temporary workers (709 in 2014).

5.1.1.1.4 Breakdown of employees by level of responsibility

Thales classifies all of its jobs throughout the world according to twelve levels of responsibility (LR), reflecting 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 2015, 76.4% of Thales employees held a position equivalent to engineer, specialist or manager level (LR 7 to 12).

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 service with the Company and average age, which are relatively high and 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 (33.5% of employees are under the age of 40).

In France, the average age of employees was 45 at 31 December 2015, with an average of 17 years' service with the Company. 36.5% of employees are over 50 years of age and 32.1% are under 40 years of age.

5.1.1.2 RECRUITMENT

Thanks to an employment policy appropriate to its needs, and despite the slowdown in certain employment markets and necessary efforts to adapt in certain countries, the Group recruited 6,445 employees in 2015: 4,296 on open-ended employment contracts, 955 on short-term employment contracts and 1,194 on work-study contracts. Recruitment therefore increased compared to 2014 (5,297). France, Australia, the United Kingdom, the Middle East and the United States saw the most hires. A large majority of new recruits were offered permanent employment, on open-ended contracts. In addition, between 1 January and 31 December 2015, the Group signed 1,194 work-study contracts, mainly in France, Canada, Germany and the United Kingdom. This increase (from 1,094 contracts signed in 2014) illustrates the Group's commitment to integrating young people into the workforce.

In France, of the 2,997 employees recruited in 2015, 1,570 were hired on open-ended employment contracts, 1,007 on work-study contracts (688 apprenticeship contracts and 319 vocational training contracts) and 420 on short-term employment contracts. In addition to recruitment, internal mobility was particularly encouraged in 2015.

5.1.1.3 DEPARTURES

During 2015, 4,302 employees left the Group. These departures mainly comprise resignations (1,755), retirements (1,100), redundancies (811 across the board, compared to 863 in 2014) and the expiry of short-term

employment contracts (439). Excluding expired short-term employment agreements, the number of departures is down compared to 2014 (3,863 versus 3,998).

The number of redundancies (474) remained stable compared to 2014, despite difficulties faced in some countries. Redundancies in 2015 relate primarily to a decline in business in some fields and the completion of a number of projects (in the United Kingdom, Australia and Middle Eastern countries). 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.

In France, the total number of departures, including expired short-term employment agreements, stood at 1,783, resulting mainly from retirements (858), resignations (408) and expired short-term agreements (283).

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's 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 Regeneration of the Group's employer brand

In order to attract recruits, since 2014, the Group has made particular efforts in respect of its communication and its Employer brand, to attract diverse international talent. A new Global Resourcing position was created to support the Group's "Ambition 10" strategic vision, in order to enhance its ability to recruit the best talent. With this in mind, in the first quarter of 2015, Thales rolled out the new "TOGETHER WE" employer brand. Developed using employee testimonies, this new employer brand aims to improve the experience of finding out about the Group and its business activities with the aim of attracting diverse international talent.

The roll-out of this new employer brand has led the Group to refresh all its communication materials (brochures, stands, posters and web visuals), where Thales employees now appear.

5.1.1.4.2 Digital and internet attractiveness

The internet is today the leading source of information and employment searches.

As such, during 2015, Thales continued to enhance its presence on social networks (LinkedIn, Twitter and Viadeo), on sites specifically for young graduates (Jobteaser, Student, Studyrama and Yypeek) and generic job posting sites (including Monster, Regionjob and Indeed). In late 2014, the Group also renewed its partnerships with several recruitment sites, and through the use of the Multiposting and eQuest solutions, multicasts vacancies to some 50 recruitment sites and social networks. This approach, which is based on channels traditionally used by candidates, makes it easy for them to access information about the Group, to read its latest news, to search for jobs and to apply online. A significant number of applications are now received via social networks and online recruitment sites. In France, this accounts for over 61% (or more than 127,000) applications.

Thales has also developed innovative interactive interfaces to encourage people to learn about the Group. Available since mid-2015, the new Thales mobile app allows users to find job vacancies and recruitment fairs within the Group. Above all, it provides the opportunity to apply via smartphone. Available in the 56 countries in which Thales operates, the app helps to reinforce the Group's employer brand and its presence

on social networks. Thales also provides the first virtual reality recruitment experience. This unique solution, which uses Oculus Rift technology, gives users the opportunity to find out about the Group's activities in an interactive way. Since September 2015, potential candidates and students have been able to try it out at the forums and recruitment events in which the Group participates.

5.1.1.4.3 Educational partners and links with schools and students

Students from schools and universities are all future potential Group employees. To help them throughout their education and to foster their professional integration, Thales supports students by maintaining close links with their schools and student organisations. There are numerous partnerships with schools in countries where the Group operates (including Australia, Germany, the Netherlands, Romania and the United Kingdom). The Group is also keen to encourage an interest in science and technology careers among young people (both boys and girls) in secondary education.

As such, 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. In the same spirit, in 2015, the Group's French companies participated in a campaign called "First Internship with a Company" in partnership with the non-profit organisation *Elles Bougent* ("They're going places"). Internships were offered to young female students in Year 10 to allow them to discover various aspects of the Group's business. In France, around a hundred programmes were also undertaken in 2015 with schools, and the Group took part in some 50 or so forums.

These initiatives are supported by an internal network of more than 70 Campus Managers. Campus Managers are former students from partner schools who are now Group employees, and they act as Thales ambassadors with students. Through their testimonies, they help young people make better decisions about their careers and find out more about the Group's various businesses. They represent essential links that ensure a close relationship between educational establishments, students and the Group.

In addition, Thales was ranked as the third most attractive employer for students at engineering schools in France (Universum and Trendence rankings) in 2015, recognition that demonstrates the success of its recruitment policy.

5.1.1.4.4 Thales and the professional integration of young people

As part of its Human Resources policy, Thales has implemented a recruitment policy for young people designed not only to respond to Thales's needs but also to help young people enter the workforce. As a method of training, work-study contracts are an important component for Thales in integrating young people. In 2015 for example, the Group signed 1,194 work-study contracts worldwide, notably in France (1,007), Canada (51), the United Kingdom (47), and Germany (29).

In France, as of 31 December 2015, the Group's companies included 1,238 apprentices (688 of whom had been hired during that year), 391 young people on vocational training contracts (317 of whom had been recruited during that year) and 118 individuals with CIFRE fellowships (41 of whom had been recruited during that year).

Continuing its programmes to promote young people's integration into business, in 2015 Thales continued to roll out a Group-France agreement called the Generation Agreement⁽¹⁾ 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 (July 2016).

It also supports the policy to recruit young people by providing that 30% of the Group's hires in France must be people under the age of 26 (with the objective of recruiting 2,000 people under the age of 30 on open-ended employment contracts before the end of 2016). The agreement also provides for the implementation of programmes to support diversity. To this end, the second edition of the Thales Education Prize awarded 20 scholarships in September 2015 and the partnership with the non-profit organisation *Nos Quartiers ont des Talents* ("Our neighbourhoods have talent") was renewed.

Each year, the *Semaine de l'Industrie* (Industry Week) is an opportunity for the Group's French sites to introduce junior high, high school and university students to its business lines and operations. These sessions, delivered in collaboration with the non-profit organisations *Nos quartiers ont des talents* and *Elles Bougent*, provided an introduction to the job profiles within Thales not only for trainees at the educational institutions targeted by the Group, but also for young graduates from priority neighbourhoods or disadvantaged social backgrounds.

5.1.2 HIGH-QUALITY EMPLOYEE RELATIONS

In all areas of common interest, Thales promotes cooperation with its employees and their representatives, and provides them with high-quality information, in particular by maintaining and encouraging employee relations.

5.1.2.1 COLLECTIVE BARGAINING

5.1.2.1.1 Collective bargaining around the world

At the end of 2015, 85.7% of Thales group employees worldwide were covered by collective agreements, including the European agreements signed by the Group. The companies in question can add locally negotiated agreements to this framework. Over 50 new collective

bargaining agreements were entered into within the Group, showing the importance of employee relations.

5.1.2.1.2 Collective bargaining at the European level

By involving employee representatives at a transnational level, Thales has endeavoured to strengthen employee relations at European level since 2009. In June 2009, Thales thus 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⁽²⁾) agreement concerns more than 50,000 employees and defines very specific objectives for improving employees' professional development, through some 20 or so programmes.

(1) Group Agreement on "Thales's commitment to promoting the employment of young people and overfifties and to support knowledge transfer."

(2) "Improving development through effective anticipation."

The momentum 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 agreement (Transparent Annual Activity Discussion for mutual listening and developing professional Knowledge⁽¹⁾). 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 the best possible conditions and that the rights and responsibilities of all parties are respected.

In 2015, the parties to both these agreements drafted an implementation summary and reviewed the deployment of the provisions of these agreements, through two joint committees.

5.1.2.1.3 Collective bargaining in France

In France, numerous Group agreements have been entered into since 2006, forming a basis that is common to all employees, whichever company they work for. Such is the case, in particular, for the Group Anticipation agreement, renewed in 2013, which defines a shared and transparent approach to workforce and skills planning, the Group benefits agreement, which harmonises employee benefits, and the Group framework agreement on professional gender equality (framework agreement of 13 January 2004 amended on 27 June 2012).

Six particularly fundamental new agreements and amendments were entered into at Group level in connection with employee relations during 2015:

- the agreement on terms of office agreed on 23 November 2015, increasing the term of all offices for elected staff representatives from two to three years;
- the agreement on Intercentre resources, signed on 23 November 2015, sets out the resources granted to trade union organisations at Group level (equipment, operating costs and intranet). This agreement revises and replaces the agreement on the same topic concluded on 15 November 1999;
- the agreement on arrangements governing corporate control of the Thales group occupational Health office, signed on 23 November 2015. The establishment of this office in 2015 aims to strengthen the occupational health policy and coordinate preventive measures taken within entities;
- the framework agreement on teleworking signed on 24 April 2015 renewed, for a period of three years, the option available to Group entities to use teleworking by way of a specific agreement including the framework agreement. This agreement increases the number of days per week that can be teleworked to two, and sets a maximum quota of employees that may use telework within Group entities;
- amendment no. 10 to the agreement on benefits for Group employees signed on 23 November 2015 adapts the complementary welfare cover applicable to employees, in order to take account of changes in regulations, to bring the Healthcare Costs agreement into line and to maintain the level of benefits;
- amendment no. 2 to the agreement on the composition and operation of the Thales Inter-Company Committee, signed on 15 June 2015, amends its funding rules to allow the system to continue in the long-term. On behalf of the Works and Establishment Councils, the Inter-Company Committee manages and organises young persons' holidays for Group employees, as part of their social and cultural activities.

Apart from compulsory annual negotiations, the Group's French subsidiaries also entered into several agreements in 2015. The main areas of negotiation were: gender equality, implementation of teleworking, profit-sharing agreements, and the adaptation of Active Job Management measures at the company in question.

5.1.2.2 APPROPRIATE LABOUR RELATIONS BODIES

5.1.2.2.1 European Works Council

Created by an anticipation agreement, the European Works Council (EWC) comprises representatives from Thales's 11 main European countries. Its resources were adapted and increased in 2002 and 2007.

It operates on the basis of:

- two ordinary Annual Plenary Meetings and further meetings convened in exceptional circumstances;
- a Select Committee that meets in order to ensure regular provision of information;
- information and discussion meetings on the strategic outlook at the level of the Group businesses.

In 2015, two plenary meetings and four meetings of the European Works Council Select Committee were held. In addition, five information and discussion meetings took place as part of the work of the European Works Council, within the Group's business domains, to discuss the strategic and social perspectives of these activities.

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.

During 2015, the European Anticipation Commission met twice, on 25 February and 24 March. These meetings resulted in significant discussions on the conditions for implementation of the European agreements in the countries that are parties to the agreements. The list of indicators scheduled in the IDEA agreement and arrangements for monitoring these indicators were presented to the European Anticipation Commission.

As an extension to these discussions, a European Convention was organised on 22 and 23 June 2015 which brought together more than 60 employee representatives and Human Resources representatives from the eleven countries that have signed up to the IDEA agreement, as well as from Romania, Denmark and Poland, whose representatives wished to take part in this transnational joint event.

The convention enabled the exchange of best practices and resulted in numerous discussions which led to the identification of five priorities for the next two years in terms of anticipation, diversity, the leadership model, the Annual Activity Discussion and communication; each country had to set out an action plan to implement the goals of these five priorities, through a National Anticipation Commission.

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 trade union organisations at Group level,

(1) Agreement on the Annual Activity Discussion.

which have one permanent representative per trade union organisation, their own budget and dedicated resources. This is the framework within 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 in conjunction with all the trade union organisations in 2011. The 30-member Group Works

Council is a body for information, deliberation and discussion aimed at developing dialogue between corporate management and employee representatives on the position and strategic focus of the Group's main businesses. The Group Works Council met three times in plenary sessions in 2015.

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, firstly, to identify key changes or innovations in advance and to prepare action plans to deal with them, and secondly, to train and support every employee with a view to diversifying their experience, providing them with opportunities and thus designing a better career path.

5.1.3.1 MANAGEMENT OF JOB FAMILIES

Thales has identified fifteen 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 changes in the Group's markets and to better enhance employees' skills. Each job family is managed at the highest level and benefits from the expertise of an operational leader and an operational committee, an HR contact person and a training support team to anticipate changes and future trends, and to put forward a collective professional development action plan (covering recruitment, training, job roles to be developed, etc.).

Management of key and critical skills: in a highly competitive economic environment, employees' technical skills are a major advantage. Skills management provides substantial leverage in terms of professional development. To this end, the Group has developed an approach to the management of key skills for all of its job families, centred on the identification and sharing of available technical skills. This approach, which relies on an inventory of skills, provides practical responses to technical problems identified in programmes or helps to form new teams that will secure bids and projects.

Over 2015, the Group also decided to enhance its approach by developing a new skills management tool allowing engineers to showcase their existing skills and identify the skills to be developed with their manager, in line with the organisation's needs. It also gives managers the opportunity to anticipate needs and to ensure their teams' key skills are up to date, through better alignment with the professional development plans agreed (covering skills transfer, coaching, training and recruitment of specific profiles). Developed for research and development job families (approximately 22,000 employees), this new approach is expected be rolled out to other job families over the next few years.

Management of specialists: Thales's technological innovation relies largely on a community of specialists/experts. The Group recognises their

contribution at 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 the international level. Lateral mobility is encouraged.

5.1.3.2 ANTICIPATION TO HELP SAFEGUARD CAREER PATHS

The anticipation process, supported by negotiations 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, with strong involvement from 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 career plan;
- employee representatives, who, having a greater awareness of and part in future developments in the job families, are well versed in these analysis methods and will voice their opinion on the short, medium and long-term action plans put forward;
- the employee, who becomes an active participant in their development through new and significant involvement, and who may benefit from a detailed, real-time understanding of the development of their job family within the Group, as well as from ongoing access to all of the mechanisms and tools in place.

The Group has recognised the fundamental role played by employee representation bodies in setting up a policy for anticipating changes within the various job families and job roles. 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 and skills planning. It also defines the conditions, procedure and measures associated with active job management in the event of foreseeable economic difficulties linked to new skills requirements, or even in the case of technological breakthroughs that could have an impact on employment under certain job families.

Joint efforts by the Company and employees resulted in the implementation of active job management in several Group companies in 2015 after staff representatives had been informed of and consulted on the economic projections, their effects on employment and the timeliness of implementing the initiative.

5.1.3.3 THE EMPLOYEE AS ACTIVE PARTICIPANT IN THEIR PROFESSIONAL DEVELOPMENT

Thales believes that each employee should be an active participant in their career development plan. An analysis of the changes in job families and job roles and the communication of the corresponding results enables each employee to construct a career plan in step with developments in their field and the associated skills.

The Group also ensures that its employees receive a professional development discussion (*Entretien de Développement Professionnel* [EDP]) each year. This individual discussion is an important step in the process of professional development and constitutes a specific opportunity for the employee to take stock with their manager of how best to develop in their current position and to define their career path. This meeting also enables employees and managers to jointly define an associated action plan that includes training, as well as any other measures aimed at professional development. As such, during their professional development discussion each year, employees are individually informed by their line manager of trends in their job family and their job role, and resources that could contribute to their professional development.

In 2015, 91.2% of Thales's employees worldwide had a professional development discussion with their manager (compared to 89.8% in 2014).

Thales also makes computer tools available to its employees in the form of applications that they can use to list and update their skills and requests for professional development (e-HR Together), to look at job offers on the internal job board, to submit their CVs online (e-HR Staffing), to see the training sessions that are available and to enrol themselves for available session dates (e-HR Training).

Professional Areas, places for information and discussion 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 to offer rich and varied career paths to employees. 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 to strengthen and enhance skills. In addition, career gateways (from one job family to another, from one job role to another within 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 have been defined to facilitate the process, whether for a change in position or a geographical relocation or both, covering relocating, help with finding housing, a moving bonus, etc.

The Group also has several processes to encourage international mobility:

- in 2015, The International Business Volunteers programme allowed more than 30 young people aged between 18 and 28 from the European Economic Area to go abroad for assignments of 6 to 24 months in a foreign country. This year, more than 30 new departures were organised, some of which were to new destinations;
- the "Career 1st" programme offered about 20 employees, young graduates or young professionals with less than five years' experience, the opportunity to work outside their country of origin for a specified 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 90 employees by the end of 2015.
- the Group's international secondment policy is mainly aimed at employees with more than five years' professional experience. International secondments are dependent on the needs expressed by the countries of operation and by the Group's strategy.

At 31 December 2015, some 686 Group employees from more than 20 countries of origin were working in an international context on a provisional basis, in around 60 host countries.

5.1.3.5 TRAINING

Thales's commitment to training stems from the view that building a successful career means maintaining every employee's expertise at all times, as a guarantee of employability. The Group's training policy has a dual 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 2015

76% of Group employees received training in 2015. This figure demonstrates the Group's commitment to invest in training its employees, who received an average of 21.29 hours of training this year. Overall, the total number of training hours in the Group was 1,292,137 hours in 2015. Compared with 2014, the average number of training hours increased in Belgium, Norway and the Netherlands.

In France, the average number of training hours per employee (20.7 hours) and the level of training expenses (3.66% of payroll compared to 3.71% in 2014) remained stable.

Thales University: "to share knowledge and transform Thales"

Present in ten countries⁽¹⁾ (representing approximately 85% of the total workforce), Thales's in-house university (Thales University) contributes to 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. As such, since 2014, Thales University has been requested to provide support in the roll-out of the Group's major transformation programmes: the Group's long-term strategic vision, "Ambition 10" and its operational offshoot,

(1) Germany, France, Italy, Netherlands, UK, Canada, USA, United Arab Emirates, Australia and Singapore.

"Ambition Boost". In 2015, over 77,000 hours of digital training were delivered worldwide (making an increase of 10% compared to 2014).

In France, 12,035 employees (compared to 11,217 in 2014) undertook a training course at Thales University in 2015. In 2015, the number of training hours delivered by Thales University in France stood at 214,275 hours (compared to 200,890 hours in 2014), showing a significant increase of 6.5% in training hours delivered by Thales University in France. As such, Thales University provides more than 35% of the training hours in France.

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 combined organisation to serve the Group's companies, with a joint team providing advice, administrative processes and homogeneous shared tools. Training purchases are optimised, as is financing;
- position the companies' action and the challenges for the Group ("Ambition 10"/"Ambition Boost") around major topics 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 in training provision.

5.1.3.6 DEVELOPMENT OF A LEADERSHIP MODEL

In 2014 the Group promoted a new model of leadership. Devised with support from managers, the new leadership model defines the professional behaviours expected of leaders. It is composed of six key skills⁽¹⁾, themselves 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 published in several languages (French, English, German and Chinese), the presentation for this model was distributed to all the Group's major countries. To date, most managers have become familiar with this model either in the form of participative workshops, through modules integrated into Thales University training courses, or else by participation in local initiatives. Management training programs delivered through Thales University have all been adapted to reflect the six key skills that this model describes.

Programmes designed to develop talent based on the leadership model were rolled out across all the Group's major countries in 2015 to train tomorrow's leaders: 360° questionnaires, development centres, project team charters, and so on. This model has now been incorporated into the majority of the Group's Human Resources processes: staff review, professional development discussion, recruitment, integration, etc. A comprehensive communication campaign to tell employees about the leadership model was ultimately rolled out to accompany the launch of the professional development discussion campaign. The leadership model is now routinely included in any collective development effort.

5.1.4 A GROUP EMPLOYEE PROFIT-SHARING POLICY

An integral component of its employment policy, the Group's salary policy combines collective results and individual performance and its implementation process is 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 individual objectives for the year and place them in the context of the team's collective objectives, the Annual Activity Discussion is also an opportunity to discuss the appraisal of the results achieved over the past year. Worldwide, 92.7% of employees benefited from such a discussion.

5.1.4.1 COMPENSATION AND SALARY PROGRESSION

Individual pay rises depend on fulfilment of responsibilities, 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 ongoing objectives for the position), to encourage teamwork and give team members a stake in the business results of the Group and the company to which they belong, as assessed on economic indicators.

In 2015, salaries rose by over 2.2% 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 €5,784 million in 2015, compared with €5,456 million in 2014. The change in payroll from 2014 to 2015 (+€328 million) includes a positive exchange variation effect of €120 million.

(€ million)	2015	2014
France	3,289	3,246
Europe excluding France	1,520	1,413
USA, Canada, Australia	724	593
Rest of world	251	204
TOTAL	5,784	5,456

(1) Managing complexity, acting with responsibility and ambition, succeeding through cooperation, influencing key stakeholders, engaging and developing teams, and displaying emotional intelligence.

Note: the changes in payroll in France shown in this table differ from the progression in average compensation of the headcount because it takes into account changes in headcount and its structure and changes in the age pyramid, as well developments in profit-sharing and incentive schemes.

5.1.4.2 INCENTIVES AND PROFIT-SHARING IN FRANCE

In order to strengthen employee 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 2015 for financial year 2014 amounted to €18.7 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 give employees a stake in the Company's results and performance. In 2015, 23 of the Group's companies in France paid incentive rights for 2014 totalling €57.03 million (the amount paid in 2014 for 2013 incentives was €43.45 million).

The parent company paid €4.3 million in incentives in 2015 for 2014. For the record, €4.12 million in incentives were paid in 2014 for 2013.

5.1.4.3 GROUP SAVINGS SCHEME

The Group savings schemes are made up of a Thales group savings scheme (PEG) set up in France in 1998 and, since 2007, a Collective Retirement Savings Plan (PERCO).

At 31 December 2015, the total savings under management by Group schemes amounted to €863 million (compared with €673 million in 2014), held by close to 53,000 former and current Group employees.

5.1.4.3.1 Group savings scheme and employee shareholding

At the end of 2015, assets under management in the Group savings scheme stood at around €600 million, including over €321 million in diversified assets. Under the Group savings scheme, the employee shareholding fund is the framework within which Group employees and

former 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, 2013 and most recently in 2015.

At 31 December 2015, assets under management amounted to approximately €279 million, consisting of Thales company shares managed within the Thales group savings plan on behalf of around 27,600 shareholders. Including shares from free-share allotment plans, employee shareholding in Thales amounted to 2.69% of the Company's capital at 31 December 2015. The 2015 offer was a resounding success since 16,824 Group employees and retirees subscribed to it, requesting a total of 1,254,073 shares though only 500,000 were on offer, meaning that subscriptions had to be reduced.

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 an amendment dated 29 March 2011, the parties to the agreement that instigated the PERCO plan specifically changed it to significantly increase the amount of corporate assistance in the event of voluntary payments into the PERCO.

At 31 December 2015, assets under management as part of the PERCO plan amounted to €263 million, on behalf of 30,960 holders.

5.1.4.4 GRANT OF UNITS AND UNITS SUBJECT TO PERFORMANCE CONDITIONS

On 17 September 2015, 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 confers the 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 will be calculated at the end of the vesting period, and will be equal to the average daily opening sale price of Thales shares during the vesting period.

These plans have benefited a total of 4,182 employees: managers, experts, technicians and other key contributing employees in 29 Group countries. 292 of them, 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 for all employees, in compliance with applicable law, through monitoring procedures, preventing health and occupational 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 related to workplace health and safety, whether on Thales sites or external sites, and to manage major health crises that could occur internationally.

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 for their respective areas of

responsibility, which are implemented in the countries in accordance with national laws and requirements, and take practical measures in terms of prevention, and workplace health and safety.

Coordinated by the Risks and Internal Control Committee, the risk management process includes risks liable to affect employees throughout the world, on site and at construction sites. Regular monitoring of the risks to which Group employees may be exposed is performed each year.

5.1.5.2 PRACTICAL PROCEDURES AND MEASURES

Practical measures are also implemented in relation to the health and safety of employees in the workplace by the Group's Human Resources

Department and Health, Safety and Environment Department. In addition, Thales is committed to developing quality of life at work.

In France, the quality of life at work agreement signed on 4 February 2014 defined a general framework for Thales's 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 emergence 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 enhanced the process for the prevention of psychosocial risks, in particular by focusing on the primary prevention of these risks and by setting out formal actions to prevent their emergence, 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 measures have also been initiated within the Group to improve employee health and safety. In the United Kingdom and Australia, Thales has carried out programmes to develop a real safety culture, involving managers in particular. By setting targets to reduce health and safety incidents in the UK, risk monitoring in this area has been effectively managed. Australia continued to develop its Safety Leadership Programme, begun in 2014, by adding manager training to it. Spain implemented a specific action plan relating to prevention. Risk audits and risk assessment procedures are also performed to assess the working conditions on site nationally, as well as on international sites (Australia, Saudi Arabia, Italy, United States). Lastly, a number of health and safety training courses have been delivered to managers and to all employees (in Austria, Australia, Belgium, and Brazil in particular).

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 2015, 95 certificates had been issued, representing 76% of worldwide headcount, a sharp increase over previous years (62% in 2012).

5.1.5.3 INFORMATION ON WORK-RELATED ACCIDENTS AND ABSENTEEISM

Worldwide, the Group's overall absenteeism rate is 2.61%.

In France, the total rate of absenteeism calculated in accordance with the corporate assessment was 3.18% in 2015. This latter rate has been stable for the last three years (3.11% in 2014, 3.07% in 2013). The absenteeism rate declined slightly to 2.51% (excluding maternity and paternity 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 2.38 for 2015 and the severity rate is 0.06. The rates differ substantially for each country, depending in particular on the activities taking place there. However, in the majority of countries, the frequency and severity rates are

relatively low. In France, for 2015, the frequency rate of accidents at work was 2.75 and the severity rate was 0.09.

It should be noted that the inherent difficulty in defining the concept of occupational illness in the 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, 1,109 working days were lost due to occupational illness in 2015.

5.1.5.4 SOLID WELFARE COVER

Offering employees quality health and pension coverage to support 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% of Group employees are full-time; part-time contracts generally represent the employee's choice.

87.4% of Group 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, 76.4% 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.).

Many Group 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 working week is shorter than this pursuant to legal or contractual provisions. In the United Kingdom, most of Thales's activities are organised on the basis of a 37-hour working week. In Germany, branch collective 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 45,152 hours in 2015, as compared with 51,237 hours in 2014.

5.1.6 GENDER EQUALITY AND DIVERSITY

The Group is especially committed to equality of treatment, which requires preventing all discrimination specifically on the basis of origin, 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 ACTION TO PROMOTE EQUALITY

The Group has maintained its commitment to ensuring that women are even more involved in its development, based on a committed, concrete policy supported by constructive social dialogue. The positive changes seen in recent years attest to the Group's commitment in this domain. As a result, at 31 December 2015, women made up 22.2% of the total workforce, 22.4% of the European workforce and 23.5% of employees in France. Within the Group, the employment of women is sustainable and skilled in nature. 97% of women employees work under open-ended employment contracts, and 63.9% (as compared with 62.5% in 2014 and 60.5% in 2013) hold positions at a 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 process of dynamic progression with regard to professional equality. In 2004 in France, Thales took strong action in this area, in cooperation with the representative trade union organisations (action plans were 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 gender equality: recruitment, career development, equal compensation, and work-life balance.

Lastly, since 2014, the Group's corporate management has clearly reaffirmed its commitment to promoting equality at all levels of responsibility. To this end, specific action plans were devised involving all the Company's stakeholders (Executive Committee, managers, Human Resources, and employees). A dedicated organisation was set up in many countries, and exchanges of best practices were organised at Group level. Lastly, goals in terms of women's career development and/or recruitment were set in some countries, as well as in a number of Group companies.

5.1.6.1.2 Concrete achievements

- **Recruitment:** steps taken to promote recruitment resulted in the Group's companies hiring 1,843 women in 2015, which represents 28.6% of worldwide recruitment. This year, women represented 30.7% of recruitment in Europe and 32% of recruitment in France. Particular focus is given to the recruitment of women on open-ended employment contracts. As such, in 2015, 24.4% of employees recruited on open-ended employment agreements were women, compared to 22.15% in 2013. Data relating to the recruitment of women reflects the firm commitment made by a number of countries (Germany, where 36.2% of new recruits were women, 33.6% in China and 32.9% in Singapore).
- **Career:** Efforts to promote the career development of women employees were increased in 2015. Stereotype awareness sessions were conducted for more than 480 managers throughout the Group in France, bringing to over 670 the number of managers attending such sessions since 2013. Co-development efforts were made in Europe to encourage the promotion of women. Almost 130 women employees have participated in personal development sessions specifically for women, intended to help them progress in their careers, since 2014. Mentoring programs have also been launched, in particular in Germany.
- **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 payroll costs specifically dedicated to dealing with any unjustified pay differences between men and women. In 2015, 898 women benefited from the measure,

as well as from an individual average pay increase of 2.34%. 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 320 children at around a dozen sites. Since 2014, Germany has also given employees at one of its sites the opportunity to reserve cots in a nursery.

5.1.6.2 DIVERSITY AND NON DISCRIMINATION

5.1.6.2.1 Promoting cultural diversity

As an international group, Thales 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 gives particular focus 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 embed a more global dimension for the Group by promoting greater diversity within teams.

In France, the Generation Contract agreement 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, which was effective from 2014 onwards. At the end of 2015, 74 Group employees had signed up as sponsors with this association.

5.1.6.2.2 Disabled employment outside France

Regardless of the country in which they operate, 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 the payment of 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 Disabled employment in France

Thales has long had a particular set-up that features 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.

As a result of the deployment of multi-year Group agreements in France, first concluded in 2004, in 2007, and then in 2011 and 2014 by unanimous agreement of the trade union organisations, the employment

rate for people with disabilities in the Group has continued to rise, standing at 5.83% at the end of 2014, compared with 5.1% in 2011. In 2015, this rate stabilised thanks to efforts to recruit and retain people with disabilities.

The agreement, signed in 2014 for the period from January 2015 to December 2017 with all the trade union organisations represented, serves to enhance the programmes implemented under the previous agreements. This agreement is part of Thales's proactive policy dating back more than 20 years and reinforces the measures promoting and facilitating job retention, professional development and integration of people with disabilities within the Group. One of the key ambitions of this agreement also lies in applying the requirements of French standard AFNOR X50-183 on disability-friendly organisations to all sites so that in the long-term, they are compliant with this standard. The provisions of the 2014 agreement provided for the recruitment of 120 disabled people from 2015-2017 (60% of whom will have open-ended contracts), 246 interns and 38 young people on work-study contracts.

In addition, in 2015, the Group continued to strengthen the partnerships forged in previous years with the Agefiph fund for the integration of disabled workers and the GESAT network for sheltered and adapted employment to facilitate and enhance subcontracting to the disability-friendly sector. Similarly, the partnerships concluded with education authorities and universities were continued, in order to support young people with disabilities in their studies and professional integration.

In 2014 and 2015, five Group sites in France were awarded a certificate of compliance with the AFNOR X50-783 standard (disability-friendly organisation) and 22 units implemented action plans that will result in this certification being awarded in the long-term.

5.1.6.2.4 Combating age discrimination

The commitments made by the Group and formalised in its Code of Ethics demonstrate its determination 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 agreement had expired, a Group agreement known as the Generation Contract reiterated, to a large extent, the provisions intended to prevent any risk of age discrimination, to develop the skills of the over-fifties, to improve their working conditions and to take into consideration personal situations of mismatched work or difficult work situations. Quantifiable objectives have also been set, aimed at increasing the proportion of new hires over the age of 55 to 2% and increasing the proportion of employees over the age of 57 to 15% of the official workforce by July 2016.

5.1.7 SOCIAL INDICATORS

Indicators	2015 Data	Scope covered
TOTAL HEADCOUNT^(a) AT 31 DECEMBER 2015	62,194	100%
Headcount by country^(b)		
Headcount France	33,455	100%
Headcount Europe (including France)	50,893	100%
Headcount outside France	28,739	100%
Headcount by gender		
% of women	22.2%	98.7%
% of men	77.8%	98.7%
% of women in France	23.5%	99.9%
Headcount by type of contract		
% of permanent contracts	97.9%	98.7%
% of full-time contracts	93.0%	98.7%
Headcount by age group		
< 30	10.0%	98.7%
30-39	23.5%	98.7%
40-50	30.6%	98.7%
> 50	35.9%	98.7%
Headcount by LR (Level of Responsibility)		
LR 1 to 6	14,510	98.7%
LR 7 to 12	46,869	98.7%
Number of temporary staff	2,677	98.7%

(a) Headcounts shown are active headcounts.

(b) See also break-down by country on p. 196 and 197.

Indicators	2015 Data	Scope covered
Departures by type		
Number of departures	4,302	98.7%
% Resignations	40.8%	98.7%
% Redundancies	18.8%	98.7%
% Retirement	25.6%	98.7%
% End of fixed-term contracts	10.2%	98.7%
% Other departures (including death)	4.6%	98.7%
Hires		
Total number of hires	6,445	98.7%
Of which open-ended contracts	4,296	98.7%
Of which fixed-term contracts	995	98.7%
Of which work-study contracts	1,194	98.7%
% recruitment of women	28.6%	98.7%
Training		
% of employees benefiting from a PDD (Professional Development Discussion) ^(a)	91.2%	97.6%
% of employees trained	76.0%	97.6%
% of women trained	78.19%	97.6%
Average number of hours' training per employee	21.3%	97.6%
Total number of hours' training	1,292,137	97.6%
% of employees covered by a collective bargaining agreement	85.7%	98.8%
% of employees covered by a regulation on working time	87.4%	98.8%
Health and safety		
Global absenteeism rate World	2.6%	96.5%
Total rate of absenteeism in France (corporate assessment) excluding parental leave	2.5%	100.0%
Total rate of absenteeism in France (corporate assessment)	3.2%	100.0%
Severity rate of accidents at work World	0.1	96.0%
Severity rate of accidents at work France	0.1	100.0%
Frequency rate of accidents at work World	2.4	96.0%
Frequency rate of accidents at work France	2.8	100.0%
Number of days off due to occupational illness in France	1,109	100.0%
Others		
Payroll World	€5.784bn	
Employment rate of people with disabilities in France	5.8%	
Number of jobs created by G�ris in 2015	461	
Proportion of purchases from EU suppliers	80%	
% of purchases from suppliers in France	43%	
Volume of industrial subcontracting services in France	�1.54bn	

(a) See also section 5.3.1.1, page 222.

NOTE ON METHODOLOGY

SOCIAL REPORTING METHOD

The data presented in this registration document are taken from the Thales 2015 social report, which provides a more detailed description of the social action undertaken by the Group. The social report provides detailed information on social data, policy and its impacts, practices and action that fall within the Group's corporate social responsibility. It reflects its international dimension. The information it contains sets out the position of the Thales group at 31 December 2015. The social report is available

to download from the Group's website 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 with the

roll-out of the e-Social Responsibility Reporting computerised reporting tool, 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⁽¹⁾ 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 preparing the CSR report and the registration document was not modified this year and is in accordance with the financial consolidation standards of IFRS 10 and 11. Managed headcount as at 31 December 2015 thus 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.

In addition, the Group's scope of consolidation changed slightly in 2015 due to acquisitions and disposals⁽²⁾.

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 item 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 comprises all employees in each country, regardless of the nature of their contract (open-ended, short-term, full- or part-time). It does not take into account apprenticeships or vocational training contracts (however, the number of contracts entered into is given in the recruitment section), employees on unpaid leave, employees on sick leave (of over three months), employees on maternity and parental leave, or employees on notice periods not worked as of 31 December of the year in question.

The total number of recruits includes the work-study contracts concluded in 2015, but does not include the conversion of short-term employment contracts or apprenticeship contracts into open-ended employment contracts during the year. Nor does it include the conclusion of internship agreements, (VIE International Business Volunteers) and CIFRE Research Training Fellowships and the transition from an active to an inactive employee and vice versa.

The total number of departures includes resignations, layoffs, other redundancies (data relating to contractual terminations are recorded for France, in this category), retirements, deaths and other types of termination, as well as the expiry of short-term employment contracts.

Data relating to absenteeism and rates of frequency and severity of accidents at work were calculated with reference to a number of days theoretically worked within countries, and based on active headcount and paid inactive employees (as such, employees with a long-term illness do not fall within the scope of calculation of this indicator). 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 days lost 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, calculated in accordance with the corporate assessment, corresponds to the percentage of days lost for any reason, work-related or otherwise, relative to 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 at work 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).

5.2 Environmental information

5.2.1 GENERAL POLICY ON ENVIRONMENTAL ISSUES

5.2.1.1 LONG-STANDING COMMITMENTS

Thales is committed to a deliberate, responsible approach to protection of the environment. This commitment, included within its ethical principles, has been a driver for the Group for over 15 years and is reflected in a policy to reduce environmental impacts and risks in its various activities worldwide, in its products and at the various levels of the organisation.

In addition to ensuring compliance with applicable regulations and anticipating future regulatory changes, the policy has four key areas of focus:

- Prevention of impacts on people and the environment arising from the Group's activities:
 - by reducing and controlling the risks and impacts of the environment on health,
 - by consuming fewer natural and energy resources,
 - by respecting biodiversity and cultural heritage;

(1) The Global Reporting Initiative (GRI) is a non-profit organisation that is developing a common working framework for drafting sustainability reports. Founded in 1997, the GRI published an initial version of its guidelines in 1999. Companies' adherence to this text is completely voluntary.

(2) In France, integration of 81 employees within Thales Services (acquisition of Alcatel-Lucent's Cyber Security business) and 21 employees within Thales Communications & Security (acquisition of Alcatel-Lucent's Lawful Interception Solutions business). Disposals entailed the removal from the scope of consolidation of 26 employees in the Netherlands (sale of part of the Surface Radar-ACE Production Department).

- Products policies and services:
 - by limiting their environmental footprint whenever possible,
 - by developing solutions that are beneficial for the environment,
 - by using the environment as a driver for innovation;
- Significant reduction of our own carbon footprint:
 - by reducing emissions from our own operations,
 - by promoting low-carbon solutions;
- 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.

In 2015, by signing the "Business Proposals" for COP21, Thales confirmed its commitment to fighting climate change. This document, intended for governments attending the Conference of Parties in Paris (COP21), shows the involvement of companies and their desire to achieve an ambitious climate agreement. Present throughout this international event, Thales showcased its innovations that benefit climate in the "Gallery of Solutions", organised during the COP21, close to the negotiation area.

➤ 2012-2015 GOALS

	Performance 2012-2015	2015 target
Natural resources		
energy consumption by revenues		
water consumption by revenues	-19%	-10% ^(a)
CO₂ emissions		
energy and substances by revenues (scopes 1 and 2)		
business travel by revenues (scope 3)	-20%	-10% ^(a)
Non-hazardous waste		
quantity per person		
recycling rates	18%	10% ^{(a)(b)}
Responsible purchasing		
evaluation of class A suppliers	50%	100%
buyer training	87%	80%
Eco-design		
product policies incorporating environmental criteria	19%	20%
training for product line managers	*	100%

(a) Average value for both indicators for the same theme.

(b) In absolute value.

* Training for product line managers was merged with other training courses, thus the measure could no longer be maintained [see also section 5.2.1.2.2].

Detailed values are given in the table in section 5.2.7.

5.2.1.2 COMMITMENT FROM STAKEHOLDERS

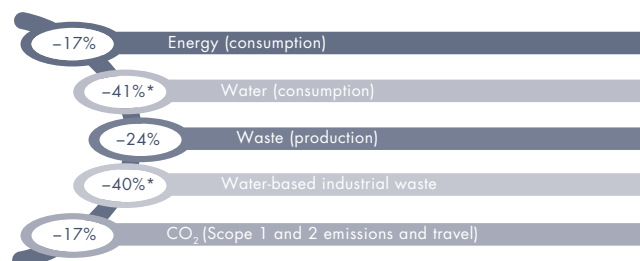
5.2.1.2.1 World organisation

Aiming to consistently improve its environmental performance and prevent risks, the Group has set up an organisation that reflects its challenges: a Corporate environmental team – responsible for setting out strategy, policy

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

With the 2013-2015 goal period coming to an end, new goals have been set for 2018 in terms of energy, climate, waste, environmental management of the supply chain and product design, in line with its environmental challenges.

PERFORMANCES 2008-2015 (AT CONSTANT SCOPE)



* Excluding Mulwala (Australia).

and processes and for supervising their implementation across the Group as a whole – with global facilitation of:

- "environment managers for sites/operations" at country and entity level, responsible for the environmental aspects of sites (buildings, infrastructure, energy, etc.) and the operations performed (industrial processes, substances, waste, etc.);
- a dedicated network of "environment in products managers" at Group Business Units and Business Lines levels, tasked with embedding environmental aspects upstream of and during the product development phase. Its purpose is also to facilitate action to anticipate and research appropriate alternative solutions to substances that are not recommended or prohibited.

At the end of 2015, the sites/operations environment network involved 360 people and the environment product network 186, 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 job family to enhance their skills, determine the need for recruitment and training, predict future developments and share their expertise as part of a single community.

5.2.1.2.2 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 2015, 980 buyers (or 87% of the population concerned) and 356 product line managers and engineering managers 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 buy-in from 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, etc.

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 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 RELATIONS WITH STAKEHOLDERS

5.2.1.3.1 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 help them align their policies and internal processes with all the principles that Thales is committed to respecting. At the end of 2015, 7,660 supplier sites around the world had committed to this charter (4,400 in 2014).

Moreover, as part of the selection process, potential suppliers 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 a 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 2015, 2,406 supplier sites underwent this assessment; 50% 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.

5.2.1.3.2 Relations with other 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 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, as well as participating in the Carbon Disclosure Project report and the Dow Jones Sustainability Index. It is also possible to send questions to the Group's Environment Department using a dedicated e-mail address.

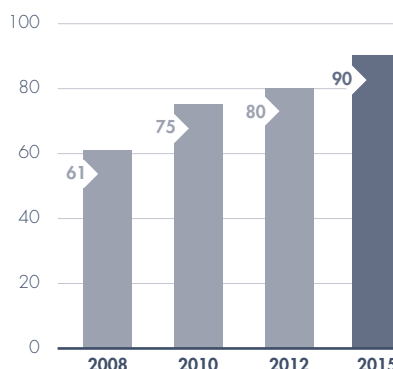
In the course of its partnerships, particularly with schools, Thales promotes preservation of the environment through programs on climate change, natural resources, or by working with universities.

5.2.1.4 MANAGEMENT AND PREVENTION OF ENVIRONMENTAL RISKS AND POLLUTION

5.2.1.4.1 Continuous improvement and prevention process

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.

EMPLOYEES WORKING ON ISO 14001-CERTIFIED SITES (%)



An Environmental Management System has been implemented at all sites as part of a dedicated process for ensuring the control and limitation of environmental risks and impacts of operational activities (buildings, industrial plant, equipment and sites) and products delivered (design, bids and 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 products and services.

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

At the end of 2015, 117 Group entities were ISO 14001-certified, representing 90% of the Group's workforce. Of these sites, 82 include product design/development within their scope of certification.

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 position (see section 1.1.2.4). 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 challenges.

This analysis, represented by a 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 Risk Assessment Committee has overseen an annual analysis of the risk management system by each of the Group's operational 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 enhance its risk analysis of the Group's sites, Thales has an active policy of prevention engineering with an external partner. It aims to

improve the risk profile of industrial activities on strategic sites, 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 conducted on 139 sites lead to recommendations aimed at reducing the probability of incidents and limiting their consequences.

Risks related to natural disasters and water stress (risks associated with climate change) are also assessed (see section 5.2.4.4).

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 systematically 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 2015, seven 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 2015.

At 31 December 2015, the amount of reserves for environmental contingencies at Group level was €8 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 (with filters, scrubbers, etc.) and regularly checked. This primarily relates to 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 62 (out of over 130) entities purchase solvents; 3 of these entities account for 90% of purchases. The Mulwala site alone accounts for 87% of purchases and 94% 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 13% in 2 years.

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 wastewater is discharged from 6 sites, and 65% from the Mulwala site alone (Australia).

Despite the increases in production at certain sites, these discharges have fallen by 28% compared with 2012, 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 WASTE PRODUCTION, RECYCLING AND ELIMINATING WASTE

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 and recycling.



5.2.3 SUSTAINABLE USE OF RESOURCES

For several years, Thales has been developing a specific strategy for 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, optimisation of water use and the reuse of materials. To support these measures, it is crucial to raise employee awareness of best practices.

5.2.3.1 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 water-intensive equipment, optimising industrial processes and reusing water in industrial processes.

In 2015, water consumption fell by 9% compared to 2012.

Excluding the Mulwala (Australia) site, which alone accounts for 35% of Thales's water consumption, the Group's total water consumption has fallen by 39% since 2008, proof of the collective effort made at all sites.

These achievements are also due to increased employee awareness and making best and widespread use of best practices.

As a result of measures taken since 2007, 73% of all waste was recovered and 55% recycled in 2015.

The quantity of non-hazardous waste, excluding exceptional waste, per person fell by 13% between 2012 and 2015.

To achieve this, various measures associated with waste recycling, the search for optimum treatment streams as well as changes in behaviour have been introduced, including printing policy and reusing cardboard and other packaging, that will help reduce waste production and improve waste treatment.

For instance, the amount of waste paper and packaging fell by 15% and 24% respectively compared to 2012.

Hazardous waste has also been a specific target. Dedicated areas for collection and storage have helped to manage this type of waste.

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. Sound levels are checked periodically. 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. 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 where 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.

5.2.3.2 CONSUMPTION OF RAW MATERIALS

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. As such, the process of additive manufacturing (also called 3D printing) is now used by Thales to manufacture parts in the space domain. Boasting a low consumption of raw materials, this new technology also makes it easier to repair parts.

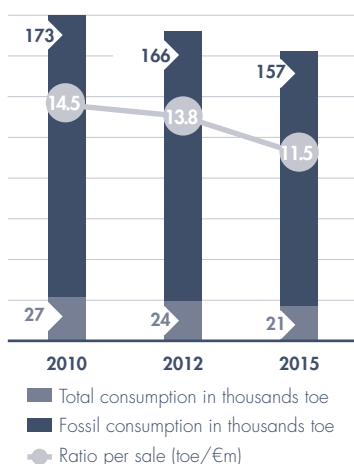
The principle is based on the manufacture of parts, not by removing material, but by adding successive layers of powder (metal, plastic) agglomerated by means of a laser or electron beam, solely in places where material is necessary. Thales makes one-piece aluminium antenna supports and uses the largest laser-beam machine in Europe.

Thales has also reduced its use of materials such as wood, cardboard and plastic, by limiting and reusing packaging either for procurement on Thales sites or to transfer equipment from one site to another.

5.2.3.3 ENERGY CONSUMPTION

Aware of the energy challenge, Thales sets goals to reduce energy consumption, which has led to a 6% fall since 2012, despite production increases on the sites that consume the most energy.

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 being rolled out at all Group sites, looking in particular at lighting, office equipment, heating, air conditioning 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.

At the same time, some Group entities have taken steps towards ISO 50 001 certification (energy management system). This is the case for Thales Alenia Space France which was certified in October 2015.

The Group's carbon footprint has also been reduced by restricting the use of fossil fuels (gas, fuel oil and coal), with their consumption continuing to fall in 2015 (-12% compared with 2012, a 38% reduction since 2008). The percentage of electricity from renewable sources now represents 18% of electricity consumption.

5.2.3.4 LAND USE

The Group considers environmental criteria when choosing locations for its sites, looking at 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 80% 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 (54% 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 with a number of plant and animal species and combat climate change. Thales's initiative led to the planting of 4,000 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

5.2.4.1 COMMITMENT TO CLIMATE

Climate change is a major challenge which Thales wishes to address cohesively via its activities: firstly, to reduce its CO₂ emissions at source, as well as to contribute to a better understanding of climate impacts and a reduction in its customers' emissions and those of civil society, thanks to its innovative solutions.

As such, in 2015, to assert its commitment to combating climate change, Thales, along with a number of other large companies and some international organisations, signed up to the "Business Proposals for COP21". These proposals aim to confirm companies' commitments on climate and to gain the support of government delegations for the signature of an agreement. Thales also exhibited its innovative climate solutions at the Solutions Gallery during the COP21 held in Paris.

	2015	2014	2012	2010
Scope 1 ^(a)	88,940	94,906	99,200	124,028
Scope 2 ^(b)	149,898	159,142	167,749	167,576
Sub-total (1+2)	238,838	254,048	266,949	291,605
Scope 3 ^(c)	102,820	110,349	107,395	111,441
TOTAL (IN TONNES)	341,658	364,397	374,344	403,046

The Scopes bring together CO₂ emissions (calculated with emission factors from the GHG Protocol 2012) relating to:

(a) Gas, coal, fuel oil, substances, mobile energy sources;

(b) Electricity and steam;

(c) Business travel.

In order to reduce its CO₂ emissions, Thales is increasing its efforts specifically with regard to energy, substances and transportation.

Thus, refurbishing and renovating certain buildings to higher ecological standards and changing equipment and consumption habits are all measures taken to improve energy efficiency and thereby help to reduce CO₂ emissions. Environmental criteria are incorporated in the selection of buildings, new locations and equipment (architecture, materials, building management system, comfort, access, etc.) as the new Thales SA (parent company) head offices in Paris, Thales Austria GmbH, Thales USA Inc and Thales Deutschland GmbH, which are certified compliant with the LEED and BREAM standards and where energy performance has been optimised. The energy efficiency of industrial processes has also been optimised.

Along with energy, substances with high global warming potential, used mainly in refrigeration systems, are subject to monitoring and reduction plans. Several sites have replaced a number of high-emission refrigerants with equipment containing lower-emission refrigerant fluids.

Particular attention is paid to sulphur hexafluoride (SF₆). This gas, used in a specific industrial process to insulate electronic tubes during high-voltage tests, has very high global warming potential. It is used by very few sites; those that do use it have implemented ambitious plans to reduce emissions, such as manufacturing tubes without using SF₆ or modifying equipment using this gas. This helped reduce emissions by 79% between 2008 and 2015.

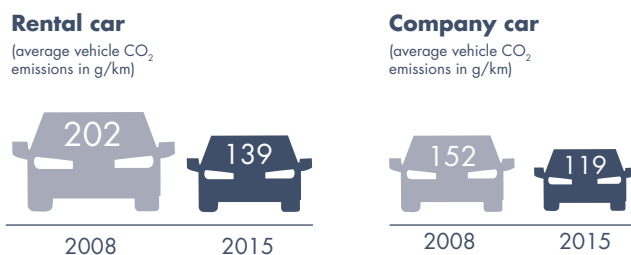
Thales is also increasing its initiatives to reduce emissions from business travel by making use of a travel policy, modern information technologies,

Moreover, since 2005, Thales has chosen to communicate in a totally transparent way about its climate strategy on Carbon Disclosure Project (CDP), an association which aims to inform the investment decisions made by its institutional investor members, by telling them about the consequences of climate change for companies. In 2015, Thales scored 98A- for climate change performance (98 indicates transparency and A- indicates performance), making it one of the best-performing companies listed.

5.2.4.2 REDUCTION OF GREENHOUSE GAS EMISSIONS FROM OPERATIONS

To measure its greenhouse gas emissions, Thales has developed a methodology that is consistent with its operations and is based on the Greenhouse Gas Protocol created by the World Resources Institute and the World Business Council for Sustainable Development.

car pooling, electric vehicles, travel diagnostics and by highlighting the benefits of alternative means of transport to its employees. Since 2010, these initiatives have led to a reduction in CO₂ emissions of 41% and 10% for company vehicles and rental vehicles respectively.



5.2.4.3 CONTRIBUTION TO FIGHTING CLIMATE CHANGE

5.2.4.3.1 Innovative climate solutions

Worldwide economic development, increasing urbanisation and changing lifestyles all have an impact on needs in terms of travel, connectivity and resource management. At the same time, climate change has serious consequences for the planet and for the lives of its inhabitants.

Society, which is becoming increasingly technological, faces new environmental challenges as regards energy, air quality, noise, climate

change, biodiversity and so on, which governments, municipalities, economic and scientific operators and citizens must address.

Thales puts innovation at the heart of its strategy, developing equipment that combines innovative technologies and a reduction in the environmental footprint. To achieve this, Thales leverages its technical expertise and its capacity for innovation in order to understand the environment, support the development of air traffic and create the right conditions for sustainable mobility and smart cities, while reducing the environmental footprint.

Section 5.2.6 sets out how Thales's solutions contribute to the protection of the environment and particularly to the fight against climate change and how to adapt to it.

5.2.4.3.2 A key player in major programmes

Thales is present on the space market as well as the air, rail and road transport markets and is positioned as a key player in major national, European and international programmes such as:

Clean Sky

Thales is a founding member of the European aeronautics research program Clean Sky, whose environmental goals for 2020 are: a 50% reduction in CO₂ emissions, an 80% reduction in NO_x (nitrogen oxide) emissions, a 50% reduction in perceived noise and a green life cycle for products (design, manufacture, maintenance and disposal/recycling).

In particular, Thales is leading a Clean Sky research initiative entitled "Systems for Green Operations" which should optimise aeroplane fuel consumption by improving flight trajectories, in particular the takeoffs and approach phases.

SESAR

In the air traffic sector, 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 fuel consumption of commercial aircraft by 5%, CO₂ emissions per flight by 10% and acoustic emissions from aircraft at take-off and landing by 20 decibels.

Copernicus

Thales is heavily involved in Copernicus, the European space programme. The programme, formerly known by the acronym GMES (Global Monitoring for Environment and Security), aims to provide Europe with an autonomous Earth observation and monitoring capability thanks to continuous, independent and reliable access to data in the domains of the environment and security, namely monitoring of the marine environment, the atmosphere, land and climate change, as well as support for emergency and safety interventions. In terms of its space component, the programme is based mainly around a constellation of Sentinel satellites.

ETCS

ETCS stands for the European Train Control System. It simplifies train driving, makes signalling smarter and safer, and ensures optimal safety. Thales has been a key player in defining and implementing this European standard, and now offers solutions that comply with this standard.

Shift2rail

Aiming to convert a significant share of road users to rail users, this European initiative reflects the political desire for a 60% reduction in greenhouse gas emissions by 2050. It also aims to make rail travel more attractive and to integrate it with other modes of transport. Thales is one of the eight founding members of the programme.

GALILEO and EGNOS

GALILEO is a European project for a satellite-based positioning system (radio navigation). The EGNOS service intends to improve GPS accuracy and also offers the Safety Of Life service, which may be used in civil aviation. From the outset, Thales has been a major player in both programmes.

5.2.4.3.3 Defining international standards

Thales encourages its partners to adopt a responsible attitude regarding climate change. To illustrate this, Thales is joint chair of the Carbon working group of the French aeronautics and space industry group GIFAS and is a member of the greenhouse gas working party of the IAEG (International Aerospace Environmental Group) to define international emissions accounting standards.

5.2.4.3.4 Partnerships

Thales is also engaged in partnerships with other industry players as well as research laboratories.

The industrial chair dedicated to the challenges of greenhouse gas emission monitoring systems, inaugurated in December 2011, is a perfect example of this. It brings together scientific partners such as the French Climate Sciences and Environment Laboratory (LSCE), the French Atomic Energy Commission (CEA), the University of Versailles Saint-Quentin-en-Yvelines (UVSQ) and the CNRS along with industrial partners such as Véolia Eau and Thales Alenia Space.

A real innovation hub, the Joint Research Unit in Urban Sciences (UMR-SU), inaugurated in Quebec City in 2015, brings together the complementary skills of academics, manufacturers, planners and urban managers. Managed and hosted by Thales Research & Technology, this research laboratory – the only one of its kind in the world – aims to develop smart solutions for the city of tomorrow: sustainable mobility, management of drinking water and wastewater, electricity, urban spaces and infrastructure, etc., with the city of Quebec providing public facilities for field tests.

5.2.4.4 ADAPTING TO CLIMATE CHANGE

The process of adapting to climate change to which Thales is committed aims to reduce its vulnerability to the effects of climate change such as climate variations (storms, floods, etc.), seismic hazards or resource scarcity.

As such, since 2011, 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 connection with a further analysis of these vulnerable areas, the number of visits focusing on the environment and natural disasters stands at 45 sites since 2011. The risk of natural disasters has now been incorporated into the annual site prevention visits.

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 aspects (conflict of use) and environmental concerns (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 10 sites were located in vulnerable zones. The majority of them are offices, whose low water consumption only has a very minor impact.

5.2.5 PROTECTION OF BIODIVERSITY

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.

Although the global impact of the Group's activities on biodiversity is low, flora and fauna are of particular concern and the Group encourages its sites and employees to preserve and promote biodiversity.

A variety of initiatives have been undertaken 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. Thus in Lithgow (Australia), a habitat management plan has been established for one of the rarest species of butterflies in Australia, the Bathurst Copper Butterfly, in

close cooperation with the Lithgow Council for Endangered Species. 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 (with 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.

Furthermore, as part of the grouping together of two of its sites near Bordeaux (France), Thales is building a vast new 16-hectare 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 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 SOLUTIONS TO SUPPORT THE ENVIRONMENT

5.2.6.1 ENVIRONMENT AND PRODUCTS

Relentless efforts are made to incorporate the environment into the entire product life cycle from cradle to grave while maintaining the strictest standards of security, safety and reliability 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 the increase of regulations along with the demands of the market and civil society. This is true of products that are eco-designed, i.e. whose environmental impact is improved during life cycle, or solutions with features that support the environment, such as an understanding of extreme weather events.

Incorporating environmental factors into design generates the creativity and dynamism needed to make progress and to promote green innovation in areas such as developing new materials, saving energy and reducing weights.

To help in this approach, Thales applies skills throughout the Global Business Units (see section 5.2.1.2.).

The Group's referential integrates environmental dimension, from bids to product policies, design, development, maintenance and end-of-life

phases. To ensure regulatory compliance, 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, such as in REACH, or impact analyses.

Thales is also a key player in national, European and international programmes to reduce the environmental footprint of products (see section 5.2.4.4.2).

5.2.6.2 ECO-RESPONSIBLE PRODUCTS AND INNOVATION

Several group companies are engaged in various initiatives to reduce the environmental impact of civil and military products starting from the design stage. A number of product lines already incorporate environmental criteria assessed during life cycle analyses.

Thanks to its capacity for innovation, which is central to its strategy, Thales develops breakthrough technologies and new architecture that help to promote so-called "green" innovation.

For instance, the DYON energy hybridisation solution aims to provide embedded systems on military vehicles with an overall energy management system, covering its production, storage and consumption. This presents many environmental benefits, from increased autonomy and no noise or smoke to a lack of heat signature. In addition, it reduces the logistical footprint by cutting fuel consumption and thus the number of convoys needed to transport the fuel.

Another example of innovation for the environment is Stratobus, an autonomous geostationary stratospheric platform designed for a wide range of applications such as border and maritime surveillance, boosting GSM network capacity for public events and augmenting GPS over areas of dense traffic. This platform offers tangible environmental benefits. It runs on solar energy only and does not require a launcher to be put into position. It is made from recyclable subsystems; the use of hydrogen or helium considerably reduces 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 ultra-lightweight regenerative fuel cell.

The Reality H helicopter simulator can reduce the number of flight hours and energy consumption (five times lower than the previous generation model). This gain has been achieved through the development of a simulator motion system, based not on a hydraulic system but on electric power, offering much better performance without the risk of pollution. Life cycle analysis has led to the use of lighter, recyclable materials, as well as a reduction in size and weight, thus enabling easy transportation and lower CO₂ emissions.

Thales also lends its support to encourage the deployment of renewable energy. 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 is also careful to identify replacement products if a substance presents a risk or is threatened with being banned. Mindful 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 reshape industrial tools.

5.2.6.3 INNOVATIVE SOLUTIONS FOR THE ENVIRONMENT

5.2.6.3.1 Understanding the environment

Thales is a key player in space-based Earth observation programmes, providing high-resolution optical and radar imaging systems that promote a better understanding of climate change and more effective environmental monitoring. The Group, in partnership with global agencies, contributes to most European climate missions, and has a position regarding:

- the collection of 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 (Sentinel 3 satellite);
- observation and anticipation of extreme, sometimes violent weather events, (hurricanes, floods, etc.), and long-term monitoring of climate change via Meteosat satellites;
- greenhouse gas monitoring, particularly carbon dioxide. This monitoring specifically includes the pinpointing of anthropogenic sources and the study of carbon sinks, and how they evolve in response to climate change. The complementary nature of the French (Microcarb) and European (CarbonSat) observation initiatives from space means that all monitoring goals can be addressed.

To illustrate this, the Poseidon technology, developed by Thales Alenia Space in partnership with CNES, has revolutionised the world of oceanography. The accuracy of measurements has highlighted the thermohaline circulation of the world's oceans, a genuine motor of energy as regards the global climate, as well as the rise in sea levels as a result of global warming. All satellites in the Jason Mission are fitted with a Poseidon altimeter. The recently launched Jason 3 focuses for instance on measuring the height of the oceans that supply the monitoring and prediction models for climate change.

Another example is the Edisoft company (a Thales Portugal joint venture) which was chosen by the European Maritime Safety Agency to contribute to the CleanSeaNet programme, which aims to provide European Union member states with satellite imagery to monitor and detect illegal or accidental salting-out of fuel in territorial waters.

5.2.6.3.2 A cleaner sky

From steering to air traffic management, for over 30 years, Thales has developed features that improve performance and lower the environmental impact during all flight phases:

- navigational aids to optimise flight paths and taxiing that incorporate weather conditions, thus reducing noise, emissions and consumption;
- air traffic management systems to make this even more fluid with less waiting time in airport stacks;
- solutions to supply electric power to a number of aircraft systems which were previously supplied with hydraulic or pneumatic energy;
- lighter, less bulky and more efficient equipment.

These initiatives help to reduce kerosene consumption, carbon footprint, and nitrogen oxide emissions as well as to improve reliability while reducing maintenance costs.

An example of this is the Flight Management System [FMS], which calculates the optimal flight path according to aircraft data, weather conditions and the desired arrival time, while ensuring less noise, fewer emissions and lower consumption during takeoff, ascent, cruise, descent and approach.

New avionics 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 CO₂ 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.

5.2.6.3.3 Sustainable mobility

In today's increasingly urbanised world, creating sustainable conditions for urban mobility and inter-city travel is an important way of reducing CO₂ emissions. Thales plays an important role in this by supplying transport operators with systems that optimise operational efficiency while limiting their environmental impact. Thales solutions provide:

- simpler access to transport with interconnected public transport that allows passengers to use different modes of transport within and between towns and cities, at regional or national level, with a single ticket;
- smoother traffic flows through urban traffic management systems by regulating vehicle flows and tackling trouble spots in real time. Motorists can thus spend less time in their cars, reducing their fuel consumption and CO₂ emissions;
- a reduction in power consumption on underground lines. This allows underground operators to combine protection of the environment and reduced operating costs;
- an increase in the capacity of the existing main line network and reduced travel time, while ensuring compatibility between the various European rail networks.

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 underground line, CO₂ emissions are reduced by around 14,000 tonnes per year, equivalent to taking 6,000 cars off the road.

The ATSoft 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 and optimisation of current recovery from train braking by synchronising the acceleration of some trains with the braking of others.

5.2.6.3.4 Smart Cities

Analysis of data makes cities more efficient. Thales's solutions collect information such as water and energy consumption, subscriptions to various public and private services, and transport users, allowing city authorities to improve residents' quality of life and to reduce their environmental footprint. Through its data analysis solutions, Thales helps its urban space partners:

- make use of the gigantic data reservoirs of the connected city – smartphones, street lighting, transport, billboards, access to public places, surveillance cameras, etc. – to better understand and anticipate the needs of residents and offer them services that make their lives simpler;
- inform users via traffic information systems, giving drivers and train passengers information on traffic conditions in near-real time;
- better manage day-to-day operations and facilitate the coordination of the various players, especially in the event of a crisis. These solutions also improve the environmental efficiency of cities with regard to water and energy consumption, transport use, etc.

For example, the PRESTO electronic system, designed and developed by Thales, allows residents of the Greater Toronto Area to travel using the various means of public transport (train, underground, bus) using a single ticket, in the form of an electronic contactless card that can be used across the whole network. Statistical analysis applied to the data collected gives an insight into mobility across this vast area, meaning that supply can be tailored to actual needs and new services can be implemented, thus encouraging the use of public transport.

The EcoNet© system allows the managers and users of electric vehicles to optimise recharging based on the price of electricity, to manage pricing based on various criteria (zones, calendar, time slots, etc.), to monitor the status of all recharging points, to be notified if maintenance is needed, and so on. A dedicated portal, available on PC, mobile and tablet devices allows users to access a wide range of services: pinpointing of recharging points on a map, nearest recharging points, availability, consumption history, calculation of optimum charging time and type, reservation of a recharging point, etc.

Going even further, Thales Research & Technology Quebec hosts and manages the Joint Research Unit in Urban Sciences (UMR-SU), which aims to identify needs and new technologies in the city of tomorrow.

To find out more about solutions from Thales and its climate commitment: www.thalesgroup.com/fr/worldwide/groupe/responsibility-committed-environmental-protection/des-solutions-innovantes

5.2.7 ENVIRONMENTAL INDICATORS

The table below contains a number of items for assessing trends in Thales's environmental performance on a comparable basis. In 2015, 28 countries and 132 sites were in scope. This scope represents 97% of revenues and 96% of the Group's workforce.

2012 is the base year for the 2012-2015 goals.

This chapter was subject to a fairness review by Mazars. The indicators given in the table below are subject to a conclusion providing moderate assurance presented in the opinion outlined at 5.4 "Statutory auditors' independent third-party report on consolidated human resources, environmental and social information published in the management report."

	Units	2008-2015 change (at constant 2008 scope)	2012	2014	2015	2012-2015 trend
Energy						
Electricity consumption	'000s toe	-12%	139	135	132	-5%
Per sales electricity consumption	toe/€m	-27%	11.6	10.7	9.7	-16%
Fossil energy consumption	'000s toe	-38%	24	21	21	-12%
Per sales fossil energy consumption	toe/€m	-48%	1.99	1.65	1.55	-22%
Total energy consumption	'000s toe	-17%	166	158	157	-6%
Per sales total energy consumption	toe/€m	-31%	13.82	12.54	11.51	-17%
Water						
Water consumption	'000s m ³	-26%	1,768	1,636	1,601	-9%
Per sales water consumption	m ³ /€m	-39%	146	130	117	-20%
Waste						
Total waste production ^(b)	tonnes	-24%	15,771 ^(a)	15,614	15,145	-4%
Per sales total waste production ^(b)	kg/€m	-36%	1.31 ^(a)	1.24	1.11	-15%
Ratio of non-hazardous waste ^(b)	%		80	76	73	-8%
Non-hazardous waste per person ^(b)	kg/pers	-29%	185 ^(a)	175	160	-13%
Non-hazardous waste recycling rate	%	45%	52	57	64	23%
Hazardous waste recycling rate	%	-45%	24	34	19	-21%
Industrial discharge						
Industrial wastewater discharge	'000s m ³	-1%	782	638	563	-28%
Air emissions	tonnes	-30%	862 ^(a)	919	917	6%
CO₂						
CO ₂ emissions from energy use	'000s tonnes CO ₂	-23%	228	211	200	-12%
Per sales CO ₂ emissions from energy use	kg CO ₂ /€m	-36%	19	17	15	-23%
CO ₂ emissions linked to Kyoto Protocol substances and R22	'000s tonnes CO ₂	-23%	38.7	42.3	38	-2%
<i>o/w CO₂ emissions linked to SF₆</i>	'000s tonnes CO ₂	-78%	11.4	12.2	6.4	-44%
CO ₂ emissions from transport (Group-wide)	'000s tonnes CO ₂	-1%	107	110	103	-4%
Per sales CO ₂ emissions from transport	kg CO ₂ /€m	-17%	8.9	8.8	7.5	-16%
CO2 Scopes according to GHG Protocol						
Scope 1 (gas, fuel oil, coal, substances, mobile energy sources)	'000s tonnes CO ₂	-35%	99	95	89	-10%
Scope 2 (electricity, steam)	'000s tonnes CO ₂	-13%	168	159	150	-11%
Scope 3 (business travel by air, rail, road)	'000s tonnes CO ₂	-1%	107	110	103	-4%
Total scopes 1, 2 and 3	'000s tonnes CO₂	-17%	374	364	342	-9%
Total scopes 1, 2 and 3 per sales	kg CO₂/€m	-31%	31	29	25	-20%
Other disclosures						
ISO 14001-certified entities			124	117	117	
Staff concerned as percentage of total workforce	%		80	88	90	

(a) Values adjusted following an error.

(b) Excluding one-off waste.

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.

In connection with this report, the 2015 indicators are provided at constant scope with 2012.

5.2.8.1.1 Criteria

Only companies meeting the following criteria are included:

Equity interest and operational control	<ul style="list-style-type: none"> ➤ Thales equity interest of 50% or more ➤ Thales exercises operational control over the company <p>Companies and joint ventures not meeting the above criteria are not included in Thales's environmental reporting</p>
Activity/Headcount	<ul style="list-style-type: none"> ➤ "Company/site" involved in an industrial activity (surface treatment, painting, pyrotechnics, shipbuilding, etc.) irrespective of the number of employees ➤ "Company/site" involved in a semi-industrial activity only (testing, integration, R&D, etc.) with more than 50 employees ➤ "Company/site" involved in a tertiary activity only (head office, service facility, sales office, etc.) with more than 100 employees
Environmental Management System	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 for the absorbed entity for the period from 1 January N to the date of absorption into the data of the absorbing entity.

5.2.8.2 REPORTING PROCEDURE

The Group-wide reporting 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 Group's 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 m³) 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 CO₂ 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;
- the principles and methods for reporting on data are described in the methodological guides to environmental reporting and calculation of CO₂ emissions, which are available in the Group reporting system.

5.3 Social Information

The Group's strong commitments, formalised in its Code of Ethics, attest to its desire to act responsibly. Certain actions undertaken by Thales in connection with its corporate responsibility policy target stakeholders other than its own employees.

5.3.1 TERRITORIAL, ECONOMIC AND SOCIAL IMPACT OF THE GROUP'S ACTIVITIES

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, as far as possible, in order to support regional business.

In France, Thales aims to mobilise all of the relevant players in its labour pool in order to develop a Regional Jobs and Skills Plan. This strategy takes into account the specific characteristics of the regions in question as well as Thales's local challenges. The Group "Anticipation" agreement, signed on 26 April 2013, actively supports local action 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 action. Within each labour pool, a representative coordinates regional actions in cooperation with the local and regional authorities, social and economic players, and Thales's Engineers for Schools (IPE) seconded to academies, universities, schools and training centres.

In France, Thales also makes use of a dedicated local economic development company, Géris Consultants, which makes its expertise available to corporations and local authorities in order to provide assistance in the form of advice and financial aid, to SMEs and SMLs that create long-term jobs in regions affected by the loss of industrial jobs. The revitalisation projects led by Géris Consultants since 2009 have led to the creation of more than 4,304 jobs in France (including 461 in 2015) with approximately 620 SMEs/SMLs.

Géris Consultants also conducts experiments in HR engineering in order to develop SME/SML skills in the sectors or regions where it is active. To that end, Géris Consultants runs the *Pass'Compétences* scheme to stimulate the development of SMEs by seconding experts employed by large groups such as Thales, Alcatel, Schneider Electric and so on, for long, structural assignments lasting 12 to 18 months. In 2015, the *Pass'Compétences* scheme was deployed in the Rhône-Alpes and Midi-Pyrénées regions with partial financial support from economic departments at regional and state level.

In addition, Géris Consultants in partnership with Thales's HR teams assists the occupational integration of work-study employees, firstly by promoting the Shared Learning Path and, secondly by inviting SMEs in the recruitment phase to the annual forum for Thales Interns and Work-Study Employees.

5.3.1.2 GROUP INITIATIVES TO SUPPORT PEOPLE WITH DISABILITIES

In France in 2015, the Group stepped up its partnerships for the training and guidance of young people with disabilities:

- partnerships were concluded with universities in Orleans, Tours and Lille as well as with the Île-de-France university communities, in addition to the existing partnerships with the Pierre & Marie Curie University (UPMC Paris), the University of Nice Sophia-Antipolis (UNICE), University of Bordeaux 1, University of Toulouse, and University of Western Brittany (UBO Brest);
- new agreements were signed with education authorities in Lille and Île-de-France (Paris, Versailles, Créteil) in addition to those signed with the education authorities of Toulouse, Nice, Orleans-Tours, and Bordeaux, with the aim of providing support from regional companies for high school students with disabilities to access higher education and following up with students with disabilities until they find employment. These agreements cover almost all the labour pools where Thales is present;
- continuation of the partnership with the Paris Créteil University to set up an Inter-University Diploma (IUD) to become a Disabled Person's Representative in the public/private sector, which was awarded to 21 students in 2015;
- development of the Hanvol association, whose mission is to place people with disabilities in employment in the field of aeronautics;
- development of agreements to implement software architect engineering and information system engineering courses at Vocational Rehabilitation Centres (CRP) in Millau and Mulhouse.

Thales also participates in the development of innovative projects based on technologies developed within the Group in order to provide practical 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. In keeping with the assessment report drafted by the Ministry in 2015 encouraging the expansion of the scheme in schools and universities, Thales will continue its action in this domain.
- 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* under a three-year partnership with the ISEN.

In 2012, Thales participated, in cooperation with AFNOR, in implementing the "OK Pilot" tool, which enables a company to conduct a self-assessment of its compliance with the disabled-friendly standard and to define the necessary action plans for improvement. In 2013, this assessment tool helped kick-start an audit of 18 Thales sites and develop action plans to achieve full compliance. The deployment of these action plans has now meant that five sites are compliant with this standard and improvement plans were established in 22 units in 2015.

5.3.2 RELATIONS BETWEEN THALES AND ITS STAKEHOLDERS

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 2015, for the fourth 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 45 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* (the French employers' confederation [MEDEF]): International Committee, CSR Committee, Ethics and Guiding Principles Committee, Economic Intelligence Committee, Internationalization Committee;
- the *Association Française des Entreprises Privées* (the French Association of Private Companies [AFEP]);
- the *association française des investor relations* (the French Investor Relations Association [CLIFF]);
- the AeroSpace and Defence Industries Association of Europe [ASD];
- the Aerospace Industries Association of America [AIA];
- the *Groupe des Industries Françaises Aéronautiques et Spatiales* (the Group of French Aeronautic and Space Industries [GIFAS]);
- the initiative of American companies in the defence sector with respect to commercial ethics and business conduct (Defense Industry Initiative [DII]);
- 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* (Centre for Corporate Social Responsibility [ORSE]);
- the International Aerospace Environmental Group [IAEG];
- *Entreprises pour l'Environnement* (Companies for the Environment [EpE]);
- the *Association pour la promotion de la Conformité Réglementaire Santé Sécurité Environnement* (Association for the Promotion of Compliance with Health, Safety and Environmental Regulations [ACORES]).

This partnership policy features two concrete commitments within these various organisations. Specifically, Thales chairs the working group on ethics and corporate social responsibility within the GIFAS, as well as the Business Ethics Committee of the ASD.

The Group is also a founding member and joint chair of the International Forum on Business Ethical Conduct [IFBEC], whose last worldwide forum took place in Boston, USA in November 2015.

Thales actively participated in the work of the Business 20 Anti-corruption Taskforce which introduced and was given approval for an action plan for 2016 at the last G20 summit in Turkey. The plan specifically aims (1) to increase transparency as regards ultimate beneficiaries; (2) to reduce corruption and improve trade efficiency by implementing a computerised cross-border system of customs procedures; (3) to encourage ratification of the OECD Anti-Corruption Convention by all G20 members; (4) to promote integrity in public procurement procedures; and (5) to provide practical schemes for SMEs in member countries to help them deploy the highest international anti-corruption standards.

In the United States, in 2002, Thales was the first non-US company to sign the 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, including the financial community, socially responsible investment funds, the ratings agencies and non-financial analysts.

Finally, Thales maintains regular contact with NGOs such as Transparency International, particularly on matters related to business ethics, and Amnesty International and Saferworld on the question of Human Rights.

5.3.2.2 THALES INITIATIVES WITH CHARITABLE ORGANISATIONS

The first concrete actions by the Thales Foundation

Through its Foundation, launched in 2014, Thales is an innovative force for the good of humanity and contributes to a response to the challenges faced by society. To achieve this, the Foundation calls for commitment from Thales's employees, who can harness their energy and skills to the benefit of the two overall themes chosen by the Foundation: science education and humanitarian aid.

In the area of education, the Foundation develops projects relating to science and innovation in teaching methods, prioritising children and their teachers in order to increase 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 is changing ever more quickly.

The Foundation also wishes to respond to humanitarian needs, by contributing Thales's technologies and the know-how of its employees, in order to anticipate and decrease the impact of natural and environmental disasters.

Thirteen employee projects supported in six countries

In connection with the first call for projects to support projects put forward by the Group's employees, 13 associations (10 French and 3 international) were given financial support. Primarily focused on education, the winning projects involve rediscovering science in school or access to learning via new digital tools. The projects are being undertaken in France, Haiti, Cambodia, Mali, the United States, Canada and India. One project is also dedicated to first aid training in case of a natural disaster in Haiti.

Some 10,000 children aged 6-18 benefit from these projects and more than 500 adults have been trained. Through its action, the Foundation also facilitated voluntary support for these projects from another 25 Group employees.

EXAMPLE OF A WINNING PROJECT: ACCELERATED REMEDIAL EDUCATION PROGRAMME IN CAMBODIA

The association *Pour un Sourire d'Enfant* (For A Child's Smile) provides disadvantaged Cambodian children and those not attending school with access to education, trains teachers and develops educational programmes.

The project, spearheaded by Eric Parelou, an employee living in Toulouse, received funding of €12,000.

In 2015, more than 200 teachers were trained, benefiting 6,200 children.

2015 also saw the completion of the first 17 projects launched by the Foundation, thanks in particular to the support of 110 very active Thales volunteers.

Three pilot educational programmes launched in France

In September 2015, the Foundation launched three innovative educational programmes in France.

- *Savanturiers de la high tech* (High-tech Explorers) is a project to encourage learning through research, developed in a classroom setting and sponsored by Thales researchers. The approach is based on research ethics and methods used as a model to support ambitious collaborative learning.
- *Voyageurs du Code* (Coding Travellers) promotes digital literacy to a young audience in priority neighbourhoods near Thales sites. Volunteers from the network provide computer coding workshops in local libraries, run by Thales volunteers.
- *Bâtisseurs de Possibles* (Building Potential) is an educational approach led by teachers which aims to involve children in making real changes in response to the challenges of their environment. Through it, they discover the importance of basic learning and develop essential skills such as teamwork, listening and oral expression, creativity and autonomy, etc.

In addition to the €50,000 of financial assistance provided to each organisation, 20 Thales employees undertook to act as volunteers with these associations to help them achieve their goals and provide support to more children and teachers. Over the 2015-2016 academic year, more than 30,000 beneficiaries, both children and adults, will attend one of these three innovative educational programmes.

The Foundation supported Nepal

Following the earthquake that hit Nepal in April 2015, the Thales Foundation provided financial support of €12,000 to *Télécoms Sans Frontières*, an NGO specialising in emergency telecommunications. As a result, it was able to quickly provide satellite connections to major NGOs and IGOs, along with 3,000 minutes of free calls to some 1,500 homes in two districts and nine villages located in the most remote and hardest-hit areas.

Pro Bono: International commitment to local associations

During the Pro Bono Week, 30 Thales employees provided their skills to nine local associations, taking part in the Pro Bono marathons in India, South Africa and France. Assigned to working groups for a day, these volunteers shared their expertise in communication, marketing, human resources, the law and finance, to name but a few, to help resolve issues faced by the beneficiary association.

PRO BONO AT LA DEFENSE

In France, under the initiative of the Pro Bono Lab association, the site at La Défense had the distinction of being the world's first business district to rally together for this demonstration. On 5-6 November, a hundred employees from eight major companies including Thales gathered to offer their skills to nine local associations: Coexister, ASD, Joblrl, Côtes d'Auty, Blue Energy, Orange Rouge, Café Babel, Clown'z Hôpitaux and Le Refuge.

The Foundation's internal network already brings together more than 1,100 people

In order to promote the work of the Foundation's, to identify skills and solidarity projects put forward by employees and local associations, the Foundation relies on a network of 25 ambassadors at around 20 Group sites. At the end of 2015, a total of over 110 employees had volunteered to contribute to Foundation projects, and more than 1,100 had shown an interest in these themes and initiatives by registering on the Foundation's dedicated collaborative platform.

Other international examples of local engagement initiatives

In other domains, many Group companies support local charitable organisations by providing financial and material support.

China

Fifteen employees from Thales China got involved in regular fundraising activities and in-kind donations (of clothing, stationery and computers),

helping more than 100 children from the Bulimo primary school, based in an isolated part of Sichuan province.

In Hong Kong, 15 employees took part in the UNICEF Charity Run 2015 on 29 November 2015, which brought together 13,550 "joining us" participants and raised HK\$11 million for the UNICEF campaign "Unite for Children, Unite against AIDS".

India

In addition to projects developed in India through the Foundation, Thales India also spearheaded other local educational and humanitarian initiatives.

Following the earthquake in Nepal, teams from Thales India organised a collection of donations in kind (food and small items of equipment) among staff to benefit the *Main Tendue* NGO. These donations helped to provide initial emergency assistance to Nepal's population and are regularly taken to the site by the NGO. A financial donation was also made to the Prime Minister's National Relief Fund dedicated to helping the families of victims of natural disasters and major accidents in India.

In education, Thales paid the tuition fees of girls aged 8-15 living in the girls' shelter run by the Jagriti NGO.

Netherlands

Heavily involved in sporting events and fundraising for local joint action programmes, teams from Thales Netherlands also contributed to programmes to help educate the very young, specifically via the publication of a free e-book to arouse children's interest in science and technology. This year, the Scholarship for IT students programme awarded scholarships to 10 deserving students selected for an IT masters course.

Spain

In 2015, Thales continued its commitment to society through donations in kind (food and telephones) collected from employees to benefit charitable organisations.

United States

In 2015, Thales once again supported the participation and selection of students for a national science competition, the Team America Rocketry Challenge. In order to help develop the taste for science and scientific skills, Thales donated a 3D printer to be used by a hundred or so children at an elementary school in Arlington. A donation was also made to the Smithsonian National Air and Space Museum for its research and education mission in the field of aviation. Over 200 employees also contributed to fundraising, volunteer activities and sporting events to benefit disadvantaged families, those suffering from an illness or veterans.

5.3.3 SUPPLIER RELATIONS: A RESPONSIBLE APPROACH

At 31 December 2015, the Group's annual volume of purchases was €6.43 billion, up 10% on 2014, which represents nearly 45% of consolidated sales. Over 80% of the Group's purchases are sourced from suppliers located in European Union countries, including 43% in France.

In 2015, the Group's industrial sub-contracting services represented an amount of more than €1.54 billion; sub-contractors are considered to be similar to suppliers with regard to respect for the principles of corporate citizenship (Human Rights, employment law, environmental protection and ethical business conduct).

The aim of the Thales purchasing policy is to work with a bedrock of high quality, reliable suppliers, capable of helping the Group achieve its sales objectives while complying, in particular, with export control requirements and with 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 to building trust-based, balanced relationships between suppliers and customers based on awareness and the execution of their respective rights and obligations.

In 2012, Thales was awarded the *Label Relations Fournisseur Responsables* (Responsible Supplier Relations Label) for its entities in France, a distinction awarded by *Médiation Inter-entreprises* and the *Compagnie des Dirigeants et Acheteurs de France* (CDAF), to large corporations that have demonstrated their ability to forge particularly sustainable and balanced relationships with their suppliers. Successive audits, led by an external agency, confirmed this award, which was renewed for three years in 2015.

A 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 adhere to the principles of corporate citizenship upheld by the Global Compact, particularly in the fields of employment law, corporate governance, environmental protection, ethical business and export control.

During 2015, Thales's commitment to the principle of corporate responsibility with regard to suppliers was reflected in particular in the continued roll-out of the Purchasing and Corporate Responsibility Charter, under which Thales requires its suppliers throughout the world to adhere to its approach to corporate responsibility and to honour the principles of both its Code of Ethics and the Global Compact and the OECD in the fields of Human Rights, employment law, environmental regulations, and corporate governance. As part of their implementation of the principles of the Purchasing and Corporate Responsibility Charter, suppliers must

complete a self-assessment questionnaire including 16 questions: nine about working standards, three concerning environmental protection, two about governance, one on business ethics and one on export control.

The reviews of this approach launched with the supplier network in 2010 revealed, at end 2015, that over 7,660 Thales suppliers (75% more than in 2014) had signed the Purchasing and Corporate Social Responsibility Charter and completed the assessment questionnaire. On this basis, overall supplier performance in terms of environmental, social and governance responsibility (ESG) was 9.1 on a scale of 10.

The Innovative SME Charter, signed in 2012 with regard to its scope of activity in France, aims to reinforce Thales's commitment to SMEs to help them with their plans for innovation and contribute to their future development, in exchange for access to their innovative technology.

Continuing this approach to corporate responsibility, in 2013 Thales signed a bilateral agreement with the French Ministry of Defence aimed in particular at facilitating access by SMEs to Defence markets and establishing a balanced partnership between SMEs and prime contractors such as Thales.

For the third consecutive year, in 2015 Thales conducted a survey of a sample of around 330 of its French suppliers, comprising SMEs and Mid-Sized Businesses (MSBs), to measure the quality of relations with these suppliers. Proving that it listens attentively to its suppliers, Thales has committed itself to making headway with the subjects identified by these surveys.

In 2015, at a 350-strong meeting of suppliers, Group corporate management reiterated the Group's commitment to establishing high quality relationships with its suppliers. In line with feedback from the third survey, the meeting featured the sharing of the Group's ambitions and challenges and the contribution to its priorities that it expects from its suppliers.

Furthermore, Thales was very quick to commit to the Association Pacte PME, an association bringing together large corporations, 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 given concrete form in 2013, 2014 and again in 2015 with the notification of a positive opinion from the *Comité de Suivi Paritaire de Pacte PME* (SME Pact Joint Steering Committee), thus reflecting the committee's recognition of the actions undertaken in France for SMEs. The association forwarded this notification to the Ministry of Economy, thus signifying Thales's compliance with its commitments from the Innovative SME Charter first signed in 2012.

5.3.4 FAIR BUSINESS 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 can be very harmful in terms of reputation.

At the end of the 1990s, in order to protect itself against these risks, Thales introduced a corruption risk prevention policy, which is subject to a process of continuous improvement.

The Group's corruption risk prevention programme is regularly assessed. Systems are adjusted to reflect current levels of exposure to corruption risk and its estimated impacts.

This worldwide corruption risk prevention programme is based on:

- an international structure and dedicated resources tasked with implementing the business programme;
- the integration of provisions relating to corruption risk prevention into the Company's operational processes;

- internal alert systems available to employees;
- a robust internal control and audit system;
- information, awareness and training programmes for the Group's employees aimed firstly at the job families that are potentially the most exposed (business development, bids and projects and purchasing). In 2015, an anti-corruption guide was added to the Guide to ethical business conduct collection published for all employees.

The zero tolerance policy concerning all acts of corruption has the full support of Group corporate management and the Board of Directors. With a foreword by the Chairman & Chief Executive Officer, the Code of Ethics purposefully reiterates this principle. In 2015, a presentation on the Group's anti-corruption procedures was given to Thales's Audit and Accounts Committee and Board of Directors.

Thales's involvement in professional, intergovernmental and non-governmental organisations is also one of the key aspects of its policy of anti-corruption and sharing and circulating best practices. As such, Thales participated in various initiatives by IFBEC, the joint body of the ASD and AIA. This contribution led to its members being offered a model Code of Conduct for suppliers, as well as an analysis of anti-corruption practices in terms of offsets that could be a first step towards establishing standards of integrity for this type of transaction.

AN ETHICS POLICY WITH A SOLID ORGANISATIONAL FOUNDATION

Thales has governance bodies and an organisational set-up for the design, management and monitoring of a coherent system of ethical standards with regard to the prevention of the corruption risk, and to instil a culture of corporate responsibility right across the Group.

Confirming the central role of Ethics & Corporate Responsibility in the Group's strategy, Thales created an Ethics & Corporate Responsibility Committee in 2001. There are three strands to the tasks of this Group Committee: (i) strategy: contributing to defining Thales's policy on Ethics & Corporate Responsibility; making recommendations on direction with regard to the standards and procedures concerning sales, environmental, human resource and social issues; (ii) ownership: ensuring that the Code of Ethics is kept up to date and is implemented within Thales; defining training objectives and suitable means of communication; coordinating and monitoring the Country Ethics Committees and Ethics Officers; (iii) arbitration: handling the ethical issues submitted to it; expediting, if necessary, the appropriate enquiries and suggesting possible appropriate *actions/sanctions* to management. The Group's Ethics & Corporate Responsibility Committee is chaired by the Company Secretary.

The Ethics & Corporate Responsibility Department implements the policy defined by the committee. It contributes to changing behaviour within the Group – defining and deploying best practices – and sets the internal standards and processes for 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 that the Code of Ethics and its principles are disseminated to all the Group's units. Their role consists of overseeing staff training and awareness-raising, responding to questions concerning the application of the code, and adjusting the Group's approach to ethics in response to local customs and practices and legislation.

In order to reinforce the Thales approach to Ethics & Corporate Responsibility, and to ensure that each employee is involved in the prevention of risks, a set of ethics alerts authorised by CNIL⁽¹⁾ 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 anti-corruption or the fight against practices that are prohibited by unfair trading laws;
- to notify acts of discrimination, harassment or serious acts relating to failure to comply with health legislation, 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.

A user guide is available for employees to facilitate the use of this tool.

(1) National Commission for Information Technology and Civil Liberties.

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 processes for conducting business. These operational processes anticipate, starting upstream of a bid, the implementation of action plans designed to reduce the sales risk, with specific attention paid to anti-corruption.

The corruption risk prevention programme, which is assessed regularly and amended to reflect changes in legislation and in external and internal risks, was certified by Mazars and by ADIT in July 2014.

Thales strictly supervises the use of agents and consultants (Business Advisers) by means of a very detailed procedure including, in particular, in-depth upstream checks and controls (due diligence) – backed up by the analysis of risk factors – as well as appropriate declarations and undertakings on the part of these agents or 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.

To strengthen its role on the international stage and to gain a strong foothold in the target countries, Thales chooses and qualifies its key industrial partners. The selection and qualification 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 is part of a process of deploying adapted and reasonable measures for prior verification (due diligence) concerning third parties.

A dedicated international organisation, 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 selecting and qualifying agents, consultants, and local industrial partners of Thales.

Using risk mapping and rigorous internal control, the Group's Audit, Risks & Internal Control Department conducts regular compliance and integrity audits on the various components of the model.

In 2015, the Thales compliance and integrity programme earned recognition from several institutions, resulting in Thales's inclusion in the DJSI Europe and World indices. In addition, the Group is now one of the four leading European companies in Transparency International's Corruption Perceptions Index for 2015, which looks at companies in the defence sector.

5.3.4.2 CONSUMER HEALTH AND SAFETY

Thales's products, technologies and services are aimed exclusively at governmental customers in "B to G" (Business to Government) positioning, in particular in the Defence and Security sectors, or private "B to B" (Business to Business) customers, notably in the aeronautics, railway transport and space sectors.

5.3.4.3 ACTION TO SUPPORT HUMAN RIGHTS

Thales signed the United Nations Global Compact in 2003 and complies with its 10 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 10 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 fourth year running, the Global Compact Advanced level of the Differentiation Programme of the United Nations Global Compact which, by observing 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 45 French companies.

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 10 principles of the United Nations Global Compact.

In terms of the obligations on ores from areas of conflict (Democratic Republic of Congo and neighbouring countries), in particular resulting from the US Dodd-Frank Law, Thales wishes to emphasise that under no circumstances does it directly seek to work with the ore producers in question. However, although the Group is not listed on any US stock markets (which would thus subject it to this legislation), in accordance with its commitments to corporate responsibility, and more specifically the UN Global Compact, Thales is attentive to the terms of this Law. Additionally, Thales has implemented a system by which this concern is relayed to its own supply chain.

In order to ensure strict control of exports, both at a national and international level, Thales has put in place a robust global set-up and continues to reinforce its internal measures and procedures. This strong commitment is intended to protect the national security of democratic states and specifically 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 in late 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.

Finally, as part of a multi-stakeholder dialogue, Thales takes part in numerous working groups on Human Rights, specifically aimed at improved consideration of the United Nations' guidelines relating to Human Rights (called the Ruggie Principles).

5.3.5 SOCIAL INDICATORS

Performance indicators	Description	2015 Data	Scope of coverage ^(a)	Comments/References
G4-SO3	Total number and percentage of sites having been assessed with regard to corruption risk and significant risks identified	121 ^(b)	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 section on: <i>Risk factors/Legal and compliance risks/Compliance with laws and regulations/Business ethics.</i> See also the section on: <i>Fair practices/Anti-corruption/An internal compliance programme.</i>
G4-SO4	Communication and training with regard to anti-corruption policies and procedures	1,600 ^(c)	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, Bids and Projects job families. An e-learning programme comprising three 30-minute modules (in French, English and German) is also available to all Group employees. See section on: <i>Risk factors/Legal and compliance risks/Compliance with laws and regulations/Business ethics.</i>
G4-SO5	Proven cases of corruption and measures taken	No case reported	100%	In order to control corruption risk, Thales manages its local entities through a dedicated international set-up comprised of five global branches, tasked, amongst other things, with ensuring the integrity of the partners selected. These global regional branches are the only entities within the Group that are duly designated, authorised and experienced, and they therefore coordinate the partner qualification process which, in particular, includes controls via a third party. See also the section 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 <i>Commission nationale de l'informatique et des libertés</i> (French National Committee for Information Technology and Civil Liberties [CNIL]) 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 comply with health and safety legislation. None of the incidents reported in 2015 concerned a case of corruption. See also the section on: <i>Fair practices/Anti-corruption/An internal compliance programme.</i>

(a) The scope covered comprises all of the financially consolidated companies within the Group.

(b) 116 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 set-up.

(c) Between 2008 and 2015, 7,910 employees were trained worldwide, 1,600 of them in 2015.

5.4 Statutory auditors' independent third-party report on consolidated social, environmental and societal information published in the management report

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⁽¹⁾, 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 2015, (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 9 people between the end of October 2015 and mid-February 2016, for a period of about 14 weeks.

We conducted the work described below in accordance with the professional standards applicable 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⁽²⁾.

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 presented in the paragraphs 5.2.8 "Environmental reporting rules" of the Part 5.2 and the "methodological note" of the Part 5.1 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.

I - 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.

(1) The scope of which is available on the website www.cofrac.fr.

(2) ISAE 3000 - Assurance engagements other than audits or reviews of historical financial information.

II - 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.

Concerning the CSR Information that we considered to be most significant⁽¹⁾:

- 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⁽²⁾ 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 69% of headcount and between 19% to 87% 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, 22 February 2016

The Independent Third-Party

MAZARS SAS

Anne-Laure Rousselou
Partner

ERNST & YOUNG Audit

Emmanuelle Rigaudias
Sustainable development Partner

(1) **Environmental Information:** Electricity consumption, Annual fossil energy consumption, Total annual energy consumption, Water consumption, GHG (greenhouse gas) emissions: GHG emissions from energy consumption (tCO₂), GHG emissions from substances (tCO₂), GHG emissions from transportation (professional travels) (tCO₂); GHG emissions (Scope 1, 2 and 3 emissions); Industrial Wastewater Discharges, Annual Water Consumption Waste production, Common waste production (excluding exceptional items), hazardous waste production (excluding exceptional items), common waste recovery (%), hazardous waste recovery (%); Management system: number of entities and % of Group manpower present in an ISO 14001 certified entity.

Social Information: Global workforce as 31/12/2015, Women/men breakdown (%), workforce by age, Recruitments, Redundancies, Total number of training hours, Absenteeism rates, Actions in favor of gender equality, Attractiveness policy.

Societal information: Overall performance of suppliers in ESG responsibility, Communication and training on policies and procedures in the fight against corruption, Part of class A suppliers evaluated on HSE criteria, Number and % of sites that have been subjected to an assessment of risks of corruption and substantial risks identified, Projects and programs developed by the Foundation.

(2) **Environmental Information:** Thales Australia, Thales Land Australia (Mulwala), Thales Land Australia (Benela), Thales Land Australia (Bendigo), Thales Naval Australia (Garden Island), Thales Naval Australia (Rydalmere), Thales UK Crawley Hub, TCS Gennevilliers, Thales Service (Elancourt Nungesser), TSA (Elancourt Nungesser), Thales Optronique (Elancourt).

Social Information: Thales France, Thales UK, Thales Allemagne.

Societal Information: Law/Human Resources Department, Ethics & Corporate Responsibility Department, Foundation Thales Programs Department, Relationship suppliers Director.

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 is set out in full in Chapter 5 of this registration document, entitled "corporate responsibility", pages 195 to 233. An independent verifier issued a declaration of inclusion and a limited assurance report on consolidated social, environmental and societal information, which can be found on pages 229 *et seq.*

Decree no. 2012 – 557 of 24 April 2012	Page		Section
1) SOCIAL INFORMATION	196	5.1	SOCIAL INFORMATION
a) Employment	196	5.1.1	Employment in the Group
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d) Health & safety			
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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			
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	222	5.3.1.2	Group initiative to support people with disabilities
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Elimination of discrimination in respect of employment and occupation	205	5.1.6	Gender equality and diversity
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Decree no. 2012 – 557 of 24 April 2012	Page		Section
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Decree no. 2012 – 557 of 24 April 2012	Page		Section
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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 report on the consolidated financial statements for 2015 on pages 79 and 80 of this document has been issued without reservation and the parent company financial statements report for 2015 on page 111 of this document has been issued without reservation and includes an observation. The reports on the consolidated financial statements for 2013 and 2014, included by reference in this 2015 Registration Document, were issued without reservation and they include some observations.

Paris La Défense, 31 March 2016

Patrice Caine

Chairman & Chief Executive Officer

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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

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