THALES

www.thalesgroup.com

2016 Registration Document

Including the Annual Financial Report

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2016 REGISTRATION DOCUMENT

INCLUDING THE ANNUAL FINANCIAL REPORT

AUTORITÉ DES MARCHÉS FINANCIERS

This Registration Document was filed with the French financial markets authority (*Autorité des marchés financiers*, AMF) on 5 April 2017, 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.

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

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

- the consolidated financial statements and corresponding audit reports 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 consolidated financial statements and corresponding audit reports presented on pages 29 to 87 of the 2015 Registration Document filed with the AMF on 31 March 2016;
- the Group's financial information, key figures and management report, presented respectively on pages 5 and 8 to 28 of the 2015 Registration Document filed with the AMF on 31 March 2016.

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

CHAIRMAN'S FOREWORD

"ANOTHER SUCCESSFUL MILESTONE FOR OUR PROFITABLE GROWTH STRATEGY"

"2016 represented another successful milestone for our profitable growth strategy.

Order intake remained at a high level, outperforming sales for the fourth year in a row. The Group enjoyed significant commercial successes in in-flight entertainment, urban rail signalling, with the extension of the Dubai metro, and Defence & Security, with the order of 36 Rafale fighter aircraft by the Indian government. The fact that these major contracts were signed confirmed the Group's momentum in emerging markets, which has been one of our strategic priorities since 2013. Organic sales growth came out at +7%, with all of our businesses contributing to this performance. Profitability continued to increase in line with our medium-term targets. At the same time, we were able to increase our investments in innovation, digital transformation and talent development.

The Group's strategic priorities remain unchanged for the coming years. We are staying focused on leveraging all the performance drivers identified in our Ambition 10 strategy: growth, competitiveness and people – the latter being key to the success of a high-tech Group such as Thales.

Thales will be able to count on a solid momentum in its civil markets, driven by long-term trends such as the growth in air travel, the increasing urbanisation of emerging markets, and the need for more efficient transport infrastructure in mature markets. The Group also expects to benefit from the inflection of defence budgets, which has reached a political consensus in most European countries.

Furthermore, the digital transformation that both our civil and military customers are undergoing represents an excellent development opportunity for Thales. The nature of our business, typically focused on processing sensor-generated data, has enabled us to develop an extensive expertise in four key digital technologies: connectivity and mobility, crucial to the internet of Things, "Big Data", the processing of very large data sets, Artificial Intelligence, and cyber-security, essential in every digital transformation project. By leveraging these skills, and strengthening them through increased Research & Development as well as targeted acquisitions where necessary, not only will we be able to grow the incremental innovations we offer our customers, but we will also have the ability to conceive breakthrough innovations that may open up new markets.

At the same time, we will continue to implement the many initiatives already underway that are designed to improve our competitiveness, such as rolling out best practices in engineering, ramping up purchasing initiatives and pursuing the transformation of our support functions.

Thanks to the commitment of all its teams, Thales is driving a deep transformation that will foster profitable and sustainable growth."

Patrice Caine
Chairman & Chief Executive Officer

OVERVIEW OF THE GROUP

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

TOGETHER, SAFER, EVERYWHERE.

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

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

AERONAUTICS

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.

SPACE

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

GROUND TRANSPORTATION

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.

DEFENCE

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.

SECURITY

In Security, Thales offers integrated solutions required to contain or reduce risk, particularly in the fields of cyber-security, 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 in which they work. Thales leverages its resolve for innovation, a strong “delivery culture”, its first class smart technologies, global partnerships, and the combined expertise of 64,000 employees operating through locally based operations worldwide.

KEY FIGURES

SALES

2016	€14.9bn	+6.8%*
2015	€14.1bn	
2014	€13.0bn	
2013	€12.7bn	

* Organic growth.

ORDER INTAKE (BOOK-TO-BILL RATIO)

2016	€16.5bn	1.11
2015	€18.9bn	1.34
2014	€14.4bn	1.11
2013	€12.9bn	1.02

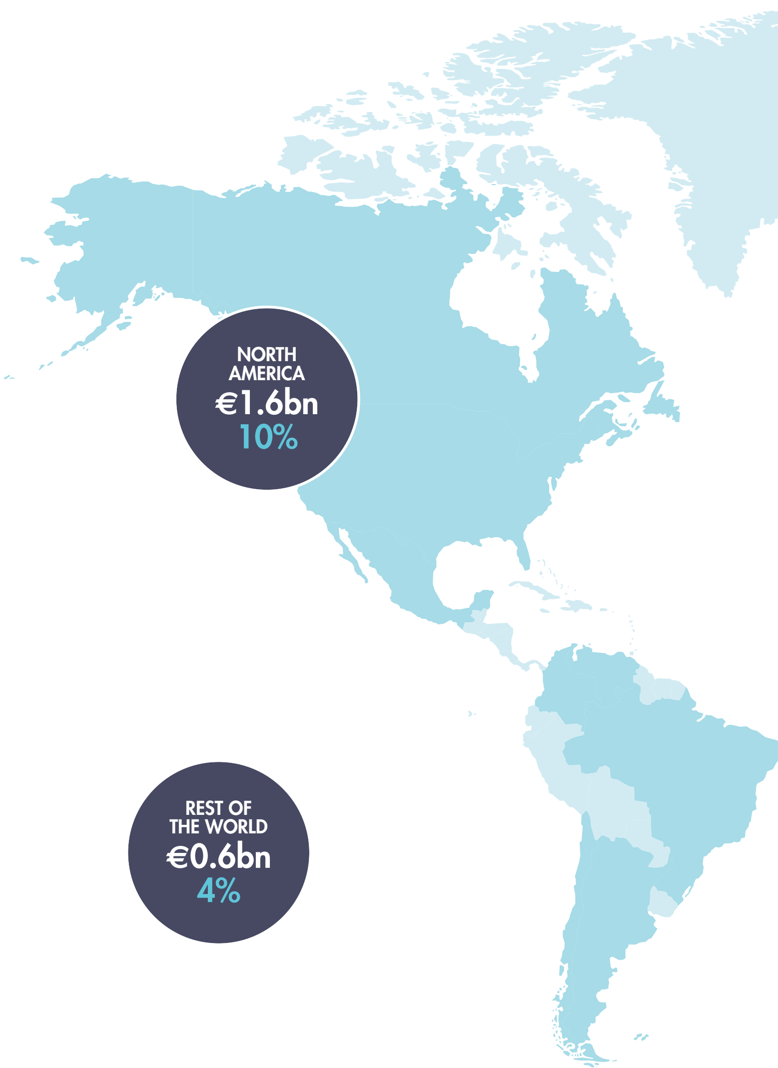
EBIT (MARGIN)

2016	€1,354m	9.1%	+11%
2015	€1,216m	8.6%	
2014	€985m	7.6%	
2013	€1,011m	8.0%	

DIVIDEND PER SHARE

2016	€1.60	+18%
2015	€1.36	
2014	€1.12	
2013	€1.12	

> BREAKDOWN OF 2016 SALES BY REGION



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.

WORKFORCE
(EMPLOYEES MANAGED)

64,100

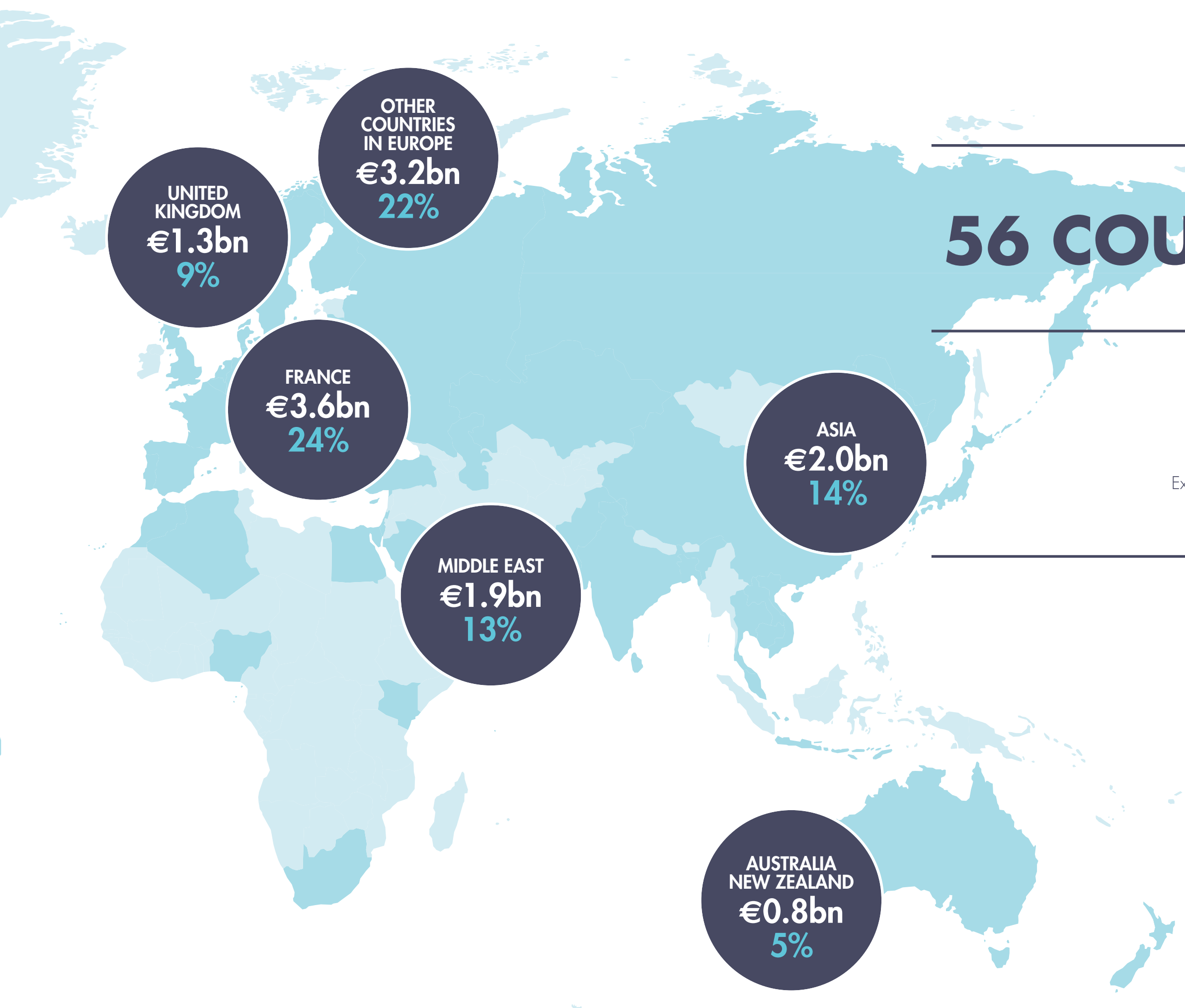
GLOBAL PRESENCE

56 COUNTRIES

SELF-FUNDED R&D

€743m

Excluding R&D using external funding



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.

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.

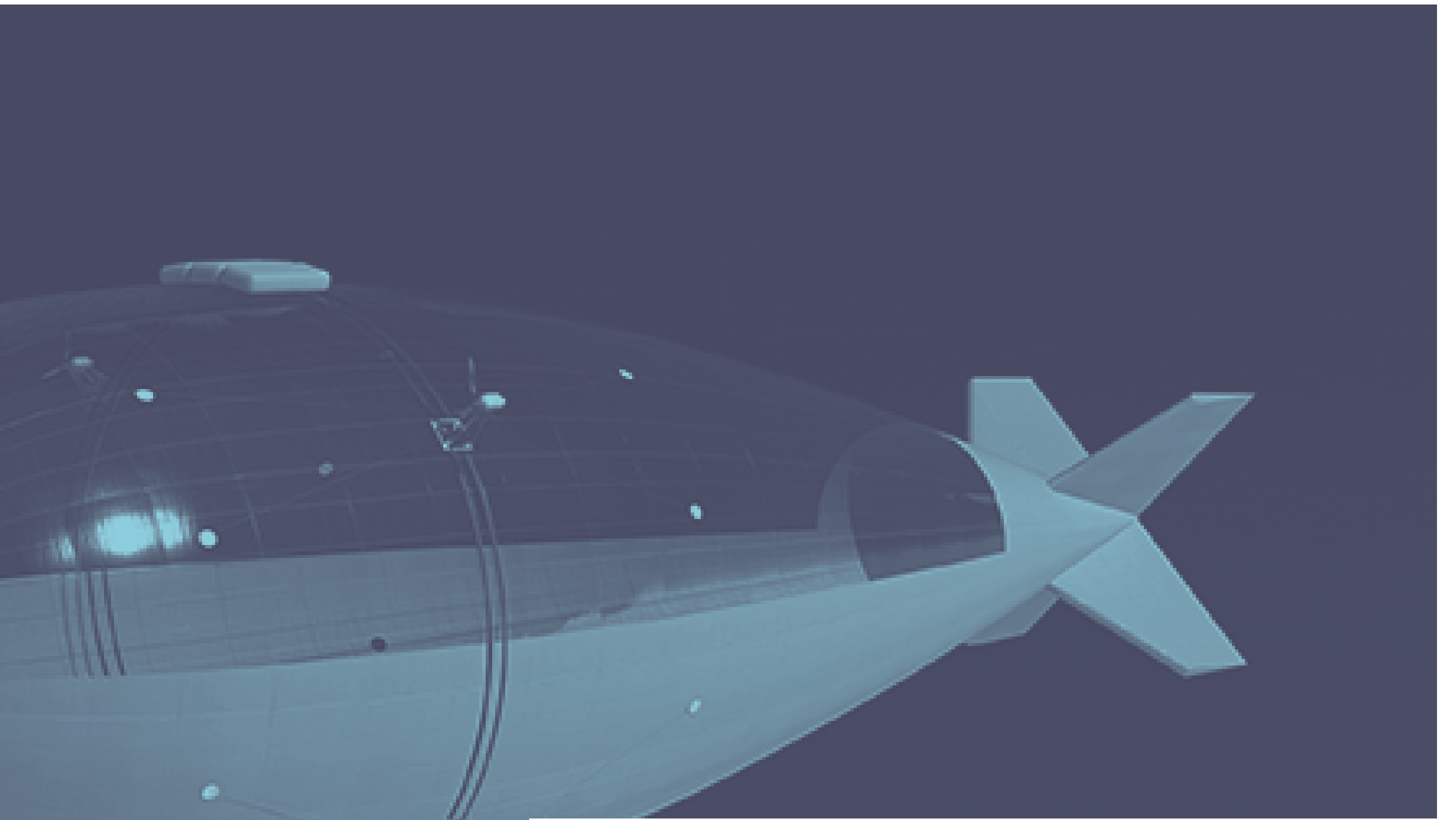
2009 Acquisition by Dassault Aviation of Thales shares held by Alcatel-Lucent and GIMD. Dassault Aviation becomes a shareholder of Thales, with a 26% stake in the Company.

2011 Thales increases its interest in DCNS to 35%.

2014 Launch of the "Ambition 10" strategy.

2016 FINANCIAL INFORMATION

1



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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, except earnings per share and dividend in €)	2016	2015	Total change	Organic change
Order intake	16,514	18,880	−13%	−11%
Order book at end of period	33,530	32,292	+4%	+5%
Sales	14,885	14,063	+5.8%	+6.8%
EBIT[(a)] *In % of sales*	1,354 *9.1%*	1,216 *8.6%*	+11% *+0.5 pts*	+15% *+0.6 pts*
Adjusted net income, Group share[(a)]	897	809	+11%	
Consolidated net income, Group share	946	765	+24%	
Adjusted net income, Group share, per share[(a)]	4.25	3.89	+9%	
Dividend per share[(b)]	1.60	1.36	+18%	
Free operating cash flow[(b)]	954	1,110	−14%	
Net cash at end of period	2,366	1,978	+20%	

(a) Non-GAAP measures, see definitions below.
(b) Recommended to the Shareholders' Meeting on 17 May 2017.

In 2016, Thales recorded a high level of order intake, strong sales growth and improved profitability in line with its medium-term objectives.

The Group exceeded all the financial objectives it had set for 2016: an order intake of between €15.5 billion and €16.0 billion, organic sales growth slightly above 5%, and an EBIT of between €1,300 million and €1,330 million, based on February 2016 exchange rates.

1.1.1.2 Presentation of financial information

Accounting policies

Thales' consolidated financial statements are prepared in accordance with IFRS (International Financial Reporting Standards) as approved by the European Union at 31 December 2016.

These principles, described in Note 14 of the consolidated financial statements, are consistent with those applied for the year ended 31 December 2015. In particular, the new mandatory standards applicable as from 1 January 2016 (annual improvements for 2010-2012, then 2012-2014 cycles, amendments to IAS 16 and IAS 38, amendments to IFRS 11 and amendments to IAS 19) have no impact on the Group's financial statements.

Definitions of non-GAAP financial indicators

In order to facilitate monitoring and benchmarking of its financial and operating performance, the Group presents three key non-GAAP indicators, which exclude non-operating and/or non-recurring items. They are determined as follows:

- **EBIT**, an adjusted operating indicator, corresponds to income from operations plus the share in net income 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 business combinations. From 1 January 2016, it also excludes the other expenses recorded in income from operations that are directly related to business combinations, which are unusual by nature.
- **Adjusted net income** corresponds to net income, excluding the following items and net of the corresponding tax effects:
  - amortisation of acquired intangible assets (PPA) recorded as part of business combinations,
  - expenses recognised in income from operations, that are directly related to business combinations, which are unusual by nature;
  - gains and losses on disposals of assets, changes in scope of consolidation and other,
  - changes in the fair value of derivative foreign exchange instruments (recognised under "Other financial income and expenses" in the consolidated financial statements),
  - actuarial gains (losses) on long-term benefits (recognised under "Finance costs on pensions and other long-term employee benefits" in the consolidated financial statements);
- **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.

Readers are reminded that only the consolidated financial statements at 31 December were audited by the statutory auditors, including the calculation of EBIT, which is described in Note 2 "Segment Information" to the consolidated financial statements, and free operating cash flow, which is described in Note 11.1. Adjusted financial information other than that provided in the notes to the consolidated financial statements is subject to the verification procedures applicable to all information included in this management report.

The impact of these adjustment entries on the profit and loss account for 2016 and 2015 is presented 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 changes are calculated based on underlying amounts, which feature in the consolidated financial statements.

"Organic change" measures the movement in monetary indicators excluding the effects of changes in exchange rates and scope of consolidation. It is defined as the difference between (i) the indicator for the prior period, recomputed at the exchange rates applicable for the current period to entities whose reporting currency is not the euro, less the contribution of entities divested during the current period, and (ii) the value of the indicator for the current period less the contribution of entities acquired during the current period.

CALCULATION OF EBIT AND ADJUSTED NET INCOME – 2016

		Adjustments				
(in € millions)	**2016 consolidated profit and loss account**	**Amortisation of intangible assets (PPA)** [(a)]	**Income (loss) from disposals and others**	**Change in fair value of FX derivatives**	**Acturial differences long-term benefits**	**2016 adjusted P&L**
Sales	**14,885**					**14,885**
Cost of sales	(11,275)	1				(11,274)
Research and development expenses	(736)	6				(731)
Marketing and selling expenses	(1,025)	6				(1,019)
General and administrative expenses	(544)	7				(537)
Restructuring costs	(101)					(101)
Amortisation of acquisition-related intangible assets (PPA)	(107)	107				0
Income from operations	**1,097**					**N/A**
Impairment of non-current assets [(b)]	0					0
Disposal of assets, changes in scope and other	205		(205)			0
Share in net income of equity-accounted companies	120	11				131
EBIT	**N/A**					**1,354**
Impairment of non-current assets [(b)]	0					0
Cost of net debt	6					6
Other financial income and expenses	(81)			70		(10)
Finance costs on pensions and other long-term employee benefits	(78)				12	(66)
Income tax	(256)	(58)	28	(24)	(4)	(314)
Net income	**1,015**	**79**	**(177)**	**46**	**8**	**970**
Non-controlling interests	(68)	(4)		(1)		(74)
NET INCOME, GROUP SHARE	**946**	**75**	**(177)**	**45**	**8**	**897**
Average number of shares (thousands)	210,872					210,872
NET INCOME, GROUP SHARE, PER SHARE (in €)	**4.49**					**4.25**

(a) Including expenses related to acquisitions recorded in income from operations. See definitions of EBIT and adjusted net income, page 8.
(b) Included in "Share in net income of equity-accounted companies" in the consolidated income statement and in "Net income" in the adjusted income statement.

> CALCULATION OF EBIT AND ADJUSTED NET INCOME – 2015

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

(a) Including expenses related to acquisitions recorded in income from operations. See definitions of EBIT and adjusted net income, page 8.
(b) Included in "Share in net income of equity-accounted companies" in the consolidated income statement and in "Net income" in the adjusted income statement.

CALCULATION OF FREE OPERATING CASH FLOW

(in € millions)	2016	2015
Operating cash flow before interest and tax	**1,698**	**1,643**
Change in working capital and reserves for contingencies	(63)	143
Payment of pension benefits, excluding contributions related to the reduction of the UK pension deficit	(102)	(124)
Net interest (paid)/received	(8)	9
Income tax paid	(99)	(102)
Net cash flow from operating activities, excluding contributions related to the reduction of the UK pension deficit	**1,426**	**1,569**
Net operating investments	(472)	(458)
FREE OPERATING CASH FLOW	**954**	**1,110**
Net (acquisitions)/disposals	(94)	37
Contributions related to the reduction of the UK pension deficit	(88)	(101)
Dividends paid	(297)	(234)
Changes in exchange rates and other	(87)	159
CHANGE IN NET CASH	**388**	**971**

1.1.1.3 Order intake

2016 **order intake** amounted to **€16,514 million, down 13%** on 2015 (down 11% at constant scope and currency[1]). The **book-to-bill** ratio was **1.11** for the year, compared to **1.34** in 2015.

(in € millions)	2016	2015	Total change	Organic change
Aerospace	5,872	6,281	−7%	−6%
Transport	1,504	2,826	−47%	−44%
Defence & Security	9,052	9,701	−7%	−6%
Total – operating segments	**16,427**	**18,809**	**−13%**	**−12%**
Other	87	71		
TOTAL	**16,514**	**18,880**	**−13%**	**−11%**
Of which mature markets[a]	10,138	12,701	−20%	−19%
Of which emerging markets[a]	6,376	6,179	+3%	+4%

(a) Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries.

The order intake significantly outperformed sales for the third consecutive year. Powered by this strong sales momentum, the consolidated **order book** was **€33.53 billion** at 31 December 2016, an increase of €9.06 billion over three years (from €24.47 billion at 31 December 2013).

Thales received **14 large orders with a unit value of over €100 million**, representing a total amount of €4,665 million:

- One contract booked in Q1 2016, covering support for the Watchkeeper unmanned aerial vehicle for the British army;
- Two contracts booked in Q2 2016: one covering the security of 170 Ministry of Defence locations in the Netherlands and the other relating to the production of a military satellite for a Middle East customer;
- Three contracts booked in Q3 2016:
  - one relating to the order of 36 Rafale fighter aircraft by the Indian government,
  - one to provide satellite operator SES with a satellite specifically designed for onboard internet connectivity (SES 17), and
  - in-flight entertainment systems (IFE) for Emirates' future Boeing 777X aircraft;
- Eight contracts booked in Q4 2016:
  - four additional tranches of contracts with the European Space Agency and the European Commission in the fields of observation (Sentinel 1C/1D and Sentinel 3C/3D), space exploration (Exomars) and navigation (Galileo program),
  - one signalling contract for the extension of the Dubai metro;
  - one contract to modernise civil and military air traffic management across Bolivia,
  - one contract to supply airborne radars to the UK Ministry of Defence (Crowsnest project), and
  - one additional contract within the scope of the Franco-British MMCM autonomous mine countermeasures programme.

Orders with a unit value of less than €100 million remained robust, growing 8% year-on-year.

The total order intake was as expected down on 2015, which had been boosted by an exceptional volume of large orders with a unit value of over €100 million (€7.9 billion). These included in particular

(1) Taking into account a negative exchange rate effect of €316 million and a net positive scope effect of €81 million, mainly related to the consolidation of Vormetric as of March 2016 (Defence & Security segment).

five major contracts (with a unit value of over €500 million): orders placed by Egypt and Qatar for Rafale fighter aircraft, the signalling of four lines of the London underground, an order from the Australian army for over 1,000 Hawkei vehicles, and a military satellite communications system for France (ComSat NG).

From a geographical point of view, orders fell as expected in mature markets (€10,138 million, a decrease of 20%), where the clients of three of the five major 2015 orders listed above were located. Emerging markets continued to report a solid order intake (€6,376 million, up 3%), driven by good momentum in both the Middle East and Asia.

Order intake in the **Aerospace** segment fell 7% to **€5,872 million**, compared to €6,281 million in 2015. Avionics continued to report a good level of orders in both civil and military segments. In-flight entertainment (IFE) posted an excellent commercial performance, announcing two major airline successes: Singapore Airlines and Emirates. The Space segment benefited from good commercial momentum, although the order intake was understandably down on the high 2015 figure.

Order intake in the **Transport** segment represented **€1,504 million**, down 47% on 2015. The Group landed a large contract (worth over €100 million) in the United Arab Emirates, to supply leading-edge signalling, surveillance and telecommunications technologies for the extension of the Dubai metro. In 2015, the order intake had been driven by three large urban signalling contracts (Doha, Hong Kong and London).

Order intake in the **Defence & Security** segment remained very high, at **€9,052 million**. The 7% year-on-year decline reflects fewer large contracts booked in this segment (six large contracts in 2016 versus nine in 2015).

1.1.1.4 Sales

(in € millions)	2016	2015	Total change	Organic change
Aerospace	5,812	5,387	+7.9%	+8.5%
Transport	1,603	1,519	+5.5%	+8.3%
Defence & Security	7,383	7,079	+4.3%	+5.0%
Total – operating segments	**14,798**	**13,985**	**+5.8%**	**+6.7%**
Other	87	78		
TOTAL	**14,885**	**14,063**	**+5.8%**	**+6.8%**
Of which mature markets [(a)]	10,395	10,101	+2.9%	+3.9%
Of which emerging markets [(a)]	4,490	3,962	+13.3%	+14.0%

(a) Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries.

Sales for 2016 were **€14,885 million**, compared to €14,063 million in 2015, up 5.8% on a reported basis, and up **6.8% at constant scope and currency** [(1)] ("organic" change), driven by very good momentum in all segments.

As expected, sales fell slightly in the fourth quarter (down 1.6% based on reported figures, down 0.7% on an organic basis), affected by a strong basis of comparison, particularly in the Transport and Defence & Security segments.

From a geographical perspective, this good performance reflects both continued strong growth in emerging markets (up 14.0%, following on from 16.0% in 2015) and a return to organic growth in mature markets (up 3.9%, after 0.5% in 2015). Emerging markets accounted for 30% of the Group's sales, up from 28% in 2015 and 25% in 2014.

Sales in the **Aerospace** segment came in at **€5,812 million**, up 7.9% compared to 2015 (up 8.5% at constant scope and currency). Sales of commercial and military aircraft avionics and in-flight entertainment proved particularly buoyant. However, sales of helicopter avionics, and of microwave and imaging systems were down. Sales in the Space segment experienced strong growth, lifted by the ramp-up of contracts signed in 2014 and 2015 in both observation and telecommunications activities.

In the **Transport** segment, sales totalled **€1,603 million**, up 5.5% compared to 2015 (up 8.3% at constant scope and currency). This growth reflects the start of invoicing on the three major projects won in 2015, combined with the recovery of activity after the execution difficulties that had impacted 2015. The decline in sales in the fourth quarter was not a reflection of a slowing momentum, but of a tough comparison basis, due particularly to the catch-up impact of certain project execution delays.

Sales in the **Defence & Security** segment were **€7,383 million**, up 4.3% compared to 2015 (up 5.0% at constant scope and currency). Almost all businesses contributed to this momentum. The Land & Air Systems segment posted strong growth, specifically in air defence, civil and military radars, optronics and missile electronics. The Defence Mission Systems segment delivered vigorous growth in fighter aircraft systems, surface ship systems and in intelligence, surveillance and reconnaissance (ISR) solutions. Only the Secure Communications and Information Systems segment witnessed a slowdown, due mainly to the delivery in 2015 of several large military network projects such as the new French Ministry of Defence site ("Balard").

As expected, sales for this segment fell slightly in Q4 2016 (down 3.5% based on reported figures and down 2.7% on an organic basis). This is explained by a contract phasing effect and a tough prior-year comparative basis.

(1) Taking into account a negative exchange rate effect of €192 million and a net positive scope effect of €76 million, mainly related to the consolidation of Vormetric as of March 2016 (Defence & Security segment).

1.1.1.5 Adjusted results

EBIT

In 2016, consolidated **EBIT** [1] was **€1,354 million**, or 9.1% of sales, compared to €1,216 million (8.6% of sales) for the same period in 2015. EBIT advanced by 11% based on reported figures, and by 15% on an organic basis.

(in € millions)	2016	2015	Total change	Organic change
Aerospace	**571**	**518**	**+10%**	**+11%**
In % of sales	*9.8%*	*9.6%*	*+0.2 pts*	*+0.3 pts*
Transport	**11**	**(37)**	**NM**	**NM**
In % of sales	*0.7%*	*−2.4%*	*+3.1 pts*	*+3.3 pts*
Defence & Security	**788**	**760**	**+4%**	**+8%**
In % of sales	*10.7%*	*10.7%*	*−0.1 pts*	*+0.3 pts*
Total – operating segments	**1,371**	**1,241**	**+10%**	**+14%**
In % of sales	*9.3%*	*8.9%*	*+0.4 pts*	*+0.6 pts*
Other – excluding DCNS	(50)	(47)		
Total – excluding DCNS	**1,321**	**1,194**	**+11%**	**+14%**
In % of sales	*8.9%*	*8.5%*	*+0.4 pts*	*+0.6 pts*
DCNS (35% share)	34	22		
TOTAL	**1,354**	**1,216**	**+11%**	**+15%**
In % of sales	*9.1%*	*8.6%*	*+0.5 pts*	*+0.6 pts*

The **Aerospace** segment posted EBIT of **€571 million** (9.8% of sales), versus €518 million (9.6% of sales) in 2015. The EBIT margin was driven by a good performance in the Avionics and Space segments. Margin growth was slowed down by a rise in restructuring costs, particularly for microwave and imaging systems activities, and by a change in the rules for allocating shared sales and marketing expenses to operating segments [2].

EBIT for the **Transport** segment increased sharply, at **€11 million** (0.7% of sales), compared to a negative €37 million (negative 2.4% of sales) in 2015. The operational recovery plan implemented by the new management team continued on track, but low or zero margin contracts still weighed on profitability. Ongoing transformation efforts and the gradual phasing-out of low-margin contracts should help this business regain its past profitability levels by 2018/2019.

EBIT for the **Defence & Security** segment was **€788 million** (10.7% of sales), compared to €760 million (10.7% of sales) in 2015. On a reported basis, the EBIT margin for this segment remained stable (down 0.1 points), affected namely by the sale of interests in two joint ventures [3]. The EBIT margin gained 0.3 points on an organic basis.

The contribution made by **DCNS** to EBIT stood at **€34 million** in 2016, compared to €22 million in 2015, benefiting from the gradual upturn in its profitability, and from a non-recurring, non-operating item.

Adjusted financial income

Net interest income remained low at **€6 million** versus €4 million in 2015. The same can be said for **other adjusted financial income (expense)** [4], which represented a **net expense of €10 million** in both 2016 and 2015. Adjusted finance costs on pensions and other employee benefits [4] decreased (**€66 million** versus €72 million in 2015), due mainly to the fall in the deficit between 1 January 2015 and 1 January 2016, and changes in the EUR/GBP exchange rate.

Adjusted net income

Adjusted net income, Group share [5] stood at **€897 million** versus €809 million in 2015, taking into account an adjusted tax charge [4] of €314 million (€266 million in 2015). The effective tax rate was up slightly, at 27.2% compared to 26.7% in 2015. Following the French parliament's adoption of a reduction in corporate income tax as from 2020, the Group recognised a one-off tax charge of €18 million reflecting the revaluation of its net deferred tax position. The effective tax rate would have declined if this one-off item had not been recorded.

Adjusted net income, Group share, per share [4] came out at **€4.25**, up 9% on 2015 (€3.89).

1.1.1.6 Consolidated results

Income from operations

Income from operations amounted to **€1,097 million** versus €965 million in 2015, up 14%. This increase reflects the improvement in gross margin and greater discipline over indirect costs, which were up just 4% despite the increase in R&D expenses.

Income from operations after share in net income of equity-accounted companies

Income from operations after share in net income of equity-accounted companies advanced 26% year on year to **€1,422 million** from €1,131 million in 2015. In addition to the increase in EBIT, it was also boosted by disposal gains, including the Raytheon (€92 million) and Hanwha (€114 million) joint ventures. The share in net income of equity-accounted companies came in slightly higher year on year at €120 million, with the impact of the disposal of the two above-mentioned joint ventures offset by higher contributions of the Group's other equity-accounted companies.

(1) Non-GAAP measure, see definition and computation on pages 8 and 9.
(2) Negative 0.2-point impact on the EBIT margin in this segment, offset by a non-material improvement in the other segments.
(3) Negative impact on EBIT: €19 million.
(4) See tables on pages 9 and 10.
(5) Non-GAAP measure, see definition on page 8.

Net income

Consolidated net income, Group share climbed **24%** to **€946 million**, buoyed by EBIT growth and by the sharp rise in disposals of assets.

1.1.1.7 Financial position at 31 December 2016

Free operating cash flow, at **€954 million** (€1,110 million in 2015) remained high, lifted by EBIT growth and by advance payments received on orders during the year. The Group slightly increased its operating investments as part of the optimisation of its industrial base (€472 million, up from €458 million in 2015). The cash conversion rate from adjusted net income into free operating cash flow was 106%.

At 31 December 2016, **net cash amounted** to **€2,366 million** compared to €1,978 million at end-2015, after the distribution of €297 million in dividends (€234 million in 2015).

The net balance of acquisitions and disposals is an expenditure of €94 million: the acquisition of Vormetric, finalised in March (€372 million expense) was partly offset by the balancing cash payment received in connection with the change in scope of the Thales Raytheon Systems joint venture (€81 million) and by cash received in relation to the sale of the shareholding in Hanwha Thales (€204 million). In November 2016, the Group entered into exclusive negotiations with a view to selling its ticketing business[1], which reported sales of €190 million in 2016. This project is currently in consultations with employee representative bodies, and will be subject to customary closing procedures.

Equity, Group share remained stable year-on-year at **€4,640 million**, compared to €4,646 million at 31 December 2015, as the rise in the net pension obligation and the dividend payout offset the impact of consolidated net income, Group share (€946 million).

1.1.1.8 Proposed dividend

At the Annual General Meeting on 17 May 2017, the Board of Directors will propose the distribution of a **dividend** of **€1.60** per share, an increase of 18% on 2015.

If approved, the ex-dividend date will be 31 May 2017 and the payment date will be 2 June 2017. The dividend will be paid fully in cash and will amount to €1.20 per share, after deducting the interim dividend of €0.40 per share paid in December 2016.

1.1.1.9 Outlook

In 2017, Thales should benefit from positive trends in most of its markets. Although below the highs recorded in 2015 and 2016, the order intake in 2017 should remain brisk, at around €14 billion.

Sales should see mid-single digit organic growth compared to 2016.

This positive trend, combined with continuing efforts to improve competitiveness, should result in Thales delivering between €1,480 and €1,500 million in EBIT (based on February 2017 scope and exchange rates), representing an increase of 9% to 11% versus 2016.

Thales also confirms its mid-term objectives of a mid-single digit organic sales growth on average in the 2016 2018 period, and an EBIT margin of between 9.5% and 10% in 2017/2018.

1.1.2 Risk factors

Thales is exposed to numerous 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, currently unknown to Thales, 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 and strategic risks (Section 1.1.2.1), legal risks (Section 1.1.2.2) and financial risks (Section 1.1.2.3).

See also Section 3.2 "Chairman's report of 17 May 2017, on corporate governance, internal control and risk management".

1.1.2.1 Operational and strategic risks

1.1.2.1.1 Control of bids and programmes

Many of Thales' products and systems are highly complex due to their advanced technology content, the rigorous operational constraints and harsh environments in which they operate (which require them to be extremely reliable), and the contractual arrangements surrounding their sale (comprehensive prime contractorships for large-scale systems, public-private partnerships or their equivalent, local shares, compensation commitments (see Section 1.1.2.1.11), etc.).

The actual cost of design, development and manufacture may therefore exceed initial cost estimates, which in turn may adversely impact Thales' results and financial position, especially considering that the associated contracts are generally based on a fixed, all-inclusive price. In addition, many contracts include stringent performance levels and/or tight delivery schedules for the products or systems sold, particularly given the increased competition. If Thales is unable to deliver these products or systems in line with the required level of performance and/or delivery schedule, customers may demand penalty payments or even decide to terminate the contract.

(1) Payment collection for Transport operators, road toll and car park management systems.

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.

Numerous Thales contracts, particularly those that involve the most complex products and services, run for several years. Their economic contribution to the Group's result over a given period is therefore assessed, in accordance with applicable accounting standards, based on an estimate of their cost to completion.

These assessments can result in uncertainties that require subsequent correction despite the careful attention that is paid to estimates for each project through regular reviews to measure the technical, contractual and financial progress made.

The Group pays special attention to analyses and action plans for efficiently managing bids and projects by measuring and monitoring financial variance on the projects as well as appropriately applying corrective actions.

As part of the Ambition Boost performance programme (see also Section 1.1.2.1.8 "Risk of lower impact of performance improvement measures"), 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 product policy and ensure it is better adapted to customer needs in order to streamline new developments and thus reduce risks;
- improve the management of commitments made, with the 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 solutions for products and projects (during the bid or execution phase);
- improve the supply chain, by increasing its global dimension and enhance the increasing maturity of emerging countries in project implementation;
- improve methods, practices and tools to make them more relevant to international products/projects (e.g., through the implementation of a project management tool adapted to emerging countries, SAP by Design);
- introduce advanced training for project managers to obtain International Project Management Association (IPMA) certification. At the end of 2016, nearly 1,200 project managers within the Group had gained IPMA certification, with approximately 180 certified during the year.

1.1.2.1.2 Supplier risk

Purchases constitute a very significant proportion of Thales' business, representing nearly half its sales with purchases ranging from industrials to services, equipment and sub-systems. Thales is therefore exposed to the risk of the industrial, technical or financial failure of any of its suppliers, which in turn could affect the Group'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, given 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, an 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.

1.1.2.1.3 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 increasing 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 psycho-social risks by implementing individual and collective preventive actions.

Proof of the Group's continuing commitment to certification, 106 Thales entities (representing 82% of the workforce) had obtained OHSAS 18001 certification by the end of 2016.

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' success and performance effectively depend on:

- its capacity to recruit employees in the different employment markets, in France and abroad;
- the quality of the key skills and the commitment of its employees; and
- its capacity to globally manage the talent required for the development of its activity worldwide.

Thales therefore attaches great importance to its attractiveness and positioning as a top employer, ensuring a positive external image which will boost recruitment and an internal work environment 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, notably through 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 proactive 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 key training programmes in response to changing needs. Significant work has been carried out to pinpoint employee 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, Engineering and Project Management.

Lastly, in 2013, the Group signed a series of agreements with the unanimous support of the trade union organisations in France that encourage the integration of young people, either on work-study training schemes or post-qualification, and the transfer of knowledge (the Generation Contract); that develop diversity (the Gender Equality Agreement); and that take a forward-looking approach to jobs and skills.

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.

1.1.2.1.4 Environmental risks

For many years, Thales has conducted a regular analysis and update of environmental risks in accordance with its business activities, scientific and technical developments as well as with current regulatory change.

This analysis is aimed at:

- regularly ensuring that employees and neighbouring 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 (e.g., REACH in Europe) on the supply chain and on product design;
- analysing the impact of the environment on activities (water stress, climatic events, etc.);
- identifying 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 shared experience are used to support the approach.

At the end of 2016, 120 entities had been certified ISO 14001, representing 89% of the Group's workforce.

Thales also regularly assesses the risks linked to climate change in order to evaluate their impact on activity and costs. The main risks identified are:

- regulatory change (reporting, carbon taxes, etc.) which has a very limited impact for Thales (not affected by the EU Emissions Trading Scheme). Nevertheless, Thales closely monitors current and future laws and regulations in order to analyse and anticipate their impact and set in place the requisite measures;

- climate change (floods, hurricanes, earthquakes, water stress, etc.) that can lead to damages and a continuous disruption in activity at Thales sites as well as the sites of its subcontractors and partners.

  To manage this risk and reduce its vulnerability, Thales has carried out regular assessments of the exposure of its different sites to natural disasters and their consequences for several years now. Action plans linked to these assessments have been defined in order to attenuate this risk (see Section 5.2.4), and the Group's insurance policies (see Section 1.1.2.4 Insurance) are also based on these assessments.

  A risk mapping linked to water shortages has also been carried out. The majority of Group sites in vulnerable areas are offices that have very limited risk exposure given their low water consumption.

  An analysis of "natural disaster" and "water stress" risks is now included in the regular prevention visits at the Group's sites and those of its critical subcontractors;
- any failure by Thales to implement adequate measures in the fight against climate change that would have a negative impact on its corporate image. As a Group that is regularly consulted by increasingly exacting stakeholders (customers, investors, civil society, etc.) regarding its carbon strategy, Thales publishes information on the measures in place and the results obtained (see also Section 5.2.4). In 2016, it was awarded a rating of A- for its "climate change" performance (Carbon Disclosure Project), making it one of the best-performing companies listed.

At 31 December 2016, reserves for environmental contingencies amounted to €6.7 million.

1.1.2.1.5 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 position.

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 required to undergo to a large number of audits and inspections by the national supervisory authorities.

It has also implemented a global procedure for employee safety and protection in all of 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.

Lastly, faced with the current heightened terrorist threat, the Group has also increased the level of security and protection for its most sensitive sites. These measures are particularly important in France given the number and nature of sites in the country.

1.1.2.1.6 Risk of IT system failure

The Group operates – whether directly or through service providers – complex IT systems and infrastructures that are essential to the smooth running of its commercial, industrial and financial processes. These information systems include management, development and engineering systems as well as platforms operated on behalf of our customers, and must be protected against any malfunctions, natural disasters, malicious acts or human error at all costs. 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 can have an impact on the Group's operations and its financial results.

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

The plan is completed by efforts to raise employee awareness of these threats.

Lastly, the Thales IT system security strategy has been approved by Group management, in close cooperation with the national and governmental authorities of the countries concerned. Any such incidents could have an impact on the Group's operations and its financial results.

Business continuity

The Disaster Recovery Plan in case of the failure of part of Thales' IT systems has been adapted to the countries in which the Group is present. A methodology to prevent the risk of a failure of the Group's IT systems also exists to ensure disaster recovery solutions are adapted to the degree of risk and their operational impact. More specifically, the plan is based on an analysis of the criticality of the different services given their impact on the Group's operations, and undergoes regular test runs.

Cyber-security

A plan to protect against risks related to cyber-security has been defined and implemented in countries where the Group currently operates. As well as continuing to adapt the means of protection already in place, the plan includes the implementation of new measures to heighten the protection of sensitive information, and the development of systems for early identification and prompt correction of any non-compliances. It is adapted to new regulations and practices (e.g. the use of Cloud computing), uses new technologies (e.g., solutions developed by Vormetric which was recently acquired by the Group), and includes the implementation of "CyberSecurity Operation Centers" so that anomalies and incidents that could affect the security of our systems are identified as early as possible and the appropriate solutions put in place.

In order to ensure the convergence and coherence of cyber-security and defence measures throughout the Group, a number of "key rules" linked to Thales' IT systems have been adopted by the IT departments at a global level. Their effective application is regularly monitored and reporting submitted to the Group IT Security department.

The implementation and control of internal cyber-defence measures benefits from the expertise of the Group teams responsible for the protection of customer IT systems.

Awareness and know-how

The plan is completed by ongoing efforts to raise employee awareness of these threats. Communication campaigns and training are rolled out to remind users of the best practices that will help ensure the security of their IT systems. More recently, regular website forums have also been held in which all employees are encouraged to take part.

While all of the measures and action plans put in place by Thales significantly reinforce the level of protection for the Group's information systems, they do not guarantee complete immunity against failures that may have an impact on business and operations.

1.1.2.1.7 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 therefore be held liable, notably in the event of damage to property or personal injury, or in the event that they result in a disruption in the business and activities of its customers. Were they to occur, such events would be liable to impact Thales' results and financial position, as well as its reputation.

In order to limit the impact, Thales has put Group-wide standards in place (Design Authority, quality, documentation, contractual arrangements and risk management). In addition, Thales follows a policy of maintaining appropriate insurance coverage (see Section 1.1.2.4 "Insurance").

1.1.2.1.8 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. Five new cross-disciplinary initiatives are also now in place to complete and strengthen the performance plans: Going Global; Competitiveness; Leadership Governance; Diversity and Inclusion; and Digital Transformation.

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.

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

The Group's success and performance in relation to its competitors also depend on its capacity to recruit and retain quality employees with the requisite skills and commitment. Thales therefore attaches great importance to its attractiveness and positioning as a top employer, ensuring a positive external image which will boost recruitment and an internal work environment that will help retain employees (see Section 1.1.2.1.3-b) "Talent development").

1.1.2.1.10 Offsets

In some countries, the awarding of major contracts, particularly defence contracts, may be dependent on a legal or regulatory requirement to fulfil a direct, semi-direct or indirect offset requirement. The Group's ability to factor this into a proposal can be a major source of differentiation and, as such, have a decisive impact on its commercial success or failure.

The non-fulfilment of contractual offset obligations within the requisite deadlines can result in penalties, the payment of which does not always release the obligor from its obligations. It can also compromise the Group's capacity to develop its activities in a given country.

Thales' order intake in recent years (particularly the order for the Rafale fighter aircraft placed by the Indian authorities in the third quarter of 2016) has led to a substantial increase in its offset obligations.

Faced with these risks, Thales has set in place a dedicated structure, both at a central level and for its exporting units and destination countries, which is responsible for integrating and overseeing these obligations as early as the bid phase. The Group also has a specific unit that is entirely devoted to the management of indirect offsets, Thales International Offsets (TIO).

1.1.2.1.11 Market trends

The markets on which Thales operates are broadly correlated to the current economic backdrop, but can also be impacted by specific factors: technological breakthroughs, drastic changes in Business Models, deregulation, new standards, real or perceived increase in the threat of terrorism, changes in oil prices, conflicts or major political change, epidemics and disasters that could have an impact, however temporary, on these markets. This is particularly true of the civil aviation market. As part of the development of its activities related to in-flight broadband, Thales entered into a strategic agreement with SES to secure bandwidth over the Americas. Under this agreement, Thales committed to an annual bandwidth purchasing programme over the period 2016 to 2028 and the payment to SES of a set minimum fee. The profitability of this business could therefore be affected if the sale of the broadband services was lower than forecast for several consecutive years.

The main risk mitigation factors are Thales' efforts to promote the offer to airlines and the flexibility built into the agreement.

More generally, to limit the impact of market risk, Thales constantly seeks (i) to adapt its product lines to foreseeable changes in demand and to improve their competitive performance and industrial flexibility in line with fluctuations in activity, and (ii) a comprehensive strategy to balance its business portfolio.

1.1.2.1.12 Dependence on public procurement

Thales generates a significant share 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 reduction in the budget resources of government customers, for example, could generate delays in order booking, contract execution and payments, or mean a cut 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 order base with a unit value of less than €100 million. Finally, the broad geographic spread of Thales' business, particularly through its international operations, ensures further diversification of its customer base.

1.1.2.1.13 Political risks

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

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

- more restrictive currency control, with limitations or exclusions on withdrawing currency from a 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' interest in a local company, or, more broadly, discriminatory measures that compromise Thales' 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, that 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 Section 1.1.2.1.5 Security breaches in respect of sites and staff).

On 23 June 2016, the United Kingdom, which represents approximately 10% of Group sales and 6,500 employees, voted by referendum to leave the European Union. This decision could have a number of consequences on the activities and financial performance of Thales. It could notably lead to a higher degree of volatility between the pound sterling and the euro, in interest rates and in the value of plan assets covering the Group's pension commitments in the United Kingdom. The management of these financial risks is part of the procedures set in place by the Group and described in Section 1.1.2.3 on Financial risks. The risk of an increase in tariff barriers is automatically reduced by Thales' predominant use of local country production resources, a strategy which also tends to reduce the effects of greater volatility in the pound since sales and production costs are essentially denominated in the same currency. In the long term, the hardest risk to assess relates to the possible impact of this decision on UK economic growth and its defence budget. The geographic diversification of Thales' activities limits the potential impact of this risk.

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' results and financial position.

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

An internal audit is carried out for all major acquisitions within 18 months of the finalisation of the operation. These audits assess the different stages of the transaction, the strength of the business plans that led to the decision, the implementation of the initial synergies and the level of performance in relation to the commitments made.

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 2016, these companies are consolidated using the equity method[1].

The share in net income of equity-accounted companies is included in Thales' 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' 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 deadlock, 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.

Lastly, 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 analyses and give instructions regarding financial or operational data, or even to access this data, may be more limited than in the entities over which Thales exerts exclusive control.

As a result, the Group aims to define appropriate governance methods by seeking to be represented on the Board of Directors (or a similar decision-making body), and more generally, to negotiate contractual provisions that are in Thales' best interests.

(1) See the list of companies accounted for under the equity method on page 70.
(2) Non-GAAP measures, see definition and computation in Section 1.1.1.2, pages 8 to 11.

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.

Thales' international activities mean that, although it must monitor developments in the legal and regulatory environments in which it operates, it is not always able to foresee them which may affect its business.

Despite the steps taken by Thales 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, 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) and on risk advisors responsible for the prevention of each of the major risks identified and monitored by the Risk Assessment Committee.

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

a) Business ethics

Thales' 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.

An integrity programme linked to corruption risk prevention has been in place in all Group entities for more than 15 years. A Code of Ethics exists for all Group employees that is regularly updated in line with external and internal reference systems and is posted on the Group intranet. With a preface by the Chairman and CEO, it reaffirms in particular the principle of zero tolerance for any act of corruption. Thales' integrity programme was certified by independent third parties Mazars and ADIT in 2014. It is currently being updated following the publication of the French law on Transparency, the fight against corruption and the modernisation of the economy, known as the *Loi Sapin II* law, in order to ensure that the measures taken by the Group are in line with the latest legal requirements.

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 supervises the use of agents and consultants by means of a very detailed procedure that provides for in-depth upstream checks and controls (due diligence) – backed by an analysis of the risk factors at play – and all 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 International Development department.

The players in the supply chain are also stakeholders in the integrity policy: at the end of 2016, 10,500 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. More than 8,000 employees have been trained since 2008, including 1,346 in 2016.

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 is available to all of the Group's employees.

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.

The Thales integrity programme has been recognised by stakeholders, and Thales' listing on the DJSI (Dow Jones Sustainability Indices) Europe and World has been confirmed for the second year in a row. The Group is one of the four leading European companies in Transparency International's "Corruption Perceptions Index" 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 600 companies around the world to have submitted their Communication on Progress to the UN with Global Compact Advanced status.

The overall system is completed by Thales' active participation in various initiatives in the fight against corruption. Thales also actively participates in national professional organisations (including MEDEF, GIFAS and ADS[1]) 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, etc.).

b) Export control

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

(1) Association of UK Aerospace, Defence Security & Space Industries.
(2) 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.

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

Thales has 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' 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' 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 interest, 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' 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' dependence on such technology can be considered very low.

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

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

1.1.2.2.2 Litigation

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

To prevent disputes or limit their impact, Thales' policy is to systematically seek alternative dispute resolution mechanisms. This policy is reviewed on a regular basis to take into account changes in the Group'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 involved.

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 shared customer claiming an amount which allegedly should be no less than $260 million 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 of the parties in June 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. Accordingly, Thales has not set aside a provision in respect of this dispute. Proceedings are ongoing.

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

1.1.2.3 Financial risks

1.1.2.3.1 Liquidity

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

The Group manages this risk by trying to anticipate its cash needs and ensures that these are covered by the 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 (eurozone, 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 2016, cash recorded under consolidated assets amounted to €3,616.9 million (compared with €3,450.2 million at end-2015), including:

- €3,183.1 million held by the parent company and available for immediate use (€2,949.8 million in 2015);
- €433.8 million in the bank credit balances of subsidiaries (€500.4 million in 2015), 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' credit risk ratings were as follows:

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

The decrease of Thales' credit risk rating would not trigger the financial covenants included in its financing contracts. The coming into effect of the unique clause providing for accelerated repayment would only apply in the event that the French 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.

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 interest rate hedging policy.

The Corporate Financing and Treasury department consolidates data on Thales' 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' debt by type of interest rate is described in Note 6 to the consolidated financial statements. The table below summarises the Group's exposure to interest rate risk before and after hedging. Based on the average net cash (taking into account hedging instruments), a 1% rise in interest rates would increase the financial interest, net by €21.6 million in 2016 (€11.4 million in 2015).

(31/12/2016, in € millions)	< 1 year		> 1 year		Total	
	Fixed rate	Variable rate	Fixed rate	Variable rate	Fixed rate	Variable rate
Financial liabilities	(14.5)	(96.8)	(1,387.1)	(18.7)	(1,401.6)	(115.6)
Financial assets	–	3,882.8	–	–	–	3,882.8
Net exposure before impact of derivative instruments	**(14.5)**	**3,785.9**	**(1,387.1)**	**(18.7)**	**(1,401.6)**	**3,767.2**
Derivatives	(4.0)	4.0	991.2	(991.2)	987.2	(987.2)
Net exposure after impact of derivative instruments	**(18.5)**	**3,789.9**	**(395.9)**	**(1,009.9)**	**(414.4)**	**2,780.0**

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' sales are generated in the eurozone, which a significant portion of its industrial operations are located. More generally, the reinforcement of the Group's international industrial footprint allows it 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 microwave systems, civil space, etc.), the US dollar ("$" or "USD") 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 microwave systems), this policy is defined on the basis of sales forecasts in USD, after accounting for corresponding purchases in USD. For these transactions, net exposure to dollar risk represents around 3.5% of the Group's total sales for 2016;

- for longer-term programmes in markets traditionally denominated in USD (primarily in civil space), each bid is examined for profitability in light of the effect of currency fluctuations, after accounting for corresponding purchases in USD, and, if necessary, is specifically hedged through market transactions (forward exchange-rate contracts and options).

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

  Overall, net exposure amounted to around 2.5% of the Group's total sales for 2016;
- as well as this direct dollar risk, which concerned around 6% in total of consolidated sales at end-2016, 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:

- $2,985 million, the amount of financial instruments hedging net firm commitments (US dollar risk against the euro, Canadian dollar and pound sterling) at 31 December 2016 compared with $3,309 million at 31 December 2015;
- $310 million, the amount of financial instruments hedging bids in US dollars against the euro, Canadian dollar and pound sterling at 31 December 2016 compared to $124 million at 31 December 2015.

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 2016 and 31 December 2015. The premium/discount component is not eligible to cash flow hedge accounting and is recognised through profit and loss. In 2016, the change in market value of the premium/discount was a negative €54.0 million (compared to a negative €15.5 million in 2015).

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 had no impact at 31 December 2016 and would have increased (decreased) income by approximately €1 million at 31 December 2015.

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' 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 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 2016 FOR THE MAIN CURRENCIES

(in € millions)	GBP zone	USD zone	AUD zone	Other currencies & eliminations	Total
Assets	1,945.4	1,744.3	950.6	16,529.6	21,169.8
Liabilities	2,286.6	1,389.7	506.2	12,086.3	16,268.8
Net position before management	**(341.2)**	**354.6**	**444.4**	**4,443.3**	**4,901.0**
Hedge	–	–	–		
NET POSITION AFTER MANAGEMENT	**(341.2)**	**354.6**	**444.4**	**4,443.3**	**4,901.0**

1.1.2.3.4 Shares

Thales was not exposed to any significant equity risk at end-2016, excluding the risk on treasury shares.

At 31 December 2016, Thales held 749,559 treasury shares, representing 0.35% of the share capital.

1.1.2.3.5 Pension commitments

Defined-benefit pension plans are in place for certain Group employees, mainly in the UK, which are financed by the Group under the provisions of the applicable national legislation. As such, at 31 December 2016, Thales' pension commitments in the United Kingdom amounted to €4,605.7 million, hedged by €3,246.2 million in investments, representing an underlying shortfall of €1,359.5 million.

Changing market parameters can lead to a substantial increase or decrease in the amount of the shortfall and the annual costs of defined-benefit plans. At 31 December 2016, the sensitivity factors were as follows:

- 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 underlying shortfalls to possible changes in market parameters taking into account correlation factors. In the UK, Thales 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.

Additional information on the amount of commitments and the annual costs linked to pension and other employee benefits, as well as the valuation and allocation of plan assets and the sensitivity of net commitments to different actuarial assumptions is given in Note 9.3 of the consolidated financial statements at 31 December 2016.

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 of default by private sector customers

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

To mitigate these risks, Thales conducts regular 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.

b) Credit risk relating to public sector customers

Public, government and institutional customers account for around 75% of Thales' sales. Thales works with a large number of countries. Some of them could present a significant credit risk which could, for example, lead them to suspend an order in production, or render them 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 BPIFrance) or private insurers.

At 31 December 2016, only three customers accounted for annual sales in excess of €500 million: the French State (around €2.5 billion), the UK government (around €1 billion) and the Australian government (around €0.6 billion). At 31 December 2016, these three countries had first-class or high-quality ratings (France was rated AA by S&P and Aa2 by Moody's, the United Kingdom was rated AA by S&P and Aa1 by Moody's, and Australia was rated AAA by S&P and Aaa by Moody's).

1.1.2.4 Insurance

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

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

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

- damage to property and consequent operating losses;
- transport;
- assembling and testing;
- civil aviation liability, including civil 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 2016.

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

In 2016, 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. In 2016, the Group took out specific cover against cyber incidents and damages that could compromise its internal IT systems.

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 civil aviation liability commitments, which is covered by a specific programme, amounts to $2 billion.

The insurance industry depends on the financial markets. There are therefore 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 2016, more than 66% 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.

A risk prevention policy for critical supplier sites was also set in place to reduce the risk of operating losses for Thales in the event of an accidental disaster at one of their sites.

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 (Articles L. 225-102-1 and R. 225-105-1 of the French Commercial Code)

In accordance with the Articles L. 225-102-1 and 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 "Corporate responsibility"; an independent third-party verifier has issued a statement of completeness and limited assurance report on the consolidated social, environmental and societal information (see pages 185 *et seq.*).

1.1.4 Events since year-end

The Group is not aware of any significant post-closing events.

1.1.5 Summary statement of transactions indicated in Article L. 621-18-2 of the French Monetary and Financial Code carried out in 2016

Details of the transactions carried out are set out in Section 4.3.3.7, pages 173 and 174.

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1.2 CONSOLIDATED FINANCIAL STATEMENTS

1.2.1 Consolidated profit and loss account

(in € millions)	Notes	2016	2015
Sales	Note 2	**14,884.8**	**14,063.2**
Cost of sales		(11,274.6)	(10,688.1)
Research and development expenses		(736.1)	(692.0)
Marketing and selling expenses		(1,025.4)	(980.9)
General and administrative expenses		(543.5)	(531.8)
Restructuring costs	Note 10.2	(100.5)	(94.3)
Amortisation of intangible assets acquired (PPA)[a]	Note 4.2	(107.3)	(111.6)
Income from operations	Note 2	**1,097.4**	**964.5**
Disposal of assets, changes in scope of consolidation and other	Note 3.2	205.1	53.4
Impairment on non-current assets		–	--
Income of operating activities before share in net income of equity affiliates		**1,302.5**	**1,017.9**
Share in net income of equity affiliates		**119.6**	**112.8**
• of which, share in net income of joint ventures	Note 5.1	72.4	55.8
• of which, share in net income of associates	Note 5.2	47.2	57.0
Income of operating activities after share in net income of equity affiliates		**1,422.1**	**1,130.7**
Interest expense on gross debt		*(11.3)*	*(15.5)*
Interest income on cash and cash equivalents		*17.6*	*19.3*
Interest income, net	Note 6.1	6.3	3.8
Other financial income (expenses)	Note 6.1	(80.6)	(41.8)
Finance costs on pensions and other employee benefits	Note 9.3	(77.6)	(60.1)
Income tax	Note 7.1	(255.6)	(219.9)
NET INCOME		**1,014.6**	**812.7**
Attributable to: **Shareholders of the parent company**		**946.4**	**765.1**
Non-controlling interests		68.2	47.6
Basic earnings per share (in euros)	Note 8.2	4.49	3.68
Diluted earnings per share (in euros)	Note 8.2	4.44	3.63

(a) This item corresponds to the amortisation of acquired intangible assets (Purchase Price Allocation: PPA) of fully consolidated entities. The amortisation of PPA related to equity affiliates is included in the share in net income of equity affiliates and detailed in Note 2.1.

1.2.2 Consolidated statement of comprehensive income

(in € millions)	2016			2015		
	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	**946.4**	**68.2**	**1,014.6**	**765.1**	**47.6**	**812.7**
Translation adjustment: subsidiaries (Note 8.1)	32.2	(0.3)	31.9	9.6	1.3	10.9
Deferred tax (Note 7.2)	1.3	–	1.3	(1.3)	–	(1.3)
Joint ventures (Note 5.1)	(26.9)	–	(26.9)	11.6	–	11.6
Associates (Note 5.2)	(30.7)	–	(30.7)	27.6	–	27.6
Net	**(24.1)**	**(0.3)**	**(24.4)**	**47.5**	**1.3**	**48.8**
Cash flow hedge: subsidiaries (Note 8.1)	49.5	3.0	52.5	(186.9)	(4.1)	(191.0)
Deferred tax (Note 7.2)	(17.4)	(1.5)	(18.9)	44.3	1.4	45.7
Joint ventures (Note 5.1)	(0.5)	–	(0.5)	0.8	–	0.8
Associates (Note 5.2)	0.5	–	0.5	(16.5)	–	(16.5)
Net	**32.1**	**1.5**	**33.6**	**(158.3)**	**(2.7)**	**(161.0)**
Available for sale financial assets: subsidiaries	3.5	–	3.5	0.6	–	0.6
Joint ventures (Note 5.1)	6.7	–	6.7	–	–	–
Net	**10.2**	**–**	**10.2**	**0.6**	**–**	**0.6**
Items that may be reclassified to income	**18.2**	**1.2**	**19.4**	**(110.2)**	**(1.4)**	**(111.6)**
Actuarial gains (losses) on pensions: subsidiaries (Note 9.3)	(658.1)	(2.9)	(661.0)	268.9	2.6	271.5
Deferred tax (Note 7.2)	22.6	(0.3)	22.3	5.9	(0.8)	5.1
Joint ventures (Note 5.1)	(12.7)	–	(12.7)	5.1	–	5.1
Associates (Note 5.2)	**0.4**	**–**	**0.4**	**(1.9)**	**–**	**(1.9)**
Items that will not be reclassified to income	(647.8)	(3.2)	(651.0)	278.0	1.8	279.8
Other comprehensive income (loss) for the year, net of tax	**(629.6)**	**(2.0)**	**(631.6)**	**167.8**	**0.4**	**168.2**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**316.8**	**66.2**	**383.0**	**932.9**	**48.0**	**980.9**

1.2.3 Consolidated statement of changes in equity

(in € millions)	Number of shares outstanding (thousands)	Share capital	Additional paid-in capital	Retained earnings	Cash flow hedge	AFS invest-ments	Cumulative translation adjustment	Treasury shares	Total attributable to shareholders of the parent company	Non-controlling interests	Total equity
AT 1 JANUARY 2015	**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	–	–	–	765.1	–	–	–	–	765.1	47.6	812.7
Other comprehensive income	–	–	–	278.0	(158.3)	0.6	47.5	–	167.8	0.4	168.2
Total comprehensive income 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**
Net income	–	–	–	946.4	–	–	–	–	946.4	68.2	1,014.6
Other comprehensive income	–	–	–	(647.8)	32.1	10.2	(24.1)	–	(629.6)	(2.0)	(631.6)
Total comprehensive income for 2016	**–**	**–**	**–**	**298.6**	**32.1**	**10.2**	**(24.1)**	**–**	**316.8**	**66.2**	**383.0**
Employee share issues	1,233	3.7	41.5	–	–	–	–	–	45.2	–	45.2
Parent company dividend distribution (Note 8.1)	–	–	–	(296.8)	–	–	–	–	(296.8)	–	(296.8)
Third-party share in dividend distribution of subsidiaries	–	–	–	–	–	–	–	–	–	(48.3)	(48.3)
Share-based payments (Note 9.4)	–	–	–	16.7	–	–	–	–	16.7	–	16.7
Acquisitions/disposals of treasury shares (Note 8.1)	90	–	–	(13.8)	–	–	–	(36.4)	(50.2)	–	(50.2)
Purchase of Raytheon stake in TRS SAS	–	–	–	(52.8)	–	–	–	–	(52.8)	(85.8)	(138.6)
Other	–	–	–	12.2	(5.8)	–	–	–	6.4	(0.6)	5.8
Changes in scope of consolidation	–	–	–	7.8	(0.2)	–	1.3	–	8.9	(1.5)	7.4
AT 31 DECEMBER 2016	**211,445**	**636.6**	**4,036.9**	**376.5**	**(250.7)**	**12.4**	**(110.0)**	**(61.6)**	**4,640.1**	**225.9**	**4,866.0**

1.2.4 Consolidated balance sheet

Assets

(in € millions)	Notes	31/12/2016	31/12/2015
Goodwill, net	Note 4.1	3,424.4	3,215.9
Other intangible assets, net	Note 4.2	958.8	862.9
Property, plant and equipment, net	Note 4.2	1,798.9	1,696.7
Total non-current operating assets		**6,182.1**	**5,775.5**
Investments in joint ventures	Note 5.1	997.5	1,126.4
Investments in associates	Note 5.2	219.5	359.5
Non-consolidated investments	Note 6.3	82.3	71.1
Other non-current financial assets	Note 6.3	138.3	131.2
Total non-current financial assets		**1,437.6**	**1,688.2**
Non-current derivatives – Assets	Note 6.5	27.9	36.2
Deferred tax assets	Note 7.3	975.8	967.0
NON-CURRENT ASSETS		**8,623.4**	**8,466.9**
Inventories and work in progress	Note 10.1	2,734.6	2,560.8
Construction contracts: assets	Note 10.1	2,331.5	2,042.6
Advances to suppliers	Note 10.1	348.3	383.0
Accounts, notes and other current receivables	Note 10.1	4,547.5	4,404.2
Current derivatives – Assets	Note 6.5	161.7	154.2
Total current operating assets		**10,123.6**	**9,544.8**
Current tax receivable		59.8	70.8
Current financial assets	Note 6.2	265.9	27.5
Cash and cash equivalents	Note 6.2	3,616.9	3,450.2
Total current financial assets		**3,882.8**	**3,477.7**
CURRENT ASSETS		**14,066.2**	**13,093.3**
TOTAL ASSETS		**22,689.6**	**21,560.2**

Equity and liabilities

(in € millions)	Notes	31/12/2016	31/12/2015
Capital, additional paid-in capital and other reserves		4,811.7	4,758.3
Cumulative translation adjustment		(110.0)	(87.2)
Treasury shares		(61.6)	(25.2)
Total attributable to shareholders of the parent company		**4,640.1**	**4,645.9**
Non-controlling interests		225.9	295.9
TOTAL EQUITY	Note 8.1	**4,866.0**	**4,941.8**
Long-term loans and borrowings	Note 6.2	1,433.7	837.6
Pensions and other long-term employee benefits	Note 9.3	2,785.8	2,318.9
Deferred tax liabilities	Note 7.3	294.6	257.9
NON-CURRENT LIABILITIES		**4,514.1**	**3,414.4**
Advances received from customers on contracts	Note 10.1	4,478.4	4,317.2
Refundable grants	Note 10.1	133.4	127.6
Construction contracts: liabilities	Note 10.1	1,139.4	1,021.0
Reserves for contingencies	Note 10.2	1,037.0	1,022.9
Accounts, notes and other current payables	Note 10.1	5,872.6	5,547.6
Current derivatives – Liabilities	Note 6.5	478.3	405.3
Total current operating liabilities		**13,139.1**	**12,441.6**
Current tax payable		59.0	63.7
Short-term loans and borrowings	Note 6.2	111.4	698.7
CURRENT LIABILITIES		**13,309.5**	**13,204.0**
TOTAL EQUITY AND LIABILITIES		**22,689.6**	**21,560.2**

1.2.5 Consolidated statement of cash flows

(in € millions)	Notes	2016	2015
Net income		**1,014.6**	**812.7**
Add (deduct):			
Income tax expense (gain)		255.6	219.9
Net interest income		(6.3)	(3.8)
Share in net income of equity affiliates		(119.6)	(112.8)
Dividends received from equity accounted: joint ventures		43.6	51.8
Dividends received from equity accounted: associates		29.1	31.6
Depreciation and amortisation of property, plant and equipment and intangible assets	Note 4.2	384.6	381.3
Depreciation and amortisation of intangible assets acquired	Note 4.2	107.3	111.6
Provisions for pensions and other employee benefits	Note 9.3	170.5	165.9
Loss (gain) on disposal of assets, change inscope of consolidation and other	Note 3.2	(205.1)	(53.4)
Provisions for restructuring, net	Note 10.2	(7.4)	(16.8)
Other items		31.4	54.9
Operating cash flows before working capital changes, interest and tax		**1,698.3**	**1,642.9**
Change in working capital and reserves for contingencies	Note 10.1	(63.4)	143.0
Cash contributions to pension plans and other long-term employee benefits	Note 9.3	(190.1)	(225.1)
• *UK deficit payment*		*(88.3)*	*(101.0)*
• *Recurring contributions/benefits*		*(101.8)*	*(124.1)*
Interest paid		(21.1)	(25.3)
Interest received		13.6	34.5
Income tax paid		(99.4)	(102.3)
NET CASH FLOW FROM OPERATING ACTIVITIES	**- I -**	**1,337.9**	**1,467.7**
Acquisitions of property, plant and equipment and intangible assets		(480.3)	(473.4)
Disposals of property, plant and equipment and intangible assets		8.3	15.1
Net operating investments	Note 11.2	**(472.0)**	**(458.3)**
Acquisitions of subsidiaries and affiliates, net	Note 11.3	(391.2)	(51.2)
Disposals of subsidiaries and affiliates, net	Note 11.3	296.9	87.8
Decrease (increase) in loans and non-current financial assets		(26.5)	23.3
Decrease (increase) in current financial assets		(235.6)	15.2
Net financial investments		**(356.4)**	**75.1**
NET CASH FLOW USED IN INVESTING ACTIVITIES	**- II -**	**(828.4)**	**(383.2)**
Parent company dividend distribution		(296.8)	(234.0)
Third party share in dividend distribution of subsidiaries		(48.3)	(51.3)
Capital increase (options exercised)		45.7	116.2
Purchase/sale of treasury shares		(40.8)	9.2
Issuance of debt		641.1	40.4
Repayment of debt		(643.7)	(2.5)
NET CASH FLOW USED IN FINANCING ACTIVITIES	**- III -**	**(342.8)**	**(122.0)**
Effect of exchange rate variations and other	- IV -	–	6.3
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**I + II + III + IV**	**166.7**	**968.8**
Cash and cash equivalents at beginning of period		3,450.2	2,481.4
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**3,616.9**	**3,450.2**

The Group's net cash position and the changes from one period to the next are presented in Notes 6.2 and 11.1.

1.2.6 Notes to the consolidated financial statements

All monetary amounts included in these notes are expressed in millions of euros.

NOTE 1. ACCOUNTING STANDARDS FRAMEWORK

Thales' consolidated financial statements for the year ended 31 December 2016 were approved and authorised for issue by its Board of Directors on 27 February 2017. In accordance with French legislation, the financial statements will be deemed to be definitive once they have been adopted by the shareholders of the Group at the Annual General Meeting to be held on 17 May 2017.

Thales (parent company) is a French joint-stock company (*société anonyme*) registered with the Nanterre Trade and Companies' Register under number 552 059 024.

1.1 Basis of preparation for the 2016 consolidated financial statements

Thales' consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) approved by the European Union at 31 December 2016.

These accounting policies, described in Note 14, are consistent with those applied by the Group for the year ended 31 December 2015.

Furthermore, the new standards that were mandatory from 1 January 2016 (2010-2012 Annual Improvements Cycle, 2012-2014 Annual Improvements Cycle, and the amendments to IAS 16, IAS 38, IAS 19 and IFRS 11) have no impact on the Group's financial statements.

1.2 New standards effective from 31 December 2016

The following standards have been adopted by the IASB and will be effective for the periods indicated below pending their adoption by the European Union:

Accounting standard	Description	First-time application	EU endorsement
IFRS 15 (Revenue from Contracts with Customers)	Supersedes standards IAS 18 (Revenue) and IAS 11 (Construction contracts) and the related interpretations	1 January 2018	Yes [a]
IFRS 9 (Financial Instruments)	Supersedes all existing standards related to Financial instruments	1 January 2018	Yes
IFRS 16 (Leases)	Supersedes IAS 17. Removes the distinction between operating leases and finance leases, all contracts now being recognised on the balance sheet	1 January 2019	In progress
IFRIC 22 (Foreign Currency Transactions and Advance Consideration)	Clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency	1 January 2018	In progress
IAS 12 amendments (Income Tax)	Clarifies deferred tax accounting for debt instruments measured at fair value	1 January 2017	In progress
IAS 7 amendments (Cash Flow Statement)	Requires the reconciliation of liabilities whose cash flows were, or future cash flows would be, classified as financing activities in the statement of cash flows	1 January 2017	In progress
IFRS 2 amendments (Share-based Payments)	Provides a narrow-scope amendment for the classification and measurement of share-based payment transactions	1 January 2018	In progress

(a) Clarifications to IFRS 15 still in progress.

The assessment of the potential impacts of these new standards for the Group's consolidated financial statements is underway.

Thales Group has a dedicated project team responsible for analysing the differences between IFRS 15 (Revenue from Contracts with Customers) and existing standards (IAS 18 – Revenue and IAS 11 – Construction Contracts) which continued to carefully monitor the possible implications for the Aerospace and Defence sectors throughout 2016.

In particular, the new standard provides for:

- the unbundling of multiple performance obligations within a single contract;
- the recognition of revenue based on the transfer of control of goods and services to the customer: this transfer can occur at a given point in time or over time;
- new criteria proving the transfer of control over time and allowing for the recognition of revenue under the percentage of completion method. For the vast majority of Group construction contracts, Thales must be able to demonstrate that the goods sold have no alternative use and that it has an irrevocable right to payment for the work performed to date in the case of termination for convenience by the customer;
- appropriate methods to determine the stage of completion of contracts (or of each performance obligation). In this respect, the Group is currently assessing the implications of switching to the cost to cost method.

The Group will comment on the impacts of IFRS 15 in the second half of 2017 and confirm its choice in respect of the transition method.

(1) Available from http://ec.europa.eu/finance/company-reporting/index_en.htm.

1.3 Conversion

The principal exchange rates used to translate financial statements of entities with a functional currency different from the euro are as follows:

	31 December 2016		31 December 2015		31 December 2014	
Euro	**Closing rate**	**Average rate**	**Closing rate**	**Average rate**	**Closing rate**	**Average rate**
Australian Dollar	1.4596	1.4852	1.4897	1.4837	1.4829	1.4723
Pound Sterling	0.8562	0.8227	0.7340	0.7242	0.7789	0.8031
U.S. Dollar	1.0541	1.1032	1.0887	1.1046	1.2141	1.3211

1.4 Main sources of estimates

The preparation of the Group's consolidated financial statements involves making estimates and assumptions, which have an impact on the valuation of the Group's performance and its consolidated 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 on which the financial statements are prepared.

In today's global economic environment, the degree of volatility and subsequent lack of visibility are particularly high. Future facts and circumstances could lead to changes in these estimates or assumptions which would affect the Group's financial situation, profit and loss and cash flows, notably with regard to:

Construction contracts (Note 10.1)

The recognition of income and expenses relating to construction contracts is based on estimates of the overall profit or loss on their completion (see Note 14-c). These estimates are performed by project managers under the supervision of General Management and in accordance with Group procedures.

Goodwill (Note 4.1)

Goodwill is subject to impairment tests. The recoverable amount of goodwill is assessed based on forecast data from the strategic plans prepared in accordance with Group procedures. Sensitivity tests are carried out on key assumptions which lend greater weight to the conclusions reached.

Development costs (Note 4.2)

Development costs that meet the criteria for capitalisation (Note 14-e) are recognised as intangible assets and amortised over their useful lives. Compliance with the criteria is assessed in line with forecast activity and the profitability of the corresponding projects.

Pensions and other long-term employee benefits (Note 9.3)

Pensions and other long-term employee benefit commitments are estimated on statistical and actuarial bases in accordance with the policies outlined in the Note 14-j. 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 tax loss carryforwards and temporary differences between the book value and the tax value of assets and liabilities. Recovery of these assets is assessed on the basis of the forecast data in the strategic plans of each of the tax groups considered, and generally over a period of five years.

Litigation (Note 12)

The Group regularly identifies and reviews litigation in progress and recognises the accounting provisions that it considers to be reasonable in light of the circumstances. Any uncertainties concerning litigation in progress are described in Note 12.

Purchase price allocation in respect of business combinations

Business combinations are accounted for in accordance with the purchase accounting method described in Note 14-b: 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 operational segments presented by the Group are as follows:

- the **Aerospace** segment, which combines the "Avionics" and "Space" Global Business Units that develop on-board systems, solutions and services, mainly for private sector customers (aircraft manufacturers, airlines, satellite operators, etc.) but also to a lesser extent for government/defence customers (states, space agencies and other semi-public organisations);
- the **Transport** segment, which comprises the "Ground Transportation Systems" Global Business Unit that develops systems and services for an exclusively civilian customer base of ground transportation infrastructure operators;
- the **Defence and Security** segment, which combines the "Secure Communications and Information Systems", "Land and Air Systems" and "Defence Mission Systems" Global Business Units that develop equipment, systems and services for the armed and security forces and for the protection of networks and infrastructures, mainly for a government/defence customer base.

In order to monitor the operating and financial performance of the Group entities, the Group's executives regularly consider certain key non-GAAP indicators as defined in Note 14-a, which enable them to exclude certain non-operating and non-recurring items.

In particular, EBIT, presented by business segment below, corresponds to income from operations plus the share in net income of equity affiliates, excluding amortisation of acquisiton-related intangible assets (purchase price allocation – PPA) reported under business combinations. From 1 January 2016, it also excludes other expenses booked to income from operations that are directly linked to business combinations, which are unusual by nature.

2016	**Aerospace**	**Transport**	**Defence & Security**	**Other, elim., and unallocated**	**Thales**
Order backlog – non-Group	9,913.6	4,567.1	18,964.3	85.2	33,530.2
Order intake – non-Group	5,872.3	1,503.5	9,051.6	86.9	16,514.3
Sales – non-Group	5,812.0	1,602.8	7,383.1	86.9	14,884.8
Sales – intersegment	93.9	5.6	293.4	(392.9)	–
Total sales	**5,905.9**	**1,608.4**	**7,676.5**	**(306.0)**	**14,884.8**
EBIT	571.3	11.3	788.2	(16.3)	1,354.5
Of which, DCNS Of which, excluding DCNS	– 571.3	– 11.3	– 788.2	33.8 (50.1)	33.8 1,320.7
Capital expenditures	147.0	10.3	126.4	196.6	480.3
Depreciation and amortisation of property, plant and equipment and intangible assets	182.5	8.3	94.9	98.9	384.6

2015 restated (a)	**Aerospace**	**Transport**	**Defence & Security**	**Other, elim., and unallocated**(b)	**Thales**
Order backlog – non-Group	9,778.6	4,841.5	17,598.9	73.1	32,292.1
Order intake – non-Group	6,281.3	2,826.0	9,701.2	71.4	18,879.9
Sales – non-Group	5,387.2	1,519.2	7,078.5	78.3	14,063.2
Sales – intersegment	81.9	10.4	252.9	(345.2)	–
Total sales	**5,469.1**	**1,529.6**	**7,331.4**	**(266.9)**	**14,063.2**
EBIT	517.8	(36.9)	760.1	(25.3)	1,215.7
Of which, DCNS Of which, excluding DCNS	– 517.8	– (36.9)	– 760.1	21.9 (47.2)	21.9 1,193.8
Capital expenditures	162.4	11.4	104.0	195.6	473.4
Depreciation and amortisation of property, plant and equipment and intangible assets	163.3	7.9	105.1	105.0	381.3

(a) 2015 figures have been restated following a transfer between two segments.
(b) Data related to order backlog, order intake and sales included 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 the elimination of transactions between the business segments.

Non-allocated EBIT includes the Group's share (35%) in the net income of DCNS, corporate income from operations not assigned to the segments and the cost of vacant premises. Other costs (mainly the costs of foreign holding companies not invoiced and expenses related to share-based payments) are reallocated to the business segments proportionally to their respective sales (excluding Group).

The reconciliation between income from operations and EBIT is analysed as follow:

	2016	**2015**
Income from operations	1,097.4	964.5
Share in net income of equity affiliates	119.6	112.8
Sub-total	**1,217.0**	**1,077.3**
PPA amortisation related to fully consolidated entities	107.3	111.6
PPA amortisation related to equity affiliates	11.2	26.8
Expenses linked directly to business combinations	19.0	–
EBIT	**1,354.5**	**1,215.7**

2.2 Information by destination

Consolidated order intake (direct and indirect) by destination	2016	2015
France	3,509.2	4,101.9
United Kingdom	1,003.2	2,226.6
Rest of Europe	3,646.3	3,483.2
Europe	**8,158.7**	**9,811.7**
United States and Canada	**1,215.6**	**1,364.0**
Australia and New Zealand	**763.7**	**1,525.2**
Middle East	2,043.2	3,726.4
Asia	3,708.5	1,982.3
Rest of the world	624.6	470.3
Emerging markets	**6,376.3**	**6,179.0**
TOTAL	**16,514.3**	**18,879.9**

Sales (direct and indirect) by destination	2016	2015
France	3,580.6	3,420.5
United Kingdom	1,272.3	1,382.1
Rest of Europe	3,227.2	3,039.8
Europe	**8,080.1**	**7,842.4**
United States and Canada	**1,555.9**	**1,533.4**
Australia and New Zealand	**759.2**	**725.6**
Middle East	1,887.2	1,430.6
Asia	2,047.9	1,898.3
Rest of the world	554.5	632.9
Emerging markets	**4,489.6**	**3,961.8**
TOTAL	**14,884.8**	**14,063.2**

2.3 Sales by category of contracts

More than half of the Group's sales come from contracts specifically negotiated with the customer, who draws up the technical specifications and defines the specific provisions linked to the contract. These contracts meet different needs depending on the customer, and are generally long-term contracts.

	2016	2015
Construction contracts	7,312.7	7,009.8
Sales of goods and equipment	3,549.3	3,405.9
Services	3,951.3	3,550.5
Other	71.5	97.0
TOTAL	**14,884.8**	**14,063.2**

NOTE 3. IMPACT OF CHANGES IN SCOPE OF CONSOLIDATION

3.1 Main changes in scope of consolidation

In 2016:

- At the end of March 2016, Thales finalised the acquisition of Vormetric, a leading provider of data protection solutions for a total of $408 million (€372.4 million). Vormetric has been consolidated since its acquisition. The purchase price was allocated to amortisable intangible assets in the amount of $243.6 million (technology and customer relationships acquired) net of a deferred tax liability of $85.3 million. Residual goodwill amounted to €208.1 million (€189.9 million).

  As part of the transaction, Thales signed compensation agreements with key managers subject to their remaining with the company until 2020. The related amounts are being taken to income on a straight-line basis in tranches over the vesting period.

  These amounts are recognised in income from operations, but excluded from EBIT as they concern an event that is unusual nature (€19 million in 2016, Note 2.1).
- At the end of June 2016, Thales signed an agreement with Raytheon to reduce the scope of their joint venture, Thales-Raytheon Systems, which specialises in control systems and air operation command, surveillance radars, and ground-based weapon-locating radars. As of 1 July 2016, the scope of this joint venture extends only to NATO customers and programmes.

  As part of the agreement, Thales acquired Raytheon's non-controlling interest in French company TRS SAS and sold its stake in US company TRS LLC to Raytheon. Taken together, these transactions resulted in a net gain of $90 million (€81 million) in Thales' consolidated financial statements.

  In Thales' consolidated financial statements, the acquisition of Raytheon's non-controlling interest in TRS SAS led to a reclassification in equity. The disposal of the interest in TRS LLC resulted in a disposal gain of €91.8 million. Thales-Raytheon Systems Air and Missile Defense Command remains jointly owned by the Group and is accounted for under the equity method.
- In October 2016, Thales sold its interest in Hanwha Thales, a jointly-owned company that specialises in defence electronics in Korea, for €204.4 million. The disposal gain recognised in the consolidated financial statements amounted to €113.8 million.
- In mid-November 2016, Thales entered into exclusive negotiations to sell its payment collection and road toll and car park management systems business. The transaction was still in progress at the closing date.

In 2015:

- In August 2015, Thales sold its 30% stake in ESG Elektroniksystem-und Logistik GmbH to Munich investment holding for €75.2 million. The disposal gain recognised in the consolidated financial statements amounted to €47.2 million.

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

	2016	2015
Disposal of investments	**200.5**	**42.3**
Hanwha-Thales (50%)	113.8	–
Thales Raytheon Systems LLC (50%)	91.8	–
ESG Elektroniksystem-und Logistik GmbH (30%)	–	47.2
Other	(5.1)	(4.9)
Disposal of other assets	**4.6**	**1.0**
Real estate assets	8.0	0.7
Movable assets	(3.4)	0.3
Impact of settlements/amendments to pensions plans (Note 9.3)	**–**	**10.1**
TOTAL	**205.1**	**53.4**

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NOTE 4. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

4.1 Goodwill

a) Change in goodwill

Goodwill is allocated to cash-generating units (CGUs) or groups of CGUs corresponding to Thales' Global Business Units (GBU). The changes in goodwill attributable to fully consolidated subsidiaries is presented below.

	31/12/2015	Acquisitions	Disposals	Impairment	Changes in exchange rates and other	31/12/2016
Avionics	472.0	–	–	–	4.1	476.1
Space	472.7	11.1	–	–	(2.0)	481.8
Aerospace	**944.7**	**11.1**	**–**	**–**	**2.1**	**957.9**
Transport	**875.3**	**–**	**–**	**–**	**–**	**875.3**
Secure Communications & Information Systems	625.1	189.9 [a]	–	–	4.4	819.4
Land and Air Systems	309.8	–	–	–	–	309.8
Defence Mission Systems	461.0	–	–	–	1.0	462.0
Defence and Security	**1,395.9**	**189.9**	**–**	**–**	**5.4**	**1,591.2**
TOTAL	**3,215.9**	**201.0**	**–**	**–**	**7.5**	**3,424.4**

	31/12/2014	Acquisitions	Disposals	Impairment	Changes in exchange rates 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) [b]	–	–	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) Goodwill on Vormetric after purchase price allocation.
(b) Allocation of goodwill of cyber securitiy and communication security activities.

b) Impairment tests

Goodwill is subject to annual impairment tests in accordance with the Group's budgetary timetable. 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. In certain specific cases (recent acquisitions, non-typical annual results, etc.), the terminal value is determined based on forecasts over an appropriate period of time.

At end-2016 and end-2015, impairment tests were performed with the initial assumption of a 8.5% discount rate for all CGUs (each of which presented a similar degree of risk given that the specific CGU risks are factored into forecasts).

The assumptions used concern growth in sales and terminal values and are based on reasonable estimations in line with specific data available for each business sector (generally, terminal value is based on the average income from operations over the three years of the strategic plan, with growth capped at 2%).

At end-2016, the overall value in use of the Group CGUs was higher than its carrying amount.

c) Sensitivity of values in use

The Group also tests the sensitivty of values in use based on reasonable key assumptions. At the end of 2016, a 1% increase in the discount rate, a 1% decrease in the growth rate or a 2% decrease in operating profitability of the Group CGUs would not require any additional impairments.

4.2 Plant, property and equipment and other intangible assets

a) Change in net assets

	Acquired intangible assets (PPA)	Development costs	Other intangible assets	Property, plant and equipment	Total
Net value at 1 January 2015	**715.5**	**147.2**	**83.5**	**1,557.0**	**2,503.2**
Acquisitions/increases	–	15.0	54.9	403.5	473.4
Disposals	–	–	–	(15.1)	(15.1)
Amortisation of acquistion-related intangible assets	(111.6)	–	–	–	(111.6)
Other depreciation and amortisation	–	(42.0)	(38.2)	(301.1)	(381.3)
Changes in scope, 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**
Acquisitions/increases	–	6.6	45.1	428.6	480.3
Disposals	–	–	–	(8.3)	(8.3)
Amortisation of acquistion-related intangible assets	(107.3)	–	–	–	(107.3)
Other depreciation and amortisation	–	(48.1)	(39.1)	(297.4)	(384.6)
Changes in scope[a], exchange rates and other	232.0	(2.5)	9.2	(20.7)	218.0
NET VALUE AT 31 DECEMBER 2016	**773.9**	**79.3**	**105.6**	**1,798.9**	**2,757.7**

(a) Of which €231 million attributable to Vormetric, including €142.6 million for technology acquired.

b) Breakdown by item

			31/12/2016	31/12/2015	01/01/2015
	Gross	Depr., amort., and impairment	Net	Net	Net
Technologies acquired	814.1	(374.5)	439.6	339.7	385.8
Customer relationships acquired	562.2	(284.8)	277.4	239.1	269.0
Order backlog acquired	277.7	(249.2)	28.5	35.3	47.0
Other	74.5	(46.1)	28.4	35.1	13.7
Intangible assets acquired (business combinations)	1,728.5	(954.6)	773.9	649.2	715.5
Development costs	892.6	(813.3)	79.3	123.3	147.2
Other	721.2	(615.6)	105.6	90.4	83.5
Intangible assets	**3,342.3**	**(2,383.5)**	**958.8**	**862.9**	**946.2**
Land	51.1	(0.9)	50.2	51.3	50.1
Buildings	1,547.4	(834.5)	712.9	616.3	600.7
Technical facilities and industrial equipment and tooling	2,457.2	(1,810.6)	646.6	588.7	577.1
Other	1,075.1	(685.9)	389.2	440.4	329.1
Property, plant and equipment	**5,130.8**	**(3,331.9)**	**1,798.9**	**1,696.7**	**1,557.0**

4.3 Lease commitments

Irrevocable lease and rental commitments at 31 December 2016 and 2015 are as follows:

Irrevocable rental commitments	Total	Less than 1 year	1 to 5 years	More than 5 years
31 December 2016	**1,345.4**	**212.5**	**615.9**	**517.0**
31 December 2015	1,361.0	215.2	615.9	529.9

NOTE 5. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

5.1 Joint ventures

a) Group share in net equity and net income of joint ventures

	Investments in joint ventures		Share in net income		Share in comprehensive income	
	31/12/2016	**31/12/2015**	**2016**	**2015**	**2016**	**2015**
DCNS (35%)	713.9	680.9	23.9	(3.5)	26.9	2.2
Other joint ventures [a]	283.6	445.5	48.5	59.3	12.1	71.1
TOTAL	**997.5**	**1,126.4**	**72.4**	**55.8**	**39.0**	**73.3**

(a) Not individually material, the value of each investment representing less than 10% of the total.

b) Change in investments in joint ventures

	31/12/2016	31/12/2015
Investment at 1 January	**1,126.4**	**1,104.2**
Share in net income of joint ventures	72.4	55.8
Translation adjustment	(26.9)	11.6
Cash flow hedge	(0.5)	0.8
Available for sale financial assets	6.7	–
Actuarial gains (losses) on pensions	(12.7)	5.1
Share in comprehensive income	**39.0**	**73.3**
Dividends paid	(43.6)	(51.8)
Disposal of Hanwha Thales Co., Ltd	(112.3)	–
Other	(12.0)	0.7
INVESTMENTS AT 31 DECEMBER	**997.5**	**1,126.4**

c) DCNS summary financial information

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

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

Summary balance sheet based on a 100% interest	31/12/2016	31/12/2015
Non-current assets	2,359.9	2,599.4
Current assets	6,078.9	7,527.4
Total assets	**8,438.8**	**10,126.8**
Restated equity attributable to shareholders of the Company	1,205.3	1,111.2
Non-controlling interests	86.2	22.4
Non-current liabilities	649.6	710.7
Current liabilities	6,497.7	8,282.5
Total equity and liabilities	**8,438.8**	**10,126.8**
Cash and cash equivalents	2,301.9	2,296.3
Available for sale investments	424.4	424.2
Non-current financial liabilities	(200.8)	(192.8)
Net cash	**2,525.5**	**2,527.7**

Consolidation by Thales	31/12/2016	31/12/2015
Restated equity attributable to shareholders of the Company	1,205.3	1,111.2
% of Thales' interests	*35%*	*35%*
Thales' share	421.9	388.9
Goodwill	292.0	292.0
Share in net assets of the joint venture	**713.9**	**680.9**

Summary profit and loss account based on a 100% interest	2016	2015
Sales	3,191.2	3,038.8
Income (loss) from operating activities after impact of equity affiliates [a]	4.3	(51.0)
Financial income	23.9	20.8
Tax	33.3	10.3
Restated net income [a]	**61.5**	**(19.9)**
• of which, attributable to shareholders of the Company • of which, non-controlling interests	68.3 (6.8)	(9.9) (10.0)

(a) After Thales restatements (mainly linked to acquisition-related intangible assets).

Consolidation by Thales	2016	2015
Restated net income attributable to shareholders of the Company	68.3	(9.9)
% of Thales' interests	*35%*	*35%*
Share in income of the joint venture	**23.9**	**(3.5)**
• of which, impact of PPA • of which, share in income before PPA	(9.9) 33.8	(25.4) 21.9
Dividends received from the joint venture	**–**	**–**

d) Commitments toward joint ventures

At 31 December 2016, outstanding sureties, endorsements and guarantees granted by Thales (parent company) to its joint ventures amounted to €238.3 million (€332.9 million at 31 December 2015).

The Group's policy is to issue guarantees on commitments by joint ventures in proportion to its equity interest, or to secure counter-guarantees from the other shareholders in proportion to their interest.

e) Transactions with joint ventures (related parties)

The volume of transactions with joint ventures and their joint shareholders is as follows:

	2016	2015
Sales	559.7	575.8
Purchases	189.7	178.5
Loans and current accounts receivable	47.5	44.2
Borrowings and current accounts payable	12.4	13.8

5.2 Associates

The main associates are listed in Note 17. None of these companies is individually material with regard to consolidated aggregates. The mandatory disclosures are therefore presented in aggregate form in the table below:

a) Changes in investment in associates

	31/12/2016	31/12/2015
Investments in associates at 1 January	**359.5**	**385.5**
Share in net income of equity affiliates	47.2	57.0
Translation adjustment	(30.7)	27.6
Cash flow hedge	0.5	(16.5)
Actuarial gains (losses) on pensions	0.4	(1.9)
Total comprehensive income	**17.4**	**66.2**
Dividends paid	(29.1)	(31.6)
Changes in scope (TRS LLC in 2016, Cloudwatt and ESG in 2015)	(127.8)	(58.5)
Other	(0.5)	(2.1)
INVESTMENTS IN ASSOCIATES AT 31 DECEMBER	**219.5**	**359.5**

b) Commitments towards associates

The Group has no material off-balance sheet commitments towards associates.

NOTE 6. FINANCING AND FINANCIAL INSTRUMENTS

6.1 Financial income

a) Net interest income

	2016	2015
Interest expense		
• on gross debt	(36.4)	(37.2)
• on interest rate swaps	25.1	21.7
	(11.3)	(15.5)
Interest income/cash and cash equivalents	17.6	19.3
TOTAL	**6.3**	**3.8**

b) Other financial income

	2016	2015
Foreign exchange gains (losses)	(2.4)	4.4
Cash flow hedge, ineffective portion	(5.9)	(6.9)
Change in fair value of currency derivatives [(a)]	(70.3)	(32.2)
Foreign exchange gains (losses)	(78.6)	(34.7)
Dividends received	2.8	5.0
Impairment of non consolidated investments, loans and other financial assets	(1.4)	(7.9)
Other	(3.4)	(4.2)
TOTAL	**(80.6)**	**(41.8)**

(a) Includes the change in the fair value of premiums/discounts (losses of €54.0 million in 2016 and €15.5 million in 2015), the time value of derivatives documented as future cash flow hedges (losses of €7.3 million in 2016 and €6.3 million in 2015), as well as changes in the fair value of derivatives not documented as hedges.

6.2 Net cash (net debt)

Group net cash is as follows:

	31/12/2016	31/12/2015
Current financial assets	265.9	27.5
Cash and cash equivalents	3,616.9	3,450.2
Cash and other short-term investments (I)	**3,882.8**	**3,477.7**
Borrowings and debt, long-term portion	1,433.7	837.6
Borrowings and debt, short-term portion	111.4	698.7
Fair value of interest rate derivatives [a]	(27.9)	(36.2)
Gross debt (II)	**1,517.2**	**1,500.1**
NET CASH (I - II)	**2,365.6**	**1,977.6**

(a) The value of borrowings documented as fair value hedges takes into account changes in the fair value of the hedged risk. This change in the value of the debt is offset by the remeasurement of interest-rate swaps used as hedges (Note 6.5).

a) Current financial assets

	31/12/2016	31/12/2015
Current accounts receivable with related parties	8.5	17.5
Marketable securities	250.0	6.3
Accrued interest	7.4	3.7
CURRENT FINANCIAL ASSETS	**265.9**	**27.5**

Marketable securities consist of investments in short-term deposits (3 to 12 months) with tier-one banks.

b) Cash and cash equivalents

At 31 December 2016, cash recorded under consolidated assets amounted to €3,616.9 million (€3,450.2 million in 2015) and included:

- €3,183.1 million held by the parent company and available for immediate use (€2,949.8 million in 2015). These amounts include €2,886.2 million (€2,585.2 million in 2015) in very short-term deposits with tier-one banks or money market funds;
- €433.8 million in the credit balances of subsidiaries (€500.4 million in 2015), most of them outside France. This figure includes payments received in the last days of the financial year and subsequently transferred to the cash pooling account.

c) Borrowings and debt

	31/12/2016	31/12/2015
Bond maturing in 2023	595.6	–
Bond maturing in 2021	315.9	314.0
Bond maturing in 2018	502.8	504.3
Bond maturing in 2016	–	605.6
Interest rate derivatives (Note 6.5)	(27.9)	(36.2)
Current accounts in credit with related parties	48.7	28.4
Other debt	82.1	84.0
GROSS DEBT	**1,517.2**	**1,500.1**

Nature of bonds	Nominal value	Maturity	Nature	Nominal rate (excluding impact of hedging)	Effective rate (excluding impact of hedging)
Bond maturing in 2023	€600 million	June 2023	Fixed incl. €400 million swapped at variable rates	0.75%	0.84%
Bond maturing in 2021	€300 million	March 2021	Fixed incl. €300 million swapped at variable rates	2.25%	2.40%
Bond maturing in 2018	€500 million	March 2018	Fixed incl. €300 million swapped at variable rates	1.625%	1.74%
Bond maturing in 2016	€600 million	October 2016	Fixed incl. €400 million swapped at variable rates	2.75%	2.91%

1

Breakdown of gross debt by maturity

31/12/2016	Total	2017	2018	2019	2020	> 2020
Gross debt[a]	1,517.2	111.4	509.4	4.3	1.4	890.7
Contractual cash flows	1,572.3	106.9	523.4	11.1	8.9	922.0

31/12/2015	Total	2016	2017	2018	2019	> 2019
Gross debt[a]	1,500.1	689.6	7.0	501.7	5.5	296.3
Contractual cash flows	1,543.1	693.4	15.8	514.5	9.5	309.9

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

Breakdown of gross debt by currency

	31/12/2016	31/12/2015
Euro	1,468.6	1,453.6
Pound sterling	13.7	19.8
US Dollar	11.6	7.6
Other	23.3	19.1
TOTAL	**1,517.2**	**1,500.1**

After impact of the related derivative instruments.

6.3 Non-current financial assets

a) Non-consolidated investments

	%	31/12/2016	31/12/2015
Investments held by Thales International Offsets[a]	N/A	28.0	28.2
AvioVision NV (Belgium)[b]	100%	11.0	–
Tronic's Microsystems (France)	21%	10.3	6.0
Other[c]		33.0	36.9
TOTAL		**82.3**	**71.1**

(a) Group subsidiary in charge of negotiating and implementing indirect offset obligations.
(b) Consolidated from 2017.
(c) Investments of less than €10 million.

b) Non-current financial assets

	31/12/2016	31/12/2015
Loans to related parties	86.6	67.5
Loans and other financial assets at amortised cost	37.3	52.1
Loans and other financial assets at market value	19.4	19.4
Gross value	**143.3**	**139.0**
Impairment	(5.0)	(7.8)
NET	**138.3**	**131.2**

6.4 Fair value of financial assets and liabilities

				31/12/2016		31/12/2015	
	At cost/ amortised cost	Fair value through: Equity	Profit or loss	Value in balance sheet	Fair value	Value in balance sheet	Fair value
Non-current financial assets							
Non-consolidated investments	–	82.3	–	82.3	82.3	71.1	71.1
Non-current loans and financial assets	118.9	–	19.4	138.3	138.3	131.2	131.2
Non-current derivatives documented as hedges	–	–	27.9	27.9	27.9	36.2	36.2
Current financial assets							
Derivative instruments documented as hedges	–	154.2	–	154.2	154.2	134.7	134.7
Derivative instruments not documented as hedges	–	–	7.5	7.5	7.5	19.5	19.5
Current financial assets	265.9	–	–	265.9	265.9	27.5	27.5
Cash and cash equivalents	2,546.0	–	1,070.9	3,616.9	3,616.9	3,450.2	3,450.2
Non-current financial liabilities							
Long-term debt	1,405.8	–	27.9	1,433.7	1,477.4	837.6	870.3
Non-current derivative instruments, liabilities	–	–	–	–	–	–	–
Current financial liabilities							
Derivative instruments documented as hedges	–	458.3	–	458.3	458.3	392.7	392.7
Derivative instruments not documented as hedges	–	–	20.0	20.0	20.0	12.6	12.6
Short-term debt	111.4	–	–	111.4	111.4	698.7	711.1

Receivables, payables and refundable grants as detailed in the Note 10.1, are financial assets and liabilities within the meaning of IAS 32/39 and are measured at amortised cost.

IFRS 13 categorises valuation techniques for each financial asset and liabilitiy according to a fair value hierarchy with three levels:

- level 1: valuation is based on quoted (non adjusted) prices in active markets for identical assets or liabilities;
- level 2: valuation is based on information other than quoted market prices that is observable for the asset or liability, either directly or indirectly;
- level 3: valuation is based on unobservable information for an asset or liability.

The fair value of financial assets and liabilities recorded at amortised cost approximates their carrying amount.

The fair value of bond debt is based on quoted prices (level 1). The fair value of other borrowings and debt is determined for each loan by discounting the expected future cash flows at the Euribor interest rate at the closing date, adjusted for the Group's credit risk (level 2).

The fair value of monetary and non-monetary UCITS is measured based on the last known net asset value. The fair value of interest rate products (certificates of deposit, short-term deposits, negotiable medium-term notes, etc.) is based on the discounting of coupons flows (nominal and interest) over the remaining life of the product at the closing date. The discount rate used is the market rate corresponding to the maturity and product characteristics.

The fair value of derivatives is based on models commonly used to measure these financial instruments (models including observable market data). Counterparty defaut risk and credit risk have no material impact on the fair value of derivatives.

6.5 Financial risk

Thales' financial risk management policy is described in detail in the Group management report (section 1.1.2).

a) Market risk

Thales hedges its foreign exchange and interest-rate risk using over-the-counter derivatives from tier-one banks. The book value of derivatives used to manage the Group's market risk is presented below:

	31/12/2016		31/12/2015	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Non-current derivatives:				
• Foreign exchange derivatives	–	–	–	–
• Interest-rate derivatives	27.9	–	36.2	–
Current derivatives:				
• Foreign exchange derivatives	160.4	476.8	154.2	402.0
• Interest-rate derivatives	1.3	1.5	–	3.3
Foreign exchange derivatives, net	(316.4)		(247.8)	
Interest-rate derivatives, net	27.7		32.9	

Foreign exchange risk

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 ordinary commercial operations, risks relating to cash pooling and, in some cases, risks relating to its net investments in foreign operations.

At 31 December 2015 and 2016, the amount of derivatives in the portfolio can be analysed as follows:

Foreign exchange derivatives				31/12/2016		31/12/2015	
	USD	**GBP**	**Other**	**Total**	**Market value**	**Total**	**Market value**
Negotiations and trade operations hedges							
Documented as hedges							
Forward currency sales	4,825.9	738.5	2,146.3	7,710.7	(179.1)	7,794.0	(223.0)
Forward currency purchases	1,552.2	822.6	1,824.4	4,199.2		4,037.4	
Currency sales (call and put options)	90.6	–	–	90.6	0.2	45.9	0.8
Currency purchases (call and put options)	–	–	14.8	14.8		–	
Not documented as hedges							
Forward currency sales	–	–	–	–	–	13.8	(0.7)
Forward currency purchases	–	–	–	–		99.2	
Currency sales (call and put options)	1.4	–	2.1	3.5	0.4	171.8	0.8
Currency purchases (call and put options)	10.4	–	0.7	11.2		98.2	
Hedges related to cash pooling							
Currency sales: currency swaps	65.9	–	247.8	313.7	(13.8)	201.7	7.7
Currency purchases: currency swaps	281.7	181.6	461.7	924.9		1,209.2	
Hedges related to net investments in foreign operations (hedge accounting)							
Currency sales: foreign exchange swaps	716.5	–	–	716.5	(124.1)	517.2	(33.4)
Currency purchases: foreign exchange swaps	–	561.0	–	561.0		339.9	
NET ASSET (LIABILITY)					**(316.4)**		**(247.8)**

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 maturities of these contracts, typically less than five years. Other derivatives have a maturity of less than one year.

The change in the value of financial instruments (forward transactions) used to hedge cash flow is recognised in equity for the spot rate component. A decrease (increase) of 5% in the dollar against the main currencies (EUR, GBP and CAD) would have had a positive (negative) impact on equity of approximately €153 million at 31 December 2016 and 2015.

The change in value of derivative instruments matched with commercial tender portfolio, which are not eligible for hedge accounting, is recognised in profit and loss. A decrease (increase) of 5% in the dollar against the main currencies (EUR, GBP and CAD) would have no impact on profit or loss at 31 December 2016, versus an impact of around €1 million at 31 December 2015.

Interest-rate risk

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 interest-rate hedging policy. At 31 December 2015 and 2016, the amount of derivatives in the portfolio was as follows:

Interest-rate derivatives	31/12/2016		31/12/2015	
	Nominal	Market value	Nominal	Market value
Fair value hedge (swaps with variable-rate payable):				
• swaps related to bond maturing in 2023	400.0	0.1	–	–
• swaps related to bond maturing in 2021	300.0	21.6	300.0	19.9
• swaps related to bond maturing in 2018	300.0	6.2	300.0	8.1
• swaps related to bond maturing in 2016	–	–	400.00	8.2
		27.9		**36.2**
Cash flow hedge (financing of projects at variable-rate swapped to fixed-rate)	**12.8**	**(1.3)**	**19.4**	**(2.4)**
Swaps not documented as hedges:				
• cross-currency swap with fixed-rate payable, hedging a loan	15.2	1.3	16.0	(0.5)
• swap with fixed-rate payable, hedging a loan	6.3	(0.2)	8.7	(0.4)
NET ASSET		27.7		**32.9**

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

31/12/2016	< 1 year		> 1 year		Total	
	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate
Gross debt[(a)]	(14.5)	(96.9)	(1,387.1)	(18.7)	(1,401.6)	(115.6)
Financial assets, cash and cash equivalents	–	3,882.8	–	–	–	3,882.8
NET EXPOSURE BEFORE IMPACT OF DERIVATIVE INSTRUMENTS	**(14.5)**	**3,785.9**	**(1,387.1)**	**(18.7)**	**(1,401.6)**	**3,767.2**
Hedging derivatives	(4.0)	4.0	991.2	(991.2)	987.2	(987.2)
NET EXPOSURE AFTER IMPACT OF DERIVATIVE INSTRUMENTS	**(18.5)**	**3,789.9**	**(395.9)**	**(1,009.9)**	**(414.4)**	**2,780.0**

31/12/2015	< 1 year		> 1 year		Total	
	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate
Gross debt[(a)]	(612.1)	(77.5)	(792.2)	(18.3)	(1,404.3)	(95.8)
Financial assets, cash and cash 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 the fair value of interest-rate derivatives.

Based on the Group's average net cash (taking into account hedging instruments), a 1% rise in interest rates would increase net interest income by €21.6 million in 2016 (€11.4 million in 2015).

b) Customer credit risk

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

Risk of default by private sector customers

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

To mitigate these risks, Thales conducts regular 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.

Credit risk relating to public sector customers

Public, government and institutional customers account for around 75% of Thales' sales. Thales works with a large number of countries. Some of them could present a significant credit risk which could, for example, lead them to suspend an order in production, or render them 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 BPIFrance) or private insurers.

At 31 December 2016, only three customers accounted for annual sales in excess of €500 million: the French State (around €2.5 billion), the UK government (around €1 billion) and the Australian government (around €0.6 billion). At 31 December 2016, these three countries had first-class or high-quality ratings (France was rated AA by S&P and Aa2 by Moody's, the United Kingdom was rated AA by S&P and Aa1 by Moody's, and Australia was rated AAA by S&P and Aaa by Moody's).

The Group's Finance department consolidates all the information relating to the Group's exposure to credit risk, notably by identifying and analysing the ageing of overdue accounts and notes receivable that have not been impaired. At 31 December 2016 and 2015, the ageing of these accounts and notes receivable is as follows:

31/12/2016	Total	Accounts and notes receivables past due		
		Less than 3 months	3 to 6 months	More than 6 months
Overdue accounts and notes receivables not impaired				
State and similar	158.0	80.1	10.3	67.6
Other	430.1	274.3	61.1	94.7

31/12/2015	Total	Accounts and notes receivables past due		
		Less than 3 months	3 to 6 months	More than 6 months
Overdue accounts and notes receivables not impaired				
State and similar	132.1	101.1	8.5	22.5
Other	377.7	246.4	51.6	79.7

Credit risk related to banking counterparties

Financial investments are diversified. They relate to first ranking debt and are negotiated with tier-one banks.

Thales Group trades over-the-counter derivatives with tier-one banks under agreements which provide for the offseting of amounts payable and receivable in the event of default by one of the contracting parties. These conditional offsetting agreements do not meet the eligibility criteria within the meaning of IAS 32 for offsetting derivative instruments recorded under assets and liabilities. However, they do fall within the scope of disclosures under IFRS 7 on offsetting.

31/12/2016	Gross value (before offset)	Offset amounts on balance sheet	Net presented in balance sheet	Impact of other offsetting agreements		Net
				Offsetting agreements	Financial collaterals	
Derivatives – Assets	189.6	–	189.6	(185.0)	–	4.6
Derivatives – Liabilities	478.3	–	478.3	(185.0)	–	293.3

31/12/2015	Gross value (before offset)	Offset amounts on balance sheet	Net presented in balance sheet	Impact of other offsetting agreements		Net
				Offsetting agreements	Financial collaterals	
Derivatives – Assets	190.4	–	190.4	(172.0)	–	18.3
Derivatives – Liabilities	405.3	–	405.3	(172.0)	–	233.3

c) Liquidity risk

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

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

- shareholders' equity (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 2021) as backup to the commercial paper programme and acting as a financing reserve.

The parent company's financing programmes are rated by Standard & Poor's and Moody's. At the date of publication, Thales' credit risk ratings were as follows:

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

The decrease of Thales' credit risk rating would not trigger the financial covenants included in its financing contracts. The single accelerated repayment clause would apply only in the event that the French State ceased to hold its golden share and, simultaneously, the ratio of consolidated net debt to EBITDA[1] were to exceed 3x.

A lower rating would result in an increase (capped) in the margins applicable to the €1.5 billion committed credit facility. A higher rating would lead to a decrease in the applicable margin (with a minimum threshold). No other financing arrangements are subject to covenants based on financial ratios.

NOTE 7. INCOME TAX

The income tax charge takes into account specific local tax rules, including the tax consolidation systems in France and the United States, group relief in the United Kingdom and *Organschaft* rules in Germany.

7.1 Income tax expense

	2016	2015
Current tax[a]	(262.4)	(197.9)
Deferred tax	6.8	(22.0)
TOTAL	**(255.6)**	**(219.9)**

(a) This amount excludes levies recorded under operating items, mainly comprising property taxes, social solidarity contributions and the company value-added contribution (*cotisation sur la valeur ajoutée des entreprises* – CVAE) in France (€76.0 million in 2016 and €69.0 million in 2015).

Tax proof

	2016	2015
Net income	1,014.6	812.7
Less: income tax	255.6	219.9
Less: share in net income of equity affiliates	(119.6)	(112.8)
Net income before tax and share in net income of equity affiliates	**1,150.6**	**919.8**
Average tax rate	29.6%	31.0%
Theoretical tax benefit (expense)	**(340.9)**	**(284.9)**
Reconciliation items:		
• Tax credits	76.9	69.6
• Change in provision for deferred tax assets	38.7	30.1
• Taxes not taken into account in the theoretical rate	(29.2)	(15.9)
• Ajustments in respect of prior periods	(18.8)	(13.8)
• Impact of dividends paid	5.2	(9.4)
• Impact of change in deferred tax rates	(7.7)	(1.4)
• Impact of partial or total exemption of disposals	22.3	14.8
• Other	(2.1)	(9.0)
Income tax benefit (expense) recognised in profit and loss	**(255.6)**	**(219.9)**
Effective tax rate	**22.2%**	**23.9%**

(1) EBITDA, as defined in the financing agreements, is the sum of operating income, depreciation of non-current assets and impairment of intangible assets, net of goodwill amortisation. This indicator is calculated in accordance with French GAAP.

The weighted average rate corresponds to the sum of theoretical taxes of consolidated companies, divided by the consolidated net income before tax and the share in net income of equity affiliates. The theoretical tax of each consolidated company corresponds to net income before tax at the local tax rate.

Accordingly, the average tax rate reflects the relative contribution of the different countries to consolidated net income. France, which has a tax rate of 34.43% before additional contributions, represented almost 70% of income before tax in both 2016 and 2015.

The impact of tax credits includes:

- the impact of tax exemption of research tax credits (€176.2 million in 2016, €153.5 million in 2015) and tax credits for competitiveness and jobs (*crédit d'impôt pour la compétitivité et l'emploi* – CICE) recognised in operating income;
- the tax advantages related to research, which are recognised in income tax (notably in Australia and the Netherlands).

Taxes excluded from the average tax rate mainly include state taxes in the United States, taxes on foreign establishments, and the additional contribution in France in 2015.

The impact of changes in deferred tax rates in 2016 mainly includes the impact of the tax cut enacted in France with effect from 2020 (to 28.9% from 34.43%).

7.2 Deferred tax recognised in equity

		2016		2015
Fully consolidated entities	**Base**	**Tax**	**Base**	**Tax**
Translation of the financial statements of foreign subsidiaries	35.8	–	7.0	–
Net foreign investment hedges	(3.9)	1.3	3.9	(1.3)
Cash flow hedges	52.5	(18.9)	(191.0)	45.7
Available for sale financial assets	3.5	–	0.6	–
Items reclassified to income	**87.9**	**(17.6)**	**(179.5)**	**44.4**
Actuarial gains and losses/pensions – United Kingdom	(553.0)	11.5 [a]	140.6	43.5 [a]
Actuarial gains and losses/pensions – Other countries	(108.0)	10.8 [b]	130.9	(38.4)
Items not reclassified to income	**(661.0)**	**22.3**	**271.5**	**5.1**
Treasury shares and share-based payment		7.1		0.5
TOTAL DEFERRED TAX RECOGNISED IN EQUITY		**11.8**		**50.0**

(a) Release of a portion of the provision for deferred taxes linked to pensions in the United Kingdom.
(b) Including a negative amount of €16.5 million due to the tax cut in France with effect from 2020.

7.3 Tax assets and liabilities presented in the balance sheet

	01/01/2016	Income (expense)	Equity	Cash flow	Changes in exch. rates, scope	Other	31/12/2016
Current income tax assets	70.8	–	–	(11.0)	–	–	59.8
Current income tax liabilities	(63.7)	(262.4)	–	110.4	–	156.7	(59.0)
Current income tax, net	**7.1**	**(262.4)**	**–**	**99.4**	**–**	**156.7**	**0.8**
Deferred tax assets	967.0	(37.6)	11.8	–	28.0	6.6	975.8
Deferred tax liabilities	(257.9)	44.4	–	–	(81.1)	–	(294.6)
Deferred tax, net	**709.1**	**6.8**	**11.8**	**–**	**(53.1)**	**6.6**	**681.2**
TOTAL		**(255.6)**	**11.8**	**99.4**			

	01/01/2015	Income (expense)	Equity	Cash flow	Changes in exch. rates, scope	Other	31/12/2015
Current income tax assets	60.3	–	–	10.5	–	–	70.8
Current income tax liabilities	(54.0)	(197.9)	–	91.8	(2.7)	99.1	(63.7)
Current income tax, net	**6.3**	**(197.9)**	**–**	**102.3**	**(2.7)**	**99.1**	**7.1**
Deferred tax assets	942.4	(41.3)	50.0	–	13.7	2.2	967.0
Deferred tax liabilities	(265.3)	19.3	–	–	(11.9)	–	(257.9)
Deferred tax, net	**677.1**	**(22.0)**	**50.0**	**–**	**1.8**	**2.2**	**709.1**
TOTAL		**(219.9)**	**50.0**	**102.3**			

a) Current income tax

Income tax paid is reported net of tax credits utilised. The allocation of tax credits is presented under "Other".

b) Deferred tax

Changes by nature

	01/01/2016	(Expense)/ Income for the period	Equity	Changes in exch. rates, scope and other	31/12/2016
Temporary differences:	**846.7**	**35.8**	**80.5**	**(78.8)**	**884.2**
• Pensions and other employee benefits	531.1	(21.3)	104.3	(20.7)	593.3
• Intangible assets	(262.5)	32.8	–	(80.4)	(310.1)
• Reserve for losses at completion	118.6	24.1	–	(1.2)	141.5
• Other	459.5	0.2	(23.8)	23.6	459.5
Tax loss carry-forwards	**248.0**	**(67.7)**	**–**	**12.1**	**192.4**
Total	**1,094.7**	**(31.9)**	**80.5**	**(66.7)**	**1,076.6**
O/w not recognised in the balance sheet	**(385.6)**	**38.7**	**(68.7)**	**20.2**	**(395.4)**
Total net deferred tax assets	**709.1**	**6.8**	**11.8**	**(46.5)**	**681.2**

	01/01/2015	(Expense)/ Income for the period	Equity	Changes in exch. rates, scope and other	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	(288.6)	41.8	–	(15.7)	(262.5)
• Reserve for losses at completion	131.3	(12.8)	–	0.1	118.6
• Other	387.2	13.2	48.3	10.8	459.5
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**
O/w not recognised in the balanche 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**

Tax loss carry-forwards

Total tax loss carry-forwards represent a potential tax saving of €192.4 million at 31 December 2016 (€248.0 million at 31 December 2015). The corresponding expiry dates are as follows:

	31/12/2016
2017	1.0
2018-2021	0.8
Beyond 2021	47.5
Not time limited	143.1
Total	**192.4**
O/w not recognised in the balance sheet	(112.5)
Net deferred tax asset	**79.9**

	31/12/2015
2016	0.4
2017-2020	1.0
Beyond 2020	29.7
Not time limited	216.9
Total	**248.0**
O/w not recognised in the balance sheet	(165.4)
Net deferred tax asset	**82.6**

As described in Note 14-i, only deferred tax assets related to tax losses which the Group expects to recover are recognised in the balance sheet. In particular, the Group takes into account any loss carry-forward limitations.

NOTE 8. EQUITY AND EARNINGS PER SHARE

8.1 Equity

a) Share capital

The share capital of Thales (parent company) amounts to €636,584,298 and comprises 212,194,766 shares with a par value of €3, compared with 210,961,404 shares at 31 December 2015. This represents an increase of 1,233,362 shares resulting from the exercise of share subscription options.

b) Outstanding securities giving access to the share capital

At 31 December 2016, there are no securities that give access to the share capital of the Company, with the exception of the share subscription options described in Note 9.4.

c) Treasury shares

Thales (parent company) held 749,559 of its own shares at 31 December 2016. They are accounted for as a deduction from equity in the amount of €61.6 million.

In accordance with the authorisations given to the Board of Directors at the Annual General Meeting, the Company carried out the following transactions in 2015 and 2016:

	2016	**2015**
Treasury shares at 1 January	839,254	1,876,732
Purchases as part of a liquidity agreement	513,001	807,144
Sales as part of a liquidity agreement	(472,001)	(822,144)
Transfer to employees as part of the employee share purchase offering	(41,714)	(457,596)
Delivery of free shares	(607,381)	(535,532)
Market purchases	575,000	–
Exercise of share purchase options	(56,600)	(29,350)
Treasury shares at 31 December	**749,559**	**839,524**

At 31 December 2016 and 2015, the following numbers of shares where held in the liquidity account managed by Kepler Cheuvreux:

	2016	**2015**
Number of shares at 31 December	50,000	9,000
Value (€ million)	29.5	31.9

d) Translation adjustments

Translation adjustments result from the translation of financial statements of companies whose functional currency is not the euro, offset as applicable by the impact of derivative instruments denominated in foreign currencies to hedge net investments in foreign operations.

Translation adjustments are recorded in equity as other comprehensive income, and are subsequently reclassified to income on disposal. They break down as follows:

	2016	**2015**
Translation adjustment at 1 January	**(87.2)**	**(134.7)**
Changes in value	21.4	48.8
Reclassified to profit and loss	(46.8)	–
Gross change	(25.4)	48.8
Deferred tax	1.3	(1.3)
Scope	1.3	–
Translation adjustment at 31 December	**(110.0)**	**(87.2)**
Of which:		
• Hedge of net investments in foreign operations	–	3.9

e) Reserves for cash flow hedge

The Group uses foreign exchange derivatives to hedge against changes in the value of future cash flows related to commercial cash flows in foreign currencies. In the consolidated financial statements, the effective portion of changes in fair value of these derivatives is recognised directly in equity, until such time as the hedged flows affect profit and loss.

	2016	2015
Cash flow hedge at 1 January	**(276.8)**	**(118.5)**
Changes in value of derivatives	17.6	(238.9)
Reclassified to operating (income)/expense	27.4	116.9
Reclassified to income tax (benefit)/expense	(9.9)	(40.3)
Changes in scope and exchange rates	(9.0)	4.0
Cash flow hedge at 31 December [(a)]	**(250.7)**	**(276.8)**

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

f) Parent company dividend distribution

The per share dividend amounted to €1.60 in 2016 and €1.36 in 2015.

On 27 February 2017, the Board of Directors decided to propose to shareholders, who will be convened to a General Meeting on 17 May 2017, the payment of a total amount of €1.60 per share. In view of the interim dividend of €0.40 per share, if approved, the ex-dividend date will be 31 May 2017, with a payment date of the balance of €1.20 per share, on 2 June 2017.

Dividends paid in 2015 and 2016 are described below:

Year	Approved by	Description	Dividend per share	Payment date	Payment method	Total
2016	Board of Directors meeting on 22 September 2016	2016 interim dividend	€0.40	12/2016	Cash	€84.6 million
	General Meeting on 18 may 2016	Balance for 2015	€1.01	05/2016	Cash	€212.2 million
	Total dividends paid in 2016					**€296.8 million**
2015	Board of Directors meeting on 17 September 2015	2015 interim dividend	€0.35	12/2015	Cash	€73.4 million
	General Meeting on 13 May 2015	Balance for 2014	€0.78	05/2015	Cash	€160.6 million
	Total dividends paid in 2015					**€234.0 million**
2014	Board of Directors meeting on 16 September 2014	2014 interim dividend	€0.34	12/2014	Cash	€70.0 million

g) Non-controlling interests

This item principally includes Leonardo's interest in sub-group Thales Alenia Space (33%), Siemens' and Philips Medical Systems International's interest in Trixell SAS (49%) and, up until 29 June 2016, Raytheon's interest in Thales-Raytheon Systems Company SAS (50%).

The individual contributions of these minority shareholders to the Group's key financial indicators are not material.

The cash of these three companies is unrestricted and is exclusively pooled with Thales' Corporate Treasury department.

8.2 Earnings per share

Basic earnings per share are calculated by dividing the attributable net income by the weighted average number of shares outstanding during the period, excluding treasury shares.

Diluted earnings per share take into account instruments with a dilutive effect on earnings per share and exclude non-dilutive instruments. The dilutive effect of share subsciption and share purchase options, free share and unit allotments, is calculated using the treasury stock method, taking into account the average share price over the relevant period.

		2016	2015
Numerator (in € millions)			
Net income attributable to shareholders of the parent company	(A)	946.4	765.1
Denominator (in thousands)			
Average number of shares outstanding	(B)	210,872	208,112
Share subscription and share purchase options [(a)]		1,004	1,403
Free share and units plans [(b)]		1,432	1,421
Diluted average number of shares outstanding	(C)	213,308	210,936
Basic earnings per share (in euros)	**(A) / (B)**	**4.49**	**3.68**
Diluted earnings per share (in euros)	**(A) / (C)**	**4.44**	**3.63**
Average share price		€77.59	€57.86

(a) Only options plans with an exercise price that is lower than the average share price are taken into account in the calculation of diluted earnings per share.
(b) Performance shares/units are only taken into account when performance targets are achieved (for the portion deliverable in shares).

NOTE 9. EMPLOYEE BENEFITS

9.1 Consolidated headcount

Consolidated headcount includes all employees of fully consolidated companies. It does not include employees of equity affiliates. At end-2016, Thales' headcount stood at 63,783 versus 61,848 at end-2015.

Headcount includes three-fourths of employees with an employment grade of engineer, specialist, manager or equivalent.

9.2 Personnel expenses

	2016	2015
Wages and salaries and payroll taxes [(a)]	(5,875.8)	(5,635.2)
Defined benefit pension expense: current service cost (Note 9.3)	(92.9)	(115.9)
Compensation subject to presence conditions related to business combinations	(19.0)	–
Share-based payment (Note 9.4)	(36.9)	(32.9)
TOTAL	**(6,024.6)**	**(5,784.0)**

(a) Including profit-sharing, incentive plans and defined contribution pension expenses.

9.3 Provisions for pensions and other employee benefits

The Group grants its employees post-employment benefits (pensions, end-of-career indemnities, medical care, etc.) and other long-term benefits (long-service and jubilee awards, etc.).

a) Description of the plans

The Group's existing plans are either defined contribution plans or defined benefit plans.

Defined contribution plans

In certain countries, the Group pays contributions based on salaries to state organisations in charge of basic pension schemes (e.g., *Sécurité sociale* or compulsory supplementary schemes ARRCO and AGIRC in France). Beyond these basic pension schemes, Thales also contributes to other defined contribution plans (e.g., Netherlands and United Kingdom since 2002). These plans do not impose any other obligations on the Group except for the payment of contributions: there is no related benefit obligation and contributions are expensed in the period they are incurred.

Defined benefit plans

Defined benefit plans relate to different types of advantages:

- pensions and end-of-career indemnities (legal or contractual), and other long-term benefits (jubiliee awards, etc.), notably in France. In general, these commitments are not covered by any assets;
- supplementary pension schemes, mainly in the United Kingdom where the main scheme, "Thales UK Pension Scheme provides a pension based on the beneficiary's average salary, indexed to inflation. This plan has been closed to new entrants since 2002, and is managed by a trust according to minimum local funding regulations.

The present value of the Group's obligations and the value of plan assets are measured independantly. A provision is recognised if the value of the assets is insufficient to cover the obligations.

b) Provisions recognised in the balance sheet

	2016	2015
Provision at 1 January	**(2,318.9)**	**(2,556.8)**
Current service cost (income from operations)	**(92.9)**	**(115.9)**
Amendments and settlements (non-recurring operating income)	**–**	**10.1**
Interest expense	(182.6)	(213.5)
Expected return on plan assets	122.0	146.8
Net interest cost	(60.6)	(66.7)
Pension fund management cost	(5.2)	(5.8)
Actuarial gains and losses on other long-term benefits	(11.8)	12.4
Finance costs on pensions and other long-term employee benefits	**(77.6)**	**(60.1)**
Total expense for the period	**(170.5)**	**(165.9)**
Actuarial gains and losses (other comprehensive income)	**(661.0)**	**271.5**
Benefits and contributions	**190.1**	**225.1**
• of which, deficit payment in the United Kingdom	88.3	101.0
• of which, other benefits and contributions	101.8	124.1
Translation adjustment	163.2	(77.6)
Changes in scope of consolidation and other	11.3	(15.2)
Provision at 31 December	**(2,785.8)**	**(2,318.9)**
Of which:		
• Post-employment benefits	(2,586.9)	(2,138.2)
• Other long-term benefits	(198.9)	(180.7)

c) Changes in defined benefit obligations and plans assets

31/12/2016	UK	France	Netherlands	Other	Total
Obligation at 1 January	**(4,294.5)**	**(1,042.2)**	**(27.0)**	**(528.0)**	**(5,891.7)**
Current service cost	(19.9)	(51.4)	(0.9)	(20.7)	(92.9)
Interest cost	(148.7)	(21.4)	(0.3)	(12.2)	(182.6)
Plan participant contributions	(11.4)	–	–	(1.8)	(13.2)
Amendments/settlements	–	–	–	–	–
Experience gains (losses)	8.1	(11.5)	–	2.9	(0.5)
Actuarial gains (losses)/financial assumptions	(1,011.8)	(17.3)	0.4	(28.7)	(1,057.4)
Actuarial gains (losses)/demographic assumptions	79.7	(56.8)	–	2.3	25.2
Actuarial gains (losses) on long-term benefits	–	(10.1)	(0.1)	(1.6)	(11.8)
Benefits paid by plan assets	141.7	2.4	–	5.1	149.2
Benefits paid by employer	0.5	58.5	4.5	14.2	77.7
Changes in scope, exchange rates and other	650.6	11.7	(0.1)	(5.3)	656.9
Obligation at 31 December	**(4,605.7)**	**(1,138.1)**	**(23.5)**	**(573.8)**	**(6,341.1)**
Plan assets at 1 January	**3,274.6**	**139.2**	**–**	**159.0**	**3,572.8**
Expected return on plan assets	115.0	2.9	–	4.1	122.0
Employer's contribution	106.1	2.0	–	4.3	112.4
Plan participant contributions	11.4	–	–	1.8	13.2
Amendments/settlements	–	–	–	–	–
Benefits paid by plans assets	(141.7)	(2.4)	–	(5.1)	(149.2)
Experience gains (losses)	371.0	0.0	–	0.7	371.7
Changes in scope, exchange rates and other	(490.2)	(0.2)	–	2.8	(487.6)
Plan assets at 31 December	**3,246.2**	**141.5**	**–**	**167.6**	**3,555.3**
PROVISIONS AT 31 DECEMBER	**(1,359.5)**	**(996.6)**	**(23.5)**	**(406.2)**	**(2,785.8)**

31/12/2015	UK	France	Netherlands	Other	Total
Obligations at 1 January	**(4,135.4)**	**(1,072.0)**	**(1,293.9)**	**(494.4)**	**(6,995.7)**
Current service cost	(25.7)	(48.8)	(18.0)	(23.4)	(115.9)
Interest cost	(160.7)	(15.8)	(24.3)	(12.7)	(213.5)
Plan participant contribution	(12.7)	–	(9.8)	(1.7)	(24.2)
Amendments/settlements [(a)]	7.7	–	1,238.0	–	1,245.7
Experience gains (losses)	(21.5)	(32.5)	5.0	3.2	(45.8)
Actuarial gains (losses)/financial assumptions	154.1	66.2	45.8	20.5	286.6
Actuarial gains (losses)/demographic assumptions	–	–	–	2.5	2.5
Actuarial gains (losses) on long-term benefits	–	7.9	0.3	4.2	12.4
Benefits paid by plan assets	151.6	2.4	29.4	8.1	191.5
Benefits paid by employer	0.6	52.0	0.3	18.3	71.2
Changes in scope, exchange rates and other	(252.5)	(1.6)	0.2	(52.6)	(306.5)
Obligations at 31 December	**(4,294.5)**	**(1,042.2)**	**(27.0)**	**(528.0)**	**(5,891.7)**
Plan assets at 1 January	**2,989.2**	**128.4**	**1,200.6**	**120.7**	**4,438.9**
Expected return on plans assets	118.0	2.0	22.8	4.0	146.8
Employer's contribution	124.5	3.2	19.5	6.9	154.1
Plan participant contribution	12.7	–	9.8	1.7	24.2
Amendments/settlements [(a)]	–	–	(1,235.6)	–	(1,235.6)
Benefits paid by plan assets	(151.6)	(2.4)	(29.4)	(8.1)	(191.5)
Experience gains (losses)	8.1	7.8	13.6	(1.3)	28.2
Changes in scope, exchange rates and other	173.7	0.2	(1.3)	35.1	207.7
Plan assets at 31 December	**3,274.6**	**139.2**	**(0.0)**	**159.0**	**3,572.8**
PROVISIONS AT 31 DECEMBER	**(1,019.9)**	**(903.0)**	**(27.0)**	**(369.0)**	**(2,318.9)**

(a) Employees in the Netherlands had a defined benefit plan, indexed to the level of financing achieved, as assessed by the local prudential rules. In late 2015, the rules of this plan were amended in agreement with employee representative bodies, and the plan was turned into a collective defined contribution plan. Future employer contributions no longer depend on the pension fund's financial performance. At 31 December 2015, the outstanding provision mainly relates to an early-retirement plan.

d) Actuarial assumptions used

The actuarial assumptions used are determined according to the economic environment and specific criteria of each country and each system. The most sensitive assumptions are as follows:

2016	UK	France
Inflation rate	3.22%	1.40%
Discount rate	2.79%	1.50%
Average duration of the plans	17 years	10 years

2015	UK	France
Inflation rate	3.02%	1.60%
Discount rate	3.96%	2.03%
Average duration of the plans	17 years	11 years

For each country, the discount rates are obtained by reference to the Iboxx Corporate AA index which reflects the rate of return of very high-quality corporate bonds, with maturity dates equivalent to the duration of the plans being measured, and in the same currency.

The difference in assumptions between 2015 and 2016 (decrease in the discount rate and increase in inflation), is due to the climate of uncertainty generated by the Brexit vote in the United Kingdom.

At 31 December 2016, 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 (in € millions)	256.9	(273.0)	498.5	(564.6)	939.0	(1,205.0)

In the United Kingdom, a 25-basis-point increase in the inflation rate would lead to a €129.8 million increase in the obligation. Conversely, a 25-basis-point decrease in the inflation rate would give rise to a €112.6 million decrease in the obligation.

e) Allocation and return on plan assets

Plan assets generated an actual average return of 14% in 2016, compared with 4% in 2015. At 31 December 2016, the allocation of assets, mainly invested in the United Kingdom, breaks down as follows:

	2016	2015
Fixed-rate bonds	32%	36%
Index-linked investments	13%	11%
Equities	33%	31%
Alternative liquid investments	8%	9%
Alternative non-liquid investments (property, etc.)	14%	12%
Cash	–	1%
TOTAL	**100%**	**100%**

f) Funding

Thales is subject to funding obligations in respect of its defined benefit pension commitments in the United Kingdom.

In accordance with the regulations in force, the level of funding for its pension obligation is remeasured every three years, further to which the suitability of a new funding plan and/or the implementation of guarantees for the plan is decided in consultation with the trustees. The latest measurement, based on the situation at end-2014, was finalised in September 2016 and led to an annual contribution of £60 million to the main Thales UK Pension Scheme (£6 million for other schemes).

Depending on changes in the degree of deficit (increase or decrease), future contributions to the main scheme could range between £45 million and £75 million.

Thales UK Holding has also guaranteed the future liabilities linked to the funding plan for the subsidiaries concerned in the United Kingdom. At 31 December 2016, the balance of the guarantee of £858.9 million will be reduced by any sums paid. This guarantee is underwritten by Thales for €974 million.

9.4 Share-based payment

At 31 December 2016, the following options, shares and units were outstanding:

- 40,850 share purchase options with a weighted average exercise price of €44.64;
- 1,320,693 share subscription options with a weighted average exercise price of €36.01, including 236,472 performance shares;
- 859,445 free shares, including 374,405 performance shares;
- 1,270,140 share units, including 497,200 performance units;
- 77,340 phantom shares, payable in cash at the end of a four-year vesting period, including 37,910 performance shares.

The terms of these plans are described in the Section 3.5.3 and Sections 4.3.3.4.3 to 4.3.3.4.6.

The Group also implemented an employee share purchase plan, the terms of which are described in the 2015 Registration Document (Note 9.4.f. to the consolidated financial statements).

a) Outstanding share purchase option plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31/12/2015	Options exercised in 2016	Options cancelled in 2016	Number of options outstanding at 31/12/2016
25/11/2008	from 25/11/2012 to 24/11/2018	€38.50	8,450	(7,600)	–	850
04/07/2007	from 04/07/2011 to 03/07/2017	€44.77	80,000	(40,000)	–	40,000

b) Outstanding share subscription option plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31/12/2015	Options exercised in 2016	Options cancelled in 2016	Number of options outstanding at 31/12/2016
15/09/2011 [a]	from 15/09/2015 to 14/09/2021	€26.34	224,833	(98,511)	–	126,322
23/09/2010 [a]	from 23/09/2014 to 22/09/2020	€26.34	175,115	(63,765)	(1,200)	110,150
25/06/2009	from 25/06/2013 to 24/06/2019	€32.88	514,699	(150,895)	(1,220)	362,584
01/07/2008	from 01/07/2012 to 30/06/2018	€38.50	659,215	(193,168)	(2,810)	463,237
04/07/2007	from 04/07/2011 to 03/07/2017	€44.77	501,615	(240,635)	(2,580)	258,400
09/11/2006	from 09/11/2010 to 08/11/2016	€36.47	540,388	(486,388)	(54,000)	–

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

c) Allotment of free shares

Date of Board decision	Vesting period	Share price at grant date	Number of free shares at 31/12/2015	Shares allotted in 2016	Shares cancelled in 2016	Shares delivered in 2016	Number of free shares at 31/12/2016
27/10/2016	from 27/10/2016 to 27/10/2020	€83.10	– –	88,020 148,070 [a]	(160) –	– –	87,860 148,070
17/09/2013	from 17/09/2013 to 17/09/2017	€39.16	406,010 235,043 [b]	– –	(8,830) (8,708)	– –	397,180 226,335
20/12/2012	from 20/12/2012 to 20/12/2016	€27.47	449,620 173,804 [a]	– –	(10,900) (5,143)	(438,720) (168,661)	– –

(a) Plans contingent upon the achievement of internal performance targets over the three financial years following the grant date.
(b) 2013 Plan: the number of shares at 31/12/2015 has been adjusted for 1,340 shares erroneously canceled in 2015.

d) Allotment of share units indexed to the value of Thales shares

Date of the allocation decision	Vesting period	Share price at grant date	Number of units at 31/12/15	Units cancelled in 2016	Units delivered in 2016	Number of units at 31/12/2016
17/09/2015	from 17/09/2015 to 17/09/2019	€61.75	375,870 232,000 [a]	(8,070) (2,800)	(70) –	367,730 229,200
16/09/2014	from 16/09/2014 to 16/09/2018	€42.42	417,040 275,600 [a]	(11,590) (7,600)	(240) –	405,210 268,000

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

e) Allotment of phantom shares indexed to the value of Thales shares

Date of the allocation decision	Vesting period	Number of phantom shares at 31/12/15	Phantom shares deliverred in 2016	Phantom shares cancelled in 2016	Number of phantom shares at 31/12/16
27/10/2016	from 27/10/2016 to 27/10/2020	–	40,620 38,900 [a]	(1,190) (990)	39,430 37,910

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

f) Expenses related to share-based payment

In the consolidated financial statements, the benefit granted to beneficiaries of the above-mentioned plans is recognised as an operating expense. These amounts break down as follows:

Plans	Residual fair value at the end of 2016	2016 expense	2015 expense
Free shares [(a)]	19.2	(9.9)	(11.1)
Units [(b)]	45.5	(19.0)	(10.5)
Phantom shares	5.8	(0.3)	–
Employee share scheme	–	–	(6.5)
Social contributions related to the plans	21.5	(7.7)	(4.8)
TOTAL	**92.0**	**(36.9)**	**(32.9)**
Of which, offsetting entries:			
• Shareholders equity		16.7	22.2
• Debt		20.2	10.7

(a) The fair value of free share plans takes into account a 2.5% dividend payout rate for the 2012 and 2013 plans, and a 2% dividend payout rate for the 2016 plan.
(b) The fair value of the plan, measured in accordance with the Monte Carlo model, takes into account the following assumptions respectively in 2014 and 2015: volatility rates of 22% and 23%, dividend payout rates of 2.7% and 2%, and free risk rates of 0.14% and 0.10%.

9.5 Compensation of directors and senior corporate officers

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

	2016	2015
Short-term benefits:		
• Fixed compensation	4.8	4.4
• Variable compensation	3.9	3.0
• Employer social security contributions	2.9	2.6
• Contract termination benefits resulting from contractual commitments	–	2.1
• Employer social security contribution on termination benefits	–	0.7
• Attendance fees	0.5	0.6
Other benefits:		
• Post-employment benefits	1.7	1.3
• Share-based payments	2.5	1.8

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NOTE 10. CURRENT OPERATING ASSETS AND LIABILITIES

Current operating assets and liabilities include working capital components and reserves for contingencies. The changes in these items are presented below.

Contracts falling within the scope of IAS 11 are subject to specific classification in the consolidated balance sheet: for each contract, the balance of unbilled receivables, work in progress and reserves for contingencies are presented in assets or liabilities under "Construction contracts" (Note 14-c).

The Group is authorised to assign trade receivables, mainly from the French State, and commercial paper. At 31 December 2016, derecognised receivables amounted to €130.3 million (€103.7 million at 31 December 2015). The organic change in derecognised receivables represents an increase of €21.1 million for 2016 (a decrease of €126.3 million in 2015).

As these assignements without recourse in case of default by the debtor involve the transfer of substantially all corresponding risks and rewards, they are derecognised. Thales' continued involvement (within the meaning of IFRS 7) in the related risks and rewards corresponds to the share of dilution risk not transferred to the bank and the remuneration received under the recovery mandate.

10.1 Change in current operating assets and liabilities

	01/01/2015	Change in WCR and reserves	Change in scope, exchange rates and reclassifications	31/12/2015	Change in WCR and reserves	Change in scope, exchange rates and reclassifications	31/12/2016
Inventories and work in progress	2,437.6	98.3	24.9	2,560.8	117.4	(3.6)	2,734.6
Construction contracts – Assets	1,996.4	25.1	21.1	2,042.6	285.2	3.7	2,331.5
Advances to suppliers	326.0	52.0	5.0	383.0	(32.4)	(2.3)	348.3
Accounts, notes and other receivables	4,129.1	330.2	(55.1)	4,404.2	223.3	(80.0)	4,547.5
Current derivatives – Assets	108.2	46.3	(0.3)	154.2	18.0	(10.5)	161.7
Current operating assets	**8,997.3**	**551.9**	**(4.4)**	**9,544.8**	**671.5**	**(92.7)**	**10,123.6**
Advances received from customers on contracts [(a)]	(3,676.4)	(599.6)	(41.2)	(4,317.2)	(193.0)	31.8	(4,478.4)
Refundable grants	(130.4)	2.2	0.6	(127.6)	(6.6)	0.8	(133.4)
Construction contracts – Liabilities	(1,072.3)	57.6	(6.3)	(1,021.0)	(116.8)	(1.6)	(1,139.4)
Reserve for contingencies	(1,038.0)	50.8	(35.7)	(1,022.9)	5.6	(19.7)	(1,037.0)
Accounts, notes and other payables	(5,254.4)	(189.1)	(104.1)	(5,547.6)	(310.7)	(14.3)	(5,872.6)
Current derivatives – Liabilities	(282.2)	–	(123.1)	(405.3)	21.0	(94.0)	(478.3)
Current operating liabilities	**(11,453.7)**	**(678.1)**	**(309.8)**	**(12,441.6)**	**(600.5)**	**(97.0)**	**(13,139.1)**
Restructuring provision [(b)]	**134.2**	**(16.8)**	**(1.1)**	**116.3**	**(7.4)**	**5.4**	**114.3**
INCREASE (DECREASE) IN WCR AND RESERVES FOR CONTINGENCIES		**(143.0)**			**63.4**		

(a) Advances received on construction contracts respectively amount to €2,679.2 million, €3,262.8 million and €3,302.7 million at 1 January 2015, 31 December 2015 and 2016.
(b) Included in reserves for contingencies.

10.2 Reserves for contingencies (excluding construction contracts)

	31/12/2015	Additions	Utilisation	Reversal (surplus)	Exchange rates and other	31/12/2016
Restructuring [(a)]	116.3	72.4	(68.1)	(8.1)	5.4	114.3
Litigation	127.7	33.4	(18.9)	(24.4)	7.7	125.5
Guarantees	239.7	82.2	(51.8)	(10.4)	(3.9)	255.8
Losses at completion	76.1	52.9	(27.9)	(4.8)	–	96.3
Provisions on contracts	147.4	44.9	(12.7)	(4.8)	(1.3)	173.5
Other [(b)]	315.7	71.1	(58.4)	(26.6)	(33.8)	271.6
TOTAL	**1,022.9**	**356.9**	**(237.8)**	**(79.1)**	**(25.9)**	**1,037.0**

	01/01/2015	Additions	Utilisation	Reversal (surplus)	Exchange rates 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**

(a) Net restructuring costs break down as follows:

	2016	2015
Additions for the period	(72.4)	(81.2)
Reversals for the period	79.8	98.0
Expenses for the period	(107.9)	(111.1)
Restructuring costs, net	**(100.5)**	**(94.3)**

(b) Includes technical provisions of insurance companies, provisions for tax and labour-related risks, vendor warranties, environmental guarantees and other.

10.3 Maturity of current receivables and payable

The amounts presented in the balance sheet for this item break down as follows:

			31/12/2016	31/12/2015
	Total	< 1 year	> 1 year	Total
Accounts and accrued receivables, gross	3,357.0	3,172.6	184.4	3,189.2
Provisions on accounts and notes receivable [(a)]	(94.8)	(53.7)	(41.1)	(102.2)
Accounts and accrued receivables, net	**3,262.2**	**3,118.9**	**143.3**	**3,087.0**
Tax receivables (excluding income tax)	966.0	715.8	250.2	966.6
Other receivables, gross	319.3	299.7	19.6	351.7
Provisions on other receivables	–	–	–	(1.1)
Net	**1,285.3**	**1,015.5**	**269.8**	**1,317.2**
Accounts, notes and other receivables	**4,547.5**	**4,134.4**	**413.1**	**4,404.2**
Accounts and notes payable	2,467.0	2,459.9	7.1	2,297.5
Accrued holiday pay and payroll taxes	1,455.6	1,421.8	33.8	1,406.5
Tax payables (excluding income tax)	679.0	678.6	0.4	697.5
Other creditors and accrued liabilities	1,271.0	1,161.2	109.8	1,146.1
Accounts, notes and other payables	**5,872.6**	**5,721.5**	**151.1**	**5,547.6**

(a) In 2016, additions to provisions for bad debts, net of reversals of surplus provision, amounted to €2.1 million (€10.3 million in 2015).

10.4 Bonds and warranties linked to commercial contracts

In the ordinary course of its activities, the Group regularly responds to invitations to tender. 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 2016, bid bonds issued amounted to €26.2 million (€66.2 million at 31 December 2015).

From the signature of a contract up until its completion, the Group may also issue performance bonds for its customers, with a bank acting as an intermediary, in order to cover the payment of damages to the customer in the event that the Group does not meet its contractual commitments. At 31 December 2016, performance bonds amounted to €2,288.6 million (€2,038.6 million at 31 December 2015).

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. Where this is not the case, a provision is set aside in the consolidated financial statements for any potential risk, estimated on a contract-by-contract basis.

In order to finance contract execution, the Group may receive advance payments from its customers, in accordance with contractual terms, which are recognised in liabilities in the balance sheet. In order to guarantee reimbursement of these advance payments if the contractual obligations are not met, the Group may deliver, at the customer's request, an advance payment bond. At 31 December 2016, advance payment bonds amounted to €2,336.7 million (€2,183.4 million at 31 December 2015).

The Group evaluates and sets aside provisions for warranty costs in order to guarantee the conformity of goods sold to the customer during the contractual warranty period. In most cases, the provisional withholding of payment contractually applying during this period can be replaced by a warranty retention bond using a bank as intermediary. At 31 December 2016, warranty retention bonds amount to €114.9 million (€115.2 million at 31 December 2015).

The maturity dates of these commitments are:

	< 1 year	1 to 5 years	> 5 years	31/12/2016	31/12/2015
Bid bonds	25.0	1.2	–	26.2	66.2
Performance bonds	804.3	1,157.9	326.4	2,288.6	2,038.6
Advance payment bonds	852.2	1,244.4	240.1	2,336.7	2,183.4
Warranty retention bonds	79.9	18.8	16.2	114.9	115.2
Other bank bonds	55.1	32.6	75.5	163.2	175.0
TOTAL	**1,816.5**	**2,454.9**	**658.2**	**4,929.6**	**4,578.4**

The awarding of major contracts, particularly within the defence sector, may be subject to local or regulatory offsetting obligations, which can take the form of direct offsetting, semi-direct offsetting or indirect offsetting. The associated risks are described under "risk factors" in the management report.

Parent company guarantees

In addition, Thales may grant parent company guarantees to third parties in support of its subsidiaries' obligations without using a bank as an intermediary. At 31 December 2016, these guarantees amounted to €13,697.1 million (€14,688.3 million at 31 December 2015).

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

NOTE 11. CASH FLOWS

11.1 Changes in net cash (net debt)

	2016	2015
Net cash (debt) at 1 January	**1,977.6**	**1,006.3**
Net cash flow from operating activities	1,337.9	1,467.7
Less, reduction in pension deficits	88.3	101.0
Net operating investments	(472.0)	(458.3)
Free Operating cash flow	**954.2**	**1,110.4**
Acquisitions of subsidiaries and affiliates	(391.2)	(51.2)
Disposals of subsidiaries and affiliates	296.9	87.8
Reduction of UK pension deficits	(88.3)	(101.0)
Change in loans	(26.5)	23.3
Dividends paid by the parent company	(296.8)	(234.0)
Third party share in dividend distributions of subsidiaries	(48.3)	(51.3)
Treasury shares and subscription options exercised	4.9	125.4
Changes in exchange rates: translation and financing operations	(19.8)	26.6
Changes in borrowings and debt/investments and other	2.9	35.3
Total change	**388.0**	**971.3**
Net cash (debt) at 31 December (Note 6.2)	**2,365.6**	**1,977.6**

11.2 Operating investments

Only acquisitions and disposals of property, plant and equipment and intangible assets that resulted in a cash inflow or outflow are presented in the cash flow statement. This notably includes the capitalisation of development costs (Note 4.2).

11.3 Financial investments, net

Acquisitions of subsidiaries and affiliates	2016	2015
Acquisition of Vormetric	(372.4)	–
Acquisition of Ruag's optoelectronics business	(12.7)	–
Visionix contingent consideration	–	(12.9)
Tronics Stake (19.7%)	–	(10.3)
Other	(13.1)	(28.0)
Total	**(398.2)**	**(51.2)**
Less cash and cash equivalents acquired	7.0	–
Net investment in subsidiaries and affiliates	**(391.2)**	**(51.2)**

Disposals of subsidiaries and affiliates	2016	2015
Hanwha Thales Co. Ltd (50%)	204.4	–
Equalisation payment/Thales – Raytheon Systems	81.0	–
ESG Elecktroniksystem- und Logistik GmbH (30%)	–	75.2
Other	11.5	12.6
Net disposal of subsidiaries and affiliates	**296.9**	**87.8**

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 Group'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 involved.

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 shared customer claiming an amount which allegedly should be no less than $260 million 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 of the parties in June 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. Accordingly, Thales has not set aside a provision in respect of this dispute. Proceedings are ongoing.

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

NOTE 13. SUBSEQUENT EVENTS

To the best of the Group's knowledge, no significant events occurred after the end of the reporting period.

NOTE 14. ACCOUNTING POLICIES

a) Presentation of the financial statements

Consolidated profit and loss account

Expenses in the income statement are presented analytically by destination.

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

- gains and losses on disposal of disposals of property, plant and equipment and intangible assets, businesses or investments;
- the impact of changes in scope on consolidated net income (Note 14-b);
- the impact of the amendment, curtailment or liquidation of pension plans and other long-term benefits;
- the impairment of non-current operating assets;
- other operating income (expense) resulting from events that are unusual by their frequency, nature and amount.

Consolidated balance sheet

A significant portion of the Group's activities in its different business segments have 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, with no distinction between the amounts due within one year and those due after one year.

Consolidated statement of cash flows

The statement of cash flows provides an analysis of the change in cash and cash equivalents, as presented in the balance sheet and defined in Note 14-h. The statement of cash flows is prepared using the indirect method based on consolidated net income and is broken down into three categories:

- net cash flow from operating activities (including interest and taxes);
- net cash flow used in investing activities, including net operating investments (acquisition and disposal of property, plant and equipment and intangible assets, capitalisation of development costs) and net financial investments;
- net cash flow used in financing activities including dividends paid, from capital subscriptions (exercise of options by employees), the purchase/sale of treasury shares, the issuance and repayment of debt, and changes in bank overdrafts, etc.

The Group also presents the changes in its **net cash**, which is a non-GAAP measure and includes gross debt, net of cash and cash equivalents and liquid investments. Changes in net cash, presented in Note 11.1, notably reflect **Free operating cash flow**, defined as net cash flow from operating activites less net operating investments, plus the payment of the UK pension deficits.

Adjusted net income

In order to monitor and compare its operating and financial performances, the Group presents the following key indicators:

EBIT, corresponding to income from operations plus the share in net income of equity affiliates minus the amortisation of acquired intangible assets (purchase price allocation – PPA) recorded when significant businesses are combined. From 1 January 2016, it also excludes the other expenses recognised in current operationnal result that are directly related to business combinations, and which are unusual by nature.

Adjusted net income is regarded as pertinent by the Group as it excludes non-recurring items. It corresponds to consolidated net income attributable to shareholders of the parent company, less the following items, net of the corresponding tax impacts:

- amortisation of acquired intangible assets (PPA);
- other expenses recognised in current operationnal result that are directly related to business combinations, and which are unusual by nature;
- disposal of assets, changes in scope of consolidation and other;
- changes in the 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".

Adjusted net income per share corresponds to the adjusted net income attributable to shareholders of the parent company, divided by the average number of shares outstanding during the period concerned.

Off-balance sheet commitments

Disclosures regarding off-balance sheet commitments are presented in the following notes:

- Note 4.3: lease commitments;
- Note 9.3-f: pension commitments;
- Note 10.4: commercial contract commitments.

Related parties

The Group has identified the following related parties: shareholders of Thales (parent company), notably the French State and Dassault Aviation, companies controlled by these shareholders, companies under joint control or significant influence, Directors and Senior Corporate Officers.

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.

Information related to transactions with related parties is presented in the following notes:

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

Transactions with other related parties are not material.

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

b) Scope of consolidation and changes in scope

Scope of consolidation

The financial statements of material subsidiaries directly or indirectly controlled by Thales are fully consolidated. The financial statements of material subsidiariesjointly controlled by Thales(joint ventures) or in which the Group has significant influence (associates) are accounted for under the equity method.

Business combinations

Business combinations are accounted for under the acquisition method as described in IFRS 3. Under this method, the Group recognises identifiable assets acquired and liabilities assumed at fair value on their acquisition date. It also recognises non-controlling interests in an acquiree on their acquisition date.

Non-controlling interests are measured either at fair value or proportionate to the share of the identifiable net assets. This is determined on a case-by-case by the Group depending on the option it wishes to apply.

Acquisition-related costs (valuation fees, consulting fees, etc.) are recognised under "other operating expenses" as incurred.

Negative goodwill is immediately recognised in "other operating income (expenses)". Positive goodwill related to controlled companies is recognised in balance sheet assets under intangible assets. Positive goodwill related to equity affiliates is recognised under "share in net assets of equityaffiliates".

Goodwill is not amortised but is subject to impairment tests each year. Goodwill impairment is booked as an expense under "impairment of non-current operating assets" and may not be reversed. Goodwill impairment related to equity affiliates is recognised in "share in net income of equity affiliates" and may be reversed.

c) Revenue recognition

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 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

Income from the sales of goods and services together with royalty and licence income are recognised when future economic benefits are likely to 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:

- income from the sale of goods is recognised when the Company has transferred the principal risks and rewards inherent to ownership of the goods to the purchaser;
- income from services rendered is recognised according to the percentage-of-completion method.

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 group of assets that are closely linked or 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 the scope of the 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 the 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 period 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, less any recognised losses and progress billings, is determined on a contract-by-contract basis. If this amount is positive, it is recognised under "Construction contracts: assets" in the balance sheet. If it is negative, it is recognised under "Construction contracts: liabilities".

d) Inventories and work in progress

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

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

When material, 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 interest rate is used, otherwise the Group's financing rate is used.

e) 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 balance sheet assets:

- the product or process is clearly defined, and costs are separately identified and reliably measured;
- the technical feasibility of the product or 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 the Group's 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 loss reversal criteria are identical to those retained when first capitalising development costs on a new project.

The Group receives tax credits related to research carried out by its subsidiaries. These tax credits are considered as operating grants and are therefore included in income from operations, when their award is not dependent on the generation of taxable income. Otherwise, they are recognised as a deduction from income tax expense.

f) Restructuring costs

Provisions for restructuring costs are set aside 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 "restructuring costs" in the profit and loss account.

g) Property, plant and equipment and intangible assets

Intangible assets

The Group's intangible assets mainly include:

- goodwill (Note 14-b);
- 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, etc.);
- capitalised development costs (Note 14-e).

Intangible assets are submitted to impairment tests.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of any accumulated depreciation and accumulated impairment losses. Depreciation of property, plant and equipment is generally calculated on the basis of the following typical useful lives:

- 20 years for buildings;
- 1 to 10 years for technical facilities and industrial equipment and tooling;
- 5 to 10 years for other property, plant and equipment (vehicles, fixtures, etc.).

The depreciable amount takes into account the residual value of the asset. The different components of property, plant and equipment 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.

h) Financial assets, financial liabilities and derivatives

Financial assets

Financial assets are initially recorded at fair value. They are subsequently measured 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 share in net equity 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 "other financial income (expense)", may subsequently be reversed through profit and loss if the conditions which led to the impairment loss being recognised cease to exist.
- Deposits that Thales intends to hold until maturity are recognised at amortised cost.
- Other financial assets are estimated at fair value, with changes in fair value recognised in profit and loss. They include money market funds and other mutual funds, and interest rate products (certificates of deposit, term deposits, medium-term negotiable notes, etc.).
- "Cash and cash 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 interest rate. Upon initial recognition, premiums, redemption and issuance costs are included in the calculation of the effective interest rate and are recognised in the profit and loss account 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.

Foreign exchange derivatives eligible for hedge accounting are accounted for as follows:

- the effective portion of the change in fair value of the hedging instrument is recognised directly in equity 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 inception 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.

Interest-rate derivatives are used either as 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, particularly for the portion of fixed-rate bond debt swapped for a variable rate, the financial liabilities hedged by the interest-rate derivatives are remeasured to the extent of risk hedged. Changes in the value of hedged items are recognised in profit and loss for the period and are offset by symmetrical adjustments in interest-rate derivatives.

In the case of cash flow hedging relationships, the effective portion of changes in fair value of interest-rate derivatives shown in the balance sheet is recognised directly in equity until such time as the hedged flows affect profit and loss.

i) 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 forecast taxable income of the tax entities concerned, generally over a five-year time-frame, non-recurring past events and tax strategies specific to each country.

j) Pensions and other long-term employee benefits

The Group's defined benefit plan commitments 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 discounting as well as inflation, mortality and staff turnover rates, etc.

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 on post-employment benefits are recognised in full within other comprehensive income, and are not subsequently reclassfied to profit and loss. Where appropriate, the same treatment is applied to adjustments linked to the ceiling on net assets for plans in surplus.
- actuarial gains and losses on other long-term benefits are recognised immediately in financial income (Note 9.3).

Past service cost, measured in cases of amendments or curtailments of plans, and plan settlements are recognised in full within non-recurring operating income in the period in which it is incurred.

Net interest expense, determined based on the discount rate of obligations, is recognised in financial income.

k) Share-based payment

Free share plans

Between 2007 and 2013, and then again in 2016, 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 recognised against equity.

The fair value of the services received is calculated by reference to the fair value of the shares at the grant date, less the present value of dividends forfeited by employees during the vesting period, taking into account the presence conditions.

Internal performance conditions are taken into account only by means of an adjustment in the projected number of instruments acquired by employees at the end of the vesting period. Therefore, they are not taken into account in the fair value estimate of the instruments granted, which is determined at the grant date.

The expense related to these plans is included in the current operating income with the consolidated reserves account as counterpart without impact on total equity. As the payment of compensation is subject to presence conditions, the corresponding expense is recorded over the vesting period on a straight-line basis. 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 Thales shares, some of which 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 in the form of shares and half in the form of cash-settled share-based payment.

The proportion delivered in shares follows the same accounting policies as those applied to free share plans. The accounting treatment applicable to cash-settled share-based payments 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 recognised in income for 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.

Phantom shares

Since this is a cash-settled plan, IFRS 2 requires an evaluation of vested services and the liability assumed at fair value. Until the payment of the liability, the debt is remeasured at the closing date and taken to profit and loss. The remeasurement of the debt takes into account the achievement of performance and/or presence conditions, as well as the change in value of the underlying shares.

Company savings plans

Employee share offerings with a discount to the market price proposed within Company savings plans do not include any vesting period for rights but are subject to a legal five-year lock-up period. The measurement of the advantages granted to employees takes into account the cost of the five-year lock-up period.

NOTE 15. FEES PAID TO STATUTORY AUDITORS

The amounts of fees paid to the statutory auditors of Thales (parent company) and their networks recognised in profit and loss for 2015 and 2016 are presented below:

(in € thousands)	Mazars		Ernst & Young Audit		Total	
	2016	2015	2016	2015	2016	2015
Certification of accounts	**5,427**	**5,022**	**4,627**	**4,561**	**10,054**	**9,583**
• Issuer	779	730	856	807	1,635	1,537
• Subsidiaries	4,648	4,292	3,771	3,754	8,419	8,046
Other services	**526**	**420**	**791**	**633**	**1,317**	**1,053**
• Issuer	190	279	31	48	221	327
• Subsidiaries	336	141	760	585	1,096	726
TOTAL	**5,953**	**5,442**	**5,418**	**5,194**	**11,371**	**10,636**

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 2016 by reference to section 264 paragraph 3 of the German Commercial code.

NOTE 17. LIST OF MAIN CONSOLIDATED COMPANIES

(excluding Thales, the parent company)

Company name	Country	% interest 31/12/2016	% interest 31/12/2015
1. Consolidated subsidiaries [(a)]			
TDA Armements SAS	France	100%	100%
Thales Alenia Space SAS	France	67%	67%
Thales Alenia Space Italia SpA	Italy	67%	67%
Thales Air Operations SAS	France	100%	50%
Thales Air Systems SAS	France	100%	100%
Thales Australia Ltd	Australia	100%	100%
Thales Avionics SAS	France	100%	100%
Thales Avionics, Inc.	United States	100%	100%
Thales Avionics Electrical Systems SAS	France	100%	100%
Thales Canada Inc.	Canada	100%	100%
Thales Communications & Security SAS	France	100%	100%
Thales Defense & Security, Inc.	United States	100%	100%
Thales Electronic Systems GmbH	Germany	100%	100%
Thales e-Security, Inc [(b)]	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 Optronique SAS	France	100%	100%
Thales Transportation Systems GmbH	Germany	100%	100%
Thales Ground Transportation Systems UK Ltd	United Kingdom	100%	100%

Company name	Country	% interest 31/12/2016	% interest 31/12/2015
Thales Rail Signalling Solutions AG	Switzerland	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%
2. Joint ventures (equity method)			
Thales-Raytheon Systems Air and Missile Defense Command and Control SAS (TRS AMDC2)	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	South Korea	–	50%
Sofradir SAS	France	50%	50%
3. Associates (equity method)			
Aviation Communications & Surveillance Systems	United States	30%	30%
Airtanker Holdings Ltd	United Kingdom	13%	13%
Elettronica SpA	Italy	33%	33%
Thales-Raytheon Systems Company LLC	United States	–	50%
Telespazio SpA	Italy	33%	33%

(a) Companies with sales representing more than 0.5% of consolidated sales.
(b) In 2016, this company includes the activities of recently-acquired Vormetric.

The full list of affiliates outside of France is available on Group website: https://www.thalesgroup.com/fr/responsabilité

1.2.7 Statutory auditors' report on the consolidated financial statements

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, 2016 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, 2016 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, your Company's general management is required to make estimates and assumptions that affect certain amounts included in the consolidated financial statements 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 asset valuation, provisions for pension plans and related contingency, and 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-c "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, 2016 for a net amount of €3,424.4 million, was subject to impairment tests in accordance with the methods set out in Note 4.1-b "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 Note 4.1 "Goodwill" provides appropriate information.

- **Deferred tax assets**

As stated in Notes 14-i "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, 2016 to €681.2 million was assessed on the basis of forecast data taken from the strategic plans drawn up for each consolidated tax group concerned, under the Group's control. We reviewed the recoverability tests performed by your Company on these deferred tax assets and checked that Notes 14-i 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 the 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-j "Accounting policies- Pensions and other employee benefits" and 9.3 "Provisions 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 your Company'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-j 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 significant litigation and contingency provisions 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 Risk Management".

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 27, 2017

The statutory auditors
French original signed by

Mazars		**Ernst & Young Audit**	
Anne-Laure Rousselou	Jean-Marc Deslandes	Philippe Diu	Serge Pottiez

1.3 PARENT COMPANY MANAGEMENT REPORT AND FINANCIAL STATEMENTS

1.3.1 2016 parent company management report

1.3.1.1 Activity and results

Operating income amounted to €636 million, compared with €627 million in 2015. Sales came to €233 million, compared with €209 million in 2015.

Operations are described by sector 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 increase in sales is mainly due to the centralisation of specific facility management and Thales (the parent company) taking direct responsibility for the Massy site lease.

Other operating income amounted to €379 million, compared with €393 million in 2015. It is made up of royalties paid by operating subsidiaries and re-billed expenses, including for general and specific centralised services provided by the parent company and capitalised production. In 2015, it included re-billed costs of €15 million in relation to the employee share purchase plan.

Net loss from operations amounted to €93 million, compared with a loss of €70 million in 2015.

Net financial income came to €464 million, compared with €849 million in 2015.

Increases in provisions for equity investments and subsidiary risks totalled €58 million in 2016 compared with €36 million in 2015. Reversals of provisions for equity investments and subsidiary risks represented €53 million in 2016 compared with €193 million in 2015.

Income from investments amounted to €496 million in 2016, versus €701 million in 2015.

Non-recurring expense amounted to €17 million, compared with €1 million in 2015, mainly due to the recognition of a partial reimbursement of Thales Suisse capital for €14 million in 2016.

The Company recorded an income tax benefit of €78 million compared with €94 million in 2015, due largely to Group relief from the tax consolidation applied by Thales and its subsidiaries.

In 2016, non-deductible expenses pursuant to Articles 223 *quater* and 39.4 of the French Tax Code (*Code Général des Impôts*) amounted to €0.2 million.

Profit for the year came to €431 million in 2016, compared with €872 million in 2015.

1.3.1.2 Balance sheet at 31 December 2016

The total balance sheet at 31 December 2016 represented €14,302 million, up €493 million from €13,809 million at year-end 2015.

The total non-current assets of €9,002 million (€8,882 million in 2015) are mainly composed of financial investments. The €114 million increase in equity investments is mainly due to the Thales Avionics Electrical Systems SAS capital increase for €76 million, and the acquisition of shares in Thales Canada Inc and Forges de Zeebrugge for €32 million and €26 million, respectively.

Other financial investments rose by €14 million, largely as a result of loans granted to Group subsidiaries in an amount of €26 million, of which €10 million was allocated to Thales South Africa Systems, partially offset by the full repayment in 2016 of the €10 million loan in relation to the employee share purchase plan that was granted in 2015.

Current assets rose €373 million to €5,300 million at 31 December 2016. Cash and cash equivalents increased by €233 million reflecting the improved operating cash flow of subsidiaries. The €71 million decrease in other receivables is mainly due to foreign exchange revaluations and a decrease in tax receivables from the French State, with negative impacts of €43 million and €37 million, respectively.

The €33 million increase in treasury shares assigned to plans results from the market purchase of shares for €46 million in 2016 for allocation to the 2013 plan, offset by the delivery of shares worth €17 million under the 2012 free share plan.

Other investments of €250 million corresponded to deposits with first-tier banks with maturities of 3 to 12 months.

The balance of Group company current accounts represented a net payable of €4,350 million at year end 2016, compared with €3,963 million at year-end 2015.

Borrowings amounted to €1,459 million at 31 December 2016, versus €1,460 million at 31 December 2015. They mainly include bond issues for €1,400 million, as well as foreign-currency and euro denominated borrowings from Group subsidiaries and associates.

At 31 December 2016, share capital stood at €636.6 million and total equity came to €6,829 million, compared with €6,650 million at year-end 2015.

Supplier payment schedules

Thales pays its suppliers 60 days after the invoice date, in line with the maximum period allowed under the French law on the modernisation of the economy (*Loi de modernisation de l'économie* – LME).

The table below presents the ageing of trade payables by invoice date, in accordance with Article L. 441-6-1 of the French Commercial Code.

	Trade payables at 31/12/2016			Trade payables at 31/12/2015		
(in € millions)	Group	Non-Group	Total	Group	Non-Group	Total
France						
Less than two months (not past due)	47.0	11.2	58.2	15.5	10.9	25.4
Between two and four months	0.1	0.8	0.9	0.3	2.1	2.4
More than four months	0.1	0.5	0.6	0.3	0.3	0.6
	47.2	12.5	59.7	16.1	13.3	29.4
International						
Less than two months (not past due)	1.0	1.2	2.2	2.0	0.8	2.8
Between two and four months	0.6	0.0	0.6	1.1	0.2	1.3
More than four months	0.7	0.0	0.7	1.0	0.3	1.3
	2.3	1.2	3.5	4.1	1.3	5.4
Sub-total	**49.5**	**13.7**	**63.2**	**20.2**	**14.6**	**34.8**
Charges payable not due			36.3			25.5
TOTAL TRADE PAYABLES			**99.5**			**60.3**

1.3.1.3 Events after the reporting period

Thales (the parent company) has been notified that a tax audit will be carried out on its accounting records for the 2011 to 2015 reporting periods.

1.3.1.4 Outlook for 2017

The results for 2017 are expected to reflect the dividends paid by certain subsidiaries in respect of the 2016 financial year and changes in provisions for impairment of equity investments and subsidiary risks as a consequence of trends in their business and performance in 2017.

1.3.1.5 Proposed allocations of earnings and dividend policy

The Annual General Meeting notes distributable earnings, made up of net profit for the year ended 31 December 2016, of	€431,143,252.66
Less allocations to the legal reserve	(€370,008.60)
Plus the total interim dividend of €0.40 per share paid on 9 December 2016	€84,560,890.80
Plus retained earnings	€1,523,814,297.85
Amounts to a total of	**€2,039,148,432.71**

The Annual General Meeting decides to allocate this amount as follows:

Distribution of a dividend of €1.60 per share on 212,194,766 shares bearing rights as from 1 January 2016[a]	€339,511,625.60
Retained earnings after dividend	€1,699,636,807.11
Total equivalent to distributable earnings	**€2,039,148,432.71**

Subject to approval by the Annual General Meeting of 17 May 2017, the 2016 dividend will have an ex dividend date of 31 May 2017 and will be paid on 2 June 2017. Taking into account the interim dividend of €0.40 per share, the balance of the dividend that remains to be paid amounts to €1.20 per share.

The shareholders are paid dividends in accordance with the law. The Company uses the Euroclear direct payment procedure. Any unclaimed dividends after a five-year period will be forfeited by law and paid to the French Treasury (*Trésor public*).

The following per-share dividends were paid during the past three financial years and are disclosed below pursuant to the applicable legal provisions. The dividends paid in respect of 2013, 2014 and 2015 qualify for the 40% tax relief under the conditions provided for in the French Tax Code.

Year	Dividend per share
2013	€1.12
2014	€1.12
2015	€1.36
2016	**€1.60** [a]

(a) Subject to the approval of the Annual General Meeting of 17 May 2017 that will be held to approve the 2016 financial statements.

1.3.1.6 Parent company management report cross-reference table

In accordance particularly with Articles L. 225-100, L. 232-1, L. 247.1 and R. 225-102 of the French Commercial Code (*Code de commerce*), the parent company management report also includes the following information contained in the 2016 Registration Document:

1.3.2 Thales parent company financial statements for the year ended 31 December 2016

1.3.2.1 Income statement

(in € millions)	Notes	2016	2015
Re-billing of rents		220.0	194.4
Research		13.3	14.2
Sales		**233.3**	**208.6**
Royalties		215.2	201.6
Re-billing of expenses		163.4	190.9
Other operating income		**378.6**	**392.5**
Reversals of provisions		16.0	9.7
Transfer of expenses		7.8	16.4
TOTAL OPERATING INCOME		**635.7**	**627.2**
Purchases and changes in inventories and work-in-progress		(27.3)	(40.2)
Other external charges		(451.2)	(429.1)
Taxes other than on income		(11.9)	(9.5)
Personnel expenses		(191.5)	(187.1)
Depreciation and amortisation		(20.9)	(22.8)
Increase in provisions		(26.1)	(8.7)
Total operating expenses		**(728.9)**	**(697.4)**
INCOME (LOSS) FROM OPERATIONS	Note 3	**(93.2)**	**(70.2)**
Net interest and finance costs		(1.1)	(5.1)
Income from investments		496.1	700.5
Other financial income		60.6	224.5
Other financial expenses		(92.1)	(70.8)
Financial income (expense)	Note 4	463.5	849.1
PROFIT (LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX		**370.3**	**778.9**
Non-recurring income (expense)	Note 5	**(17.2)**	**(0.8)**
PROFIT (LOSS) BEFORE INCOME TAX		**353.1**	**778.1**
Income tax benefit (expense)	Note 6	**78.0**	**93.8**
PROFIT FOR THE YEAR		**431.1**	**871.9**

The Notes to the financial statements are an integral part of the parent company financial statements.

1.3.2.2 Balance sheet

Assets

(in € millions)	Notes	31/12/2016	31/12/2015
Intangible assets and property, plant and equipment, net	Note 7	120.4	132.2
Equity investments	Note 8	8,787.6	8,673.3
Treasury shares not assigned to plans	Note 14	11.6	8.2
Other financial investments	Note 9	82.1	68.1
Total non-current assets		**9,001.7**	**8,881.8**
Inventories and work in progress		12.0	4.9
Advances to suppliers	Note 16	0.1	2.7
Trade receivables	Note 16	188.8	179.1
Other receivables	Note 16	733.1	804.0
Group company current-account receivables	Note 10	875.8	965.7
Treasury shares assigned to plans	Note 14	50.0	17.0
Accrued interests		7.3	3.7
Other investments	Note 11	250.0	0.0
Cash and cash equivalents	Note 11	3,183.1	2,949.8
Total current assets		**5,300.2**	**4,926.9**
TOTAL ASSETS		**14,301.9**	**13,808.7**

Shareholders' equity and liabilities

(in € millions)	Notes	31/12/2016	31/12/2015
Share capital		636.6	632.9
Additional paid-in capital		4,036.9	3,995.4
Reserves and retained earnings		1,724.6	1,149.5
Profit for the year		431.1	871.9
Total shareholders' equity	Note 13	**6,829.2**	**6,649.7**
Provisions for contingencies and losses	Note 17	**197.8**	**172.3**
Borrowings	Note 12	1,459.2	1,460.5
Group company current-account payables	Note 10	5,225.8	4,929.1
Advances received on contracts in progress	Note 16	18.8	16.3
Trade payables	Note 16	99.5	60.3
Other liabilities	Note 16	471.6	520.5
Total liabilities		**7,472.7**	**7,159.0**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**14,301.9**	**13,808.7**

The Notes to the financial statements are an integral part of the parent company financial statements.

1.3.2.3 Statement of cash flows

(in € millions)	Notes	2016	2015
Profit for the year		**431.1**	**871.9**
Add (deduct):			
Net depreciation, amortisation and impairment charges on intangible assets and property, plant and equipment	Note 7	20.9	22.8
Provisions for post-employment and other employee benefits	Note 17	5.8	(18.9)
Net provisions for impairment of investments and subsidiary risks	Note 4	5.3	(156.7)
Loss (gain) on disposals of assets	Note 5	13.0	(17.8)
Other items		0.6	17.7
Operating cash flow		**476.7**	**719.0**
Change in working capital and provisions for operating contingencies and losses		53.5	(113.5)
CASH FLOW FROM OPERATING ACTIVITIES	**- I -**	**530.2**	**605.5**
Payments for acquisitions of intangible assets and property, plant and equipment		(10.2)	(27.6)
Proceeds from disposal of intangible assets and property, plant and equipment		0.9	0.0
Net operating investment	Note 7	**(9.3)**	**(27.6)**
Investments in subsidiaries and associates	Note 8	(147.4)	(96.8)
Disposals of subsidiaries and associates	Note 8	21.7	13.3
Decrease (increase) in other investments	Note 11	(250.0)	–
Decrease (increase) in other financial investments and treasury shares		(60.3)	10.9
Decrease (increase) in current-account receivables		95.6	(91.7)
Net financial investment		**(340.4)**	**(164.3)**
CASH FLOW USED IN INVESTING ACTIVITIES	**- II -**	**(349.7)**	**(191.9)**
Dividend distributions	Note 13	(296.8)	(234.0)
Increase in share capital (exercise of subscription options)		45.7	116.1
Increase in borrowings		600.0	27.1
Decrease in borrowings		(641.8)	(5.0)
Increase (decrease) in current-account payables		345.7	580.6
CASH FLOW FROM FINANCING ACTIVITIES	**- III -**	**52.8**	**484.8**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**I + II + III**	**233.3**	**898.4**
Cash and cash equivalents at the beginning of the period		2,949.8	2,051.4
Cash and cash equivalents at the end of the period		**3,183.1**	**2,949.8**

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

(in € millions)	Number of shares outstanding (in thousands)	Share capital	Issue premiums	Retained earnings	Profit for the year	Total shareholders' equity
At 1 January 2015	**207,841**	**623.5**	**3,889.9**	**720.6**	**662.9**	**5,896.9**
Allocation of 2014 profit	–	–	–	662.9	(662.9)	0.0
Dividend distribution (see Note 13.2)	–	–	–	(234.0)	–	(234.0)
Capital increase	3,120	9.4	105.5	–	–	114.9
2015 profit	–	–	–	–	871.9	871.9
At 31 December 2015	**210,961**	**632.9**	**3,995.4**	**1,149.5**	**871.9**	**6,649.7**
Allocation of 2015 profit	–	–	–	871.9	(871.9)	0.0
Dividend distribution (see Note 13.2)	–	–	–	(296.8)	–	(296.8)
Capital increase	1,234	3.7	41.5	–	–	45.2
2016 profit	–	–	–	–	431.1	431.1
At 31 December 2016	**212,195**	**636.6**	**4,036.9**	**1,724.6**	**431.1**	**6,829.2**

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

All the amounts in these notes are expressed in millions of euros (€m), with the exception of information related to numbers of employees and shares. The parent company financial statements for the year ended 31 December 2016 have been prepared in accordance with the same accounting principles applied in 2015.

NOTE 1. ACCOUNTING PRINCIPLES

Thales is a French public limited company (*société anonyme*) and the parent company of Thales Group.

The parent company financial statements are prepared in accordance with the accounting principles applicable in France pursuant to the provisions of the French General Chart of Accounts (*Plan Comptable Général*) as defined in ANC Regulation 2014-03.

These principles are detailed in each note hereafter.

NOTE 2. CHANGE IN THALES' DIRECTLY OWNED INVESTMENTS

In 2016, Thales purchased the shares in Thales Canada Inc held by Thales Avionics SAS, Thales Overseas Ltd and Thales Nederland BV for €22.1 million, €8.6 million and €1.6 million, respectively. Thales Canada Inc is now wholly-owned by Thales.

Thales purchased Forges de Zeebrugge from Thales Defense Armements SAS for €26.2 million then increased the share capital by €8 million with the intention of acquiring the business of Thales Belgium SA.

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

NOTE 3. INCOME (LOSS) FROM OPERATIONS

In addition to its functions as a holding company (holding equity investments, managing 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.

3.1 Operating income

Consequently, operating income includes:

- rents re-billed to operating subsidiaries and sales of research, which represent the sales of the parent company (€233.3 million in 2016 and €208.6 million in 2015), mainly realised in France;
- royalties paid by subsidiaries for shared services, and re-billed expenses for general and specific services provided to the subsidiaries by the parent company.

3.2 Operating expenses

Operating expenses mainly include personnel expenses (employees of Thales parent company and directors), real estate rents and related services, and other external services (notably provided by Thales Global Services, which incorporates the Group's shared services).

NOTE 4. FINANCIAL INCOME (EXPENSE)

4.1 Accounting policies

Financial income (expense) mainly includes:

- interest expenses and finance costs on net debt;
- income and expenses related to Thales' directly owned investments (dividends and depreciation, see Note 8);
- the financial component of the increase in provisions for post-employment and other employee benefits (see Note 17);
- foreign exchange gains and losses (see Note 20).

1

4.2 Analysis of financial income (expense)

	Notes	2016	2015
NET INTEREST AND FINANCE COSTS		**(1.1)**	**(5.1)**
Interest and financial income:		**32.8**	**28.1**
Interest on Group company current-account receivables and loans to subsidiaries and associates		4.5	4.5
Interest on cash and cash equivalents		28.3	23.6
Interest and financial expenses:		**(48.4)**	**(46.9)**
Interest on Group company current-account payables and borrowings from subsidiaries and associates		(10.2)	(11.9)
Interest on bonds and other borrowings		(38.2)	(35.0)
Interest on interest rate swaps hedging borrowings		**14.5**	**13.7**
INCOME FROM INVESTMENTS	Note 24	**496.1**	**700.5**
OTHER FINANCIAL INCOME		**60.6**	**224.5**
Reversal of provisions related to associates [a]		53.1	192.9
Reversal of provisions for termination payments and other benefits	Note 17	1.2	16.4
Foreign exchange gains		0.3	12.1
Reversal of provisions for currency risks		1.7	–
Amounts recovered on clawback provisions		0.7	0.9
Other		3.6	2.2
OTHER FINANCIAL EXPENSES		**(92.1)**	**(70.8)**
Increase in provisions related to associates [a]		(58.4)	(36.2)
Increase in Thales Security Solutions & Services Company financial receivables [b]		–	(25.5)
Increase in provisions for termination payments and other benefits	Note 17	(10.6)	(1.5)
Foreign exchange losses		(18.3)	(2.6)
Increase in provisions for currency risks		–	(1.7)
Other		(4.8)	(3.3)
FINANCIAL INCOME (EXPENSE)		**463.5**	**849.1**

(a) Provisions related to subsidiaries and associates.
(b) Following the reversal of the provision for subsidiary risk for €23.9 million (see breakdown below).

	2016		2015	
	Reversal	Increase	Reversal	Increase
Provisions for impairment of equity investments:	**52.3**	**(48.5)**	**164.0**	**(34.6)**
Thales Holdings UK Plc	35.1	–	135.0	–
Thales Belgium SA	9.6	–	17.0	–
Thales Microelectronics SAS	1.2	–	–	(18.1)
Thales Avionics Electrical Systems SAS	–	(33.0)	–	–
Thales SESO SAS	–	(11.2)	–	(3.4)
Société de Marchands de Biens pour l'Electronique SAS	–	–	–	(7.3)
Avimo Group Ltd	4.3	–	10.5	–
CMT Medical Technologies Ltd	–	–	–	(3.4)
Other	2.1	(4.3)	1.5	(5.8)
Provisions for subsidiary risks (see Note 17.2)	**0.8**	**(9.9)**	**28.9**	**(1.6)**
Thales SESO SAS	–	(9.9)	–	–
Thales Security Solutions & Services Company	–	–	23.9	–
Société de Marchands de Biens pour l'Electronique SAS	–	–	4.5	–
Other	0.8	–	0.5	(1.6)
TOTAL	**53.1**	**(58.4)**	**192.9**	**(36.2)**

NOTE 5. NON-RECURRING INCOME (EXPENSE)

5.1 Accounting policies

Non-recurring income (expense) includes:

- restructuring costs, which primarily relate to severance payments, redundancy payments, costs for notice periods not worked and other costs linked to the closure of facilities such as site rehabilitation or asset write-offs. These costs and the costs directly linked to restructuring measures (removal costs, training costs for transferred employees, etc.) are recognised as restructuring costs in the income statement;
- capital gains or losses on disposals, particularly of businesses or equity investments. As an exception to the guidelines of the French General Chart of Accounts and in order to give a more accurate presentation of these transactions, reversals of provisions for impairment of equity investments and reversals of provisions for subsidiary risks are included in income from disposals;
- other income and expenses arising on events that are unusual as regards their frequency, nature or amount.

5.2 Analysis of non-recurring income (expense)

	2016	2015
Restructuring costs	**(7.7)**	**(8.5)**
Capital gains or losses on disposals:	**(13.0)**	**17.8**
Reimbursement of Thales Suisse capital	(13.7)	–
Disposal of Thales Université SAS	(3.4)	–
Disposal of Thales Geodis Freight & Logistics SA	3.6	–
Disposal of treasury shares as part of the liquidity contract	1.6	1.6
Transfer of treasury shares as part of the employee share purchase plan	0.8	12.9
Disposal of Thales Programas, Electronica y Comunicaciones SA	–	3.9
Disposal of Cloudwatt	–	1.1
Other	(1.9)	(1.7)
Reversal (increase) in provisions for non-recurring risks	**3.5**	**(10.1)**
NON-RECURRING INCOME (EXPENSE)	**(17.2)**	**(0.8)**

NOTE 6. INCOME TAX

6.1 General framework and accounting principles

Since 1 January 1992, Thales has opted for the Group tax consolidation regime. Thales is the head of a tax consolidation group that includes the majority of its French subsidiaries pursuant to the tax regime provided by Article 223A of the French Tax Code.

In accordance with the tax consolidation agreement entered into between Thales and its subsidiaries, each subsidiary in the tax group records the amount of tax it would have paid had they been taxed separately. Any tax savings arising on the use of tax losses of subsidiaries are recorded by the parent company and recognised in the income statement. However, the parent company may have to record a corresponding tax expense, if and when these subsidiaries return to profit and are able to deduct the losses as they would have done had they been taxed separately.

The income tax rate for 2016 decreased to 34.43% from 38% in 2015, following the decision not to renew the 10.7% surtax in 2016. Tax loss carryforwards are attributable up to the limit of 50% of taxable profit in excess of €1 million. In addition, since 17 August 2012, French companies have been subject to a 3% tax on dividend distributions.

Thales also benefits from tax credits related to its research and development activities at the Palaiseau site, which are recorded against income tax expense.

6.2 Current tax

The income tax benefit breaks down as follows:

	2016	2015
Income tax benefit received from tax-group subsidiaries	173.4	127.7
Income tax due to the French State	(109.8)	(54.7)
Income tax benefit resulting from tax consolidation	**63.6**	**73.0**
3% tax on dividends from tax-group subsidiaries	12.3	18.1
3% tax on dividends due to the French State	(8.9)	(7.0)
Benefit on tax on dividends resulting from tax consolidation	**3.4**	**11.1**
Research tax credit (CIR)	7.7	7.6
Prior period adjustments and other taxes	3.3	2.1
INCOME TAX BENEFIT	**78.0**	**93.8**

In 2016 as in 2015, no non-deductible general expenses were reintegrated as a result of a tax audit. Expenditure excluded from deductible expenses in accordance with Articles 223 *quater* and 39.4 of the French Tax Code amounted to €0.2 million in both 2016 and 2015, reflecting excess amortisation of vehicles.

6.3 Deferred tax

The Company has available future tax savings due to:

- temporary differences arising on the different tax and accounting treatments of income and expenses (€128.0 million at 31 December 2016 compared with €127.6 million at 31 December 2015). They mainly reflect provisions for contingencies and losses, in particular provisions for post-employment benefits, which are not deductible for tax purposes; and
- tax loss carryforwards, which amounted to €86.4 million for the tax consolidation group at 31 December 2015. There were no remaining tax loss carryforwards at 31 December 2016.

The corresponding deferred tax is not recognised.

NOTE 7. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

7.1 Accounting policies

Intangible assets (mainly software) and property, plant and equipment are recognised at their acquisition cost in the balance sheet. They are amortised or depreciated on a straight-line or declining-balance basis, over the period of their estimated useful lives (20 years for buildings and 3 to 10 years for other assets).

Any non-current assets held under finance leases or hire purchase agreements are not recognised and are reported in off-balance sheet commitments.

7.2 Breakdown

	31/12/2016			31/12/2015		
	Gross	Cumulated amort. and depr.	Net	Gross	Cumulated amort. and depr.	Net
Intangible assets	**18.8**	**(18.7)**	**0.1**	**18.7**	**(18.7)**	**–**
Buildings	201.5	(109.5)	92.0	209.3	(102.5)	106.8
Industrial plant, equipment and machinery	44.0	(41.0)	3.0	44.6	(41.8)	2.7
Other property, plant and equipment	36.0	(10.7)	25.3	31.2	(8.6)	22.6
Property, plant and equipment	**281.5**	**(161.2)**	**120.3**	**285.1**	**(152.9)**	**132.2**
TOTAL	**300.3**	**(179.9)**	**120.4**	**303.8**	**(171.6)**	**132.2**

7.3 Change in net intangible assets and property, plant and equipment

	Intangible assets	Property, plant and equipment	Total
Net value at 1 January 2015	**0.1**	**134.3**	**134.4**
Acquisitions	0.1	27.5	27.8
Depreciation and amortisation	(0.2)	(22.6)	(22.8)
Other	–	(7.0)	(7.0)
Net value at 31 December 2015	**–**	**132.2**	**132.2**
Acquisitions	0.2	10.0	10.2
Disposals	–	(0.9)	(0.9)
Depreciation and amortisation	(0.2)	(20.7)	(20.9)
Other	0.1	(0.3)	(0.2)
NET VALUE AT 31 DECEMBER 2016	**0.1**	**120.3**	**120.4**

NOTE 8. EQUITY INVESTMENTS

8.1 Accounting policies

Equity investments are recorded at cost price and related acquisition costs are recognised in the income statement. In the event that the carrying value exceeds value in use, a provision for impairment is recorded for the difference.

Value in use is determined based on profitability forecasts, the underlying assets, recent transactions or the market price of any listed securities.

The profitability forecasts are determined on the basis of expected future cash flows set out in the three-year strategic plans and a terminal value.

The assumptions used are prudent with forecast growth in sales and terminal values limited to 2%.

The discount rate used is calculated on the basis of the Group's weighted average cost of capital (8.5% in 2016 as in 2015), adjusted if necessary for the specific risks attributable to each equity investment. This rate is mainly based on the market risk-free rate, risk factors inherent in the Group's businesses, the Group's marginal borrowing rate and specific risks for which cash flows have not been adjusted.

Impairment tests are carried out annually at year-end in line with the Group's internal schedule for the preparation of Group entity strategic plans.

8.2 Change in equity investments

A breakdown of equity investments is presented in Note 24. Changes are presented below:

	Notes	Gross	Impairment	Net
VALUE AT 1 JANUARY 2015		**9,980.1**	**(1,493.0)**	**8,487.1**
Acquisitions/capital subscriptions and transactions		**96.3**		**96.3**
Increase in capital of Thales USA Inc		84.8	–	84.8
Increase in capital of SMBPE SAS		7.4	–	7.4
Release of capital of Cloudwatt		1.3	–	1.3
Other		2.8	–	2.8
Disposals		**(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 provisions for impairment	Note 4	**–**	**(34.6)**	**(34.6)**
Reversal of provisions for impairment	Note 4	**–**	**164.0**	**164.0**
Other		**(58.1)**	**31.4**	**(26.7)**
VALUE AT 31 DECEMBER 2015		**10,005.5**	**(1,332.2)**	**8,673.3**

	Notes	Gross	Impairment	Net
Acquisitions/capital subscriptions and transactions		**147.4**	**–**	**147.4**
Increase in capital of Thales Avionics Electrical Systems SAS		76.0	–	76.0
Purchase and increase in capital of Forges de Zeebrugge		34.2	–	34.2
Increase in capital of Thales Université SAS		5.0	–	5.0
Acquisition of shares in Thales Canada Inc		32.2	–	32.2
Disposals		**(21.7)**	**–**	**(21.7)**
Sale of Thales Geodis Freight & Logistics SA		(5.7)	–	(5.7)
Reimbursement of capital of Thales Suisse		(16.0)	–	(16.0)
Increase in provisions for impairment	Note 4	**–**	**(48.5)**	**(48.5)**
Reversal of provisions for impairment	Note 4	**–**	**52.3**	**52.3**
Other		**(41.1)**	**25.9**	**(15.2)**
VALUE AT 31 DECEMBER 2016		**10,090.1**	**(1,302.5)**	**8,787.6**

NOTE 9. OTHER FINANCIAL INVESTMENTS

9.1 Accounting policies

Other financial investments mainly include loan agreements signed by Thales with its direct or indirect subsidiaries and associates. These loans are presented separately from the current-account agreements, which are used in the daily management of cash requirements or surpluses (see Note 10).

Other financial investments also include deposits paid as part of real estate commitments and other financial receivables. An impairment loss is recognised depending on the risk of non recovery.

9.2 Breakdown

	31/12/2016			31/12/2015		
	Gross value	Impair-ment	Net value	Gross value	Impair-ment	Net value
Loans to direct subsidiaries and associates (see Note 24)	27.1	(25.5)	1.6	29.0	(26.4)	2.6
Loans to other Group subsidiaries	64.8	–	64.8	39.0	–	39.0
Loans to other Group associates	6.3	–	6.3	8.8	–	8.8
Other financial investments	11.0	(1.6)	9.4	21.9	(4.2)	17.7
TOTAL	**109.2**	**(27.1)**	**82.1**	**98.7**	**(30.6)**	**68.1**

9.3 Breakdown by maturity and by currency

Breakdown by maturity	31/12/2016	31/12/2015
Less than 1 year	60.9	46.9
From 1 to 5 years	12.7	14.3
More than 5 years	8.5	6.9
TOTAL	**82.1**	**68.1**

Breakdown by currency	31/12/2016	31/12/2015
Euro	48.8	47.7
South African rand	22.3	12.5
Chinese yuan	8.3	6.4
Other currencies	2.7	1.5
TOTAL	**82.1**	**68.1**

NOTE 10. GROUP COMPANY CURRENT ACCOUNTS

10.1 General framework and accounting principles

The Group company current-account amounts presented in the parent company balance sheet represent the receivables and payables between the parent company and its subsidiaries as part of the Group's cash pooling organisation.

Under this centralised system, the cash surpluses of subsidiaries are generally transferred to the parent company. In return, the parent company ensures that the cash requirements of its subsidiaries are met. Except in special cases, this system is applied to all subsidiaries in which Thales exercises majority control.

Group company current-account receivables and payables are always recognised as due within one year.

10.2 Current-account receivables

	31/12/2016	31/12/2015
Amounts due from direct subsidiaries and associates (see Note 24)	758.0	826.4
Amounts due from other subsidiaries	117.8	139.3
TOTAL	**875.8**	**965.7**

10.3 Current-account payables

	31/12/2016	31/12/2015
Amounts deposited by direct subsidiaries and associates (see Note 24)	4,097.5	3,867.4
Amounts deposited by Thales Alenia Space (France and Italy)	185.7	284.3
Amounts deposited by Thales Australia Ltd	319.1	285.7
Amounts deposited by other Group subsidiaries	623.5	491.7
TOTAL	**5,225.8**	**4,929.1**

NOTE 11. CASH AND OTHER INVESTMENTS

11.1 Accounting policies

Cash and cash equivalents include cash at bank and in hand as well as short-term, liquid investments that are easily converted into a known amount of cash and exposed to negligible risk of a change in value.

11.2 Cash and cash equivalents

Cash and cash equivalents amounted to €3,183.1 million at 31 December 2016 compared with €2,949.8 million at 31 December 2015. This amount includes €2,886.2 million (€2,585.2 million at year end 2015) of term deposits, euro-denominated money-market funds ("SICAV"), negotiable debt securities, and other investments with maturities of less than three months.

11.3 Other investments

Other investments correspond to term deposits with first-tier banks with maturities of 3 to 12 months.

NOTE 12. BORROWINGS

12.1 Accounting policies

Bonds are recognised at their redemption value. Any issue or redemption premiums are recognised under the corresponding balance sheet line item and taken to financial income (expense) on a straight-line basis. Bond issue expenses are recognised on a straight-line basis over the term of the bond.

12.2 Breakdown of borrowings

	Nominal rate	Variable rate swaps	31/12/2016	31/12/2015
Bonds maturing in June 2023	Fixed 0.75%	€400 million	600.0	–
Bonds maturing in March 2021	Fixed 2.25%	€300 million	300.0	300.0
Bonds maturing in March 2018	Fixed 1.63%	€300 million	500.0	500.0
Bonds maturing in October 2016	Fixed 2.75%	€400 million	–	600.0
Other borrowings			45.0	45.5
Accrued interest			14.2	15.0
GROSS BORROWINGS			**1,459.2**	**1,460.5**

At 31 December 2016, no material Group financing was subject to covenants requiring accelerated or early repayment based on the Group's credit rating or financial ratios.

At 31 December 2016, confirmed and undrawn credit facilities agreed with a pool of banks amounted to €1,500 million, expiring in 2021. These credit facilities are used as a backup to the commercial paper programme and as a financial reserve. The related agreement states that in the event that the French State no longer holds its golden share and the consolidated net debt/EBITDA ratio[1] also exceeds 3, early repayment clauses will apply.

12.3 Breakdown of borrowings by maturity and by currency

Breakdown by maturity	31/12/2016	31/12/2015
Less than 1 year	59.2	660.5
From 1 to 5 years	800.0	500.0
More than 5 years	600.0	300.0
TOTAL	**1,459.2**	**1,460.5**

Breakdown by currency	31/12/2016	31/12/2015
Euro	1,425.3	1,426.0
Singapore dollar	33.9	34.5
TOTAL	**1,459.2**	**1,460.5**

(1) EBITDA represents operating income before depreciation, amortisation and impairment of current, non-current and intangible assets, less impairment of goodwill, in accordance with accepted French accounting principles.

NOTE 13. SHAREHOLDERS' EQUITY

13.1 Share capital

Thales' share capital of €636,584,298 at 31 December 2016, is composed of 212,194,766 shares with a par value of €3 each, compared with 210,961,404 shares at 31 December 2015. This represents an increase of 1,233,362 shares resulting from the exercise of share subscription options. The breakdown of share capital is presented below:

			31/12/2016			31/12/2015
	Number of shares	% of share capital	% of voting rights	Number of shares	% of share capital	% of voting rights
TSA	54,786,654	25.82%	35.86%	54,786,654	25.97%	36.04%
French State (including 1 golden share)	2,060	–	–	2,060	–	–
Public sector [a]	54,788,714	25.82%	35.86%	54,788,714	25.97%	36.04%
Dassault Aviation [b]	52,531,431	24.76%	28.53%	52,531,431	24.90%	28.67%
Thales [c]	749,559	0.35%	–	839,254	0.40%	–
Employees	5,743,081	2.71%	3.31%	5,684,120	2.69%	3.24%
Other shareholders	98,381,981	46.36%	32.30%	97,117,855	46.04%	32.05%
TOTAL [d]	**212,194,766**	**100.00%**	**100.00%**	**210,961,404**	**100.00%**	**100.00%**

(a) Under the terms of the shareholders' agreement with Dassault Aviation (the "Industrial Partner"), the "public sector" (the French State) is represented by the company TSA, excluding the State directly. All Thales shares held directly and indirectly by the French State have been directly registered for more than two years and thus have a double voting right as at 31 December 2016.
(b) As at 31 December 2016, Dassault Aviation has held 34,654,349 shares in directly registered form for more than two years, thus granting it double voting rights, and holds 17,877,082 shares in bearer form.
(c) Treasury shares represented 50,000 bearer shares held under a liquidity contract and 699,559 directly registered shares.
(d) During 2016, 1,233,362 new shares bearing rights from 1 January 2016 were created as a result of the exercise of share subscription options.

At 31 December 2016, there are no securities giving access to the Company's capital, with the exception of the share subscription options described in the Note below.

13.2 Reserves and retained earnings

	31/12/2015	Allocation of 2015 profit	Balance of 2015 dividend	2016 interim dividend	31/12/2016
Legal reserve	62.4	0.9	–	–	63.3
Blocked reserve	8.3	–	–	–	8.3
Ordinary reserve	128.9	–	–	–	128.9
Other reserves	0.3	–	–	–	0.3
Retained earnings	949.6	871.0	(212.2)	(84.6)	1,523.8
TOTAL	**1,149.5**	**871.9**	**(212.2)**	**(84.6)**	**1,724.6**

Thales allocated €285.6 million of the profit for the 2015 financial year to dividends (€1.36 per share), paying a €73.4 million interim dividend in December 2015, and the balance of €212.2 million in June 2016. Thales paid a €84.6 million interim dividend in December 2016 in respect of the 2016 financial year.

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NOTE 14. TREASURY SHARES

14.1 Accounting policies

Thales carries out transactions in its own shares in accordance with the authorisations granted to the Board of Directors by the Annual General Meeting.

At year-end, treasury shares are recognised and measured on the basis of their assigned function:

- treasury shares that have not been assigned are recorded under other financial investments at their acquisition cost. At the reporting date, an impairment loss is recognised if their carrying value exceeds the average stock market price for December;
- treasury shares assigned to a free share plan are recorded under marketable securities, either at their acquisition cost if the shares were assigned from the beginning of the plan, or at their net carrying value at the reclassification date if they were assigned after their acquisition.

These treasury shares are not measured at market value because they are set aside to be granted to employees. Consequently:

- shares allocated to parent company (Thales) employees are amortised on a straight-line basis over the term of the plan (48 months) through an increase in provisions for contingencies and losses recorded in liabilities,
- shares allocated to other Group employees are maintained at historical cost, as they will be re billed to the relevant subsidiaries for the same amount.

14.2 Change in treasury shares

Change in the number of treasury shares

At 31 December 2016, Thales held 749,559 treasury shares, including 126,044 shares (0.10% of share capital) that were freely transferable, and 623,515 shares (0.30% of share capital) assigned to the 17 September 2013 free share plan.

			2016			2015
	Freely transferable treasury shares	Treasury shares assigned to plans	Total treasury shares	Freely transferable treasury shares	Treasury shares assigned to plans	Total treasury shares
At 1 January	**215,830**	**623,424**	**839,254**	**700,294**	**1,176,438**	**1,876,732**
Purchases under the liquidity contract	513,001	–	513,001	807,144	–	807,144
Disposals under the liquidity contract	(472,001)	–	(472,001)	(822,144)	–	(822,144)
Transfer to employees under the employee share purchase plan	(41,714)	–	(41,714)	(457,596)	–	(457,596)
Stock market purchases	76,044	498,956	575,000	–	–	–
Delivery of free shares	–	(607,381)	(607,381)	–	(535,532)	(535,532)
Exercise of stock options	(56,600)	–	(56,600)	(29,350)	–	(29,350)
Reclassified shares	(108,516)	108,516	–	17,482	(17,482)	–
Net change	**(89,786)**	**91**	**(89,695)**	**(484,464)**	**(553,014)**	**(1,037,478)**
At 31 December	**126,044**	**623,515**	**749,559**	**215,830**	**623,424**	**839,254**

Change in the value of treasury shares

Freely transferable treasury shares	2016	2015
At 1 January	**8.2**	**24.9**
Purchases under the liquidity contract	39.4	43.7
Disposals under the liquidity contract	(35.4)	(44.2)
Transfer to employees under the employee share purchase plan	(1.6)	(15.6)
Exercise of stock options	5.1	(1.0)
Reclassified shares	(4.1)	0.4
At 31 December	**11.6**	**8.2**
Of which, acquisition cost	11.6	8.2
Of which, impairment	–	–
Average share price for December	€91.16	€69.44

Treasury shares assigned to plans	2016	2015
At 1 January	**17.0**	**34.0**
Delivery of free shares	(16.6)	(16.6)
Stock market purchases	45.5	–
Reclassified free shares	4.1	(0.4)
At 31 December	**50.0**	**17.0**
Provisions for contingencies and losses	(18.1)	(6.3)

NOTE 15. FREE SHARE PLANS AND STOCK OPTIONS GRANTED TO EMPLOYEES

At 31 December 2016, the following options, shares and units were outstanding:

- 40,850 stock options at a weighted average exercise price of €44.64;
- 1,320,693 share subscription options at a weighted average exercise price of €36.01, of which 236,472 are subject to performance conditions;
- 859,445 free shares, of which 374,405 are subject to performance conditions;
- 1,270,140 units, of which 497,200 are subject to performance conditions;
- 77,340 phantom shares, granting the right to a cash payment after a four-year vesting period, of which 37,910 are subject to performance conditions.

15.1 Outstanding stock option plans

Date of Board decision	Exercise period	Exercise price at the grant date	Number of options outstanding at 31/12/2015	Options exercised in 2016	Number of options outstanding at 31/12/2016
25/11/2008	from 25/11/2012 to 24/11/2018	€38.50	8,450	(7,600)	850
04/07/2007	from 04/07/2011 to 03/07/2017	€44.77	80,000	(40,000)	40,000

15.2 Outstanding share subscription options

Date of Board decision	Exercise period	Exercise price at grant date	Number of options outstanding at 31/12/2015	Options exercised in 2016	Options cancelled in 2016	Number of options outstanding at 31/12/2016
15/09/2011 [a]	from 15/09/2015 to 14/09/2021	€26.34	224,833	(98,511)	–	126,322
23/09/2010 [a]	from 23/09/2014 to 22/09/2020	€26.34	175,115	(63,765)	(1,200)	110,150
25/06/2009	from 25/06/2013 to 24/06/2019	€32.88	514,699	(150,895)	(1,220)	362,584
01/07/2008	from 01/07/2012 to 30/06/2018	€38.50	659,215	(193,168)	(2,810)	463,237
04/07/2007	from 04/07/2011 to 03/07/2017	€44.77	501,615	(240,635)	(2,580)	258,400
09/11/2006	from 09/11/2010 to 08/11/2016	€36.47	540,388	(486,388)	(54,000)	–

(a) Subject to the achievement of internal performance targets over the three financial years following the grant date.

Options granted and exercised in 2016

	Number of options granted/ shares subscribed or purchased	Exercise price	Date of plan
1. Directors			
Options granted in 2016	None		
2. The 10 largest grants of options to employees			
Options granted in 2016	None		
3. The 10 largest exercises of options by employees [a]			
Options exercised in 2016	13,000	€38.50	01/07/2008
	12,000	€32.88	25/06/2009
	11,000	€38.50	01/07/2008
	10,000	€26.34	23/09/2010
	8,091	€26.34	15/09/2011
	8,000	€38.50	01/07/2008
	7,200	€36.47	09/11/2006
	6,473	€26.34	15/09/2011
	6,473	€26.34	15/09/2011
	6,000	€36.47	09/11/2006

(a) For all Group companies combined.

15.3 Free share plans

Date of Board decision	Vesting period	Share price at grant date	Number of free shares at 31/12/2015	Shares granted in 2016	Shares cancelled in 2016	Shares delivered in 2016	Number of free shares at 31/12/2016
06/09/2016	from 27/10/2016 to 27/10/2020	€83.10	– –	88,020 148,070 [(a)]	(160) –	– –	87,860 148,070
17/09/2013	from 17/09/2013 to 17/09/2017	€39.16	406,010 235,043 [(a)(b)]	– –	(8,830) (8,708) [(b)]	– –	397,180 226,335
20/12/2012	from 20/12/2012 to 20/12/2016	€27.47	449,620 173,804 [(a)]	– –	(10,900) (5,143)	(438,720) (168,661)	– –

(a) Subject to the achievement of internal performance targets over the three financial years following the grant date.
(b) Number of free shares outstanding at 31 December 2015 under the 2013 free share plan corrected to include 1,340 shares cancelled in error.

15.4 Plans in units indexed to the value of the Thales share

Date of the allocation decision	Vesting period	Unit price at grant date	Number of units at 31/12/15	Units cancelled in 2016	Units delivered in 2016	Number of units at 31/12/2016
17/09/2015	from 17/09/2015 to 17/09/2019	€61.75	375,870 232,000 [(a)]	(8,070) (2,800)	(70) –	367,730 229,200
16/09/2014	from 16/09/2014 to 16/09/2018	€42.42	417,040 275,600 [(a)]	(11,590) (7,600)	(240) –	405,210 268,000

(a) Subject to the achievement of internal performance targets over the three financial years following the grant date.

15.5 Phantom shares indexed to the value of the Thales share

Date of the allocation decision	Vesting period	Number of phantom shares at 31/12/15	Phantom shares granted in 2016	Phantom shares cancelled in 2016	Number of phantom shares at 31/12/16
27/10/2016	from 27/10/2016 to 27/10/2020	–	40,620 38,900 [(a)]	(1,190) (990)	39,430 37,910

(a) Subject to the achievement of internal performance targets over the three financial years following the grant date.

NOTE 16. RECEIVABLES AND PAYABLES

16.1 Accounting policies

Receivables and payables denominated in foreign currencies are generally hedged and are consequently translated at the hedged foreign exchange rate.

The Thales parent company hedges currency risks related to contracts or normal commercial transactions on behalf of its subsidiaries. At each reporting date:

- derivative instruments subscribed by Thales (parent company) with bank counterparties are measured at market value and presented as an asset or a liability in the balance sheet under "Translation difference and exchange rate adjustments";
- exchange guarantees granted to subsidiaries are measured at market value and presented as an asset or a liability in the balance sheet under "Translation difference and exchange rate adjustments".

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

16.2 Breakdown of receivables and payables

			31/12/2016	31/12/2015
	Gross	Provisions	Net	Net
Advances to suppliers	**0.1**	**–**	**0.1**	**2.7**
Trade receivables	**190.5**	**(1.7)**	**188.8**	**179.1**
Other receivables	**733.1**	**–**	**733.1**	**804.0**
Income tax receivables from the French State (mainly research tax credits)	320.7	–	320.7	357.5
Translation difference and exchange rate adjustments	356.5	–	356.5	399.6
Tax and social security receivables	27.2	–	27.2	24.1
Other	28.7	–	28.7	22.8
TOTAL	**923.7**	**(1.7)**	**922.0**	**985.8**
Advances received on contracts in progress	**18.8**	**–**	**18.8**	**16.3**
Trade payables	**99.5**	**–**	**99.5**	**60.3**
Other liabilities	**471.6**	**–**	**471.6**	**520.5**
Tax liabilities towards consolidated subsidiaries	152.1	–	152.1	161.4
Translation difference and exchange rate adjustments	187.5	–	187.5	237.0
Tax payables, excluding income tax and social security	82.0	–	82.0	85.4
Other	50.0	–	50.0	36.7
TOTAL	**589.9**	**–**	**589.9**	**597.1**

16.3 Breakdown of receivables and payables by maturity at 31 December 2016

	Net	Maturity		
		Less than 1 year	From 1 to 5 years	More than 5 years
Advances to suppliers	0.1	0.1	–	–
Trade receivables	188.8	188.8	–	–
Other receivables	733.1	505.5	227.6	–
TOTAL RECEIVABLES	**922.0**	**694.4**	**227.6**	**–**
Advances received on contracts in progress	18.8	18.8	–	–
Trade payables	99.5	99.5	–	–
Other liabilities	471.6	357.4	99.6	14.6
TOTAL PAYABLES	**589.9**	**475.7**	**99.6**	**14.6**

NOTE 17. PROVISIONS FOR CONTINGENCIES AND LOSSES

17.1 Accounting policies

The Group records a provision when it recognises a legal or constructive obligation resulting from a past event for which an outflow of resources will be required and a reliable estimate can be made of the amount. Provisions are generally recorded for the following:

Provisions for post-employment and other employee benefits

The financing of post-employment obligations mainly involves contributions to State plans (social security, compulsory additional plans such as ARRCO and AGIRC, etc.) for which the recognised expense for the financial year is equal to the amounts paid.

The Company grants its employees termination payments and other long-term benefits (long-service awards and an additional week of paid holidays during the employee's 35th year of service within the Group). Some senior executives also benefit from a supplementary pension plan.

In accordance with ANC Regulation 2013-02, a provision is recognised for obligations that qualify as defined benefit plans. It is calculated on the basis of an actuarial valuation, determined using the projected unit credit method and taking into account future salary levels.

This method consists in assessing for each employee, the present value of the benefits that he or she can expect at the due date, by applying assumptions concerning discount rates, inflation, mortality and staff turnover.

These plans are recognised in the Company's financial statements as follows:

- the service cost, which corresponds to the increase in the obligation during the reporting period, is recognised in income (loss) from operations;
- the costs of unwinding the net obligation as well as actuarial gains and losses due to changes in assumptions and experience adjustments are recognised in financial income (expense);
- the impact of plan amendments following renegotiations of employee benefits is recognised in non recurring income (expense).

Provisions for subsidiary risks

Equity investments held by Thales are measured at the end of each reporting period and an impairment loss is recorded if necessary. In the event that the investment is fully written down and Thales' share in the equity of the subsidiary or associate becomes negative, a provision for subsidiary risks may be recognised when considered necessary.

Provisions for restructuring

Provisions for restructuring costs are recorded when a restructuring programme has been agreed with a third party, approved by Group management and announced before the reporting date, resulting in an obligation to the third parties in question, and for which the Group does not expect any consideration for the costs.

17.2 Breakdown of provisions

	31/12/2015	Increase	Reversal	Reclassification	31/12/2016
Post-employment and other employee benefits (see Note 17.3)	99.3	16.2	(10.4)	–	105.1
Subsidiary risks	3.3	9.9	(0.8)	(1.6)	10.8
Restructuring	4.8	10.0	(6.5)	–	8.3
Free shares	6.3	18.1	(6.3)	–	18.1
Other	58.6	2.3	(5.4)	–	55.5
TOTAL	**172.3**	**56.5**	**(29.4)**	**(1.6)**	**197.8**

17.3 Post-employment and other employee benefits

The provisions in the balance sheet can be analysed as follows:

			2016
	Post-employment benefits	Other employee benefits	Total
Provisions at 31 December 2015	**(96.0)**	**(3.3)**	**(99.3)**
Net increase in provisions of which:	**(5.6)**	**(0.2)**	**(5.8)**
Current service cost	(4.4)	(0.2)	(4.6)
Financial expense:	(9.1)	(0.3)	(9.4)
• Net interest	(1.9)	(0.1)	(2.0)
• Actuarial gains (losses)	(7.2)	(0.2)	(7.4)
Benefits and contributions paid	5.6	0.3	5.9
Other	2.3	–	2.3
Provisions at 31 December 2016	**(101.6)**	**(3.5)**	**(105.1)**
Of which:			
• Obligations	(148.7)	(3.5)	(152.2)
• Plan assets	47.1	–	47.1

The actuarial assumptions used to estimate the obligation are the following:

	31/12/2016	31/12/2015
Discount rate	1.50%	2.03%
Inflation rate	1.40%	1.60%
Average salary increase rate	2.38%	2.20%
Expected average remaining working life	7 years	7 years

NOTE 18. LEGAL AND ENVIRONMENTAL RISKS

18.1 Legal risks

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

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 Group'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 shared customer claiming an amount which allegedly should be no less than $260 million 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 of the parties in June 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. Accordingly, Thales has not set aside a provision in respect of this dispute. Proceedings are ongoing.

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.

18.2 Environmental risks

Due to the nature of its business, Thales is exposed to environmental risks related to potential adverse environmental and health effects resulting from its activities, the impact of the environment on its operations and non-compliance with new regulations applicable to its activities and products.

For many years, Thales has regularly analysed and updated its environmental risks on the basis of its business activities, scientific and technical developments and emerging environmental challenges.

This analysis, represented by risk mapping, is intended to:

- ensure that employees and local residents are not exposed to health and environmental risks;
- ensure the compliance of its activities and products;
- analyse the impact of new regulations, including on product design;
- identify an appropriate organisational structure 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 environmental impacts of the Group's products and activities. This management system is deployed throughout the different business lines as part of the Group's framework. Consequently, environmental skills and know-how have been rolled out to services such as engineering, research, procurement and contracts.

At 31 December 2016, provisions for environmental risks amounted to €1.0 million.

NOTE 19. OFF-BALANCE SHEET COMMITMENTS

19.1 Deposits and guarantees

Commitments given:	31/12/2016	31/12/2015
Guarantees given by Thales under commercial contracts signed by operating entities	9,828.7	10,794.9
Guarantees given to banks for facilities granted to subsidiaries	2,216.9	2,189.0
Counter-guarantee given to trustees to hedge pension obligations in the United Kingdom	974.0	1,146.8
Other guarantees given to Group subsidiaries	801.8	438.8
Other guarantees given to third parties	677.5	557.6
Total [(a)]	**14,498.9**	**15,127.1**
Of which, related to direct subsidiaries (see Note 24)	4,576.4	4,508.2
Of which, related to other Group subsidiaries	9,632.8	10,164.8
Of which, related to direct and indirect associates	289.8	454.1

Commitments received:	31/12/2016	31/12/2015
Debt write-offs granted to related companies with clawback provisions	120.1	120.8

(a) The decrease in guarantees given from 2015 to 2016 is explained in part by changes in exchange rates (€248 million).

19.2 Commitments to lease properties

	31/12/2016	31/12/2015
Operating leases	608.4	649.5
Less than 1 year	120.9	112.4
From 1 to 5 years	326.7	329.4
More than 5 years	160.8	207.7

NOTE 20. MARKET RISKS

20.1 Accounting policies

The Thales parent company Treasury and Financing department is active in the financial markets in order to reduce the interest rate and foreign exchange risks of the Group.

Interest rate derivatives

Thales uses interest rate derivatives to manage and reduce its exposure to interest rate fluctuations. When the derivatives are designated as hedging instruments, the gains and losses on the hedge are recognised in the same period as the hedged item.

Currency derivatives

Thales hedges currency risks arising on commercial offers entered into by its subsidiaries, which are denominated in currencies other than the main operating currency. The gains and losses on currency derivatives subscribed by Thales with bank counterparties are recognised in the income statement. A provision is recorded in the event that the valuation of Thales' commitment to hedge the offers of its operating subsidiaries is negative.

Thales hedges currency risks related to firm contracts and normal commercial transactions on behalf of its subsidiaries. As such, it guarantees its operating subsidiaries a specific exchange rate for each transaction and backs up its position by arranging currency derivatives with banking counterparts. Both the unrealised and realised gains and losses, on the bank derivatives and the subsidiaries' guarantees, are recognised symmetrically in the income statement.

Thales hedges the currency risks related to its cash pooling system. The gains and losses on currency derivatives are offset by the gains and losses resulting from the revaluation of the hedged Group company current accounts and loans. However, gains or losses related to the derivatives' swap points are spread over the term of the hedge.

In some cases, Thales hedges the property liability risks on its net foreign assets. The gains and losses on currency derivatives are recognised in the balance sheet under "Translation difference and exchange rate adjustments" (see Note 16), with the exception of the gains or losses related to the derivatives' swap points, which are spread over the term of the hedge.

20.2 Interest rate risk management

At 31 December 2016 and 2015, Thales held the following derivative instruments, which all qualify as hedges.

	31/12/2016		31/12/2015	
	Nominal	Market value	Nominal	Market value
Fixed-for-floating interest rate swaps:				
• swaps backing bonds maturing in 2023	400.0	0.1	–	–
• swaps backing bonds maturing in 2021	300.0	21.6	300.0	19.9
• swaps backing bonds maturing in 2018	300.0	6.2	300.0	8.1
• swaps backing bonds maturing in 2016	–	–	400.0	8.2
TOTAL	**1,000.0**	**27.9**	**1,000.0**	**36.2**
Floating-for-fixed interest rate swaps:				
• swap backing a loan maturing in 2019	6.3	(0.2)	8.7	(0.4)
• cross currency swap backing a loan	15.2	1.3	16.0	(0.5)
TOTAL	**21.5**	**1.1**	**24.7**	**(0.9)**

20.3 Currency risk management

At 31 December 2016 and 2015, the derivative instruments subscribed by Thales with bank counterparties were as follows:

	31/12/2016					31/12/2015	
	USD	GBP	Other	Total	Market value	Total	Market value
Hedges of commercial offers and transactions:							
Forward currency sales	4,817.7	738.3	2,146.3	7,702.3	(179.3)	7,936.3	(242.3)
Forward currency purchases	1,519.2	821.6	1,822.4	4,163.2		4,111.6	
Currency sales (call and put options)	92.0	–	2.1	94.1	0.6	217.7	1.6
Currency purchases (call and put options)	10.4	–	15.6	26.0		98.1	
Hedges related to cash pooling:							
Currency sales: foreign exchange swaps	782.4	–	247.8	1,030.2	(136.1)	583.8	(11.1)
Currency purchases: foreign exchange swaps	270.0	742.6	461.7	1,474.3		1,537.5	

In addition, Thales has granted its operating subsidiaries "mirror" foreign exchange guarantees in relation to firm contracts or normal commercial operations.

Thales has also granted its operating subsidiaries foreign exchange guarantees on commercial offers, subject to the subsidiary winning the contract.

NOTE 21. RELATED PARTIES

21.1 Definition

The Group has identified the following related parties: shareholders of Thales (the parent company), especially the French State and Dassault Aviation, companies controlled by these same shareholders, companies under joint control, companies under significant influence, directors and senior executives.

21.2 Agreements with Thales' shareholders

Section 4.3.3.3 describes the main provisions of the shareholders' agreement governing relations between the French State (the "Public Sector") and Dassault Aviation (the "Industrial Partner") within Thales, in relation to the convention on the protection of strategic national interests as well as the specific convention binding the French State and Thales.

21.3 Agreements with DCNS

As of December 2011, Thales holds 35% of the share capital of DCNS, a subsidiary jointly controlled with the French State.

Thales and DCNS also signed an industrial and trade cooperation agreement, with the objective of optimising the organisation of the naval business activities of both groups (market access, research and development and purchasing).

21.4 Compensation of directors and senior executives[a]

The compensation, benefits and social security contributions awarded to members of the Board of Directors and the Executive Committee break down as follows:

	2016	2015
Short-term benefits:		
• Fixed compensation	4.3	4.1
• Variable compensation	3.7	2.8
• Social security contributions	2.7	2.4
• Contract termination benefits resulting from contractual commitments	–	2.1
• Social society contributions/contract termination benefits	–	0.7
• Attendance fees	0.5	0.6
Other benefits:		
• Post-employment benefits	1.7	1.3
• Share-based payments (see Note 15)[b]	2.5	1.8

(a) The components of compensation presented correspond to costs recognised in the Thales parent company financial statements.
(b) Measured in accordance with IFRS 2 – Share-based Payment.

NOTE 22. EVENTS AFTER THE REPORTING PERIOD

At the publication date of this document, no event liable to have an impact on Thales' financial position has occurred since year-end.

NOTE 23. INFORMATION ON EXISTING BRANCHES (ARTICLE L. 232-1, II OF THE FRENCH COMMERCIAL CODE)

At 31 December 2016, Thales had a secondary facility registered in France with the commercial registrary and indicated on its *K bis* (company registration certificate).

NOTE 24. SUBSIDIARIES AND ASSOCIATES

(in millions)			Information related to the entity (local currency)			
			Prior year sales excluding VAT	Profit (loss) for last year ended	Share capital	Shareholders' equity other than share capital
A. Detailed information on subsidiaries and associates whose gross value exceeds 1% of the Company's share capital						
1. Subsidiaries	THALES HOLDINGS UK PLC	GBP	0.0	6.7	726.8	408.6
	THALES AVIONICS SAS	EUR	1,285.1	105.3	175.0	48.3
	THALES ALENIA SPACE SAS	EUR	0.0	198.9	918.0	271.2
	THALES SYSTEMES AEROPORTES SAS	EUR	1,133.6	96.0	93.2	32.4
	THALES COMMUNICATIONS & SECURITY SAS	EUR	1,913.8	103.1	164.0	33.5
	THALES DEUTSCHLAND GMBH	EUR	0.0	(3.6)	27.1	281.8
	THALES USA INC	USD	0.0	(12.3)	118.1	357.6
	THALES INTERNATIONAL SAS	EUR	0.0	136.8	313.0	15.3
	THALES AIR SYSTEMS SAS	EUR	730.6	32.3	126.3	231.0
	AVIMO GROUP LTD	SGD	0.0	0.5	22.1	34.6
	THALES NEDERLAND BV	EUR	379.7	21.2	29.5	143.8
	THALES UNDERWATER SYSTEMS NV PAYS BAS	EUR	0.0	(0.0)	4.5	4.1
	THALES SERVICES SAS	EUR	431.1	8.1	1.5	7.8
	SIFELEC SAS	EUR	0.0	(0.0)	38.3	(6.2)
	THALES OPTRONIQUE SAS	EUR	491.9	42.3	56.2	107.5
	THALES UNDERWATER SYSTEMS SAS	EUR	399.7	26.7	15.3	9.9
	THALES MICROELECTRONICS SAS	EUR	77.7	(0.6)	0.5	25.7
	THALES AVIONICS ELECTRICAL SYSTEMS SAS	EUR	130.4	(17.4)	6.9	54.2
	THALES HOLDING NORWAY AS	NOK	0.0	(0.0)	419.8	(186.8)
	THALES CORPORATE VENTURES SAS	EUR	0.0	1.5	15.0	13.1
	THALES CANADA INC	CAD	551.4	(35.6)	6.8	(44.3)
	TDA ARMEMENTS SAS	EUR	97.1	29.5	0.3	20.6
	THALES EUROPE SAS	EUR	0.0	16.7	43.2	(62.2)
	THALES BELGIUM SA	EUR	30.9	24.0	3.4	2.8
	THALES ELECTRON DEVICES SAS	EUR	295.2	(21.1)	31.0	40.0
	TH. BELGIUM SA (FORMERLY FZ)	EUR	26.4	0.3	14.2	(21.7)
	THALES SUISSE SA	CHF	45.6	10.6	40.0	(9.6)
	CMT MEDICAL TECHNOLOGIES LTD	USD	16.7	(1.9)	1.0	28.9
	SNC THALES MERIGNAC	EUR	0.2	(0.1)	20.0	(0.3)
	THALES SESO SAS	EUR	15.1	(13.0)	0.4	2.6
	THALES GLOBAL SERVICES SAS	EUR	486.0	(3.4)	0.5	1.8
	THALES COMMUNICATIONS LTDA	BRL	0.0	(1.8)	19.8	(19.8)
	SAS CHATELLERAULT BRELANDIERE	EUR	2.4	(0.3)	2.0	1.9
	THALES ANGENIEUX SAS	EUR	66.5	2.3	2.7	14.4
Total subsidiaries						
2. Associates	UNITED MONOLITHIC SEMICONDUCTORS HOLDING	EUR	0.0	2.4	33.9	13.9
	ELETTRONICA SpA	EUR	0.0	25.2	0.0	66.7
	SOFRADIR SAS	EUR	150.7	22.1	6.0	70.9
	TELESPAZIO SpA	EUR	577.3	29.4	50.0	183.7
	DCNS	EUR	3,191.2	96.5	563.0	(291.6)
	TH. SYSTEMS IRELAND LTD	EUR	0.0	212.4	7.7	168.6
Total associates						
TOTAL (A)						
B. Detailed information concerning other subsidiaries and associates						
1. Subsidiaries not listed in section A						
French subsidiaries						
Foreign subsidiaries						
Total						
2. Associates not listed in section A						
French companies						
Foreign companies						
Total						
TOTAL (B)						
TOTAL (A + B)						
Information concerning related companies						
Thales' direct subsidiaries (A)						
Thales' direct subsidiaries (B)						
Other Group subsidiaries						

			Contribution of subsidiaries and associates to Thales' financial statements (EUR)				
Carrying amount of investments (gross)	**Carrying amount (net)**	**% share capital held**	**Loans and advances made by Thales not yet paid**	**Receivables**	**Liabilities**	**Deposits and guarantees given by Thales**	**Dividends received by Thales during the year**
2,571.7	1,870.1	100%	–	3.0	174.7	0.0	0.0
936.8	936.8	100%	–	0.0	294.8	0.0	132.8
683.1	683.1	67%	–	0.0	0.0	459.9	71.4
706.1	706.1	100%	–	0.0	1,498.2	616.1	101.8
590.8	590.8	100%	–	0.0	401.7	954.9	75.6
545.0	545.0	100%	–	23.8	0.0	220.0	0.0
476.6	476.6	100%	–	0.0	152.3	830.2	0.0
398.5	398.5	100%	–	0.0	44.4	6.0	19.2
314.1	314.1	89%	–	3.6	667.0	19.0	10.2
250.7	76.8	100%	–	0.0	0.0	0.0	1.3
235.2	235.2	99%	–	0.0	163.1	333.8	0.0
129.2	8.5	100%	–	0.0	0.0	0.0	0.0
126.4	126.4	100%	–	38.7	0.0	0.8	0.0
111.8	38.7	100%	–	0.0	30.0	0.0	0.0
106.3	106.3	77%	–	0.0	240.1	190.3	20.9
96.5	96.5	100%	–	0.0	295.3	38.0	18.5
88.0	9.9	100%	–	0.0	9.6	0.0	0.0
94.6	61.6	100%	–	19.5	0.0	0.0	0.0
77.2	77.2	100%	–	0.0	0.0	0.0	0.0
73.3	18.7	100%	–	0.0	14.1	0.0	0.0
51.9	51.9	100%	–	36.3	12.0	826.3	0.0
51.7	51.7	100%	–	0.0	47.8	7.3	11.8
43.2	43.2	100%	–	187.5	0.0	0.0	0.0
41.4	31.2	100%	–	0.0	31.3	38.6	0.0
39.2	39.2	100%	–	83.5	1.7	21.5	0.0
34.2	34.2	100%	–	23.3	0.1	0.0	0.0
26.4	26.4	100%	–	0.4	0.4	0.0	7.8
21.8	21.8	100%	–	1.4	1.6	0.0	0.0
20.0	19.7	100%	–	133.8	0.0	0.0	0.0
14.6	0.0	100%	–	11.7	0.2	0.0	0.0
12.4	6.2	100%	–	68.8	0.0	0.7	0.0
11.0	0.0	100%	–	0.0	0.0	0.0	0.0
10.0	2.5	100%	–	0.0	0.3	0.0	0.4
8.1	8.1	100%	–	0.0	1.4	12.1	1.7
8,997.6	**7,712.7**		**0.0**	**635.4**	**4,082.0**	**4,575.6**	**473.5**
24.3	22.8	50%	0.0	0.0	0.0	0.0	0.0
26.7	26.7	33%	0.0	0.0	0.0	0.0	5.8
26.4	26.4	50%	0.0	0.0	0.0	0.0	11.0
81.6	81.6	33%	1.6	0.0	0.0	0.0	1.7
833.7	833.7	35%	0.0	0.0	0.0	0.6	0.0
56.3	56.3	23%	0.0	0.0	0.0	0.0	0.0
1,049.1	**1,047.6**		**1.6**	**0.0**	**0.0**	**0.6**	**18.5**
10,046.7	**8,760.3**		**1.6**	**635.4**	**4,082.0**	**4,576.1**	**492.0**
25.6	17.7		–	25.7	15.5	0.8	3.2
0.7	0.1		–	0.0	0.0	0.0	0.0
26.4	**17.8**		**–**	**25.7**	**15.5**	**0.8**	**3.2**
9.7	9.5		–	0.0	0.0	0.0	0.1
7.4	0.1		25.5	96.9	0.0	308.4	0.8
17.0	**9.6**		**25.5**	**96.9**	**0.0**	**308.4**	**0.9**
43.4	**27.4**		**25.5**	**122.6**	**15.5**	**309.2**	**4.1**
10,090.1	**8,786**		**27.1**	**758.0**	**4,097.5**	**4,885.3**	**496.1**
			1.6	635.4	4,082.0	4,575.6	
			25.5	122.6	15.5	0.8	
				0.0		309.0	

Investments made and thresholds crossed in French companies in 2016

	31/12/2015					31/12/2016				
Percentage owned	**> 5%**	**> 20%**	**> 33%**	**> 50%**	**> 66%**	**> 5%**	**> 20%**	**> 33%**	**> 50%**	**> 66%**
1. Increases										
189Centelec SAS	–	–	–	–	–	–	–	–	–	100%
190Centelec SAS	–	–	–	–	–	–	–	–	–	100%
191Centelec SAS	–	–	–	–	–	–	–	–	–	100%
2. Decreases										
Thales Université SAS	–	–	–	–	100%	–	–	–	–	–
SMBPE SAS	–	–	–	–	100%	–	–	–	–	–
Syracuse Services SAS	–	–	–	–	100%	–	–	–	–	–
188Centelec SAS	–	–	–	–	100%	–	–	–	–	–
Thales Geodis Freight & Logistics SA	–	–	50%	–	–	–	–	–	–	–

1.3.2.6 Five-year financial summary of the Company

	2012	2013	2014	2015	2016
1. Share capital at year-end					
Share capital	607.0	617.2	623.5	632.9	636.6
Number of ordinary shares outstanding	202,339,674	205,744,500	207,841,111	210,961,404	212,194,766
Maximum number of shares to be created in future by exercise of share subscription options	12,294,262	8,186,261	5,841,789	2,615,865	1,320,693
2. Operations and results for the year					
Sales excluding tax	174.9	205.9	224.4	208.6	233.3
Earnings before tax, employee profit-sharing, depreciation, amortisation and provisions	222.0	379.7	609.3	625.7	367.9
Income tax benefit	48.1	85.8	77.4	93.8	78.0
Earnings after tax, employee profit-sharing, depreciation, amortisation and provisions	306.8	400.6	662.9	871.9	431.1
Distributed net profit	175.7	227.6	230.7	285.6	84.6 [a]
3. Earnings per share					
Earnings after tax and employee profit-sharing but before amortisation, depreciation and provisions	1.34	2.26	3.30	3.41	2.10
Earnings after tax, employee profit-sharing, depreciation, amortisation and provisions	1.52	1.95	3.19	4.13	2.03
Net dividend per share	0.88	1.12	1.12	1.36	1.60 [b]
4. Employees					
Average headcount during the year, of which:	824	833	852	831	852
• Engineers and managers	711	726	749	735	749
• Technicians and supervisors	113	107	103	96	103
Personnel expenses, of which:	161.6	177.1	183.2	187.1	191.5
• Total salary costs for the year	113.7	123.9	130.2	131.5	137.8
• Social security and other social welfare benefits paid during the year	47.9	53.2	53.0	55.6	53.7

2012: Share capital up from €606,985,371.0 to €607,019,022.0 following a capital increase.
2013: Share capital up from €607,019,022.0 to €617,233,500.0 following a capital increase.
2014: Share capital up from €617,233,500.0 to €632,523,333.0 following a capital increase.
2015: Share capital up from €632,523,333.0 to €632,884,212.0 following a capital increase.
2016: Share capital up from €632,884,212.0 to €636,584,298.0 following a capital increase.

(a) Interim dividend.
(b) Subject to the approval of the Annual General Meeting of 17 May 2017 that will be held to approve the 2016 financial statements.

1.3.3 Statutory auditors' report on the financial statements

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, 2016, 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, 2016 and of the results of its operations for the year then ended in accordance with French accounting principles.

II. Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- **Investments**

Investments which appear in the balance sheet as at December 31, 2016 for a net amount of €8,787.6 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.

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 the notes to the financial statements provide appropriate information.

- **Litigation and contingency provisions**

As regards litigation and contingency provisions, 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 favor, 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 27, 2017

The statutory auditors
French original signed by

Mazars		**Ernst & Young Audit**	
Anne-Laure Rousselou	Jean-Marc Deslandes	Philippe Diu	Serge Pottiez

BUSINESS REVIEW

>2

2.1 OPERATING SEGMENTS

The Group has a matrix organisation based on:

- six Global Business Units, grouped 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 (Germany, France, the Netherlands, the United Kingdom, Canada, the United States and Australia), 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 and imaging subsystems. As a partner of the major aircraft manufacturers and airlines, Thales is a player across the entire value chain for the aviation sector, in addition to its air traffic management business.

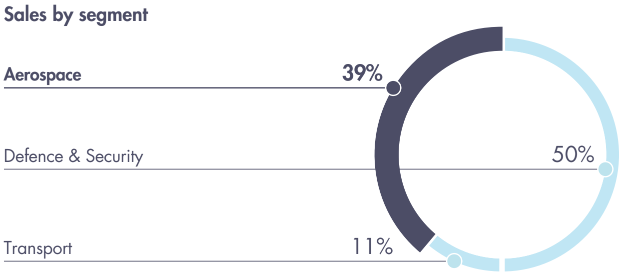
The **Space** Global Business Unit offers space systems and solutions, particularly in the fields of telecommunications, radar and optical observation of the Earth, satellite navigation and exploration of the Universe. The strategic partnership in the space sector between Thales and Leonardo – the Space Alliance – responds to the significant environmental, scientific and security challenges faced by the sector as well as the changes brought about by the expansion of the information society. It is based on the solutions offered by both Thales Alenia Space (67% owned by Thales, 33% owned by Leonardo) in satellite manufacturing and by Telespazio (33% owned by Thales, 67% owned by Leonardo) in related services.

2.1.1.1 Key data

(in € millions)	2016	2015
Order book at 31 December	9,914	9,779
Order intake	5,872	6,281
Sales	5,812	5,387
EBIT[(a)]	571	518
Employees under Group management	18,741	17,960

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

Sales by segment



2.1.1.2 Avionics

2.1.1.2.1 General overview

From the cockpits of the future through to cyber-secured connections between aircraft and ground systems, Thales designs and manufactures on-board electronics systems that increase flight efficiency and safety, enhance the passenger experience and generate additional revenue for airlines.

Thales' offer addresses all of the different players in the avionics sector – both civil and military – from aircraft manufacturers through to passengers and including airlines, operators, pilots and crew.

The range of equipment, systems and applications covers four main areas:

On-board electronic systems and navigation aids: cockpit display systems are fitted with simplified human-system interfaces for optimised flight management and piloting. Through applications inspired by mass-market electronics and transposed to the aviation sector, pilots can stay permanently connected to their environment.

Maintenance: the maintenance solutions Thales offers enable fleets to be tracked in real time in order to optimise operating costs and increase aircraft availability.

Passenger experience: the in-flight entertainment systems and broadband connectivity offering give passengers a level of technological comfort that is increasingly comparable to their own homes. Thales also offers applications that airlines can propose to their passengers in order to generate extra revenue. In addition, the Group offers cabin lighting and aircraft interior systems, provided through Diehl Aerospace.

Simulation and training: simulator training for pilots of military aircraft and civilian and military helicopters prepare them more effectively for their missions while reducing training costs. Thales supplies flight simulators for several European defence programmes and provides training for helicopter pilots, notably via the Helisim joint venture.

The Thales offering also includes microwave subsystems (tubes and power amplifiers) which are aimed at the space and defence markets and some telecommunications and civil industrial applications, as well as imaging subsystems which are aimed at the medical radiology market.

2.1.1.2.2 Competitive position

As one of the leading players in the avionics market alongside Honeywell and Rockwell Collins, Thales supplies the civilian and military aircraft manufacturers Airbus, ATR, Bell, Boeing, Bombardier, Dassault Aviation, Embraer, Gulfstream, Leonardo, NHIndustries, Sikorsky and Sukhoi.

In the in-flight entertainment segment, Thales is one of the top two players, with Panasonic Avionics.

The Group has numerous competitors in the simulation solutions market, particularly American defence companies such as Lockheed Martin, Raytheon and L3Com.

Thales continues to be a global market leader in microwave and imaging subsystems, and its main competitors in these markets are Varian Medical Systems, CPI and L3.

2.1.1.2.3 Significant events in 2016

In civil avionics, Thales partnered with Airbus as it increased its production levels during the year, particularly for the A350. 2016 also saw the successful first flight of the Cessna Citation Longitude business jet, which is equipped with Thales flight controls. In parallel, there were very positive results from the flight tests carried out for TopMax head-worn display systems. More than 20 airlines chose to use the flight management systems (FMS) and terrain collision avoidance systems (T3CAS) in over 400 Airbus planes. The teams of Thales and Brussels Airlines (BEL) made a technical breakthrough by successfully testing a new live weather service that sends weather updates to the pilot's Electronic Flight Bag system throughout the flight. The flight tests were carried out on A330 aircraft with BEL pilots. Thales also confirmed its positioning in airline support, as it was named best avionics support supplier for the year by Airbus and came in number two worldwide for airlines.

In military avionics, a new export contract was won for the Rafale, in India. In addition, the Scorpion helmet-mounted sight and display system was selected for 80 EF-18 fighter planes of the Spanish air force and 200 light-armed helicopters in South Korea. The South Korean armed forces also chose Thales' military avionics system to equip their MRTT refuelling planes.

In terms of in-flight entertainment business, several airlines – including Gulf Air, Japan Airlines, Singapore Airlines and Emirates – opted for the AVANT solution, and in the connectivity market a major agreement was signed with SES to offer airlines and their passengers in-flight broadband connectivity over the whole of the Americas, with optimal speeds thanks to Ka-band high-throughput satellite (HTS) services.

In training and simulation, Thales and AMST were selected by the United Kingdom Ministry of Defence to supply a new mission simulation training centre for fighter jet pilots. Airbus Helicopters chose Thales and their joint venture Helisim to design and build the full flight simulator (FFS) for the new H160. Two helicopter training centres were opened during the year, in Norway (Stavanger) and Australia (Brisbane).

In electrical systems, Thales reached another milestone at the beginning of the year, by successfully completing a round of flight trials using a prototype ATR 72 turboprop equipped with a new energy management system that optimizes power demand.

In microwave and imaging subsystems, a number of new orders were taken in 2016, including a contract signed with SES for the supply of high-power Ka-band tubes for the new SES 17 satellite ordered from Thales, which will increase SES's in-flight connectivity capabilities.

Lastly, Thales opened a new 60,000 sq.m. campus in Bordeaux, marking its anchorage in the south-western region of France. Some 2,600 employees – including 1,500 fully dedicated to innovation – work there on cockpit visualisation systems, avionics suites, airborne radars, defence mission systems and military support.

2.1.1.3 Space

2.1.1.3.1 General overview

Thales Alenia Space is a joint venture between Thales (67%) and Leonardo (33%) and partners in the Space Alliance along with Telespazio, which is also owned by Thales (33%) and Leonardo (67%).

Thales Alenia Space has more than 40 years of experience in the design, integration, testing, operation and commissioning of innovative space systems, leading the way not only in space enterprise but also in a human enterprise that is undergoing constant change. The state-of-the-art satellites, payloads and vehicles produced by Thales Alenia Space are not only put to the service of its customers – operating in the areas of business, science, defence and security across the globe – but also, and above all, meet the needs of society in general. They provide communications and navigation services, monitor the environment and the oceans, help better understand climate change and drive scientific progress. Going beyond planet Earth, they also respond to the challenges of exploring the Universe, and thanks to the partnership with the International Space Station they create tangible links between humans and outer space.

At the forefront of a digital and connected world

Thales Alenia Space has drawn on its long-standing expertise in satellite telecommunications to launch cutting-edge offerings that meet today's fast-changing needs: Spacebus NEO, a modular geostationary platform (including a version with an all-electric propulsion); EliteBus for low and medium Earth orbit missions; and flexible, digital and very high-speed payloads. Thales Alenia Space puts all of these new technologies to the service of its customers and users, who are becoming more and more connected, with increasingly high-quality data services, all thanks to these space technology projects. The O3b and Leosat constellations as well as Iridium NEXT satellites (for mobile voice and data communications) are already providing – or will soon provide – broadband connections in numerous areas of the world. The new projects that Thales Alenia Space is currently working on not only concern communications but also the protection of people and countries, using military satellites (Comsat NG in particular).

A key participant in environmental programmes

Thales Alenia Space's expertise in high-resolution (sub-metric) optical and radar payloads for military, civilian or dual missions covers a wide range of uses, including information gathering, target designation, meteorology, altimetry, oceanography, climatology, cartography and crisis management. Thales Alenia Space satellites help provide a better understanding of planet Earth and how to protect it, with prime examples being the *Sentinel* satellites for Copernicus and the different generations of *Meteosat* meteorological observation satellites.

At the forefront of exploring the origins of the Universe

Thales Alenia Space is the prime contractor for the flagship ExoMars 2020 programme dedicated to the search for life on Mars, which follows on from the ExoMars 2016 scientific mission that launched the trace gas orbiter (TGO). The company is also the prime contractor for EUCLID – the satellite used for a scientific mission launched by the European Space Agency (ESA) to explore the roles played by dark matter in the evolution of the Universe. In addition it led the successful Intermediate Experimental Vehicle (IXV) project for the ESA, which involved a mini-shuttle that validated atmospheric re-entry technologies in preparation for future manned flights as well as the Space Rider mission. 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).

At the forefront of geolocation and navigation systems

Thales Alenia Space is at the origin of satellite navigation in Europe. For example, as prime contractor for the Egnos programme (the precursor to Galileo), the Company is playing a major role in the programme's development by providing system support for the Galileo constellation. It also participated in the in-orbit validation phase for the first four satellites of the constellation, and is in charge of deploying the ground-based mission segment.

Services for the International Space Station

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 also supplies all of the vehicle cargo modules whose role is to resupply the ISS: ATV (Automated Transfer Vehicle) for the ESA, Cygnus for NASA, and soon the Orion spacecraft for NASA.

At the cutting-edge of innovation

Thales Alenia Space is developing the *Stratobus*, an autonomous stratospheric airship that is complementary to satellite solutions and is designed for regional telecommunications, surveillance and environmental applications.

Services for European launchers

Thales Alenia Space contributes to the European policy on access to space by supplying the on-board electronics for the Ariane rocket, the safeguard subsystem of the Soyuz launchers in French Guiana 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 main commercial challenge will be the ability to offer satellite solutions with all-electric 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. SpaceX in particular intends to set up its own constellation.

The leading competitors in the institutional market in Europe, which is to a large extent dependent on the budgetary situation of governments, are Airbus Group and OHB – which are also sometimes partners on some programmes – as well as Boeing and Lockheed Martin for export contracts.

2.1.1.3.3 Significant events in 2016

In telecommunications, Thales Alenia Space signed a contract with SES to supply the SES-17 satellite, which will be dedicated to the mobility market. This contract demonstrates the confidence that major satellite operators have in the Company's all-electric version of its new product line, Spacebus NEO, and it follows on from the agreement signed between SES and Thales for tailor-made connectivity services over the Americas, optimised for commercial aviation.

In constellations, Thales Alenia Space and LeoSat Enterprise signed the phase B contract for the development of a Low Earth Orbit (LEO) constellation of 80 to 120 satellites, offering very-high-speed broadband, low latency and secure global connectivity.

In the field of Earth observation, Thales Alenia Space signed a contract with the ESA and the European Union to build the C and D models of the Sentinel 3A environmental monitoring satellites as part of the Copernicus programme.

Thales Alenia Space España also signed a contract with the ESA for the preliminary technological development of a thermal infrared imaging instrument.

In the high-resolution radar market, the contract was signed for the final phase of the COSMO-SkyMed Second Generation satellite programme for the Italian space agency and the Italian Ministry of Defence.

Additionally, Thales Alenia Space was chosen by Eumetsat to provide a key subassembly in the ground segment for the Metop polar-orbit meteorological satellites.

In the field of exploration, Thales Alenia Space secured a contract with Orbital ATK to supply nine additional pressurised cargo modules for upcoming cargo resupply missions to the International Space Station (ISS).

In science, the ESA awarded Thales Alenia Space the final contract of the ExoMars programme designed to complete the 2020 mission aimed at landing a rover on the surface of Mars.

In navigation, Thales Alenia Space entered into a contract with the Korean Space Agency (KARI) to supply a satellite navigation system called KASS (Korean Augmentation Satellite System). This is the Company's first export contract in this area based on EGNOS (European Geostationary Navigation Overlay System), which was developed by Thales Alenia Space as prime contractor. The Company was also awarded a contract by the European Commission to provide system engineering and operational support services for the Galileo programme.

In 2016, Thales Alenia Space participated in the following seven launches: three satellites dedicated to the climate and the environment (Jason 3, Sentinel 3A and Sentinel 1B), two Cygnus cargo resupply craft for the International Space Station, one high-resolution observation satellite for Turkey (Gokturk), and the interplanetary probe for the ExoMars programme whose TGO module dedicated to the search for life on Mars is now operational and in orbit.

The development of Thales Alenia Space's European operations continued in 2016, with (i) the acquisition of RUAG's opto electronics division, which led to the creation of Thales Alenia Space Switzerland as well as the opening of white rooms dedicated to the Company's propulsion activities at its Belfast site, and (ii) the agreement signed with SENER to jointly develop optical payloads in Spain.

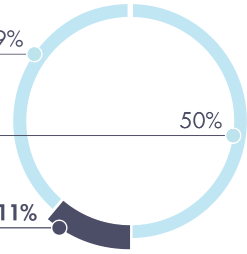
2.1.2 Transport segment

2.1.2.1 Key data

(in € millions)	2016	2015
Order book at 31 December	4,567	4,842
Order intake	1,504	2,826
Sales	1,603	1,519
EBIT [a]	11	(37)
Employees under Group management	6,812	6,289

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

Sales by segment



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 ticketing solutions.

In rail signalling, Thales provides systems for conventional and high-speed mainline networks, freight, and urban Transport networks (metros and trams). Thales capitalises on its expertise in the field of critical information systems and cybersecurity to offer Transport network operators integrated and protected solutions to effectively supervise and control their operations. The systems provided by Thales also contribute to increasing the security of its customers' passengers, staff and infrastructure.

2.1.2.2.2 Competitive position

Specialised in intelligent critical systems and services, Thales sets itself apart from its "generalist" competitors, who offer product ranges dominated by rolling stock. The rapid digitisation of railway Transport products, solutions and operations has made Thales a recognised leading player with strong positions in these markets.

In signalling, Thales ranks among the market's leaders, and its main competitors are Siemens, Alstom, Ansaldo STS, Bombardier Transport and China Railway Signal & Communication (CRSC).

2.1.2.2.3 Significant events in 2016

Following on from 2015 – which was a record year in terms of order intake for the urban signalling activity (especially in London, Hong Kong and Doha) – in 2016, Thales signed a major contract for the extension of the Dubai metro's Red Line, in preparation for Expo 2020.

Thales continued to roll out its CBTC™ (Communications-Based Train Control) technology, extending it to more than ten new lines, primarily in Canada, the United States, Chile, Malaysia, Singapore and South Korea.

In China, which represents a significant proportion of the international market for new metro lines, the Thales SAIC Transportation System (TST) joint venture continued to develop its business in 2016. TST won several contracts for new metro lines and line extensions, notably in Nanjing, Ningbo, Jinan, Wuhan and Shanghai. In Autumn 2016, line 1 of the Hefei metro opened several months ahead of schedule, demonstrating TST's capacity to successfully complete the numerous projects it has in its portfolio.

Thales was chosen to supply the signalling system for the extension of the Light Rail Transit (LRT) network in Kaohsiung, Taiwan, having completed Taiwan's Danhai LRT project.

In Egypt, Thales won the contract for the communications, security and passenger information systems control centre for the third phase of line 3 of the Cairo metro.

In **mainline signalling**, Thales continued to roll out its ETCS (European Train Control System) technology in Europe, particularly in Spain, Denmark, Austria, Switzerland, Hungary and Poland. The mainline activity was also underpinned by framework agreements to supply signalling systems in several European countries, including Germany, Austria, Switzerland and Norway.

In Switzerland, the signalling system for the Gothard tunnel – the world's longest railway tunnel – was delivered and brought into service in 2016, one year ahead of schedule. Following this success, which came on the heels of the successful completion of the signalling project for the Lötschberg tunnel, Thales signed another contract for a railway tunnel signalling system, this time for the Ceneri tunnel. This new tunnel is the final section of the European rail corridor connecting the North Sea with the Mediterranean Sea, passing under the Alps. It will link Zurich with Milan in less than three hours compared with five with the current infrastructure.

Thales strengthened its presence in Africa during the year, marking significant milestones in its rollout of electronic interlocking systems in South Africa's Cape region.

In Saudi Arabia, Thales won the **maintenance** contract for the 2,400 km North South Rail (NSR) line linking the north of the country with the south. This contract follows on from the successful deployment of ETCS technology on this line – one of the longest to be equipped with ETCS.

In **ticketing**, Thales successfully pursued the introduction of the Transcity™ solution onto the market, thanks to new projects in India, Holland and Taiwan. In November 2016, the Group announced that it had entered into negotiations with the private equity firm Latour Capital with a view to selling its ticketing business. This project is currently in consultations with employee representative bodies and will be subject to customary closing procedures.

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 the implementation of suitable responses (including threat neutralisation), with maximum reliability. Furthermore, by facilitating the coordination of joint or coalition forces' operations, they contribute to the decision-making superiority of these 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 enable the sharing of existing information and communication systems, as well as the protection of networks and infrastructure.

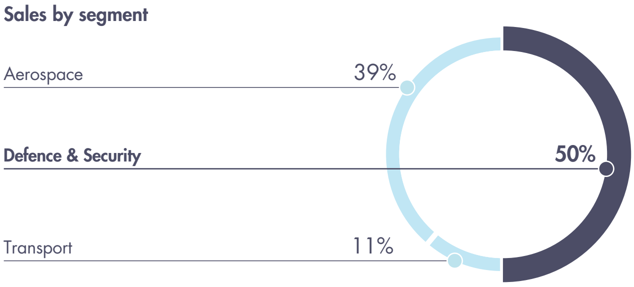
The Defence & Security segment – where the customer base is primarily made up of governments – consolidates Thales' expertise in these various fields, organised around three Global Business Units: Secure Communications and Information Systems (Section 2.1.3.2), Land and Air Systems (Section 2.1.3.3)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

2.1.3.1 Key data

(in € millions)	2016	2015
Order book at 31 December	18,964	17,599
Order intake	9,052	9,701
Sales	7,383	7,079
EBIT [a]	788	760
Employees under Group management	33,282	32,207

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

Sales by segment



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

These activities are developed around four segments:

- radiocommunication 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 solutions for electronic communications warfare. 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 and is the prime contractor for the French army's CONTACT 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.). For these needs, Thales designs, builds and operates secure infrastructure networks for its customers, including for theatres of operations (in Afghanistan, Mali and the Central African Republic). In France, the Group operates the information, communication and security systems at the new French Ministry of Defence site ("Balard") in Paris. Thales has also been selected to upgrade the French Ministry of Defence's resilient communications network as part of its DESCARTES programme, as well as its transmission programmes related to nuclear deterrence.
- protection systems: Thales develops information, command and intelligence systems for armed forces (military functions known as C4ISR – Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance). The Group also responds to the growing security needs of nations (identity management, border control and surveillance systems), of cities (urban security, smart cities, crisis management, security for large events) and of critical infrastructure (protection of airports, public transportation, sensitive sites and energy sites). These systems are intended to facilitate rapid decision-making for operators as well as the coordination of the various players in command and control centres or in mobile situations, by providing users with relevant, clear and immediate information about their environment.
- critical information systems and cybersecurity: Thales is one of the world leaders in business data protection and a European leader in cybersecurity. Through its network, cloud and mobile equipment protection products and data security solutions, Thales offers solutions to protect the information systems and critical data of its civilian and military customers. Thales also helps its customers to detect and prevent cyberattacks 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 depending on the business and market concerned.

In defence applications – radiocommunications, networks, and command and control – the main competitors are predominantly American: Harris, General Dynamics, Raytheon and Rockwell Collins. Israel-based Elbit Systems is also a competitor in the area of integrated command and communication solutions. In Europe, the Group's main competitors are Airbus Group and – particularly in the radiocommunications sector – Rhode & Schwarz, Leonardo and Aselsan.

In security, Thales' competitors are primarily coming from aeronautic and defence sector (Boeing, Northrop Grumman, Honeywell, Airbus Group, etc.) or from the equipment sector (such as Siemens and Johnson-Tyco), services (INEO, etc.) and information systems (including IBM, Atos and Capgemini). The latter are also competitors of Thales in critical information systems.

Finally, in cybersecurity, Thales is in competition with companies such as RSA and Gemalto in the civil arena and BAE Systems, Ultra Electronics, Airbus Group and Secunet in defence, and more recently, Atos.

2.1.3.2.3 Significant events in 2016

In radiocommunications products, Thales launched SYNAPS, a new broadband tactical software-defined radio family for collaborative combat designed for all branches of the armed forces – land, air and sea. SYNAPS is based on the radio technology software developed within the framework of the CONTACT program, which will deliver from 2019, the first radio solutions software for the French armed forces.

In exports, Thales secured several major tactical radio orders in the Middle East, notably in the United Arab Emirates, Saudi Arabia, the Sultanate of Oman and Egypt.

In aeronautics, business was buoyant, driven by sales of the Rafale fighter jet. The Group received the production order for the CNI suite (Communications, Navigation, Identification) for the Rafale sold to Qatar, and a new contract for the supply of 36 Rafale was signed with India.

In the United Kingdom, Thales was awarded a contract to perform a mid-life update to the communications system for the Royal Navy Type 23 frigate fleet. Thales is the Royal Navy's main supplier of communication systems and the new solution it has offered will provide optimised support over the long term.

In France, Thales has been selected to equip the electronic warfare solution for the light aircraft equipped for surveillance and reconnaissance missions, as well as fit the Spy'Ranger mini surveillance and reconnaissance UAVs with a tactical data terminal that can transmit high-definition images via broadband.

Thales also won a contract to provide the Japan Ground Self Defence Force (JGSDF) with friend or foe identification (IFF) systems. These systems – which comply with NATO's most recent "Mode 5" standard – will be used for all of Japan's man-portable air-defence system (MANPADS) platforms.

In network and infrastructure systems, during 2016 Thales launched its new consulting offer for the infrastructure, operation and transformation of critical networks for essential operators.

In France, Thales was awarded two key contracts by the French defence procurement agency (DGA) as part of the DESCARTES programme, covering the upgrade of the SOCRATE resilient network and deployment of the POINCARÉ network to interconnect Ministry of Defence sites in mainland France and overseas.

Following the contract won by the Thales Alenia Space and Airbus Defence and Space consortium to build and deliver the military satellite communications system, Comsat NG, the Group is now the security expert for the project's space segment.

Thales also delivered the first ASTRIDE ground stations to the French army, enabling communications between command, mobile and tactical positions.

In terms of export contracts, Thales' contract with a Middle Eastern country for the operation and maintenance of a satellite communication system was renewed in 2016. In addition, NATO and the Norwegian Navy selected Thales to supply Modems 21 – a military modem system that protects satellite communications against jamming, interference and intrusion.

Also in 2016, Thales brought together nine players (including seven SMEs) to create the Fed4PMR consortium to develop a future high-data-rate 4G/LTE communication network for security agencies and emergency services.

Thales' protection systems addresses both the military and civilian markets.

In critical infrastructures, Thales and Unica signed a 15-year contract with the Dutch Ministry of Defence to install, manage and service a new security and surveillance system at 170 locations in the Netherlands.

In critical information systems and cybersecurity, Thales opened a new Cybersecurity Operations Centre (SOC) in Hong Kong to cover the Asia-Pacific market, rounding out the network of SOCs already in place in France, the United Kingdom and the Netherlands.

In the Netherlands, the Defence Cyber Command (DCC) and Thales entered into a contract to set up a virtual cybersecurity training and testing facility, known as "Cyber Range".

During the year, the Group completed its acquisition of Vormetric, a leading provider of data protection solutions in physical, virtual and cloud infrastructures. This investment reinforces the portfolio of solutions offered by Thales e-Security – a major player in hardware security modules (HSM) – and has created a global leader in corporate data security.

Thales secured several key contracts in this field during 2016, including with Salesforce for setting up a pilot programme enabling customers to keep control over the encryption keys of their sensitive data, and with Samsung for deploying data security technologies on its ARTIK™ "Internet of things" platform.

Following the trend of other large corporations in recent years, the ENGIE energy group has chosen Thales to help it reinforce the security of its IT infrastructures.

Meanwhile, in France, the Group submitted its cyberattack detection probe for certification from the French agency for information systems security (ANSSI). This digital confidence solution meets the requirements of the French military programming law which all essential operators will have to comply with by 2019.

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' 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 future air traffic management systems, 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.

Across all continents, Thales offers 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. 1,300 Thales radars are in service across the world and the Group equips over 70 countries with civil radars and more than 45 countries with military radars.

In the military domain, Thales is specialized in air operations command and control systems and air defence radar systems, ensuring the protection and security of forces and resources deployed in over 45 countries. As a mission systems integrator, Thales is proud to contribute actively to major military programs in the world such as ACCS for NATO, SCCOA for France and FLORAKO for Switzerland. Thales excels in the fields of system integration, complex program management, real time and non-real time software, human-machine interfaces and service oriented architecture.

Thales owns 50% of Thales Raytheon Systems, a company that specializes in Integrated Air and Ballistic Missile Defence (IAMD) Command and Control (C2) Systems. Thales Raytheon Systems provides NATO and the NATO Nations with Integrated Air and Missile Defence capability for the NATO Air Command and Control System (ACCS) Programme.

Thales also 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 specialises in multirole weapon systems based on the new lightweight multirole missile (LMM) family, which includes a guided, free-fall variant.

In the field of **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' expertise in optics is also applicable to the commercial fields of high end zoom lenses for cinema and for ultra-high power scientific and industrial 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' 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 Leidos and Raytheon, European companies Indra and Leonardo (Selex), and in some niche areas, Saab, Frequentis and Harris.

In the military segment, Thales' main competitors are the US companies Leidos, Northrop Grumman, and Raytheon, and Leonardo, 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 United States (Raytheon and Leidos) are also major customers of Thales' missile electronics and key partners in weapon systems.

Thales is Europe's leading defence optronics supplier facing competition in this segment from US suppliers (Raytheon, Leidos 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 2016

In 2016, the Air Traffic Management (ATM) business line secured a variety of contracts across its full portfolio of technologies. Key Air Traffic Control (ATC) centre contracts were secured and delivered in Africa, Asia, Central Asia, Latin America, the Middle East and Europe. The contract to automate the terminal manoeuvring area, area control airspace and operations at Beijing Capital International Airport – the second busiest airport in the world – and the new Beijing Daxing International Airport along with a contract for primary and secondary ATC radars for Beijing are notable examples. Contracts for hundreds of Navigation and Surveillance systems were also secured in 2016 including three next generation Deployable-Instrument Landing Systems for the US Air Force, a significant milestone in this innovative navigation aid contract. Furthermore, underscoring Thales as one of the leaders in civil and military ATC interoperability, the Group started to implement a contract to deploy civil and air defence radars and automation systems to modernise and integrate Bolivia's air defence and civil ATM operations.

In the area of surface radars, 2016 saw a number of Thales product launches:

- a new ultra-tactical version of the Ground Master 60 with a "search on the move" capacity was launched at Eurosatory;
- the NS200 naval radar bringing multi-mission capabilities to naval platforms was introduced at Euronaval;
- the APAR Block2 was launched at CANSEC.

In terms of business successes, the Group continued to deliver a significant number of its Ground Master radars to several air forces worldwide. In the naval domain, Thales was selected for its Sea Fire control radar by the French defence procurement agency for the future intermediate size frigates. Developed with the support of the French authorities, the Sea Fire is a fully solid-state multi-function radar with a four-panel phrased array antenna. It meets the requirements of a broad range of missions, from ship self-defence to extended air defence, and can deploy ASTER missiles. The Sea Fire is designed to perform in the complex conditions of the littoral or in heavily jammed environments to counter conventional, asymmetric or emerging air and surface threats. In the Netherlands, Thales was successful in detecting and tracking a satellite at a range of 2,000 km with its SMART-L EWC demonstrator. SMART-S Mk2 proved itself to be the most successful naval radar world-wide with over 70 radars under contract – the 50th having been delivered in October 2016 to the customer.

(1) International Civil Aviation Organization (ICAO).

(2) Single European Sky ATM Research.

In the area of advanced weapon systems, Italy joined the "Block 1 New Technology" programme (B1NT), launched in December 2015 by the French defence procurement agency (DGA). In continuity with the on-going contract underway in France, Thales will deliver, in cooperation with the Italian industry, a new version of the fire control function and will develop a new missile seeker. Based on the most advanced concept of open architecture, this new fire control function ensures durability and will provide the SAMP/T with a very high level of performance, operational availability and flexibility to take into account the evolution of air and ballistic threats. As part of the FLORAKO programme modernisation, Armasuisse has awarded Thales a contract to upgrade the Master radars for the Swiss Air Force. This contract, which amounts to €74 million, will be the main order within the broader FLORAKO radars life extension project approved by the Swiss government in 2016. This is intended to extend the lifespan of the radars and to ensure operational excellence until 2030.

In the field of armoured vehicles, 2016 has been a year of delivery for Thales compared to 2015 which was more eventful contractually with the contract for 1,100 Hawkei 4x4 vehicles, which provide mobility and protection for soldiers in operation, for the Australian Defence forces. The new generation of the 7-tonne Hawkei Protected Mobility Vehicle was on display at Land Forces Conference 2016 and highlighted the Integral Computing System (ICS) with Generic Vehicle Architecture (GVA).

In 2016, several export optronics contracts were won, in particular in India, Middle East and Africa. The activity also benefited from the Rafale export sales in India, and from export sales of several armoured platform partners. A new market segment was developed with the Spy'Ranger, a mini-reconnaissance UAV for tactical missions, such as offensive reconnaissance or target observation. Selected by the French defence procurement agency, the Spy'Ranger will provide French armed forces with protected access to real-time day and night extended battlefield imagery.

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 and the Mirage 2000 fighter aircraft and for future combat unmanned aerial vehicles (UAVs), as well as electronic warfare radar systems, designed to detect threats and protect platforms.

For intelligence, surveillance and reconnaissance missions, Thales designs naval, ground and air patrol and surveillance solutions, including a range of electromagnetic-based information-gathering sensors. These systems – which are installed on aircraft or naval platforms – incorporate surveillance radars, acoustic sub-systems and measurement and data linking equipment. Thales also designs complete UAV systems with intelligence, surveillance, reconnaissance and target acquisition capabilities.

In surface naval warfare, Thales offers comprehensive combat systems that integrate on-board sensors (radar, sonar, electronic warfare, infrared sensors, etc.), weapon systems and communications and command equipment. Thales also has naval platform engineering and support capabilities.

In underwater warfare, the Group offers a broad range of products including submarine sonar suites, hull-mounted and towed array sonar for surface ships, anti-mine systems, including the use of unmanned underwater vehicles, as well as acoustic sensors for submarine guidance.

2.1.3.4.2 Competitive position

In electronic combat systems, Thales is one of the leading European players, competing with BAE Systems, Leonardo, and the US companies Raytheon, Lockheed Martin and Northrop Grumman. In intelligence, surveillance and reconnaissance systems, its main competitors are Airbus Group, Elbit and General Atomics.

In surface naval systems, Thales is one of the principal European players, alongside Leonardo, BAE and Saab, and competes with Lockheed Martin in the United States. In underwater warfare, Thales is one of Europe's main players along with Atlas Elektronik and Ultra Electronics, and is in competition with Lockheed Martin, Raytheon and L3 in the United States.

2.1.3.4.3 Significant events in 2016

Electronic combat systems

As part of the Anglo-French feasibility study for a Future Combat Air System (FCAS), in March 2016 the French and UK governments announced that they were beginning the joint development of prototypes for combat UAVs that will be operational by 2025. In mid-2016, the Rafale team celebrated the delivery of the 150th Rafale fighter aircraft to the French armed forces. And in late September, the Indian Ministry of Defence signed a contract to purchase 36 Rafale, with delivery of the first aircraft scheduled for 2019 and production planned to last until 2022.

Airborne surveillance and intelligence systems

In April, the Qatar armed forces selected the Thales Searchmaster® multirole airborne surveillance radar to equip their optionally piloted vehicles – aircraft (OPV-A) for their land and naval surveillance requirements. Also in April, Thales signed a contract with the Malaysian Maritime Enforcement Agency to deliver six Fulmar Unmanned Air Systems (UAS) to be installed on Malaysia's new generation patrol crafts. The maritime design of Fulmar allows the aircraft to take-off and land whilst the ship is in motion. In June, the French defence procurement agency (DGA) ordered two light aircraft equipped for surveillance and reconnaissance missions. The delivery of the first plane is scheduled for end-2018 and the second for 2019. Also in June, the UK Ministry of Defence awarded Thales a new support contract for the Watchkeeper UAS, covering technical support and training for pilots, mission system operators and maintenance staff.

Surface naval systems

In March, the Royal Thai Navy placed an order with Thales to equip two Krabi patrol vessels with an integrated solution that includes the TACTICOS combat management system, and in September a contract was signed with the South Korean Navy to upgrade all of the Thales systems on board its KDX destroyers. At Euronaval 2016 in October, Thales presented NS200, its latest S-band radar with multi-mission capabilities designed for a wide range of naval ships up to destroyers.

Underwater warfare systems

In February, the Estonian Ministry of Defence selected Thales as prime contractor for the upgrade of three Sandown Class Single Role Minehunters. The upgrade mission package includes the 2193 wideband hull mounted sonar and a fleet mine warfare centre. In April, the Royal Thai Navy ordered two 2022 Mk3 sonars as part of an upgrade of two Bang Rachan class minehunters. In October, stage two of the Anglo-French Maritime Mine Counter Measures (MMCM) programme was announced. This second stage is dedicated to the development and supply of two unmanned mine clearance vehicles – one for France and one for the United Kingdom. This new stage manufactures and experiments the future mine countermeasures capabilities (SLAM-F future mine countermeasures system). Also during the year, the Royal Australian Navy signed a contract for upgrading the Scylla sonars for its Collins submarines.

2.2 RESEARCH AND INNOVATION

Thales needs to be able to offer increasingly sophisticated technologies, particularly in the 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 by forging closer ties with SMEs and start-ups;
- a "market" dimension, by jointly innovating with customers and their ecosystems to create new usages.

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 2016, Thales spent €741 million (approximately 5% of sales) purely on self-funded R&D, an essential lever to remain competitive.

A significant portion 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 cybersecurity;
- **information and cognitive sciences:** data fusion, data mining, autonomous systems, synthetic environments, and human factors;
- **systems:** focused on systems design architecture, this area provides support for methodology, processes and expertise.

FOCUS 1

Active electronic scanning antennae come of age

Active electronic scanning antennae not only give radars extreme agility, they also enable them to simultaneously track multiple targets. Thales has already produced this type of antenna for all environments – land, sea, air and space – with the most well-known being the one used for the Rafale fighter aircraft.

Thanks to the innovations developed since 2010 by the Group's R&D teams, it can now offer all of the benefits of these new antennae at no extra cost compared with conventional mechanical antennae. Both architectural and technological advances have enabled the Group to fine-tune a "tiled" approach, whereby each of the thousands of active transmitters-receivers making up the active antenna is as compact as a small electronic component.

Available in two versions depending on the density level of the beamed energy, this concept has delivered excellent radioelectric performances. The Group has the necessary manufacturing capabilities in place to mass produce this new generation of active antennae in a cost-effective way.

2.2.3 Thales at the heart of innovation ecosystems

Wherever it is located, 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 United Kingdom, 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' 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, and Université Pierre et Marie Curie (UPMC-Paris VI), whose partnership was renewed in 2016 for a further five years.

The most advanced form of partnership is the joint laboratory, such as those operated by Thales with the CNRS for physics, with CEA-LETI as part of the III-V Lab (an EIG whose members are Alcatel Lucent SA, 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 Systematic 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 Brittany, 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 with several major Universities through its R&T centre, including Cambridge, Bristol and Southampton. Thales is an active member of many collaborative partnerships in the United Kingdom: the Centre for Secure Information Technologies (CSIT), based at Queen's University Belfast; the Centre for Smart Infrastructure and Construction (CSIC) and the Institute for Manufacturing (IfM), based at Cambridge University; the UK Defence Growth Partnership (DGP); the mobile Virtual Centre of Excellence (mVCE), with numerous Universities; the Defence Academic Pathways (DAP) and the UK Catapults, particularly the Digital Catapult where Thales has contributed to the emergent IoT defining the security implications of pervasive digital Sensors and their associated data. Thales participates in a number of key UK associations and councils to influence UK government policies in Science, Technology and Innovation: the Engineering & Physical Science Research Council (EPSRC), the Confederation of British Industry (CBI) Inter Company Academic Relations Group (ICARG) and the National Centre for Universities & Business (NCUB) Science & Innovation.

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 has entered into an agreement for a joint research unit in urban sciences. In 2016, Thales joined the IVADO – an institute for data valorisation that brings together industry professionals and academic researchers to develop cutting-edge expertise in big data which has significant value-creation potential for numerous business sectors.

In the United States, Thales has forged links with innovation ecosystems in Boston (centred on MIT) and the Silicon Valley.

In emerging countries, the Group is developing its R&D activities by establishing innovation platforms locally, using the tried and tested principles of joint innovation with local players and, in so doing, building long-term, trust-based relationships.

In 2016, Thales continued to step up its work with start-ups. For example, during the year it increased its investment in Starburst – a start-up incubator specialised in aerospace, of which Thales is a founding member – to help it expand its activities in North America and Germany. In just two years, over 300 start-ups have been analysed and 25 real-life case studies have been carried out with the Group's business units.

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 therefore reinforces its appeal to young scientists. Thales also supports ten teaching chairs in subjects that are in line with its technical priorities.

FOCUS 2

Sentry of the seas

In Autumn 2016, Thales unveiled its Autonomous Underwater and Surface System (AUSS), which represents a veritable breakthrough in terms of both concept and technology in the field of maritime surveillance. In hostile and dangerous environments, autonomous systems constitute the state-of-the-art solution that naval forces need.

AUSS is a hybrid unmanned system based on a totally new propulsion concept. Navigating in total security and with agility, it is capable of operating both above and below the surface and can avoid obstacles. It is designed for missions including naval surveillance, intelligence gathering on the surface, maritime counter-terrorism and mine countermeasures.

In order to complete the development of AUSS in a record three years, Thales teamed up with 18 French SMEs to create a veritable innovation ecosystem in an integrated laboratory that was kept secret. The multidisciplinary team worked in "start-up" mode from the design phase right through to the sea trials.

2.2.4 A dynamic approach to intellectual property management

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

The Group filed more than 300 new patent applications in 2016. The continued large number of patent applications in recent years reflects Thales' commitment to innovation and its ability to translate research results into competitive advantages. In 2016, Thales was once again included in the Top 100 Global Innovators ranking compiled by Clarivate Analytics (formerly Thomson Reuters Intellectual Property & Science), with the Group standing out for the volume, success and influence of its patents. This achievement underlines Thales' commitment to innovating, protecting its ideas and bringing its inventions to market. Thales has been included in this prestigious ranking four times since 2011, which testifies to the importance the Group places on implementing an active and ambitious intellectual property management strategy.

The Thales portfolio, which includes more than 15,000 patents and patent applications, is regularly adapted to operational requirements, particularly to protect Thales' market share.

FOCUS 3

In the field of In-Flight Entertainment and Connectivity, Thales is investing in evolutionary innovation, with new connected products, applications and services to answer strong market demand for Internet-enabled high quality in-flight entertainment and streamlined airline operations, as well as in disruptive approaches to accompany Thales' business in its digital transformation.

Building on its experience with the 2014 LiveTV acquisition, Thales has secured strategic partnerships with global and regional satellite connectivity providers, allowing its airline customers all around the world to offer connectivity services to their passengers and take advantage of this capability to develop new data-oriented services.

With a strong investment in its airline-focused secured cloud platform, InFlyt Cloud, Thales can now offer valuable services to help them develop their brand towards their passengers and offer a truly personalised in-flight experience.

2.3 RELATIONS BETWEEN THALES AND ITS SUBSIDIARIES

2.3.1 Simplified organisational chart at 31 December 2016

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 beginning on pages 112 *et seq*.

A list of the main consolidated companies can be found below.

2.3.3 Financial flows between the parent company and its subsidiaries

The parent company receives dividends from its subsidiaries, as approved by their respective General Meetings of Shareholders, and in accordance with the applicable legislation and regulations in their countries of operation.

In addition to these dividends and the payment of fees for shared services, the main financial flows between 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 Defence & 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 Air Operations SAS	France	100%	100%
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 Holding Ltd	United Kingdom	33%	33%
DCNS	France	35%	35%
Diehl Aerospace GmbH	Germany	49%	49%
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%
Cloudwatt	France	22%	22%
Elettronica SpA	Italy	33%	33%
ESG Elektroniksystem und Logistik GmbH	Germany	30%	30%
Telespazio SpA	Italy	33%	33%

2.4.2 Major manufacturing sites

As of the end of 2016, there were 15 sites employing more than 1,000 staff.

At 31 December 2016	Headcount	Owned	Size (m^2)
France			
Bordeaux (South-west)	2,269	Leased (Le Haillan), and Owned (Pessac)	59,000
Brest (Brittany)	1,414	Leased	56,000
Cannes (Provence)	2,049	Owned-leased	84,000
Cholet (Pays de la Loire)	1,372	Leased	53,000
Gennevilliers (Île-de-France)	3,576	Leased	90,000
Élancourt (Île-de-France)	3,253	Leased	104,000
Massy (Île-de-France)	1,093	Leased	26,000
Rungis (Île-de-France)	1,128	Leased	23,000
Toulouse (South-west)	3,987	Owned-leased	142,000
Vélizy (Île-de-France)	3,894	Leased	125,000
United Kingdom			
Crawley	1,705	Leased	26,130
Netherlands			
Hengelo	1,152	Owned	87,000
Australia			
Sydney	1,151	Leased	84,327
Germany			
Stuttgart	1,519	Leased	59,000
United States			
Irvine	1,060	Leased	30,440

CORPORATE GOVERNANCE

>3

3.1 COMPOSITION OF THE BOARD OF DIRECTORS AT 31 DECEMBER 2016

3.1.1 Directors

3.1.1.1 Appointed at the General Meeting

PATRICE CAINE

(46)

Chairman and CEO

Chairman of the Strategic Committee

First appointed
23 December 2014

Current term expires
2018 OGM

Number of shares held:

- 2,038 Thales shares (1,882 shares in registered form and 156 shares under the Group savings plan);
- 3,438 share subscription options.

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 Chief Engineer (*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 advisor 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 the École des Mines de Paris. From 2000 to 2002, he worked as a technical advisor on energy on the staff of the Minister of the Economy, Finance 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' 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 French National Order of Merit (*Chevalier de l'Ordre National du Mérite*).

On 23 December 2014, he was appointed **Chairman and CEO** of Thales by the Board of Directors. He also chairs the Strategic Committee.

Appointments and other positions held in companies in France and abroad

Appointments held

In France: director of DCNS.
Abroad: none.

Other positions held by Mr Caine in the last five years

In France: director of École des Mines de Paris.
Abroad: none.

LAURENCE BROSETA

(48)

Director recommended 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.

Born on 22 September 1968, Laurence Broseta is a French citizen and a graduate of the École Polytechnique and Télécom ParisTech.

She began her career at RATP where she oversaw operations at its bus, tram and underground departments. She also took part in new rail infrastructure projects in the UK and South Africa, where she started up and managed a locally-based operating company.

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.

In March 2013, she became Senior Executive Vice President France of Veolia-Transdev, an international group that provides mobility and passenger Transport services.

Since July 2016, Laurence Broseta has been Chief Executive Officer of Transdev's International Zone, in charge of Europe and Asia-Pacific, which reported €1.7 billion in revenue and has some 20,000 employees.

Appointments and other positions held in companies in France and abroad

Appointments held

In France: member of the Supervisory Board of Vallourec and director of RATP Dev Transdev Asia.
Abroad: director of Transdev group subsidiaries (in Spain, Portugal, South Korea, India and Germany).

Other positions held by Ms Broseta in the last five years

In France: director of Transdev group subsidiaries, director of Thello, director and Vice Chairman of the Union des Transports Publics, and director of the RATP Foundation.
Abroad: director of RATP Dev group subsidiaries.

LAURENT COLLET-BILLON

(66)

Director recommended by the Public Sector, French State representative

First appointed
1 July 2014

Current term expires
2020 OGM

Number of shares held
Not required to hold Thales shares (French State representative under Article 139 of the NRE Act)

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 advisor 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 (*Légion d'honneur*) 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: French 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.

3

GUYLAINE DYÈVRE

(56)

Independent director

First appointed
13 May 2015

Current term expires
2019 OGM

Number of shares held
500 Thales shares

A French citizen born on 30 November 1960, Guylaine Dyèvre holds a Master's degree in Political Science and a Bachelor's degree in Economics.

During her 25 years of experience in the financial sector, Ms Dyèvre worked for over ten years in capital markets. She led various international teams in France and across Europe working in foreign exchange derivatives.

She then returned to banking, working in finance 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 **Global Head of CIB Compliance** as part of the BNP Paribas group's finance and investment division.

She is also 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 of Rémy-Cointreau[(1)], Veolia Eau and the French Institute of Directors (*Institut Français des Administrateurs* – IFA).
Abroad: director of BNP Paribas North America (USA).

Other positions held by Ms Dyèvre in the last five years

In France and abroad: none.

CHARLES EDELSTENNE

(78)

Director recommended 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

Born on 9 January 1938 and 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 Company Secretary in 1975, then Vice President for Economic and Financial Affairs in 1986. From 2000 to 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 of Dassault Aviation SA[(1)], Dassault Medias SA, Groupe Figaro Benchmark SASU, 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), Dassault Falcon Jet Corp (USA) and Lepercq, de Neuflize & Co. (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

(68)

Independent director

Chairman of the Governance and Remuneration Committee

First appointed
19 May 2009

Current term expires
2020 OGM

Number of shares held
500 Thales shares

Born on 18 March 1948 and 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, the École des Mines de Paris and 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 Chief Operating Officer at EDF.

In February 2003, the French Council of Ministers appointed Yannick d'Escatha as Chairman of the National Space Research Centre (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*) and, since January 2017, to the Chairman of EDF.

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.

DELPHINE GÉNY-STEPHANN

(48)

Director recommended by the Public Sector

Member of the Audit and Accounts Committee

First appointed
29 November 2016

Current term expires
2018 OGM

Number of shares held
500 Thales shares

Delphine Gény-Stephann was born on 19 November 1968 and is a French citizen. A graduate of the École Polytechnique, École des Ponts ParisTech and Collège des Ingénieurs, Delphine Gény-Stephann formerly held the rank of Chief Engineer (*Ingénieur en chef*) of the Corps of Bridges, Waters and Forests (*Corps des ingénieurs des ponts, des eaux et des forêts*). She began her career in 1994 at the French Treasury Department of the Ministry of the Economy and Finance.

From 1999 to 2005, she was a supervisor at the French Government Shareholdings Agency (*Agence des Participations de l'État*).

In 2005, Delphine Gény-Stephann joined the Saint-Gobain group's High-Performance Materials activity as Vice-President, Development, and went on to become Chief Financial Officer of the Ceramic Materials Division.

In 2013, she was appointed as the Group's Vice-President, External Venturing, and became responsible for M&A in the Innovative Materials Sector. In October 2014, she was named Vice-President, Corporate Planning & Strategy of Saint-Gobain. She became a member of Saint-Gobain's Senior Management Committee on this same date.

Appointments and other positions held in companies in France and abroad

Appointments held

In France: director of Saint-Gobain Isover and Saint-Gobain PAM.
Abroad: none.

Other positions held by Ms Gény-Stephann in the last five years

In France and abroad: none.

(1) Listed company.

3

PHILIPPE LÉPINAY

(63)

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
3,086 Thales shares

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 **Vice President, International Relations at Thales**.

Appointments and other positions held in companies in France and abroad

Appointments held

In France: Chairman of the French Federation of Employee Shareholders' Associations (FAS), Vice Chairman of the Federation of Employee Shareholders' Associations 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

(56)

Director recommended by the Industrial Partner

Member of the Audit and Accounts Committee

First appointed
19 May 2009

Current term expires
2018 OGM

Number of shares held
509 Thales shares

Born on 27 March 1960, Loïk 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.

He served as financial advisor to Dassault Aviation's Vice President for Economic and Financial Affairs in 1990 and subsequently became Deputy Director (1998-1999), and ultimately director.

In January 2009, Loïk 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 **Chief Operating Officer of Dassault Aviation**. He is a member of the Dassault Aviation Management Committee.

He is a Knight of the French National Order of Merit and the French Legion of Honour.

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), 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: director of Dassault Procurement Services (USA).

(1) Listed company.

ANNE-CLAIRE TAITTINGER

(67)

Independent director

Chairman of the Audit and Accounts Committee

First appointed
15 May 2012

Current term expires
2018 OGM

Number of shares held
500 Thales shares

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 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 Chairman & Chief Executive Officer of the Compagnie Financière Deville. She was subsequently Chairman & Chief Executive Officer of the Compagnie Financière Leblanc, ELM-Leblanc, Vice Chairman & Chief Executive Officer of the Industrial division of Deville, and Chairman & Chief Executive Officer of Annick Goutal perfumes and later Baccarat. She became Chief Executive Officer, followed by Chairman of the Management Board of the Société du Louvre in 1997, and, in 2002, Chairman of the Management Board of Groupe Taittinger and Chief Executive Officer of its subsidiary Groupe du Louvre when the positions of Chairman 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 of Carrefour SA[1], Chairman of SAS Le Riffray.
Abroad: none.

Other positions held by Ms Taittinger in the last five years

In France: until October 2013: director of FinanCités, IFA and the PlaNet Finance Foundation; member of the Supervisory Board of PlaNet Finance. Until May 2014: director of Club Méditerranée[1].
Abroad: none.

ANN TAYLOR

(69)

Independent director

First appointed
15 May 2012

Current term expires
2018 OGM

Number of shares held
500 Thales shares

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 Assembly of 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[2] and Chair of Council and Pro-Chancellor at the University of Bradford.

Other positions held by Baroness Taylor in the last five years

In France and abroad: none.

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(1) Listed company.
(2) A Thales group company.

ÉRIC TRAPPIER

(56)

Director recommended by the Industrial Partner

Member of the Governance and Remuneration Committee

First appointed
19 May 2009

Current term expires
2018 OGM

Number of shares held
500 Thales shares

Born on 1 June 1960, Éric Trappier is a French citizen and a graduate of the Ecole Sud Telecom (formerly 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 Asia (India), and in 1996, in the United Arab Emirates. After serving as Head of Middle East & Africa in 2000 and head of military exports in 2001, he became Executive Vice President, International in 2002, then Senior Executive Vice President, International in 2006. He was appointed Chairman & Chief Executive Officer of Dassault Aviation in January 2013. He is an Officer of the French Legion of Honour and a Knight of the French National Order of Merit.

Appointments and other positions held in companies in France and abroad

Appointments held

In France: Chairman & Chief Executive Officer of Dassault Aviation SA, first Vice Chairman of Gifas, Chairman of the Defence Committee of the ASD, Chairman of the Defence Committee of Cidef/Gifas, director of 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 of Rafale International EIG and Dassault International Sarl, Permanent Representative of Dassault Aviation on the Boards of Sofresa, Odas, Sofema and Eurotradia.
Abroad: none.

MARTIN VIAL

(62)

Director recommended by the Public Sector, French State representative

First appointed
17 September 2015

Current term expires
2020 OGM

Number of shares held
Not required to hold Thales shares (French State representative under Article 139 of the NRE Act)

Born on 8 February 1954, Martin Vial is a French citizen and 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 in the Finance department at PTT (the former French public administrator of post offices, telegraphs and telephones) overseeing the postal service, in 1986 he joined the French Treasury Department, where he held supervisory responsibility for banks and marketing operations. From 1988 to 1993, he served as technical advisor, deputy director and later director of the following offices: the French Minister of Post Offices, Telecommunications and Space, the French Minister of Public Amenities, Housing, Transport and Space, and the French Minister of Post Offices, Telegraphs and Telephones.

In 1993, Mr Vial was appointed as chairman and Chief Executive Officer of Aéropostale and, 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 both Chairman of the La Poste group and Vice Chairman of the French National Provident Fund (*Caisse nationale de prévoyance* – CNP).

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, and as director and 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 company that provides care to the elderly.

On 24 August 2015, Mr Vial was appointed as Commissioner for Government Shareholdings and Chief Executive Officer at the French Government Shareholdings Agency.

Appointments and other positions held in companies in France and abroad

Appointments held

In France: director of 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 of Homair Vacances and Business Solutions Capital.
Abroad: Chairman of CSA and Europ Assistance Brazil, Belgium, UK and USA, director of Europ Assistance South Africa, Germany, China, Spain, Italy and Portugal.

(1) Listed company.

MARIE-FRANÇOISE WALBAUM

(66)

Director recommended by the Industrial Partner

First appointed
17 September 2013

Current term expires
2018 OGM

Number of shares held
500 Thales shares

Born on 18 March 1950, Marie-Françoise Walbaum, a French citizen, is a graduate in economics and sociology from Paris X University. She began her career at BNP Paribas in 1973 and held various posts in retail banking and credit analysis until 1981. From 1981 to 1994, she served as Senior Auditor of BNP's Inspectorate General, Chief Executive Officer for mutual funds and Chief Executive Officer of the brokerage firm Patrick Dubouzet SA. In 1994, Marie-Françoise Walbaum became Head of Listed and Unlisted Equity Investments and Private Equity Portfolio Manager at BNP Paribas, a firm she left in the summer of 2012 after a career spanning 39 years.

Appointments and other positions held in companies in France and abroad

Appointments held

In France: independent director of Esso[1] (and Chairman of the Audit Committee), FFP[1] (and member of the Finance and Audit Committee and the Governance, Appointments and Remunerations Committee), Imerys[1] (and member of the Audit Committee, the Appointments Committee and the Compensation Committee), and Isatis Capital.
Abroad: none.

Other positions held by Ms Walbaum in the last five years

In France: director of Vigeo.
Abroad: none.

3.1.1.2 Employee representatives

ANNE-MARIE HUNOT-SCHMIT

(52)

Director representing employees

Member of the Strategic Committee

First appointed
9 December 2016

Current term expires
8 December 2020

Number of shares held
100 Thales shares. Not required to hold Thales shares (Article L. 225-25, paragraph 3 of the French Commercial Code)

Born on 4 October 1964, Anne-Marie Hunot-Schmit is a French citizen and a graduate of the IAE de Paris business school. After receiving a postgraduate degree in Applied Mathematics, she joined Dassault Electronique in 1987 as a software developer, where she filed the first patent for a ground collision avoidance system (GCAS). In 1998, Ms Hunot-Schmit joined the first contract management team for the Mirage 2000 programmes. In 2007, she began working at Thales' registered office, where she was responsible for international business ethics standards and subsequently became head of the Price Control Department.

Since autumn 2016, she has been in charge of Financial Controlling for bids and projects within the Ground Transportation Business Unit.

Appointments and other positions held in companies in France and abroad

No appointments or positions in other companies.

FRÉDÉRIQUE SAINCT

(58)

Director representing employees

Member of the Audit and Accounts Committee

Member of the Governance and Remuneration Committee

First appointed
9 December 2016

Current term expires
8 December 2020

Number of shares held
Not required to hold Thales shares (Article L. 225-25, paragraph 3 of the French Commercial Code)

Born on 19 December 1958, Frédérique Sainct is a French citizen and holds a degree in Engineering from the École Centrale de Paris. In 1984, she began working for Aérospatiale Cannes, which became Alcatel in 1998, and in 2007, she joined Thales Alenia Space. Ms Sainct has worked in various areas in the satellite business, including altitude control and mission analysis for telecommunications customers in Europe and abroad. Since 2006, she has been a technical expert for the "In-orbit operations" (*Opérations en orbite*) division.

Appointments and other positions held in companies in France and abroad

No appointments or positions in other companies.

(1) Listed company.

3

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 corporate 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, 51, 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 169) and pursuant to Article 10 of the Company's Articles of Association.

Government commissioner

Paul Fouilland, 61, 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, 64, 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 Labour Code (*Code du travail*).

The statutory auditors

Are invited to attend, at a minimum, 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 could be of particular value to the discussion. The following were invited to Board meetings during the 2016 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 17 MAY 2017 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 27 February 2017, 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 17 May 2017.

3.2.1 Corporate governance

In accordance with French law, 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 amended most recently in November 2016.

(1) The Governance and Compensation Committee for the part related to corporate governance and the Audit and Accounts Committee for the part related to internal control and risk management.

"Comply or explain" rule

The Company complies with the recommendations contained in the AFEP-MEDEF code as amended in November 2016, except for those concerning:

Heading	AFEP-MEDEF	Thales 27/02/2017	Explanation
A. Independent directors (ratios):			
• Board of Directors	1/3 (controlled companies)	31%	The terms of the shareholders' agreement do not allow compliance with the ratios of the AFEP-MEDEF code
• Audit and Accounts Committee	2/3	1/3	
• Governance and Remuneration Committee	> 50%	1/3	
B. Succession plan for the Company representative (Chairman and CEO of Thales)	A Board committee draws up a succession plan for the Company representative	No	Under the terms of the above-mentioned agreement, the appointment of the Chairman and CEO is decided by both shareholders

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 French financial markets authority (*Autorité des marchés financiers* – AMF), as of 31 December 2016, the Board of Directors is composed of 16 directors, 14 of whom are appointed by the General Meeting and 2 of whom are appointed by the trade unions, 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 representative of employee shareholders, 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 and CEO 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 2016	1st appointment	Positions currently held	
		Starts	Ends
Appointed by the Annual General Meeting (14)			
Recommended by the Public Sector (5)			
Patrice Caine, Chairman and CEO	23/12/2014	23/12/2014	2018 OGM
Laurence Broseta	14/05/2014	14/05/2014	2018 OGM
Laurent Collet-Billon (representative of the French State)	01/07/2014	18/05/2016	2020 OGM
Delphine Gény-Stephann	29/11/2016	29/11/2016	2018 OGM
Martin Vial (representative of the French State)	17/09/2015	18/05/2016	2020 OGM
Recommended 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	18/05/2016	2020 OGM
Anne-Claire Taittinger	15/05/2012	15/05/2012	2018 OGM
Ann Taylor	15/05/2012	15/05/2012	2018 OGM
Appointed by the trade unions (2)			
Anne-Marie Hunot-Schmit	09/12/2016	09/12/2016	08/12/2020
Frédérique Sainct	09/12/2016	09/12/2016	08/12/2020

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, pages 122 to 129. As recommended by the AMF, the biography identifies any positions held in Group companies and in other listed 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 2016, the average age of the directors was 60. At said date, 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: non-separation

The Company is a *société anonyme* (French public limited company) with a Board of Directors and there is no separation of the positions of Chairman of the Board of Directors and Chief Executive Officer.

On 13 May 2015 during the confirmation of Mr Patrice Caine's appointment as Chairman and CEO, 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 CEO are clearly established (see the extract from Section II of the Board's rules of procedure and Section 3.2.1.5 below).

The Chairman and CEO's compensation is reviewed by a committee and later by the Board of Directors in the absence of the concerned party.

During Board visits to Group sites, and in particular during the Board of Director's annual review of its strategic plan, directors may organise meetings without any senior executives in attendance, including the Chairman and CEO, Thales' only Company representative.

Increasing the number of women on the Board of Directors

The objectives 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 (40% of the directors appointed at the General Meeting must be women) were achieved on 29 November 2016 (6 women out of 14 directors, or 42.8%).

This situation has since remained unchanged, and in particular on 31 December 2016, which is when the percentage of women serving on the Board of Directors reached 50% (8 out of 16 directors), if the two employee representatives appointed in December 2016 by the trade unions are included.

Independence of directors

According to the rules of procedure, the Board of Directors, based on the report of the Governance and Remuneration Committee, conducted its annual review on 27 February 2017 of the situation of its members with reference to the definition of and criteria for independent directors, as specified by the amended AFEP-MEDEF code.

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 appointed by the trade unions, cannot be considered independent within the meaning of the amended AFEP-MEDEF code. As part of this approach, only directors who qualify as "external directors" under the terms of the shareholders' agreement may be qualified as independent directors (i.e., no more than 4 out of 16).

The Governance and Remuneration Committee carefully examined the responses it received to a detailed questionnaire (covering all the independence criteria defined by the amended AFEP-MEDEF code) that it updated and sent out to each "external director" in early January 2017.

Guylaine Dyèvre, as Global Head of Compliance of BNP Paribas's financing and investment division, is the only "external director" who holds a position in a group that has a business relationship with Thales (see her biography on page 124) given that BNP Paribas is involved in some of the Group's financing activities.

From a qualitative perspective, as in the previous year and based on the information presented to the Governance and Remuneration Committee, it noted that Ms Guylaine Dyèvre did not have any decisionmaking power in the context of the business relationship between BNP Paribas and Thales.

In the event that such a relationship is discussed during a Board of Directors' meeting, the director in question must refrain from participating in any deliberations and from voting on the matter, in accordance with the Company's system for managing conflicts of interest.

From a quantitative perspective, the committee noted that, in respect of 2016, the total compensation paid by Thales to BNP Paribas represented an amount significantly below the threshold of 1% of Thales' sales. As for BNP Paribas, the compensation it received represented an even lower percentage of its net banking revenue. The Board set the 1% threshold as a materiality threshold that determines whether or not a business relationship is material.

Given the responses to the other sections of the questionnaire, the committee concluded that, on this basis, nothing indicated that Ms Guylaine Dyèvre's judgement would be compromised while carrying out her duties as a director of Thales and that nothing may keep her from being qualified as an independent director by the Board.

The three other "external directors" stated that they have no business relationship with either the Company or the Group. In the committee's opinion, the questionnaires did not contain any responses that call into question these individuals' qualification as independent directors.

In conclusion, on the recommendation of the Governance and Remuneration Committee, the Board of Directors decided to qualify Guylaine Dyèvre, Anne-Claire Taittinger, Ann Taylor and Yannick d'Escatha as independent directors.

As of 27 February 2017, the closing date of the 2016 financial statements, the Board of Directors had four independent directors, or 31% of its members (excluding directors representing employees and employee shareholders, as stipulated by the amended AFEP-MEDEF code). The proportion is however slightly less than the one-third recommended for controlled companies.

Rules of procedure for the Board of Directors and its committees

The Board's rules of procedure, adopted in July 2004 and amended most recently by the Board on 27 February 2017, 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 "Prevention of insider trading" below).

In addition to the specific provisions of the shareholders' agreement, the Board's rules of procedure include best practices in respect of corporate governance, particularly those contained in the aforementioned AFEP-MEDEF code. The Governance and Remuneration 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 conflicts 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 any family ties with another member of the Board of Directors or any members of corporate management;
- 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 and CEO (or the appointment of a Chairman and a Chief Executive Officer in the event of separation or potential separation of these positions), 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 French 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 Remuneration Committee and Strategic Committee)

It is stipulated that, in addition to the responsibilities of each committee (see relevant sections below), each committee is entitled to ask 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.

V) Functioning of the Board of Directors (meetings, attendance and representation, annual assessment and updating the rules of procedure)

This topic is covered in the minutes of the Board of Directors' activities, as required by law, in Section 3.2.1.2 below.

Prevention of insider trading

In order to take into account any applicable regulations and 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), two periods of at least 15 days each have been introduced for quarterly reporting (first and third quarters). In each case, the period includes the day following 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.

The directors have been informed by the Company of their obligation to refrain from carrying out any transactions on Thales shares and related financial instruments during the blackout periods relating to the annual and half-yearly financial statements as well as the quarterly financial information, as defined by the Company, and when they have any insider information (within the meaning of the applicable regulations).

The directors have also been informed of any disclosure requirements with regard to the AMF and the Company concerning the transactions mentioned in Article L. 621-18-2 of the French Monetary and Financial Code (*Code monétaire et financier*), and of their obligation to provide the Company with a list of people they are closely connected to and inform said people of their own obligations.

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' website (www.thalesgroup.com) at least 21 days prior to the meeting. The results of votes on resolutions are posted online no later than 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 said 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 of the Economy.

Compensation and benefits in kind granted to directors

Attendance fees

In 2008, the General Meeting set the total amount of attendance fees at €600,000 per year, to be divided among directors and non-voting members for services to the Board, including 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 year (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 year (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 2016, the fixed component was thus reduced from €14,000 to €9,850 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 are no non-voting members on Thales' Board of Directors.

For 2016, the attendance fees due (gross amount before any deduction or levy) total €595,732 (compared with €599,793 for 2015); partial payment was made in July 2016, with the balance being settled in January 2017. Of the total of €595,732, the variable component is largely predominant, as recommended by the AFEP-MEDEF code, and reached €422,250 (about 74% of the total).

As an illustration, the gross amount (before any deduction or levy) paid during 2016 (before any withholding by the Company) totalled €626,043 (compared with €606,840 in 2015). It should be noted that the limit of €600,000 applies to attendance fees due for one year, irrespective of the payment schedule.

The tables from the appendices of the AFEP-MEDEF code relating to executive compensation (Table 2 – Company representatives and Table 3 – Directors) give details of names (see Section 3.5, pages 147 and 148).

In an effort to simplify the payment of attendance fees, the directors approved their payment on an annual basis (once every January) for the year then ended. In keeping with this, the attendance fees paid in January 2018 will concern all attendance fees due in respect of 2017 and those paid in January 2017 will concern, as in each previous year, the balance of attendance fees due in respect of the previous year, i.e., 2016. The Board modified its rules of procedure to reflect this change on 27 February 2017.

Compensation policy for the Chairman and CEO

The compensation of the Chairman and CEO 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 Remuneration Committee. As for senior executives of the Group, it is composed of a fixed and variable component. It is assessed 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 Table 2):

- in principle, fixed compensation may only be reviewed at relatively long intervals. In the event of any significant increase in compensation, the reasons for this increase must be clearly indicated;
- variable compensation (with a ceiling based on a percentage of fixed compensation) includes criteria that should not be modified too frequently. Quantitative criteria are simple and predominant and qualitative criteria are specifically defined.

The Board of Directors decided, at its meeting on 22 February 2016, that in 2016, Patrice Caine, in his capacity as Company representative, would not be granted stock options (the Company abandoned the system in 2012), performance shares and, therefore, no long-term incentive (LTI) plan or attendance fees. In accordance with the retrospective "say-on-pay" rule, a table summarising the components of his compensation package for 2016 is given to shareholders in the meeting documents (see Section 3.5.1.1).

For 2017, the Board of Directors decided to set the compensation policy for the Chairman and CEO as described in Section 3.5.1.2-B.

The tables from the appendices of the AFEP-MEDEF code can be found in Section 3.5.1.1. They provide all the information regarding the compensation of the Chairman and CEO, which meets the recommendations of the amended AFEP-MEDEF code.

Summary of the transactions mentioned in Article L. 621-18-2 of the French Monetary and Financial Code carried out in 2016

The summary statement (provided for in Article 223-26 of the AMF General Regulations) of the transactions mentioned in Article L. 621-18-2 of the French Monetary and Financial Code carried out in 2016 by persons required to file a disclosure can be found in Section 4.3.3.7, pages 173 and 174.

3.2.1.2 Minutes of the Board of Directors' activities during 2016

Number of meetings and attendance rate

The Board of Directors met ten times in 2016, including three times outside of the registered office, and one of these three meetings was held via conference call. The average attendance rate for directors was 93%.

The statutory auditors are invited to meetings relating to the audit of the annual and half-year financial statements. In addition, they may be invited to other Board meetings when a report on the work carried out by the Audit and Accounts Committee is presented and when their attendance may be of particular value to the discussion.

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 and CEO'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 and CEO 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 2016, in some cases with reports from the relevant Board committee:

- the monitoring of strategic decisions and sensitive issues;
- the review of various M&A projects;
- the revision of the Board's rules of procedure;
- the introduction of an annual long-term incentive (LTI) plan with performance conditions and that includes Group employees;
- the annual assessment of the Board's performance;
- the Group's Engineering function;
- the monitoring of UK pensions and the issue of parent company guarantees.

3.2.1.3 Preparatory work for board meetings

Information for directors

Board documents

Each year, a provisional timetable for meetings is drafted halfway through the year for the following year.

The Board's rules of procedure have set the 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 initially 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 sent to them directly 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 to directors based on their request.

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 Remuneration Committee and a Strategic and Corporate Social Responsibility Committee.

Audit and Accounts Committee

At 31 December 2016, the powers and duties of this committee, which are reproduced in the Board's rules of procedure (Article 16), reflect, on the whole, the framework set out in the order of 8 December 2008 implementing Directive 2006/43/EC:

"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, with reference to 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 any meeting secretary or Thales representatives being present.

To take into account the transposition into French law of the new EU regulation on statutory audits, the committee, without prejudice to the powers of the Board of Directors, is also responsible for approving the provision of non-audit services in compliance with the regulation. As part of this, the committee reviews and validates any related methods and procedures and ensures they are complied with.

The framework for the implementation of this additional engagement was reviewed by the committee starting in the second half of 2016 and finalised during the Board meeting of 27 February 2017. The Board's internal procedures were amended to take into account these regulatory changes.

On 31 December 2016, the members of the committee were:

- Anne-Claire Taittinger, Chairman and independent director;
- Delphine Gény-Stephann;
- Frédérique Saint, director representing employees;
- Loïk Segalen.

The composition of the Audit and Accounts Committee is consistent with the provisions of the French Commercial Code: the committee members are all directors, and one director, the Chair of the Committee, in addition to being deemed as an independent director, has the requisite financial, accounting and statutory audit expertise (see biography of Anne-Claire Taittinger on page 127).

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 director representing employees, Ms Frédérique Saint, 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. Ms Delphine Gény-Stephann was appointed to the Audit and Accounts Committee on the recommendation of the Public Sector, and Mr Loïk Segalen was appointed on the recommendation of Dassault Aviation.

The committee met five times in 2016, with an attendance rate of 100%.

The statutory auditors, invited to all committee meetings, are involved in all discussions, except when there is a conflict of interest (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 Company 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 half-year financial statements, in 2016 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 annual audit plan;
- the audit plan for 2017;
- the potential impact of Brexit on pensions in the UK;
- the implementation of IFRS 15, a new revenue recognition standard, applicable as from 2018;
- 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 2016 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 directors, is included in the section of the Registration Document on "Risk factors" (Section 1.1.2 of the management report, pages 14 *et seq.*).

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 Remuneration Committee

In compliance with Section 17 of the Board's rules of procedure, the Governance and Remuneration Committee has the task of examining:

- the compensation policy for the Company's senior executives;
- the compensation of the Chairman and CEO and any related-party commitment concerning him, the compensation of the directors (attendance fees) and, if applicable, that of other company representatives;
- the proposed long-term incentive (LTI) plans, which are submitted to the Board;
- the proposed employee share ownership schemes;
- candidates for external directors, regarding whom the two major shareholders held consultations in accordance with 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.

On 31 December 2016, the members of the committee were:

- Yannick d'Escatha, Chairman and independent director;
- Frédérique Sainct, director representing employees;
- Éric Trappier;
- Martin Vial.

It met six times in 2016, with an attendance rate of 96%.

The ratio of independent directors recommended by the AFEP-MEDEF code (at least half) is not satisfied because it currently stands at one-third (the director representing employees, Ms Frédérique Sainct, is not included in this calculation pursuant to the AFEP-MEDEF code). 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. Mr Martin Vial was appointed to the Governance and Remuneration Committee on the recommendation of the Public Sector, and Mr Éric Trappier was appointed on the recommendation of Dassault Aviation.

The Senior Executive Vice President, Human Resources, and the Company Secretary were invited to all committee meetings, and the Chairman and CEO 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 2016 included:

- the Group's long-term incentive (LTI) policy and the preparation of a free share plan with performance conditions according to the level of responsibility of the beneficiaries;
- the examination of the compensation package for the Chairman and CEO, and in particular the qualitative criteria applicable for his variable compensation;
- the revision of the Board's rules of procedure;
- a preliminary draft of the employee share ownership scheme for 2017;
- 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.

The Strategic and Corporate Social Responsibility 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.

The Board of Directors, at its meeting on 27 February 2017, decided to add corporate social responsibility to these duties, pursuant to the AFEP-MEDEF code as amended in November 2016 (see Section 3, "The Board of Directors and Strategy"). As a result of these new duties, the committee is henceforth known as the "Strategic and Corporate Social Responsibility Committee".

On 31 December 2016, the members of the committee were:

- Patrice Caine, Chairman;
- Charles Edelstenne;
- Anne-Marie Hunot-Schmit, director representing employees;
- Philippe Lépinay, director representing employee shareholders;
- Martin Vial.

No independence criterion is imposed for directors on this type of committee by the law or the AFEP MEDEF code, although the latter recommends in the version as amended in November 2016 that directors on this type of committee "are informed about market developments, the competitive environment and the most important issues at hand, including in the field of corporate social and environmental responsibility".

The committee met four times in 2016, with a 100% attendance rate, mainly to examine the 2016 budget, to follow up on strategic decisions, and to review various proposed M&A transactions.

In 2016, 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 of Strategy were invited to meetings by the committee chairman. Minutes of each meeting were presented at the following Board meeting by the Chairman and CEO, as committee chairman, either verbally or accompanied by a report.

Minutes are taken during Strategic Committee meetings.

3.2.1.4 Assessment of the board's performance

As recommended by the AFEP-MEDEF code and pursuant to the Board's rules of procedure, one item on the Board meeting agenda each year is devoted to a discussion about its performance.

On the recommendation of the Governance and Remuneration Committee and by decision of the Board of Directors, the Company Secretary conducted individual interviews with each director at the end of 2016. The internal questionnaire used in previous years was therefore replaced by an interview guide, which is more likely to encourage discussion. During the interview process, the directors had the opportunity to assess the Board's performance as a group as well as the individual contributions of each director to the Board's work.

The assessment found that the directors unanimously agree that the performance of the Board and its committees is satisfactory.

In particular, the directors highlighted the quality of the documents handed out and the presentations given, as well as discussions during meetings and the superior quality of the annual strategy seminar. They noted that the areas for improvement suggested in 2015 had been taken into account, as follows:

- regarding the annual strategy seminar, the directors assessed the improvements made in 2016. Given the detail of the information provided at the seminar, they came up with a few suggestions for further improvement, which will be taken into account in 2017;
- additionally, the directors appreciated other improvements made in 2016, particularly the monitoring of acquisitions, the more regular discussion of current topics at Board meetings and the lunches held after meetings, which encourage informal discussion between both Board members and members of management. It was also suggested that, wherever possible, the Board should hold meetings outside of the registered office more frequently in order for members to be able to visit sites and meet the main operating executives.

As mentioned above, the directors approved the payment of attendance fees on an annual basis (once every January) for the year then ended.

3.2.1.5 Restrictions to the Chief Executive Officer's powers

Since 23 December 2014, Patrice Caine has served as Chairman and CEO, with the confirmation of the principle of non-separation on 13 May 2015, 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.

3.2.2 Internal control and risk management

This Section was submitted to the Audit and Accounts Committee at its meeting of 16 February 2017, 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 2016. 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 2016.

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 been certified by IFACI[1], which ensures that its practices comply with the international standards of the profession. On 18 March 2016, following a new audit conducted by IFACI, this professional certification was 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 management tool that Thales uses to:

- **Create and preserve the value, assets and reputation of the Group**

Risk management identifies and analyses the main threats and potential opportunities to which the Group is exposed. By anticipating the potential impact of these risks, it is intended to more effectively preserve the value, assets and reputation of the Group.

- **Secure the Group's decision-making and processes to help it achieve its objectives**

Risk analysis is designed to identify the principal events and situations which could significantly impact the achievement of the Group's objectives. Controlling such risks helps to achieve those objectives.

Risk management is integral to the Group's decision-making and operational processes. It is one of the tools for steering and assisting in decision-making.

(1) *Institut Français de l'Audit et du Contrôle Interne* (French Institute of Auditing and Internal Control).

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 and 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 uses as a reference the international standards of COSO (Committee of Sponsoring Organizations of the Treadway Commission) and 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 used internally for management and monitoring purposes as well as for 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 external uncertainties beyond the Group's control.

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 (Australia, Canada, France, Germany, the Netherlands, the United Kingdom and the United States) 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' institutional relations as well as for communication.

The country manager of each of the six major industrial countries (excluding France) in which the Group operates (see list above) 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 & Performance.

In all other regions (Africa, Latin America, Asia and the Middle East), the country or regional manager reports to the Senior Executive Vice President, International Development.

The Group defines common processes and internal rules on delegation setting out the way in which responsibility is shared, provides entities with the corresponding tools and sets up umbrella departments.

The delegations 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 internal processes and the work of 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 operational entities, who are responsible for 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 corporate risk analysis function. This is the responsibility of a dedicated team, separate from the audit team, which provides support to all operating 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 developing and updating internal control assessment tools, such as the yearly attestation letter and the internal control questionnaire, and collating and analysing the responses given by the operational entities in these annual questionnaires.

The financial function

The Group's Finance department oversees 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 comparing actual results with the budget and comparable prior-year periods. 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 the costs of these policies, verifies that the companies are properly covered against all insurable risks that they incur and monitors any significant claims;
- a treasury and financing function, which optimises financial resources and manages the Group's financial risks (foreign exchange, interest rates, pensions, etc.).

The Group's Finance department is represented in each Global Business Unit, each operational entity and 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 teams 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 half-year 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 and Contracts department, as well as the legal counsel in the various countries and Global Business Units, provide support to the operational entities 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 advisors who specialise in employment law and who provide support to the Group's entities, in collaboration with outside law firms where necessary.

Operations and performance function

The Operations and Performance department is responsible for the operational resources necessary to carry out projects and ensure customer satisfaction and quality, thus contributing to risk management. It approves the most sensitive bids according to specific criteria and holds quarterly reviews of projects deemed critical. It manages skills development plans as well as bid and project manager certification plans. It rolls out and upgrades bid costing and project management tools and provides ad hoc support to any Global Business Units and countries requesting it.

The Operations and Performance department includes the Quality Assurance and Customer Satisfaction department, which 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 implementing them and making sure that they are effective. This translates into process targets being achieved while reducing risk. Quality assurance procedures for projects and products are carried out by the operational entities, in order to effectively meet customer demands and ensure customer satisfaction.

In addition, the Quality Assurance function manages the policy in place for assessing the maturity of operational entities (see description in Section 3.2.2.4-a).

b) The Group's operating principles and procedures

Thales' operating principles and procedures underpin the Group's internal control. This set of organisational rules, policies and procedures, which includes rules on ethical conduct and corporate responsibility, is available on the Group intranet and is provided to all new employees in their welcome pack.

The reference system

Thales has created a process-based reference system called Chorus 2.0, which defines the organisation, rules, practices and methods to be implemented at each Group entity.

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 gives all Group companies a shared language and a unified management process. Chorus 2.0 is also aimed at organisational alignment 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, page 130, 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' 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, partners, employees, 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 reference guide 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 e-learning platform also helps to educate the Group's employees on topics such as export controls, ethics and corporate responsibility.

c) Group risk mapping

The Group has mapped its major operational, strategic, compliance and financial risks. It updates this risk map each year.

Each risk factor identified is set out in risk scenarios prioritised on the basis of two analysis criteria, before and after mitigation: likelihood of occurrence and financial impact.

The Group has assigned each of these risks to a risk advisor who is responsible for coordinating the management of this risk under the supervision of the Risk Assessment Committee. This consists of characterising the risk, monitoring major incidents, overseeing the deployment of the risk management system and continuously improving it.

3.2.2.3 Principal corporate risks and their management

The section on risk factors in the Group management report (see Section 1.1.2) 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 sharing, 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, liquidity risk and interest rate risk are managed centrally by the Group Treasury and Financing department. Except in special cases, the Group's subsidiaries are not authorised to undertake financing operations themselves. According to the policy of optimising and centralising the Group's financial resources, the Group Treasury and Financing department provides funding to the subsidiaries, manages surplus cash positions in all of the Group's currencies and matches surpluses with cash requirements. The Group Treasury and Financing department is also responsible for managing the Group's currency position and hedging the associated risks (in particular the foreign exchange risks to which the subsidiaries are exposed, which are closely monitored at the subsidiary level). 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 policies and their cost for the Group and ensures that the subsidiaries are insured against the insurable risks that they incur. This entity also monitors any significant claims.

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 entity 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 central teams and teams within each entity 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.

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 into the process management framework 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 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 corporate 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, Group corporate management sets targets for the Global Business Units, the main countries, the Europe and International Operations department and the International 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 entity 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

The teams in charge of consolidation ensure that changes in regulations and standards are taken into account. They use 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 entities 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) Assessment of the maturity of operational entities

Thales has developed an internal system for assessing the maturity of its operational entities, known as the Thales Integrated Maturity System. It is used for:

- bid, project and product management;
- development, production, facilities and deployment;
- purchasing, quality, support activities and services.

An assessment may cover an entire organisation or be restricted to a specific element of said organisation, such as a project or product. Whatever the scope, the system considers three components: organisation and management, resources and skills, and processes, practices and tools.

Maturity assessments are performed by experienced assessors who are recognised in their field as well as by the heads of bid, project and product quality at each operational entity.

The maturity model covers all of the Chorus 2.0 management system processes and is fully compliant with international standards, such as:

- the international CMMI® (Capability Maturity Model Integration) model, which is recognised by many customers for its development, acquisition and services models;
- the international Supply Chain Operations Reference (SCOR®) model.

Process management

Thales has obtained and maintains, within its different sites and activities, certifications of compliance with applicable standards and regulations that attest to its ability to manage its processes to meet the needs of its customers.

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

Since 2008, the Group has had a corporate risk management process in place for all the businesses and subsidiaries it controls.

In 2016, the Group's risk mapping process identified and measured the potential frequency and impact of 56 risk scenarios, with operational responsibility for each being specifically allocated to one of the following three management structures:

- local entities, segments or Country Business Units;
- 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.

Every year, the local entities report on the risk scenarios under their responsibility, in the form of a questionnaire (yearly attestation letter), updated annually and completed by the heads of the operational entities and their management teams. In 2016, 114 questionnaires were completed by the Group's operational entities. The responses to these questionnaires are analysed by the Audit, Risks & Internal Control Department, and by the network of risk advisors. A sample of questionnaires are checked for accuracy and compliance by the Audit, Risks & Internal Control Department: in 2016, 30 questionnaires were subject to an internal audit.

c) Self-assessment and ongoing improvement of internal financial control

Drawing in particular on the AMF recommendation entitled "Reference framework for risk management and internal control systems" and in collaboration with its statutory auditors, the Group asks its financial community to complete an internal control questionnaire (ICQ) focusing on the reliability of financial processes and the prevention of fraud.

The ICQ is based on internal control objectives linked to the Group's processes and accounting cycles (customers/suppliers/fixed assets, etc.) and is designed to enable the entities to identify 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. In 2016, 132 questionnaires were completed, representing all of the operational entities plus the shared services.

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

At the meetings of this committee, the resources employed, actions taken to improve internal control and risk identification and monitoring are reviewed. In 2016, this committee met five times.

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 time of the annual closing of the accounts, the Senior Executive Vice President, Finance and Information Systems presents 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 and CEO, 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 2016, this committee met once.

The Risk Assessment Committee

This committee is chaired by the Senior Vice President, Audit, Risks & Internal Control. 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 2016, the Risk Assessment Committee met six times.

Ethics and Corporate Responsibility Committee

This committee, chaired by the Company 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' 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 2016, 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 corporate management and the statutory auditors.

It ensures proper risk management and the maintenance of adequate internal control by conducting audits or providing guidance. It 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 co-owners. Its scope of involvement covers all areas and processes (governance, administrative, accounting and financial, functional and operational, etc.).

The Audit, Risks & Internal Control Department is certified by IFACI and its actions are governed by an Internal Audit charter (updated in June 2016) that defines the basic principles of internal control and internal audit, the scope and limits of its responsibilities and its interaction with the entities.

In 2016, 73 audits or advisory engagements, 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 focused 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 risk management and internal control questionnaires (yearly attestation letter, internal control questionnaire).

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. These recommendations are presented to Group management as part of the closure of the accounts at 31 December.

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

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, 2016.

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 27, 2017

The statutory auditors
French original signed by

Mazars		**Ernst & Young Audit**	
Anne-Laure Rousselou	Jean-Marc Deslandes	Philippe Diu	Serge Pottiez

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3.4 CORPORATE MANAGEMENT

3.4.1 Executive Committee at 31 March 2017

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 CEO.

Marc Darmon
Executive Vice President, Secure Communications and Information Systems

Alex Cresswell
Executive Vice President, Land & Air Systems

Pierre-Éric Pommellet
Executive Vice President, Defence Mission Systems

Gil Michielin
Executive Vice President, Avionics

Jean-Loïc Galle
Executive Vice President, Space

Millar Crawford
Executive Vice President, Ground Transportation Systems

Patrice Caine
Chairman and CEO

Michel Mathieu
Senior Executive Vice President, Operations & Performance

Pascale Sourisse
Senior Executive Vice President, International Development

David Tournadre
Senior Executive Vice President, Human Resources

Pascal Bouchiat
Senior Executive Vice President, Finance and Information Systems

Isabelle Simon
Company Secretary

Philippe Keryer
Executive Vice President, Strategy, Research and Technology

3.5 COMPENSATION OF DIRECTORS AND SENIOR CORPORATE OFFICERS

3.5.1 Compensation of the Chairman and CEO, Thales' only senior Company representative

3.5.1.1 Compensation of the Chairman and CEO for 2016

At its meeting on 22 February 2016, the Board of Directors set the compensation of Mr Patrice Caine, Chairman and CEO, as follows for 2016:

- 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.

Variable compensation includes two components: a quantitative component (75%) and a qualitative component (25%).

For the quantitative component, the financial criteria used were 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.

The table below shows the achievement rates for the financial criteria that are used to determine the quantitative component of the Chairman and CEO's variable compensation. The maximum amount is set at 166% of the target.

Criteria	Weighting	Threshold	Payment as % of target
Adjusted net income per share	22.5%	If results ≤ 90% of budgeted objective	0%
		If results = 100% of budgeted objective	22.50%
		If results ≥ 120% of budgeted objective	37.50%
		Variations between 0% and target, and between target and maximum calculated on a straight-line basis	
EBIT	22.5%	If results ≤ 90% of budgeted objective	0%
		If results = 100% of budgeted objective	22.50%
		If results ≥ 120% of budgeted objective	37.50%
		Variations between 0% and target, and between target and maximum calculated on a straight-line basis	
Order intake	15%	If results ≤ 90% of budgeted objective	0%
		If results = 100% of budgeted objective	15.00%
		If results ≥ 120% of budgeted objective	25.00%
		Variations between 0% and target, and between target and maximum calculated on a straight-line basis	
Free operating cash flow	15%	If results ≤ of budgeted objective -2% of budgeted revenue	0%
		If results = 100% of budgeted objective	15.00%
		If results ≥ of budgeted objective +2% of budgeted revenue	25.00%
		Variations between 0% and target, and between target and maximum calculated on a straight-line basis	
QUANTITATIVE TOTAL	**75%**		

The definition and calculation of these criteria are set out in Section 1.1.1.2.

For 2016, the Board decided to adopt four specific qualitative criteria, two of which include measurable and quantifiable objectives:

- the implementation of initiatives to update the global development strategy;
- the strengthening of the competitiveness plan with a focus on purchasing, product policy, engineering, and support functions, as well as on the recovery of the Ground Transportation Systems Global Business Unit;
- leadership: the establishment of development centres for young leaders, the clarification and strengthening of selection criteria for promotions and appointments, the extension to all members of the management committees of tools to facilitate 360° assessments and analysis of individual and collective leadership styles;
- corporate social responsibility: in 2016, the focus was on gender diversity, with the creation of an action plan to support greater gender diversity. The plan's objective is for women to represent 35% of new hires in 2016 (40% by 2018), with a particular focus on promotions for women within the organisation and the roll-out of an internal and external communications campaign on the Group's ambition regarding gender diversity.

At its meeting of 27 February 2017, the Board firstly examined the results achieved for the quantitative criteria and noted that the level of achievement was 130.7% of target. The targets for the four budgeted quantitative objectives were exceeded, some significantly. The 166% maximum on the variable compensation was achieved for one of the criteria. For reasons of confidentiality, the achievement rate of each quantitative criterion cannot be reported.

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Criteria	Achieved	Weighting	Level reached: Minimum	Target	Maximum	
Adjusted net income per share (in €)	4.25	22.5%		■		
EBIT (in €m)	1,354	22.5%		■		
Order intake (in €m)	16,514	15.0%			■	
Free operating cash flow (in €m)	954	15.0%			■	
Quantitative portion of the variable compensation (as a % of the target)					■	**130.7%**

The Board also found that the qualitative criteria has been achieved at 97.5%.

Following this review and the recommendation by the Governance and Compensation Committee, the Board of Directors decided that €599,929 of variable compensation should be paid in 2017 to Mr Patrice Caine for 2016, representing 122.43% of annual target variable compensation.

SUMMARY TABLE OF THE COMPONENTS OF COMPENSATION DUE TO MR PATRICE CAINE, CHAIRMAN AND CEO, FOR 2016

Components of compensation	Board decisions on 22 February 2016	Comments	Due for 2016
Fixed compensation	€450,000	On the recommendation of the Governance and Compensation Committee, the Board of Directors, during its meeting of 22 February 2016, set the fixed and variable compensation for Mr Patrice Caine for 2016. If the quantitative targets are exceeded, the variable compensation may be increased to a maximum of €735,000, which would represent total maximum annual compensation (fixed + variable) of €1,185,000 (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 22 February 2016: • 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).	€450,000
Variable compensation	Target: €490,000 Maximum: €735,000		€599,929
Total annual compensation	Target: €940,000 Maximum: €1,185,000		€1,049,929
Attendance fees	–	Mr Patrice Caine is not entitled to attendance fees	–
Exceptional compensation	–	None	–
Deferred or multi-annual 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 employment condition 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 ten years' service on the Thales Executive committee.	€10,589 potential annual deferred compensation or 2.35% of 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).	–

Components of compensation	Board decisions on 22 February 2016	Comments	Due for 2016
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 undergoes an annual check-up 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.	€3,987
Independent tax and legal advice	–	Mr Patrice Caine benefited from independent tax and legal advice.	€36,330

(a) Related-party commitment (Articles L. 225-42-1 and R. 225-34-1 of the French Commercial Code).

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[a]	

(a) The deferred incremental and conditional compensation of Thales' Company 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 24.2.6 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 24-1 of the AFEP-MEDEF Corporate Governance Code.

TABLE 1: COMPENSATION, OPTIONS AND SHARES GRANTED TO THE COMPANY REPRESENTATIVE

(in € thousand)	2016	2015
Patrice Caine, Chairman and CEO since 23 December 2014		
Compensation due for the year (detailed in Table 2)	1,090.2	1,014.9
Value of stock options granted during his term of office	–	–
Value of performance shares granted during his term of office	–	–
TOTAL	**1,090.2**	**1,014.9**

TABLE 2: COMPENSATION PAID TO THE COMPANY REPRESENTATIVE

(in € thousand)	2016		2015	
	Due for the financial year	Paid during the financial	Due for the financial year	Paid during the financial
Jean-Bernard Lévy, Chairman and CEO up to 27 November 2014				
Fixed compensation	–	–		(2.8)
Variable compensation	–	–		299.2
Exceptional compensation	–	–		–
Attendance fees	–	–		16.0
Benefits in kind[a]	–	–		–
Total for Jean-Bernard Lévy	**–**	**–**		**312.4**

(in € thousand)	2016		2015	
	Due for the financial year	Paid during the financial year	Due for the financial year	Paid during the financial year
Philippe Logak, Interim Chairman and CEO from 27 November to 23 December 2014				
Fixed compensation	–	–		16.7
Variable compensation	–	–		–
Exceptional compensation	–	–		34.0
Attendance fees	–	–		5.7
Benefits in kind [a]	–	–		–
Total Philippe Logak	**–**	**–**		**56.4**
Patrice Caine, Chairman and CEO from 23 December 2014				
Fixed compensation	450.0	449.2	440.0	411.2
Variable compensation [b]	599.9	518.3	518.3	–
Exceptional compensation	–	–		–
Compensation for attendance at Board meetings [c]	–	–		2.7
Benefits in kind [a]	40.3	40.3	56.6	56.6
Total Patrice Caine	**1,090.2**	**1,007.8**	**1,014.9**	**470.5**
TOTAL	**1,090.2**	**1,007.8**	**1,014.9**	**839.3**

(a) The Company representative is entitled to the services of a chauffeur-driven car, and independent tax and legal advice.
(b) See paragraph on the review of variable compensation for 2016 in Section 3.5.1.1, pages 145 to 150.
(c) Does not receive the fees allocated to him in his role as Company representative which are retained by the Company (by decision of the Board of Directors on 25 February 2015). The amount of fees calculated and unpaid to Patrice Caine in 2016 following this decision is €44,000.

TABLE 3: ATTENDANCE FEES AND OTHER COMPENSATION RECEIVED BY NON-EXECUTIVE DIRECTORS IN 2016 AND 2015 (GROSS AMOUNTS BEFORE ANY DEDUCTION AT SOURCE OR OTHER LEVY)

Beneficiary (gross amount in euros)	Paid in 2016	Paid in 2015	Notes
L. Broseta	30,750	28,856	
Y. d'Escatha	42,750	44,500	
G. Dyevre	24,362	2,500	
Ch. Edelstenne	42,000	36,250	
Th. Aulagnon	32,242	–	
Ph. Lépinay	42,000	36,250	(a)
H. Proglio (up to 12 May 2015, incl.)	3,888	11,497	
L. Segalen	42,000	42,500	
A.-C. Taittinger	44,000	42,000	
A. Taylor	33,250	27,500	
E. Trappier	38,250	42,500	
M.-F. Walbaum	33,250	35,000	
Inter CFDT (D. Floch + M. Saunier)	85,250	81,250	
Treasury Accountant – Article 139 NRE (D. Azéma + L. Collet-Billon + J-M. Prost + R. Turrini + V. Vial)	88,051	114,590	(b)
Total (excluding Company representative)	**582,043**	**568,590**	**(c)**
Company representative (as Patrice Caine has not received attendance fees since February 2015 pursuant to a Board decision, the corresponding amounts in this row are those retained by the Company)	44,000	38,250	
TOTAL GROSS AMOUNT OF ATTENDANCE FEES	**626,043**	**606,840**	**(d)**

(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 2016.
(b) D. Azéma, R. Turrini and M. Vial on a pro-rata basis for the relevant period.
(c) The attendance fees paid to the Company representative appear in AFEP-MEDEF table No. 2 (compensation paid to the Company representative).
(d) Above are gross amounts paid in 2015 and 2016. The gross amount of attendance fees due for these two years are €595,732 and €599,793, less than the annual budget of €600,000 authorised by the Annual General Meeting.

TABLE 4: SUBSCRIPTION OR PURCHASE OPTIONS AWARDED DURING THE FINANCIAL YEAR TO THE COMPANY REPRESENTATIVE BY THE ISSUER OR BY ANY OTHER GROUP COMPANY

None. The Company has not awarded subscription or purchase options since 2012.

TABLE 5: SUBSCRIPTION OR PURCHASE OPTIONS EXERCISED DURING THE FINANCIAL YEAR BY THE COMPANY REPRESENTATIVE

None.

TABLE 6: PERFORMANCE SHARES AWARDED DURING THE FINANCIAL 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 THAT HAVE BECOME AVAILABLE DURING THE FINANCIAL 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 that have become available during the financial year were awarded to him under his previous salaried positions and prior to his appointment as Company representative.

Director's name	Plan date	Number of shares that have become available	Vesting conditions
Patrice Caine	20/12/2012	850	Shares vested after a four-year vesting period and subject to a performance condition

TABLE 8: PAST AWARDS OF SUBSCRIPTION OR PURCHASE OPTIONS TO THE COMPANY REPRESENTATIVE

None. Mr Caine has not received any subscription or purchase options during his term in office. He has retained those that had been awarded to him with respect to his previous salaried positions.

TABLE 9: SUBSCRIPTION OR 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 2016

	Total number of options	Weighted average price
Options granted during the year by the issuer and any company within the scope of the grant 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	88,237	€33.15

The Company has not awarded subscription or purchase options since 2012.

TABLE 10: MULTI-ANNUAL VARIABLE COMPENSATION PAID TO THE COMPANY REPRESENTATIVE

None.

TABLE 11

Company representative	Employment contract		Supplementary pension scheme		Indemnifications or benefits due or likely to become due as a result of termination or change of position		Indemnifications relating to a non-competition clause	
	Yes	No	Yes	No	Yes	No	Yes	No
Patrice Caine, Chairman and CEO from 23 December 2014		x		x[(a)]	x[(b)]			x

(a) See note (a) to the table "Compliance with the recommandations of the AFEP-MEDEF code", page 147.
(b) Decisions taken in 2015.

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Deferred incremental and conditional compensation

Patrice Caine, Company representative since 23 December 2014

Following the decision of the Board of Directors on 25 February 2015, the Thales Company representative is entitled to deferred incremental compensation, the amount of which is determined using the same points method as for 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 French 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 employment condition 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 ten years' service on the Thales Executive Committee.

In 2016, Mr Patrice Caine potentially acquired annual deferred compensation of €10,589 (or 2.35% 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 146) 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 related-party commitments (pension, compensation and unemployment insurance) on behalf 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.

3.5.1.2 Compensation policy for the Chairman and CEO

A. Compensation policy for the Chairman and CEO: general framework

The structure of compensation payable to the current Chairman and CEO was originally fixed in February 2015 in light of French Public Sector guidelines on executive compensation in companies in which the French State is a shareholder and with a view to the separation of the positions of Chairman of the Board of Directors and Chief Executive Officer, which ultimately did not happen.

In February 2016, the Board of Directors asked the Governance and Compensation Committee to present a new comprehensive compensation policy for the Chairman and CEO that would be more in line with the level of his responsibilities and market practices, applicable from 2017 on. The Governance and Compensation Committee met a number of times in 2016 and early 2017 to debate this issue and submit its findings to the Board of Directors.

The structure of compensation payable to the Chairman and CEO as determined by the Board of Directors at its meeting on 27 February 2017, comprises the following items:

- annual fixed compensation;
- annual variable compensation whose target level is equal to the fixed compensation, based on a combination of financial and non-financial criteria, with financial criteria being of overriding importance;
- long-term incentives (Long-term Incentive Plan – LTIP) linked to the value of the Thales share, in the form of performance shares or units;
- severance pay [1];
- private unemployment insurance [1];
- deferred incremental and conditional compensation [1];
- legal and tax advice;
- private healthcare benefits identical to those offered to senior executives;
- directors and officers liability insurance;
- reimbursement of business expenses in accordance with Thales' rules and guidelines;
- an annual medical check-up like other Thales senior executives;
- the services of a chauffeur-driven car.

The Company complies with the AFEP-MEDEF Corporate Governance Code (Section 24.1), whereby:

- the Company representative's compensation should be competitive, tailored to the corporate strategy and environment and must be intended to boost the Company's long-term performance and competitiveness. It must be designed to retain and motivate an effective Company representative;
- when determining the compensation, the following principles must be considered: comprehensiveness, balance between different components of compensation, consistency with the compensation of other company executives and employees, understandability of the rules (simple, stable and transparent) and balance in terms of the corporate interest, market practices, the performance of the Company representative and the views of other stakeholders.

The Board of Directors sought to align the structure of compensation payable to the Chairman and CEO with that of the other members of the Executive Committee and the Group's senior executives, i.e., including a fixed component, an annual variable component and a long-term incentive component. The respective proportion of each component is determined based on the level of responsibility of each position and on benchmark compensation studies conducted in various national markets where Thales has employees.

For the Company representative, these components are weighed up and determined in the following manner:

- the fixed component is determined based on the level of responsibility and on benchmark compensation studies of comparable profiles;

(1) Related-party agreements, subject to performance conditions.

- annual target variable compensation is equal to the fixed compensation; in the event that maximum objectives are achieved, it is capped at 137.5% of fixed compensation;
- the value of long-term incentive at the grant date may not exceed 100% of the fixed compensation.

Long-term incentive is based on the achievement of demanding performance criteria measured at the end of a three-year period. It vests in a single instalment at the end of a four-year period. Most of the long-term incentive is subject to internal performance criteria linked to strategic objectives laid down by the Board that take into account the objectives communicated to financial markets (if these exist).

The Board also wanted to introduce an obligation to hold Thales shares: the Company representative must hold the Thales shares delivered to him at each LTIP maturity date, at 50% of the net after-tax gain from these LTIPs until he has accumulated the equivalent of one year's fixed compensation in shares. He must keep these shares for his entire term of office as Company representative.

The Board also wished to conserve the deferred incremental and conditional compensation arrangement described in Section 3.5.1.1.

Lastly, the severance payment shall only be paid to the Company representative in the event of forced departure, contingent upon the achievement of performance targets over three financial years. They are capped at 12 months of reference salary (fixed and variable compensation paid over the last 12 months of activity, excluding long-term incentives), which is less than the amount recommended under the AFEP-MEDEF code.

Pursuant to the AFEP-MEDEF code (Section 24.1.2), the rules for determining the Company representative's compensation should be stable and the performance criteria used should be, to the greatest extent possible, long lasting. As regards fixed compensation, in principle this should only be reviewed at relatively long intervals (Section 24.3.1 of the AFEP-MEDEF code).

Consequently, the Board of Directors decided to define a new compensation policy for the chairman and CEO in accordance with the principles defined in the AFEP-MEDEF Corporate Governance Code.

B. Implementation of new compensation policy for the Chairman and CEO in 2017

In accordance with the provisions of Article L. 225-37-2 of the French Commercial Code, the Board of Directors must submit the principles and criteria for determining, breaking down and allocating the fixed, variable and exceptional items that make up the total compensation and benefits in kind granted to the chairman, the Chief Executive Officers and Deputy Chief Executive officers, for the approval of the Annual General Meeting at least once a year.

This section comprises the Board of Directors' report setting out the draft resolution for 2017 concerning the compensation policy for the Chairman and CEO, Thales' only Company representative.

If this resolution is adopted by the Annual General Meeting of 17 May 2017:

- the principles and criteria set out in this section will be applicable beginning in 2017, subject to any possible amendment at a subsequent Annual General Meeting deliberating on the same subject, in accordance with the aforementioned provisions of Article L. 225-37-2;
- the components of total compensation and benefits in kind paid or granted to the Chairman and CEO for 2017 in accordance with these principles and criteria will be put to the vote at the Annual General Meeting called to approve the financial statements for 2017, in accordance with Articles L. 225-37-2 and L. 225-100 of the French Commercial Code which stipulate *inter alia* that payment of variable and exceptional items are subject to the approval of the Annual General Meeting.

At its meeting on 27 February 2017, the Board of Directors, on the recommendation of the Governance & Compensation Committee, decided to update the structure and level of compensation payable to the Chairman and CEO for 2017:

- by revising the annual levels of fixed and variable compensation payable; and
- by recalibrating the compensation structure by setting up a Long Term Incentive Plan (or LTIP).

In accordance with the principles of the AFEP-MEDEF Corporate Governance Code relating to the compensation of directors, described in Section 3.5.1.2-A, the Board of Directors sought to:

(i) Incorporate a balanced, long-term component into the compensation payable to the chairman and CEO, linked in particular to the value of the Thales share.

The absence of such long-term incentive had long been the subject of questions from shareholders who regretted the exclusively short-term nature of the chairman and CEO's compensation. This absence also set the Group's Chairman and CEO apart from other Thales senior executives who benefit from long-term incentive plans.

(ii) Ensure the consistency of the Chairman and CEO's compensation, in terms of structure and amount, with that of the members of the Executive Committee.

As the Chairman and CEO was excluded from the Long-Term Incentive Plans granted to other Group executives and given the strong performance of the Thales share (which doubled in value over a two-year period), his total compensation had fallen below that of certain members of the Executive Committee.

(iii) Take account of the gap between the Chairman and CEO's fixed and total compensation for 2016 and that received by the corporate officers of other major French corporations with a similar profile.

Consequently, the Board reviewed the findings of a study carried out by Mercer on two panels, one comprising 20 major French corporations, the other 13 international corporations[1]. The companies in each panel were chosen for their comparability to Thales in terms of their businesses, revenue, market capitalisation and headcount.

These two analyses highlight a very significant gap between the Chairman and CEO's compensation and market practices. His fixed compensation of €450,000 was 46% less than the lowest quartile of the French panel (€838,000), and 51% less than the lowest quartile of the international panel (€920,000). The gap is accentuated by the absence of long-term incentives, which are granted to 17 of the 19 executives in the French panel, and to all of the executives in the international panel.

(iv) Take account of the Group's economic[2] and share price performance[3] since the Chairman and CEO was appointed in late 2014, and the success of the Group's "Ambition 10" strategic vision which has resulted in improvements in growth and competitiveness.

In light of these findings, the Board decided to significantly restructure the compensation policy for the Chairman and CEO, while taking into account a principle of moderation by keeping the compensation in the lowest quartile of the panels referred to above.

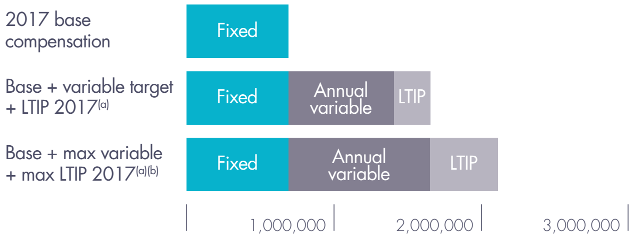
(1) Panel of French corporations: Airbus Group, Alstom, Compagnie de Saint-Gobain, Dassault Aviation, Dassault Systèmes, Essilor International, Faurecia, Gemalto, Lafarge Holcim, Air Liquide, Michelin, Peugeot, Renault, Sa-fran, Schneider Electric, Solvay, Technip, Valeo, Veolia Environnement and Zodiac Aerospace.
Panel of International corporations: ABB, BAE Systems, Babcock Intl., Cobham, GKN, Leonardo, Meggitt, MTU Aero., Philips NV, Rockwell Collins, Rolls-Royce, Siemens and Thyssen Krupp.
(2) Net income up 33% between 2014 and 2016; EBIT up 38% between 2014 and 2016.
(3) Share performance, reinvested dividend (TSR): up 112% between 31 December 2014 and 31 December 2016.

a) Revision of the comprehensive compensation structure for 2017

The Board of Directors has decided to:

- increase the annual fixed compensation to €700,000;
- set the annual target variable compensation at 100% of annual fixed compensation, capped at 137.5% of the target, i.e., €962,500 if targets are exceeded (compared with a maximum of €735,000 in 2016);
- introduce a Long-Term Incentive Plan (or LTIP) with a grant of a maximum of 5,000 performance units, each tied to the value of the Thales share at the close of trading on 25 February 2021. The exact amount of this compensation will depend on the achievement of performance and presence conditions, as well as on the value of the Thales share on the performance unit vesting date. Based on the value of the Thales share at end-2016, this compensation would correspond to a maximum of approximately €460,000, or 66% of fixed compensation for 2017, if the maximum objectives are reached.

The following table shows the compensation for 2017 that would result from this new compensation structure.



(a) In the absence of any historical data for the LTIP, the chart depicts a hypothetical vesting in 2021 of 50% of the Chairman and CEO's maximum allocation of performance units.
(a) and (b) Forecasts of values for the LTIP are calculated based on the Thales share price on the last day of trading of 2016.

In accordance with Articles L. 225-37-2 and R. 225-29-1 of the French Commercial Code, the Chairman and CEO's annual variable compensation in respect of 2017 will only be paid further to approval by the Annual General Meeting to be held in 2018.

b) Criteria for setting variable compensation for 2017

As in previous years, the criteria for determining the variable compensation are set at an overall level of 75% financial and 25% non-financial. In order to reward achieving over performance of the financial criteria, the amount of the payment relative to these criteria may exceed the target up to 150%. This is not the case for the non-financial portion which is capped at 100%. Consequently, annual variable compensation is capped at 137.5% of the target.

(i) Financial criteria for 2017

The Board of Directors has decided to streamline the indicators used for the financial criteria and has only retained one (i.e., EBIT) of the two profitability criteria previously used (i.e., EBIT and adjusted net income per share).

The financial criteria are now weighted as follows:

- 35% based on EBIT;
- 20% based on order intake;
- 20% based on free operating cash flow.

In each case, annual variable compensation will only be paid if a demanding threshold is reached. For the first two criteria (EBIT and order intake), no amount is due when the actual figure reported is less than or equal to 90% of the target. For free operating cash flow, no amount is due when the actual figure reported is below the budgeted objective by more than 2% of targeted budgeted revenue.

The following table shows the achievement rates for the financial criteria:

Financial criteria for annual variable compensation	Weighting	Threshold	Payment as % of target
EBIT	35%	If results ≤ 90% of budgeted objective	0%
		If results = 100% of budgeted objective	35.00%
		If results ≥ 120% of budgeted objective	52.50%
		Variations between 0% and target, and between target and maximum calculated on a straight-line basis	
Order intake	20%	If results ≤ 90% of budgeted objective	0%
		If results = 100% of budgeted objective	20.00%
		If results ≥ 120% of budgeted objective	30.00%
		Variations between 0% and target, and between target and maximum calculated on a straight-line basis	
Free operating cash flow	20%	If results ≤ of budgeted objective – 2% of budgeted revenue	0%
		If results < 100% of budgeted objective	20.00%
		If results ≥ of budgeted objective + 2% of budgeted revenue	30.00%
		Variations between 0% and target, and between target and maximum calculated on a straight-line basis	
TOTAL FINANCIAL CRITERIA	**75%**		

The definition and calculation of these criteria are set out in Section 1.1.1.2.

For reasons of confidentiality, the exact objectives underlying these financial criteria, determined by the Board and tied to the approved annual budget, cannot be disclosed. The level of achievement for each financial criteria will be detailed in the 2017 Registration Document.

(ii) Non-financial criteria for 2017

The Board of Directors has decided to replace the competitiveness criterion used in 2016 with a criterion reflecting the Group's digital strategy objectives. Consequently, it has assigned the following four non-financial criteria:

- global development strategy: implementation of initiatives to pursue the Group's global development strategy, focused on selected major countries;
- leadership: deployment of empowerment and accountability initiatives, deployment of processes for selecting leaders, development of training programmes to prepare the next generation of Thales leaders;
- gender diversity: roll-out of gender diversity initiatives with a target for women to represent 40% of new hires over the 2017-2018 period;
- digital: deployment of a digital platform, significant strengthening of talents in four key digital technologies (connectivity, big data, artificial intelligence and cybersecurity) and development through targeted acquisitions, as necessary.

Each of these objectives represents one-fourth of the 25% of the weighting attributed to non-financial criteria.

c) Long-Term Incentive Plan (LTIP) for 2017

The LTIP is designed to reward the Chairman and CEO for the Group's long term performance.

For 2017, it consists of performance units tied to the value of the Thales share. The units will be paid at 50% in Thales shares and at 50% in cash. The grant approved by the Board consists of a maximum of 5,000 performance units, comprising the number of units that may ultimately vest in the event that related maximum objectives are reached *vis-à-vis* the criteria listed below.

The performance units will be subject to a four-year vesting period that runs from 27 February 2017. The performance units that actually vest in 2021 will depend on the achievement of performance conditions measured over a three-year period (2017-2019).

Pursuant to Articles L. 225-37-2 and R. 225-29-1 of the French Commercial Code, the related payments will be submitted to the vote of the Shareholders' Meeting in accordance with legal conditions.

(i) LTIP performance criteria for 2017

The Board of Directors has decided to apply demanding performance criteria tied to the Group's key levers of long-term value creation and their implementation as part of the "Ambition 10" strategic vision focused on growth and competitiveness. Therefore, performance is measured as follows over this three-year period:

- 40% based on a growth objective measured in terms of average order intake over the 2017-2019 period;
- 40% based on a competitiveness objective measured in terms of cumulative free operating cash flow over the 2017-2019 period; and
- 20% based on Thales' stock market performance and measured by Total Shareholder Return or TSR (which includes reinvested dividends). Half of this stock market performance weighting (10%) is based on a comparison with a panel of European companies in comparable sectors of activity (which includes the following eight equally weighted companies: Airbus, BAE Systems, Dassault Aviation, Leonardo, Gemalto, Rolls-Royce, Safran, and Zodiac Aerospace), while the other half (10%) is based on the Euro Stoxx index. The calculation is based on a comparison of performance at 31 December 2019 with performance at 31 December 2016.

The following thresholds are applied[1]:

WEIGHTING OF THE 5,000 2017 LTIP PERFORMANCE UNITS

2017 LTIP criteria	Weighting	Objectives	Threshold	Payment as % of target
Cumulative free operating cash flow 2017-2019	40% (2,000 units)	Floor: €2.4 billion	If results < floor	0%
			If results = floor (=33% of maximum)	13.20%
		Ceiling: €3.35 billion	If results ≥ ceiling for the period	40.00%
			Variations between floor and ceiling calculated on a straight-line basis	
Average order intake for 2017-2019	40% (2,000 units)	Floor: €15 billion	If results < floor	0%
			If results = floor (=50% of maximum)	20.00%
		Ceiling: €17 billion	If results ≥ ceiling for the period	40.00%
			Variations between floor and ceiling calculated on a straight-line basis	
Total Shareholder Return compared to a panel of European companies[a] Measure based on performance at 31/12/2019 compared to 31/12/2016	10% (500 units)	Floor: median of the panel	If TSR < median of the panel	0%
			If TSR = median of the panel (=50% of maximum)	5.00%
		Ceiling: highest quintile of the panel	If TSR is in the highest quintile of the panel	10.00%
			Variations between median and entry point of highest quintile calculated on a straight-line basis	
Total Shareholder Return compared to the Euro Stoxx index Measure based on performance at 31/12/2019 compared to 31/12/2016	10% (500 units)	Floor: median of the Euro Stoxx index	If TSR < median of the index	0%
			If TSR = median of the index (=50% of maximum)	5.00%
		Ceiling: highest quintile of the index	If TSR is in the highest quintile of the index	10.00%
			Variations between median and entry point of highest quintile calculated on a straight-line basis	

(a) The panel includes: Airbus, BAE Systems, Dassault Aviation, Leonardo, Gemalto, Rolls-Royce, Safran and Zodiac Aerospace.

(1) The IFRS 15 standard concerning revenue recognition will apply to the Group from 1 January 2018 and the analysis of its potential impact on the income statements for 2018 and 2019 has not yet been finalised. Consequently, the Board has applied LTIP performance criteria for 2017 that are unaffected by this new standard, i.e., average order intake and cumulative free operating cash flow, even though both of these indicators are included in the criteria for variable compensation in 2017.
For the 2018 LTIP and in subsequent years when IFRS 15 will be implemented, the use of other financial criteria not used for annual variable compensation may be considered, if appropriate.

At the end of the 2019 financial year, the Board of Directors will disclose the number of performance units that actually vest following a review of the achievement of the performance conditions.

(ii) Additional LTIP vesting criteria for 2017

Payment of the performance units is subject to the Chairman and CEO still being with the Company at the end of the four-year vesting period. If he should leave the Group during the vesting period, all performance unit entitlements shall be forfeited. Entitlement shall only be maintained in the event of death, disability or retirement. The value of each vested performance unit will correspond to the value of the Thales share at the close of trading on 25 February 2021, the day before the performance units are vested to the grantee.

The Chairman and CEO must hold the Thales shares delivered to him at 50% of the net after-tax gain from the LTIP, until he has accumulated a portfolio of shares equivalent to one year's fixed salary, and hold onto these shares for his entire term of office as Company representative.

In accordance with Section 24.3.3 of the AFEP-MEDEF Corporate Governance Code and the Internal code on Insider Trading, the Chairman and CEO has undertaken not to use any hedging instruments in relation to his risk exposure on any shares or performance units he holds.

d) Other items of the Chairman and CEO's compensation

The other items comprising the Chairman and CEO's comprehensive compensation remain unchanged, namely:

- severance pay[1]: 12 months of reference salary;
- private unemployment insurance[1];
- deferred incremental and conditional compensation[1];
- legal and tax advice;
- private healthcare benefits identical to those offered to senior executives;
- directors and officers liability insurance;
- reimbursement of business expenses in accordance with Thales' rules and guidelines;
- an annual medical check-up like other Thales senior executives;
- the services of a chauffeur-driven care.

The Board of Directors has also confirmed that the Chairman and CEO does not receive attendance fees.

For more information on this Section d), refer to Section 3.5.1.1.

3.5.2 Compensation of other Group executives

Total compensation paid in 2016 to Executive Committee members (proportionate to the time spent on the committee) excluding the Chairman and CEO, was €7,509 thousand, including 42.38% in variable compensation for 2015[2]. As is the case for the Chairman and CEO, the variable component is based on quantitative and qualitative performance criteria.

DETAILS OF COMPENSATION PAID TO THE EXECUTIVE COMMITTEE (EXCLUDING THE CHAIRMAN AND CEO) IN 2015 AND 2016

(in € thousand)	2016	2015
	Paid during the financial year	**Paid during the financial year**
Executive Committee (excl. Chairman and CEO)		
Fixed compensation	4,298	4,002
Variable compensation	3,182	2,280
Exceptional compensation	–	1,049
Benefits in kind	29	27
Total before contributions	**7,509**	**7,358**
Employer contributions	2,433	2,338
TOTAL EXPENSE	**9,942**	**9,696**

In addition, at the end of December 2016, the members of the Executive Committee, other than the chairman, together had a total of 68,112 stock options, 67,879 performance shares, 93,500 performance units and 5,200 phantom shares. The breakdown by grant date and the characteristics, as well as any options exercised, are shown in the tables on pages 90 and 91 with the summary of transactions carried out by directors, non-voting directors and related persons (Section 4.3.3.7, pages 173 and 174).

(1) Related-party agreements (Articles L. 225-42-1 and R. 225-34-1 of the French Commercial Code) approved by the Annual General Meeting of 13 May 2015.
(2) Variable compensation for 2015 that was paid in 2016.

3.5.3 Share-based compensation

Description of the different plans granted by the Group

The Group regularly grants its employees and directors share subscription options, share purchase options (until 2011) and/or free shares (since 2007), as part of its standard performance management policy for Group employees. These different plans are described below.

Outstanding options at 31 December 2016

At 31 December 2016, the following options, shares and units were outstanding:

- 40,850 share purchase options at a weighted average exercise price of €44.64;
- 1,320,693 share subscription options at a weighted average exercise price of €36.01, 236,472 of which are subject to performance conditions.

OUTSTANDING SHARE PURCHASE OPTIONS

Date of Board decision	25/11/2008	04/07/2007
Discount at grant	None	None
Performance conditions	No	No
Exercise period	from 25/11/2012 to 24/11/2018	from 04/07/2011 to 03/07/2017
Exercise price	€38.50	€44.77
NUMBER OF OPTIONS OUTSTANDING AT 31/12/2016, NET OF OPTIONS CANCELLED (a) AND EXERCISED	**850**	**40,000 (b)**
Of which exercisable options at 31/12/2016	850	40,000
Of which outstanding options at 31/12/2016 held by: • the Chairman and CEO, Patrice Caine	–	–
• the other members of the Executive Committee	–	–
NUMBER OF BENEFICIARIES OF OUTSTANDING OPTIONS	**1**	**1**
Of which members of the Executive Committee (excluding the Chairman) at 31/12/2016	–	–
Total grant to top ten 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 grant date.
(b) Because the former Company representative Denis Ranque's options have been maintained.

SHARE SUBSCRIPTION OPTIONS

Date of Board decision	15/09/2011	23/09/2010	25/06/2009	01/07/2008
Discount at grant	None	None	None	None
Performance conditions	Yes	Yes	No	No
Exercise period (a)	from 15/09/2015 to 14/09/2021	from 23/09/2014 to 22/09/2020	from 25/06/2013 to 24/06/2019	from 01/07/2012 to 30/06/2018
Exercise price	€26.34	€26.34	€32.88	€38.50
NUMBER OF OPTIONS OUTSTANDING AT 31/12/2016, NET OF OPTIONS CANCELLED (b) AND EXERCISED	**126,322**	**110,150**	**362,584**	**463,237**
Of which exercisable options at 31/12/2016	126,322	110,150	362,584	463,237
Of which outstanding options at 31/12/2016 held by: • the Chairman and CEO, Patrice Caine (c)	1,538	1,900	–	–
• the other members of the Executive Committee	36,612	21,500	10,000	–
NUMBER OF BENEFICIARIES OF OUTSTANDING OPTIONS	**52**	**39**	**370**	**350**
Of which members of the Executive Committee (excluding the Chairman) at 31/12/2016	5	3	1	–
Total grant to top ten beneficiaries (at plan date)	124,000	161,500	222,000	230,000

Date of Board decision	04/07/2007	09/11/2006
Discount at grant	None	None
Performance conditions	No	No
Exercise period [(a)]	from 04/07/2011 to 03/07/2017	from 09/11/2010 to 08/11/2016
Exercise price	€44.77	€36.47
NUMBER OF OPTIONS OUTSTANDING AT 31/12/2016, NET OF OPTIONS CANCELLED [(B)] AND EXERCISED	**258,400**	**–**
Of which exercisable options at 31/12/2016	258,400	–
Of which outstanding options at 31/12/2016 held by: • the Chairman and CEO, Patrice Caine [(c)]	–	–
• the other members of the Executive Committee	–	–
NUMBER OF BENEFICIARIES OF OUTSTANDING OPTIONS	**293**	**–**
Of which members of the Executive Committee (excluding the Chairman) at 31/12/2016	–	–
Total grant to top ten 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 grant date or because of cancellation related to partial or complete failure to achieve the performance conditions.
(c) Grant prior to his appointment as Chief Executive Officer.

Conditions of exercise

All Thales share purchase and subscription options are granted for a 10-year period, at no discount to the market price.

Share purchase and subscription options granted between 9 November 2006 and 15 September 2011 can now be exercised in full.

The options granted on 15 September 2011 were contingent upon the achievement of internal performance conditions over the three financial years following their grant date. 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 at the Board of Directors' meetings to close the accounts for the three financial years concerned, resulting in the validation of 80.90% of the options granted.

> VALIDATION OF PERFORMANCE CONDITIONS FOR FINANCIAL YEAR 2016

Option, share, unit and phantom share plans subject to performance conditions	Validation of the 1st third of the grant		Validation of the 2nd third of the grant		Validation of the last third of the grant	
	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	100%
16 September 2014	2015	100%	2016	100%	2017	–
17 September 2015	2016	100%	2017	–	2018	–
27 October 2016	2017	–	2018	–	2019	–

OPTIONS GRANTED AND EXERCISED IN 2016

	Number of options granted/shares subscribed or purchased	Exercise price	Maturity date	Plan date
1. Directors				
Options granted in 2016	None			
Patrice Caine	None			
2. The ten biggest option awards granted to employees				
Options granted in 2016	None			
3. The ten biggest exercises of options by employees [(a)]				
Options exercised in 2016	13,000	€38.50	–	01/07/2008
	12,000	€32.88	–	25/06/2009
	11,000	€38.50	–	01/07/2008
	10,000	€26.34	–	23/09/2010
	8,091	€26.34	–	15/09/2011
	8,000	€38.50	–	01/07/2008
	7,200	€36.47	–	09/11/2006
	6,473	€26.34	–	15/09/2011
	6,473	€26.34	–	15/09/2011
	6,000	€36.47	–	09/11/2006

(a) For all Group companies combined.

3.6 INCENTIVES AND PROFIT-SHARING

3.6.1 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 2016 for the 2015 financial year of profit-sharing rights totalling €34.8 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.

3.6.2 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.

Twenty-two French Group companies paid incentives in 2016 for financial year 2015 totalling €45.2 million.

GROSS AMOUNTS PAID OUT IN INCENTIVES AND PROFIT-SHARING IN RECENT YEARS

(in € millions)	2016	2015	2014	2013	2012	2011
In the Group in France						
Profit share paid	34.87	18.70	15.34	22.56	24.29	36.52
Incentives paid	45.22	57.03	43.45	42.38	45.15	23.99
By Thales (parent company)						
Incentives paid	4.12	4.30	4.12	3.83	4.80	–

3.7 STATUTORY AUDITORS

For the period covered by the historical financial data, the Thales group statutory auditors were as follows:

3.7.1 Principal statutory auditors

Mazars

61, rue Henri Regnault
92400 Courbevoie – France
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
92400 Courbevoie – Paris-La Défense 1 – France
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.

3.7.2 Additional statutory auditors

Hervé Hélias

61, rue Henri Regnault
92400 Courbevoie – France
Current term approved by the General Meeting of 24 May 2013 and expiring with the audit of the 2018 financial statements.

Auditex

1/2, place des Saisons
92400 Courbevoie – Paris-La Défense 1 – France
Current term approved by the General Meeting of 13 May 2015 and expiring with the audit of the 2020 financial statements.

3.7.3 Statutory auditors' fees

The fees paid to auditors in 2015 and 2016 are presented in the table below[a]:

(in € thousand)	Mazars		Ernst & Young Audit		Total	
	2016	2015	2016	2015	2016	2015
Audit of the financial statements	**5,427**	**5,022**	**4,627**	**4,561**	**10,054**	**9,583**
• Issuer	779	730	856	807	1,635	1,537
• Subsidiaries	4,648	4,292	3,771	3,754	8,419	8,046
Other services	**526**	**420**	**791**	**633**	**1,317**	**1,053**
• Issuer	190	279	31	48	221	327
• Subsidiaries	336	141	760	585	1,096	726
TOTAL	**5,953**	**5,442**	**5,418**	**5,194**	**11,371**	**10,636**

(a) With regard to the period under consideration, these are services performed in respect of a financial year charged to the Income Statement.

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COMPANY AND SHARE CAPITAL

>4

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 – 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's term was 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 that 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 Group Secretary and General Counsel's office at the Company's registered office.

Distribution of profits as per the articles of association

Profits are distributed in compliance with current legislation. Under the Articles of Association, the Annual 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 ANNUAL 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 Annual 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 Legal Gazette (*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.

At the Annual General Meeting of 17 May 2017 onwards, shareholders are able to vote electronically.

Participation in Annual 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 Annual 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 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 Annual General Meetings, belongs to the beneficial owner at Ordinary General Meetings, and to the bare legal owner at Extraordinary General Meetings. Owners of pledged shares retain their voting rights. Co-owners of shares are represented at Annual 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 Annual 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 that their shares have been 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 Annual General Meetings for each share so held. Registered shares that 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, 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 cancelled by a decision of an Extraordinary General Meeting, following approval by a special Annual 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 crossing 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.

As part of its regulated information, every month, the Company publishes on its website the number of shares comprising the 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 2016, the share capital stood at €636,584,298, divided into 212,194,766 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 "Investor/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 (Securities Services – 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 169).

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 2011		**3,731,400,000**			**606,985,371**	**202,328,457**
Financial year 2012	Exercise of stock subscription 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 subscription 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 subscription 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 subscription options	105,567,702	3,120,293	9,360,879		
31 December 2015		**3,995,444,538**			**632,884,212**	**210,961,404**
Financial year 2016	Exercise of stock subscription options	41,484,459	1,233,362	3,700,086		
31 DECEMBER 2016		**4,036,928,997**			**636,584,298**	**212,194,766**

4.3.1.2 Changes in the distribution of capital and voting rights over the last three financial years

At 31 December 2016, the total number of exercisable voting rights was 304,077,158. This includes double voting rights attached to shares that have been registered for at least two years under the conditions set out in the Articles of Association (see Section 4.2.2, page 163).

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 "Investor/Publications/Regulated information").

	31 December 2016			31 December 2015			31 December 2014		
	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	25.82%	35.86%	54,786,654	25.97%	36.04%	54,786,654	26.36%	36.51%
French State (including 1 golden share)	2,060	–	–	2,060	–	–	2,060	–	–
Public Sector [(a)]	54,788,714	25.83%	35.86%	54,788,714	25.97%	36.04%	54,788,714	26.36%	36.51%
Dassault Aviation [(b)]	52,531,431	24.76%	28.53%	52,531,431	24.90%	28.67%	52,531,431	25.28%	29.05%
Thales	749,559	0.35%	–	839,254	0.40%	–	1,876,732	0.90%	–
Employees	5,743,081	2.71%	3.31%	5,684,120	2.69%	3.24%	4,151,060	2.00%	2.70%
Other shareholders	98,381,981	46.36%	32.30%	97,117,885	46.04%	32.05%	94,493,174	45.46%	31.74%
TOTAL	**212,197,766**	**100%**	**100%**	**210,961,404**	**100%**	**100%**	**207,841,111**	**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 2016.

(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 2016 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 1.75% of the capital at 31 December 2011.

During 2012, the number of treasury shares was reduced due to the following transactions:

- 1,043,357 shares purchased under a liquidity contract;
- 1,504,941 shares sold under a liquidity contract;
- 285,025 shares 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 purchased on the market;
- 1,582,469 shares purchased under a liquidity contract;
- 1,624,034 shares sold under a liquidity contract;
- 306,130 shares assigned as free shares;
- 8,900 shares assigned under an allocation of stock options;
- 473,653 shares 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 purchased under a liquidity contract;
- 2,216,116 shares sold under a liquidity contract;
- 544,145 shares 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 purchased under a liquidity contract;
- 822,144 shares sold under a liquidity contract;
- 535,532 shares assigned as free shares;
- 29,350 shares assigned under an allocation of stock options;
- 457,596 shares 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.

During 2016, the number of treasury shares was reduced due to the following transactions:

- 575,000 shares purchased on the market;
- 513,001 shares purchased under a liquidity contract;
- 472,001 shares sold under a liquidity contract;
- 607,381 shares assigned as free shares;
- 56,600 shares assigned under an allocation of stock options;
- 41,714 shares sold to employees in the United Kingdom as part of the 2015 employee shareholding scheme.

Treasury shares thus amounted to 0.35% of the capital, i.e., 749,559 shares, at 31 December 2016.

4.3.2 Potential capital

4.3.2.1 Maximum potential capital at 31 December 2016

	In number of shares with par value of €3
Share capital at 31 December 2016	212,194,766
Current stock option plans	1,320,693
4 July 2007 plan: 258,400 options at €44.77	
1 July 2008 plan: 463,237 options at €38.50	
25 June 2009 plan: 362,584 options at €32.88	
23 September 2010 plan: 110,150 options at €26.34	
15 September 2011 plan: 126,322 options at €26.34	
Maximum potential capital (+0.62%)	213,515,459

4.3.2.2 Outstanding securities giving access to share capital (bonds, warrants and options)

At 31 December 2016, excluding the exercise of stock options, if any, there were no other outstanding securities 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 2016, the following options, shares and units were outstanding:

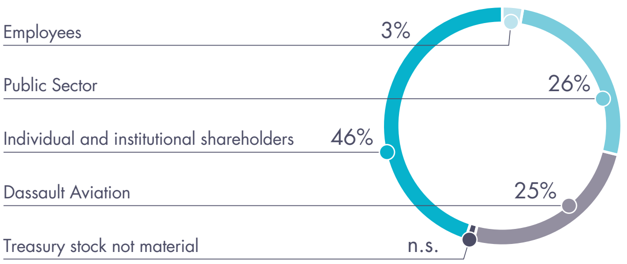
- 40,850 share purchase options at a weighted average exercise price of €44.64;
- 1,320,693 stock subscription options at a weighted average exercise price of €36.01, of which 236,472 are subject to performance conditions.

Thales decided to stop granting options in 2012.

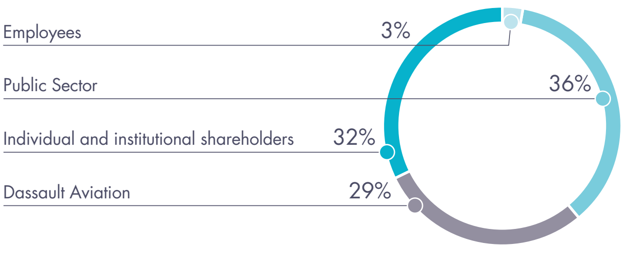
4.3.3 Shareholders

4.3.3.1 Breakdown at 31 December 2016

Breakdown of shareholders



Breakdown of exercisable voting rights



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 in Section 4.3.3.3.5, page 169.

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 that owns 24.76% of Thales' share capital, i.e. 52,531,431 Thales shares at 31 December 2016.

Dassault Aviation is 62.03%-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 that 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' Board of Directors, which has 16 members, has to adhere to the following breakdown at 31 December 2016:

- 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 and CEO is chosen on the joint proposal of the parties.

Furthermore, the parties have agreed that, in the event of a change of Chairman and CEO 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 and CEO, 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' 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 and CEO, 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 Legal Gazette (BALO) 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 appendice 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 CEO 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 CEO 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' capital and voting rights.

Term of the shareholders' agreement

In the absence of termination on expiry of the contract on 31 December 2016, the agreement was tacitly renewed for another period of five years, expiring on 31 December 2021. 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 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' 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 held by Dassault Aviation upon confirmation that Dassault Aviation's shareholding of Thales has remained above 10% of Thales' capital in the six months following the Public Sector's request to reduce its shareholding.

The Public Sector[1] was bound by an undertaking to hold a stake in Thales granting it at least 10% of the voting rights. This undertaking expired on 31 December 2014[2].

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:

- Dassault Aviation's registered office and operational headquarters must remain 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 must make 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' capital through the divestment of shares on the market (under conditions consistent with its financial interests and market constraints). At the end of a six-month period from the date on which it was asked to reduce its shareholding, if the shareholding of Dassault Aviation is still in excess of 10% of Thales' capital, the French State may proceed with the aforementioned undertaking to sell.

4.3.3.3.3 Crossing 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 capital and voting rights and 50% of the voting rights of Thales and, on 20 May 2009, the threshold of 50% of the capital of Thales.

On 20 May 2009, the Public Sector, together with Dassault Aviation, exceeded the threshold of 50% of the 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* 208C2115 of 27 November 2008 and published in the French Legal Gazette (*Bulletin officiel des annonces légales obligatoires*, BALO), of 1 December 2008.

It is available 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, equal to 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[3] that, on 13 January 2016, it had "fallen below the threshold of 25% of the 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 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.

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(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. 208C2115 of 27 November 2008 published in the French official bulletin of legal notices (BALO) of 1 December 2008, available for consultation on the AMF's website. "The Public Sector shall agree to hold, following the standard expiration of the shareholders' agreement, a stake in Thales granting it at least 10% of the voting rights, and up until the earliest of the following three dates: (i) 31 December 2014, (ii) three years as from the termination of the shareholders' agreement or (iii) date on which Dassault Aviation ceases to hold at least 15% of Thales' share capital."
(3) 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 appendice to decree no. 97-190 of 4 March 1997, but also over shares in Thales Alenia Space SAS (hereinafter referred to as the "Strategic Asset"). 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 that 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 the Economy (…)";
- "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 appendice to this decree may be opposed."

These assets include the capital of the following companies:

Thales Systèmes Aéroportés SAS, Thales Optronique SAS, Thales (Wigmore Street) Ltd, Thales Communications & Security SAS, Thales Air Systems SAS, Thales Nederland BV, Thales Avionics SAS, Thales Training & Simulation SAS and Thales Underwater Systems NV.

4.3.3.4 Treasury shares

At 31 December 2016, Thales held 749,559 treasury shares (0.35% of the capital), i.e. the balance after shares bought and sold on the market or elsewhere in compliance with the authorisations described hereinafter that were granted to the Board of Directors by the Annual 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

At its meeting of 17 September 2015 during which it delegated to the Chairman and CEO the authority to trade in the Company's own shares in 2016, the Board of Directors set the maximum purchase price at €65 per share, which was increased to €85 following the Board of Directors' meeting of 2 May 2016, and further increased to €100 following the Board of Directors' meeting of 27 October 2016.

The transactions carried out in 2016 show a net sale of 89,695 treasury shares, details of which are as follows:

- Net sale of 130,695 shares in transactions related to the delivery of shares to employees:
  - −663,981 shares related to the exercise of stock options and a delivery of free shares to employees,
  - −41,714 shares sold to employees under the 2015 employee shareholding scheme,
  - 575,000 shares purchased directly on the market to meet the commitments to employees of the 2017 delivery of free shares;
- Net purchase of 41,000 shares acquired in the period under a liquidity contract.

4.3.3.4.2 Authorisation to cancel the Company's shares

The 24-month authorisation granted to the Board of Directors by the Annual General Meeting of 13 May 2015 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, has not been used. Its renewal for a period of 24 months has been submitted to the Annual General Meeting of 17 May 2017.

4.3.3.4.3 Allotment of free shares

Allotment of free shares and/or performance shares

The Board of Directors, with the approval of the Combined Annual General Meeting of 18 May 2016, implemented an eighth free share allotment plan.

The Chairman and CEO (the only Company representative) is not entitled to benefit from this plan.

The allotment of 27 October 2016 was split into two sub-plans.

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 allotted shares are subject to the fulfilment of internal performance conditions during the three financial years following the grant date. The performance criteria are EBIT, free operating cash flow and order intake, with weightings of 60%, 15% and 25%, respectively;

(1) Pursuant to Article 3 of decree No. 97-190 of 4 March 1997.

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- Shares 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	27/10/2016		17/09/2013		20/12/2012	
	Free shares	Performance shares	Free shares	Performance shares	Free shares	Performance shares
Number of beneficiaries at grant date	550	232	4,161	341	5,186	336
Share price at grant date	€83.10	€83.10	€39.16	€39.16	€27.47	€27.47
Number of shares allocated	88,020	148,070	424,830	299,460	487,940	230,350
Balance of free shares at 31/12/2015	N/A	N/A	406,010	233,703	449,620	173,804
Cancellation of allotments during the financial year[a]	160	–	8,830	8,708	10,900	5,143
Early allotments during the financial year[b]	–	–	–	–	250	–
Post-closing adjustments				1,340[c]		
Number of shares delivered on expiry of the plan	N/A	N/A	N/A	N/A	438,470	168,661
Number of beneficiaries of delivery on expiry	N/A	N/A	N/A	N/A	4,648	300
Balance of free shares net of cancellations and early allotments at 31/12/2016	87,860	148,070	397,180	226,335	–	–
Number of beneficiaries remaining at 31/12/2016	549	232	3,873	314	–	–
Vesting period	from 27/10/2016 to 28/10/2020		from 17/09/2013 to 18/09/2017		from 20/12/2012 to 21/12/2016	

(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.
(c) Due to excessive eliminations in 2015.

Allotment of shares in financial year 2016

Ten largest allotments of shares to employees during the year	Number of shares allotted	Share price at allotment date	Date of plan
Shares	2,780	€84.93	27/10/2016
Performance shares	34,300		

During 2016, the allotment of shares subject to performance conditions to employees of the Company or its subsidiaries, excluding Thales executive officers, was between 160 and 5,300 shares.

The allotment of free shares to employees of the Company or its subsidiaries, excluding Thales executive officers, was between 90 and 350 shares.

4.3.3.4.4 Allotment of units or units subject to performance conditions indexed to the Thales share price

No unit allotment plan was implemented in 2016.

Units plan subject to an employment condition

- Each unit allotted confers the right, at the end of the four-year vesting period and subject to the employment condition 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 employment conditions 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 employment and performance conditions

- The units subject to performance conditions follow the same rules as for units, i.e. vesting period and employment conditions, 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	
	Units	Performance units	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 31/12/2015	375,870	232,000	417,040	275,600
Cancellation of allotments during the financial year [a]	8,070	2,800	11,590	7,600
Early allotments during the financial year [b]	70	–	240	–
Balance of units at 31/12/2016	367,730	229,200	405,210	268,000
Number of beneficiaries remaining at 31/12/2016	3,779	287	3,498	295
Vesting period	from 17/09/2015 to 18/09/2019		from 16/09/2014 to 17/09/2018	

(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.

4.3.3.4.5 Allotment of phantom shares or phantom shares subject to performance conditions indexed to the Thales share price

In October 2016, a phantom share plan and a phantom share performance plan based on the Thales share price were put in place for all international employees. These plans are equivalent to the free share plans offered to employees in France. As a result, 312 employees received 79,520 phantom shares.

4.3.3.4.6 Validation of performance conditions for financial year 2016

	Validation of the 1st third of the allotment		Validation of the 2nd third of the allotment		Validation of the 3rd third of the allotment	
Option, share, unit and phantom share plans subject to performance conditions	**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	100%
16 September 2014	2015	100%	2016	100%	2017	–
17 September 2015	2016	100%	2017	–	2018	–
27 October 2016	2017	–	2018		2019	

4.3.3.4.7 Description of the share buy-back programme proposed to the Annual General Meeting of 17 May 2017

- Maximum proportion of capital subject to repurchase: 10% at the date at which this Registration Document is published.
- Maximum number of shares that may be purchased: 21,219,476.
- Maximum amount of the programme: €2,546,337,120.
- Maximum unit purchase price: €120.

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 or when allocations are made, irrespective of their nature, to employees and senior executives of the Company and/or any affiliated companies, and to the Company representative, in accordance with the terms and conditions set out in the applicable legal requirements;
- to retain shares for later use in connection with acquisitions, 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 an Annual General Meeting resolution in force;
- to carry out in general any transaction in accordance with applicable regulations.

- **Duration of the programme:** eighteen months from the date of approval of the resolution that will be submitted to the Annual General Meeting of 17 May 2017, i.e. no later than 18 November 2018.
- **Liquidity contract:** In November 2004, Thales signed a liquidity contract, 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.

4

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)	31/12/2016	31/12/2015
French institutional investors	22,491	27,752
Non-resident institutional investors	65,668	58,000
Others (e.g. brokerage firms)	4,212	3,662
Company savings scheme	5,743	3,941
Individual shareholders and associations [(a)]	5,285	7,037
Not identified	726	879
S/Total Entire public	**104,125**	**101,276**
TOTAL NUMBER OF SHARES	**212,195**	**210,961**

(a) Mainly French residents.

	As % of the total capital		As % of the free float (excluding treasury shares)	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
French institutional investors	10.6%	13.2%	21.6%	27.4%
Non-resident institutional investors	30.9%	27.5%	63.1%	57.3%
Others (e.g. brokerage firms)	2.0%	1.7%	4.0%	3.6%
Company savings scheme	2.7%	1.9%	5.5%	3.9%
Individual shareholders and associations	2.5%	3.3%	5.1%	6.9%
Not identified	0.3%	0.4%	0.7%	0.9%
ENTIRE PUBLIC	**49.1%**	**48.7%**	**100.0%**	**100.0%**

> GEOGRAPHIC BREAKDOWN OF INSTITUTIONAL INVESTORS

31/12/2016	Number of shares held (in thousands)	As % of the total capital	As % of the free float	Number of investors
France	22,491	10.60%	21.60%	112
Continental Europe (exc. France)	15,482	7.30%	14.87%	209
North America	24,960	11.76%	23.97%	123
United Kingdom & Ireland	21,754	10.25%	20.89%	76
Rest of the world	3,472	1.64%	3.33%	42
TOTAL	**88,159**	**41.55%**	**84.67%**	**562**

4.3.3.6 Employee shareholdings at 31 December 2016

At 31 December 2016, Group employees held, within the meaning of Article L. 225-102 of the French Commercial Code, 5,743,081 Thales shares, representing 2.71% of the capital (and 3.31% of voting rights) through the Group savings scheme (PEG), either directly or via the Company Mutual Fund (FCPE) or equivalent in the UK, or directly through the allotment of free shares.

At 31 December 2016, around 60% of the Thales shares held by employees were freely transferable (compared with the same proportion at 31 December 2015 and 70% at 31 December 2014). The reduction since 2015 is the result of the weight of shares held directly following allotments of free shares, of which over half is non-transferable at end-2016.

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 (three dedicated funds [(a)])	3,603,713	62.75%	1.70%	2.32%
Netherlands (two dedicated funds [(b)])	65,211	1.14%	0.03%	0.04%
United Kingdom (SIP – Trust [(c)])	104,700	1.82%	0.05%	0.03%
Shares directly held in the Group savings scheme (2002, 2008, 2013 and 2015 schemes)	131,819	2.29%	0.06%	0.05%
Shares directly held resulting from the allotment of free shares (Article L. 225-197-1 of the French Commercial Code)	1,837,638	32.00%	0.87%	0.85%
Total Article L. 225-102 of the French Commercial Code	5,743,081	100.00%	2.71%	3.31%
Total number of shares held by employees	**5,743,081**	**100.00%**	**2.71%**	**3.31%**
TOTAL SHARE CAPITAL	**212,194,766**			

(a) "Thales Actions", "World Classic", and "Action Protect 2013" funds.
(b) "Netherlands Classic" 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 transactions indicated in Article L. 621-18-2 of the French Monetary and Financial Code carried out in 2016

In accordance with Article 223-26 of the General Regulations of the French financial markets authority (AMF).

To the best of the Company's knowledge, the following disclosures[(1)] 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)
Alex Cresswell	Other financial instruments	Exercise of stock options	156,695.00	44.77
	Other financial instruments	Exercise of stock options	105,360.00	26.34
	Share purchase options	Exercise	107,756.94	26.34
	Shares	Sale	259,000.00	74.00
	Shares	Sale	325,400.00	81.35
	Shares	Sale	347,980.46	85.06
Marc Darmon	Other financial instruments	Exercise of stock options	192,500.00	38.50
	Other financial instruments	Exercise of stock options	78,254.40	32.88
	Other financial instruments	Exercise of stock options	86,145.60	32.88
	Share purchase options	Exercise	170,499.00	26.34
	Shares	Sale	369,500.00	73.90
	Shares	Sale	181,118.00	76.10
	Shares	Sale	199,644.00	76.20
	Shares	Sale	211,600.00	92.00
Jean-Loïc Galle	Other financial instruments	Exercise of stock options	192,500.00	38.50
	Other financial instruments	Exercise of stock options	223,850.00	44.77
	Other financial instruments	Exercise of stock options	213,116.94	26.34
	Shares	Sale	369,750.00	73.95
	Shares	Sale	369,750.00	73.95
	Shares	Sale	617,343.30	76.30

(1) This refers to individuals required to make a disclosure as indicated in Articles L. 621-18-2 a), b) and c) of the French Monetary and Financial Code. The individuals concerned by Article L. 621-18-2 b) of the French Monetary and Financial Code include the members of the Executive committee.

Director's name	Financial instrument	Type of transaction	Total amount of transaction (in euros)	Unit price (in euros)
Michel Mathieu	Other financial instruments	Exercise of stock options	394,560.00	32.88
	Other financial instruments	Exercise of stock options	263,400.00	26.34
	Shares	Sale	644,400.00	71.60
	Shares	Sale	819,155.64	81.92
Gil Michielin	Share purchase options	Exercise	39,510.00	26.34
	Shares	Sale	135,240.00	90.16
Pierre-Éric Pommellet	Other financial instruments	Exercise of stock options	79,020.00	26.34
	Other financial instruments	Exercise of stock options	52,680.00	26.34
	Share purchase options	Exercise	39,510.00	26.34
	Shares	Sale	212,130.00	70.71
	Shares	Sale	158,580.00	79.29
	Shares	Sale	127,665.00	85.11

4.3.3.8 Trading in company shares during 2016

In 2016, 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 Annual General Meeting of 13 May 2015 for transactions performed between 1 January 2016 and 18 May 2016, and in accordance with the authorisation given by the Annual General Meeting of 18 May 2016 for transactions performed between 19 May 2016 and 31 December 2016.

At 1 January 2016, Thales held 839,254 treasury shares, representing 0.4% of the capital, compared with 749,559 treasury shares at 31 December 2016.

The net balance of 2016 trading was the disposal of 89,695 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	(130,695)
b) Regulation of the market price by a liquidity contract drawn up in accordance with the AFEI code of Conduct	41,000

Breakdown of treasury shares by objective at 31 December 2016

The total number of shares held at that date was 749,559, representing 0.4% of Thales' 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	699,559
b) Regulation of the market price by a liquidity contract drawn up in accordance with the AFEI code of Conduct	50,000

Market value of the portfolio at 31 December 2016

€69,056,870.67, at the closing price on 30 December 2016, i.e. €92.13.

	Aggregate gross amounts from 1 January 2016 to 31 December 2016		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	1,088,001	1,177,696	–	–	–	–	–	–
Average maximum maturity								
Average transaction price (in euros) including possible discounts and free shares	84.47	31.51	–	–	–	–	–	–
Average exercise price								
Amounts (in euros)	91,903,444	37,109,201	–	–	–	–	–	–

Thales did not make use of derivatives (futures sales) as part of this redemption programme.

4.3.3.9 Annual General Meeting authorisations valid at 31 December 2016 for increases in capital
(information covered by 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 2016) granted by the Annual General Meeting for increases in capital.

Annual General Meeting of 18/05/2016	Used by the Board of Directors	Observations
Issue of securities giving access to equity capital: • With pre-emptive subscription rights (fourteenth resolution): 60 million shares and €3 billion in debt securities • without pre-emptive subscription rights (fifteenth resolution): 20 million shares and €2 billion in debt securities • without pre-emptive subscription rights by private placement (sixteenth resolution): 20 million shares and €2 billion in debt securities • Possibility of over-allotment ("Green shoe") (seventeenth resolution): Maximum of 15% of issues carried out attributable to each resolution/transaction above Term: 26 months, i.e. until 17 July 2018 See overall ceilings in observations column	No utilisation	Overall ceiling (nineteenth resolution) for transactions coming under resolutions 15, 16 and 17: 20 million shares and €2 billion in debt securities (nineteenth resolution)
Issue of new shares as consideration for contributions of the securities of third-party companies up to a maximum of 21 million securities, i.e.,10% of share capital (eighteenth resolution) Term: 26 months, i.e. until 17 July 2018 See overall ceilings in observations column	No utilisation	Overall ceiling of resolutions 14, 15, 16, 17 and 18: 60 million shares and €3 billion in debt securities (nineteenth resolution)
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 17 July 2018	No utilisation	Note: Employee shareholding operations are now conducted using existing shares, which have previously been bought back by the Company under a 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:

1. 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 167;
2. In the absence of termination on expiry of the contract on 31 December 2016, the agreement was tacitly renewed for a period of five years, expiring on 31 December 2021. It may be tacitly renewed for five-year periods;
3. 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 RELATED-PARTY AGREEMENTS

4.4.1 Commitments and agreements authorised after year end

At 5 April 2017, no new related-party 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 2016

In 2016, no commitments or related-party agreements were authorised by the Board of Directors.

4.4.3 Agreements authorised during previous financial years

The agreements authorised by the Board of Directors and approved by the Annual General Meeting in previous financial years that continued to be performed in 2016 have been disclosed to the statutory auditors in accordance with the applicable regulations. They are also described in a special report presented to the Annual General Meeting called to approve the financial statements for 2016.

Board of Directors meeting held on 25 February 2015

On 25 February 2015, the Board of Directors authorised three related-party 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 and CEO, 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 departure occurs after the closure 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% 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 term of office, and its 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 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 ten 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).

Board of Directors' meeting held on 29 September 2009

Assistance agreement between Thales and TSA

For 2016, 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 €491,461.79 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 2015 to 27 October 2016, Thales invoiced Air Tanker in the amount of £312,668.00 (or €394,068.48), pursuant to letters of credit in force.

4.4.4 Statutory auditors' special report on related-party agreements and commitments

To the Shareholders,

In our capacity as your company's statutory auditors, we hereby report to you on regulated agreements and commitments.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, without commenting on their relevance or substance or identifying any undisclosed agreements or commitments. Under the provisions of Article R. 225-31 of the French Commercial Code, it is the responsibility of the shareholders to determine whether the agreements and commitments are appropriate and should be approved.

Where applicable, it is also our responsibility to provide shareholders with the information required by Article R. 225-31 of the French Commercial Code in relation to the implementation during the year of agreements and commitments already approved by the Shareholders' Meeting.

We performed the procedures that we deemed necessary in accordance with the guidance issued by the French Institute of statutory auditors (Compagnie nationale des commissaires aux comptes) for this type of engagement. These procedures consisted in verifying that the information given to us is consistent with the underlying documents.

Agreements and engagements submitted for approval by the General Shareholders' Meeting approval

Agreements and commitments authorized during the last year

We inform you that we have not been advised of any related party agreement or any commitment which received prior authorization from the Board of Directors, 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 2015 to 27th October 2016, Thales invoiced Air Tanker the total amount of GBP 312,668 (EUR 394,068.48).

With TSA (shareholder of 25.82% 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 2016 under this agreement amounted to EUR 491,461.79 excluding taxes.

With Mr Patrice Caine, Chairman and CEO since 23 December 2014

The Board of Directors meeting on 25 February 2015 authorized the following agreements and commitments, previously approved by the Shareholders' Meeting of 13 May 2015, the implementation of which continued during the year 2016:

- **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 CEO 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 27, 2017

The statutory auditors
French original signed by

Mazars		**Ernst & Young Audit**	
Anne-Laure Rousselou	Jean-Marc Deslandes	Philippe Diu	Serge Pottiez

4.5 STOCK MARKET INFORMATION AND FINANCIAL COMMUNICATION

4.5.1 Thales shares

4.5.1.1 Listing markets

Thales' 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 2016, Thales stock was included in the following main indices:

- NYSE Euronext Paris indices: CAC Next 20, 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 2016 closing price, Thales' total market capitalisation was €19,550 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 2015 to December 2016 (share prices in euros)

	No. of trading days	No. of shares traded	Total value traded (€m)	Average daily volume	Weighted average price	Share price High	Share price Low	Closing price
2016								
January	20	8,896,397	618.32	444,820	69.502	73.950	66.500	70.170
February	21	9,904,954	658.55	471,664	66.487	73.410	59.770	73.410
March	21	7,559,496	559.71	359,976	74.041	77.620	70.420	77.000
Q1 2016	**62**	**26,360,847**	**1,836.58**	**425,175**	**69.671**	**77.620**	**59.770**	**77.000**
April	21	6,293,902	479.04	299,710	76.112	79.230	74.350	75.500
May	22	6,081,556	465.59	276,434	76.558	78.110	74.620	77.785
June	22	7,432,393	550.29	337,836	74.040	77.910	67.650	75.010
Q2 2016	**65**	**19,807,851**	**1,494.92**	**304,736**	**75.471**	**79.230**	**67.650**	**75.010**
July	21	6,574,729	512.70	313,082	77.980	82.570	73.050	81.490
August	23	4,815,365	389.00	209,364	80.783	83.400	77.530	77.630
September	22	6,319,531	507.02	287,251	80.231	82.750	76.950	81.990
Q3 2016	**66**	**17,709,625**	**1,408.72**	**268,328**	**79.545**	**83,400**	**73.050**	**81.990**
October	21	6,276,943	524.30	298,902	83.528	86.100	80.360	85.770
November	20	8,527,155	763.72	426,358	89.563	93.160	83.330	92.130
December	21	5,655,754	515.59	269,322	91.162	93.330	89.230	92.130
Q4 2016	**62**	**20,459,852**	**1,803.61**	**329,998**	**88.154**	**93.330**	**80.360**	**92.130**
2016	**255**	**84,338,175**	**6,543.83**	**330,738**	**77.590**	**93.330**	**59.770**	**92.130**

(1) International Securities Identification Numbers.
(2) As per the definition of the NYSE Euronext Indices Steering committee (*Conseil Scientifique des Indices*), the free float corresponds to the total 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)	Average daily volume	Weighted average price	Share price High	Share price Low	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**
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**
2015	**256**	**99,864,912**	**5,778.14**	**390,097**	**57.860**	**71.670**	**44.100**	**69.100**

4.5.1.3.2 Annual data from 2015 and 2016 (share prices in euros)

> SHARE PRICE AND PERFORMANCE

	2016	2015
Closing price	92.13	69.10
Session high	93.33	71.67
Session low	59.77	44.10
Weighted average price	77.59	57.86
Net dividend in respect of the previous year	1.36	1.12
Total shareholder return (TSR)[a]	35.7%	56.3%
Change in Thales stock over the period (%)	33.3%	53.4%
CAC 40 performance over the period (%)	7.5%	9.0%
CAC Next 20 performance over the period (%)	3.6%	6.2%

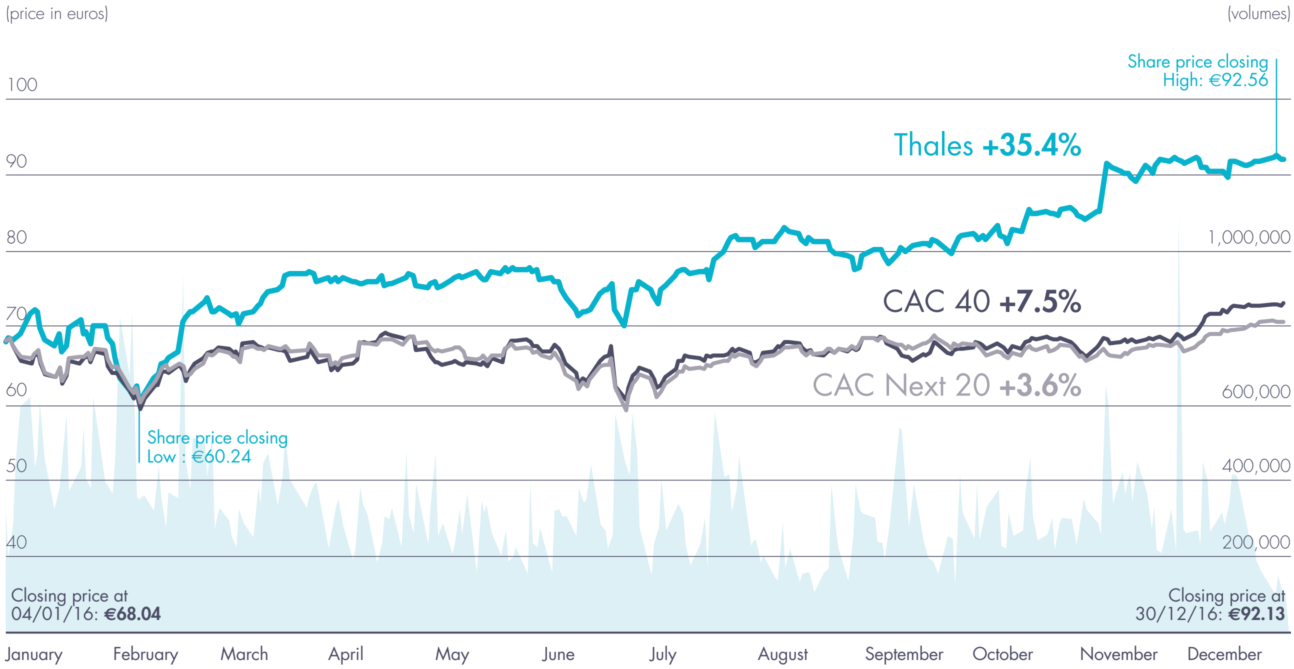
(a) Total shareholder return: differential between annual closing prices, plus dividend after tax credit paid during the year in respect of the previous year, relative to the opening price.

	2016	2015
Average number of shares traded daily (thousands)	330.7	390.1
Total number of shares traded over the period (millions)	84.3	99.9
Total value traded over the period (€ millions)	6,543.8	5,778.1
Average number of shares traded per month (thousands)	7,028	8,322
Average value traded per month (€ millions)	545.3	481.5
Total number of shares in capital (period-end, in millions)	212.2	211.0
Total number of shares in free float (period-end, in millions)[a]	104.1	102.8

(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 Chart and comments on the change in price and volumes traded from 1 January 2016 to 31 December 2016

CHANGE IN SHARE PRICE AND TRADED VOLUME FROM 1 JANUARY 2016 TO 31 DECEMBER 2016



Comments on share price in 2015 and 2016

- **In 2016,** the Thales share price continued to increase, overperforming against the CAC 40 and CAC Next 20 indices, which were up 7.5% and 3.6%, respectively.
- **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.

Comments on traded volumes in 2015 and 2016

- **In 2016,** with over 84 million shares traded, volumes remained high, despite pulling back on 2015 levels (down 16%). Daily traded volumes reached an average of almost 331,000 shares. Traded volumes experienced one-off increases throughout the year: typically when the annual and half-year results were announced.
- **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.

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 27 February 2017 proposed to increase the distribution rate to 37.6% of adjusted net income.

A proposal will therefore be put forward at the Thales Annual General Meeting on 17 May 2017 to pay a dividend of €1.60 per share for 2016, entirely in cash. As an interim dividend of €0.40 per share was paid in December 2016, the amount to be paid after the Annual General Meeting will relate to the balance of the dividend for 2016 of €1.20 per share.

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, point 2), dividends paid in respect of 2013, 2014 and 2015 qualified for a possible tax credit.

DIVIDENDS PAID FOR THE PAST THREE YEARS

(in euros)	2016 [(a)]	2015	2014	2013
Dividend before tax credit	1.60	1.36	1.12	1.12

(a) Subject to the approval of the Annual General Meeting of 17 May 2017, which will vote on the 2016 financial statements. The ex-dividend date will be 31 May 2017 and the payment date will be 2 June 2017.

4

4.5.2 Financial communication policy

4.5.2.1 General overview

Thales' 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 trade issues, especially regarding anti-corruption measures and the control over the export 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.

4.5.2.2 Provisional financial reporting calendar for 2017

3 May	Q1 2017 financial information
17 May	Annual General Meeting
31 May	2016 ex-dividend date
2 June	Payment of 2016 dividend balance
26 July	2017 interim consolidated results
19 October	Q3 2017 financial information

4.5.2.3 Contacts

Investor Relations department

Tour Carpe Diem
31 place des Corolles – CS 20001
92098 Paris-La Défense – France
Tel.: +33 1 57 77 89 02
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' Articles of Association and financial information about the Group are publicly available from its website (www.thalesgroup.com).

2015 full-year results

In the "Investor" section, under the heading "Publications/Releases & publications":

- press release – 23 February 2016: full-year results 2015;
- presentation – 23 February 2016: full-year results 2015;
- consolidated financial statements at 31 December 2015.

Quarterly information at 31 March 2016

In the "Investor" section, under the heading "Publications/Releases & publications":

- press release – 4 May 2016: orders and sales at 31 March 2016;
- presentation – 4 May 2016: orders and sales at 31 March 2016.

2016 Annual General Meeting of Shareholders

In the "Investor" section, under the heading "Retail Investors/Annual General Meeting":

- notice of AGM – BALO [French Legal Gazette] 11 March 2016;
- publication in *Les Échos*, issue of 11 March 2016;
- number of shares and voting rights as of the date of the notice of AGM – Article R. 225-73-1;
- Articles of Association – 18 May 2016;
- 2015 Registration Document;
- notice of meeting (BALO [French Legal Gazette] 15 April 2016);
- notice of availability of documents;
- meeting brochure – AGM 18 May 2016;
- brochure specified in Article R. 225-83 – AGM 18 May 2016;
- AGM 18 May 2016 – presentation;
- AGM 18 May 2016 – press release;
- AGM 18 May 2016 – *quorum* and voting results.

2016 first-half results

In the "Investor" section, under the heading "Publications/Releases & publications":

- press release – 22 July 2016: 2016 first-half results;
- presentation – 22 July 2016: 2016 first-half results;
- consolidated financial statements at 30 June 2016.

Acquisition of Ruag's opto-electronics business line by Thales Alenia Space

In the "Investors" section, under the heading "Publications/Regulated information":

- Press release on the acquisition – 11 July 2016

Quarterly information at 30 September 2016

In the "Investor" section, under the heading "Publications/Releases & publications":

- press release – 19 October 2016: orders and sales at 30 September 2016;
- presentation – 19 October 2016: orders and sales at 30 September 2016.

2016 full year results

In the "Investors" section, under the heading "Publications/Releases and publications":

- press release – 28 February 2017: 2016 full-year results;
- presentation – 28 February 2017: 2016 full-year results;
- consolidated financial statements at 31 December 2016.

4.5.3 Other market securities

4.5.3.1 Bond maturing in 2018 and 2021

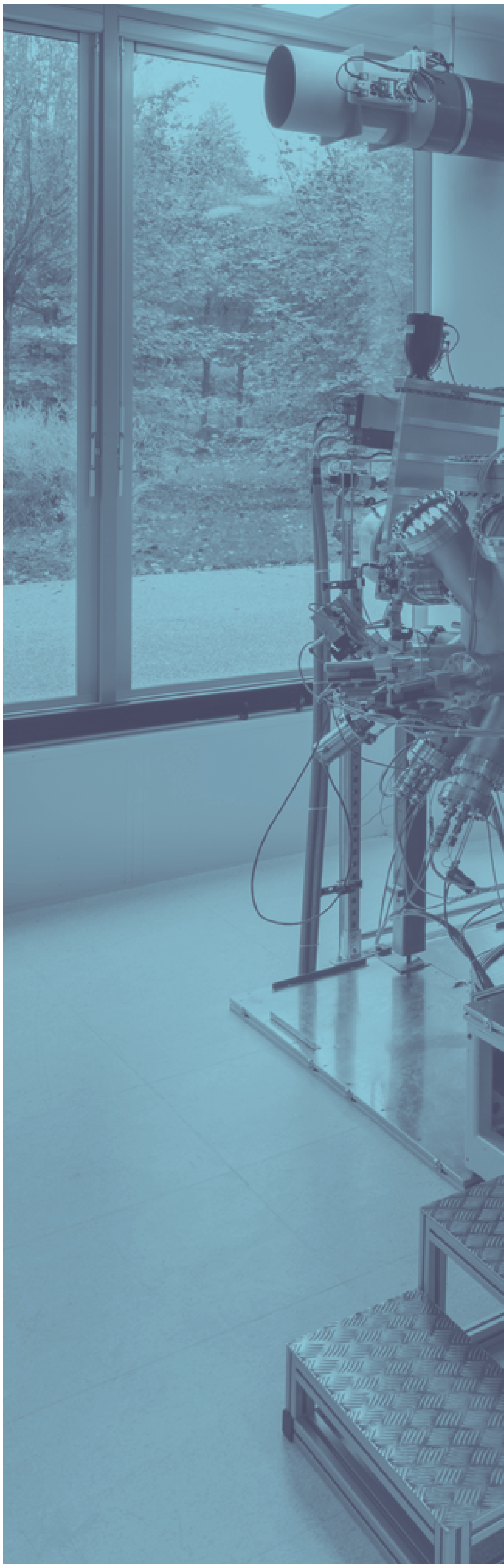
In March 2013, Thales issued a €800 million bond, structured in the form of a five-year €500 million tranche with a coupon of 1.625% (including €300 million swapped to variable rate) and an eight-year €300 million tranche with a coupon of 2.25% (entirely swapped to variable rate), in order to refinance the €600 million bond that matured in April 2013.

4.5.3.2 Bond maturing in 2023

In May 2016, Thales issued a €600 million bond at a fixed rate of 0.75% (including €400 million swapped to variable rate). This bond is listed on the Paris stock exchange and matures in June 2023. It was issued to refinance the €600 million bond that matured in October 2016.

CORPORATE RESPONSIBILITY

> 5



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 them.

Launched in 2014, the Group's long-term strategic vision "Ambition 10" places employees at the heart of the Group's growth plans. It is underpinned by a Human Resources policy that is both adapted to the challenges faced by the Group and supported by high-quality employee relations.

In 2016, this strategic vision led the Group to strengthen its candidate attraction policy for recruiting and retaining new talent, and to implement a number of initiatives as part of its digital transformation plan. These notably helped to increase awareness of the Group on social media and among young graduates by deploying interactive interfaces and applications.

In terms of professional development, the digital transformation is an integral part of Thales University's strategy and has enabled the creation and implementation of many multimodal training programmes. It has also helped to develop employees' skills and to support performance improvement projects within the Group's companies.

At the same time, the Group has continued to promote its leadership model through a variety of initiatives, such as the implementation of a global platform to encourage best practices to be shared, and the deployment of a development programme to increase teams' collective efficiency.

Convinced that innovation is the product of an interdisciplinary approach and a variety of backgrounds, the Group also carried out a particularly proactive diversity and inclusion strategy during the year.

This notably resulted in the dissemination of commitments to ambitious objectives to improve gender equality and female representation at all levels of responsibility and to increase the number of international employees on teams. Action was also taken to encourage collaboration across all age groups and the integration of people with disabilities.

The Group's commitment to diversity informs its approach to corporate social responsibility (CSR) and is part of a greater move to develop a culture of inclusion, which addresses both employee aspirations and customer expectations in all host countries.

Since 2014, corporate management's desire to realise its corporate social responsibility commitments more fully has resulted in the inclusion of a specific CSR criterion in the objectives set for the most senior managers in France, which is taken into account when determining variable compensation.

This CSR criterion was exclusively dedicated to diversity and inclusion in 2016, after being focused on employees' professional development and quality of life at work in previous years.

Thanks to more than 15 years of initiatives as part of its corporate responsibility policy, in 2015 the Group was included in the Europe and World versions of the Dow Jones Sustainability Index (DJSI), which lists top-performing companies according to economic, environmental and social criteria.

Thales remained listed on both indices in 2016, conserving its leadership position in the Aerospace and Defence segments for "social" and "environmental" criteria.

Thales signed the United Nations Global Compact in 2003 and adheres to its ten principles relating to Human Rights and labour rights, which were inspired by the Universal Declaration of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

Implemented on the basis of the agreements and best practices that guarantee the Group's responsible business conduct, these commitments enabled Thales to achieve the Global Compact Advanced level in the differentiation programme of the United Nations Global Compact beginning in 2012.

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 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 2016 demonstrate the stability of the Group's HR dimension.

5.1.1.1 Employment in the Group

The breakdown of the Thales group's 64,071 employees[1] by geographic area and level of responsibility demonstrates:

- its international footprint, with 29,608 employees, or 46.2% of the total workforce, working outside France at the end of 2016;
- its highly qualified workforce, 76.9% of whom hold a position equivalent to engineer, specialist or manager;
- the presence of women, who make up 22.6% of the global workforce;
- the proportion of long-term jobs, i.e., open-ended contracts (97.8%); and
- the volume of full-time jobs (93.4%).

In comparison to the previous year, employees under Group management increased in 2016 (64,071 versus 62,194 in 2015), with 306 of the new employees resulting from changes in the scope of consolidation, mainly following the acquisition of Vormétric. In addition, Thales recruited 4,844[2] employees during the year on open-ended employment contracts, demonstrating the Group's hiring momentum and attractiveness.

5.1.1.1.1 Breakdown of employees worldwide

The international footprint of the Group is one of the pillars of Thales' strategy, in line with its long-term development model. While the diversity of its geographical footprint exemplifies the Group's international character, Europe remains its principal employment zone, representing 52,122 active employees, or 81.3% of the total workforce. Workforce growth is strongest in France, the United States, the United Kingdom, the Middle Eastern countries, Switzerland and Belgium.

(1) In this chapter, Thales uses the term "employee" to designate all active employees.

(2) This figure does not include the 1,407 work-study contracts concluded in 2016. Nor does it include the conversion of short-term employment agreements or apprenticeship agreements into open-ended employment contracts. In 2015, 4,296 employees were recruited on open-ended employment contracts.

(headcount at 31 December)		2016	2015
France	France [a]	34,463	33,455
Major countries for the Group	Australia	3,341	3,317
	Canada	1,471	1,438
	Germany	3,142	3,152
	Netherlands	1,683	1,792
	United Kingdom	6,483	6,298
	United States	3,017	2,721
Rest of Europe	Austria	315	320
	Belgium	879	813
	Denmark	112	103
	Greece	31	27
	Hungary	30	35
	Italy	2,639	2,653
	Latvia	16	16
	Norway	217	222
	Poland	268	249
	Portugal	260	258
	Romania	234	235
	Spain	1,029	1,017
	Switzerland	298	225
	Others [b]	23	23
Emerging markets	Algeria	31	19
	Brazil	178	188
	Chile	42	31
	China (Hong Kong)	523	485
	India	263	280
	Indonesia	21	14
	Israel	87	86
	Japan	52	53
	Malaysia	71	65
	Mexico	328	330
	Middle East (excluding Saudi Arabia) [c] [d]	696	563
	Morocco	38	27
	Russia	24	27
	Saudi Arabia	596	601
	Singapore	695	661
	South Africa	143	146
	South Korea	29	24
	Taiwan	26	27
	Turkey	105	90
	Others [d]	172	108
WORLD		**64,071**	**62,194**

(a) Official workforce: 37,627.
(b) Other countries with fewer than 20 employees and permanent establishments: Argentina, Colombia, Czech Republic, Dominican Republic, Egypt, India, Israel, Kazakhstan, Kenya, Panama, Russia, Sweden, Thailand and Venezuela.
(c) Thales' workforce in this country also includes the employees of a permanent establishment belonging to Thales Communications & Security in Qatar and in Egypt.
(d) The Middle East comprises Egypt, Lebanon, Oman, Pakistan, Qatar and UAE.

5.1.1.1.2 Breakdown of active employees by operating segment

The breakdown of employees among Thales' three operating segments remained broadly unchanged in 2016.

	Defence & Security	Aerospace	Transport	Others	Total
2016	**33,282**	**18,741**	**6,812**	**5,236**	**64,071**
2015	32,207	17,960	6,289	5,738	62,194

5.1.1.1.3 Breakdown of employees by type of contract

The majority of the Group's employees have open-ended employment contracts and work full-time. This trend is a major characteristic of Thales' workforce and applies to all of the countries where it does business. Fully 97.8% of Group employees have open-ended employment contracts and 93.4% work full-time. Lastly, the use of temporary workers has remained relatively limited; in 2016, the Group used only 2,972 temporary workers worldwide. In France, the Group's companies used 786 temporary workers (837 in 2015).

5.1.1.1.4 Breakdown of employees by level of responsibility

Thales classifies all of its jobs throughout the world according to 12 levels of responsibility (LRs), reflecting the skills and experience required, the complexity and importance 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 2016, a total of 76.9% 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 bracket

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 but stable. Many employees remain with Thales throughout their career. Thales favours both the employment of over fifties (36.2% of employees are aged 50 and over) and the integration of young people (33.6% of employees are under the age of 40).

In France, 36.3% of employees are aged 50 and over and 32.7% are under 40. The average age of employees was 44 at 31 December 2016 (versus 45 at end-2015), while the average seniority was 16 years.

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 7,206 employees in 2016: 4,844 on open-ended employment contracts, 955 on short-term employment contracts and 1,407 on work-study contracts. Recruitment therefore increased compared to 2015 (6,445). France, the United Kingdom, the United States, Australia and Canada saw the most hires. A large majority of new recruits were offered long-term employment. Between 1 January and 31 December 2016, the Group signed 1,407 work-study contracts, mainly in France, Canada, the United States and the United Kingdom. This increase (from 1,194 contracts signed in 2015) illustrates the Group's commitment to integrating young people into the workforce.

In France, of the 3,834 employees recruited in 2016, a total of 2,279 were hired on open-ended employment contracts, 1,062 on work study contracts (732 apprenticeship contracts and 330 vocational training contracts) and 493 on short-term employment contracts.

5.1.1.3 Departures

During 2016, a total of 4,616 employees left the Group. These departures mainly comprised resignations (1,960), retirements (1,064), dismissals (829 across the board) and the expiry of short-term employment contracts (533). Excluding expired short-term contracts, the number of departures was 4,083 (versus 3,863 in 2015).

The proportion of redundancies for economic reasons (528) remained stable compared to 2015, despite difficulties faced in some countries. Redundancies in 2016 related primarily to a decline in business in some fields and the completion of a number of projects (mainly in the Netherlands, the United States, the United Kingdom and Italy). Countries that had to resort to economic redundancy adopted a series of measures (such as transfers, support and outplacement) to limit the effect on employment. Some temporary external redeployment measures (temporary external mobility) were implemented to limit the number of employees made redundant for economic reasons.

In France, the total number of departures, including expired short-term employment contracts, stood at 1,878, resulting mainly from retirements (831), resignations (486) and expired short-term contracts (289).

5.1.1.4 Candidate attraction policy

To support its growth worldwide, the Group is continuing and stepping up its search for new talent through global recruitment campaigns, with the aim of hiring employees of both genders from a wide range of backgrounds in terms of training, experience and culture. Thales' success and performance effectively depend on its ability to attract top talent from a variety of labour markets (both in France and abroad) and on the commitment of its employees.

5.1.1.4.1 Regeneration of the Group's employer brand

Unveiled in 2014, the Group's employer brand plays a key role in attracting new talent around the world and increasing diversity within teams. The Global Resourcing function is responsible for enhancing the Group's attractiveness and recruiting the talent needed to deploy the "Ambition 10" strategy. This function strengthens the Group's ability to diversify its skills and helps to boost growth in its businesses by implementing strategies that improve awareness of Thales on social media and university campuses.

All throughout 2016, Thales carried out a variety of strategic campaigns to supply its growing businesses with the specific skills that they require, in areas such as cyber security and major programmes in key markets.

To coincide with the roll-out of its employer brand, the Group updated its brochures, booths, posters, web visuals and all other communication materials used at recruitment events worldwide and on Thales' social media pages.

5.1.1.4.2 Digital and social media attractiveness

The internet is today the leading source of information and employment searches.

For this reason, Thales continued to enhance its presence on social media (LinkedIn, Twitter, Viadeo and Facebook) throughout 2016. The Group had more than 230,000 followers on LinkedIn by the end of the year. Thales has also become more visible on sites specifically for young graduates (Jobteaser, l'Étudiant, Studyrama, Yupeek and Wizbii) and generic job posting sites (including Monster, RegionJob and Indeed). The Group has also expanded further into new communication channels and job search sites, such as Snapchat and SoNetJob.

Thales renewed partnerships with several recruitment sites in late 2016 and, through the use of the Multiposting and eQuest solutions, now multicasts job vacancies to some 50 recruitment and social media sites. This approach, which is based on channels used the most 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 media, online recruitment sites and the Thales website. In France, these channels account for nearly 70% of applications (or more than 135,000).

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 events within the Group, as well as offering the opportunity to apply via smartphone. Available in all countries in which Thales operates, the app helps to reinforce the Group's employer brand and presence on social media. 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. More than 20 such forums offered the experience in 2016.

Contests to boost attractiveness

Thales is taking innovative measures to attract experts with skills in electronics and cyber security, who are scarce on the job market. In 2016, the Group jointly organised a cyber security challenge as part of European Cyber Week, and the *Projet Arduino* student contest. Now in its fourth consecutive year, *Projet Arduino* invites engineering students from around the world to put their skills to the test by developing an innovative project linked to Thales and its areas of business using an Arduino kit(1). The aim of the initiative is to increase awareness of the Thales employer brand and boost the Group's appeal with a view to attracting new talent.

Working in teams, students are given two weeks to complete their project and submit a video presentation.

In 2016, the contest was open to students at 47 university campuses in seven countries: the United Stated, the United Kingdom, Singapore, France, the Netherlands and China, including Hong Kong. After more than 1,000 applications were received, 524 students were selected to participate as part of 103 teams.

Online voting by the general public will determine which three teams will present their project before a panel of Thales employees, who will then decide the winning team.

There are plans to extend *Projet Arduino* to more countries next year.

5.1.1.4.3 Thales and the professional integration of young people

As part of its Human Resources strategy, Thales has implemented a recruitment policy for young people designed not only to respond to its hiring needs but also to help young people enter the workforce. As a training method, work-study contracts are an important component for Thales in integrating young people. In 2016, for example, the Group signed 1,407 work-study contracts worldwide, notably in France (1,062), Canada (95), the United States (82), and the United Kingdom (77).

In France, as of 31 December 2016, the Group's companies included 1,324 apprentices (732 of whom were hired during the year), 425 young people on vocational training contracts (330 of whom were recruited during the year) and 109 individuals with CIFRE fellowships (28 of whom were recruited during the year).

Continuing its programmes to promote young people's integration into the workforce, Thales pushed ahead with the roll-out of an agreement with the French government called the Generation Agreement(2), which was entered into in July 2013 for a three-year term. In particular, this agreement provides for an increase in the number of work-study students to 5% of the average annual workforce. The Group has already overshot this objective, with work-study students accounting for 5.25% of the average annual workforce in July 2016.

Thales has also achieved the objective of recruiting 2,000 people under the age of 30 on open-ended employment contracts over the term of the agreement.

The agreement also provided for the implementation of programmes to support diversity and equal opportunity. To this end, 22 scholarships were awarded as part of the third Thales Education Prize in October 2016 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 host secondary school and university students. The visits, carried out in collaboration with the non-profit organisations *Nos Quartiers ont des Talents* and *Elles Bougent* (Girls on the Move), provided an introduction to Thales' job roles and businesses not only for trainees at the educational institutions targeted by the Group, but also for young graduates from low-income neighbourhoods or disadvantaged social backgrounds.

5.1.1.4.4 Educational partnerships and links with schools and students

Students from schools and universities are all potential future Group employees. To help them all throughout their schooling and higher education and facilitate their integration into the workforce, Thales has formed a number of partnerships with schools and universities in France and abroad, notably in Australia, the Netherlands, Germany, the United Kingdom and Romania.

Promoting careers in science and technology

The Group is also keen to encourage an interest in science and technology careers among secondary school students. To this end, it signed new partnerships with non-profit organisations *L'Arbre des Connaissances* and *Sciences à l'École* in 2016.

Also during the year, Thales' companies in France repeated the "First Internship with a Company" campaign in partnership with *Elles Bougent*. As part of the campaign, internships were offered to young female Year-10 students to allow them to discover various aspects of the Group's business.

(1) Arduino is an open-source printed circuit board containing a microcontroller, which can be programmed to analyse and produce electric signals. The system can be used to complete a broad range of tasks, from managing home automation to controlling a robot.

(2) Group agreement on "Thales' commitment to promoting the employment of young people and over-fifties and to support knowledge transfer".

A number of Group sites also opened their doors to contestants of the Thales-sponsored *Je filme le métier qui me plaît* youth film contest for the ninth year.

Our employees, our best ambassadors

In France, the Group carried out around one hundred initiatives in schools in 2016 as well as took part in some 50 forums, supported notably by an internal network of more than 90 Campus Managers. Former students from partner schools who are now Group employees, Campus Managers act as Thales ambassadors with students, sharing their experiences to help them to make better career decisions and find out more about the Group's various businesses. They represent essential links and ensure a close relationship between educational establishments, students and the Group. Thales also encourages its employees to take part in events organised by their children's schools to introduce the students to the various aspects of the business.

In 2016, Thales was also ranked the third most attractive employer for students at engineering schools in France (Universum and Trendence rankings), demonstrating the success of its candidate attraction policy.

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 supporting and encouraging employee relations.

5.1.2.1 Collective bargaining

5.1.2.1.1 Collective bargaining around the world

At the end of 2016, a total of 86.5% 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 common framework. More than 60 new collective agreements were entered into within the Group in 2016, showing the importance and dynamism of employee relations.

5.1.2.1.2 Collective bargaining at 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 (IDEA). The IDEA agreement concerns more than 50,000 employees and defines very specific objectives for improving employees' professional development, through some 20 or so programmes.

The momentum created at European level by the IDEA agreement led to the April 2010 signing of a second European agreement with the EMF on the Transparent annual Activity discussion for mutual Listening and developing professional Knowledge (TALK). The TALK agreement sets a clear framework and practical guidelines for conducting the Annual Activity Discussion. It defines basic principles to ensure that discussions are held in the best possible conditions and that the rights and responsibilities of all parties are respected.

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. This is the case, in particular, for (i) the Group Anticipation agreement, renewed in 2013, which defines a shared and transparent approach to workforce and skills planning, (ii) the Group benefits agreement, which harmonises employee benefits, (iii) the Group framework agreement on professional gender equality (framework agreement of 13 January 2004, amended on 27 June 2012), and (iv) the Group framework agreement of 24 April 2015 on teleworking.

Thales began a new round of collective bargaining in 2016, motivated by the belief that this process contributes significantly to the Group's economic performance while helping to improve employee working conditions. In 2016, five new agreements and amendments were entered into at Group level in connection with employee relations:

- Amendment no. 1 of 9 February 2016 to the Improving professional Development through Effective Anticipation (IDEA) agreement. The purpose of the amendment is to adapt the system of "secondments with no permanent work obligation" to changes in supplementary pension schemes and to make provisions for employee beneficiaries who are impacted by the application of the "solidarity coefficient" tax.
- Amendment no. 3 of 20 May 2016 to agreement on the Thales group collective retirement savings plan in France (PERCO). The amendment adapts the provisions of the Group agreement with regard notably to the treatment for social security purposes of employer contributions and to the allocation by default of amounts received under the profit-sharing scheme to the PERCO, in order to take into account changes in the French law of 6 August 2015 on growth, business and equal economic opportunity.
- Amendment no. 2 of 20 May 2016 to the agreement on profit-sharing for employees of Thales group companies. The amendment takes into account changes in the French law of 6 August 2015, particularly those relating to the allocation by default of amounts received under profit-sharing schemes and information to employees.
- The Group agreement of 20 July 2016 on implementation methods for the French employee relations and employment law of 17 August 2015. The agreement lays out measures to ensure the smooth application of the law in a way suited to the Group's situation.
- Amendment no. 11 of 12 December 2016 to the Benefits Agreement. The amendment details and amends the complementary welfare cover in compliance with regulatory changes.

In addition to carrying out compulsory annual negotiations, the Group's French subsidiaries also entered into several agreements in 2016. The main areas of negotiation were: gender equality, implementation of teleworking, profit-sharing agreements, and the adaptation of Active Employment Management measures at the relevant companies.

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' 11 main European countries.

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 each Group Global Business Unit (GBU).

In 2016, two ordinary plenary meetings, one extraordinary plenary meeting and four meetings of the European Works Council Select committee were held. In addition, twelve information and discussion meetings took place as part of the work of the European Works Council, within the Group's business activities, to discuss the strategic and HR 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.

There were two meetings of the Anticipation Commission in 2015 as well as a European Convention, which laid out a two-year roadmap based on five priority areas: anticipation, diversity, the leadership model, the Annual Activity Discussion and communication. Further to these events, the European Anticipation Commission met again on 24 May 2016 to review the progress of each countries' action plans with regard to these five priorities.

As part of this, representatives from each member country shared one or two local best practices and attended a session on Diversity, where they were each asked to identify initiatives that could be undertaken or pursued to advance this key Group priority. The discussions also gave the countries the opportunity to collectively agree on the need to take further action to ensure a more diverse mix of nationalities and greater gender equality within each country's workforce.

5.1.2.2.3 Trade union coordination body at Group level in France

The Group has set up a body to coordinate representative trade unions at Group level in France. In addition to acting as the interface between the Group and the trade unions present in each of its companies, this body is responsible for addressing all negotiations with Group-wide impact and ensuring agreements are rolled out within the relevant companies. All Group agreements implemented in Thales companies in France have been entered into within this framework.

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 unions 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 focuses of the Group's main areas of business. It is also consulted annually on Thales group-level strategic focuses. The Group Works Council met five times in plenary sessions in 2016.

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 forward planning, and results in its ability, firstly, to predict key changes or innovations 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.).

The Group reference system has been adapted to reflect changes in certain job families, and in particular to include cyber security and customer satisfaction.

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 a "key skills management" approach 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.

Since 2015, the Group has also decided to enhance its approach by developing a new skills management tool providing employees with the opportunity to showcase their existing skills and, with their manager, to identify the skills to be developed 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 agreed professional development plans (covering skills transfer, coaching, training and recruitment of specific profiles). To date, nearly 28,000 employees worldwide have already listed their skills using the tool, which is continuously being improved. Developed for research and development job families, this new approach was extended to the Services and Production job families in 2016.

Management of specialists: Thales' 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 international level. Lateral mobility is encouraged.

5.1.3.2 Anticipation to help safeguard career paths

The forward-planning 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' 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 along with support mechanisms and online tools to facilitate the construction of a career plan;
- the employee, who becomes an active participant in his or her development through new and significant involvement, and who may benefit from a detailed, real-time understanding of the development of his or her job family within the Group, as well as from ongoing access to all of the mechanisms and tools in place;
- employee representatives, who, having a greater awareness of future developments in the job families, are well versed in these analysis methods and voice their opinion on the short-, medium- and long-term action plans put forward.

The Group has recognised the fundamental role played by employee representatives in setting up a forward-planning policy for changes within the various job families and job roles. In France, the Group collective agreement of 23 April 2013, which has a term of five years, 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 Employment Management in the event of foreseeable economic difficulties linked to new skills requirements, or 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 Employment Management in several Group companies in 2016 after staff representatives had been informed of and consulted on the economic projections, their effects on employment and the timeliness of implementing the initiative. In addition, a specific network of HR officers and operations employees from all entities in France has been created to help identify and implement solutions for employees who volunteer to take part in the initiative.

5.1.3.3 The employee as active participant in his or her professional development

Thales believes that all employees should be active participants in their own career development plan. An analysis of the changes in job families and job roles and communication of the corresponding results enables each employee to construct a career plan in step with developments and the associated skills requirements in his or her field.

The Group also ensures that its employees receive a professional development discussion each year. This individual discussion is an important step in the process of professional development and constitutes a special opportunity for employees to take stock with their manager of how best to grow in their current position and to define their career path. This meeting also provides employees and managers with the opportunity to jointly define an associated action plan that includes training, as well as any other measures aimed at professional development. During their professional development discussion each year, employees are thus 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 2016, a total of 91.4% of Thales' employees worldwide had a professional development discussion with their manager (compared to 91.2% in 2015).

Thales also makes computer tools available to its employees in the form of applications that they can use to list and update their experience, skills and requests for professional development (e-HR Together), to look at job offers on the internal job board, to submit their CVs online via the application portal (e-HR Staffing), to see the training sessions that have been validated and to enrol themselves for available sessions (e-HR Training).

Career Corners have also been set up at many sites in France and the rest of Europe in order to provide a forum for information and discussion, where employees can meet with HR professionals and experts and receive individualised advice on career planning.

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 thus encouraged.

Mobility also offers the opportunity to increase skills in a matrix organisation within which the "market" vision must fit in with 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 this 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 relocation, help with finding housing, a moving bonus, etc. In 2016, a total of 1,109 employees relocated in France as part of a geographical mobility programme.

International mobility

The Group has implemented several processes to encourage international mobility:

- the International Business Volunteers (VIE) programme in 2016 allowed more than 70 young people aged between 18 and 28 from the European Economic Area to go on assignments of 6-to-24 months in a foreign country. An additional 20 people are set to depart under the programme in early 2017;

- the Career Plus programme, which has absorbed the Career 1st initiative, matches operational needs with the desire of employees of all kinds for temporary international mobility. At 31 December 2016, a total of 108 employees were on Career Plus assignments;
- other international secondments are dependent on the Group's strategy and the needs expressed by the countries of operation.

At 31 December 2016, a total of 730 Group employees, including employees taking part in the Career Plus programme, were on temporary international mobility assignments (versus 686 at end-2015). Representing all business segments, these employees came from more than 20 countries of origin and were received in some 60 host countries.

International mobility destinations are spread across every region of the world, with 32% in Europe, 24% in the Middle East, 22% in Asia-Pacific, 11% in North America, 5% in South America and 6% in the rest of the world. Participating employees were primarily from Europe, especially France (65%), with smaller numbers from North America and Asia-Pacific (Singapore, Australia, etc.) as well as emerging economies.

These programmes all help the Group to achieve its objective of doubling the number of international employees in France by 2019.

5.1.3.5 Training

Thales' commitment to training stems from the view that building a successful career path 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 with regard to their job or professional mobility.

Key training figures for 2016

A total of 84.2% of Group employees received training in 2016. This figure demonstrates the Group's commitment to investing in training its employees, who received an average of 20.03 hours of training during the year. Overall, a total of 1,237,487 training hours were received Group-wide in 2016. Compared with 2015, the average number of training hours increased in 2016, particularly in Spain, Austria, the Middle Eastern countries, China, Brazil and Canada.

In France, the average number of training hours per employee (21.1 hours) and the level of training expenses (3.58% of payroll compared to 3.66% in 2015) remained stable.

Thales University: "to share knowledge and transform Thales"

Present in ten countries[1] (representing approximately 90% of the total workforce), Thales' in-house university (Thales University) contributes to employees' professional development in the various countries where the Group does business, while 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. For several years now, Thales University has therefore 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, "Ambition Boost". In 2016, fully 81,000 hours of digital training were delivered worldwide (an increase of 5% compared to 2015 and 15% compared to 2014). As part of this, more than 23,000 employees received more than 39,000 hours of training through the digital portal, an increase of 30% compared to 2015.

In France, 14,203 employees took part in training at Thales University in 2016, versus 12,035 in 2015. The number of training hours delivered by Thales University in France during the year stood at 218,198 hours (compared to 214,275 hours in 2015).

In 2016, Thales University also launched its digital strategy and global deployment plan across all of its international campuses. The plan is set to continue in 2017 and beyond. Thales University won the Bronze Brandon Hall Award in September 2016 in recognition of its corporate digital learning strategy.

Through these initiatives, Thales University fulfils its role as the Group's learning hub and contributes to the emergence of a "learning organization", where all employees can play a more active role in their training and professional development.

Training programmes to meet the needs of the Group and its employees

In addition to Thales 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. This helps to optimise training purchases and financing;
- position the companies' action and key Group issues around major topics such as the definition of training guidelines, the definition of priorities for action and the creation 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 introduced a new model of leadership that defines the professional behaviour expected of leaders based on six key skills[2].

Published in several languages (French, English, German and Chinese), the presentation for this model was disseminated in all the Group's major countries.

Development initiatives have been carried out to train tomorrow's leaders. In 2016, some 650 leaders took part in a leadership programme at a training centre. The leadership model has now been incorporated into most of the Group's Human Resources processes.

In 2016, a platform for sharing best practices was implemented based on the leadership model. Thanks to this platform, initiatives from around the world were shared in French and in English, thereby spreading the leadership model further throughout the Group.

A specific initiative known as Team-Up was also introduced during the year with the aim of creating team engagement and enthusiasm for the "Ambition 10" objectives and improving individual and collective efficiency. Thales' Executive committee was the first team to test the initiative, working on their collective leadership through a variety of questionnaires. Throughout 2016, Team-Up was extended to most of the Company's top-level teams (Executive committee, Global Business Units and Management committee), helping more than 300 people improve their leadership skills. The initiative will continue in 2017.

(1) Germany, France, Italy, the Netherlands, the United Kingdom, Canada, the United States, the United Arab Emirates, Australia and Singapore.
(2) Managing complexity, acting with responsibility and ambition, succeeding through cooperation, influencing key players, engaging and developing teams, and displaying emotional intelligence.

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. 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, 94.7% of employees took part in 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 compensation plan for employees in a position with a level of responsibility 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 compensation depends on the level of achievement of the annual individual objectives and the ongoing objectives for the position), to encourage teamwork and to give team members a stake in the business results of the Group and the company to which they belong, as assessed by indicators.

In 2016, 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 €6,025 million in 2016, compared with €5,784 million in 2015. The €241 million increase in payroll from 2015 to 2016 includes a negative foreign exchange rate effect of €78 million.

(€ million)	2016	2015
France	3,414	3,289
Europe excluding France	1,492	1,520
USA, Canada, Australia	831	724
Rest of world	288	251
TOTAL	**6,025**	**5,784**

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 as developments in profit-sharing and incentive schemes.

5.1.4.2 Incentives and profit-sharing in France

In order to strengthen the loyalty of employees beyond their local entity and solidarity among the Group's French entities, in 2004 entities in the country entered into a pooled profit-sharing agreement. The amount of the global profit-sharing reserve distributed in 2016 with respect to financial-year 2015 amounted to €34.8 million (compared with €18.7 in 2015 with respect to 2014).

Independently of their participation in 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 2016, a total of 22 of the Group's companies in France paid incentive rights with respect to 2015, totalling €45.2 million (the amount paid in 2015 with respect to 2014 incentives was €57 million).

The parent company paid €4.1 million in incentives in 2016 with respect to 2015, compared with €4.3 million paid in 2015 with respect to 2014.

5.1.4.3 Group employee savings schemes

The Group's employee 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 2016, the total savings under management by Group schemes amounted to €995 million (compared with €863 million at end-2015), held by close to 53,000 former and current Group employees.

5.1.4.3.1 Group savings scheme (PEG) and employee shareholding

At the end of 2016, assets under management in the Group savings scheme (PEG) stood at around €687 million, including €336 million in diversified assets. Under the Group savings scheme, the employee shareholding fund is the main framework within which Group employees hold company shares.

Set up for the employee share offer in 1998, the fund holds shares acquired during the offers in 2000, 2002, 2004, 2008, 2011, 2013 and 2015.

At 31 December 2016, assets under management amounted to approximately €351 million, consisting of Thales company shares managed within the Thales Group savings plan on behalf of around 27,800 shareholders.

Including shares from free share plans, employee shareholding in Thales amounted to 2.71% of the Company's share capital at 31 December 2016.

5.1.4.3.2 Collective retirement savings plan in France (PERCO)

Set up in 2007, the collective retirement savings plan (PERCO) 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 original PERCO agreement changed the plan to significantly increase the amount of corporate assistance in the event of voluntary payments.

At 31 December 2016, assets under management as part of the PERCO plan amounted to €308 million, on behalf of 32,600 beneficiaries (compared with €263 million on behalf of 30,960 beneficiaries at 31 December 2015).

5.1.4.4 Short-, medium- and long-term incentive schemes

On 27 October 2016, Thales' Board of Directors approved the implementation of:

- a free share grant for 782 French employees, subject to performance conditions for the 232 of these employees who hold senior executive positions;
- a grant of "units" (monetary value comprising part shares and part cash payment) for 312 non-French employees, subject to performance conditions for the 67 of these employees who hold senior executive positions.

A total of 1,094 employees in 27 of the Group's host countries took part in these two plans.

Short- and medium-term cash-based incentive schemes lasting between two and three years have also been introduced for technicians, engineers and managers.

5.1.5 A safe and healthy work environment: workplace health and safety

One of the Group's key priorities is to provide a safe and healthy work environment for all employees, in compliance with applicable law, by monitoring procedures, preventing health and occupational risks and training employees.

5.1.5.1 A dedicated organisation

The Group has established a dedicated global organisation designed to prevent risks related to workplace health and safety, whether at 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 and safety (H&S). In their respective areas of responsibility, they define the principles of the H&S policy to be implemented in the countries in accordance with national laws and requirements. The departments also take practical measures in terms of prevention and workplace health and safety.

Coordinated by the Risk Assessment committee, the risk management process includes risks liable to affect employees throughout the world, at internal Group sites and external sites. Regular monitoring of the risks to which Group employees may be exposed is performed each year.

5.1.5.2 Tangible measures and procedures

Tangible measures are also implemented in relation to the health and safety of employees in the workplace by the Group's Human Resources and Health, Safety and Environment Departments. In addition, Thales is committed to developing quality of life at work.

In France, the quality of life at work agreement of 4 February 2014 defined a general framework for Thales' health and safety policy and established a system for identifying and preventing occupational risks. The agreement is based on a preventive approach involving all players in occupational health. It is mainly aimed at preventing the emergence of psychosocial risks through collective action and individual monitoring of each employee. New commitments to improve employees' quality of life at work were also jointly defined. The agreement of 4 February 2014 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.

To raise employee awareness of the importance of factoring quality of life at work into their daily activities, most Group companies in France now organise an annual quality of life at work Week, during which employees can attend a number of workshops and conferences in areas such as workplace well-being, psychosocial risk prevention, cardiovascular risk prevention, balanced diets and sleep as well as taking part in relaxation, massage and yoga sessions.

Tangible measures have also been taken to make it easier for employees to reconcile professional and personal obligations, including the creation of inter-company crèches and concierge services.

In 2016, a total of 331 management-level employees received training in psychosocial risks from Thales University.

The Group framework agreement of 24 April 2015 on teleworking, which has since been supplemented by company agreements, is fully in line with this commitment to improve quality of life at work.

Lastly, a central quality of life at work committee supports all of these initiatives.

The Group also introduced a number of initiatives in 2016 to improve employee health and safety. In the United Kingdom, for example, a well-being programme was designed and implemented as part of workshops held in the country's units. The goal was to provide all employees with access to information so that they could make positive choices and change their attitude to health and well-being. In Spain, a far-reaching programme was developed to promote health, featuring a variety of prevention activities. As in previous years, employee training was a central focus of prevention initiatives in 2016 in most of the Group's countries, including Norway, where the challenge was to make health and safety part of every employee's daily habits. Risk audits and risk assessment procedures were also performed to evaluate the working conditions at French sites as well as international sites (United States, Australia, New Zealand and South Africa).

A large number of the Group's companies have obtained OHSAS 18001 certification, which attests to their ability to manage and evaluate risks relating to health, safety and the environment. As of 31 December 2016, a total of 106 entities had been certified, representing 82% 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 2.42%.

In France, the total rate of absenteeism calculated in accordance with the corporate assessment was 3.27% in 2016. This rate has been relatively stable for the last few years (3.18% in 2015, 3.11% in 2014). The absenteeism rate[1], excluding parental leave, also remained stable at 2.57%. The proportion of this absenteeism relating to accidents at work, commuting accidents and occupational illnesses is the same as in 2015 and remains consistently low.

For accidents at work, the overall frequency rate worldwide was 2.15 in 2016 and the severity rate was 0.05. 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, in 2016, the frequency rate of accidents at work was 2.42 and the severity rate was 0.06.

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, 1,474 working days were lost due to occupational illness in 2016.

5.1.5.4 Solid welfare cover

Offering employees quality health and death/disability coverage helps to support them throughout their working lives. 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.

The agreement of 12 December 2016 adapted this system to reflect regulatory changes.

5.1.5.5 Working time

For the Group, the organisation of working time should allow a balance between work and personal life, with each country adapting working time according to the applicable legislation, regulations and agreements.

A total of 93.4% of Group employees are full-time; part-time contracts generally reflect the employee's choice.

A total of 93.5% of Group employees are covered by working time regulations, which in several countries (such as France, Spain, Germany and the Netherlands) result from collective agreements limiting working time. In all, 76.9% 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, Belgium, 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' 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 implementing the 2000 framework agreement on working time which, for non-managerial staff, provides 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 country's "solidarity day").

The total amount of overtime worked in France was equal to 45,970 hours in 2016, as compared with 45,152 in 2015 and 51,237 hours in 2014.

5.1.6 Gender equality and diversity

The Group is particularly committed to promoting an inclusive approach, making everyone feel fulfilled in their roles without discrimination with respect to origins, gender, age, political opinions, religion, union membership or disability.

In line with this, one of the objectives of the Group's "Ambition 10" strategic visions is to build a global, diversified company.

In early 2016, the Group's Chairman and CEO announced ambitious commitments for the following years in terms of percentage of women hires (40%), women in positions of senior responsibility (30%) and women on management committees (at least three per committee).

To adapt its organisation to reflect this commitment to becoming a more diverse and inclusive company and structure itself to implement the related objective, the Group created a dedicated governance system in 2016, comprising:

- a Steering Committee made up of the members of the Group's Executive committee and chaired by the Chairman and CEO. The Steering committee is responsible for defining the Group's diversity strategy, approving the allocated resources and promoting and monitoring the fulfilment of any commitments made to this end;
- a Diversity Board comprising members who are representative of the Group's various departments. The Diversity Board is primarily responsible for raising collective awareness of the concepts of inclusion, bias and stereotyping through mentoring and sponsorship initiatives and the deployment of programmes to give tangible form to Group-level commitments. The Diversity Board's members assess what resources are needed to make the initiatives work.

In addition, the governance system draws on existing networks such as the professional development network, the recruitment network, the gender equality working group and Thales University to ensure information on initiatives taken within the organisation is cascaded down extensively throughout the Company.

An internal survey for employees in engineering job families was also carried out with a view to analysing the current situation and identifying ways to encourage gender equality within the Group's technical job roles.

In addition, Thales has joined other companies in Europe by taking part in audit firm McKinsey's external Women Matter survey, which aims to create a benchmark of market practices.

(1) The definition of the absenteeism rate in France used here differs from that found in the corporate assessment. It excludes authorised leave, parental leave and leave for family events.

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 2016, women made up 22.6% of the total workforce, 22.8% of the European workforce and 24% of employees in France. Within the Group, women are predominantly employed in long-term, highly skilled positions. In all, 96.7% of women employees worked under open-ended employment contracts in 2016, and 65.7% (as compared with 60.5% in 2013) held positions at a level equivalent to engineer, specialist or manager (levels of responsibility 7 to 12).

5.1.6.1.1 Commitments

The Group has long been committed to proactively making advances with regard to professional equality. In 2004 in France, Thales took decisive action in this area, in cooperation with the representative trade unions (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.

Since 2014, the Group's corporate management has clearly reaffirmed its commitment to promoting gender 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 action

- **Recruitment:** Steps taken to promote recruitment resulted in Group companies hiring 1,247 women on open-ended contracts in 2016. This brought the percentage of women among all new recruits on open-ended contracts to 25.7%, compared with 24.4% in 2015. In France, women accounted for 27.6% of total new recruits on open-ended contracts.

  Measures have also been taken to hire women on short-term and work-study contracts to balance out the special emphasis on recruitment through open-ended contracts. In all, 2,168 women were hired at Thales in 2016, representing 30% of new recruits worldwide, 31.3% in Europe and 33.6% in France. Data relating to the recruitment of women reflect the firm commitment made by some countries, including Belgium (where women made up 38.7% of new recruits), Mexico (35.5%), Poland (33.3%) and Australia (30%).

  To support these initiatives to recruit more women, in 2016 Thales released a guide on how to write gender-balanced job advertisements for its internal recruitment teams in France, with the aim of helping them to draft strictly unbiased listings. The guide provides a number of recommendations and instructions on how to make any advert appeal to both men and women, covering such areas as structure, gender-neutral language, and choice of adjectives.

  Thales also continued its partnership with *Elles Bougent*, a French non-profit organisation that encourages young women to take up careers in science and technology. Thales has 174 *Elles Bougent* sponsors within its workforce who offer advice to young women choosing a career path.

- **Career:** Efforts to promote the career development of women employees were increased in 2016. Stereotype awareness sessions were conducted for more than 600 managers throughout the Group in France, bringing the number of managers attending such sessions since 2013 to more than 1,200. Co-development measures have been taken in Europe to encourage the promotion of women. As part of these, almost 207 women employees have participated in personal development sessions specifically for women, intended to help them progress in their careers, since 2014. In Germany, the mentoring programme launched in 2015 had benefited 15 employees by end-2016.

  Thales encourages the creation of networks that promote gender equality in the workplace. In 2016, these networks expanded both in France and abroad, notably in Germany, the Netherlands, the United Kingdom and South Africa. Some 580 Group employees are now members of such networks.

- **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 specifically dedicated to dealing with any unjustified gender pay gaps and promoting women. In all, 860 women benefited from this measure in 2016.

- **Work/life balance:** Thales is committed to supporting working parents and improving employees' work/life balance. In France, Thales has been involved since 2010 in setting up inter-company crèches, which look after 387 children. Since 2014, Thales employees at one German site have also been able to reserve cots at a *crèche* in Ditzingen. The crèche had ten children of employees in its care at end-2016.

5.1.6.2 Diversity

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 has emerged as a source of wealth and contributes to the Group's strength. The Group pays particular attention to the recruitment of employees in the countries where it is present.

The European IDEA and TALK agreements have fostered a better understanding of social practices in European countries and have enriched national social policies in terms of employment, professional development and the promotion of diversity and non discrimination. In addition, the long-term strategic vision, "Ambition 10", seeks to embed a more global dimension in the Group by promoting greater diversity within teams.

In France, the Generation Contract agreement, which was in force all throughout 2016, also supported equality of opportunity in education and encouraged diversity. This resulted, for example, in the conclusion of a partnership between Thales and the non-profit organisation *Nos Quartiers ont des Talents* on 27 November 2013, effective from 2014 onwards. At the end of 2016, a total of 83 Group employees had signed up as sponsors with this organisation.

5.1.6.2.2 Disabled employment around the world

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 disabled employment.

While some of these national regulatory frameworks are essentially aimed at banning all forms of discrimination (the United Kingdom, 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 (Portugal) provide 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 Group taskforce on disabled employment in France, Mission Insertion, the head of which leads a network of disability contacts for each labour pool. Disability Employment Commissions have also been formed in each company with 250 or more employees.

As a result of the deployment of multi-year Group agreements in France, concluded in 2004, 2007, 2011 and 2014 by unanimous agreement of the trade unions, the overall employment rate for people with disabilities in the Group has continued to rise, standing at 5.9% at the end of 2015, compared with 5.1% in 2011. In 2016, this rate stabilised thanks to efforts to recruit and retain people with disabilities.

The 2014 agreement, signed with all representative trade unions for the period from January 2015 to December 2017, serves to enhance the programmes implemented under the previous agreements. It is part of Thales' 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 X50-783 on disability-friendly organisations to all sites so that they are all eventually compliant.

The provisions of the 2014 agreement notably provide for the recruitment of 120 people with disabilities between 2015 and 2017, as well as 246 interns and 38 young people on work-study contracts.

In addition, in 2016, the Group continued to strengthen the partnerships forged in previous years with the Agefiph fund for the integration of workers with disabilities and the GESAT network for sheltered and adapted employment to facilitate and enhance subcontracting to the disability-friendly sector.

Similarly, partnerships concluded with education authorities and universities were continued, in order to support young people with disabilities in their studies and professional integration. These partnerships were included in France's regional disabled employment plans (PRITHs), the first of which was signed in the Île-de-France region around Paris.

In 2016, six additional Group sites in France were certified to the AFNOR X50-783 standard on disability friendly organisations, joining the five sites that were certified in 2014 and 2015. In addition, 29 sites implemented action plans that are expected to result in certification by the end of 2017.

5.1.6.2.4 Fostering generational diversity

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 innovative 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 over-fifties, to improve their working conditions and to take into consideration personal situations of unsuitable work or difficult work situations. Quantifiable objectives were also set, aimed at increasing the proportion of new recruits aged 55 and over to 2% and increasing the proportion of employees aged 57 and over to 15% of the official workforce by July 2016. These objectives have been achieved: 2.49% of new recruits were aged 55 and over during the term of the agreement and 18.84% of the workforce was aged 57 and over in July 2016.

In application of the Generation Contract, the Group is also committed to developing mentoring programmes which, for a given period, pair experienced employees with new recruits or employees preparing to take on new responsibilities. These programmes form an integral part of the Group's skills transfer policy.

SCOPE OF VERIFICATION OF QUANTITATIVE DATA

Indicator	2016 data	Scope
TOTAL HEADCOUNT [(a)] AT 31 DECEMBER 2016	**64,071**	**100%**
Headcount by country		
Headcount France	34,463	100%
Headcount Europe (including France)	52,122	100%
Headcount excluding France	29,608	100%
Headcount by gender		
% of women	22.6%	98.63%
% of men	77.4%	98.63%
% of women in France	24%	100%
Headcount by type of contract		
% of open-ended contracts	97.8%	98.63%
% of full-time contracts	93.4%	98.63%
Headcount by age group		
<30	10.6%	98.63%
30-39	23%	98.63%
40-50	30.2%	98.63%
>50	36.2%	98.63%
Headcount by level of responsibility (LR)		
LR 1-6	14,569	98.63%
LR 7-12	48,625	98.63%
Number of temporary staff	2,972	98.63%
Departures by type		
Number of departures	4,616	97.1%
% of resignations	42%	97.1%
% of redundancies	18%	97.1%
% of retirements	23%	97.1%
% of expiries of short-term contracts	12%	97.1%
% of other departures (including death)	5%	97.1%
Recruitment		
Total number of new recruits	7,206	97.24%
Of which open-ended contracts	4,844	97.24%
Of which short-term contracts	955	97.24%
Of which work-study contracts	1,407	97.24%
% of women recruits	30%	97.24%
Training		
% of employees benefiting from a professional development discussion [(b)]	91.4%	98.45%
% of employees trained	84.2%	98.6%
% of women trained	86.7%	98.6%
Average number of hours of training per employee	20.03	96.4%
Total number of hours of training	1,237,487	96.4%
% of employees covered by a collective agreement	86.5%	98.7%
% of employees covered by working time regulations	93.5%	98.7%

(a) Headcount shown corresponds to active headcount.
(b) See also Section 5.1.3.3, page 192.

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Indicator	2016 data	Scope
Health and safety		
Overall absenteeism rate – world	2.42%	93.29%
Total absenteeism rate – France (corporate assessment) excluding parental leave	2.57%	100%
Total absenteeism rate – France (corporate assessment)	3.27%	100%
Severity rate of accidents at work – world	0.05	93.88%
Severity rate of accidents at work – France	0.06	100%
Frequency rate of accidents at work – world	2.15	93.88%
Frequency rate of accidents at work – France	2.42	100%
Number of days lost due to occupational illness in France	1,474	100%
Other		
Payroll – world	€6.025bn	
Employment rate of people with disabilities in France	5.9%	
Number of jobs created by Géris in 2016	191	
% of purchases from EU suppliers	74%	
% of purchases from suppliers in France	40%	
Volume of industrial subcontracting services in France	€1.67bn	

Note on methodology

Social reporting method

The data presented in this Registration Document are taken from the Thales 2016 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, social policy and its impacts, practices and action that fall within the Group's social responsibility. It reflects Thales' international dimension. The information it contains sets out the position of the Thales group at 31 December 2016. The social report is available to download from the Group's website www.thalesgroup.com, in the "Commitments" section under "Key corporate responsibility documents".

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 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 social report and the Registration Document was not modified this year and is in accordance with the IFRS 10 and 11 financial consolidation standards. Headcount under Group management as at 31 December 2016 thus includes only the headcount of companies controlled by Thales within the meaning of Article L. 233-3 of the French Commercial Code (*Code de commerce*), 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 2016 due to acquisitions[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

- Headcount under Group management as included in the Registration Document comprises all employees in each country, regardless of their contract type (open-ended, short-term or 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 parental leave, or employees on unworked notice periods as at 31 December of the year in question.

(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) Acquisition of Vormétric in the United States (210 employees), acquisition of Aviovision in Belgium (24 employees) and acquisition of RUAG's opto electronics business by Thales Alenia Space in Switzerland (72 employees).

- The total number of new recruits includes the work-study contracts concluded in 2016, 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 contracts, International Business Volunteer (VIE) agreements or CIFRE Research Training Fellowships or the transition from active to inactive employee status or vice versa.
- The total number of departures includes resignations, redundancies for economic reasons, other redundancies (data relating to mutually agreed contract terminations are recorded in this category), retirements, deaths and other types of termination, as well as expiries of short-term employment contracts.
- Data relating to absenteeism and rates of frequency and severity of accidents at work are calculated with reference to a number of days theoretically worked within countries, and based on active headcount and paid inactive employees (employees with a long term illness do not therefore fall within the scope of calculation of this indicator). These figures have been obtained by reconciling data entered in the HR and Environment Departments' 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, parental leave and 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. It includes authorised leave, parental leave and leave for family events.

  The frequency rate represents the number of lost-time accidents at work over the course of the year, multiplied by one million, and divided by the number of hours theoretically worked during the year.

  The severity rate represents the number of days lost due to accidents at work, multiplied by 1,000,000, and divided by the number of hours theoretically worked during the year.
- The employment rate for workers with disabilities corresponds to the overall number 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:

- preventing impacts on people and the environment from the Group's activities:
  - by reducing and controlling environmental risks and impacts on health;
  - by consuming fewer natural and energy resources;
  - by respecting biodiversity and cultural heritage;
- taking the environment into account in product 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;
- significantly reducing our own carbon footprint, as well as that of our clients and civil society:
  - 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 2016, Thales demonstrated its climate-friendly technologies at COP22 in Marrakesh, confirming the commitment it made in 2015 when it signed the Business Proposals for COP21.

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.

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 the Group's environmental challenges.

GOALS FOR 2015-2018

	2018 target
Natural resources	
Energy consumption	−3%
CO_2 emissions	
Energy and substances (scopes 1 and 2)	−5%
Non-hazardous waste	
Quantity per person	−5%
Recycling rates	>60%
Responsible purchasing	
Evaluation of Class A and new suppliers	100%
Training for new buyers	100%
Eco-design	
Environmental impact assessment for all new products	100%
Training for Design Authority line managers	50%

Detailed values are given in the table in Section 5.2.7.

5.2.1.2 Commitment from employees

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. This Corporate environmental team is responsible for setting out strategy, policy and processes and for supervising their implementation across the Group as a whole, with global facilitation of:

- a network of "site/operations environment managers" 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 product design managers" at Group Business Unit and business line 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 2016, the "sites/operations environment" network involved 383 people and the "environment in product design" network 187, 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. In 2016, 78 purchasers (on top of the 980 trained between 2012 and 2015) and 285 engineering managers and product developers (on top of the 356 trained between 2012 and 2015) in charge of product policy were trained on how to take the environment into account in their daily 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, including a dedicated intranet, notices, competitions and events.

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 and communications, 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 suppliers, Thales requires the companies with which it works to sign the Purchasing and Corporate Responsibility Charter, a contractual document intended to help them align their policies and internal processes with the principles that Thales is committed to respecting. At the end of 2016, 10,425 supplier sites around the world had committed to this charter.

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 2016, 4,986 supplier sites underwent this assessment; 60% 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 the tenderers' 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 committed to communicating in a totally transparent way with local authorities, as well as with 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.

To meet the requirements of civil society, investors, rating agencies and clients, Thales provides its environmental data on its website and also participates in reporting for the Carbon Disclosure Project 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 and 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 AT ISO 14001 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 base, equipment and sites) and products delivered (design, bids and projects).

It supplies best practices, 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 2016, 120 Group entities were ISO 14001-certified, representing 89% of the Group's workforce. Of these sites, 38 were certified to ISO 14001:2015, which covers the management of environmental impacts of products among other things.

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 1.1.2.1.4). 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 Group 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 or risks acquired.

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 activities.

When available techniques allow, steps are taken to remove pollution even if this is not a regulatory requirement. The impact on the available environmental resources is then reduced to a minimum by preferring *in situ* treatment to transferring pollution to another site. The water table is periodically monitored at industrial sites and sites located in industrial areas.

Risks arising from accidents (such as fire or pollution) are managed locally, with the support of the concerned corporate departments 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 2016, six 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 in 2016, nor did it grant any specific guarantees in relation to the environment.

At 31 December 2016, the amount of reserves for environmental contingencies at Group level was €6.7 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' 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 releases are not systematically collected.

Only 68 (out of 140) entities purchase solvents; three of these entities account for 91% of purchases. The Mulwala site alone accounts for 87% of purchases and 93% of discharges resulting from the manufacture of propellants requiring a large quantity of solvents. Already optimised manufacturing processes have reduced the amount of discharges per quantity of manufactured propellant by 13% in two 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' activities generate little in the way of industrial wastewater: 91% of wastewater is discharged from six sites, and 64% from the Mulwala, Australia site alone.

Despite a rise in discharges in 2016 stemming from increased production at the sites with the highest releases, consolidated wastewater discharges have fallen by 17% 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 Fighting pollution

5.2.2.2.1 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 most common 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.

5.2.2.2.2 Odours

Thales' 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 Circular economy

5.2.3.1 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.

5.2.3.1.1 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.

	2008-2015*	2015*-2016
Water consumption (cubic metres)	−41%	−10%

* At constant scope of consolidation over the period.

Excluding the Mulwala, Australia, site, which alone accounts for 36% of Thales' water consumption, the Group's total water consumption has fallen by 41% since 2008, attesting to the collective effort made at all sites.

These achievements are also due to increased employee awareness and to widespread use of best practices.

5.2.3.1.2 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 amounts of discharge and waste. The process of additive manufacturing (also called 3D printing), for example, 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.

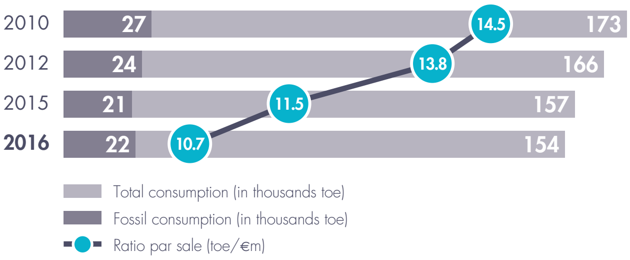
The principle is based on the manufacture of parts, not by removing material, but by adding successive layers of powder (metal, plastic) agglomerated by means of a laser or electron beam, solely in places where material is necessary. An example is one-piece aluminium antenna supports, for which Thales 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.

5.2.3.1.3 Energy consumption

Aware of the energy challenge, Thales sets goals to reduce energy consumption, which has declined even with production increases on the sites that consume the most energy.

CHANGE 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 50001 certification for energy management systems. At the end of 2016, 30 entities had been certified to ISO 50001, representing 25% of the Group's workforce.

	2008-2015*	2015*-2016
Energy consumption (toe)	−17%	−2%

* At constant scope of consolidation over the period.

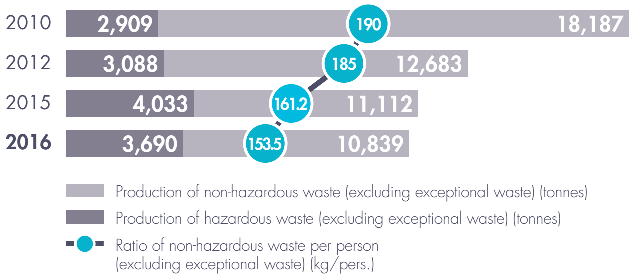
The Group's carbon footprint has also been reduced by restricting the use of fossil fuels (gas, fuel oil and coal), with their consumption in relation to sales continuing to fall in 2016 (down 24% compared with 2012, a 48% reduction since 2008). The percentage of electricity from renewable sources now represents 19% of electricity consumption.

5.2.3.2 Waste prevention and management

5.2.3.2.1 Preventing waste production; recycling, reusing, recovering and eliminating waste

In view of its waste targets, Thales has sought to reduce the quantity of waste it produces since 2007, as well as the amount sent to landfill and recycling.

CHANGE IN WASTE PRODUCTION



As a result of measures taken since 2007, 84% of all waste (excluding exceptional waste) was recovered and 47% was recycled in 2016.

The quantity of non-hazardous waste, excluding exceptional waste, per person fell by 4.7% between 2015 and 2016.

To achieve this, various measures related to waste sorting, the search for optimum treatment channels and campaigns to change habits and behaviour (printing policy and reusing cardboard and other packaging, for example) have been introduced. These measures are helping to reduce waste production and improve waste treatment.

For instance, the amount of waste paper and packaging fell by 18% and 27% respectively compared to 2012.

Certain Group sites reuse packaging either for procurement on Thales sites or to transfer equipment from one site to another.

Hazardous waste has also been a specific target. Dedicated areas for collection and storage have helped to manage this type of waste.

5.2.3.2.2 Food waste

Food services companies manage the corporate restaurants at the majority of Thales sites. It is therefore their responsibility to communicate about eating habits and food waste management.

At the few sites in charge of their own food services, communication campaigns targeting employees have been carried out.

5.2.3.3 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 79% of the Group's land area (two sites in Australia and one in France). However, steps are taken to enhance their ecological value either by promoting biodiversity or by converting them into pasture or farm land. Due to their activity, the majority of other Group sites tend to be in industrial areas (60% of land area excluding pyrotechnics sites).

Soil erosion is also taken into account, either locally whenever warranted by geographical conditions, or externally.

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 in a consistent manner by reducing its CO_2 emissions at source, as well as by contributing to a better understanding of climate impacts and a reduction in its customers' emissions and those of civil society, thanks to its innovative solutions.

In 2015, to assert its commitment to combating climate change, Thales, along with a number of other large companies and international organisations, signed the "Business Proposals for COP21". These proposals aimed to confirm corporate 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 in 2015 and at the COP22 in Marrakesh in 2016.

Moreover, since 2005, Thales has chosen to communicate in a totally transparent way about its climate strategy to the 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 2016, Thales was awarded a rating of A- for its "climate change" 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. The main material sources identified have been evaluated (see table below). Working methods are in place to evaluate other sources that could be material, such as procurement of products and services and use of goods and services produced (see Section 5.2.4.3.1).

	2016	2015	2012	2010
Scope 1 [a]	81,870	87,720	96,845	121,335
Scope 2 [b]	134,372	136,451	153,312	152,633
Sub-total (1+2)	**216,242**	**224,171**	**250,157**	**273,968**
Scope 3 [c]	80,898	79,012	81,238	86,460
TOTAL (in tonnes)	**297,140**	**303,183**	**331,395**	**360,428**

The Scopes combine CO_2 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.
Data from previous years have been adjusted to reflect updated emissions factors.

In order to reduce its CO_2 emissions, Thales is increasing its efforts specifically with regard to energy, substances and transportation.

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 CO_2 emissions. Environmental criteria are incorporated in the selection of buildings, new locations and equipment (architecture, materials, building management system, comfort, access, etc.), as is the case with the new Thales (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.

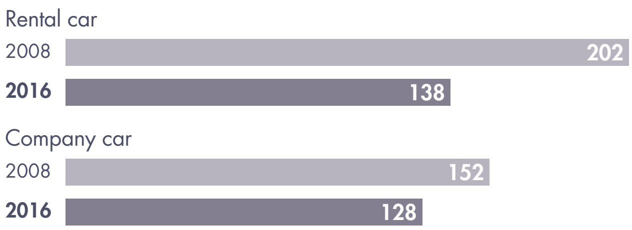
Along with energy, substances with high global warming potential, used mainly in refrigeration systems, are subject to monitoring and reduction plans. Several sites have replaced a number of high-emission refrigerants with equipment containing lower-emission refrigerant fluids.

Particular attention is paid to sulphur hexafluoride (SF_6). 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 SF_6 or modifying equipment using this gas. They have also rolled out training and awareness campaigns for employees concerned by the environmental impact of SF_6 and/or implemented specific monitoring of incoming and outgoing SF_6 by workshop. This helped reduce emissions by 95% between 2008 and 2016.

To reduce its NO_2 emissions, the Mulwala site has installed a peroxide scrubber system on a stack with flue gas that contains NO_2. Although the gas's global warming potential is low, it is used in large quantities at the site. Preliminary results show a significant reduction in CO_2 emissions.

Thales is also increasing its initiatives to reduce emissions from business travel by making use of a travel policy, modern information technologies, carpooling, electric vehicles and travel diagnostics and by highlighting the benefits of alternative means of Transport to its employees. These initiatives led to a reduction in CO_2 emissions of 4% and 21%, respectively, for company vehicles and rental vehicles between 2015 and 2016.

AVERAGE VEHICLE CO_2 EMISSIONS (G/KM)



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 other issues, 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 discusses how Thales' solutions contribute to environmental protection and particularly to initiatives to combat and adapt to climate change. Because Thales supplies numerous solutions to clients for integration in other systems (B2B), it is difficult to measure their specific environmental footprint – particularly as concerns CO_2 – as the conditions of use and decommissioning are unknown. Examples include equipment embedded on board aircraft and trains.

However, working methods have been implemented to analyse this footprint including CO_2 emissions (see Section 5.2.6).

5.2.4.3.2 A key player in major programmes

Thales is present in 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 include a 50% reduction in CO_2 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 aircraft fuel consumption by improving flight trajectories, in particular during the takeoff 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 doubling of air traffic and the tenfold improvement in flight safety by 2020, while reducing the fuel consumption of commercial aircraft by 5%, CO_2 emissions per flight by 10% and acoustic emissions from aircraft at takeoff and landing by 20 decibels.

Copernicus

Thales is heavily involved in Copernicus, the European space programme. Formerly known by the acronym GMES (Global Monitoring for Environment and Security), the programme aims to provide Europe with an autonomous Earth observation and monitoring capability thanks to continuous, independent and reliable access to data in the areas of the environment and security. This involves monitoring of the marine environment, the atmosphere, land and climate change, as well as support for emergency and safety interventions. For its space component, the programme relies mainly on a constellation of Sentinel satellites.

ETCS

ETCS stands for the European Train Control System. It simplifies train operation, makes signalling smarter and more reliable, and ensures optimal safety. Thales has been a key player in defining and implementing this European standard, and it now offers solutions that comply with this standard.

Shift²rail

Aiming to convert a significant share of road users to rail, this European initiative reflects the policy goal of achieving 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 programme's eight founding members.

GALILEO and EGNOS

GALILEO is a European project for a satellite-based positioning system (radio navigation). The EGNOS service is designed to improve GPS accuracy and also offers the Safety Of Life service, which can 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 participating in the greenhouse gas working party of the International Aerospace Environmental Group (IAEG) 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 French National Centre for Scientific Research (CNRS) along with industrial partners such as Véolia Eau and Thales Alenia Space.

Effectively an 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 one-of-a-kind research laboratory aims to develop smart solutions for the city of tomorrow in areas such as sustainable mobility, management of drinking water and wastewater, electricity, urban spaces and infrastructure, with the city of Quebec providing public facilities for field tests.

5.2.4.4 Adapting to climate change

The approach adopted by Thales for adapting to climate change is designed to reduce the Group's vulnerability to such related impacts as extreme weather (storms, floods, etc.), seismic events or resource scarcity.

Over the past several years, Thales has assessed the exposure of Group sites to natural disasters as part of annual site visits focused on prevention. This analysis consists not only of identifying the potential risks of flooding, storms and earthquakes, but also of identifying the consequences of these events in terms of environmental impact, property damage, business continuity, etc.

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. This mapping process revealed 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 habitats, keeping dedicated areas for flora and protecting natural and historical heritage must now be a reflex supporting any decision to promote environmental protection.

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 areas in terms of biodiversity. Indicators were defined to allow 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 two kilometre radius around the sites.

Although the overall 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 protect 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. In Lithgow, Australia, for example, 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 protect 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 Avoid-Reduce-Mitigate 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 environmentally-gentle natural techniques for mowing and grazing and by eliminating phytosanitary products.

At other sites, employee awareness will be raised through photographic exhibitions of the forest, agroforestry and the species present on the site; programmes with bee-keepers; a register of species and a dedicated online review.

5.2.6 Solutions to support the environment

5.2.6.1 Environment and products

Continuous 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 are sometimes hard to square 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 increasing number of regulations along with the demands of the market and civil society. This is true of products that are eco-designed, i.e., that have an improved life-cycle environmental impact, or solutions with features that support the environment, for example by providing 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 weight.

To help in this approach, Thales applies skills throughout the Global Business Units (see Section 5.2.1.2.).

The Group's guidelines integrate the environmental aspect, 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 access environmental information. Resources 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 environmental impact analyses.

Thales is also a key player in national, European and international programmes to reduce the environmental footprint of products (see Section 5.2.4.2).

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 "green" innovation.

One example 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 and 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 features 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 on electric power rather than on a hydraulic system and 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 CO_2 emissions.

Thales also lends its support to encourage the deployment of renewable energies. Wind farms interfere with civil aviation, defence and weather radars by creating a masking effect and triggering false alarms. This problem has led many countries to defer their plans to build wind farms.

To address this situation, Thales has developed a material that absorbs broadband radiofrequency. This material reduces the Equivalent Radar Surface (ERS) of the objects coated with it, attenuating or eliminating the interference. The radar signature of wind turbines is reduced 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 might be banned. A dedicated programme has been launched to manage this issue, in light of the potential impact a ban on certain chemicals could have on the Group's processes and products. Conducted internally or with industrial partners, substitution surveys are intended to validate the characteristics and implementation processes of a new substance and to ensure that the product will continue to perform as expected. In some cases, it is necessary to redesign products and interfaces and rescope 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 is positioned in:

- the collection of essential information for climate forecasts 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 overall 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) space-based observation initiatives 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 – an energy Transport system as regards the global climate – as well as the rise in sea levels due to 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) 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 fuel discharges in territorial waters.

5.2.6.3.2 A cleaner sky

From flying 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 take weather conditions into account, thus reducing noise, emissions and consumption;
- systems for more fluid air traffic management 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 and making it more compact so that it is easier to Transport, thereby cutting CO_2 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 one of the most effective ways to reduce CO_2 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 transit that allows passengers to use different modes within and between towns and cities, at regional or national level, with a single ticket;
- smoother traffic flows thanks to urban traffic management systems that make it possible to regulate vehicle flows and handle trouble spots in real time. This means that motorists spend less time in their cars, use less fuel and produce fewer CO_2 emissions;
- a reduction in power consumption on underground lines, allowing underground operators to address environmental protection concerns while lowering their 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 SelTrac® CBTC solution 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, CO_2 emissions are reduced by around 14,000 tonnes per year, equivalent to taking 6,000 cars off the road.

The ATSsoft 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 permit 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

Data analysis makes cities more efficient. Thales' solutions collect data on such parameters 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 reduce their environmental footprint. Through its data analysis solutions, Thales helps city planners and managers:

- leverage 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 easier;
- inform users via traffic information systems, giving motorists and train passengers information on traffic conditions in near-real time;
- manage day-to-day operations more effectively and facilitate the coordination of the various players, especially in the event of an emergency. 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 entire 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 offered, thereby encouraging the use of public Transport.

The EcoNet© system allows the managers and users of electric vehicles to optimise recharging based on electricity rates, 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, etc. A dedicated portal, available on PC, mobile and tablet devices allows users to access a wide range of services: recharging point 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' environmental performance on a comparable basis. In 2016, the scope comprised 33 countries and 140 sites. This scope represents 97% of sales and 98% of the Group's workforce.

2015 is the base year for the 2016-2018 goals.

This chapter was subject to a fairness review by Mazars. In Section 5.4 "Independent third-party report on consolidated human resources, environmental and social information published in the management report," the opinion provides moderate assurance concerning the indicators in the table below.

	Units	2008-2015 change (at constant 2008 scope)	2015	2016	2015-2016 change
Energy					
Electricity consumption	Thousand toe	−12%	132	131	−1%
Per sales electricity consumption	Toe/€m	−27%	9.7	9.08	−6%
Fossil energy consumption	Thousand toe	−38%	21	21.9	4%
Per sales fossil energy consumption	Toe/€m	−48%	1.54	1.52	−1%
Total energy consumption	Thousand toe	−17%	157	154	−2%
Per sales total energy consumption	Toe/€m	−31%	11.51	10.72	−7%
Water					
Water consumption	Thousand cu. m	−26%	1,601	1,584	−1%
Per sales water consumption	Cu. m/€m	−39%	117	110	−6%
Waste					
Total waste production [a]	Tonnes	−24%	14,913 [b]	14,529 [b]	−2.6%
Per sales total waste production [a]	Kg/€m	−36%	1.09 [b]	1.01 [b]	−7.2%
Ratio of non-hazardous waste [a]	%		73 [b]	75 [b]	2.3%
Non-hazardous waste per person [a]	Kg/pers	−29%	161.1 [b]	153.5 [b]	−4.7%
Non-hazardous waste recycling rate	%	45%	64 [b]	51 [b]	−21.3%
Hazardous waste recycling rate	%	−45%	19	24.8	32%
Industrial discharge					
Industrial wastewater discharge	Thousand cu. m	−1%	563	652	16%
Air emissions	Tonnes	−30%	917	993	8%
CO_2					
CO_2 emissions from energy use	Thousand tonnes CO_2	−23%	187 [c]	186	−0.3%
Per sales CO_2 emissions from energy use	Kg CO_2/€m	−36%	14 [c]	13	−5%
CO_2 emissions linked to Kyoto Protocol substances and R22	Thousand tonnes CO_2	− 23%	35 [c]	27	−22%
O/w CO_2 emissions linked to SF_6	Thousand tonnes CO_2	−78%	6.7 [c]	1.6	−77%
CO_2 emissions from Transport (Group-wide)	Thousand tonnes CO_2	−1%	79 [c]	81	2%
Per sales CO_2 emissions from Transport	Kg CO_2/€m	−17%	5.8 [c]	5.6	−3%
CO_2 Scopes according to GHG Protocol					
Scope 1 (gas, fuel oil, coal, substances, mobile energy sources)	Thousand tonnes CO_2	−35%	88 [c]	82	−7%
Scope 2 (electricity, steam)	Thousand tonnes CO_2	−13%	136 [c]	134	−2%
Scope 3 (business travel by air, rail, road)	Thousand tonnes CO_2	−1%	79 [c]	81	2%
TOTAL SCOPES 1, 2 AND 3	**THOUSAND TONNES CO_2**	**−17%**	**303 [c]**	**297**	**−2%**
TOTAL SCOPES 1, 2 AND 3 PER SALES	**KG CO_2/€M**	**−31%**	**22 [c]**	**21**	**−7%**
Other disclosures					
ISO 14001-certified entities			117	120	
Staff concerned as percentage of total workforce	%		90%	89%	

(a) Excluding exceptional waste.
(b) Excluding data on non-hazardous waste from the Templecombe UK site.
(c) Values adjusted to reflect updated emissions factors.

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 2016 indicators are provided at constant scope with 2015.

5.2.8.1.1 Criteria

Only companies meeting the following criteria are included:

Equity interest and operational control

- Thales equity interest of 50% or more;
- Thales exercises operational control over the company.

Companies and joint ventures not meeting the above criteria are not included in Thales' environmental reporting.

Activity/Headcount

- "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 in 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 Y to the date of transfer,
  - of the arrival site from the date of transfer to 31 December Y.
- Intra-Group merger: integration of data for the absorbed entity for the period from 1 January Y 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 cubic metres) and a ratio supplements the information to take account of changes in scope (e.g., water consumption per person);
- Group targets are set for a given period. During that period:
  - changes in performance are assessed on a like-for-like basis (i.e., at constant scope of consolidation),
  - coefficients such as emission factors for CO_2 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 CO_2 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 Group's regional policies in France

The Group's regional policies rely on close ties with economic and social players and local institutions and communities. To the greatest extent possible, its sub-contractors and suppliers are chosen locally in order to support regional business.

In France, Thales aims to mobilise all of the relevant players in its labour pools in order to develop regional workforce and skills planning. This strategy takes into account the specific characteristics of the regions in question as well as Thales' local challenges. The Group Anticipation agreement of 26 April 2013 actively supports local action by creating a Commission on regionalism. Regional action is monitored by the Group Anticipation representative, in coordination with the Jobs/Anticipation correspondents on the ground in the various regions and the Anticipation contacts appointed by each trade union representative that has signed the agreement.

The policy is based on a knowledge of each labour pool and each key player, as well as three priority focuses:

- Skills maintenance and development;
- Professional integration of young people, education and training;
- Co-development of the industrial fabric and open innovation.

Thales has thus created nine labour pools in order to better coordinate its action. Within each labour pool, a correspondent coordinates regional actions in cooperation with the local and regional authorities, social and economic players, and Thales' Engineers for Schools seconded to academies, universities, schools and training centres.

In France, Thales also makes use of a dedicated local economic development company, Géris Consultants, which assists with the roll-out of the Group Anticipation agreement by coordinating regional policies and promoting initiative as well as encouraging an entrepreneurial spirit by helping Group employees take over or start a business (49 new projects in 2016). Géris Consultants also shares its expertise with corporations and local authorities in order to provide assistance, in the form of advice and financial aid, to SMEs and SMIs that create long-term positions in regions affected by the loss of industrial jobs. The revitalisation projects led by Géris Consultants since 2009 have led to the creation of nearly 4,500 jobs in France (including 191 in 2016) with approximately 650 SMEs and SMIs.

Géris Consultants also conducts experiments in HR engineering in order to improve the performance of SMEs and SMIs, their segments and their host regions. To this end, Géris Consultants runs the "*Pass'Compétences*" scheme to stimulate the development of SMEs by seconding experts employed by large companies, such as Thales, Alcatel Lucent and Schneider Electric, for long, strategic assignments lasting from 12 to 18 months. In 2016, the scheme continued to be rolled out in France's Auvergne-Rhône-Alpes and Occitanie regions with partial financial support from national and regional government economic agencies. At the same time, the Group began discussions with 22 other major companies with a view to setting up a national body to make "*Pass'Compétences*" a permanent, country-wide scheme.

In addition, Géris Consultants, in partnership with Thales' HR teams, assists the professional integration of work study employees by promoting the Shared Learning Path and inviting SMEs with open positions to Thales' annual forum for interns and work-study employees. In 2016, Géris Consultants also selected work study employees who were at the end of their contracts and planning to start their own business and helped them to take part in the 2016 *Altern'UP* contest held by French utility EDF. At the contest's prize-giving ceremony, Thales presented the award for the first runner-up and reaffirmed its commitment to the *Fondation Innovations Pour les Apprentissages* (FIPA), which will oversee the entrepreneur contest in the future.

5.3.1.2 Group initiatives to support people with disabilities

In France in 2016, the Group continued its partnerships for the training and guidance of young people with disabilities, with highlights including:

- A new partnership with the University of Rennes to add to the line of existing partnerships with the Universities of Orleans, Tours and Lille as well as with the Île-de-France university communities, Pierre & Marie Curie University (UPMC Paris), the University of Nice Sophia-Antipolis (UNICE), the University of Bordeaux 1, the University of Toulouse, and the University of Western Brittany (UBO Brest);
- Ongoing work to sign an agreement with the educational authority of Aix-Marseille similar to those signed with education authorities in Lille, Île-de-France (Paris, Versailles and Créteil), Toulouse, Nice, Orleans-Tours and Bordeaux, which aim to set up a system whereby regional companies help high school students with disabilities to access higher education and guide students with disabilities until they find employment. These agreements cover almost all the labour pools where Thales is present;
- Continuation of the partnership with Paris-Est Créteil University to set up an inter-university diploma (IUD) in disability representation in the public or private sector. Twenty-one students received the diploma in 2015 and twenty-two in 2016, with some forty enrolled for 2017;
- Development of the Hanvol non-profit organisation, whose mission is to find jobs for people with disabilities in the field of aeronautics;
- Development of agreements to implement software architecture and information system engineering courses at Vocational Rehabilitation Centres (CRPs) 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. Initiatives include:

- the Eyeschool system, which enables young visually-impaired people to have what the teacher writes on the board transferred to their computers and documents distributed in class to be vocalised. In line with the assessment report drafted by the French Education Ministry in 2015 encouraging the expansion of the scheme in schools and universities. Thales continued its action in this area by assisting visually-impaired school and university students;

- the GUIDEO guidance system, which helps a blind or visually-impaired person to move autonomously through a building using a smartphone. After initial testing at the Gennevilliers site, the system was rolled out on the new "Campus Thales Bordeaux" site in 2016.

In 2012, Thales participated, in cooperation with AFNOR, in implementing the OK Pilot tool for a company to self audit its compliance with the disability-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 12 sites are compliant with the standard, with improvement plans established in an additional 28 units in 2016.

In addition, Thales has strengthened its engagement with regional SMEs. In France's Hauts-de-Seine department near Paris, for example, Thales spearheaded the application of a partnership agreement under which major companies support SMEs through the implementation of disability policies. The joint agreement was signed at the Hauts-de-Seine *préfecture* on 9 December 2016.

The Group's expertise and commitment with regard to disabled employment have been widely recognised, as evidenced by the 2016 appointment of the Thales group's Mission Insertion Director to France's national consultation committee for people with disabilities (*Conseil National Consultatif des Personnes Handicapées* – CNCPH) and national committee for the fund for disabled employment in the public sector (*Comité National du Fond d'Insertion Professionnel des personnes Handicapées dans la Fonction Publique* – FIPHFP) in his capacity as an expert.

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 business segment.

In this regard, Thales works closely with numerous bodies, including:

- the United Nations, and in particular the United Nations Global Compact. In 2016, for the fifth year in a row, Thales achieved the Advanced level of the Global Compact differentiation programme which, with its 21 specific criteria, is the highest reporting and performance standard for responsible development. It should be noted that 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 600 have obtained the Global Compact Advanced level to date, including 70 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, Internationalisation Committee;
- the *Association Française des Entreprises Privées* (the French Association of Private Companies (AFEP));
- French investor relations association CLIFF;
- the Aerospace and Defence Industries Association of Europe (ASD);
- the Aerospace Industries Association of America (AIA);
- the *Groupement des Industries Françaises Aéronautiques et Spatiales* (the Group of French Aeronautic and Space Industries (GIFAS));
- the US-based ethics and integrity body 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 and 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)).

Thales plays an active role in the work of these organisations.

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 London in November 2016.

Thales actively participated in the work of the Business 20 Anti-Corruption Taskforce at the most recent G20 summit in China, and is helping to draw up an action plan for the next summit, which will take place in Germany in 2017.

In the United States, in 2002, Thales was the first non-US company to sign the Defense Industry Initiative. 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 also pursues a policy of regular, high-quality dialogue with its stakeholders, including the financial community, socially responsible investment funds, 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 non-profit organisations

Actions by the Thales Foundation in 2016

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 draws on the commitment of Thales' employees, who can devote their energy and skills to the benefit of the two overall themes chosen by the Foundation: 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 science. The goal is to give young people a taste for innovation and to make them more agile in an increasingly fast-changing world.

The Foundation also seeks to respond to humanitarian needs, by contributing Thales' technologies and the know how of its employees, in order to anticipate and mitigate the impact of natural and environmental disasters.

In just two years, the Foundation has either directly funded or supported more than 40 projects worldwide, harnessing a network of nearly 160 employee volunteers.

Thirteen employee projects supported in twelve countries in 2016

A total of 13 non-profit organizations (seven French and six international) received financial support as part of the second call for projects from Group employees. In the area of education, the 11 winning projects aim to facilitate access to training by using digital tools, increase exposure to science in school or leverage innovative teaching methods to prevent drop outs. They are being carried out in Africa, notably Burkina Faso, Liberia and Mali, as well as in Cambodia, the United States, Haiti and Mexico. The two winning humanitarian projects aim to mitigate risks related to natural disasters in India and Nepal.

In all, the projects benefit nearly 15,000 children and teenagers as well as training adults in the various tools and methods to ensure ongoing success. By promoting these projects within the Group, the Foundation also convinced an additional 35 employees to volunteer alongside the 13 project sponsors.

FOCUS: THREE WINNING PROJECTS IN THREE COUNTRIES

An educational pathway to inspire change in Mexico

Mexico's *Fundación SUM* aims to actively involve young talent in the entrepreneurial ecosystem.

Project: Run training workshops to teach business acumen and innovation to 100 young people from low-income neighbourhoods in Mexico in order to improve school performance and develop personal and professional skills.

Sponsor: Evelyn Loredo Lara, Innovation Manager, Thales Mexico

A multimedia centre for e-learning in Togo

French non-profit organisation Five Hearts seeks to extend schooling and medical care to disadvantaged children in Togo.

Project: Set up a multimedia e-learning centre in Niamtougou, install learning tools and train tutors for 200 children.

Sponsor: Damien Gillette, Project Manager, Thales Communications & Security, France

Anti-seismic buildings in rural Nepal

Spanish non-profit organisation Orche Nepal carries out projects in the areas of health, education and the environment to assist villages in Nepal.

Project: Renovate the water supply network and build pilot houses using anti-seismic techniques and local materials to reduce the risk of homes being damaged or collapsing and thereby limit the number of potential victims among Getlang's 3,000 inhabitants.

Sponsor: Maria-Belen Sanchez Esguevillas, Engineer, Thales Alenia Space, Spain

Two pilot education programmes renewed in France

The Foundation renewed two innovative education programmes in France in September 2016, with the aim of increasing its regional impact:

- *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 engineers. The approach uses research ethics and methods as a model for ambitious, collaborative learning. At end-2016, a total of 20 engineers had got involved alongside teachers, including more than half in the city of Gennevilliers. The goal is to introduce 500 children and teachers to this approach.

FOCUS: THREE QUOTES FROM AMINE HJIEJ, THALES ENGINEER, VOLUNTEER AND FOUNDATION AMBASSADOR

By sponsoring the Savanturiers de la High Tech programme, Amine seeks to assist school teachers in an innovative way.

"The children in the Year 6 class I sponsored learned how to code Sphero and BB8 mini-robots, using increasingly complex programmes before working as a team on genuinely challenging tasks. In addition to computer programming, they learned how to share ideas and communicate to move their project forwards, which is the kind of situation we see every day at Thales. When they proudly presented their achievements and solutions at the conference, I was surprised by the number of questions the students asked each other about their work, and I noticed how happy they were to get feedback."

"I found it very satisfying to see the students talk about something they loved, something they were really interested in."

"Being an ambassador for the Foundation is also something that lifts you out of the ordinary, allowing you to really contribute to society by offering social and human support to the Foundation's projects." This is because the ambassador's role is to raise awareness among colleagues and answer their questions about the Foundation's activities.

- *Voyageurs du code* (code Travellers) is an initiative led by non-profit organisation *Bibliothèque Sans Frontières* (Libraries Without Borders) that aims to improve computer literacy among young people in low-income neighbourhoods as part of a community approach based on sharing knowledge. Introductory and training workshops in coding are taught by the networks' volunteers, which include Thales employees, as part of clubs set up by local libraries and media centres. In 2017, the organisation aims to create 500 community clubs with support from partners.

Round Off Your Pay: generous contributions to four non-profit organisations

In May 2016, the Foundation launched the Round Off Your Pay programme among Thales employees in France. Designed by social enterprise microDON, the initiative lets employees to round down their pay to the nearest euro and donate the excess to an outreach project, with an option of giving up to €10 extra. All donations are paid to microDON, with Thales committing to match employees' contributions up to an annual ceiling. The micro-donations are obligation-free and participants can at any time change or cancel their donation or choice of project.

In just eight months, this innovative outreach tool has received micro-donations from nearly 2,770 employees from the Group's French companies, collecting more than €124,000 in support of four charity projects selected in advance by the Foundation and employees.

Beneficiaries include:

- *Planète Urgence* project to distribute school kits in several African countries;
- *Aide et Action* project to create a learning platform and teaching tools to educate students in France and Senegal about community values;
- *Bibliothèques Sans Frontières* project to send "Ideas Box" media kits to children in low-income neighbourhoods in the South of France;
- *Télécoms Sans Frontières* project to re-establish communication networks following humanitarian crises.

Led by government-approved humanitarian organisations, these four projects enable the Foundation to support initiatives that spread its values and address social challenges. The Foundation commits to promoting and monitoring each project to help it to achieve its objectives in terms of funding and results on the ground.

PLANÈTE URGENCE ACHIEVES ITS OBJECTIVES IN 2016

Since 2005, *Planète Urgence* has distributed 130,000 school kits in Benin, Cameroon, Haiti and Madagascar. Made locally to support the economy, these kits are given to disadvantaged children in rural areas or low-income neighbourhoods. Every €5 donation puts another kit in a child's hands as well as helping to renovate school and equip them with supplies. In this way, the project aims to facilitate access to education and increase the number of children in school, particularly young girls.

Thanks to the Round Off Your Pay initiative, Thales employees donated more than €50,000 in 2016, funding some 9,600 kits and lifting *Planète Urgence* above its annual objective.

The Foundation's internal network brings together 2,000 people

In order to promote the work of the Foundation and to identify skills and outreach projects put forward by employees and local non-profit organisations, the Foundation relies on a network of 25 ambassadors at around 20 Group sites. Over the past two years, nearly 160 employees have volunteered to contribute to Foundation projects, and almost 2,000 have 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 non-profit organisations by providing financial and material support.

South Africa

Two multi-year partnerships have been launched to support the teaching of science. The Move to Life project aims to give young children a taste for maths and scientific reasoning using checkers. The Fast Tracking Pathways to Success programme offers preparation and support for students as they develop scientific skills, which are considered critical for South Africa.

Canada

As each year in the past, Thales encouraged its employees to take part in fund-raising for United Way, to help families with financial difficulties, and for the Canadian Red Cross, to assist families affected by the Fort McMurray wildfire.

China

Thales has formed a partnership with Cedar Foundation, a non-profit organisation that offers educational support for young people. As part of the partnership, students are offered visits to Thales sites, professional development workshops and a mentoring programme to ease their integration into the workforce. Thales' communication team also lends its skills to more effectively promote Cedar Foundation and train its teams.

India

Thales India provides financial support to the Prime Minister's National Relief Fund, which helps the families of victims of natural disasters and major accidents in India.

Spain

Thales continued its social engagement commitments in 2016 by making donations in kind to charitable organisations. More than 50 pieces of computer hardware were thus donated by employees to the partner organisations. In addition, a campaign held on Thales sites saw 1,000 kilogrammes of foodstuffs collected, thanks to the efforts of 500 employees.

United States

In 2016, Thales once again supported student participation and selection as part of the Team America Rocketry Challenge, a national science competition that provides assistance to 4,000 students interested in a career in the industry. Thales employees also helped to collect school supplies for Boys Town, and more than 100 employee volunteers gave their time to collecting and distributing food donations.

Japan

In 2016, Thales donated JPY 100,000 to coincide with the commemoration of the 11 March 2010 earthquake. Since 2012, employees have volunteered for the NADIA project, which offers assistance to victims of the Tohoku earthquake in the city of Ishinomaki in north-eastern Japan.

United Kingdom

Thales UK employees are highly involved in several projects to inspire and motivate young people to choose science careers. Thales UK supports and encourages its young employees to take part in a national event on science, technology, engineering and mathematics (STEM), which targets some 70,000 youths. The Classroom to Thales Project has seen several employee volunteers give talks on science and engineering to more than 3,000 in 29 schools. The Teach First initiative offers assistance to science teachers in disadvantaged educational areas. And a networking event to attract women to Thales' scientific job roles has been organised for young girls from low income areas in partnership with schools.

Singapore/Cambodia, the Philippines and Vietnam

Thales Asia supports *Passerelles numériques* (Digital Gateways), a non-profit organisation that helps young people from underprivileged backgrounds to access qualified employment in the area of new technologies. As part of this partnership, Thales financed students' education for two years under *Passerelles Numériques* programmes in three countries in South-East Asia, until 20 graduated with an IT diploma. Thales also sets up humanitarian missions for employees who wish to take leave so they can volunteer their skills to advance the organisation's projects.

5.3.3 Supplier relations: a responsible approach

The Group's annual purchasing volumes stood at €6.89 billion, or around 46% of sales, at 31 December 2016, up 7% compared with end-2015. The Group sources more than 74% of its purchases from suppliers based in the European Union, of which 40% in France.

The Group's industrial sub-contracting services represented more than €1.67 billion in 2016; sub-contractors are considered to be similar to suppliers with regard to respect for the principles of corporate citizenship (Human Rights, labour standards, environmental protection and ethical business conduct).

The aim of the Thales purchasing policy is to work with a bedrock of efficient, 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 customers and SMEs called the Responsible Supplier Relations Charter, under which it commits to ten practices for responsible purchasing. The charter contributes to building trust-based, balanced relationships between suppliers and customers based on awareness and the performance of their respective rights and obligations.

Thales' French entities received the Responsible Supplier Relations Label in 2012. The distinction was first awarded by France's corporate mediator and national purchasing body CDAF to four major companies in recognition of their particularly sustainable and balanced supplier relationships. Following an annual audit by an external body, Thales' label was renewed in 2013 and then again in 2014.

Thales was awarded the label for another three-year period in 2015 following the same process of auditing and deliberation by the attribution committee. An increasing number of companies have been certified for the label. Thales confirmed its ongoing compliance in 2016.

Thales is a member of the Global Compact Network, which aims to define and implement practices encouraging a more positive relationship between business and society. As such, Thales requires its suppliers to adhere to the principles of corporate citizenship upheld by the Global Compact, particularly in the fields of labour standards, corporate governance, environmental protection, business ethics and export control.

In 2016, Thales' 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 its Code of Ethics as well as those of the Global Compact and of the OECD in the fields of Human Rights, labour standards, environmental regulations, and corporate governance. The Group's commitment to corporate responsibility was also demonstrated by the use of a self-assessment questionnaire designed to prepare for the implementation of the principles of the Purchasing and Corporate Responsibility Charter through 18 questions: nine about labour standards, five concerning environmental protection, two on governance, one on business ethics and one on export control.

The reviews of this approach launched with suppliers in 2010 revealed, at end-2016, that nearly 10,500 Thales suppliers (or 35% more than in 2015) had signed the Purchasing and Corporate Responsibility Charter and completed the self-assessment questionnaire. On this basis, overall supplier performance in terms of environmental, social and governance (ESG) criteria was rated 9 on a scale of 10.

The Innovative SME charter, signed in 2012 for the scope of the Group's activities in France, aims to reinforce Thales' commitment to SMEs to help them with innovation projects and to 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.

The Thales group has been a highly active player in the *Pacte PME* (SME Compact) organisation since its creation in 2010, taking a proactive approach to developing best practices and working to stimulate growth among SMEs and the emergence of new mid-sized businesses (MSBs). As part of this, Thales continues to take part in a wide array of discussions on an equal footing with other members, thereby giving its point of view as well as sharing feedback on best practices with the other companies and SMEs.

Thales continues to strongly support the organisation's strategic roadmap in its capacity as director.

Thales assessed its relations with nearly 250 of its French SME and MSB suppliers using a *Pacte PME* developed survey. Proving that it listens attentively to its suppliers, Thales committed to improving any areas identified as wanting. In late 2013, Thales reaffirmed its determination to continuously improve supplier relations by presenting the original survey participants with the solutions adopted to improve these areas.

The Group continued the process in 2014 by launching a second supplier survey to measure progress, an initiative that was repeated in 2015 and in 2016 with a panel of 330 suppliers.

In 2015, at a large-scale meeting of suppliers, Group corporate management reiterated the Group's commitment to maintaining high quality relationships with its suppliers. In line with feedback from the third survey, the meeting saw the Group share its ambitions and challenges and lay out the contribution to its priorities that it expected from its suppliers.

The Group's commitment to *Pacte PME* has been tangibly demonstrated each year since 2013 and has received notification of a positive opinion from the initiative's Joint Steering Committee in recognition of the actions undertaken in France for SMEs. The organisation forwards this notification to France's Ministry of Economy, thereby signifying Thales' compliance with the commitments of the Innovative SME charter signed in 2012. In 2016, the committee awarded Thales the highest possible "A" rating, commending what it considered "remarkable" work.

(1) French data protection authority.

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, particularly those with export operations. It exposes these companies, as well as their employees and 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 from these risks, Thales introduced a corruption risk prevention policy, which is being continually improved.

This corruption risk prevention policy is regularly assessed and the related systems adjusted to statutory and regulatory changes.

The corruption risk prevention policy 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;
- the internal whistle-blowing system available to employees;
- a robust internal control and audit system;
- information, awareness and training programmes for the Group's 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 and CEO, the Code of Ethics expressly reiterates this principle.

Thales' involvement in professional, inter-governmental and non-governmental organisations is also one of the key aspects of its policy of anti-corruption and of the sharing and circulation of best practices. Thales has thus participated in various initiatives by IFBEC, the joint body of the Aerospace and Defence Industries Association of Europe (ASD) and the Aerospace Industries Association of America (AIA).

AN ETHICS POLICY WITH A SOLID ORGANISATIONAL FOUNDATION

Thales has governance bodies and an organisational set-up designed to establish, manage and monitor a coherent system of ethical standards with regard to the prevention of corruption risks, and to instil a culture of corporate responsibility throughout the Group.

Confirming the central role played by ethics and corporate responsibility in the Group's strategy, Thales created an Ethics & Corporate Responsibility Committee in 2001. The Group committee's tasks fall into three areas: (i) strategy: contributing to defining Thales' policy on ethics and corporate responsibility; making recommendations with regard to the standards and procedures concerning sales, environmental, human-resource-related and social issues; (ii) ownership: ensuring that the Code of Ethics is kept up to date and implemented within Thales; defining training objectives and suitable means of communication; coordinating and monitoring the Country Ethics Committees and ethics officers; (iii) decision-making: handling the ethical issues submitted to it; initiating, if necessary, the appropriate enquiries and proposing any 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, and more specifically in terms of 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 throughout 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 ethics policy to local customs and legislation.

In order to reinforce Thales' approach to Ethics & Corporate Responsibility, and to ensure that each employee is involved in the prevention of risks, a whistle-blowing system 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 report acts in the areas of accounting, finance or banking as well as anti-competitive practices and anti corruption;
- to report acts of discrimination, harassment or serious acts relating to failure to comply with health legislation that endanger the physical or mental health of employees and may seriously impact the Group's business or incur significant liability.

A user guide is available to employees to facilitate the use of this tool.

5.3.4.1.2 Strict anti-corruption processes in dealings with third parties

The risks inherent in conducting business are covered 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 provide for action plans to mitigate business risks, with a particular focus on anti-corruption.

Thales strictly supervises the use of agents and consultants by means of a highly detailed procedure, which provides for in-depth upstream checks and controls (due diligence) backed by an analysis of the risk factors at play, and for all 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 International Development department.

The Group's integrity programme, which is assessed regularly and amended to reflect changes in legislation and in external and internal standards, was certified by Mazars and by ADIT in July 2014. It is currently being updated following the publication of the French law on transparency, the fight against corruption and the modernisation of the economy, known as the Sapin II law, in order to ensure that the measures taken by the Group are in line with the latest legal requirements.

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.

The Thales integrity programme has been recognised by several stakeholders. In 2016, Thales was included on the Europe and World versions of the Dow Jones Sustainability Index (DJSI) for the second year running. In addition, the Group was 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' products, technologies and services are aimed primarily at governmental customers in the "B2G" (Business to Government) positioning, in particular in the Defence and Security segments, or at private "B2B" (Business to Business) customers, notably in the aeronautics, space and railway Transport segments.

5.3.4.3 Action to support Human Rights

Thales signed the United Nations Global Compact in 2003 and complies with its ten principles relating to Human Rights and labour standards inspired by the Universal Declaration of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. These ten principles are applied on the basis of agreements and best practices which ensure the Group's business activities are compliant with responsible conduct. As proof that the corporate responsibility actions are producing results, for the fifth year running Thales achieved the Advanced level of the differentiation programme of the United Nations Global Compact which, with its 21 specific criteria, is the highest reporting and performance standard for responsible development. Among the 8,300 member companies of the Global Compact, fewer than 600 have obtained the Global Compact Advanced level to date, including 70 French companies.

Thales is also extending its own commitments in the area of corporate responsibility with regard to its suppliers and sub-contractors, notably through its Purchasing and Corporate Responsibility Charter, in order to share a common base of values and principles, in particular the ten principles of the United Nations Global Compact.

In line with its corporate responsibility commitments, Thales seeks to raise supplier awareness of the issue of ore sourced from conflict zones.

In order to ensure strict export control, both at a national and international level, Thales has put in place a global organisation and constantly reinforces 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 other 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 (known as the Ruggie Principles).

5.3.5 Social indicators

Description	2016 data	Comments/References
Number of operational entities that assessed risks of corruption	118	Corruption risk, just like the other major risks on the Group's risk map, is an integral part of the overall Thales risk management system. As part of the Group's self-assessment and internal control policy, the 118 main operational entities conducted a self-assessment of their exposure to the risk of corruption and, in certain cases, defined an action plan with a view to continually improving the system. See the section on Internal control and risk management – Ongoing improvement process – Self-assessment and ongoing improvement of corporate risk management.
Communication and training with regard to anti corruption policies and procedures	1,346	The benchmark training is delivered by multilingual trainers who are specialists in the field of ethical business conduct. Lasting four hours, the course takes place either on the Thales University campuses across the world or directly on site. Other ad hoc training is also given in specific environments, such as for senior executives and country teams. In addition, an e-learning programme comprising three 30-minute modules (in French, English and German) is available to all Group employees. See Section 1.1.2.2.1-a) Compliance with laws and regulations – Business ethics.
Proven cases of corruption and measures taken	No cases reported	Thales has a global whistle-blowing system, authorised by French data protection authority CNIL in 2011, enabling all of the Group's employees to report acts in the areas of accounting, finance or banking as well as anti-competitive practices and anti-corruption, in addition to acts of discrimination, harassment or failure to comply with health and safety legislation. Certain countries in which Thales has a significant presence have supplemented this system with a local whistle-blowing system, notably the United Kingdom, the United States and Australia. None of the incidents reported in 2016 concerned a case of corruption. See also the section on Fair business practices – Anti-corruption – An internal compliance programme.

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 human resources, environmental and social information provided in the management report prepared for the year ended 31 December 2016, (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 2016 and February 2017, 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].

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 human resources and environmental consequences of the Company's business and its societal commitments and, where appropriate, the actions or programs that stemmed from it.

We compared the CSR Information presented in the management report with the list set forth in Article R. 225-105-1 of the French Commercial Code.

In the event of omission of certain consolidated information, we verified that explanations were provided in accordance with the third paragraph of the Article R. 225-105 of the French Commercial Code.

We verified that the CSR Information covers the consolidated scope, which includes the Company and its subsidiaries within the meaning of Article L. 233-1 of the French Commercial Code (*Code de commerce*) and the companies that it controls within the meaning of Article L. 233-3 of the French Commercial Code (*Code de commerce*), subject to the limits set forth presented in the Sections 5.2.8 "Environmental reporting rules" and the "Methodological note" of sections 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.

II. Fairness report with respect to CSR Information

Nature and scope of procedures

We conducted about fourty 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 human, resources 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[3]:

- 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[4] 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 60% of headcount and between 25% to 72% 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, 27 February 2017

The Independent Third-Party
French original signed by

Mazars

Anne-Laure Rousselou
Partner

Edwige Rey
CSR & Sustainable development Partner

(1) The scope of which is available on the website ww.cofrac.fr
(2) ISAE 3000 – *Assurance engagements* other than audits or reviews of historical financial information.
(3) Environmental Information: Electricity consumption, Annual fossil energy consumption, Total annual energy consumption, Water consumption, GHG (greenhouse gas) emissions: GHG emissions from energy consumption (CO_2), GHG emissions from substances (CO_2), GHG emissions from transportation (professional travels) (CO_2); 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.
Human resources Information: Global workforce as 31 December 2016, Women/Men breakdown (%), workforce by age, Recruitments, Redundancies, Total number of training hours, Absenteeism rates, Actions in favor of gender equality, Attractiveness policy.
Social 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
(4) Environmental Information: Thales Alenia Space, Thales Alenia Space (Cannes), Thales Alenia Space (Roma), Thales UK Basingstoke Hub, Thales UK Templecombe Hub, Thales Land Australia (Mulwala), Thales Land Australia (Benalla), TCS Gennevilliers.
In addition to environmental information (fuel consumption and GHG emissions from substances (CO_2)) : TED Vélizy.
Human resources Information: Legal entities of Thales France, Thales Spain, Thales Germany.
Social Information: Law/Human Resources Department, Ethics & Corporate Responsibility Department, Foundation Thales Programs Department, Relationship suppliers Director.

5.5 TABLE OF RECONCILIATION (ARTICLES L. 225-102-1 AND R. 225-105-1 OF THE FRENCH COMMERCIAL CODE)

In accordance with the Articles L. 225-102-1 and 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. An independent verifier issued a declaration of inclusion and a limited assurance report on consolidated social, environmental and societal information.

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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 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 2016 on pages 70 and 71 has been issued without reservation and the parent company financial statements report for 2016 on page 101 has been issued without reservation. The reports on the consolidated financial statements for 2014 and 2015, included by reference in this 2016 Registration Document, were issued without reservation and they include some observations.

Paris-La Défense, 5 April 2017

Patrice Caine
Chairman and CEO

EUROPEAN CROSS-REFERENCE TABLE

(ANNEX 1 OF THE EUROPEAN REGULATION NO. 809/2004)

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.

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