

2020
Universal registration
document

including the Annual Financial Report

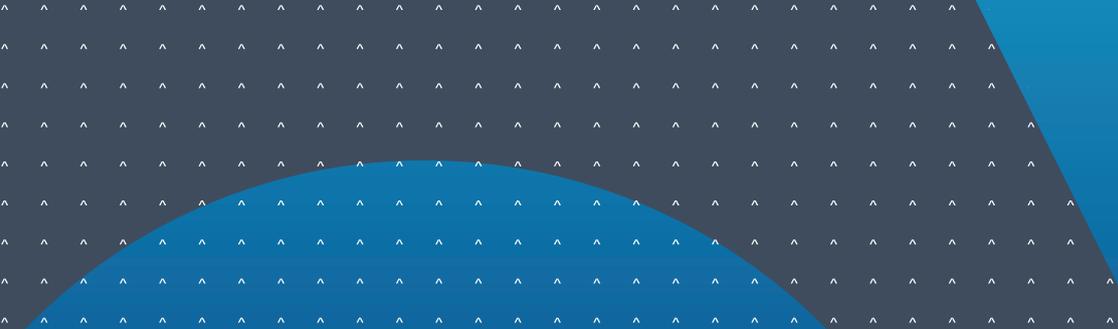


Table of contents

| | | | |
|--|------------|---|------------|
| Chairman's foreword | 2 | | |
| 1. The Group's business model | 4 | 6. Company and share capital | 180 |
| Group profile | 6 | 6.1 General information about the company | 182 |
| Leader in Aerospace, Transport, Defence and Security | 9 | 6.2 Share capital and shareholders | 183 |
| Our strategic priorities and ambitions | 10 | 6.3 Related-party agreements | 194 |
| Our value creation process | 12 | 6.4 Stock market information and financial communication | 196 |
| Our contribution to the UN's sustainable development goals | 14 | 6.5 History | 200 |
| 2. Business review | 16 | 7. Consolidated financial statements | 202 |
| 2.1 Operating segments | 18 | 7.1 Consolidated financial statements | 204 |
| 2.2 Research and innovation | 31 | 7.2 Parent company management report | 254 |
| 2.3 Report on operations and results | 33 | 7.3 Statutory auditors' report | 286 |
| 2.4 Investments | 42 | 7.4 Statutory auditors | 293 |
| 2.5 Group structure | 44 | 8. Appendices | 294 |
| 3. Risk factors, internal control and risk management | 46 | 8.1 Declaration from the person responsible for the Universal Registration Document | 296 |
| 3.1 Operational and strategic risks | 49 | 8.2 Changes made to the structure of the 2020 Universal Registration Document | 296 |
| 3.2 Legal and regulatory risks | 59 | 8.3 Historical financial information incorporated by reference | 296 |
| 3.3 Financial risks | 61 | 8.4 Cross-reference table of the annual financial report and management report | 297 |
| 3.4 Risk control environment | 63 | 8.5 Cross-reference table for the report on corporate governance | 299 |
| 4. Governance and compensation | 68 | 8.6 Cross-reference table – Annex 1 and 2 of European Regulation n° 2019/980 | 300 |
| 4.1 Composition of the Board of Directors at 31 December 2020 | 70 | 8.7 Cross-reference table for the non-financial performance statement | 302 |
| 4.2 Corporate governance | 79 | | |
| 4.3 Corporate Management and the Executive Committee | 92 | | |
| 4.4 Compensation of company representatives | 93 | | |
| 4.5 Compensation of other executives | 113 | | |
| 4.6 Summary statement of transactions mentioned in Article L. 621-18-2 of the French Monetary and Financial Code carried out in 2020 | 114 | | |
| 5. Corporate responsibility and non-financial performance | 116 | | |
| 5.1 A corporate responsibility policy to support sustainable economic growth | 118 | | |
| 5.2 Risks taken into account for the non-financial performance statement | 119 | | |
| 5.3 Non-financial performance scorecard | 122 | | |
| 5.4 Human resources geared towards company performance | 123 | | |
| 5.5 A committed approach to meet environmental challenges | 138 | | |
| 5.6 A corporate responsibility policy based on strong ethical commitments | 156 | | |
| 5.7 An organisation that is proactive towards its stakeholders | 159 | | |
| 5.8 Methodological notes | 173 | | |
| 5.9 Report by the independent third party on the consolidated non-financial statement | 175 | | |
| 5.10 Cross-reference table for TCFD recommendations | 177 | | |

2020 Universal registration document

including the Annual Financial Report



This Universal Registration Document has been filed on 12 April 2021 with the AMF, as competent authority under Regulation (EU) 2017-1129, without prior approval pursuant to Article 9 of the said regulation.

The Universal Registration Document may be used for the purposes of an offer to the public of securities or admission of securities to trading on a regulated market if completed by a securities note and, if applicable, a summary and any amendments to the Universal Registration Document. The whole is approved by the AMF in accordance with Regulation (EU) 2017-1129.

This is a translation into English of the Universal Registration Document of the Company issued in French and it is available on the website of the Issuer.

Chairman's foreword



2020: the efforts of our teams all over the world have demonstrated Thales's human and economic resilience.

Patrice Caine

Chairman & Chief Executive Officer

In 2020, the full-year results of Thales were, unsurprisingly, heavily impacted by the Covid-19 crisis. The efforts of our teams all over the world have demonstrated the Group's human and economic resilience as well as its agility. The global crisis adaptation plan, which we rapidly implemented, generated estimated savings of approximately €850 million for the year, €100 million above target. In this unprecedented context of global pandemic, the Board of Directors and I would like to reiterate our gratitude to all Thales teams for their exemplary commitment and to our customers and partners for their trust.

The second half of 2020 showed a strong recovery in terms of both order intake and profitability. EBIT margin before restructuring costs returned to the H2 2019 level. We have, in particular, enjoyed significant commercial successes in the space market, including missions for the Copernicus programme to monitor the environment and observe the earth, and space exploration missions to the Moon and Mars. The Group booked an impressive 14 military contracts worth more than €100 million in 7 countries, including one of the largest contracts in its history: the development of mission systems for the German Navy's future F126 frigates⁽¹⁾.

Furthermore, 2020 cash generation was once again very strong. It illustrates both the robustness of our civil-defence business model and our teams' focus on operational performance.

This solid financial performance, combined with a favourable outlook for the majority of our markets, has enabled the Board of Directors to put forward to the next Annual General Meeting the proposal to pay a dividend of €1.76, which corresponds to the distribution rate of 40% decided on before the crisis worsened.

Our digital strategy, bolstered by our position as a leader in cybersecurity, continued to bear fruit across all of the Group's businesses. It notably led to the signing of the contract with Deutsche Bahn for the development of Europe's first digital rail signalling "node", and the announcement of partnerships with Google Cloud and Microsoft in cloud security.

Lastly, this unprecedented year was an opportunity for us to put into practice our purpose, which we had defined in 2019 with the help of more than 30,000 Group employees: "Building a future we can all trust". In addition to outreach initiatives introduced Group-wide during the crisis, we have continued to further embed sustainability in our strategy. Thales has set ambitious targets in terms of diversity, CO₂ emission reduction and the prevention of corruption. Since 1 January 2021, these targets have been integrated into the variable compensation of two thirds of our employees. More generally, the heightened sustainability expectations of our customers have provided attractive growth opportunities for our portfolio of solutions in terms of contributing to making the world safer, greener and more inclusive.

In a still uncertain economic and health environment, our unique position combining a world-class technological portfolio and comprehensive expertise in our 5 major markets will enable us to swiftly regain our profitable growth momentum.

(1) Previously known as MKS 180.

The Group's business model

1

| | |
|---|-----------|
| Group profile | 6 |
| Leader in Aerospace, Transport, Defence and Security | 9 |
| Our strategic priorities and ambitions | 10 |
| Our value creation process | 12 |
| Our contribution to the UN's sustainable development goals | 14 |

GROUP PROFILE

2020 KEY FIGURES

REVENUE
€17.0bn

EBIT⁽¹⁾
€1,352m
8% of revenue

FREE OPERATING
CASH FLOW⁽¹⁾
€1,057m

A WORLDWIDE PRESENCE (breakdown of revenue by geographic area)



TOTAL SHAREHOLDER RETURN, OVER 5 YEARS (as at 12/31/2020)

+17%
Thales share

+39%
CAC 40

DIRECT OPERATIONAL
EMISSIONS OF CO₂⁽²⁾
-40%
by 2030

ORDER INTAKE
€18.5bn

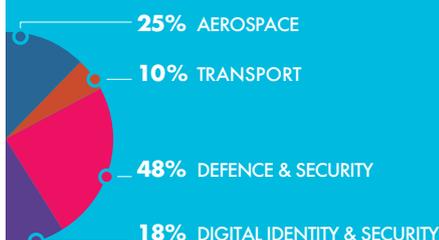
ADJUSTED NET INCOME⁽¹⁾
€937m

SELF-FUNDED R&D⁽¹⁾
€1,025m

NUMBER
OF EMPLOYEES
80,500

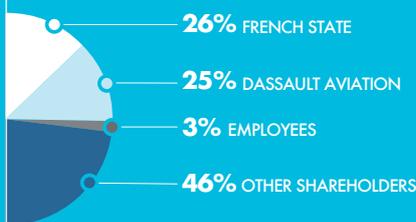
4 OPERATING SEGMENTS

(breakdown of revenue by operating segment)



SHAREHOLDER STRUCTURE

(as at 12/31/2020 in shares)



DIVIDENDS

(in euros)



(1) Non-GAAP financial indicators.

(2) Scope 1, 2 and 3 (business travel) emissions.

(3) Put to the General Meeting on 6 May 2021.

OUR PURPOSE**BUILDING
A FUTURE
WE CAN
ALL TRUST**

Trust is essential for societies to flourish. Trust in our institutions. Trust in our systems. Trust in technology. Trust in each other.

At a time when progress offers huge opportunities – and faces serious challenges – it is essential that the people we all rely on are trusted.

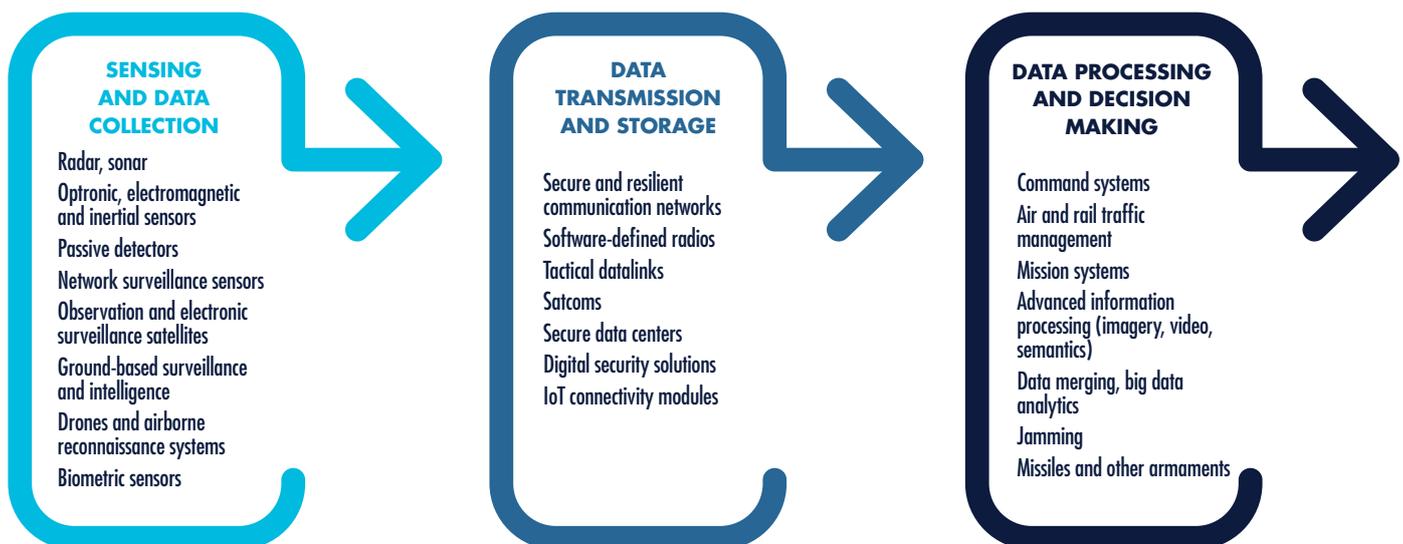
That's why we strive to turn leading-edge technologies into solutions that are both **imaginative** and **resilient, human-centred** and **sustainable**. So those we serve, our customers, can navigate uncertainty with confidence and new frontiers with optimism.

And together, we harness the extraordinary power of technology to build a future we can all trust.

OUR MISSION

At Thales we develop solutions which are increasingly sustainable and that help our customers think smarter and act faster – mastering ever greater complexity at every decisive moment along the way.

DATA IN THE CRITICAL DECISION-MAKING CHAIN

**THALES'S
FOUR
STRATEGIC
ASSETS****> EXCEPTIONAL R&D AT THE HEART OF A GLOBAL INNOVATION ECOSYSTEM**

Thales dedicates 20% of its revenue to R&D; one third of its employees work in this area. The Group builds on an innovation ecosystem that has been co-developed with its customers, based on academic and entrepreneurial partnerships.

> A UNIQUE PORTFOLIO OF DIGITAL COMPETENCIES

Thanks to the exceptional expertise of its teams and targeted external growth strategy, Thales builds its digital expertise around four major technologies which play a key role in critical decision-making chains: connectivity and mobility, big data analytics, artificial intelligence and cybersecurity.

> AN IN-DEPTH KNOWLEDGE OF ITS MARKETS

The resilience of Thales business model is based on five large markets which use the same technologies and know-how but have different business cycles. In virtually all its business activities, Thales is in the top 3 worldwide or ranks number one in Europe.

> A GLOBAL FOOTPRINT

Thales operates in 70 countries and has customers in more than 100 different countries. Its close proximity to its customers, its longstanding experience of international markets and complex partnerships are key commercial assets.

 | Discover all of our expertise in the section 2.1 of the 2020 Universal Registration Document.



AEROSPACE

→ AERONAUTICS

Electronic equipment to increase security and reliability of flights, civil and military aircraft simulators, connectivity and in-flight entertainment. Onboard equipment and functions for aircraft piloting, navigation and control.

GROWTH DRIVERS

- Sudden halt in the first half of 2020 in the growth of world air traffic, caused by the Covid-19 epidemic.
- Despite considerable uncertainties about the recovery trajectory, the long-term growth of world air traffic is not in question.
- High demand for connectivity and increased expectations in terms of operational and environmental efficiency.

AREAS OF EXPERTISE

- The only global industrial company with leadership positions in both onboard and ground equipment.
- Onboard the majority of civil and military aircraft types and new aeronautics programmes.

CIVIL/
MILITARY



COMPETITIVE
POSITION

**NO.2
WORLDWIDE**
(cabin multimedia
and connectivity)

**NO.3
WORLDWIDE**
(flight avionics)

→ SPACE

Equipment, payloads, satellites, systems and services for space programmes.

GROWTH DRIVERS

- Unique positioning of space systems to meet new communication and observation requirements.
- Military space: a growing priority for many countries.

AREAS OF EXPERTISE

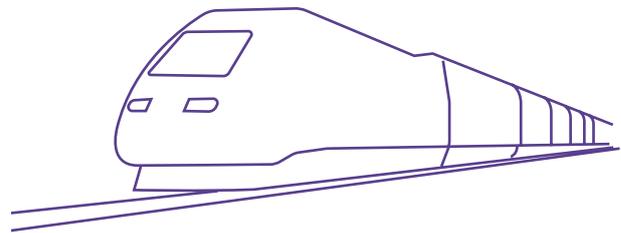
- Global leader in construction of commercial telecommunications satellites.

CIVIL/
MILITARY



COMPETITIVE
POSITION

NO.2 WORLDWIDE
(civil satellites)



GROUND TRANSPORTATION

Rail signalling, control and supervision of urban and mainline rail transport networks.
Ticketing solutions.

GROWTH DRIVERS

- 60% of the world's population will be living in towns or cities by 2030 (UN-Habitat).
- Public transports are recognised for their efficiency and climate impact.
- Strong trend towards more automated or even autonomous transport solutions.
- Renovation of signalling systems to increase the efficiency of existing infrastructures.
- Covid-19 stimulus plans focused on "green mobility".

AREAS OF EXPERTISE

- Signalling solutions implemented for more than 85 subway lines in 45 cities.
- Inventor of standards for the rail sector: CBTC (Communication-Based Train Control) for metros and ETCS (European Train Control System) for mainline rail.
- Leader in driverless urban rail signalling.

CIVIL



COMPETITIVE
POSITION

NO.2 WORLDWIDE
(rail signalling and supervision)



LEADER IN AEROSPACE, TRANSPORT, DEFENCE AND SECURITY

1



DEFENCE & SECURITY

Sensors and mission systems.

Communications, command and control systems, networks and infrastructure systems, security and cybersecurity solutions for countries, cities and critical infrastructures.

GROWTH DRIVERS

- Increase in defence budgets in Thales' markets.
- Rapid digitalisation of the armed forces.
- High demand for cybersecurity.
- Smart systems take a prominent role in platforms.

AREAS OF EXPERTISE

- Long-standing partner of the armed forces, throughout all of the value chain.
- World leader in radar and sonar technologies.
- Expert in secure communication networks, at the heart of collaborative combat solutions.
- Mastery of the new differentiating digital technologies.
- The air traffic management centres equipped by Thales cover more than 40% of the Earth's surface.

CIVIL/
MILITARY



COMPETITIVE POSITION

NO. 1
IN EUROPE
(defence electronics)

NO. 2
WORLDWIDE
(military communications)

NO. 2
WORLDWIDE
(Air Traffic Management)



DIGITAL IDENTITY AND SECURITY

Digital identity and security solutions.

Identity management and control, data protection and encryption, biometrics, securing connected devices, subscription management and client authentication for mobile operators, bank cards.

GROWTH DRIVERS

- Fast-growing markets (data protection, connected devices, biometrics, etc.).
- More than 1,000 billion connected devices forecasted by 2035.
- Increasing dematerialisation in the cloud: authentication and data protection requirements.
- An offer that is very complementary to other Thales activities.
- Acceleration of "digital" growth driven by the health crisis and the increased need for connectivity and contactless applications.

AREAS OF EXPERTISE

- No. 1 worldwide on data protection markets, secure identity documents, bank payment cards, physical SIM cards.
- Partner with more than 3,000 financial institutions, 450 mobile operators and 30,000 companies.
- Involved in more than 200 government security and identification programmes.

CIVIL



COMPETITIVE POSITION

NO. 1 WORLDWIDE

OUR STRATEGIC PRIORITIES AND AMBITIONS



WE DESIGN PRODUCTS AND SOLUTIONS IN LINE WITH THE NEEDS OF OUR CUSTOMERS: PHYSICAL AND DIGITAL SECURITY OF COUNTRIES AND CITIZENS, ACCESS TO INFORMATION AND KNOWLEDGE, CONTRIBUTING TO A MORE SUSTAINABLE, SAFER AND MORE INCLUSIVE WORLD.



Patrice Caine, Chairman & Chief Executive Officer

STRENGTHENING OUR POSITION ON LONG-TERM GROWTH MARKETS

Leader in smart and digital solutions for defence markets

Thales's major military clients have confirmed their investment plans, which are necessary to better protect their citizens in the face of a tense global geopolitical context.

Smart and digital solutions, in which Thales is one of the world leaders, are playing an increasingly important role in air, sea or land defence platforms.

Progress in 2020

Record order intake, despite the Covid-19 crisis. 14 orders of more than €100 million from seven countries, including the major contract for the German MKS180 frigates.

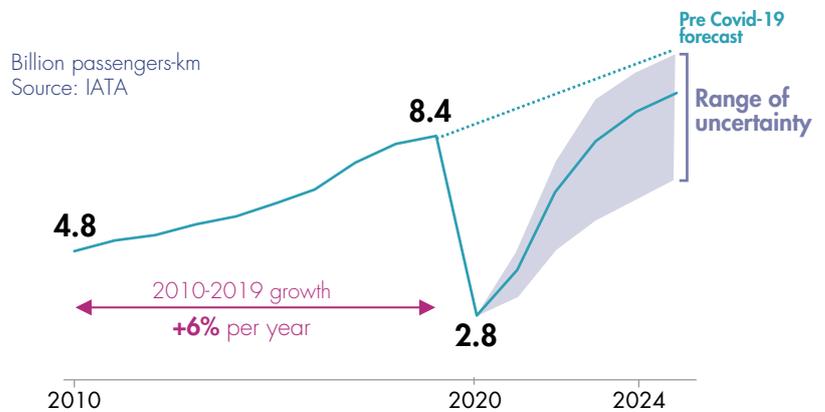
Priorities for 2021

Continue to capitalise on the growing needs of armies around the world for ever smarter systems to better identify threats and coordinate forces in complex environments.

Supporting the armed forces move toward the development of greener solutions in line with the energy transition stakes.

Ready to support the recovery of civil aviation

Air traffic growth scenarios



Progress in 2020

Thales quickly put in place a structural action plan to adapt to the collapse of the civil aviation market due to Covid-19.

Priority for 2021

Focus R&D on the development of green, digital and connected solutions for civil aviation, notably through the optimisation of flight operations.

Space: return to sustainable growth in a rapidly changing segment

Progress in 2020

Significant commercial successes, notably on the new ESA environmental monitoring missions (Copernicus project) and in space exploration.

Priority for 2021

Remain at the forefront of innovation through the development of flexible geostationary satellites (Space Inspire) and the implementation of major space projects (Galileo, Lightspeed constellation).



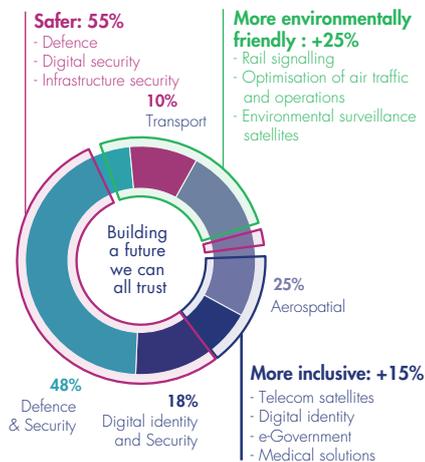
INVEST TO SUSTAIN LONG-TERM GROWTH



Sustainability at the heart of Thales's strategy

For more than twenty years, Thales has been proactively implementing a policy of corporate responsibility and sustainability based on the highest international standards.

Today, whether in defence, security, rail transport, aerospace or digital identity and security, Thales's solutions help to make the world a safer, greener and more inclusive place.



Progress in 2020

Deployment of Thales purpose adopted in 2019.

Implementation of a strategy for a low-carbon future adopted in 2019 and significant reduction in direct and indirect CO₂ emissions (scopes 1, 2 and 3).

Supporter of the Task-force on Climate-related Financial Disclosures (TCFD) principles and recommendations.

Signature of the "Statement from Business Leaders for Renewed Global Cooperation" initiated by the United Nations Global Compact.

Priorities for 2021

Inclusion of quantitative CSR objectives in the variable compensation of 54,000 employees.

Continuation of action plans to achieve the ambitious targets set in the area of environment and diversity for 2023.

Make Thales leader in digital transformation of markets

Thales has all the assets to play a key role in the ongoing digital transformation, thanks to:

- its position centred around critical decision-making chains, which by nature are increasingly digital;
- the integration of Gemalto, supplemented by targeted acquisitions;
- reinforcement of numerous partnerships formed within innovation ecosystems — academic, businesses, startups, innovative clusters — to develop together new usages, business models and technologies;
- actions taken for more than five years for innovative startups;
- increased R&D investments targeting the four key domains of digital expertise.

4 FIELDS OF DIGITAL EXPERTISE

Connectivity

Big Data

Artificial intelligence

Cybersecurity

Progress in 2020

Digital investments made by Thales over the last 5 years have greatly contributed to the Group's major commercial successes in 2020: first major digital rail-signalling contract in Germany, MKS180, defence cloud for NATO, partnership with Google Cloud in the field of data security.

Priorities for 2021

Continue to capitalise on the digitisation of society to develop new services (eSiM, drone traffic management, digital identity, etc.).

Supporting our customers towards a trusted digital transformation based on ever more resilient, explainable and secure technologies.

Accelerating synergies between Thales and Gemalto

Key lever to accelerate Thales's digital strategy, the Gemalto acquisition in 2019 further differentiates the Group's portfolio of activities by incorporating unique expertise in 3 key technological fields linked to digital security: biometrics and digital identity, secure connectivity for the Internet of Things (IoT) and data protection and encryption.

With this acquisition, Thales became the leader of the identity, digital security and cybersecurity markets, the only company in the world offering complete solutions to secure the entire critical decision-making chain.

Progress in 2020

The cost synergies achieved in 2020 are estimated at €80 million, i.e. nearly €20 million more than expected initially.

In 2020, acceleration of synergies through the development within the Group, in all areas of activity, of solutions integrating Gemalto technologies.

In September, Thales launched the CipherTrust Data Security platform, which brings together the best of Thales and Gemalto technology to simplify the security of sensitive business data. Similarly, Gemalto's biometrics solutions are now systematically included in Thales's security offers for sensitive sites (airports).

Priorities for 2021

Continue to develop new offerings to achieve revenue synergies of between €300 million and €500 million by 2023.

Generate cost synergies of €110 million in 2021.

Cost synergies ahead of plan



OUR VALUE CREATION PROCESS

ADDRESSING KEY SOCIETAL, ENVIRONMENTAL AND TECHNOLOGY TRENDS

Exponential growth of data produced

Growth and urbanisation of the world population

Energy transition and climate emergency

Our resources



INTELLECTUAL CAPITAL

€1,025m in self-funded R&D.

A portfolio of **more than 22,000 patents**.

The Group's technical activities, from research to engineering, concern **more than 30,000 people**.



HUMAN CAPITAL

80,500 employees.

More than **31,000** employee shareholders.

€7,419m in payroll.

An average of **7 hours** of training per employee per year.

94% full-time contracts, and **98%** permanent contracts.



ENVIRONMENTAL CAPITAL

Deployment of the **strategy for a low-carbon future** aligned on the 2°C climate target of the Paris Agreement.

Signatory of the principles and recommendations of the **Task Force on Climate-related Financial Disclosures (TCFD)**.



SOCIETAL CAPITAL

A strong **ethics policy**.

Purchases accounting for **40%** of revenue.

Signature of commitments for responsible purchasing by General Management.

First sponsorship actions implemented within the **Thales Solidarity** programme.



FINANCIAL CAPITAL

Low indebtedness: **€2.5bn** at 31 December 2020 (**€0.9bn** excluding IFRS 16 leases).

€1,057m in free operating cash-flow in 2020.

Solid investment grade credit profile, S&P rating: **BBB+**.

4 fundamentals

ATTRACTION AND RETENTION OF TALENTS

RIGOROUS RESPONSIBLE APPROACH

CONTROLLED RISKS

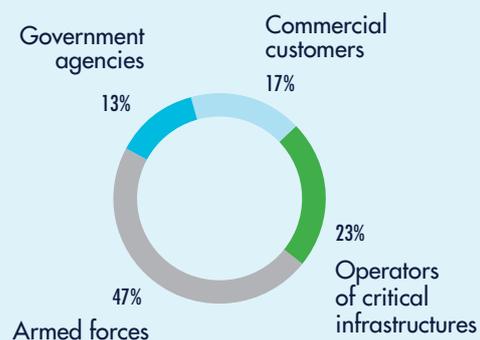
OPERATIONAL EXCELLENCE

Our purpose

“Building a future we can all trust.”

Thales strives to turn leading-edge technologies into solutions that are both **imaginative** and **resilient, human-centred** and **sustainable**.

A resilient model built on a wide



Mobile connectivity and multiplication of cyber threats

Increase in the impact of artificial intelligence

Global competition for talent

4 strategic assets

Exceptional R&D at the heart of a global innovation ecosystem

A unique portfolio of digital competencies

An in-depth knowledge of its markets

A global footprint

A responsible and ethical company

Solid governance that is adapted to current and future challenges

Ethics, integrity and responsible conduct are central to our model

Solutions to contribute to ecological transition

variety of clients and markets

Markets sharing many technologies



Aeronautics



Defence



Security



Ground transportation



Space

Our achievements in 2020



INTELLECTUAL CAPITAL

Almost **400 new patent** applications in 2020, of which 25% in key digital technologies.

6% of revenue invested in self-funded R&D.

Thales once again ranked in **the Top 100** most innovative companies in the world by Clarivate Analytics for the 6th consecutive year.



HUMAN CAPITAL

7,427 new recruits, of which **31%** were women.

3.30% absenteeism rate worldwide.

50% women on the Board of Directors.

The Group has operations in more than **70 countries**.

Ranked 4th preferred company by engineers (Universum France 2020).



ENVIRONMENTAL CAPITAL

Decrease of 35% in direct CO₂ operational emissions, compared to 2018 (scopes 1 & 2 and business travel).

Decrease of 29% in absolute indirect CO₂ emissions, compared to 2018 (use of products and services sold and purchases of goods and services).

27% of electricity from renewable sources and a decrease of 7% in electricity consumption compared to 2018.

44% of new eco-designed products (target of 100% in 2023).

60% of non-hazardous waste is recycled, up by 5 points since 2018 (target of 75% in 2023).



SOCIETAL CAPITAL

69% of purchases made from European suppliers, of which **38%** from suppliers in France.

€264m income tax (average rate of taxation: 23.1%).

€292m invested in solidarity funds by more than 20,000 employees through Thales savings schemes (PEG and PERCO schemes).

In 2019-2020, **11,270** employees were trained in the fight against corruption and influence peddling.

Leading French contributor to MicroDON's **"Rounding up salary"** initiative (by amount raised and number of donors).



FINANCIAL CAPITAL

Strong generation of free operating cash flow despite the crisis.

Strong improvement in the EBIT margin of the Transport (+2.4 points) and Digital Identity and Security (+2.2 points) segments.

OUR CONTRIBUTION TO THE UN'S SUSTAINABLE DEVELOPMENT GOALS



As a member of the Global Compact, Thales makes a concrete contribution to the transformation of the world through its core business and strategy. This is demonstrated in particular in its increased contribution to achieving the Sustainable Development Goals which are now fully taken into account by the Group.

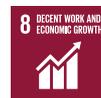
4 PRIORITY SUSTAINABLE DEVELOPMENT GOALS

Whenever relevant, these four priority Sustainable Development Goals are taken into account by Thales when launching new projects.

| SDG | BUSINESS PRIORITIES | DEVELOPMENTS |
|---|--|--|
|  | <ul style="list-style-type: none"> • Increase our R&D investments and our public partnerships. • Contribute to sustainable and responsible industry. • Develop our teams' know-how and capacity for innovation. | <ul style="list-style-type: none"> • More than 40% of the Group's employees work in R&D-related roles. • Thales supports more than 220 doctoral students worldwide. • In 2020, Thales spent €1,025 million on self-funded R&D. • 84% of employees work on an ISO 14001 (environmental management) certified site and 77% work on an ISO 45001 (workplace health and safety management) certified site. |
|  | <ul style="list-style-type: none"> • Reduce the impact of our activities and products on climate change. • Anticipate the impact of climate change on our markets. • Participate in the implementation of the commitments of the Paris Agreement. | <ul style="list-style-type: none"> • Since 2018, Thales has been publishing its emissions in absolute values on the 3 scopes (including purchasing and use phases). • The Group has committed to reducing direct operational greenhouse gas emissions by 40%, and indirect emissions by 15%, by 2030. • In 2020, direct emissions were down 35%, and indirect emissions fell 29%, compared to 2018. • In 2020, Thales adopted the principles and recommendations of the Task Force on Climate-related Financial Disclosures. |
|  | <ul style="list-style-type: none"> • Promote diversity and inclusion across the Group. • Develop best practices in terms of female recruitment and careers. • Fight against gender stereotypes. | <ul style="list-style-type: none"> • In 2020, women accounted for 31% of recruitment worldwide, 29% in Europe and 32% in France. • At the end of 2020, women represented 18% of positions of responsibility (compared to 14.9% at the end of 2016). |
|  | <ul style="list-style-type: none"> • Fight corruption, place human rights at the centre of our value chain. • Support the creation of resilient and transparent institutions. | <ul style="list-style-type: none"> • In 2019 and 2020, 11,270 anti-corruption and influence-peddling training sessions were conducted. • Signing of the "Statement from Business Leaders for Renewed Global Cooperation" initiated by the United Nations Global Compact. |

6 SIGNIFICANT SUSTAINABLE DEVELOPMENT GOALS

Conscious of these significant challenges presented by the Sustainable Development Goals, Thales has gradually incorporated them into its CSR policy over the last two years.



Find out how Thales is committed to the SDGs as a member of the Global Compact <https://www.thalesgroup.com>

SHARED VALUE CREATION WITH OUR STAKEHOLDERS



Thales profitable growth model is based on shared values. The Group's economic success generates profits for the Company as a whole, which is essential to pursuing a resilient strategy. Value sharing is embodied not only financially but more widely, in the Group's contribution to the UN's Sustainable Development Goals.

> A CREDIT FACILITY LINKED TO ENVIRONMENTAL PERFORMANCE



In December 2020, for the first time, Thales included climate targets in the terms and conditions of the new revolving credit facility of €1.5 billion signed with 17 international banks. Its rate will be linked to the objective of reducing Thales's direct and indirect carbon footprint (Scopes 1, 2 and 3), in line with the lowcarbon policy implemented by the Group and its commitments over the next ten years. Depending on whether or not these objectives are achieved, the cost of the syndicated loan will be adjusted downwards or upwards, thanks to a bonus/penalty system.

> USING TECHNOLOGY TO BETTER COMBAT COVID-19



All over the world, Thales employees have contributed to the fight against Covid-19 and its effects, either through the Group's actions or through individual initiatives.

Thanks to their technical skills, many employees have joined local or national citizen initiatives to produce masks and visors for staff. In the United Kingdom, Thales, in partnership with around twenty other companies, has produced ventilators for hospitals.

Thales's AI capabilities were also called upon to develop, in record time, an AI-based solution applied to chest CT-scans. It makes it possible to immediately provide an initial recommendation for diagnosis and criticality of the pulmonary disorders following the acquisition of the image and thus to adapt the care of the patient and to prioritize the cases according to the medical emergency.

> PROTECT AND GUARANTEE THE IDENTITY OF CITIZENS



At a time of increasing digital exchanges, the issue of identity has never been more vital for citizens, States or third parties (merchant sites, transport companies, banking systems, telephony operators, etc.). The digital identity solutions developed by Thales and adopted by many countries (Belgium, Thailand, Australia, Texas, etc.) guarantee the identity of a person while protecting their personal data.

This certification of identity is the foundation of the relationship of trust and the basis of the proper functioning of a State.

> HELPING INNOVATIVE START-UPS GROW



The European Innovation Council (EIC), Thales and Thales Alenia Space organised the first virtual EIC Corporate Day, which brought together 14 of the most innovative start-ups in Europe. These days were an opportunity to connect companies, innovative entrepreneurs and managers and decision-makers from all sectors.

At the global level, Thales has also launched the international AI@Centech acceleration programme for start-ups that provide solutions using Artificial Intelligence (AI). By providing them with advice, expertise and access to Thales's technological platforms, this programme helps them develop cutting-edge solutions for the Group's markets while supporting their development.

(1) Corporate income tax shown in the adjusted income statement. See Section 2.3.2 of the 2020 Universal Registration Document.

Business review

2

| | | |
|------------|--|-----------|
| 2.1 | Operating segments | 18 |
| 2.1.1 | Aerospace segment | 18 |
| 2.1.2 | Transport segment | 22 |
| 2.1.3 | Defence & Security segment | 24 |
| 2.1.4 | Digital Identity and Security Segment | 29 |
| 2.2 | Research and innovation | 31 |
| 2.2.1 | Research and development, the key to competitiveness and growth | 31 |
| 2.2.2 | Four key technical domains | 31 |
| 2.2.3 | A dynamic approach to intellectual property management | 33 |
| 2.3 | Report on operations and results | 33 |
| 2.3.1 | Key figures (adjusted) | 33 |
| 2.3.2 | Presentation of financial information | 34 |
| 2.3.3 | Order intake | 37 |
| 2.3.4 | Sales | 39 |
| 2.3.5 | Adjusted results | 40 |
| 2.3.6 | Consolidated results | 41 |
| 2.3.7 | Financial position at 31 December 2020 | 41 |
| 2.3.8 | Proposed dividend | 41 |
| 2.3.9 | Outlook | 41 |
| 2.4 | Investments | 42 |
| 2.4.1 | Investments in R&D | 42 |
| 2.4.2 | Operating investments | 42 |
| 2.4.3 | Acquisitions and equity investments | 43 |
| 2.5 | Group structure | 44 |
| 2.5.1 | Relations between Thales and its subsidiaries | 44 |
| 2.5.2 | Information about major operational subsidiaries and manufacturing sites | 45 |

2.1 Operating segments

2.1.1 Aerospace segment

2.1.1.1 Key figures

| (in € millions) | 2020 | 2019 |
|----------------------------------|--------|--------|
| Order book at 31 December | 6,591 | 7,306 |
| Order intake | 3,822 | 4,829 |
| Sales | 4,217 | 5,595 |
| EBIT ^(a) | -76 | 521 |
| Consolidated number of employees | 17,519 | 18,559 |

(a) Non-GAAP indicator. See definition on page 34.

2.1.1.2 Aerospace

2.1.1.2.1 General overview

Thales supports aircraft manufacturers, armed forces, airlines, operators, pilots, crews and passengers in making improvements to flight efficiency, safety and comfort. The secure, natively connected systems that Thales designs allow aircraft, helicopters and drones to fly under all conditions and to interface with all parts of the aeronautical ecosystem, on the ground or in flight.

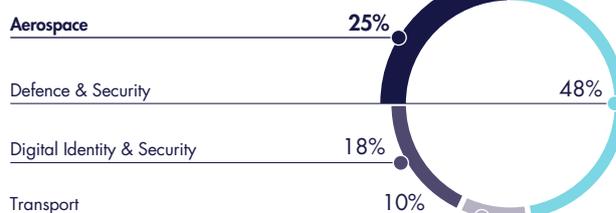
The range of avionic equipment, systems and applications covers the following domains:

- **Avionics:**
 - **piloting and control of the aircraft**, namely certified or open-source electronics and information systems and solutions that ensure the secure and optimised flight of aircraft in skies that are becoming more dense, connected and automated,
 - **aircraft power supply**, namely aircraft electrification systems covering electrical power generation and conversion as well as motors that contribute to reducing the aviation carbon footprint.
- **Passenger experience:** airlines call on Thales to personalise the services they offer to their passengers through next-generation on-board multimedia systems paired with high-speed connectivity. Thales also makes use of the latest technology in data analytics to enable airlines to tap into new sources of revenue generated through specific applications offered to passengers depending on their profiles.
- **Simulation and training:** simulator training for armies, navies and air forces to help them prepare more effectively for missions while reducing training costs. Thales supplies the flight simulators for many European and Australian defence programmes, as well as providing training and instruction.

Support and services are offered for all these businesses: Thales offers equipment and aircraft maintenance services, supports pilots' missions and optimises operations thanks to cutting-edge digital solutions that allow civil and military operators to optimise operating costs and guarantee increased aircraft availability.

Thales also provides power amplification and X-ray imaging solutions for the space and defence industries and the medical segment.

Sales by segment



In 2020, the civil aviation businesses (avionics, passenger experience) were directly affected by the 40% slump in the market. The impact was felt by all the players of the aeronautic segment (airlines, aircraft manufacturers, systems integrators, etc.). The other businesses (military aviation, space, microwave tubes) were also affected by the disruption to operations related to the health measures put in place during the second quarter. Civil aviation businesses generated approximately €1.3 billion in sales in 2020, compared with €2.15 billion in 2019. They were split roughly equally between OEM and aftermarket.

2.1.1.2.2 Competitive position

As one of the leading players in the avionics market alongside Garmin, General Electric, Honeywell and Raytheon Technologies, Thales supplies the commercial and military aircraft manufacturers Airbus, ATR, Avicopter, Bell, Boeing, Bombardier, Dassault Aviation, Embraer, Gulfstream, Leonardo, NHIndustries, Sikorsky, Sukhoi and Textron Aviation.

Thales is also one of the leading players in the in-flight entertainment and connectivity segment, along with Gogo, Panasonic Avionics and Safran.

The Group has numerous competitors in the simulation solutions market, including North American defence companies such as CAE, L3Harris, Lockheed Martin, and Raytheon Technologies.

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 L3Harris.

2.1.1.2.3 Significant events in 2020

The unprecedented scale and duration of the crisis on the **commercial avionics** business has prompted Thales to focus on its levers for recovery: the innovations that will enable Thales and its partners in the aeronautics industry to play an active role in the movement towards a sustainable environment, in particular by developing "greener" aviation (with the shared target of zero-emission aviation by 2035). The levers explored by Thales include systems for calculating optimised trajectories, the integration of more connected systems, and the more extensive use of electric systems on board aircraft. Thales has focused in particular on the ability of its existing systems to reduce the carbon footprint of the current generation of aircraft by around 10% over the next three to five years.

The year 2020 was nevertheless marked by the sharp rise in Thales's **UAV business**, in particular the development of the Soarizon UAV operations management solution. This solution has, for example, proved its worth in the context of drone deliveries of medicines to remote and isolated locations in Scotland. Thales has also started tests using UAVs for long-range surveillance operations in partnership with the gas operator Teréga. It has also signed an agreement with the Economic Development Board (EDB) of Singapore for the development and production of a new range of products for UAVs, including the "Remote ID" identification and monitoring module.

Regarding **embedded avionics**, Thales has partnered with StandardAero to start flight tests for a four-axis helicopter autopilot system. Major contracts signed include the selection by China Eastern Airlines of the Thales/ACSS NXT-800 DO-260B transponder in order to comply with the new requirements of the Chinese civil aviation authorities (CAAC).

In the **military avionics** sector, the Low-Level Flight (LLF) function of the A400M multi-role transport aircraft has been certified by the military certification authorities. This is a major breakthrough for this programme, in which Thales' flight management system (FMS) is a central component. In the United States, after the US Army finalised its operational tests, the Corpus Christi Army Depot delivered its first Black Hawk UH-60 V helicopter. Thales is on board with the flight management system as well as the TopStar 200 GPS receiver.

With regard to **in-flight entertainment**, in response to the pandemic crisis, and also with a view to stepping up the gradual pick-up of air traffic in a post-Covid-19 world, Thales has launched Ready to Fly, a portfolio of solutions to reinforce a passenger-centric digital transformation of air transport, by bringing passengers integrated products and services, and by improving crew efficiency and making the passenger relationship more personalised. The year was also marked by the launch of Optiq, a new generation of high-resolution screens, with a contract signed with a major airline at the end of 2020. Another highlight of the year was the selection, by Sichuan Airlines, of the CORE solution for its new fleet of Airbus A350.

In the **training and simulation** field, Thales was one of the partners of the "Ventilator Challenge" in the United Kingdom, providing the National Health Service with emergency virtual training resources for ventilator operators. Moreover, during the entire crisis, Thales has continued to provide complete levels of practice and training sessions to its military and civil security clients worldwide. Regarding contracts, the German Armed Forces renewed its trust in the Helicopter Flight Training Services consortium as part of the modernisation of four NH90 mission simulators, while Airbus Defence and Space signed a contract for the delivery of an A400M flight simulator to the Belgian Air Force. This was the ninth contract in this configuration. Lastly, among many successful milestones concerning Reality H, Thales's flagship helicopter flight simulator, we highlight the new facilities installed for the joint venture Helisim in Grand Prairie, Texas, and in Marignane close to Marseille.

With regard to **electrical systems**, Thales has reinforced its commercial relationship with Boeing by securing a full supply of the power conversion system of the B787 programme. It has also signed an initial contract with Leonardo for the supply of electrical power conversion equipment on its future AW249 helicopter. In 2020, Thales stepped up its commitment to the development of electrical solutions in order to meet targets to reduce CO₂ and pollutant emissions in the aeronautic industry. It therefore launched major projects in the fields of electrical hybridisation, high-voltage electrical networks and high-performance power generation, underpinned by the aeronautics recovery plan. Lastly, the year ended with the final touches for the maiden flight of Dassault Aviation's Falcon 6X for which Thales developed and supplied the electrical power conversion and generation system, with, as a world first for a business aircraft, the AC electrical start-up for the Auxiliary Power Unit (APU).

In **imaging and microwave sub-systems**, Thales won the contract to supply all the C-band power amplifiers for geostationary satellites to enable the deployment of the 5G cellular network in the Americas (13 satellites for a total of roughly 200 tubes). In response to the health crisis, Thales and NEHS DIGITAL, supported by the French Defence Innovation Agency, designed a solution based on artificial intelligence which provides healthcare professionals with an initial diagnosis using a pre-analysis of lung imagery from a scanner. Lastly, Thales obtained the approval of the US Food and Drug Administration (FDA) to market its high-end dynamic radiology system in the United States.

2.1.1.3 Space

2.1.1.3.1 General overview

A joint venture between Thales (67%) and Leonardo (33%), Thales Alenia Space is a satellite manufacturer working on 17 sites, which provides space technologies for telecommunications, navigation, Earth observation and environmental management, exploration and sciences as well as orbital structures. Thales Alenia Space has teamed up with Telespazio to form the Space Alliance which proposes a complete offering of solutions including services. In 2020, the company posted sales of €1.8 billion and had 7,700 employees in nine countries. Thales Alenia Space offers solutions to commercial, institutional and defence markets.

Space to connect – Thales Alenia Space proposes various product lines that can offer tailored solutions to the new expectations of the telecommunications market. Ranging from an offering based on the Spacebus 4000 B2 platform, which is particularly suited to regional operators, to Spacebus NEO, which embeds VHTS solutions to provide very high speed broadband anywhere in the world, and Space Inspire, the new line of fully digital products that offer full in-orbit reconfiguration capabilities, Thales Alenia Space provides operators with concrete answers, on a case-by-case basis, to support connectivity, mobility and to bridge the digital divide. In addition, Thales Alenia Space was the first company in the world to offer fully digital payload processing up to terabit class. Thales Alenia Space is also the only satellite manufacturer to equip its payloads with a powerful, 5th-generation digital processor. The company is also a global leader and partner of reference in operational constellations to ensure the complementary needs for medium or low orbits.

Space to secure and defend – Many countries have chosen to draw on the expertise of Thales Alenia Space in military or dual-purpose telecommunications systems used in supporting their armed forces in theatres of operation. In the field of Earth Observation dedicated to surveillance applications, Thales Alenia Space offers state-of-the-art High- and Very-High-Resolution optical payloads and radars. With NorthStar, Thales Alenia Space has also embarked on a new strategic project: the challenge of in-space space observation.

Space to observe and protect – Altimetry, oceanography, climatology, environment management, carbon cycle studies, mapping and crisis management are some of the uses of the satellites supplied by Thales Alenia Space, which help to better understand and protect the Earth. The company is on board five of the six new Copernicus missions, and prime contractor for three of them. These successes reflect Thales Alenia Space's ability to deliver complex Earth observation missions in various configurations, including radar and optical solutions. In addition to its participation in the European Copernicus programme and in the third-generation Meteosat, Thales Alenia Space, through its joint venture Leostella, is contributing to the deployment of BlackSky, a constellation of 60 high revisit sub-metric optical observation satellites.

Space to explore – Venus, Mars, Mercury, Saturn, the Sun, comets and exoplanets, and tomorrow the Moon... Thales Alenia Space has always been a key partner on board the most fantastic international exploration missions across the solar system. A supplier of half the pressurised volume on the ISS, the first three modules that will make up the future lunar space station, the first two modules of the commercial space station Axiom, as well as the cargo modules for the ATV and Cygnus resupply vessels, Thales Alenia Space has become a global leader of pressurised modules. The company has capitalised on its expertise in orbital infrastructure and transportation systems to serve future exploration markets, including the reusable Space Rider transportation system or the space vessel Orion. Thales Alenia Space also plays a central role in the exciting field of future scientific missions with the ExoMars 2022, Solar Orbiter, Bepi Colombo, Juice and Euclid programmes. It also proposes a new offering of dedicated on-orbit servicing vehicles. These vehicles will be able to carry out a wide range of on-orbit operations, ranging from inspection to the extension of a satellite's service life to robotic manipulation or the deorbiting of space debris.

Space to travel and navigate – At the forefront of satellite navigation in Europe, Thales Alenia Space is the prime contractor for the EGNOS system which is used today, as well as the contractor for the ground segment of the Galileo mission. The South Korean space agency KARI has chosen Thales Alenia Space to supply Safety of Life services, in particular for aeronautical applications. Thales Alenia Space is also the system architect of Kinéis, the leading French constellation composed of 25 nanosatellites dedicated to the Internet of Things (IoT) and has deployed MEOLUT Next stations dedicated to Search And Rescue (SAR) services. Thales has also been down selected by Omnispace to develop a satellite network infrastructure also dedicated to the Internet of Things (IoT).

2.1.1.3.2 Competitive position

With the disruption created by the unprecedented health crisis in 2020, it is now clear that, more than ever, satellites have their place in the today's world and in the future:

- the sovereignty of Nations as well as the defence and security of citizens are increasingly based on satellite solutions but are also assessed through the new challenges of space exploration such as the return to the Moon and Mars objective or the commercialisation of space;
- environmental surveillance and management are at the heart of our concerns at the local and global levels;
- the connectivity needs of both persons and objects, associated with the needs of broadband content delivery will continue to grow;
- there is a strong development of geolocation and personal security applications.

Satellite manufacturers must meet demands to provide high speeds at the lowest cost, transparency of connectivity for objects moving around the world, and increased flexibility in terms of mission and coverage. The complementarity of solutions is still very much a topic of interest, with constellations that remain adapted to new services, such as Internet of Things (IoT), On-Orbit Servicing (OOS), Space Situational Awareness (SSA), which has become a real governmental priority, and high-revisit observation, or to regional needs.

Telecommunications market

- In 2020, 22 geostationary satellites were ordered for the telecommunications market, of which 18 on the open market and four government satellites. These volumes are similar to the trend observed in 2019, where 17 satellites were ordered worldwide: 13 for the commercial market and 4 government satellites, which was already a marked improvement on 2017 and 2018, which recorded just 10 and 9 orders, respectively. However, the renewal of the C-band fleet artificially boosted the trend, as 13 satellites were ordered to meet this demand for a very narrow market for non-US operators. **The GEO telecommunications market has proved to be globally resilient in the wake of the Covid-19 impact, in particular in the high throughput and sovereignty segments. The market is moving towards new connectivity needs**, in particular following the Covid crisis, which has shown that, more than ever, satellites play an essential role in the world of today and tomorrow. The growing need for connectivity, whether between people or things, has become a crucial issue. All satellite applications linked to high-speed internet (CAGR > 20% over 2020/2029 for HTS), the Internet of Things and the complementarity of satellite and land systems for the deployment of 5G are on the rise.
- Operators are increasingly faced with the need to develop advanced services and seize new business opportunities as soon as they arise. **They are turning to varied and flexible solutions:** innovative digital solutions (Hybrid and VHTS), software solutions, small-sized satellites (geostationary and non-geostationary) and to the development of on-orbit services.
- **Constellations are very present**, and there is a market consensus on the realisation of at least three LEO constellations. Several projects have been launched, following the success of Iridium and Globalstar. For example:
 - Telesat has selected Thales Alenia Space to build its broadband constellation Lightspeed;
 - SES has ordered four more O3b mPower MEO satellites from Boeing based on the 702x SDS platform;
 - steady growth of Starlink, which should start providing partial services in 2022, at the same time as O3b mPower.

The mobile satellite services (MSS) market is expanding (2% growth in 2019) with newcomers on the IoT market such as Omnispace (Thales Alenia Space has been selected to develop two satellites), Astrocast and Analytical Space.

Observation market

- We observe a **clustering of the market around two product families:** HP (high resolution lower than 30 cm, for strategic intelligence (i.e. detection and identification) and HREV (high revisit, submetric resolution at 50 cm)
- **New uses are on the rise:** in particular, naval and website surveillance, support for defence and security operations, precision agriculture, assessment of natural damage (deforestation, flooding, water management) for governments and insurance companies, but also the monitoring of economic recovery and trading (finance), transport and infrastructures, urbanisation, etc.
- **Development of new on-board and ground technologies** such as new combined sensors (hyperspectral, radar + optical, etc.), new on-board and ground processing and platforms/clouds including analytics (AI/Machine learning) to merge heterogeneous data including meteorological, oceanographic, media (open source) to provide more context, extract useful information, detect changes, report anomalies and issue warnings.
- **Development of NewSpace and smallsats:** primarily concerns start-ups, at the proof-of-concept stage, or pre-operational companies that propose data, information products and their "Constellation-as-a-Service" (BlackSky, Planet, Satellogic, Iceye). There are currently many demonstrations being carried out for potential clients.

- Faced with the development of the space market, Thales Alenia Space has sought to position itself in growing market segments driven by the emergence of new needs (Emergence of new needs and services: Internet of Things (IoT), In Orbit Services (IOS), high revisit, space surveillance) and to reinforce its offering within the Space Alliance (to add services to its offering). Thales Alenia Space has been a key player of the New Space (Omnispace, Kineis, ARGOS NEO, BlackSky).
- In the telecommunications field, our diversified offering of GEO/LEO constellations/Space Bus Neo and Space Inspire products, and our positioning on the new space market enable us to cater to all segments during this market transition period. We continue to be the undisputed leaders in constellations (Globalstar 2, O3b, Iridium NEXT) and this market remains attractive in terms of solutions for operators and governments, since it is complementary to GEO solutions.

Exploration market

- The United States is competing with China in a race to conquer the Moon, and is drawing on the expertise of the European space industry. Missions abound, particularly with the Artemis programme, which aims to land the first woman and the next man on the Moon by 2024. TAS's expertise is at the heart of all these emblematic programmes (Lunar Space Station, HLS, VIPER).
- Mars exploration missions are also on the rise and TAS is very involved in ExoMars and MSR.
- Private missions such as the AXIOM space station are also emerging.

Navigation market

- TAS is the only manufacturer to deploy SBAS navigation systems for export based on the EGNOS legacy: In 2016, Thales Alenia Space signed a contract with the Korean Space Agency to supply the Korean Augmentation Satellite System (KASS). In the same vein, at the beginning of 2019, ASECNA selected Thales Alenia Space to conduct a Phase B project, including the provision of a pre-operational service in 2020, and a Satellite-based Augmentation System (SBAS) in sub-Saharan Africa, to support the significant growth of air traffic in this region with an optimized satellite solution (a milestone was reached in September 2020 with the broadcast of a first satellite signal transmitted by the navigation payload of the NigComSat 1R GEO satellite and an uplink station deployed in Abuja in Nigeria).
- Major countries such as Australia are interested in acquiring these solutions because of the related benefits: sovereignty from GPS, increased signals that improve air traffic safety.
- This market is driven by new applications: road (automatic toll booths, etc.), rail (signalling/separation of trains on railways, etc.).

In the commercial satellite segment, Thales Alenia Space's main competitors are Airbus Group, Boeing, Lockheed Martin, Maxar, and Northrop Grumman. There is also the gradual arrival on the commercial market of new players from New Space, as well as a large number of start-ups.

In the institutional and military markets, whose changes depend largely on government and space agency budgets, Thales Alenia Space's main European rivals are Airbus Group and OHB, which can also be partners on some programmes, and Boeing and Lockheed Martin for export contracts. In 2020, several significant institutional levers contributed to boosting the space sector: the award of major exploration (Mars and Moon) and observation (Copernicus expansion) contracts voted by the ESA ministerial council and an increase in international cooperation in the field of exploration.

2.1.1.3.3 Significant events in 2020

Commercial market

In the telecommunications field, Thales Alenia Space announced that it was to build the Amazonas Nexus satellite and had signed a contract with the operator to provide SES-22 and SES-23 satellites. Lastly, activities for the telecommunication satellite SATHIA programme, destined to narrow the digital divide in Indonesia, have kicked off. Thales Alenia Space also crossed major milestones with the commissioning of the EUTELSAT KONNECT satellite. This is the first satellite of the Spacebus NEO all-electric range. The flexible product line Space Inspire and the Spainsat NG payloads also successfully completed the preliminary design review according to schedule.

In the exploration field, Thales Alenia Space will manufacture two major pressurised components of the Axiom commercial space station.

In the observation field, Thales Alenia Space has been chosen by NorthStar and announced alongside Leostella that they had officially launched the first three satellites of the Skylark constellation dedicated to space-based observation as well as the monitoring of space debris.

In the field of IoT, Thales Alenia Space started development of the Omnispace and Kineis constellations, which are both dedicated to the Internet of Things.

Institutional market

In the field of observation, Thales Alenia Space signed five contracts for the six new observation missions of the ESA's Copernicus expansion project for environmental protection, climate monitoring, natural disaster assessments and other societal missions: prime contractor for the CHIME, CIMR and ROSE-L missions, development of the IRIS flight model for the CRISTAL mission and in charge of the payload for the CO2M mission. Furthermore, the Space Alliance, created by Thales Alenia Space and Telespazio, has signed a contract with the Italian Ministry of Defence and the Italian Space Agency (ASI) to launch the development of two additional satellites and the upgrade of ground segments, in order to complete the COSMO-SkyMed Second Generation constellation (CSG).

In the field of exploration, Thales Alenia Space has become a key player of the NASA's Artemis programme, aimed at sending humans back to the Moon by 2024. It will be supplying the I-HAB and ESPRIT modules, which represent Europe's contribution under contract with the ESA. It is also developing the HALO module in partnership with Northrop Grumman and has been selected by NASA, as part of the Dynetics-led consortium, to design NASA's Human Landing System (HLS). The company also supplies thermo-mechanical systems for the European service module of the Orion capsule. Thales Alenia Space will also provide the communication technology for the VIPER rover that will search for water on the Moon, and contribute to the ESA's planetary defence mission. The company has also signed the Space Rider contract with the ESA which will provide Europe with its own low-orbit unmanned space transportation system. Lastly, it has signed a contract with the ESA to undertake a Comet Interceptor study to discover pristine comets that have not as yet been revealed. Thales Alenia Space is also involved in the Mars Sample Return mission jointly led by NASA and the ESA. It will develop the Earth Return Orbiter (ERO).

In the field of navigation, Thales Alenia Space has signed four new contracts with the European Space Agency and the EU's Global Navigation Satellite System Agency (GNSS) based on the EGNOS programme to improve Safety of Life services and develop integrity applications for the road and rail sectors. The nano-sat ANGELS has become operational, onboard the ARGOS NEO instrument developed under the responsibility of Thales Alenia Space.

The company has also signed a contract to provide the transmitter for the telemetry system of the European launch vehicle VEGA.

Innovation and partnership development, the linchpins for guaranteeing the future of a constantly-evolving segment

Thales Alenia Space has continued to develop its strategic partnerships to meet the new needs of the digital innovation market, in particular with the signing of a memorandum of understanding with the Ministry of the Economy of the Grand Duchy of Luxembourg. As a logical consequence, Thales Alenia Space, through the PROMISE project and in the framework of the European Commission's HORIZON 2020 programme, is strengthening its commitment to seeing Europe assert its technological independence. Moreover, the company's "Back to the Moon" challenge has been bolstered by its partnership with Dynetics in the study development phase of the pressurised cabin of

the NASA Human Landing System (HLS) under the Artemis programme. In addition, under the EGNOS programme, the collaboration with ASECNA for the provision of satellite navigation services in Africa and the Indian Ocean Indian has advanced with the validation of the architecture and geographical coverage of the system. In the same vein, it provided the first African open SBAS service in partnership with ASECNA and NIGCOMSAT. Thales Alenia Space is involved in other partnerships, such as with CommStar Space Communications™ for the next-generation hybrid data relay satellites between the Earth and the Moon, with Wallonia (Belgium) under the "Industry of the Future" programme.

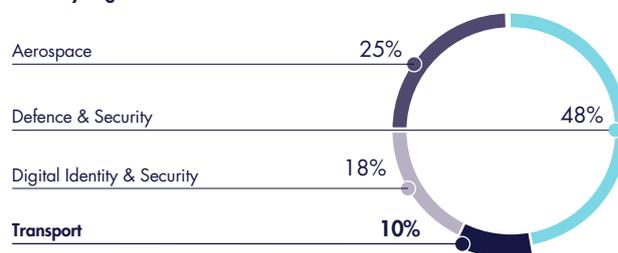
2.1.2 Transport segment

2.1.2.1 Key figures

| (in € millions) | 2020 | 2019 |
|----------------------------------|-------|-------|
| Order book at 31 December | 3,918 | 4,076 |
| Order intake | 1,652 | 1,751 |
| Sales | 1,618 | 1,910 |
| EBIT ^(a) | 86 | 56 |
| Consolidated number of employees | 7,945 | 7,724 |

(a) Non-GAAP indicator. See definition on page 34.

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 rail control, telecommunications and supervision systems. It also offers fare collection and mobility solutions.

Thales provides systems for urban transport networks (metros and trams) and mainline networks (conventional, high-speed and freight) throughout the entire life of the network, either for existing infrastructures or new lines. Thales capitalises on its expertise in the field of critical information systems and cybersecurity, Big Data, IoT and AI, to offer to transport network operators integrated and protected solutions to effectively supervise and control their operations. The systems provided by Thales also contribute to increasing the safety and the security of its customers' passengers, staff and infrastructure.

2.1.2.2.2 Competitive position

Specialised in intelligent critical systems and services, Thales is a pure rail control player and sets itself apart from its main competitors, who offer product ranges dominated by rolling stock. The rapid digital transformation of railway transport products, solutions and operations has made Thales a recognized leading player with a unique position in these markets. The acquisition of Cubris, a leader in Driver Advisory Systems (DAS) for Main Line Rail customers, now fully integrated within Thales, reinforces its position and paves the way for the future autonomous trains (Automatic Train Operation or ATO).

In signalling, Thales faces direct competition from global, integrated players such as Siemens, Alstom, Hitachi Rail and Bombardier Transport, which have gone through external growth operations in the past few years: acquisition of Invensys by Siemens, General Electric Signalling by Alstom and Ansaldo STS by Hitachi Rail, and also local companies in specific market segments. This trend towards market consolidation is continuing, with the pending acquisition of Bombardier Transport by Alstom.

The communications and supervision market segment is addressed by railway signaling players but also by networks and security specialists such as Nokia, Huawei, Icomera. Benefitting from its traditional businesses, Thales is a recognised supplier for communications onboard trains.

To enable the ticketing and road tolls activities and to allow them to focus on developing the business and on repositioning it as a leader in this market, Thales has decided to stop looking for outside partners and to search for strategic partners. Thales is a recognised supplier in this very fragmented market segment, facing historical competitors such as Cubic, Conduent, Flowbird and Vix, and newcomers from the IT sector such as Atos, Capgemini, IBM and T-Systems.

2.1.2.2.3 Significant events in 2020

For mainline integrated signalling, communications, security, monitoring and fare collection activities:

In **Germany**, **Deutsche Bahn** has once again demonstrated its confidence in Thales by selecting Thales' leading-edge technology to develop Europe's first digital signalling "node". As a reminder, Germany decided in autumn 2018 to digitise its rail network and operations. To achieve this modernisation, Deutsche Bahn launched a programme called Digital Rail Germany aimed at rolling out new digital technologies on German railways. The Stuttgart region will be equipped with a digital

signalling system (DSTW), the European Train Control System (ETCS) and Automatic Train Operations (ATO). These new technologies promise up to 35% increased capacity across the network, better operating quality and punctuality, and lower maintenance and operating costs thanks to the installation's modern, standard architecture, European system interoperability and enhanced energy efficiency. The project involves the complete restructuring of Stuttgart's rail node, which accounts for approximately 60 km of track. As a result of this modernisation, Stuttgart and its region will become the leading digitised rail hub in both Germany and Europe by 2025, and a blueprint for future projects. Meanwhile, as part of the "DSD" (Digitale Schiene Deutschland) project, Thales has been awarded one of seven pilot projects. Specifically, it will deliver an IXL digital signalling system, adapting existing interfaces to new digital standards, and in so doing, play a role in creating the rail architecture of the future.

In **France**, as part of the ARGOS project, the Thales-Engie-Vossloh group became SNCF Réseau's principal partner for future computer-controlled interlockings. In keeping with the ARGOS innovation partnership, the Thales-Engie Solutions-Vossloh group, chosen over a host of competitors, will help SNCF Réseau transform its network. The group's solution will provide enhanced modularity, standardise equipment and reduce inventory and obsolescence management costs. It also has the potential to reduce timeline targets by 30%. In the roll-out phase, the Thales-Engie Solutions-Vossloh group will deliver a first production model in the Lyon-Vienne corridor in the Auvergne-Rhône-Alpes region.

In **Poland**, Thales was selected by PKP to deliver a cutting-edge control centre to operate the L7, E-30, Warsaw-Lodz and E-20 European rail corridors. In this way, Thales is helping to expand interoperable rail across Europe. The project will further demonstrate the strength of the Thales Group when it comes to combining safety and transport.

In **Norway**, Bane NOR became the first infrastructure manager to implement the new European standard for interfaces between traffic management and the signalling system. This solution, which is completely new for the market, will offer significant benefits to the entire rail community. Thales will provide the Traffic Management System (TMS). The project, conducted in partnership with Siemens, is being developed as part of the national programme to roll out Bane NOR's ERTMS technology while following EULYNX recommendations. The contract reflects how Thales is once again helping to modernise the rail industry.

In **Spain**, state-owned railway infrastructure manager Adif awarded Thales the contract to maintain the traffic control facilities of the Madrid-Seville and Cordoba-Malaga high-speed lines. Thales will be responsible for the maintenance of more than 2,200 km of the Spanish high-speed network, which is the most extensive in Europe and the second most extensive in the world, after China's. At the same time, as part of the liberalisation of high-speed lines, Thales was awarded the new construction project at the Atocha and Seville Santa Justa stations. Thales is also celebrating the entry into revenue service of the Zamora-Pedralba section of the line between Madrid and northwestern Spain which is equipped with ERTMS 2 technology over its 110 km.

In **Switzerland**, Thales once again demonstrated its ability to implement a complex project. The Ceneri tunnel, the third and final tunnel of the new rail link through the Alps, went into revenue service in mid-December 2020. In September 2016, AlpTransit Gotthard SA awarded Thales the €57-million signalling contract for the Ceneri tunnel, the final section of the transalpine rail corridor that will link Zurich and Milan in under three hours. Thales provided its cutting-edge ETCS (European Train Control System) Level 2 technology, and has overall responsibility for project management and the integration of signalling systems. More than 300 trains per day will be able to travel at speeds of up to 250 km/h in both directions.

In **Austria**, ÖBB and Thales are working closely together on the digitisation of signalling solutions and migration and system compatibility issues.

In **Greece**, Thales technology has enabled trains to travel at speeds of up to 200 km/h, reducing passenger journey times between Patras and Athens to two hours.

In **Turkey**, Turkish State Railways have once again demonstrated their confidence in Thales technology by awarding Thales the maintenance contract for signalling and telecommunications systems on the Ankara-Kosekoy section of the Ankara-Istanbul high-speed line, used by more than 7.5 million passengers each year.

In **Egypt**, as part of the Egyptian National Railways (ENR) signalling modernisation project, Thales has commissioned seven key stations. Thales is replacing the existing mechanical signalling systems on the 159 km Cairo-Alexandria line, the 48 km Cairo-Benha line and the 180 km Asyut-Nagahamadi line with its Electronic Interlocking System (EIS). These system replacements are part of three of the ENR's most ambitious renovation projects.

In **South Africa**, Thales is modernising the railways in the Cape Town region. Railway modernisation in South Africa is a key component of the socio-economic development plan undertaken by the South African government more than five years ago. To support its goal, the Passenger Rail Agency of South Africa (Prasa) has invested close to €15 million. In 2013, the Thales-Maziya consortium was awarded the contract to modernise signalling, communication and train management equipment covering 46 stations and 250 km of track on the Prasa network in Cape Town network.

Thales is working to make trains smarter and optimise rail traffic to save 30% of their energy consumption. It has presented its eco-responsible strategy in the rail transport world in a white paper entitled "Railways and Ecology". The document outlines the position of railways in the current transport landscape, considers how railways can attract and absorb additional traffic and examines how AI and digital tools can be used to expand the rail sector.

For urban integrated signalling, communications, security, monitoring and fare collection activities:

In **North America**, Thales is continuing its expansion in **Canada** with a contract with the **Broadway Subway Constructors General Partnership (BSCGP)** to provide the Thales SelTrac™ CBTC (Communications-Based Train Control) signalling technology in Vancouver. The contract covers signalling for the Broadway Subway, a 5.7 km direct extension of the SkyTrain Millennium line along the Broadway Corridor. The SkyTrain Millennium line is already equipped with Thales' SelTrac™ CBTC signalling solution. The new line, consisting of 700 m of overhead track and 5 km of underground track, will serve six stations under the Broadway Corridor. In **New York**, the Queens Boulevard Line (QBL), equipped with Thales' SelTrac™ CBTC technology, is now officially in service. Thales' technology enables the New York City Transit operator to run 58 trains per hour through 23 stations on parts of this 44 km line, improving transport capacity, safety and punctuality.

In **China**, Thales was particularly well positioned this year through its joint venture, Thales SEC Transportation System (TST). TST was recently contracted by **Zhengzhou Metro** to provide its innovative TSTCBTC®2.0 signalling system on the city's Metro Line 6, Phase 1 project. This is the first signalling project awarded to TST in Zhengzhou, taking the joint venture's business footprint to 15 cities in mainland China. TST will also provide signalling systems for the first phase of the new Line 4 in **Nanchang**, the capital and largest city of Jiangxi province in eastern China. The first phase of the Nanchang Metro Line 4 has a total operational length of 39.6 km, with 34.1 km underground, 5.5 km elevated and 29 stations, making it the longest metro line in Nanchang, with the most stations. Two lines have entered service: **Hangzhou Metro** Line 16, which is the fastest and relies on TST signalling system technologies for maximum safety and efficiency, and **WuXi Metro** Line 3, which has an operational length of 28.5 km and 21 stations. TST also developed the TSTCBTC®2.0 signalling system, which has received **China Urban Rail certification**, making it the first certified Communications-Based Train Control (CBTC) product in the history of the Chinese metro.

In **Hong Kong**, the MTR Tuen Ma line, which is equipped with the latest Thales SelTrac™ CBTC fully automated, integrated solutions with moving block technology, is now operational. In 2016, Thales teams in Hong Kong and Canada began working on the project with our partner MTR Corporation to ensure the system was safe and reliable and to avoid service interruptions.

In **South Korea**, Thales signed a contract with DAEATI, a leading Korean railway signalling technology player, to provide new signalling equipment for the **Incheon** Line 2 depot capacity increase. The trains will be delivered in 2021 with Thales' Vehicle On Board Controller (VOBC) solution. Since the start of revenue service of the Incheon Metro Line 2 in July 2016, daily passenger flow has doubled from 90,000 to 180,000, prompting the need for six additional trains to cope with the increase.

In the **United Kingdom**, against the backdrop of the Covid-19 public health crisis, Thales installed thermal cameras at 108 **Network Rail** locations to help protect staff and ensure business continuity. The thermal cameras protect Network Rail staff by monitoring employees' body temperatures when they enter the site to look for signs of fever. The aim is to ensure the national rail network continues to operate without interruption.

In **Singapore**, Thales and SBS Transit are working together to provide a better travel experience for passengers on the MRT rail network. The technology, which Thales has been co-conceptualising with SBS Transit since February 2020, will provide real-time insights on passenger density, enabling efficient crowd management in MRT stations and enhancing overall passenger comfort.

In **Turkey**, Thales' SelTrac™ Communications-Based Train Control (CBTC) technology was chosen for the first section of the new M10 line in **Istanbul**. The M10 line will be the first metro line linking the Sabiha Gokcen International Airport, the second busiest airport in Turkey, on the Asian side of Istanbul, and will comprise 7.5 km of track and four stations. The project is part of the Turkish government's priority to improve transportation in major cities.

In the **Netherlands**, Thales' ticketing systems were selected by GVB, **Amsterdam's** public transport company, to replace all card readers in their bus and tram fleet. The new card readers will allow passengers to pay by mobile phone, bank card, credit card or QR code.

In **Denmark**, Thales is successfully heading up the entire electronic ticketing system for the **operator Rejsekort**. Specifically, Thales is managing services such as operations, maintenance and the introduction of new functionalities into one system. It covers nearly 4,000 buses,

500 stops and a variety of ticket types. Almost half of the 5.5 million Danes own and use a transport card, and more than 1 million of them are regular users. Thales' service management contract, which runs for 10 years, took effect in 2015, just after the final version of the system was commissioned. It will continue until 2025, with a possible 10-year extension. New functionalities are delivered every year.

In **Qatar**, Thales successfully rolled out a full suite of solutions on five sections of the three lines of the newly launched and fully operational **Doha Metro** (Red, Gold and Green lines). The first of their kind in Qatar, the new lines are equipped with Thales' advanced signalling and train control technology, an integrated communications and supervision solution, as well as a state-of-the-art ticketing solution. The Doha Metro links Hamad International Airport, Lusail City, Al Wakra, Education City and the Old Town.

In **Dubai** in the **United Arab Emirates**, Thales is equipping Route 2020, one of the longest driverless metro lines in the world. This autonomous metro line operates via signalling technology and integrated supervision, telecommunications, safety and ticketing systems rolled out by Thales, on top of passenger services. Route 2020 is an extension of the Dubai Metro's 67 km Red Line. The 15 km extension – 11.8 km of it above ground and 3.2 km underground – links the Nakheel Harbour and Tower stations to the Expo 2020 Dubai site. Route 2020 was officially opened in July 2020.

In **Egypt**, Thales equipped the **Cairo Metro's** recently opened Line 3 with integrated supervision, telecommunications, passenger service, safety and ticketing solutions. Line 3 is expected to carry 1.5 million passengers per day.

In **South Africa**, Thales is modernising the entire **Gautrain** network, which includes 10 express line stations, 9 car parks and 125 buses, and is rolling out the use of the EMV (Europay Mastercard Visa) contactless card as travel tickets. Passengers will be able to use their contactless bank cards on bus validators and to pass through access gates at stations and car parks in an intermodal approach. This has echoes in the Park & Ride concept, of which Thales was one of the pioneers.

In **India**, section II of the **Hyderabad Metro** is now operational, thanks to Thales. The 11 km section has nine stations. Equipped with Thales' signalling, supervision and communication systems, this section from the Jubilee Bus Station to Mahatma Gandhi Bus Station will reduce travel time to about 16 minutes as opposed to 45 minutes by road for daily commuters.

2.1.3 Defence & Security segment

2.1.3.1 Key figures

| (in € millions) | 2020 | 2019 |
|----------------------------------|--------|--------|
| Order book at 31 December | 23,245 | 21,774 |
| Order intake | 9,922 | 9,907 |
| Sales | 8,085 | 8,266 |
| EBIT ^(a) | 1,039 | 1,153 |
| Consolidated number of employees | 30,451 | 30,894 |

(a) Non-GAAP indicator. See definition on page 34.

Sales by segment



2.1.3.2 Secure communications and information systems

2.1.3.2.1 General overview

The armed forces, security forces and essential operators rely on Thales for their interoperable and secure information and telecommunications systems. Positioned at the heart of the defence and security continuum, the Group is involved in every link of the value chain, from equipment and systems to logistics support and related services. The solutions it provides meet the needs of markets where the use of new digital technologies, such as 5G networks, cryptography, cybersecurity, cloud computing, artificial intelligence and big data, is crucial. The Group is developing new digital platforms and new service models, making full use of digital technologies.

In 2020, following the Group's decision to give greater visibility to its cybersecurity activities on one hand, and the development/operation of critical information systems on the other hand, the critical information systems and cybersecurity segment was split into two separate domains in September: Cyberdefence solutions and Critical information systems. The Secure Communications and Information Systems activities are now spread over five segments:

- **radio communications products:** Thales designs embedded and tactical radio communications systems for land, air and sea, identification friend or foe (IFF) systems, aeronautical radio navigation systems and solutions for communications electronic 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:** Thales designs, supplies, deploys, supports and operates fixed and mobile communications networks for defence and security forces, international agencies and organisations, and critical infrastructure operators. Its resilient, secure systems draw on a full range of military and commercial technology. In France, Thales is responsible for upgrading defence communications systems through the Descartes programme, upgrading the French government's strategic communication networks, and providing support for the information system of the French Ministry of the Armed Forces. In addition, the Group operates communications systems in theatres of operation in Afghanistan, Mali and the Central African Republic, and secure communications infrastructure for major European organisations. Thales also offers satellite communication ground systems in France, through the Syracuse programme, and for export;
- **protection systems:** the European leader in the digitised battlefield, Thales develops collaborative combat systems and information, command and intelligence systems for armed forces (Computerized Command, Control, Communications, Intelligence, Surveillance, Reconnaissance, or C4ISR). Using this technology developed for its military customers (France, NATO, export), the Group also responds to growing security needs for cities, critical infrastructure, airports and other particularly sensitive sites. All of these systems are intended to help make better and faster decisions, whether these decisions are automatic or made by operators;
- **cyberdefence solutions:** Thales is a major player in this field and advises its customers on their cyber strategy, upstream of their projects. Its services include training customer teams to combat cyber risk, or in the event of crisis, offering direct support in the identification and qualification of attacks and their remediation.

Thanks to an evolving in-depth knowledge of attacks, gained from cyberthreat intelligence, the Group helps its customers to better anticipate, detect and address cyberthreats. Thales operates five secure cybersecurity monitoring centres around the world and protects networks and data, especially sensitive or classified data, using high-grade cybersecurity products.

- **critical information systems:** Thales's expertise in critical information systems makes it a major player in Europe, helping its customers work towards secure digital transformation. The Group primarily designs natively secure information systems through its software development and integration services, including in the field of IoT, and outsourcing these systems, particularly as part of cloud hybridisation projects.

2.1.3.2.2 Competitive position

Thales has a variety of competitors depending on the business and market concerned.

In defence applications (radio communications, networks, and command and control) the main competitors are predominantly American: L3 Harris Technologies, General Dynamics, Raytheon and Collins Aerospace. Israel-based Rafael and Elbit Systems are also competitors in integrated command and communication solutions, as are software solution providers like Danish company Systematic and generalist information systems integrators such as Atos and Sopra Steria. In Europe, the Group's main competitors are Airbus Group and, in the radio communications sector, BAE Systems, Rohde & Schwarz, Leonardo, Bittium from Finland and Aselsan from Turkey.

In security, Thales's competitors come primarily from the aeronautic and defence segment (Boeing, Northrop Grumman, Honeywell, Airbus Group, etc.), the equipment segment (such as Siemens and Johnson-Tyco), or from services (INEO, etc.) and information systems (including IBM, Atos and Caggemini). These last few companies also compete with Thales in the critical information systems segment.

Finally, in cybersecurity, Thales competes with companies such as Orange Cyberdefence in the commercial sector, BAE Systems, Ultra Electronics, Airbus Group and Secunet in the defence sector, and Atos, Sopra Steria and Caggemini in the digital services sector.

2.1.3.2.3 Significant events in 2020

In **secure communications and information systems**, in 2020, Thales received four orders for an amount exceeding €100 million: an order for the ground segment supply for the SYRACUSE IV programme in military satellite communications for the French armed forces (see below, Network & Infrastructure Systems); an amendment to a long-term contract for the modernisation of the infrastructure networks of the French armed forces; an amendment in the context of the Scorpion programme (protection systems); and an order for next-generation encrypters for France.

In **Radio Communication Products**, the French software-defined radio programme CONTACT for the French Army, Air Force and Navy continued with the delivery of more than 400 radio sets for vehicles (tactical version); and the delivery of a prototype of the air force version, which was used in the first flight on board the Rafale F4, the Dassault Aviation combat aircraft. The CONTACT system will also integrate the upcoming standards for the Tiger attack helicopter and MRTT refuelling tanker aircraft. Meanwhile, Thales continues to develop SYNAPS, the export version of CONTACT, already sold in Europe and abroad. At the end of 2020, the Group signed a partnership with Indra in Spain to expand its range and address this market. To address the requirements linked to CONTACT and SYNAPS, Thales announced its intention to strengthen and expand its radiocommunications expertise in France by 2023.

The significant radio contracts won in 2020 include the selection of Thales for the supply of tactical network equipment and satellite communications stations to the US Army. In naval communications, the Group will supply communications systems for the future multifunction frigates of the Germany Navy (MKS 180) under a historic contract signed at the end of the year. In aeronautics, Thales will also work on renovating the communication systems of NATO Airborne Early Warning And Control Force (AWACS) aircraft.

Thales also won a major electronic intelligence contract in partnership with Airbus.

In **infrastructure networks and systems**, in 2020, Thales was awarded a new major contract to design and build the ground segment of the Syracuse IV (Système de RAdio Communication Utilisant un Satellite) programme, a next-generation satellite communications system for the French Armed Forces. As from 2023, the French army will have increased interoperable communications capabilities in terms of speed, availability, threat resistance and end-to-end connectivity. Thales also won a contract to modernise the infrastructure network of the French Ministry of the Armed Forces.

Thales continued to invest in digital technologies and is deploying a secure 4G system at a sensitive site in France. The Group continued to develop its Defence cloud offering in 2020: this offering covers the specific needs of operators and users in France's domestic defence sector and its theatres of operations and capitalises on strategic partnerships with major players in the civilian cloud space. The Group was selected by NATO to supply its first Defence cloud on the theatre. With regard to resilient networks, the French MTBA airbase transmission network maintained by Thales, a key component of civil and military airspace security and surveillance in France received "Air Traffic Management" certification.

In services, the Group reported progress in the marketing of the IVEN marketplace, a digital platform that promises to revolutionise the aeronautics supply chain. Similarly for services, the Group was selected by the French Ministry of Justice to supply electronic tracking ankle bracelets (*Bracelets Anti-Rapprochement*) designed to be worn by domestic violence offenders to protect their victims. Amendments were also made to some of the service agreements with the European Union, the UN and NATO. Thales continued to provide seamless service to its customers during the Covid-19 crisis.

With regard to protection systems, Thales's solutions address both the defence and security markets. In defence, Thales was notified of the Armed Forces Information System (LICORN), version 3 of the artillery Command & Control system, and tranche 3 of the production of Jaguar (Armoured machine, specialised in reconnaissance and combat) and Griffon vehicles (multi-role armoured vehicles for the French Army) under the Scorpion programme.

In security, the activity was fully boosted by synergies with Gemalto by integrating, for example, biometric solutions for the management of major events or airport security. Thales recorded its first international (from the Middle East) and domestic (France) orders for its new AI-based digital security platform. This veritable digital command centre brings together an extremely large set of sensors and harnesses their data flows using algorithms to allow security operators to focus on their added value and make better decisions to guarantee the highest level of security for the sensitive sites of cities and major events. With a powerful data analysis capability, the platform can also play a key role in managing a nation-wide crisis, such as the crisis caused by the Covid-19 pandemic. In port operations, Doha port renewed its confidence in Thales to provide assistance in handling the overall security issues of this strategic industrial site. A new airport operations offering was launched in 2020 to help operators to adapt to the new Covid-19 mandated restrictions and to propose, in particular, a contact-less journey for passengers.

Amendments were also signed to the security contracts for the Oman, Bahrain, New York and Geneva airports.

In **cyberdefence**, Thales opened its first network and cybersecurity operations centre in the Netherlands and won a major contract with TENNET, an electric network operator in the Netherlands and in Germany.

Thales also contributed its cyber expertise to the delivery of an "electronic portfolio" in Australia, which entailed proposing online documents and payment solutions to 3.5 million users. Also in Australia, a major milestone was crossed in the design of three cybersecurity sub-systems in the context of OneSky, the major air traffic management transformation project. Thales also won contracts for advanced cryptography in Germany, for the deployment of Ecom's secure communications solution "Cryptosmart" at the French Ministry of the Armed Forces to secure working from home, and for the CNES (transformation of SOC).

Thanks to existing strategic partnerships with Verint, Nettitude, Sequoia, Threat Quotient and ESET, Thales has built a powerful cyber threat intelligence ecosystem. The marketing of the new, advanced, AI-based attack detection platform (Cybels Analytics), as well as high added-value detection services, some of which are provided in partnership with Airbus and Verodin, continued in 2020. Thales continued to develop training and testing facilities (Cyber Range) in collaboration with local institutional players. As such, in 2020, Thales designed and launched a new cyberacademy in Dubai and opened the National Digital Exploitation Centre (NDEC) in partnership with the Welsh government.

Critical information systems: In France, Thales continues to be a major partner in digital transformation and Cloud hybridisation projects, particularly for the French government and operators of critical national infrastructure. Contracts won in 2020 include the outsourcing contract for Paris hospitals, production start for the COMUTITRE geography information system, supply of an embedded software in the new generation of FRESENUM medical positive-displacement pumps, which has been approved by the European compliance agency. The Group was also able to maintain the operational conditions of the GAIA data production centre despite the health crisis, and continued the development and roll-out of the Galileo cybersecurity supervision centre in France. Furthermore, its cloud computing based imaging instruments data processing solution was qualified by Eumetsat under the Copernicus programme.

2.1.3.3 Land and air systems

2.1.3.3.1 General overview

In the **defence sector**, 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 supplying sub-systems to integrating systems as well as designing mission systems and prime contractor services. 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.

In the **field of optronics**, which combines optical and electronic systems, Thales designs and manufactures components and systems for day and night surveillance, reconnaissance, protection, threat detection and target acquisition on all types of land, sea (surface and subsurface) or air platforms for defence and security customers worldwide. Thales's expertise in optics also applies to the civilian markets of high-end optics for the film industry and ultra high-power laser for scientific and industrial applications.

Thales specialises in **command and control systems** for air operations, radar systems and integrated air defence systems in more than 45 countries. As a mission systems integrator, Thales actively contributes to major international military programmes, such as NATO's Air Command and Control System (ACCS), the French Army's Aerospace Operations Command and Control System (SCCOA), and the Swiss Air Force's airspace surveillance and air operations system (FLORAKO). Thales excels in the domains of systems integration, complex programme management, real-time and non-real time software, human-machine interfaces and service-oriented architecture.

Thales offers a broad range of air defence weapons systems: medium range (SAMP/T), short range (Crotale and RAPIDDefender) and very short range (RAPIDFire air defence cannon, and ForceSHIELD or EagleSHIELD for countering drones). The Group also supplies a range of lightweight multi-role missiles (LMM).

Thales owns 50% of ThalesRaytheonSystems, a joint venture that specialises in Integrated Air and Ballistic Missile Defence (IAMD) and Command and Control (C2) Systems. ThalesRaytheonSystems provides NATO and its members states with IAMD solutions for the Air Command and Control System (ACCS).

Across all continents, Thales offers one of the broadest lines of **commercial and military ground-based and naval radars** for surveillance, air traffic management and fire control. 1,300 Thales radars are in service across the globe and the Group equips over 70 countries with commercial radars and more than 45 countries with military radars.

The systems and equipment offered by Thales on the **civilian market** help safely increase the circulation of travellers and goods.

In **air traffic control and management**, Thales's offering ranges from conventional navigation assistance equipment to radars and air traffic control centres and also includes satellite surveillance and navigation systems as well as airport management solutions. Thales has the largest installed base of equipment in the world. In addition, the Group has led the digital transformation that has taken place in the air traffic segment. Thales is developing solutions designed to integrate new vehicles, such as drones, into air traffic management to optimise flows and protect sensitive infrastructure from malevolent drones.

Thales plays a key role as an architect and integrator of the air traffic management system of tomorrow, particularly through the OACI's⁽¹⁾ "Global Air Navigation Plan – Aviation System Block Upgrades" initiative. Thales is the main industrial partner of the SESAR project⁽²⁾ in Europe and a key player in the NextGen programme in the United States.

2.1.3.3.2 Competitive position

In the military sector, Thales is the top European supplier of multi-domain optronics, without European competition in the area of airborne targeting pods used for combat. Its competitors are Lockheed Martin and Rafael. Thales has targeting pod expertise in both land and naval applications. In these segments, its main competitors are suppliers in North America (Raytheon, Lockheed Martin and Flir Systems) and Israel (primarily Elbit), as well as Safran, Leonardo and Hensoldt. The protected vehicles systems market segment is dominated, on an international level, by BAE Systems, General Dynamics, Rheinmetall, Krauss-Maffei Wegmann and Nexter.

Thales is one of Europe's leading suppliers of medium-range, short-range and very short-range missiles and weapon systems. The other main players in this area in Europe (MBDA) and the United States (Raytheon and Lockheed Martin) are also major customers of Thales's missile electronics and key partners in weapon systems. Israel-based companies Rafael et IAI, and Russian companies Almaz-Antei complete this panorama.

Thales is a leading provider of air operations surveillance and control systems. Its main competitors on this segment are the American groups Lockheed-Martin and Raytheon, and Airbus, Indra and Saab in Europe.

Thales's main competitors for surface radars are the American groups Lockheed Martin, Northrop Grumman, and Raytheon and in Europe, its competitors are Leonardo, Hensoldt, BAE Systems, Indra, Saab and Elta.

Thales operates in Europe as an independent integrator both for its own and other suppliers' equipment within complex mission systems.

With over 40% of the world's airspace controlled by the ATC TopSky system and 8,000 nav aids installed worldwide, Thales is a leader in the air traffic control system and civilian radar markets.

Other major players in the commercial sector are the US companies Leidos and Raytheon, European companies Indra and Leonardo (Selex), and, in some niche areas, Saab, Frequentis and Harris.

2.1.3.3.3 Significant events in 2020

For its **Vehicles and Tactical Systems business line**, Thales has signed a 10-year contract with the Australian government, estimated at more than AUD1 billion, to manufacture in the country and supply munitions to the Australian Defence Force. This contract will also guarantee large volumes of exports.

The long-term business relationship with the Australian armed forces concerning munitions logistics management services has been extended up until December 2028.

The New Zealand armed forces has ordered 43 Bushmaster vehicles. The Netherlands and Jamaica, which were already clients, have also placed new orders for these vehicles.

After successfully passing endurance tests under the most stringent conditions, the Hawkei has entered into full production at the pace of two vehicles per day.

With regard to **the optronics business line**, in France, the French Air Force pronounced the First Operational Capacity of the TALIOS pod authorising French forces to use the pod on theatres of operations. The French Aeronautical Maintenance Division (DMAé) has awarded Thales the contract for in-service support of the TALIOS and DAMOCLES pods for the French Navy and Air Force. Under the SMDR (Mini-UAV Reconnaissance System) contract, Thales delivered 26 Spy'Ranger 330 mini-UAVs to the French Defence Procurement Agency (DGA) in 2020.

The United Kingdom has selected the Elix-IR alert system to be fitted on the new Royal Air Force fleet in its air reconnaissance and surveillance missions. The British Ministry of Defence has chosen the RWS Protector (Remote Weapon System) developed by Kongsberg. For the Mechanised Infantry Vehicle (MIV), this system will be installed with a suite of Thales sensors.

In the laser segment, Thales has integrated a laser into the SuperCam instrument – one of the seven strategic instruments aboard the Perseverance rover – which flew to Mars in July 2020 to help search for microbial life on the planet.

(1) International Civil Aviation Organization.

(2) Single European Sky ATM Research.

Thales was awarded a contract by the French Defence Procurement Agency in the **airspace protections systems** field, during the Euronaval trade show, to fit out French Navy ships with the RAPIDFire system. As part of NATO's ACCS programme, ThalesRaytheonSystems has successfully reached new milestones on the Initial Operational Capability (IOC) programme aimed at validating the capability of the ACCS system for the French Air Force. In March, a three-year loan agreement was entered into with the Air Force Human Resources Department (DRHAA). This agreement concerns the implementation of the Virtual Operations Learning & Training Solution (VOLTS) in the three training centres of the French Air Force. In September, the French defence procurement agency (DGA) awarded Thales a contract to carry out functional upgrades to the MARTHA system, the main tactical component of the SCCOA system. On the export front, the Lightweight Multi-role Missile (LMM) has reached a new stage with the first successful firing tests from a Royal Navy helicopter. The Future Air Defence Available Project (F-ADAPT) service agreement for the modernisation, improvement and reinforcement of the air defence capabilities of the British army and Royal Marines has been extended until 2026.

For **surface radar activities**, 2020 was marked by the exceptional contribution of the MKS 180 programme which integrates a significant radar component, in particular with the provision of four APAR Block 2 radars in the new version, developed by the Dutch Navy. In the naval field again, Thales finalised an order to equip Belgian and Dutch mine counter measure vessels with 12 NS50 radars together with Kership. This is the first order for this new compact radar system dedicated to surveillance and fire control missions.

In France, the Sea Fire and Ground Fire programmes continue their development on schedule, which has resulted in the award of additional contracts.

In the air surveillance field, a new order for seven Ground Master 200 radars by a South-East Asian country has consolidated the position of this product as a leader of the segment. The version delivered to the French Army has positively concluded its intensive operational qualification programme. In the long-range segment, Bangladesh, joined the club of Ground Master 400 users with the acquisition of two radars, thus becoming the 22nd country to have a Ground Master radar. In the civilian sector, Thales achieved a major success in the United States when it was selected by the Federal Aviation Administration (FAA) for the renewal of the secondary radar fleet Mode S Beacon Replacement System (MSBRS programme) that ensures the safety of internal flights on the continent. In the coastal radar segment, significant business development activities led to the signing of contracts, notably in Uganda for anti-trafficking protection, thus achieving an overall performance well beyond the initial ambitions.

In 2020, in the **air mobility activities**, the Thales teams inaugurated the new training centre for the customer OneSky and successfully passed the critical design review. OneSky focuses on the integration of all air traffic, civil and military, into a single system in Australia.

In France, Thales, as part of the 4-FLIGHT programme (for the modernisation of the French Airspace Control System) has successfully implemented new Programmed Operational Uses for the DSNA (Direction des Services de la Navigation Aérienne).

The Group also won the contract in North Dakota for surveillance and communications systems as part of the rollout of Vantis, the drone traffic control network covering the MacKenzie region. Thales also successfully delivered the TopSky-ATC system to its customer NAV Portugal, which is now equipped with the world's most advanced air traffic control solution, and Site Acceptance Tests (SAT) were successfully completed for the Czech customer. Lastly, the implementation of the Remote Factory Acceptance Test enabled us to adapt to the year's context and to achieve important milestones, particularly with clients from Taiwan and France. Furthermore, many large ATC (Air Traffic Control) projects have progressed nominally and several countries have ordered a new ATC system, including Mexico, for example.

2.1.3.4 Defence mission systems

2.1.3.4.1 General overview

Thales manufactures electronic combat, intelligence, surveillance and reconnaissance systems, 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 unmanned combat aerial vehicles (UCAVs), 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, electromagnetic-based information-gathering sensors, measurement and data linking equipment. Thales also designs complete UAV systems with intelligence, surveillance, reconnaissance and target acquisition capabilities.

In **naval surface 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, Thales offers a broad range of solutions, including an entire sonar suite for submarines, hull-mounted and towed array sonar for surface ships, anti-mine systems (including the use of naval drones), as well as acoustical sensors for submarine guidance.

2.1.3.4.2 Competitive position

Thales is one of the leading European players in electronic combat systems, competing with Leonardo, Saab, Hensoldt and Indra, and US companies Raytheon, Northrop Grumman, BAE Systems and L3/Harris.

In intelligence, surveillance and reconnaissance systems, its main competitors are Airbus, Leonardo, Hensoldt, Saab, Indra, Elbit, IAI, L3/Harris, Safran and the China Aerospace Science and Technology Corporation.

In surface naval systems, Thales is one of the main European players, alongside Saab, Leonardo, Lockheed Martin, Hanwha and Terma.

In underwater warfare, Thales is one of Europe's main players along with Atlas Elektronik, Ultra Electronics and newcomers Elbit, ECA and Kraken. Thales competes with Lockheed Martin, Raytheon, Northrop Grumman and L3/Harris in the United States.

2.1.3.4.3 Significant events in 2020

Electronic combat systems

In business related to the Rafale, eight Rafale aircraft were delivered to the Indian Air Force by Dassault Aviation, the total contract concerned 36 platforms. These early deliveries were fully in line with the programme's projected schedule despite the constraints linked to the Covid-19 epidemic. In France, the ramp-up of the Rafale verticalised services, together with Dassault Aviation, is now effective. Furthermore, in digitalisation, the DGA, the French defence procurement agency, notified a predictive maintenance contract combining artificial intelligence and big data.

At the international level, several countries expressed their interest in Rafale aircraft. Several major bids were submitted in 2020 or were prepared for submission in 2021. The first to materialise concerned Greece, which officially ordered 18 Rafale aircraft (6 new and 12 used) on 25 January 2021. France also expressed its intention to order 12 Rafale aircraft in 2021.

To prepare for the future, Thales activities fully mobilised their expertise to develop sensors for SCAF (*système de combat aérien du futur*) fighter aircraft of the future, based on the roadmap of developments and arrangement of European level industrial partnerships. This momentum led the DGA to sign on behalf of Germany, Spain and France, with Indra, FCMS and Thales, phase 1 A of the contract for the development of a series of connected sensors specifically designed for the SCAF programme.

Airborne surveillance and intelligence systems

Thales signed the OCEAN contract, a verticalised contract to offer 10 years of support to Atlantic 2 (ATL2) maritime patrol aircraft which play a major operational role in the defence of French maritime challenges and in dissuasion. Thales, as a partner to Dassault, the prime contractor for this contract, will provide assistance on its equipment installed in the ATL2 fleets.

Also in surveillance, two lightweight surveillance and reconnaissance aircraft (ALSR) were delivered to the French Air Force.

At the end of stringent security testing and flight tests, the Watchkeeper was deployed in mid-year by the 47th Royal Artillery Regiment for maritime security missions above the English Channel. Watchkeeper, the largest unmanned air vehicle or UAV, is the leading operational system in the United Kingdom authorised to fly in civilian airspace.

Launch of the latest generation of airborne surveillance radars, the AirMaster C is 30% smaller, lighter and requires less power compared to other similar category radars. It is dedicated to all sea, land and air surveillance missions.

Surface naval systems

Damen Schelde Naval Shipbuilding and Thales have signed a €1.5 billion contract for the supply and integration of the mission and combat system of the four new multi-mission F126 (ex MKS 180) frigates for the German Navy. The first frigate will be operational in 2028 and the entire programme will be developed over a ten-year period. This contract, one of the largest ever signed by Thales, is a key step in the development of the European defence industry and further underpins Thales's leading international position in naval integration.

Leveraging its forty years of experience in serving the Indonesian Navy, Thales is currently equipping all the operating warships in the country. The Indonesian Ministry of Defence renewed its confidence in Thales by signing a new agreement with prime contractor PT Len and Thales, for the modernisation of the Usman-Harun KRI, one of the three multi-role lightweight frigates in service in the country. In 2020, the Indonesian Navy received its second PKR class vessel equipped by Thales.

In Canada, the CCGS⁽¹⁾ John Cabot vessel, was delivered to the Canadian coast guards. The last of the three new Offshore Fisheries Science Vessels (OFSV), this class of large vessels is used as a platform to conduct cutting-edge scientific research activities. Thales is in charge of the design, construction and installation of the integrated bridge, navigation, communications and mission system.

Underwater warfare systems

Following the success of the first phase of the Franco-British autonomous Maritime Mine Counter Measures (MMCM) programme, during which the two demonstrators successfully completed their operational sea trials, France and the United Kingdom celebrated the tenth anniversary of the Lancaster House Treaty by signing a joint contract to launch the production phase for the delivery of eight systems (four for France and four for the UK). The MMCM programme is a first step in the renewal of the operational concept of future mine warfare in France and in the United Kingdom, based on the use of autonomous systems, which could replace traditional mine hunters.

The first Suffren class nuclear attack submarine, developed under the Barracuda programme, has been delivered to the DGA with its sonar, communication and electronic warfare systems.

The Polish Navy has ordered from Thales, in partnership with Leonardo, four Flash Sonics dipping sonar and related sonobuoy processing systems for its latest generation anti-submarine warfare helicopters.

Acceptance of the first refurbished Collins submarine under SEA1439 Phase 6, known as the Collins Sonar Capability Assurance Program (CSCAP). Project aimed at extending the operational life of the Royal Australian Navy's (RAN) six Collins Class submarines beyond 2030 by: fully replacing the modular cylindrical and side arrays; upgrading the internal processing software and new sonar network infrastructure; providing new sonar consoles and displays; implementing a new sonar training and simulation system at the Combat System Support Facility in Western Australia (WA).

Inauguration of our acoustics excellence centre in Sydney, Australia. Thales continues to invest in the research and development of new sonar materials and products. Thales is a world-class supplier of high performing piezo-electric ceramics and acoustic sensors.

The BlueGuard project, partnership between the MyDataModels startup and Thales, won the "Blue Innovation Challenge" call for bids launched by the Nice Côte d'Azur Metropolitan authority. The project consists of creating a demonstrator for a smart surveillance system for underwater approaches to sensitive coastal areas for ongoing and reliable protection of the coastline in the light of new threats, in particular the appearance of underwater drones.

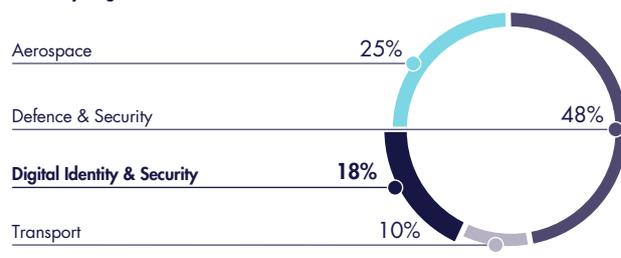
2.1.4 Digital Identity and Security Segment

2.1.4.1 Key figures

| (in € millions) | 2020 | 2019 |
|----------------------------------|--------|--------|
| Order book at 31 December | 589 | 588 |
| Order intake | 3,023 | 2,572 |
| Sales | 2,992 | 2,551 |
| EBIT ^(a) | 324 | 264 |
| Consolidated number of employees | 14,737 | 15,347 |

(a) Non-GAAP indicator. See definition on page 34.

Sales by segment



(1) CCGS: Canadian Coast Guard Ship.

2.1.4.2 Digital Identity and Security

2.1.4.2.1 General overview

Over 30,000 organisations already rely on Thales's Digital Identity & Security (DIS) solutions to verify the identities of people and things, authorise access to digital services, analyse vast quantities of data and protect it.

Our solutions include the issuance of physical and digital identities, various authentication methods (including biometrics), mobile connectivity and data encryption. These technologies help organisations to protect any type of digital service such as home working, eGovernment, etc. Our customers include some of the world's largest corporations, as well as governments, who count on us to authenticate billions of identities and protect trillions of data exchanges every day.

Our offering consists of several sub-segments:

- IoT solutions: connectivity and security for the Internet of Things;
- banking and payment services: payment solutions for electronic and physical transactions and online banking security;
- cloud protection and software licenses: access management, data encryption, and software license distribution solutions;
- identity and biometrics solutions: national identity programmes including secure identity documents. Identification solutions supported by our expertise in biometrics;
- mobile connectivity solutions: authentication of users and devices with mobile networks. Data analysis for communication service providers.

2.1.4.2.2 Competitive position

Thales is a leader in the €23 billion Digital Identity and Security (DIS) market, which combines secure identities and cybersecurity. 75% of our annual sales in 2020 came from our offering in markets where we are the market leader: data protection, secure identity documents, payment cards, removable SIM cards and the management of eSIM subscriptions. We are also one of the top three companies in IoT cellular connectivity modules, identity verification, eSIM cards, and crime-preventing biometrics.

Thales is the world leader in the Digital Identity and Security market. Its primary competitors are Idemia, Broadcom, Giesecke+Devrient and HID. However, it also has a few smaller rivals in certain niche markets.

Thales has the largest product portfolio that combines identity management and data protection and protects each step in the digital service life cycle. Our solutions secure devices and the cloud as well as the networks that connect them, while our competitors serve only a portion of the global market. This unique expertise is based on decades of experience, substantial investments in R&D and more than 5,000 patents.

2.1.4.2.3 Significant events in 2020

Thales demonstrated its resilience throughout the Covid-19 crisis, since the products, solutions and services provided by DIS were essential to help economies continue to function and to support the digital transformation of governments and businesses. DIS has been resilient since the beginning

of the pandemic, with employees remaining productive even when working remotely, and switched between sites worldwide. The various DIS business segments were impacted in diverse ways: positively for our mobile connectivity activities, banking & payment services (contactless and digital payments), cyber security (home working) and negatively for our travel identity solutions (passports, etc.) as well as for the automotive and point-of-sale sectors of our IoT business. Nevertheless, DIS has continued to provide innovative solutions to a large number of high-end companies and governments.

In 2020, Thales sold its digital identity and driver's licence solutions to several government clients. For example, a mobile licensing and digital ID solution for the state of Queensland in Australia and a contract with the state of Florida for the provision of mobile driving licences. Texas has chosen Thales to provide all its citizens with electronic driving licences and ID cards. It is the 11th American state to place its trust in the Group's digital technology. More than 7 million cards will be issued every year to Texas residents.

In Sweden, the National police authority has renewed its confidence in Thales for the supply of innovative and highly secure travel and identity documents, as well as the equally innovative citizen registration services. Thales will provide nearly 12 million documents to Swedish citizens over the next five to seven years.

Thales has affirmed its position as a world leader in embedded SIM (eSIM) technology by winning a contract with the connected watch manufacturer Oppo and with the Motorola brand for its RAZR smartphone. The Samsung Galaxy S20 was the first smartphone to feature a secure single-chip solution supporting both mobile connectivity and secure storage. The secure component, developed by Thales, enables high-performance contactless services and a fully digital mobile connectivity experience.

In Saudi Arabia, Thales has partnered with Saudi Telecom Company (STC), the largest telecommunications company in the Middle East and North Africa, to provide the national eSIM platform to all its customers in the Kingdom. This will allow users with eSIM-enabled devices to enjoy instant activation of mobile subscriptions. Elsewhere in the Middle East, the Commercial Bank of Kuwait (CBK) has acquired a Trusted Service Hub from Thales for its mobile payment services. The platform scans users debit or credit cards and issues them in a tokenised digital format to their smartphones for secure contactless payments via the CBK mobile app.

In France, Docaposte, the digital subsidiary of La Poste has deployed a strong authentication solution incorporating Thales technology to secure the La Poste Digital Identity. The application allows users to identify themselves simply and securely to online services.

Thales has deployed its eSIM card activation solution on Google Cloud. It offers telecom operators secure and highly scalable support to help them cope with the boom in mobile subscriptions for eSIM-enabled devices. The two companies have also partnered to secure public and private cloud solutions to improve data security and privacy.

Also in the cybersecurity field, Fujitsu has enhanced its security capabilities with Thales's key management and data encryption services in the cloud.

Thales has consolidated its position in the automotive market through a partnership with Anritsu to test car connectivity, as well as a collaboration with IoTerp for the remote activation of services for PSA group cars.

2.2 Research and innovation

Thales needs to be able to harness 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 its customers in the aeronautics, space, ground transportation, defence, security and digital security markets.

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

- a technological dimension thanks to collaboration with academic laboratories;
- an entrepreneurial dimension through work with SMEs and start-ups;
- a “market” dimension through co-innovation of use with customers and their ecosystems.

2.2.1 Research and development, the key to competitiveness and growth

More than 30,000 people are involved in the Group’s technical operations, from research to engineering. In purely self-funded R&D alone, an essential factor of competitiveness, Thales spent €1,025 million in 2020, representing 6.0% of its sales.

A significant portion of the R&D budget is devoted to upstream research work, performed both in the Thales Research & Technology (TRT)

laboratories and in the Group’s competence centres in order to bring to maturity:

- innovations across the Group’s entire technological spectrum;
- new concepts for systems and products;
- new tools and engineering 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, quantum technologies, optronics, acoustics, radiofrequency techniques, and thermal constraint management;
- **software technologies:** processing computers, real-time on-board systems, distributed systems, cloud computing, digital platforms, model-driven engineering and cybersecurity;
- **information and algorithmic sciences:** artificial intelligence, signal and image processing algorithms, optimisation, autonomous systems, synthetic environments and human factors;
- **systems:** the functional and architectural design of systems, support for methodology, processes and expertise.

FOCUS 1

Refit Optimizer, from tedious planning to intelligent scheduling fueled by Operational Research AI

Optimizing human and material resources for Navy ship refit/maintenance is a major challenge when planning over thousand of tasks. Non-optimal scheduling and unforeseen execution conflicts affect shipyard productivity. Planners requested a solution to efficiently recover from unexpected events (rework, weather, resource gaps) both pre-emptively (risk management) and in reaction to incidents (dynamic re-planning).

Refit Optimizer is the brain of a logistic planning system that aims to overcome the challenge of complex sets of constraints and increase shipyard performance in achieving their objectives. The project innovates by uniquely enabling multi-objective optimization while supporting the user through human-AI dialog capabilities that also create understanding and trust. A simulation module provides advanced data analytics to support forecasting, risk assessment and critical path analysis.

Benchmark over 500 tasks shows 15% savings in resource assignment, 23% reduction in lead-time and is 80 times faster to generate. This solution benefits the whole shipyard supply chain.

Wherever it is doing business, Thales seeks to build partnerships within innovation ecosystems, academic partners, innovative businesses and industrial groups for joint innovation on applications, business models and technologies.

In 2020, Thales was once again ranked by the prestigious journal Nature in the category of “institutions making the biggest impact and contribution to science” and was recognised as No.1 in Europe and ninth in the world in the field of physics. This international recognition of Thales underscores the excellence of the Group’s research teams. It is also the result of the close collaboration among Thales’s teams and research and innovation ecosystems around the world (in Europe, Singapore, North America, India, China and the Middle East).

Thales Research & Technology (TRT), an international network of corporate laboratories, is responsible for building relationships with academic partners.

The Singapore centre has partnered with Nanyang Technological University and France’s national research institute, the CNRS, on one of the latter’s few joint international research units including an industrial partner.

In France, Thales has numerous strategic partnerships, for example, with the CNRS, the CEA, École Polytechnique, Telecom Paris Tech, and Sorbonne University.

The most successful form of collaboration has been the joint laboratory, which is what Thales currently has with CNRS in the field of nanotechnology, with CEA-LETI as part of the III-V Lab (an EIG, the members of which are Nokia, Thales and CEA-LETI, the leading European industrial laboratory working on III-V semiconductors), with CEA-LIST for artificial vision and formal methods, and with Sorbonne University for artificial intelligence, etc.

FOCUS 2

Florida has chosen Thales to carry out its digital transformation

In 2020, Thales was selected by the Florida Department of Transportation as the official provider of identification solutions and services to support the digital transformation of the Sunshine State. Starting from January 2021, Thales will be providing its Digital ID Wallet, an innovative and highly secure mobile solution that has received many awards (Frost & Sullivan 2019, ‘Established Leader’ in digital ID by Juniper Research in 2020, etc.), which will offer Florida residents a digitised and encrypted version of their ID and driver’s licence on their smartphones. More than 17 million potential users will have a trusted mobile identity as from 2021, thus protecting them from increasingly sophisticated identity theft attempts. With Thales Digital ID Wallet, Floridians will be able to authenticate themselves online to securely access service portals, prove their identity, prove your ability to drive, or share identity attributes with others, face-to-face, phone-to-phone, securely and easily.

In the United Kingdom, Thales has direct links to several major Universities through its RTI centre, including co-invested programmes in Autonomous Systems with strategic partners Bristol, Southampton and Cranfield Universities. We also have strong relationships in areas of AI, Cyber Security and Human Machine Teaming, including with the UK Trustworthy Autonomous Systems Hub, Digital Catapult and the Alan Turing Institute. Thales in the UK also has a number of Visiting Professors and Fellowship positions that allow Thales to influence and leverage UK government investment in these areas. Across the UK, Thales co-sponsors over 45 PhD projects on a wide range of advanced technology domains.

In Canada, the Group regularly works with research networks and institutions such as the Quebec digital intelligence institute IVADO (l’Institut de Valorisation des Données), University of Toronto, McGill University, École Polytechnique de Montréal, and Université Laval, with which, Thales has formed the ENCQOR consortium, a 5G innovation platform.

FOCUS 3

A digital twin for our Planet

Thales Alenia Space is a key player in the European Earth observation programme Copernicus for monitoring the environment, oceans and more generally all the key parameters for observing, modelling and predicting the essential phenomena affecting our planet.

In 2020, Thales consolidated its leadership in the field with the CHIME (Copernicus Hyperspectral Imaging Mission for the Environment), entrusted to it by the European Space Agency (ESA).

The aim is to create a true digital twin of the planet to obtain behavioural models, with high spatial and temporal resolution on the scale of a continent or even the entire Globe.

As a unique data infrastructure, this supra data platform will drive the many digital initiatives based on massive data analysis and artificial intelligence to serve fields as varied as environmental monitoring, agriculture, meteorology, oceanography, and food safety.

In high-growth countries, Thales is developing research programmes to complement its engineering presence. In India, the Group chose to actively collaborate with the prestigious Indian Institute of Technology of Madras in Chennai in the emerging field of open hardware architecture.

For the past six years, Thales has effectively coordinated its actions toward start-ups. During this period, over 1,200 start-ups have been approved by Thales, with more than 160 proofs of concept completed. Thales is involved in the acceleration ecosystem as a founding member of Starburst, a specialised incubator in the aeronautics and space field, and the cybersecurity adviser to Station F.

Training also a part of the overall strategy linking the Group with the academic world. The Group supports around 220 doctoral students worldwide. They work on subjects directly connected with the technical issues facing Thales, which therefore reinforces the Group’s appeal to young scientists.

2.2.3 A dynamic approach to intellectual property management

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

The Group filed close to 400 new patent applications in 2020. The consistently high number of patent applications in recent years reflects Thales's commitment to innovation and its ability to translate research results into competitive advantages.

The Thales portfolio, which includes more than 22,000 patents and patent applications, is regularly adapted to operational requirements, particularly to protect Thales's market share.

In 2020, 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's commitment to innovating, protecting its ideas and bringing its inventions to market. Since 2012, Thales has been included in this prestigious ranking eight times, thus proving, over time, the importance of active and ambitious intellectual property management for the Group.

2.3 Report on operations and results

This section looks at the Group's financial performance in 2020. The analysis of its extra-financial performance is presented in Chapter 5 of this document (pages 116 to 178).

2.3.1 Key figures (adjusted)

| (in € millions, except earnings and dividend per share in €) | 2020 | 2019 | Total change | Organic change |
|--|---------------------|--------|--------------|----------------|
| Order intake | 18,476 | 19,142 | -3% | -6% |
| Order book at end of period | 34,430 | 33,839 | +2% | +3% |
| Sales | 16,989 | 18,401 | -7.7% | -10.4% |
| EBIT ^(a) | 1,352 | 2,008 | -32.7% | -34.5% |
| as a % of sales | 8.0% | 10.9% | -3.0 pts | -2.9 pts |
| Adjusted net income, Group share ^(a) | 937 | 1,405 | -33.3% | |
| Adjusted net income, Group share, per share ^(a) | 4.40 | 6.61 | -33.4% | |
| Consolidated net income, Group share | 483 | 1,122 | -56.9% | |
| Free operating cash flow ^(a) | 1,057 | 1,372 | -315 | |
| Net cash (debt) at end of period ^(a) | -2,549 | -3,311 | +761 | |
| Dividend per share | 1.76 ^(b) | 2.65 | -0.89 | |

(a) Non-GAAP financial indicators, see definitions, section 2.3.2, page 34.

(b) Proposed to the Shareholders' Meeting on 6 May 2021.

Order intake in 2020 totaled **€18,476 million**, down just 3% from 2019 (**-6% on an organic basis**, i.e., at constant scope and exchange rates). As expected, after the delays in finalizing contracts in the second and third quarters of 2020 due to the public health crisis, the Group benefited from a particularly strong momentum in the fourth quarter in the Defense & Security segment. At 31 December 2020, the consolidated **order book** stood at **€34.4 billion**, an all-time record.

Sales came in at **€16,989 million**, down 7.7% from 2019, and down **10.4% at constant scope and exchange rates**. The decline in sales was primarily due to the collapse in civil aeronautics demand (by approximately -50%) and disruptions affecting operations across all Group businesses.

In 2020, consolidated **EBIT** was **€1,352 million (8.0%** of sales), compared with €2,008 million (10.9% of sales) in 2019, a drop of **32.7%** (-34.5% on an organic basis).

From early April 2020, Thales implemented a **global adaptation plan** to the crisis in order to maintain its production capacity at the service of its customers, limit the industrial and financial impact of this crisis and strengthen its funding capacity in the event that the crisis persisted or worsened. The plan generated estimated P&L savings of around **€850 million** for the year and reduced operating investments by 25% at constant scope.

At **€937 million, adjusted net income, Group share** was down **33%**, in line with the decrease in EBIT.

Consolidated net income, Group share stood at **€483 million**, down **57%** from 2019. In addition to the decrease in adjusted net income, this change was caused by a reduction in income from disposals and the recognition of an impairment loss on goodwill and intangible assets in the civil aeronautics business (In-Flight Entertainment).

Free operating cash flow⁽¹⁾ amounted to €1,057 million versus €1,372 million in 2019. As a result, the cash conversion ratio of adjusted net income, Group share, to free operating cash flow was 113% (98% in 2019). This solid performance was mainly due to the measures taken

since 2019 under the “Cash” initiative and the cash effects of the global adaptation plan to the crisis.

In this context, the Board of Directors decided to propose the payment of a **dividend of €1.76** per share, corresponding to a payout ratio of 40% of adjusted net income, Group share.

2.3.2 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 2020.

Definitions of non-GAAP financial indicators

In order to facilitate monitoring and comparison of its financial and operating performance, the Group presents three key non-GAAP indicators that 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 the net income of equity-accounted companies, before the impact of entries recorded as part of business combinations (amortisation of assets valued when determining the purchase price allocation, other expenses directly related to acquisitions).
- **adjusted net income** corresponds to net income, excluding the following items and net of the corresponding tax effects:
 - amortisation of assets valued when determining the purchase price allocation (business combinations);
 - expenses recognised in income from operations or in finance costs that are directly related to business combinations;
 - gains and losses on disposals of assets, changes in scope of consolidation and other;
 - impairment of non-current assets;
 - 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.

Defining EBIT and adjusted net income involves defining other operating indicators in the **adjusted income statement**, specifically, adjusted cost of sales, adjusted gross margin (corresponding to the difference between sales and the adjusted cost of sales), adjusted indirect costs, other adjusted financial income, adjusted financial income on pensions and long-term benefits, adjusted income tax, adjusted net income, Group share, per share, calculated as described on pages 35 and 36.

Net cash (debt) corresponds to the difference between the sum of the “cash and cash equivalents” and “current financial assets” items and short- and long-term borrowings, after deduction of interest rate derivatives. As from 1 January 2019, it includes lease liabilities recorded on the balance sheet pursuant to standard IFRS 16. Its calculation appears in Note 6.3 to 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, discounted 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. The calculation of organic change in sales is detailed on below.

• ORGANIC CHANGE IN SALES BY QUARTER

| (in € millions) | 2019 sales | Exchange rate effect | Impact of disposals | 2020 sales | Impact of acquisitions | Total change | Organic change |
|------------------|---------------|----------------------|---------------------|---------------|------------------------|---------------|----------------|
| Q1 | 3,361 | -0 | – | 3,899 | +697 | +16.0% | -4.7% |
| Q2 | 4,829 | -20 | – | 3,852 | +0 | -20.2% | -19.9% |
| H1 | 8,190 | -20 | – | 7,751 | +697 | -5.4% | -13.6% |
| Q3 | 4,220 | -79 | – | 3,963 | +0 | -6.1% | -4.3% |
| Q4 | 5,991 | -116 | – | 5,275 | +1 | -12.0% | -10.2% |
| Full year | 18,401 | -215 | – | 16,989 | +698 | -7.7% | -10.4% |

Main scope effects:

Disposals: none.

Acquisitions:

Consolidation of Gemalto from 1 April 2019 (Digital Identity & Security segment)

(1) Non-GAAP financial indicators, see definition below.

Please note that only the consolidated financial statements as at 31 December 2020 are audited by the statutory auditors, including EBIT, the calculation of which is outlined in Note 2 "Segment Information", net cash (debt), the definition and calculation of which appear in Note 6.2 "net cash (debt)", and free operating cash flow, the definition and calculation of which are specified in Note 6.3 "Changes in net cash". 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 document.

The impact of these adjustment entries on the income statements at 31 December 2020 and 31 December 2019 is detailed in the tables below. The calculation of free operating cash flow is outlined on page 37.

• ADJUSTED INCOME STATEMENT, EBIT AND ADJUSTED NET INCOME – 2020

| (in € millions except earnings per share in €) | 2020 consolidated profit and loss account | Adjustments | | | | 2020 adjusted P&L |
|--|---|-------------|------|------|-----|-------------------|
| | | (1) | (2) | (3) | (4) | |
| Sales | 16,989 | | | | | 16,989 |
| Cost of sales | (13,054) | 457 | | | | (12,597) |
| R&D expenses | (1,025) | | | | | (1,025) |
| Marketing and selling expenses | (1,306) | 1 | | | | (1,305) |
| General and administrative expenses | (613) | – | | | | (613) |
| Restructuring costs | (174) | 5 | | | | (169) |
| Income from operations | 818 | 463 | | | | 1,281 |
| Share in net income of equity affiliates | 44 | 27 | | | | 71 |
| Income from operations, incl. share in net income of equity affiliates | 862 | | | | | N/A |
| EBIT | N/A | 490 | | | | 1,352 |
| Disposal of assets, changes in scope and other | 42 | | (42) | | | – |
| Impairment of non-current assets | (135) | | 135 | | | – |
| Net financial interest | (60) | | | | | (60) |
| Other financial income and expenses | (82) | | | 47 | | (34) |
| Finance costs on pensions and other long-term employee benefits | (45) | | | | 4 | (41) |
| Income tax | (90) | (131) | (27) | (15) | (1) | (264) |
| <i>Effective income tax rate^(a)</i> | <i>-16.8%</i> | | | | | <i>-23.1%</i> |
| Net income | 492 | 359 | 66 | 32 | 3 | 953 |
| Non-controlling interests | (9) | (8) | | | | (16) |
| Net income (loss), Group share | 483 | 352 | 66 | 32 | 3 | 937 |
| Average number of shares (in thousands) | 212,704 | | | | | 212,704 |
| NET EARNINGS, GROUP SHARE, PER SHARE (in €) | 2.27 | | | | | 4.40 |

(a) Income tax divided by net income before income tax and before share in net income of equity affiliates.

Adjustments:

- (1) Impact of business combinations: amortisation of assets valued as part of the purchase price allocation, other expenses directly related to acquisitions.
- (2) Income from disposals, changes in scope and other, and impairment losses on non-current assets.
- (3) Change in fair value of foreign exchange derivatives.
- (4) Actuarial differences on long-term employee benefits.

• **ADJUSTED INCOME STATEMENT, EBIT AND ADJUSTED NET INCOME – 2019**

| (in € millions except earnings per share in €) | 2019 consolidated income statement | Adjustments | | | | 2019 adjusted P&L |
|---|--|-------------|--------------|-----------|-----------|-------------------------|
| | | (1) | (2) | (3) | (4) | |
| Sales | 18,401 | | | | | 18,401 |
| Cost of sales | (13,877) | 528 | | | | (13,350) |
| R&D expenses | (1,099) | 1 | | | | (1,097) |
| Marketing and selling expenses | (1,383) | 2 | | | | (1,381) |
| General and administrative expenses | (637) | 3 | | | | (634) |
| Restructuring costs | (122) | 21 | | | | (102) |
| Income from operations | 1,283 | 554 | | | | 1,837 |
| Share in net income of equity affiliates | 142 | 29 | | | | 171 |
| Income from operations, incl. share in net income of equity affiliates | 1,425 | | | | | N/A |
| EBIT | N/A | 583 | | | | 2,008 |
| Disposal of assets, changes in scope and other | 219 | | (219) | | | 0 |
| Net financial interest | (43) | | | | | (43) |
| Other financial income and expenses | (84) | | | 73 | | (12) |
| Finance costs on pensions and other long-term employee benefits | (69) | | | | 13 | (56) |
| Income tax <i>Effective income tax rate^(a)</i> | (301) -23.1% | (146) | 21 | (24) | (4) | (454) -26.3% |
| Net income | 1,146 | 436 | (198) | 49 | 10 | 1,443 |
| Non-controlling interests | (25) | (14) | | | | (38) |
| NET INCOME (LOSS), GROUP SHARE | 1,122 | 423 | (198) | 49 | 10 | 1,405 |
| Average number of shares (in thousands) | 212,502 | | | | | 212,502 |
| NET EARNINGS, GROUP SHARE, PER SHARE (in €) | 5.28 | | | | | 6.61 |

(a) Income tax divided by net income before income tax and before share in net income of equity affiliates.

Adjustments:

- (1) Impact of business combinations: amortisation of assets valued as part of the purchase price allocation, other expenses directly related to acquisitions.
- (2) Income from disposals, changes in scope and other.
- (3) Change in fair value of foreign exchange derivatives.
- (4) Actuarial differences on long-term employee benefits.

• CALCULATION OF FREE OPERATING CASH FLOW

| (in € millions) | 2020 | 2019 | Change |
|---|----------------|----------------|---------------|
| Operating cash flow before interest and tax | 2,188 | 2,548 | -359 |
| Change in working capital and provisions for contingencies | (420) | (341) | -79 |
| Pension expense, excluding contributions related to the reduction of the UK pension deficit | (164) | (148) | -16 |
| Net financial interest received (paid) | (52) | (37) | -16 |
| Income tax paid | (109) | (154) | +45 |
| Net operating investments | (387) | (496) | +109 |
| Free operating cash flow | 1,057 | 1,372 | -315 |
| Net balance of disposals (acquisitions) of subsidiaries and affiliates | 1 | (5,345) | +5,344 |
| Contributions related to the reduction of the UK pension deficit | (98) | (98) | -0 |
| Dividends paid | (85) | (463) | +378 |
| New lease liabilities (IFRS 16) | (166) | (299) | +133 |
| Exchange rates and other | 52 | (151) | +206 |
| Change in net cash (debt) | 761 | (4,984) | +5,745 |
| Net cash (debt) at start of period | (3,311) | 3,181 | |
| IFRS 16 lease liabilities at beginning of period | - | (1,507) | |
| Net cash (debt) at start of period, post IFRS 16 | (3,311) | 1,673 | |
| Change in net cash (debt) | 761 | (4,984) | |
| NET CASH (DEBT) AT END OF PERIOD | (2,549) | (3,311) | |

2.3.3 Order intake

Order intake in 2020 amounted to **€18,476 million, down 3%** from 2019 (-6% at constant scope and exchange rates⁽¹⁾). The book-to-bill ratio was 1.09 versus 1.04 in 2019, and even 1.10 when excluding the Digital Identity & Security segment, whose order intake is structurally very close to sales.

| (in € millions) | 2020 | 2019 | Total change | Organic change |
|--|---------------|---------------|--------------|----------------|
| Aerospace | 3,822 | 4,829 | -21% | -20% |
| Transport | 1,652 | 1,751 | -6% | -4% |
| Defence & Security | 9,922 | 9,907 | 0% | +1% |
| Digital Identity & Security | 3,023 | 2,572 | +18% | -7% |
| TOTAL – OPERATING SEGMENTS | 18,419 | 19,059 | -3% | -6% |
| Other | 57 | 83 | | |
| TOTAL | 18,476 | 19,142 | -3% | -6% |
| Of which mature markets ^(a) | 14,910 | 14,258 | +5% | +3% |
| Of which emerging markets ^(a) | 3,567 | 4,883 | -27% | -32% |

(a) Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries. See table on page 38.

Thales received **19 large orders with a unit value of over €100 million**, representing a total of **€5,052 million**:

- 1 large order booked in Q1 2020 for an air surveillance system for a Middle Eastern country;
- 3 large orders booked in Q2 2020:
 - the supply of anti-submarine sonars to the US Navy (Defense & Security segment),
 - a 10-year contract guaranteeing the supply of munitions to the Australian army (Defense & Security segment),
 - the construction of 2 telecommunications satellites for SES (Aerospace segment);

(1) Taking into account a negative exchange rate effect of €207 million and a net positive scope effect of €717 million related mainly to the consolidation of Gemalto at 1st April 2019 (Digital Identity & Security segment).

- 2 large orders received in Q3 2020, both in the Defense & Security segment:
 - a new tranche of the Scorpion program pertaining to the delivery of armored vehicles to the French Army
 - a support and services contract of the ATL 2 for the French Army in a partnership with Dassault Aviation
- 13 large orders booked in Q4 2020:
 - the development contract for Space Rider, Europe's future unmanned, autonomous and reusable space transportation system (Aerospace segment),
 - additional work on the ExoMars 2020 mission and the ground segment and security center for the Galileo constellation (Aerospace segment),
 - the development of Europe's first digital railway signaling "node" on behalf of the Deutsche Bahn (Transport segment),
 - the construction of the ground segment for Syracuse IV, the French Armed Forces' next-generation satellite communications system (Defense & Security segment),
 - 2 projects on the French Army's encrypted networks (Defense & Security segment),
 - the production of 8 unmanned mine countermeasure systems under the joint Franco-British MMCM program (Defense & Security segment),
 - the supply and integration of the mission and combat system, a multifunction radar and the AVVWS system on the German Navy's four new F126 multi-mission frigates (project formerly known as MKS 180, Defense & Security segment),
 - the acquisition of an air surveillance system by a Middle Eastern country,
 - an in-service support contract for the TALIOS and DAMOCLES pods for the French Army (Defense & Security segment),
 - a support contract for the British Army's short-range air defense systems (Future ADAPT, Defense & Security segment),
 - a contract for the assembly and integration of remote weapon stations and shot detection systems on the British Army's Boxer vehicles (MIV project, Defense & Security segment).

Orders with a **unit value of less than €100 million** were down 8% from 2019 to **€13,424 million** (-13% at constant scope). Avionics orders with a unit value of less than €10 million recorded a sharp decline (-42% at constant scope), as well as in passport production (Digital Identity & Security segment), a direct consequence of the public health crisis.

Order intake in the **Aerospace** segment totaled **€3,822 million** versus **€4,829 million** in 2019 (-20% at constant scope and exchange rates). This decline was driven by the collapse of civil aeronautics orders (Avionics and In-Flight Entertainment) since the beginning of the public health crisis. Thales Alenia Space recorded strong orders in Earth observation and space exploration. In accordance with space agency contracting practices, initial orders for such projects generally cover early project phases (so-called "advanced definition") and involve limited amounts. Consequently, order intake for the space business was down for the year (-5% at constant scope and exchange rates). At 31 December 2020, the segment's order book stood at **€6.6 billion**, down 10%.

At **€1,652 million**, order intake in the **Transport** segment was down 4% from 2019 at constant scope and exchange rates. This change reflects solid momentum in mainline rail, most notably with the booking of a large order from the Deutsche Bahn, offset by order delays in the urban rail business. At 31 December 2020, the segment's consolidated order book was down 4% to **€3.9 billion**.

At **€9,922 million** (compared with €9,907 million in 2019), order intake in the **Defense & Security** segment set a new record (+1% at constant scope and exchange rates). The book-to-bill ratio was 1.23 versus 1.20 in 2019 and 1.09 in 2018. The reason for this high level was the booking of 14 contracts with amounts greater than €100 million, including a major contract in Germany worth more than €1.5 billion: the MKS 180 project. This contract, one of the largest ever signed by Thales, represents a key step in the development of the European defense industry and further underpins Thales's leading international position in naval system integration. The segment's order book totaled **€23.2 billion**, or 2.9 years' worth of sales, strengthening visibility for the years ahead.

At **€3,023 million**, order intake in the **Digital Identity & Security** segment was very close to sales, as most business lines in this segment have short sales cycles. The segment therefore does not have a meaningful backlog.

• ORDER INTAKE BY DESTINATION – 2020

| (in € millions) | 2020 | 2019 | Total change | Organic change | 2020 weighting as a % |
|-------------------------------|---------------|---------------|--------------|----------------|-----------------------|
| France | 4,580 | 5,372 | -15% | -15% | 24.8% |
| United Kingdom | 1,314 | 1,730 | -24% | -25% | 7.1% |
| Rest of Europe | 6,215 | 4,266 | +46% | +42% | 33.6% |
| Sub-total Europe | 12,109 | 11,368 | +7% | +5% | 65.5% |
| United States and Canada | 2,002 | 2,040 | -2% | -9% | 10.8% |
| Australia and New Zealand | 799 | 850 | -6% | -5% | 4.3% |
| Total mature markets | 14,910 | 14,258 | +5% | +3% | 80.7% |
| Asia | 1,718 | 2,452 | -30% | -34% | 9.3% |
| Near and Middle East | 1,088 | 1,293 | -16% | -22% | 5.9% |
| Rest of the world | 760 | 1,139 | -33% | -38% | 4.1% |
| Total emerging markets | 3,567 | 4,883 | -27% | -32% | 19.3% |
| TOTAL ALL MARKETS | 18,476 | 19,142 | -3% | -6% | 100% |

Geographically, order intake in emerging markets amounted to €3,567 million, down 32% at constant scope and exchange rates. At €14,910 million, order intake in mature markets remained high (+3% at constant scope and exchange rates), driven primarily by the booking of 12 large defense contracts in 5 countries.

2.3.4 Sales

| (in € millions) | 2020 | 2019 | Total change | Organic change |
|--|---------------|---------------|--------------|----------------|
| Aerospace | 4,217 | 5,595 | -24.6% | -24.1% |
| Transport | 1,618 | 1,910 | -15.3% | -13.9% |
| Defence & Security | 8,085 | 8,266 | -2.2% | -1.8% |
| Digital Identity & Security | 2,992 | 2,551 | +17.3% | -5.9% |
| Total – operating segments | 16,912 | 18,322 | -7.7% | -10.5% |
| Other | 77 | 79 | | |
| TOTAL | 16,989 | 18,401 | -7.7% | -10.4% |
| Of which mature markets ^(a) | 12,375 | 12,858 | -3.8% | -6.2% |
| Of which emerging markets ^(a) | 4,614 | 5,543 | -16.8% | -20.3% |

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

2020 sales stood at **€16,912 million**, compared with €18,322 million in 2019, down 7.7% after the integration of Gemalto. The organic change (at constant scope and exchange rates⁽¹⁾) was -10.4%, with more than 70% of the H2 decrease (on an organic basis) caused by the collapse in demand in the civil aeronautics segment.

Sales in the **Aerospace** segment amounted to **€4,217 million**, down 24.6% from 2019 (-24.1% at constant scope and exchange rates). This drop reflects the collapse in civil aeronautics demand (by around 50% since Q2 2020) and the deferral of tenders in the space business due to the Covid-19 crisis.

In the **Transport** segment, sales totaled **€1,618 million**, down 15.3% compared to 2019 (-13.9% at constant scope and exchange rates). The decline was due to disruptions caused by the public health crisis, especially delays in signing contracts that would have generated sales in the second half of 2020, in addition to the phasing down effects on major

urban rail signaling contracts (particularly in Doha and London), which have been weighting on the segment's growth since the end of 2018.

Sales in the **Defense & Security** segment totaled **€8,085 million**, down 2.2% compared to 2019 (-1.8% at constant scope and exchange rates). The segment benefited from a significant catch-up effect in the second half of the year, with sales up 3.2% on an organic basis. This return to growth attests to the solid momentum of the Group's solutions: at end December 2020, this segment had a record backlog of more than €23 billion.

In the **Digital Identity & Security** segment, sales were down 5.9% to **€2,992 million** at constant scope and exchange rates. This decline was due to the adverse impact of the public health crisis on passport demand starting in the second quarter and on IoT connectivity modules in the second quarter. Sales of EMV payment cards and SIM cards, which were better than expected in the first half of the year, were unsurprisingly down in the second half, impacted by an unfavorable basis of comparison.

• SALES BY DESTINATION – 2020

| (in € millions) | 2020 | 2019 | Total change | Organic change | 2020 weighting as a % |
|-------------------------------|---------------|---------------|---------------|----------------|-----------------------|
| France | 4,229 | 4,461 | -5.2% | -5.7% | 24.9% |
| United Kingdom | 1,180 | 1,297 | -9.1% | -9.9% | 6.9% |
| Rest of Europe | 4,024 | 4,040 | -0.4% | -4.2% | 23.7% |
| Sub-total Europe | 9,432 | 9,798 | -3.7% | -5.6% | 55.5% |
| United States and Canada | 1,952 | 2,102 | -7.1% | -13.8% | 11.5% |
| Australia and New Zealand | 990 | 958 | +3.4% | +4.6% | 5.8% |
| Total mature markets | 12,375 | 12,858 | -3.8% | -6.2% | 72.8% |
| Asia | 2,310 | 2,642 | -12.6% | -16.9% | 13.6% |
| Near and Middle East | 1,201 | 1,601 | -25.0% | -26.6% | 7.1% |
| Rest of the world | 1,104 | 1,301 | -15.1% | -19.4% | 6.5% |
| Total emerging markets | 4,614 | 5,543 | -16.8% | -20.3% | 27.2% |
| TOTAL ALL MARKETS | 16,989 | 18,401 | -7.7% | -10.4% | 100% |

(1) See sales organic change calculation on page 34.

Geographically, the decline in sales was more marked in emerging markets (-20.3% on an organic basis), reflecting anticipated phasing effects on a few large contracts, especially in transport, after several

years of strong growth. The decline was more moderate in mature markets (-6.2% on an organic basis), despite the major drop in civil aeronautics business in France.

2.3.5 Adjusted results

In 2020, consolidated EBIT⁽¹⁾ was **€1,352 million**, or **8.0%** of sales, versus €2,008 million (10.9% of sales) in 2019. The **global adaptation plan** to the crisis generated estimated savings of approximately **€850 million** for the year, €100 million above target.

| EBIT (in € millions) | 2020 | 2019 | Total change | Organic change |
|--|--------------|--------------|-----------------|-------------------|
| Aerospace | -76 | 521 | NS | NS |
| <i>As a % of sales</i> | <i>-1.8%</i> | <i>9.3%</i> | | |
| Transport | 86 | 56 | +53.5% | +52.5% |
| <i>As a % of sales</i> | <i>5.3%</i> | <i>2.9%</i> | | |
| Defence & Security | 1,039 | 1,153 | -9.9% | -9.5% |
| <i>As a % of sales</i> | <i>12.9%</i> | <i>14.0%</i> | | |
| Digital Identity & Security | 324 | 264 | +22.8% | +8.4% |
| <i>As a % of sales</i> | <i>10.8%</i> | <i>10.3%</i> | | |
| Total – operating segments | 1,373 | 1,994 | -31.1% | -32.9% |
| <i>As a % of sales</i> | <i>8.1%</i> | <i>10.9%</i> | | |
| Other – excluding Naval Group | (43) | (50) | | |
| Total – excluding Naval Group | 1,331 | 1,943 | -31.5% | -33.4% |
| <i>As a % of sales</i> | <i>7.8%</i> | <i>10.6%</i> | | |
| Naval Group (35% share) | 22 | 65 | | |
| TOTAL | 1,352 | 2,008 | -32.7% | -34.5% |
| <i>As a % of sales</i> | <i>8.0%</i> | <i>10.9%</i> | | |

The **Aerospace** segment posted **negative EBIT of €76 million (-1.8% of sales)**, versus a positive EBIT of €521 million (9.3% of sales) in 2019. The deterioration in this sector's margin was due to the impact on gross margin of the collapse in civil aeronautics sales and the increase in restructuring costs, which was partially offset by the savings from the global adaptation plan. After a first half that was severely impacted by the health crisis, the space business posted an EBIT margin during the second half of the year that was higher than its H2 2019 EBIT margin.

EBIT for the **Transport** segment was up sharply to **€86 million (5.3% of sales)**, compared to €56 million (2.9% of sales) in 2019. Despite the Covid-19 crisis, the actions implemented as part of the segment's transformation plan resulted in an EBIT margin increase in line with medium-term objectives (an EBIT margin of 8% to 8.5%).

In the **Defence & Security** segment, EBIT stood at **€1,039 million**, versus €1,153 million in 2019 (-9.5% at constant scope and exchange rates). Segment margin was **12.9%** versus 14.0% in 2019 (which included approximately €40 million in positive one-off items). This solid EBIT margin, which was at the top of the target medium-term range (12% to 13%) despite the negative impact of Covid-19 crisis-related operational disruptions, demonstrates the segment's resilience. This solid performance was achieved thanks to continued sales momentum, the positive impact of competitiveness initiatives and high-quality project execution.

At **€324 million (10.8% of sales)**, EBIT in the **Digital Identity & Security** segment increased in line with the business plan. The segment enjoyed higher-than-expected cost synergies and benefited from good indirect cost management under the Group's global adaptation plan and the leverage effect on EMV and SIM card sales in the first half.

At **€22 million** in 2020 versus €65 million in 2019, **Naval Group's** contribution to EBIT was down, as a direct consequence of the impact of the public health crisis on its business.

The increase in **net financial interest (-€60 million** versus -€43 million in 2019) was mainly due to the increase in average net debt. **Other adjusted financial income⁽¹⁾ (-€34 million** in 2020 versus -€12 million in 2019) was primarily impacted by higher foreign exchange losses. The change in **adjusted financial expense on pensions and other long-term employee benefits⁽¹⁾ (-€41 million** compared with -€56 million in 2019) was due to the sharp decline in discount rates in 2019.

As a result, **adjusted net income, Group share⁽¹⁾ was €937 million** versus €1,405 million in 2019, after an adjusted income tax charge⁽¹⁾ of -€264 million, compared with -€454 million in 2019. The decrease in the tax rate in France reduced the effective income tax rate to 23.1% in 2020 from 26.3% in 2019.

Adjusted net income, Group share, per share⁽¹⁾ came out at €4.40, down **33%** from 2019 (€6.61).

(1) Non-GAAP financial indicator, see definition in section 2.3.2, and calculation, pages 35 and 36.

2.3.6 Consolidated results

Income from operations

Income from operations amounted to **€818 million** compared with €1,283 million in 2019, a decrease of 36.3%. This decline is due to a 1.4 point deterioration in gross margin and a drop in indirect costs that was slightly less than the drop in sales. Restructuring costs also rose, from €122 million to €174 million.

Income of operating activities after share in net income of equity affiliates

Income from operations after share in net income of equity affiliates amounted to **€769 million** compared to €1,644 million in 2019,

down 53%. It includes a share in net income of equity affiliates of €44 million, down 69%, with a contribution from Naval Group down 67% compared with 2019.

Net income, Group share

Consolidated net income, Group share stood at **€483 million**, down **57%** from 2019. In addition to the decline in adjusted net income, this decrease was due to the reduction in income from disposals and the recognition of an impairment loss on goodwill and intangible assets in the civil aeronautics business (in-flight entertainment).

2.3.7 Financial position at 31 December 2020

Free operating cash flow⁽¹⁾ amounted to €1,057 million versus €1,372 million in 2019. As a result, the cash conversion ratio of adjusted net income, Group share, to free operating cash flow was 113% (98% in 2019). This solid performance was mainly due to the measures taken since 2019 under the “Cash” initiative and the cash effects of the global adaptation plan to the crisis, which included a 25% reduction in net operating investments at constant scope. The Group also benefited from initiatives taken by certain institutional and government customers to shorten their payment terms and from a phasing effect on prepayment for large contracts that was not as negative as expected.

At 31 December 2020, **net debt** amounted to **-€2,549 million**, versus -€3,311 million at 31 December 2019, after taking into account new lease liabilities totaling €166 million (€299 million in 2019) and after the payment of €85 million in dividends (€463 million in 2019).

Shareholders' equity, Group share totaled **€5,115 million**, versus €5,449 million at 31 December 2019, with consolidated net income, Group share (€483 million) failing to offset the increase in net pension obligations (€641 million).

2.3.8 Proposed dividend

At the Annual General Meeting on 6th May 2021, the Board of Directors will propose the distribution of a **dividend of €1.76** per share. This level corresponds to a payout ratio of 40% of adjusted net income, Group share.

If approved, the ex-dividend date will be 18th May 2021 and the payment date will be 20th May 2021. The dividend will be paid fully in cash and will amount to €1.36 per share, after deducting the interim dividend of €0.40 per share paid in December 2020.

2.3.9 Outlook

The Covid-19 health crisis continues to affect the global environment. While it is expected to improve during the year, the public health and macro-economic context remains highly uncertain in the short term and could affect the pace of air traffic recovery and corporate investment plans.

Thales will continue to implement all the levers of its Ambition 10 strategic plan, designed to generate profitable and sustainable growth, combined with the structural adaptation plan in its civil aeronautics-exposed businesses, which will be impacted by this crisis over several years.

The Group will also benefit from the visibility provided by its order book of over €31 billion, from positive trends in most of its markets and from the acceleration of its growth initiatives.

Consequently, assuming an economic and public health situation that does not experience any new major disruptions, and a normalization

of the global semiconductor supply chain, Thales has set the following 2021 objectives:

- as in 2019 and 2020, a **book-to-bill ratio above 1**;
- **sales** in the range of **€17.1 billion to €17.9 billion⁽²⁾**, taking into account the significant ongoing disruptions in civil aeronautics and the recovery of growth in the other segments;
- an **EBIT margin** in the range of **9.5% to 10%**, up 150 to 200 basis points from 2020, thanks to the full effect of the global crisis adaptation plan, ongoing Ambition 10 competitiveness initiatives and the further ramp up of Gemalto-related cost synergies.

Finally, the strong delivery of cash flow maximization initiatives allows the Group to upgrade its free cash flow generation target for the 2019 to 2023 period: the **cash conversion ratio⁽³⁾** should reach around 95% on a reported basis⁽⁴⁾.

(1) Non-GAAP financial indicators, see definition page 34.

(2) Based on the scope and exchange rates of March 2021.

(3) Free operating cash flow divided by adjusted net income, Group share.

(4) Previous target (October 2019): cash conversion ratio around 95% before one-offs on average over the 2019/2023 period.

2.4 Investments

Targeted investment in R&D, property, plant and equipment, and intangible assets as part of acquisitions, as well as the purchase of equity interests, are all major factors advancing the Group's development strategy.

2.4.1 Investments in R&D

Research and development is one of the Group's core activities and is key to its differentiation and competitiveness. It involves almost 40% of the Group's workforce. A description of the principal R&D areas can be found in section 2.2.2, page 31.

The vast majority of R&D investment is recorded directly as expenses in the Group's income statement. As described in Note 4.2 to the consolidated financial statements, the Group capitalised €24.9 million in development costs in 2020 and, as at 31 December 2020, the net carrying amount of capitalised fixed-asset development costs amounted to only €51.8 million.

A significant portion of R&D investment is carried out as part of contracts with customers, particularly institutional space and military contracts. Only self-funded R&D expenditure is recorded separately in the income statement.

Over the past several years, to support its Ambition 10 strategic plan, the Group decided to increase its self-funded R&D expenditures, which totalled €1,097 million in 2019, up 50% over 2016 (+25% excluding the impact of the Gemalto acquisition). In 2020, under the global Covid-19 crisis adaptation plan, the Group reduced its self-funded R&D expenditure, while keeping it stable as a percentage of sales.

| (in € millions) | 2018 | 2019 | 2020 |
|--|------------|--------------|--------------|
| Sales | 15,855 | 18,401 | 16,989 |
| R&D expenses shown on the IFRS income statement | 881 | 1,099 | 1,025 |
| Expenses excluded from the adjusted income statement | -2 | -1 | - |
| R&D expenses shown on the adjusted income statement | 879 | 1,097 | 1,025 |
| <i>As % of sales</i> | 5.5% | 6.0% | 6.0% |

The priority areas for investment remained the development of cross-functional digital expertise (cybersecurity, artificial intelligence, big data analytics, digital factory) and the design of "dream" products – new, highly innovative products with major market potential.

The Group intends to maintain a high level of self-funded R&D expenditure between now and 2023, at between 6.0% and 6.5% of sales.

2.4.2 Operating investments

The Group's operating investments cover three main categories: technical and production investments, building investments and investments in information systems.

| (in € millions) | 2018 | 2019 | 2020 |
|---|------------|------------|------------|
| Sales | 15,855 | 18,401 | 16,989 |
| Acquisitions of property, plant and equipment and intangible assets | 393 | 503 | 395 |
| Disposals of property, plant and equipment and intangible assets | -13 | -7 | -8 |
| Net operating investments | 380 | 496 | 387 |
| <i>As % of sales</i> | 2.4% | 2.7% | 2.3% |

In 2020, taking into account the impact of the health crisis, the Group reduced its operating investments by 25% at constant scope. This reduction applied to all of the main investment categories: technical and production investments, building investments and investments in information systems.

2.4.3 Acquisitions and equity investments

To support the Ambition 10 strategic plan, the Group is continuing its targeted acquisitions policy to strengthen its technology portfolio and boost its potential for growth. This strategy accelerated significantly with the acquisition of Gemalto, which was announced in December 2017 and completed in 2019.

| (in € millions) | 2018 | 2019 | 2020 | Total 2018-2020 |
|--|-----------|--------------|----------|--------------------|
| Investments in subsidiaries and affiliates, net | 72 | 4,980 | 23 | 5,075 |
| Disposals of subsidiaries and affiliates, net | -11 | -364 | -22 | -396 |
| Net balance of acquisitions and disposals | 61 | 4,616 | 1 | 4,679 |

Acquisitions in 2018

In 2018, the Group's significant investments were the acquisition of Cubris, a leader in main line train assisted driving systems, a key technology for future autonomous trains, and the acquisition by Thales Alenia Space of a stake in the American company Spaceflight Industries as part of the BlackSky satellite constellation project using big data analytics technologies.

Acquisitions in 2019

In December 2017, Thales and Gemalto announced the signing of a merger agreement including a cash offer of €51 per share (cum dividend) for all Gemalto shares with an equity value of approximately €4.8 billion. This major acquisition was finalised on 2 April 2019. In October 2019, the Group was able to purchase all shares still outstanding on that date, bringing Thales' percentage of Gemalto shares to 100%.

Meanwhile, to comply with the demands of several competition authorities, Thales announced in February 2019 that it had signed a definitive agreement to sell its global GP HSM (General Purpose Hardware Security Modules) business. The sale, which was finalised in early June 2019 for €362 million, led to the recognition of a gain from the disposal of €223 million.

In January 2019, Thales finalised the €100 million acquisition of Ercom, a company specialising in communication and device security, and Suneris, which provides solutions for the supervision and control of telecommunications network traffic.

Acquisitions in 2020

Acquisitions and disposals completed in 2020 were not material.

The Group continues to seek targeted acquisitions, in particular to complement its geographic presence and its technology portfolio, especially as part of its digital strategy.

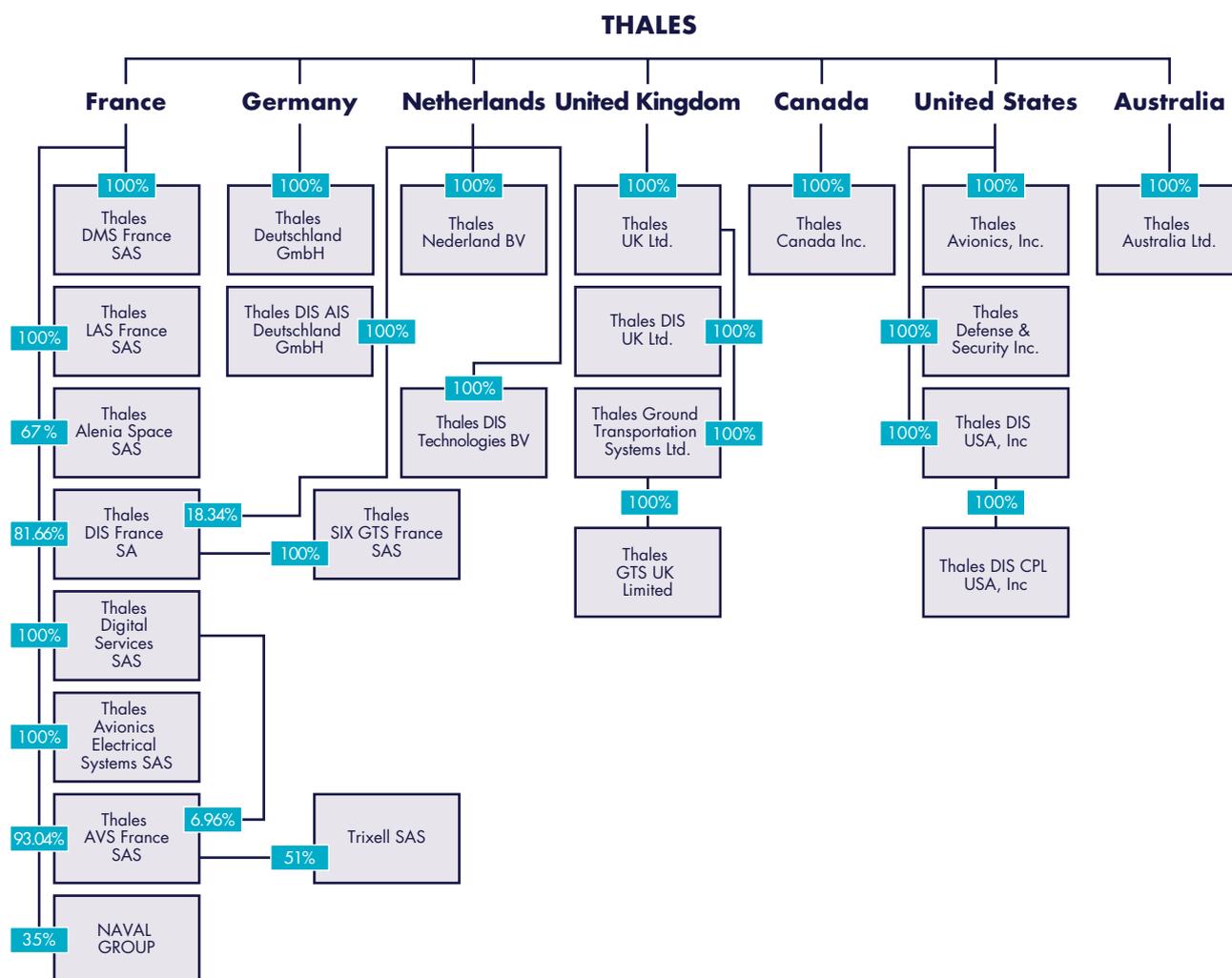
2.5 Group structure

2.5.1 Relations between Thales and its subsidiaries

2.5.1.1 Simplified organisational chart at 31 December 2020

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 Naval Group).



2.5.1.2 Role of Thales (parent company) within the Group

Thales (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, commercial policy, legal and financial policy, operational control, human resources policy and communications;

- it provides subsidiaries with specialised 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, Thales (parent company) conducts its own research, described starting on page 29.

A list of the main consolidated companies can be found below.

2.5.1.3 Financial flows between Thales (parent company) and its subsidiaries

Thales (parent company) receives dividends from its subsidiaries, as approved by their respective Annual General Meetings, and in accordance with the applicable legislation and regulations in their countries of operation.

In addition to these dividends and the payment of fees for shared services, the main financial flows between Thales (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, Thales (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.

2.5.2 Information about major operational subsidiaries and manufacturing sites

2.5.2.1 List of main consolidated companies

A list of the main consolidated companies can be found in Note 15 on page 285 of the Group's consolidated financial statements.

2.5.2.2 Major manufacturing sites

At end-2020, there were 16 sites employing more than 1,000 staff:

| At 31 December 2020 | Headcount | Ownership status | Area (m ²) |
|-------------------------------------|-----------|------------------|------------------------|
| France | | | |
| Bordeaux (Sud-Ouest) | 2,217 | Owned/leased | 60,000 |
| Brest (Brittany) | 1,588 | Leased | 56,000 |
| Cannes (Provence) | 1,840 | Owned/leased | 84,000 |
| Cholet (Pays de la Loire) | 1,574 | Leased | 53,000 |
| Gennevilliers (Île-de-France) | 3,570 | Leased | 90,000 |
| Élancourt (Île-de-France) | 3,685 | Leased | 104,000 |
| Rungis (Île-de-France) | 1,088 | Leased | 23,000 |
| Sophia (Provence-Alpes-Côte d'Azur) | 970 | Owned | 40,000 |
| Toulouse (Sud-Ouest) | 4,256 | Owned/leased | 142,000 |
| Vélizy (Île-de-France) | 4,034 | Leased | 125,000 |
| United Kingdom | | | |
| Crawley | 1,650 | Leased | 26,130 |
| Netherlands | | | |
| Hengelo | 1,633 | Owned | 87,000 |
| Australia | | | |
| Sydney | 1,259 | Leased | 84,327 |
| Germany | | | |
| Stuttgart | 1,356 | Leased | 59,000 |
| Canada | | | |
| Toronto | 1,028 | Leased | 20,500 |
| Singapore | | | |
| Singapore | 1,881 | Owned/leased | 39,000 |

Risk factors, internal control and risk management

3

| | | |
|------------|---|-----------|
| 3.1 | Operational and strategic risks | 49 |
| 3.1.1 | Risks related to the global economic, health and geopolitical environment | 49 |
| 3.1.2 | Risks related to the competitive positioning of products and services | 51 |
| 3.1.3 | Risks related to contract execution | 52 |
| 3.1.4 | Risks related to the Group's attractiveness and to talent development and retention | 54 |
| 3.1.5 | Risks related to the consolidation of Gemalto | 54 |
| 3.1.6 | Risk of dependence on suppliers | 55 |
| 3.1.7 | "Cyber" risks | 56 |
| 3.1.8 | Environmental risks | 57 |
| 3.1.9 | Risks related to investments | 58 |
| 3.2 | Legal and regulatory risks | 59 |
| 3.2.1 | Compliance | 59 |
| 3.2.2 | Protecting intellectual property | 60 |
| 3.3 | Financial risks | 61 |
| 3.3.1 | Liquidity, exchange rates and customer credit | 61 |
| 3.3.2 | Pension commitments | 62 |
| 3.4 | Risk control environment | 63 |
| 3.4.1 | Internal environment | 63 |
| 3.4.2 | Monitoring and control bodies | 67 |

The Group supplies complex systems, products and equipment, which by their nature are often critically important to its government or corporate customers worldwide. It contends with three main types of risk: operational and strategic risk, legal and regulatory risk, and financial risk.

This chapter describes these risks and the environment in which they are managed, in accordance with Article L. 225-100-1-I (paragraphs 3 to 4), and II, and Article L. 22-10-35 of the French Commercial Code, and Regulation (EU) 2017/1129 of 14 June 2017 repealing Prospectus Directive 2003/71 (EC) of 4 November 2003 (the Prospectus Regulation). It has also been prepared in consideration of the Guidelines on risk factors under said Prospectus Regulation issued by the ESMA on 1 October 2019 (ESMA 31-62-1293). It was approved by the Board of Directors at its meeting on 3 March 2021. Some of the risks listed in this chapter are covered in the Group's Non-Financial Performance Statement and identified by the acronym "NFPS". The procedures for managing them are described in chapter 5.

Thales is exposed to various risks and uncertainties which could affect its business, reputation, profitability or ability to achieve its financial objectives. To address these risks and uncertainties, the Group:

- is committed to identifying sources of risks as early as possible in an effort to better control the consequences of those risks;
- relies on a proactive and coherent system of risk identification and management covering all of its functions, and performs an annual mapping of the risks to which it is exposed.

The Group's risk management is consistent with the framework recommended by the AMF; it is a Thales management lever which helps to:

- **Create and preserve the value, assets and reputation of the Group**

Risk management identifies and analyses the main threats and potential opportunities 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.

The work allows residual risks, as estimated by the Group at end-2020 after the deployment of risk control resources and actions, to be ranked by criticality:

- high,
- moderate, or
- low,

the impact of each risk is combined with the likelihood of its occurrence or whether it is short, medium or long-term:

| Low residual criticality | Moderate residual criticality | Significant residual criticality |
|---|---|--|
| <ul style="list-style-type: none"> • Protecting the environment • Protecting intellectual property • Liquidity, exchange rates and customer credit • Investment management • Pension commitments | <ul style="list-style-type: none"> • Attracting, developing and retaining talent • Cybersecurity • Dependence on suppliers • Consolidation of Gemalto • Compliance | <ul style="list-style-type: none"> • Economic, health, and geopolitical environment • Competitive positioning of products and services • Contract execution |

Furthermore, for each of the risk types described above (operational and strategic risk, legal and regulatory risk, and financial risk), the residual risk estimated by the Group to be the most critical at end-2020 following the deployment of risk control resources and actions, was put at the top of the list.

- **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. It gives executives an objective and comprehensive vision of potential threats and opportunities to which the Group is exposed, enabling them to take measured and considered risks and guiding them in their 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**

Thales applies its corporate risk management and internal control approach in the companies which it controls and which are fully consolidated. The Group's insurance policy (see section 3.4.1 b), which is centralised, covers the same scope.

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.

This section sets out what Thales considered to be the main risks at end-2020. It was prepared on the basis of the conclusions from the risk management, internal control and internal audit work carried out by the Group in 2020. The results of this work were reviewed at the various meetings of the Risk Assessment Committee and the Risk Management Committee (see section 3.4.2) during the year, as well as at meetings of the Audit and Accounts Committee held in 2020.

3.1 Operational and strategic risks

3.1.1 Risks related to the global economic, health and geopolitical environment

Residual criticality: significant

| Risk identified | Monitoring and management of the risk |
|--|---|
| <p>Thales generates a significant share of its business from governments, particularly in the defence markets in many countries. 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 could, for example, generate delays in order booking, contract execution and payments, or mean a cut in funding for research and development programmes.</p> <p>A significant proportion of Thales's revenues is subject to the risk of political instability in the countries in which the Group operates. The materialisation of these risks may affect the Group's business and profitability.</p> <p>In particular, a change in government, a major political event, the development of protectionist policies, armed conflict, acts of terrorism, sharp deterioration in the balance of payments, industrial action, strikes, protests, climatic events or pandemics could lead to various types of risks: hardening of export control rules, ban on trading, ban on delivery, more restrictive currency control, impairment of assets, expropriation or the forced sale of Thales's interest in a company, a security situation which prevents Thales from meeting its performance obligations, an unexpected breach of a contract or commitment, an unfair call of a bond or a guarantee, or the non-certification of documents required for payment.</p> | <p>Thales has based its strategy on a balanced portfolio of defence and civil operations (45% and 55% respectively).</p> <p>The overall solidity of the portfolio is also underpinned by a large, diversified order base with a unit value of less than €100 million.</p> <p>The broad geographic spread of the Group's business, particularly through its international operations, ensures further diversification of its customer base.</p> <p>Thales manufactures and sells products in a very large number of countries and is able to adapt to varied or changing regulatory environments.</p> <p>Thales has set up teams that specialise in the financial engineering of contracts to identify and analyse the risks and to determine how they can be reduced. Thales can use public or private insurers in this context to hedge the risk of contract termination, credit risk or the risk of unfair call of a bond. It can also make use of financial instruments such as notified or confirmed letters of credit, receivables discounting without recourse or export credit facilities.</p> |

Risk identification

Covid-19 pandemic

The global health and economic crisis stemming from the successive waves of spreading of the Covid-19 virus should continue to affect many areas of the global economy in 2021 despite the launch of vaccination campaigns.

- The Group was particularly affected in the 15% of its activities related to the civil air transport market: avionics, electrical systems, in-flight entertainment systems, air traffic control and passport production. Depending on the scale, speed and effectiveness of the specific relief and stimulus packages set up in the various countries and vaccination campaigns, demand and investments in this sector could be affected more severely or for a longer period than currently projected.
- More generally, the slowdown of global economies, travel and transport restrictions, or sourcing difficulties resulting from the weakening of subcontracting chains may affect both the Group's order intake and revenues as well as delivery schedule and costs on contracts execution.

Brexit

The withdrawal of the United Kingdom from the European Union ("Brexit") could result in a downturn in the country's economic and budget situation and increased volatility of the pound sterling against the euro. The change in the rules governing the movement of goods and persons between continental Europe and the United Kingdom could also lead to logistical and administrative difficulties that could result in delays in contract execution.

This negative context could impact the business activity and profitability of Thales, which generates 6.9% of its Group revenues in the UK and employs around 6,500 people in the country.

Risk monitoring and management

Covid-19 pandemic

Since this crisis began, the Group's priority is to protect the health of its employees, their families, its customers and the general public.

To minimise the spread of the virus, the Group is applying the directives of the governments in the different countries in which it operates. Work organisation is adapted in accordance with health authority recommendations, in particular by implementing home office and deploying the associated digital tools.

The Group is constantly monitoring the situation and, whenever possible and in strict compliance with health guidelines, is working to ensure the continuity of its operations and those of its customers and partners. In this context, it is also committed to taking the appropriate measures to support its critical suppliers and subcontractors that have been most affected.

The Group is drawing on provisions and agreements of its contracts, such as force majeure, to protect its interests.

In the sectors that have been the most affected by a drop in activity, it has implemented internal reorganisations and measures to encourage mobility and workload transfers.

Brexit

The impact on ongoing programmes of any temporary disruption in the movement of goods between the EU and the United Kingdom has been assessed and contingency measures have been taken to mitigate any effects of this (early deliveries, build-up of stocks, certification of British suppliers, etc.).

The Group however continues to monitor tax, legal and regulatory changes resulting from Brexit, so it can take any necessary additional measures.

3.1.2 Risks related to the competitive positioning of products and services

Residual criticality: significant

Risk identified

The product and service lines developed by the Group must be periodically improved or redesigned to keep pace with market trends and to improve competitiveness, in particular by offering modular architectures and variability that allow for adaptations to be made competitively so that each customer's specifications can be met.

Poor anticipation of demand (volume, operating performance or target cost), bad adaptation of a design or business model, and inaccurate estimation of development costs or market launch times may result in sales or profitability being lower than projected or in the impairment of inventory for certain products or services.

The markets in which Thales operates are sensitive to factors such as rapid changes in technologies, business models, or standards and regulations.

Digitalisation, while a key growth lever for the Group, could also lead to delays in orders due to a wait-and-see attitude on the part of the customer, to market disruptions or business model changes, or to the emergence of new competitors in all Thales business activities.

The developments in the following markets are an illustration of this:

- the telecommunications satellite market is affected by constant technological developments resulting in a decrease in the Megabyte transmission cost. In particular, uncertainties remain on the interplay between new constellation models and the more traditional satellites in high orbit which are also becoming increasingly technologically advanced, enabling higher capacity and highly reconfigurable solutions to be offered;
- in connection with the development of its activities related to in-flight broadband on passenger aircraft, Thales entered into a strategic agreement with SES from 2016 to 2028 for an annual programme to purchase bandwidth for a predefined amount. The profitability of this business could be affected if the sale of broadband services were to be significantly lower than forecast for several consecutive years;
- with regard to SIM cards, online solutions (e-SIM) that will replace or supplement the Group's offering may not boost growth at the level or pace expected.

Monitoring and management of the risk

The Global Business Units and Business Lines, which are responsible for the product policy and R&D within their scope, are organised by markets to achieve coherent management of innovation efforts and a consistent response to customer needs.

Product line development is based on a dedicated procedure and organisational structure that are separate from bid and project management.

The Group develops and provides its entities with methodologies, an environment, a range of systems, software and hardware engineering tools appropriate to the different levels of complexity of its products and solutions.

Every year, the Group updates its strategic, industrial and technological plans to ensure that supply matches demand, its product portfolios are relevant and competitive, it remains an expert in key technologies and its industrial resources are optimised.

The diversity of the Group's business activities, the depth of its technology portfolio, its openness to global innovation ecosystems (universities, start-ups and incubators) are strengthening its ability to adapt to the changes in its markets.

In the digital domain, the Group has for several years now been pursuing an action plan structured around:

- expertise in key digital technologies by capitalising on its R&D investments and acquisitions. For example, the Group may draw on the experience acquired by Gemalto to ramp up the development of platforms to enhance its Software-as-a-Service offering;
- the Digital Factory, which is also accelerating the Group's digital transformation with teams based in Paris, Montreal and Singapore and was combined with the Group's engineering function in 2020 to improve permeability between the disciplines;
- partnerships with customers to support their digital transformation.

3.1.3 Risks related to contract execution

Residual criticality: significant

Risk identified

A significant proportion of Thales's business takes the form of long-term projects which are won in what is sometimes a highly competitive process.

These projects:

- can be highly complex in terms of technology;
- must meet operational, regulatory or contractual requirements which are extremely demanding or difficult to achieve;
- may have to deal with unexpected contingencies during the implementation phase.

Their contractual structure (contractorships for major systems, consortia, joint ventures, public-private partnerships, and so on) may also add constraints and complexity.

While these contracts are generally entered into on the basis of a fixed, lump-sum selling price, their term and actual development and manufacturing costs may significantly exceed what was estimated during the bidding phase, which in turn may adversely impact Thales's results and financial position. In the event of failure to achieve the required performance or meet the scheduled timetable, customers can also sometimes demand payment of penalties, or even terminate the contract.

Since the most complex contracts run over several years, in accordance with current accounting standards, their economic contribution to the Group's results over a given year may be based on an estimate of the costs at completion which can be corrected later.

Monitoring and management of the risk

Group bids and projects management is subject to a detailed risk assessment and management process which is continually being enhanced.

- A criticality ranking enables the corporate management of the operational entities (Business Lines, Global Business Units, Group corporate management) to monitor and approve bids and projects with the most risk attached to them.
- During the bidding phase, the management of commitments is helped by independent peer reviews and by the involvement of the functions (Technical, Engineering, Purchasing, Production, Legal and Contracts, Finance and Quality). The solution being proposed is verified to ensure it meets the customer's requirements and is in line with a product policy.
- During the execution phase, regular reviews prepared using a Group-wide format measure the technical, contractual and financial progress of each contract; particular attention is paid to changes in costs at completion and to the implementation of corrective action plans.
- More generally, Senior Management regularly monitors the progress of the Ambition Boost performance plan, which provides a common framework within which the units can implement plans and initiatives suited to their own issues in terms of performance improvements.

Risk identification

3.1.3 a) Offsets

Winning major contracts, in particular those in the defence sector, may be contingent in certain countries on making a commitment to implement local offsets which may be direct (the execution of parts of the contract by local manufacturers), semi-direct (location in the customer country of Group activities which are not directly related to the execution of this contract), or indirect (local investments, training, industry, etc.) in domains outside Thales's principal business portfolio.

The Group's ability to factor the offset dimension into its proposals can also be a major source of differentiation and, as such, have a decisive impact on its commercial success.

Non-fulfilment of contractual obligations by the requisite deadlines may expose the Group to penalties, the payment of which does not always release the obligor from its obligations. It can even compromise the Group's capacity to expand its activities in a given country.

Thales's order intake in recent years in countries that have developed an Offset policy (particularly in India) has led to a substantial increase in its offset commitments.

Risk monitoring and management

Thales units which export to a destination country with an offset policy are responsible for implementing the offset commitments entered into during the bidding phase and for managing their implementation.

The Group has set up specific central organisations to:

- coordinate the direct offsets policies between exporting units and destination countries or regions;
- manage certain semi-direct offsets;
- ensure through delegated units that indirect offset commitments are implemented, a task entrusted to a permanent management structure called Thales International Offsets.

3.1.3 b) Customer satisfaction

Given that Thales operates in markets that sometimes have a structurally limited number of customers, the dissatisfaction of one customer could have significant consequences.

Major dissatisfaction for whatever reason (delivery delays, inadequate quality or performance, poor understanding of the issues involved, lack of proximity, and so on) could damage confidence in Thales, harm its image and cause it to lose market share.

Restoring the Group's image and positions could therefore require substantial investment and sales efforts.

Thales has introduced a system for gauging its customers' concerns at all times, at a number of different levels:

- a sales network of Key Account Managers who are in close proximity to customers and in ongoing dialogue with them;
- a Quality & Customer Satisfaction organisation which liaises directly with customer Quality representatives throughout the contracts;
- regular independent surveys to assess customer satisfaction and confidence and to take corrective action where necessary;
- initiatives aimed at constantly strengthening the Quality culture and ensuring that teams are customer-centric.

3.1.4 Risks related to the Group's attractiveness and to talent development and retention

Residual criticality: moderate

Risk identified

The Group's short-and medium-term performance is highly dependent on its ability to recruit, in a timely manner, the talent and skills required to conduct and develop its activities, especially in R&D and the engineering, software and digital sectors.

If Thales were not sufficiently attractive, its revenues and operating profitability could be negatively impacted.

Monitoring and management of the risk

For a number of years now, the Group has been developing an active human resources management policy aimed at making it more attractive, encouraging integration and developing talent. Details of this can be found in section 5.4.1.

In this context, in 2020, Thales:

- continued to implement its diversity and inclusion commitments;
- reinforced employer brand by defining its purpose;
- updated its Leadership model which enables all Group employees to acquire the skills they need to succeed collectively, regardless of their role in the organisation;
- initiated a Smart working approach that enables employees to adapt their work methods and environment to the nature of their duties. This initiative, based in particular on the optimal division between on-site and off-site work and the development of collaborative work, aims at providing better service to our clients by striking a balance between agility and efficiency while ensuring that employees have a work-life balance.

3.1.5 Risks related to the consolidation of Gemalto

Residual criticality: moderate

Risk identified

In 2019, Thales completed the acquisition of Gemalto, a company with revenues of €3 billion and 15,000 employees in 48 countries. The businesses from Gemalto, along with the Thales e-Security businesses that were kept by the Group and Guavus's business, now constitute the Digital Identity & Security (DIS) Global Business Unit.

Integrating all these businesses into Thales could fail to produce all the expected cost and revenue synergies and other benefits, result in a loss of talent and thus negatively impact the Group's results and financial position.

Moreover, if the actual financial performance of these businesses were to diverge significantly from the business plans on which Thales's investment decisions were based, the Group may have to impair goodwill and other intangible assets, thereby negatively impacting Thales's results and financial position.

Monitoring and management of the risk

At the end of 2020, the transition of the businesses from Gemalto to the Group's management rules and principles had almost been completed.

A dedicated Steering Committee, composed in particular of several members of the Thales Executive Committee, regularly follows the progress of cost and revenue synergies.

3.1.6 Risk of dependence on suppliers

Residual criticality: moderate

Risk identified

Purchasing spend represents a substantial portion of Thales's business, whether in the areas of manufacturing, services, equipment or subsystems, and equals almost half its sales. Thales is therefore exposed to an excessive risk of dependence with respect to some of its suppliers which could affect its performance and profitability.

This excessive dependence can take several forms:

- dependence on critical technology, particularly in the case of an exclusive supplier. Bringing on board an alternative source in the event that the supplier in question ceases trading could affect the Group's performance (e.g. in aerospace, where the time required to requalify a supplier and the associated cost could be considerable);
- supply difficulties: the concentration or imbalance between supply and demand in some markets could create supply problems likely to affect the Group's performance and prevent the Group from getting its supplies on favourable terms and at favourable costs;
- economic dependence, if Thales's purchasing spend were to represent more than 50% of a supplier's sales; measures to move away from that supplier could affect the Group's performance.

The deterioration of the global economic environment as a result of the Covid-19 pandemic has left many suppliers and subcontractors vulnerable, particularly in the supply chain linked to the air transport market.

Monitoring and management of the risk

Faced with an excessive risk of dependence, Thales has introduced a number of preventative or corrective measures that are coordinated by the Purchasing Department:

- searches for dual sources by technology family;
- periodic build-up of adequate stock levels;
- regular assessment of supplier markets to measure supply source concentration levels;
- monitoring of the supplier commitment rate (amount of Thales's purchase orders relative to the supplier's annual sales). When that rate exceeds 50% for more than two consecutive years, an action plan coordinated with specifiers and internal users is drawn up to reduce it;
- monitoring of the supplier's implementation of the risk control measures identified at the time of the supplier's selection.

In addition to these measures, Thales has strengthened the supplier evaluation, qualification and operational performance management process, in particular to better identify suppliers' structural risks; supplier evaluation audits now cover a broader scope (quality control systems, industrial maturity, flow optimization, compliance with environmental regulations, expertise in the business's technical and technological processes, financial soundness, etc.) allowing for more in-depth risk analysis.

To improve the resilience of supply chains, in particular those weakened by the health crisis, Thales takes part in industry-specific initiatives launched in France in particular, with the French Aerospace industries association, GIFAS, to encourage the emergence of national or European leaders. For example, the Group is a founding member of the "ACE Aéro Partenaires" investment fund created under the Aeronautic stimulus package.

3.1.7 “Cyber” risks

Residual criticality: moderate

Risk identified

Monitoring and management of the risk

3.1.7 a) Cybersecurity of the Group’s information systems

The Group operates – whether directly or through service providers – complex information 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 its customers and must be protected against any malfunctions, malicious acts or human error. The malfunction or failure of these systems may have external causes (viruses or other malware and computer hacking, network failures, etc.) or internal causes (malicious acts, breaches of data confidentiality, human error or negligence, obsolescence).

Any such malfunction or failure can have an impact on the Group’s operations and its financial results.

The Covid-19 health crisis:

- has required a major increase in the remote working capabilities of employees (network access, videoconferencing tools);
- has triggered a significant increase in the number of cyberattacks.

The Group has implemented multi-year plans to develop its protection measures in order to deal with part of its information systems being temporarily or permanently unavailable, as well as any cybersecurity threats to these systems. These plans are managed by an organisation dedicated to information system security and include regular audits to confirm the measures’ effectiveness.

A plan to protect against risks related to cybersecurity has been defined and implemented in the countries where the Group currently operates. Based on ongoing risk analyses, this plan drives the constant adaptation of the means of protection already in place, and introduces new measures to heighten protection against cyber-sabotage, cyber crime or cyber espionage attacks. This includes monitoring system vulnerabilities and simulating intrusions.

The plan also includes the implementation of centres for monitoring threats, known as “Cybersecurity Operation Centres” coordinated at global level, so that operational anomalies and incidents that could affect the security of systems are identified as early as possible and the appropriate solutions put in place.

A number of “key rules” on the security of the information systems derived from the Thales security policy for its information systems, which is aligned with ISO 27001, aim to ensure the convergence and coherence of cybersecurity strategies throughout the Group. Their effective application is regularly monitored and reported to the Group Information Systems Security Department.

The plan is supplemented by ongoing efforts to raise employee awareness of these threats: communication campaigns and training are rolled out to help users maintain the security of their IT systems and remind them of the best practices when using them. Forums for discussion attended by all employees are also held on site on a regular basis.

In 2020, a total of six information system security audits were performed, five of them jointly by the Audit, Risks & Internal Control Department and the Information Systems Security Department. Additionally, 13 information systems security technical tests (“intrusion tests”) were conducted on key group infrastructures.

The context of the Covid-19 crisis did not require any change in current cybersecurity measures within the Group.

Risk identified**Monitoring and management of the risk****3.1.7 b) Cybersecurity of the products, systems and solutions delivered**

The Group designs, develops (either alone or with partners and subcontractors) and delivers a large number of products and systems that are mission-critical and exposed to cyber threats.

Thales also designs, develops and supplies systems or products with inbuilt cyberprotection capabilities. Its cyberprotection services include monitoring for cyber attacks on customers' systems and auditing and testing customers' cybersecurity systems.

In both cases, these products and systems might fail in the event of cyber attacks and result in malfunctions for our customers.

The failure of these products and systems might impact the business activity of the product lines concerned, the Group's reputation, and hence its financial results.

Thales might not detect a failure despite the tests that are performed.

Cybersecurity products are generally subject to qualification under the aegis of third-party organisations such as ANSSI (the French agency for information systems security) in France. The assessments leading to such qualification are performed based on a security target approved by the regulator.

With regard to the systems designed and delivered by Thales, the Group has established the "Cybersecured in Thales" plan which aims to strengthen the cybersecurity of the existing systems, as well as those in development, on a regular basis.

The most critical and most exposed systems have been mapped, resulting in the preparation of a plan for testing and remediation.

The teams responsible for cybersecurity services are regularly audited by certification bodies.

3.1.8 Environmental risks**Residual criticality: low****Risk identified****Monitoring and management of the risk****3.1.8 a) Environmental impacts related to the Group's business activities (NFPS)**

Emissions generated by the Group's activities have the potential to affect the environment. The Group's exposure to this risk is limited insofar as the industrial footprint of its sites and activities is small. Nevertheless, should some of its manufacturing activities fail to comply with the applicable laws and regulations on the matter, the Group would run the risk of sanctions, damage to its image or even refusal by some customers to do business with Thales.

The use of Group products and solutions by its customers throughout their life cycle, particularly in the air transport and digital sectors, also contributes to greenhouse gas emissions leading to global warming.

Lastly risks relating to climate change (natural disasters, supply chain disruption, market instability, etc.) have led to increasingly complex regulatory changes. These could have negative impacts on the Group's performance and business model or its customers.

The analysis of the environmental risks of the Group's activities is updated every year. It includes an assessment of significant impacts, scientific and technical developments, changes in issues and regulations, and is based on international regulatory monitoring.

The Group has introduced an organisational structure and tools at all its sites to control and limit the environmental impacts of its activities (see section 5.5.2.1).

In recent years, Thales has performed regular assessments of its sites' exposure to natural disasters in order to reduce its vulnerability to the effects of climate change, such as floods, hurricanes, fires and water stress (see section 5.5.1.3.3).

The Group has adopted a strategy to reduce its carbon footprint on its entire value chain, with targets for 2023 and 2030 aligned with the 2°C trajectory of the Paris agreement, using the Science-Based Targets methodology. It regularly assesses the progress made towards achieving these targets and consolidates this annually (see section 5.5.2.3).

Risk identified

3.1.8 b) Anticipating environmental standards in product design (NFPS)

Accelerated changes in environmental regulations could rule out certain technical solutions, particularly for certain suppliers or subcontractors. This may result in the need to qualify and implement alternative solutions, a change to the supply chain, or the upgrading of industrial resources, with the costs and timescales associated with such changes.

Regulatory differences between countries and constant changes to regulations also make it more difficult for Thales to verify the compliance of solutions that are released to market, and could put the company at a competitive disadvantage.

Lastly, the national or international industry expectations and commitments relating to the circular economy or the reduction of their carbon footprint could lead to the disqualification of technical solutions or significant additional costs, in particular for products with long life cycles such as the aerospace sector.

Monitoring and management of the risk

Analyses of the Group's environmental risks are regularly updated based on new challenges, customer needs, regulatory changes and proactive commitments (e.g. REACH in Europe, chemicals, circular economy, climate change, etc.) based on active international regulatory monitoring. In 2020, special attention was paid to the challenges and potential consequences of Brexit.

All this is factored into the design of the Group's products and solutions:

- Thales is engaged in the eco-design of all its new products and deploys tools to ensure that they are embraced by its employees and to anticipate obsolescence and the reduction in CO₂ emissions during their use.
- There are many examples of the significant contribution of the Group's products, solutions, and services to carbon reduction, especially in the transport sector (see section 5.5.3).

The Group's commitments to low-carbon future and its related targets are passed on to suppliers and the supply chain and integrated into the contracts and/or specifications.

Solutions for replacing hazardous substances are being developed ahead of regulatory deadlines. See section 5.5.2.3.2.

3.1.9 Risks related to investments

Residual criticality: low

Risk identified

Thales carries out some of its business through companies in which control is shared with, or exercised by, other partners. In 2020, the share in net income of equity affiliates accounted for around 5% of Group EBIT.

A deterioration in the performance of these companies may impact the Group's results and financial position.

In a minority position, Thales could be subject to decisions which are harmful to its interests.

Furthermore, the application of management rules and principles in these entities may differ from those adopted by Thales for entities over which it exerts exclusive control. Access to financial or operational data could be more limited than in the entities where Thales exercises exclusive control.

Monitoring and management of the risk

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 or governance provisions that are in Thales's best interests.

3.2 Legal and regulatory risks

3.2.1 Compliance

Residual criticality: moderate

Risk identified

Monitoring and management of the risk

3.2.1 a) Compliance with international trade rules

Thales sells, directly or indirectly, its products, solutions and services across the world to a very large number of public and private customers. The export or re-export of many products, technologies and systems for military or dual use is subject to obtaining licences issued in advance by the authorities of exporting countries.

Other regulations, which may be extraterritorial (e.g. those issued in the USA by the Office of Foreign Assets Control (OFAC)), prohibit trading with certain States, bodies, companies or individuals.

Such regulations, which can often change, create a framework of restrictive measures and economic and criminal sanctions on any natural person or legal entity, or any state in breach of these provisions.

Furthermore, there are no guarantees that (i) the export/re-export controls to which Thales is subject will not be tightened, (ii) new technologies or generations of products or systems developed by Thales will not be subject to similar or tighter or more restrictive controls, (iii) geopolitical factors or the increased attention of governments to the risk of Human Rights violations will not make it impossible or more complicated or increase the time taken for Thales or its suppliers to obtain export/re-export licences for certain countries or customers or make it more difficult for Thales to execute previously signed contracts or will not give rise to restrictive measures or economic sanctions (embargoes) which would prevent Thales from conducting or continuing to do business with certain countries or certain customers.

More limited access to certain international military markets or a ban on dealing with certain customers included on lists of economic sanctions (from OFAC, UN, EU, etc.) might negatively impact Thales's business activity.

The Group has adopted an ISO 9100-certified process (re-certified in 2019) to ensure its transactions comply with the regulations governing international trade and the controls applicable in terms of export/re-export, as well as with restrictive measures and economic sanctions in force.

This process includes:

- procedures and specific IT tools;
- employee awareness programmes, including e-learning modules;
- an annual internal audit plan;
- a system to monitor changes in the legislation, regulations and restrictions applicable to Thales's business activities;
- a screening process for customers/end users and other partners in order to identify third parties under sanctions.

Operating units have access to a network of specialists within the Group who are responsible for monitoring the correct application of the compliance rules relating to international trade regulations, as well as tracking applications for the necessary authorisations and compliance of their implementation with regard to export trade activities.

3.2.1 b) Compliance with rules of ethical business conduct (particularly anti-corruption and influence peddling) (NFPS)

Thales's business encompasses a variety of sectors in 68 countries.

Failure to comply with the laws and regulations applicable to ethical business conduct (which are increasingly extraterritorial in scope) and in particular, the fight against corruption and influence peddling, may have serious legal and financial consequences for the Group and severely damage its reputation.

The Group's anti-corruption compliance programme, which has been in place for a number of years, has been further strengthened to take account of recent legislative and regulatory changes, especially those resulting from France's "Sapin II" law. This programme is drawn up by the Ethics & Corporate Responsibility Department (DEIRE) and implemented by the Compliance Officer network under the supervision of the Integrity and Compliance Committee (see section 3.4.2).

In 2020, Thales embarked on a certification process pursuant to ISO 37001:2016 "Anti-bribery management systems". Certification was issued by AFNOR in March 2021, with the scope covering Thales SA and the companies it controls in France, and some international subsidiaries of Thales International SAS (Thales EURAM, Thales AMEWA and Thales NSEA). The Group plans to further pursue this process with a view to extending the scope of this certification.

External and internal audits are performed regularly to ensure strict compliance with Group rules and provisions.

The Group's anti-corruption and influence peddling policy is described in section 5. 6.

Risk identified

3.2.1 c) Compliance with competition rules

Thales's business activities are subject to a wide range of national and international regulations mainly aimed at combating anti-competitive practices, concerning suppliers, customers, partners and the competitors themselves.

Infringement of these rules could lead to severe sanctions, such as fines, payment of damages and interest, and statutory prohibitions and criminal penalties. Such sanctions could also have a serious impact on the Group's reputation.

Monitoring and management of the risk

To prevent these risks, a dedicated team of experts carries out competitive assessment on sensitive agreements and projects, notifying the competent regulatory authorities in Europe or abroad as required.

In addition, the Group has initiated a programme to raise awareness of these rules, in particular through the drafting of directives, the implementation of online training tools and dedicated training programmes for the most exposed employees.

3.2.1 d) Compliance with the rules relating to the protection of personal data

Thales is exposed to the risk of non-compliance with the regulations concerning the protection of personal data, and, more specifically, the European General Data Protection Regulation (GDPR) which came into force on 25 May 2018.

Like any entity based in the European Economic Area, Thales is impacted by this Regulation as a "data controller" when the Group has to process the personal data of its employees.

Thales is also impacted by this Regulation as a "data processor" when it has to process personal data on behalf of its customers.

Thales has rolled out a compliance programme, coordinated by the Data Protection Officer (DPO), using a network of correspondents in the various functions and entities; the programme is based on a Group personal data protection policy which applies both when Thales is the data controller and when it is the data processor.

As part of this personal data protection strategy, Thales has, for example, introduced a personal data processing register, reviewed the Group's policy procedures, provided training for its employees and put in place tools to ensure that the Regulation is correctly applied.

3.2.2 Protecting intellectual property

Residual criticality: low

Risk identified

Given that it develops solutions with significant technological content, Thales is exposed to the risks of:

- infringement of its intellectual property rights;
- allegations of infringement of intellectual property rights belonging to third parties;
- dependence on third-party technologies.
- marketing of products incorporating key patents in the telecommunications field that could involve the infringement of intellectual property rights ("patent pools").

Monitoring and management of the risk

To monitor and manage intellectual property risks, Thales uses a governance system comprising a network of Intellectual Property Managers (IPM) and IP legal officers who implement the policy decided at Group level and, more particularly, by technical management.

Thales's intellectual property is protected by the enforcement of intellectual property rights (copyright, patents, trademarks, domain names) and contractual rights.

To reduce the risk of reliance on critical third-party technologies, Thales has implemented a process to identify these technologies and manage each situation with a precise, strategic "Make/Team/Buy" 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 focuses on controlling the key technologies which are critical to the business.

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 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.

3.3 Financial risks

3.3.1 Liquidity, exchange rates and customer credit

Residual criticality: low

Risk identified

Monitoring and management of the risk

3.3.1 a) Liquidity

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

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

- shareholders' equity, detailed in Note 8 to the consolidated financial statements;
- gross debt, listed by maturity in Note 6.2 to the consolidated financial statements;
- a confirmed bank credit line, maturing in December 2023 and not used at 31 December 2020, the specific features of which are described in Note 6.6 to the consolidated financial statements, and a commercial paper programme (NeuCP). If necessary, additional resources may be used, such as the bridge loan (undrawn) set up at the beginning of the health crisis in April 2020.

Additional information can be found in Note 6.6 to the consolidated financial statements at 31 December 2020.

3.3.1 b) Exchange rates

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

Business-related currency risk mainly occurs when some of the business is billed in a currency other than that of the related costs. To a lesser extent, cash pooling and the holding of net assets in countries outside the eurozone also expose the Group to an exchange rate risk.

The accounts of Thales's subsidiaries located in countries where the functional 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 revenues. The main currencies concerned are the pound sterling, the US dollar, the Canadian dollar and the Australian dollar.

In addition, for certain Group businesses (commercial avionics, and commercial space in particular), the US dollar ("USD") is the reference transaction currency. For activities performed outside the dollar zone, the fall in the USD against the functional currency of the entity concerned might negatively impact the Group's financial statements. It should be noted in this regard that the in-flight entertainment and connectivity business, mainly based in the United States, is naturally immune to this risk.

Lastly, 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. Aviation, space and defence are particularly likely to be exposed to this "indirect" dollar risk.

A significant portion of Thales's activity is naturally protected from foreign exchange rate fluctuations, since more than 40% of its revenues are generated in the euro zone, which is also the region where the Group conducts most of its manufacturing.

In the event that the US dollar is the reference transaction currency for business performed outside the dollar zone, a specific policy for hedging foreign exchange risk is implemented through market transactions (forward exchange and options).

A similar approach is adopted if a customer requires a contract denominated in a currency other than the functional currency of the entity in question.

Additional information can be found in Note 6.6 to the consolidated financial statements at 31 December 2020.

Risk identified

3.3.1 c) 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.

Almost 60% of Thales's revenues come from government customers. 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.

More than 40% of Thales's revenues come from non-government customers (private operators of critical infrastructure, aircraft manufacturers, etc.). These customers may encounter major and/or prolonged financial difficulties liable to lead to payment defaults.

Monitoring and management of the risk

To limit its exposure to customer credit risk with respect to public-sector, state or institutional customers, Thales takes out insurance with export credit agencies (such as Bpifrance) or private insurers.

Additional information can be found in Note 6.6 to the consolidated financial statements at 31 December 2020.

With regard to its non-governmental customers, Thales regularly reviews their ability to meet their obligations. When necessary, Thales may request bank guarantees or corporate guarantees, or may use credit insurers.

Additional information can be found in Note 6.6 to the consolidated financial statements at 31 December 2020.

3.3.2 Pension commitments

Residual criticality: low

Risk identified

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 domestic legislation. As such, at 31 December 2020, Thales's pension commitments in the United Kingdom amounted to €5,114 million, hedged by €3,612 million in investments, representing an underlying shortfall of €1,502 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. The main sensitivity factors are as follows:

- the level of the discount rate applied to liabilities: a drop in discount rate could increase the underlying shortfall;
- changes in the total return on investments;
- changes in the forecast inflation rate;
- a substantial change in mortality tables;
- exchange rate fluctuations (mainly sterling against the euro).

The increase in the shortfall of pension schemes could lead the Group to increase contributions to these schemes.

Monitoring and management of the risk

Thales has introduced six-monthly reporting on its pension plan commitments and regularly examines the sensitivity of underlying shortfalls to possible market changes. In the United Kingdom, the defined-benefit pension scheme has been closed to newcomers since 2002. They benefit instead from the defined-contribution scheme. The assets used in hedging the defined-benefit commitments are managed on the basis of the long-term maturity of the commitments they hedge and, in accordance with applicable regulations, managed under a trust, with the Group being consulted. The Group is also involved in the general risk management policy of the scheme (in particular interest rate risk), under terms that are revised during three-year assessments (the next one will be based on the situation as at 31 December 2020).

Additional information can be found in Note 9.3 to the consolidated financial statements at 31 December 2020.

3.4 Risk control environment

3.4.1 Internal environment

For most of its operations, the Group is subject to a control environment imposed by its customers and by regulatory authorities (Ministries of Defence and Industry, authorities in its customers' countries, commercial aviation authorities, etc.), who 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.

Thales's organisational structure is in line with the internationally accepted "three lines of defence" model which provides an effective way of improving risk management and control by clarifying key roles and duties. The managing bodies and corporate management are the main stakeholders in these three lines:

The first line of defence consists of the operational management functions which host and manage the risks; see a) below.

The second line of defence consists of risk monitoring functions (including risk assessment, financial control, security, quality, compliance and insurance); see b) below. The internal control established at Thales is based on the international framework of COSO 2013 (Committee of Sponsoring Organizations of the Treadway Commission) and IFACI, and aims to provide reasonable assurance that the Group's objectives are met through:

- the effectiveness and efficiency of internal processes;
- accounting and financial internal control aimed at:
 - ensuring the reliability of the information used internally for management and monitoring purposes and for the published accounting and financial information,
 - preventing the risk of fraud;
- legal compliance, which is intended to ensure compliance with regulatory requirements.

The third line of defence consists of the Internal Audit function, whose role is to provide independent assurance; see c) below.

a) The main operational players in risk management

As at 31 December 2020, the organisation of Thales, described below, is based on a two-dimensional matrix structure comprising Global Business Units (GBU) and countries.

- The Global Business Units are organised into Business Lines (BL), 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's institutional relations as well as for communication.

The manager of each of the six major industrial countries (excluding France) (see list above) reports to a Non-Executive Chairman, appointed from among the Group's senior executives. The Non-Executive Chairman acts as an interface between the country and head office and liaises between the country manager and the Group Executive Committee.

In all other regions (other countries in Europe, Africa, Latin America, Asia and the Middle East), the country or regional manager reports to the International Development Department.

The Group defines common processes and internal rules on delegation that set 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 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.

Lastly, some complex or risky transactions are carried out solely by central departments, which ensure the sharing, consistency and coordination of the Group's practices. A specific internal control mechanism has been put in place to manage the risks associated with these transactions. As a result:

- total or partial acquisitions and disposals fall 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;
- all real estate transactions fall 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.

b) The main internal control and risk monitoring functions

Operations and performance function

The Operations and Performance Department is responsible for the operational resources necessary for carrying out projects and ensuring 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 that request it. In each entity, the Director of Operations coordinates the management of all of the Company's risks, in close collaboration with the Legal and Contracts Director and the Financial Director.

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 Chorus 2.0 process management framework, which applies to all Group entities. Quality assurance procedures for bids, projects and products are carried out by its representatives in each operational entity, in order to effectively meet customer demands and ensure customer satisfaction and secure the execution of operations.

Thales's process-based reference system, Chorus 2.0, defines the rules, practices and methods to be implemented by each Group entity. It can be accessed by all staff through the intranet.

Thanks to its modular design, it can be adapted to the business context; it is augmented within each entity or country by local rules and practices.

Chorus 2.0 provides all Group companies with a common language and a unified set of management processes that define the roles, rules, practices and functional methods which are to be applied; its other aim is to ensure uniform organisational alignment throughout the Group.

Chorus 2.0 is the basis of the Group's internal control system and is a natural component of the reference systems used in the work of the Internal Audit, Risks & Internal Control Department.

Chorus 2.0 is a vital tool to enable each entity to have its management systems certified in terms of quality, health, safety and environment and with regard to the norms and standards applicable to each business activity.

In its different activities, Thales has obtained and maintains certifications of compliance with applicable standards and regulations that provide evidence of its ability to manage its processes to meet the needs of its customers. In relation to Quality and for all the Group's activities, ISO 9001 certification applies. In addition, depending on the activity involved, there are numerous standards, including, but not limited to, AQAP 2110 (NATO quality standard in the defence segment), EN 9100 (European standard describing a quality assurance system for the aeronautics and space segments), EASA Part 21 sub-part G (for the production activities in Europe), EASA Part 145 (Europe) and FAR 145 (United States) for maintenance activities, EASA Part 147 (for training in aeronautics maintenance), ISO 14001 and OHSAS 18001/ISO 45001 (for Environment, Health & Safety at work matters), ISO 27001 (for Information Security Management System matters), and ISO 20000 (for Service Management System matters).

Thales has a committed strategy of continuous improvement: the Group 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.

Internally, the Quality and Customer Satisfaction function steers the policy for assessing the maturity of operational entities using an internal integrated maturity model, Thales Integrated Maturity System (TIMS).

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.

Maturity assessments are performed by experienced assessors who are recognised in their field, as well as by the quality managers at each operational entity.

Finance function

The Group's Finance Department is represented in each Global Business Unit, each operational entity and each of the main countries by a Financial Director with a functional reporting line to the Department. The implementation of the accounting and financial internal control is carried out by these Financial 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 Financial 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.

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. 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 the accounting information from the Group's various entities to be uploaded 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.

The Group's accounting and financial procedures presented in Chorus 2.0 apply to all entities. They specify in particular:

- the accounting standards and policies to be applied during the preparation of the consolidated financial statements in accordance with IFRS,
- 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,
- the content and format of the periodic reports,
- the respective role of the central teams and teams in the entities in the conduct of cash and finance transactions and the procedures applicable in short-term cash management, the operation of the exchange rate risk hedging system and the associated reporting rules.

The internal control questionnaire (ICQ) completed by the finance departments (see the section on Corporate risk assessment and internal control function below) 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 and corruption.

The financial reporting system is based on these accounting and financing procedures, and the centralised consolidation process is supported by a unique tool. The Financial Directors of each entity are accountable to the Group's Finance Department for compliance with these procedures.

- 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. Financial forecasts for the current half-year and financial year are reviewed and discussed at that time so as to steer the business in order to achieve the objectives set.

Monthly results are analysed in order to identify any budget deviations and to update annual forecasts for orders, revenues, 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.

There are three stages in setting the annual budgetary targets:

- the Global Business Units draw up a strategic plan over a period 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 and the International Development Department then present a detailed budget to Group corporate management. This budget 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 and the International Development Department, ensuring that they are consistent overall. The budget is then analysed monthly and is used as a reference for steering the Group;
- A treasury and financing function, which optimises financial resources and manages the Group's financial risks (liquidity, foreign exchange, interest rates, pensions, etc.) on a centralised basis. As part of this policy, the Group Treasury and Financing Department (DTFG) provides funding to the subsidiaries, manages 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, in particular, for implementing currency risk hedging for all the entities, which are responsible for monitoring that risk at the entity level;
- A financial engineering function, which coordinates and supervises the implementation of advance market commitments, customer financing, documentary credits or more complex transactions such as project financing. The International Finance Department, an integrated team of experts located at Group head office and in the Global Business Units, takes action to secure receivables and to hedge against the financial consequences of a contract termination;
- 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 its overall coherence;
- An insurance function which is responsible for implementing the insurance and management policy for insurable risks. This centralised Insurable Risk Management Department also monitors implementation of the policy by the Group companies.

The Group is covered against the financial consequences of the risk of accidental damage suffered or caused to 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 of goods,
- assembling and testing,
- commercial aviation liability, including civil liability for aeronautical products and hull insurance,
- liability for space products,
- risks of damage to or by naval vessels by subsidiaries, in their capacity as naval equipment suppliers,
- general third-party liability,
- environmental liability,
- liability of executive officers and directors,
- individual accident – repatriation assistance for employees on assignment,
- cyber liability.

The Group had no major loss in 2020.

The Group's policy is to arrange cover on the insurance market based on the rates and within the limits that it considers reasonable, in view of the conditions offered by the market. Insurance policies covering the major risks are limited by guarantee ceilings; general exclusions for the entire market (e.g. asbestos) also apply to Thales.

In 2020, 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 to a specific industrial site.

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 for commercial aviation liability commitments is covered by a specific programme.

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 selection, through captive insurance and reinsurance companies, to the settlement of claims for damage to property and consequent operating losses, cyber-liability, transport, general third-party liability, assembling and testing, development and space risks,
- transfer to the insurance and reinsurance markets of payment for catastrophic or high intensity losses.

In parallel, an active Prevention and Protection policy for industrial sites is designed to reduce the frequency and magnitude 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 2020, as a result of Covid-19 related restrictions, only 40% 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 outside organisations specialised in the prevention of electrical damage. These physical audits completed with videoconferences to monitor prevention plans on 17% of the assets insured.

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 pursued 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 or to satisfy the specific requirements of certain business activities or projects, particularly public-private partnerships.

Ethics, Integrity and Corporate Responsibility function

The Ethics, Integrity and Corporate Responsibility Department prepares and updates the anti-corruption compliance programme, other integrity-related programmes and the Duty of Care compliance programme. It establishes the main priorities of other policies related to ethics, integrity and corporate responsibility on which the Group must position itself and submits them to the Company Secretary. It receives the internal alerts generated under the Group's whistleblowing procedure and helps process them. More generally, it defines and implements the resources to promote and disseminate a culture of ethics, integrity and corporate responsibility within the Group.

The legal and contracts function

The Legal and Contracts Department is based on three separate bodies:

- **A corporate body** serving the operational entities composed of lawyers who are experts in their field;
- A body of legal advisors and contract managers deployed within the operating units and tasked with providing expertise in contract-related matters, from preparing the bid right through to the end of the contract;
- **A body of Chief Compliance Officers and Compliance Officers** deployed throughout the Group and tasked with implementing the anti-corruption and anti-influence peddling programme. It rolls out and implements the other compliance programmes that are relevant to the Group, taking due account of the most sensitive regulations applicable to its activities (Trade Compliance, Competition law, Protection of Intellectual Property, Protection of Personal Data, Environmental law), programmes that are prepared and updated by Corporate experts from the Legal and Contracts Department.

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. The Legal and Contracts Department and the Human Resources Department call upon outside law firms, where necessary.

With the exception of disputes concerning relationships with employees and trade unions, which are handled by the Human Resources Department, litigation and disputes are monitored by the Legal and Contracts Department.

The corporate risk assessment and internal control function

The Audit, Risks & Internal Control Department (DARCI) is responsible for developing and updating internal control assessment questionnaires, such as the yearly attestation letter (YAL) and the internal control questionnaire (ICQ), and collating and analysing the responses given by the operational entities in these annual questionnaires.

- YAL questionnaire: every year, the local entities report on the risk scenarios under their responsibility, in the form of a YAL questionnaire, updated annually and completed by the heads of the operational entities and their management teams. In 2020, 149 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 2020, 14 YAL questionnaires were subject to an internal audit.
- ICQ questionnaire: drawing in particular on the AMF recommendation entitled "Reference framework for 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 for improvement, whether these are due to control objectives that have not yet been achieved in full, insufficient control in practice,

or procedures that need to be improved. In 2020, 171 questionnaires covering all operational entities and shared services were sent out by the Audit, Risks & Internal Control Department and three ICQ questionnaires from the previous year were audited.

The Group has a risk assessment process in place for all the businesses and subsidiaries it controls. The Audit, Risks & Internal Control Department maps the major operational, strategic, compliance or financial risks to which Thales is exposed. It updates this risk mapping each year. The mapping is organised by risk factors broken down as risk scenarios which are independent of each other, which are measurable in terms of probability of occurrence and financial impact based on a common prudential rating scale, and which are each assigned to a single line of responsibility.

The Group has designated a Risk Advisor for each of these risk factors 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.

The Audit, Risks & Internal Control Department also prepares risk mappings twice a year by Global Business Unit and by Major Country, as well as for certain Group-wide topics, in addition to the risks already identified and managed by operational management. The operational departments concerned, the Quality Department and the Insurance Department are involved in this work.

The internal audits conducted by the Audit, Risks & Internal Control Department (see c) below) are mostly chosen and planned based on this risk analysis.

c) Internal audit

The Audit, Risks & Internal Control Department 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, after agreement with the co-owner companies. Its scope of involvement covers all domains and processes (governance, administrative, accounting and financial, functional and operational, etc.). 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.

Since 2006, the Audit, Risks & Internal Control Department has been continuously certified by the French Institute of Audit and Internal Control (IFACI), which ensures that its practices comply with international auditing standards. The last IIA/IFACI triennial certification was obtained by the Audit, Risks & Internal Control Department in March 2019, and in February 2020 the last IFACE monitoring audit confirmed this certification.

The actions of the Audit, Risks & Internal Control Department 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 2020, 51 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. Some of these audits were conducted remotely due to travel restrictions resulting from the health crisis. These engagements focused on the following themes:

- Operations: bids and projects, product policy and industry;
- Compliance: anti-corruption, export control, information systems security, personal data protection;
- Governance: organisation, joint ventures, monitoring of acquisition transactions;
- Internal control: audits on the accuracy of the internal control questionnaires (YAL, ICQ and Welcome Audit).

3.4.2 Monitoring and control bodies

The Board of Directors

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, its internal regulations, and, more generally, the performance of the Board and its committees is given in section 4.2.1.

Audit and Accounts Committee

Meetings of this committee of the Board of Directors review the resources employed and the actions taken to improve internal control and risk identification and management. In 2020, the Audit and Accounts Committee met five times.

The Group Audit, Risks & Internal Control Department submits an audit plan to the Audit and Accounts Committee each year, covering various aspects relating to the Group in respect of compliance with legislation and regulations, assessment of internal control and risk identification and management. The presentation is updated mid-year.

At the time of the annual closing of the accounts, the Senior Executive Vice President, Finance & Information Systems reports on risk exposure and significant off-balance sheet commitments to the Audit and Accounts Committee.

Risk Management Committee

This committee, chaired by the Chairman & Chief Executive Officer, is responsible for defining the level of risk deemed acceptable by the Group, allocating risk management and control responsibilities for these risks, defining the strategy for transferring certain risks to insurance, approving the Group's risk mapping, 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. This committee met thrice in 2020.

Risk Assessment Committee

This committee is chaired by the Senior Vice President, Audit, Risks & Internal Control (DARCI). It is responsible for analysing risks and evolving threats; it updates and prioritises risk scenarios, ensuring that responsibility for each risk scenario is allocated within the Group, prepares risk maps and formulates recommendations for the Risk Management Committee, with a view to improving the overall management and mitigation of Group risks. In 2020, the Risk Assessment Committee met every six months with each of the seven Global Business Units and on two other occasions on specific themes.

Integrity and Compliance Committee

This Committee was created in 2019. Chaired by the Company Secretary, it comprises the heads of the Ethics, Integrity and Corporate Responsibility Department, Legal and Contracts Department, and Audit, Risks & Internal Control Department. It meets at least once a month and its main role is to oversee the preparation, roll-out, implementation, assessment and updating of the Group's Integrity and Compliance programme. It is also tasked with assessing the criticality of internal whistleblowing reports received by the Group and any allegations of integrity or compliance violations brought to its attention. This committee met 22 times in 2020.

External audit and control of financial information

Each year, the Group's 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.

As well as assessing the financial statements, each year the statutory auditors provide corporate management with recommended improvements in terms of internal control as part of the year-end closing of accounts.

Governance and compensation

4

| | | |
|------------|---|------------|
| 4.1 | Composition of the Board of Directors at 31 December 2020 | 70 |
| 4.1.1 | Directors | 70 |
| 4.1.2 | Other persons attending Board meetings (without voting rights) | 78 |
| 4.2 | Corporate governance | 79 |
| 4.2.1 | Composition and procedures for the organisation and operation of the Board of Directors | 79 |
| 4.2.2 | Report on the Board of Directors' activities during the 2020 financial year | 84 |
| 4.2.3 | Preparatory work for Board of Directors meetings | 85 |
| 4.2.4 | Assessment of the Board's performance | 87 |
| 4.2.5 | Diversity policy of the Board of Directors and gender balance on management bodies | 88 |
| 4.2.6 | Restrictions to the Chief Executive Officer's powers | 89 |
| 4.2.7 | Other information | 89 |
| 4.3 | Corporate Management and the Executive Committee | 92 |
| 4.4 | Compensation of company representatives | 93 |
| 4.4.1 | Information regarding the 2020 compensation of company representatives | 93 |
| 4.4.2 | Revision of certain parameters of the 2019 and 2020 LTI Plans | 104 |
| 4.4.3 | Compensation policy for Company representatives for the 2021 financial year | 107 |
| 4.5 | Compensation of other executives | 113 |
| 4.6 | Summary statement of transactions mentioned in Article L. 621-18-2 of the French Monetary and Financial Code carried out in 2020 | 114 |

4.1 Composition of the Board of Directors at 31 December 2020

4.1.1 Directors

4.1.1.1 Appointed at the General Meeting

PATRICE CAINE

(50)

Chairman & Chief Executive Officer

Chairman of the Strategic & CSR Committee

First appointed

23 December 2014

Current term expires

2022 AGM

Number of shares held:

- 17,611 Thales shares (12,811 shares held in personally registered form and 4,700 via a holding company);
- and 100 under the Group savings scheme.

Patrice Caine was born on 7 January 1970 and is a French citizen. He 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's Executive Committee as Senior Executive Vice President, Operations & Performance.

On 23 December 2014, he was appointed Chairman and Chief Executive Officer of Thales by the Board of Directors.

He is the recipient of the French National Defence Medal (*Médaille de la Défense Nationale*) in the bronze category. In 2014, he was named Knight of the French National Order of Merit and in 2017 Knight of the French Legion of Honour.

Appointments and other positions held in companies in France and abroad

Appointments held in other companies

In France: Director of Naval Group and L'Oréal⁽¹⁾, Vice Chairman of Gifas, Vice Chairman of France Industrie (Society of Industry and Industrial Federations Group – Cercle de l'Industrie and Groupe des Fédérations Industrielles), Chairman of the National Association of Research and Technology (ANRT) and member of the National Council of Industry (CNI) and its Executive Committee.

Abroad: none.

Other positions held by Mr Caine in the last five years

In France: Director of École des Mines de Paris.

Abroad: none.

(1) Listed company.

LAURENCE BROSETA

(52)

Director proposed by the Public Sector

(Article 6 of Order No. 2014-948)

First appointed

14 May 2014

Current term expires

2021 AGM

Number of shares held

700 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 Paris.

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.

From 2013 to 2019, she was a member of the Executive Committee of Transdev, an international group that provides mobility and passenger transport services, first serving as Senior Executive Vice President France until 2016 and then CEO International Zone.

Since November 2019, Laurence Broseta has served as Chair of Antargaz, a gas and electricity distribution company, and Vice Chair of the UGI Group for western Europe.

Appointments and other positions held in companies in France and abroad

Appointments held in other companies

In France: member of Vallourec's Supervisory Board and Chair of its CSR Committee⁽¹⁾, Chair of Antargaz SAS and Antargaz Énergies, Chief Executive Officer of UGI France.

Abroad: Chair of the Board of Directors of Antargaz Belgium, Antargaz BV (Netherlands), Antargaz Luxembourg, Gasbottling and Energysud.

Other positions held by Ms Broseta in the last five years

In France: Director of RATP Dev Transdev Asia, Director of Transdev group subsidiaries, Director of Thello, Director and Vice Chairman of the Union des Transports Publics.

Abroad: Director of Transdev group subsidiaries (in Spain, Portugal, South Korea, India, Germany, Chile, Colombia, Australia and New Zealand).

CHARLES EDELSTENNE

(82)

Director recommended by the Industrial Partner

Member of the Strategic & CSR Committee

First appointed

19 May 2009

Current term expires

2022 AGM

Number of shares held

509 Thales shares

Born on 9 January 1938 and a French citizen, Charles Edelstenne is a qualified chartered accountant.

He began 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, he was appointed Chief Executive Officer of Groupe Industriel Marcel Dassault, then Chairman and Chief Executive Officer in May 2018.

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 other companies

In France: Chairman of Groupe Industriel Marcel Dassault SAS, Chairman of the Board of Directors of Dassault Systèmes SE⁽¹⁾, Honorary Chairman of Gifas, Chairman and Director of Dassault Medias SA and Groupe Figaro SAS, Chairman of Société du Figaro SAS, Director of Carrefour SA⁽¹⁾, Chief Executive Officer of Dassault Wine Estates SASU, Chairman of Rond-Point Immobilier SAS and Rond-Point Holding SASU, Manager of Rond-Point Investissement EURL, Manager of non-trading companies Arie and Arie 2, Nili and Nili 2 and the non-trading real estate company (SCI) Maison Rouge, Director of the mutual fund (SICAV) Monceau DUMAS.

Abroad: Chairman of the Board of Directors and Director of Dassault Belgique Aviation SA, Director of Dassault Falcon Jet Corp.

Other positions held by Charles Edelstenne in other companies in the last five years

In France: Director and Honorary Chairman of Dassault Aviation SA⁽¹⁾, member of the Supervisory Board of Groupe Industriel Marcel Dassault SAS and Director of Sogitec Industries SA.

Abroad: Chairman of Dassault Falcon Jet Corp. (United States), Chairman of Dassault International Inc. (United States).

(1) Listed company.

BERNARD FONTANA

(59)

Director proposed by the Public Sector

(Article 6 of Order No. 2014-948)

Member of the Audit and Accounts Committee

First appointed
30 January 2018

Current term expires
2021 AGM

Number of shares held

Not obliged to hold Thales shares (Art. 6-VI of Order No. 2014-948).

Born on 11 March 1961, Bernard Fontana, a French citizen, is a graduate of the École Polytechnique and the École Nationale Supérieure des Techniques Avancées of Paris (ENSTA).

He began his career in 1987 as an armaments engineer at Groupe SNPE (formerly Société Nationale des Poudres et Explosifs), where he held a variety of positions including General Manager of the fine chemicals business, Vice President of Strategy for the chemicals business and then Head of North America. In 2001, he was appointed member of the Executive Committee of Groupe SNPE, in charge of the chemicals and industrial explosives business.

In 2004, he joined steelmaker ArcelorMittal as Executive Vice President, Human Resources, for the Flat Products Europe business. In 2006, he became Executive Vice President of ArcelorMittal with responsibility first for the automotive sector and then for human resources. In 2010, he was appointed to manage the stainless steel division of ArcelorMittal which was listed on the stock exchange under the name Aperam, and of which he then became Chief Executive Officer.

In 2012, he was appointed Chief Executive Officer of Holcim, the world's leading cement producer, where he managed the company's merger with Lafarge. In September 2015, Bernard Fontana was appointed Chief Executive Officer of Areva NP, then Chairman of the Management Board in July 2016. The group was renamed Framatome in 2018.

Appointments and other positions held in companies in France and abroad

Appointments held in other companies

In France: Chairman of the Management Board of Framatome. Member of the GIFEN board and Chairman of GIFEN Services.

Abroad: none.

Other positions held by Mr Fontana in the last five years

In France: Chief Executive Officer of Areva NP.

Abroad: Director of ACC Limited⁽¹⁾⁽²⁾ (India), Director of Abuja Cement Limited⁽¹⁾ (India) and Director of Holcim Technology Limited (Switzerland).

PHILIPPE KNOCHE

(51)

Independent director

Chairman of the Governance and Remuneration Committee

First appointed
6 May 2020

Current term expires
2024 AGM

Number of shares held
500 Thales shares

Born on 14 February 1969, Philippe Knoche, a French and German citizen, is an Engineer of the Corps des Mines and a graduate of École Polytechnique.

Philippe Knoche began his career in 1995 as rapporteur to the European Commission in the Anti-Dumping Department, before joining the Consortium de Réalisation in 1998 as assistant to the Chairman of the Supervisory Board.

In 2000, he joined the Areva Group as Director of Strategy, going on to be appointed Director of the Recycling Business Unit in 2004, Director of the Olkiluoto 3 Project in 2006 and Director of the Reactors and Services Business Group in 2010, the same year he was named on the Group Executive Committee.

In July 2011, he was appointed member of the Management Board of Areva and Deputy Chief Executive Officer in charge of nuclear operations, before becoming Chief Executive Officer and a member of the Board of Directors in January 2015.

Since July 2017, Philippe Knoche has been Chief Executive Officer and a Director of Orano, a company resulting from the restructuring of the Areva Group and operating in all areas of the nuclear fuel cycle.

He speaks regularly on the topics of energy, climate and innovation as well as cybersecurity.

Appointments and other positions held in companies in France and abroad

Appointments held in other companies

In France: Chief Executive Officer and Director of Orano SA⁽²⁾, Chairman and Chief Executive Officer of Orano Cycle, Chairman of the Board of Directors of Orano Mining, permanent member of the Strategic Committee of SET Holding, board member of Union of Metalworking Industries and Trades (UIMM), board member of GIFEN.

Abroad: member of the Board of Directors of the International Council of Mining and Metals (ICMM).

Other positions held by Mr Knoche in the last five years

In France: Deputy Chief Executive Officer and subsequently Chief Executive Officer, member of the Management Board and subsequently Director of Areva SA⁽¹⁾, Chairman of AREVA NP SA, Chairman of the French Nuclear Energy Society.

Abroad: Chairman of the Supervisory Board of AREVA GmbH, Chairman of the Board of Canberra Industries Inc.

(1) Listed company.

(2) Company with listed debt securities.

PHILIPPE LÉPINAY

(67)

Director representing employee shareholders

Member of the Strategic & CSR Committee

First appointed

8 March 2007, effective 1 April 2007

Current term expires

2021 AGM

Number of shares held

- 1,690 Thales shares;
- 1,618 Thales shares under the Group savings scheme

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 SOPEMEA 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 2013, he is Vice President, International Relations at Thales.

Appointments and other positions held in companies in France and abroad

Appointments held in other companies

In France: Institutional Relations Delegate of the French Federation of Employee Shareholders' and Former Employees' 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), member of the Development Council of the ENSOA (French School for Active Non-Commissioned Officers) and member of the Board of Directors of the Franco-Lebanese Chamber of Commerce.

Abroad: none.

Other positions held by Mr Lépinay in the last five years

In France: Chairman of the FAS, member of the Steering Committee for Profit-sharing, Incentives, Savings and Employee Shareholding (COPIESAS).

Abroad: none.

ARMELLE DE MADRE

(50)

Independent director

First appointed

28 June 2017

Current term expires

2023 AGM

Number of shares held

500 Thales shares

Born on 2 May 1970, Armelle de Madre, a French and Dutch citizen, graduate of the University of Columbia, New York and HEC, Paris.

Armelle de Madre started her career in 1993 as a Marketing Analyst at Renault. In 2001, she became Training Manager for the Head Office, then HR Manager for Renault's logistics business. In 2006, she was appointed Human Resources Director firstly in charge of the Flins factory, then for Renault's vehicle and mechanical engineers, a remit which included the group's Technocentre, one of the largest R&D centres in France with more than 16,000 employees.

She joined Schneider Electric in 2010 as Strategy and Social Innovation Director, and then the Arkadin Group in 2011, which provides unified communications solutions and is a subsidiary of NTT, one of the main telecoms operators in the world, as Vice Chairman of Human Resources in charge of Europe, the Middle East and Africa (EMEA). In 2016, she became Vice Chairman of Marketing, EMEA, and in April 2017 Human Resources Director at Arkadin, joining the group's Executive Committee in this capacity.

In September 2019, Armelle de Madre was appointed Director of Human Resources at Datadog, a platform for monitoring and analysing data on infrastructure, networks and applications, headquartered in New York.

She is also a member of the Women's Forum United States.

Appointments and other positions held in companies in France and abroad

Appointments held in other companies

In France: none.

Abroad: none.

Other positions held by Ms de Madre in other companies in the last five years

In France: none.

Abroad: none.

EMMANUEL MOULIN

(52)

Representative (appointed by decree of 2 November 2020) of the French State, a Director proposed by the Public Sector (Article 4 of Order No. 2014-948)

Member of the Strategic & CSR Committee

Member of the Governance and Remuneration Committee

Date of first appointment
2 November 2020

Current term expires
2021 AGM

Number of shares held⁽¹⁾

Born on 22 October 1968, Emmanuel Moulin, a French citizen, is a graduate of Sciences-Po and Essec, holds a Master's degree in law from University of Paris II and also graduated from the École Nationale d'Administration (ENA) in 1996.

He joined the French Treasury Department as Deputy Head of the Transport Office from 1996 to 1998, and subsequently the Office of Treasury and Monetary Policy from 1998 to 2000.

He was appointed Alternate Director of the World Bank in Washington before becoming Secretary General of the Paris Club from 2003 to 2005. In 2006, his career continued as a senior banker at Citigroup, in charge of the public sector for France and Belgium.

In 2007, he was appointed Deputy Chief of Staff to Christine Lagarde, Minister of Economy, Finance and Industry, where he was in charge of macro-economic and financial policy, as well as European and international affairs.

He joined the Presidency of the French Republic in June 2009 as economic advisor to President Nicolas Sarkozy. After leaving the Élysée Palace in May 2012, he joined Groupe Eurotunnel as Deputy Chief Executive Officer, becoming Chief Executive Officer on 1 January 2014.

In February 2015, he was appointed Chief Executive Officer of investment bank Mediobanca in Paris.

In May 2017, he took up the role of Chief of Staff to the Minister of the Economy, Finance and Economic Recovery.

Emmanuel Moulin has been Director General of the Treasury since 2 November 2020.

Appointments and other positions held in companies in France and abroad

Appointments held in other companies

In France: none.

Abroad: none.

Other positions held by Mr Moulin in the last five years

In France: none.

Abroad: none.

DELPHINE DE SAHUGUET D'AMARZIT

(47)

Director proposed by the Public Sector (Article 6 of Order No. 2014-948)

First appointed
12 April 2018

Current term expires
2021 AGM

Number of shares held
Not obliged to hold Thales shares (Art. 6-VI of Order No. 2014-948)

Born on 9 May 1973, Delphine de Sahuguet d'Amarzit, a French citizen, is a graduate of the Paris Institute of Political Studies and the École Nationale d'Administration (ENA).

She began her career at the Inspection Générale des Finances and then joined the French Treasury Department. In 2003, she became a technical advisor on financial services on the staff of the Minister of the Economy and Finance, and in 2007 was appointed as Advisor on economic and financial affairs to the Prime Minister. From 2009 to 2013, she was in charge of the multi-lateral affairs and development office at the French Treasury Department where she oversaw the organisation of France's Presidency of the G8 and G20 for the Ministry of Finance, before becoming Head of the Financial Sector Department (SFE), responsible for corporate funding and financial regulation.

In 2015, she joined the management committee of Canal+ as Company Secretary. In June 2016, she was appointed Deputy Chief Executive Officer of Groupama Banque, which was renamed Orange Bank after Orange became its majority shareholder.

Appointments and other positions held in companies in France and abroad

Appointments held in other companies

In France: Director of ID2S, Deputy Chief Executive Officer of Orange Bank SA.

Director and Chairman of the Board of Directors of CECOM (Centre d'Expertise en Conformité Orange Money) since 6 December 2019.

Abroad: none.

Other positions held by Ms d'Amarzit in the last five years

In France: Director of BPI France SA.

Abroad: Director of Dexia SA (Belgium)⁽²⁾

(1) The French State directly holds 2,060 Thales shares. Its representative, Emmanuel Moulin, is not obliged to hold any (Article 5 of Order No. 2014-948), and he does not.

(2) Listed company.

LOÏK SEGALEN

(60)

Director recommended by the Industrial Partner

Member of the Audit and Accounts Committee

First appointed
19 May 2009

Current term expires
2022 AGM

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 became Vice President for Economic and Social Affairs at Dassault Aviation in September 2011.

In January 2013, he became Deputy Chief Executive Officer of Dassault Aviation.

He is a member of the Dassault Aviation Management Committee

He is an Officer of the French National Order of Merit and Knight of the French Legion of Honour.

Appointments and other positions held in companies in France and abroad

Appointments held in other companies

In France: Deputy Chief Executive Officer of Dassault Aviation⁽¹⁾, member of the Gifas board and Executive Committee.

Abroad: Director of Dassault Falcon Jet Corporation (USA), Sabca⁽¹⁾ (Belgium) and until 18 June 2020 SITAM Belgique (Belgium).

Other positions held by Mr Segalen in the last five years

In France: Director of Sogitec Industries.

Abroad: Director of Dassault Procurement Services (USA), Midway Aircraft Instrument Corporation (USA), Dassault International Inc. (USA) and Sabca Limburg (Belgium)

ANNE-CLAIRE TAITTINGER

(71)

Independent director

Chairman of the Audit and Accounts Committee

First appointed
15 May 2012

Current term expires
2022 AGM

Number of shares held
612 Thales shares

Born on 3 November 1949, Anne-Claire Taittinger, a French citizen, is a graduate of the Paris Institute of Political Studies, holds a Master's degree in Urban Sociology, a postgraduate degree (DESS) in Urbanism and an executive MBA from HEC (CPA programme). She began her career in 1976 with the Caisse des Dépôts et Consignations Group as Head of Urban Operations at Société centrale d'équipement du territoire.

She joined the Groupe du Louvre in 1979 as Company Secretary before taking up the role of Chair and Chief Executive Officer of Compagnie Financière Deville. She went on to become Chair and Chief Executive Officer of Compagnie Financière Leblanc and ELM-Leblanc, Vice Chair and Chief Executive Officer of the industrial division of Deville, Chair and Chief Executive Officer of Parfums Annick Goutal France USA and subsequently Baccarat.

She was appointed Chief Executive Officer then Chair of the Management Board of Société du Louvre in 1997, and in 2002 Chair of the Management Board of Groupe Taittinger, as well as Chief Executive Officer of its subsidiary Groupe du Louvre when the positions of Chair of the Board and Chief Executive Officer were separated. She stepped down from these positions in July 2006, having overseen the sale of Groupe Taittinger to an investment fund in 2005.

Since September 2006, Anne-Claire Taittinger has been part of a pool of investors that bought Champagne Taittinger.

In 2004, she became involved in the Women's Forum for the Economy and Society, both as a co-founder and investor.

Appointments and other positions held in companies in France and abroad

Appointments held in other companies

In France: Chair of SAS Le Riffay. Since September 2018: Member of the Management Committee of SAS E-Attestation.

Abroad: none.

Other positions held by Ms Taittinger in the last five years

In France: until July 2018: Director and member of the Carrefour Appointments and Compensation Committees⁽¹⁾. Until 2015: Director and Chairman of the Club Méditerranée Appointments, Compensation and Corporate Governance Committee⁽¹⁾.

Abroad: none.

(1) Listed company.

ANN TAYLOR

(73)

Independent director

First appointed

15 May 2012

Current term expires

2022 AGM

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 *Monitor* with the Housing Corporation and was 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 was appointed by the Prime Minister (Tony Blair) as Leader of the House of Commons in 1997 and 1998, and Government Chief Whip from 1998 to 2001. She sat on most government committees.

In May 1997, she became member of the Privy Council when she was appointed as Chairman.

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). She has been a member of the NATO Parliamentary Assembly.

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 chairs its Constitution Committee. She is also a Trustee of the National Coal Mining Museum for England and a Chair of the Council of the University of Bradford.

Appointments and other positions held in companies in France and abroad

Appointments held in other companies

In France: none.

Abroad: member of the Advisory Panel of Thales UK PLC⁽¹⁾ and Chair of Council and Pro-Chancellor of the University of Bradford.

Other positions held by Ms Taylor in the last five years

In France: none.

Abroad: none.

ÉRIC TRAPPIER

(60)

Director recommended by the Industrial Partner

Member of the Governance and Remuneration Committee

First appointed

19 May 2009

Current term expires

2022 AGM

Number of shares held

500 Thales shares

Born on 1 June 1960, Éric Trappier is a French citizen and a graduate of the École 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.

In 2006, Éric Trappier became Executive Vice President, International of Dassault Aviation.

He was appointed Chairman & Chief Executive Officer of Dassault Aviation⁽²⁾ 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 other companies

In France: Chairman and Chief Executive Officer of Dassault Aviation⁽²⁾, Chairman of Gifas, Chairman of Cidef, Director of Sogitec Industries.

Abroad: Chairman of Dassault Falcon Jet Corporation (USA), Chairman of the ASD (Belgium), Co-Chairman and Director of Dassault Reliance Aerospace Limited (DRAL) (India) and Director of Dasbat Aviation LLC (United Arab Emirates).

Other positions held by Mr Trappier in the last five years

In France: Director-Manager of the Rafale International EIG, Manager of Dassault International (France) (SARL), First Vice Chairman of Gifas and Chairman of the ASD Defence Committee.

Abroad: Director and Chairman of Dassault International Inc. (USA)

(1) A Thales Group company.

(2) Listed company.

MARIE-FRANÇOISE WALBAUM

(70)

Director recommended by the Industrial Partner

First appointed

17 September 2013

Current term expires

2022 AGM

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 as well as 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 other companies

In France: Independent director of FFP⁽¹⁾ (and member of the Finance and Audit Committee and of the Governance, Appointments and Compensation Committee) and Imerys⁽¹⁾ (and Chairman of the Appointments Committee and Chairman of the Compensation Committee), as well as member of the Supervisory Board of Isatis Capital.

Abroad: none.

Other positions held by Ms Walbaum in the last five years

In France: Independent director of Esso⁽¹⁾ (and Chairman of the Audit Committee) until 18 March 2020.

Abroad: none.

4.1.1.2 Employee representatives

ANNE-MARIE HUNOT-SCHMIT

(56)

Director representing employees

Member of the Strategic & CSR Committee

First appointed

9 December 2016

Current term expires

8 December 2024

Number of shares held

- 267 Thales shares;
- 186 Thales shares under the Group savings scheme.

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, a French citizen, is a graduate of the Institut d'administration des entreprises (IAE) business school in Paris and holds a postgraduate degree in Applied Mathematics. She has also been certified as a "Company Director" by the French Institute of Directors (IFA) and Sciences Po in Paris.

In 1987, she joined Dassault Électronique as a software developer, filing the first patent for a ground collision avoidance system (GPWS/GCAS) before joining the first contract management team for the Mirage 2000-9 programmes in 1998.

In 2007, she began working at Thales's 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 control for bids and projects within the Ground Transportation Business Unit. Since June 2020, she has led environmental risk assessments in the Group's HSE Department.

Appointments and other positions held in companies in France and abroad

Appointments held in other companies

In France: none.

Abroad: none.

Other positions held by Ms Hunot-Schmit in the last five years

In France: none.

Abroad: none.

(1) Listed company.

Frédérique SAINCT

(62)

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 2024

Number of shares held

- 10 Thales shares;
- 21 Thales shares under the Group savings scheme.

Not required to hold Thales shares (Article L. 225-25, paragraph 3 of the French Commercial Code)

Born on 19 December 1958, Frédérique Saint 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.

Frédérique Saint has worked in various areas in the satellite business, including attitude control and mission analysis for telecommunications customers in Europe and abroad.

Since 2006, she is a technical expert for the In-orbit Operations division.

Appointments and other positions held in companies in France and abroad

Appointments held in other companies

In France: none.

Abroad: none.

Other positions held by Ms Saint in the last five years

In France: none.

Abroad: none.

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 of a company that has been the subject of bankruptcy, liquidation or receivership, 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 potential conflict of interests exists between the private interests of the Board members and their duties towards Thales.

4.1.2 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

Joël Barre, 65, Engineer-General, Exceptional Class (*Ingénieur Général de classe exceptionnelle*), head of the French military procurement office - DGA (*Délégué Général pour l'Armement*).

Appointed by decree of the Minister of the Economy and Finance on 6 April 2018.

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 189) and pursuant to Article 10 of the Company's Articles of Association.

Government Commissioner

Jean-Luc Sourdois, 60, French Armed Forces General Inspector (*Contrôleur Général des Armées*)

Appointed Government Commissioner to Thales and its subsidiaries by decision of the Minister of Defence of 3 July 2019, under the statutory and regulatory provisions concerning defence contractors and companies engaged in the manufacture and sale of defence equipment.

Representative of the Central Social and Economic Committee

Marielle Marichy, 57, appointed by the Central Social and Economic Committee as its representative on the Board of Directors of Thales, pursuant to Article L. 2323-65 of the French Labour Code.

The statutory auditors

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 2020 financial year:

- **Ernst & Young Audit**, represented by Jean-François Ginies, partner;
- **Mazars**, represented by Dominique Muller, partner.

4.2 Corporate governance

In accordance with French law, in 2008 the Company decided to refer voluntarily to the Corporate Governance Code for Listed Companies published by the Afep and Medef bodies, the current version of which dates from January 2020 and can be viewed on the Afep website at https://afep.com/wp-content/uploads/2020/01/Code-Afep_Medef-fr%C3%A9vision-janvier-2020_-002.pdf or at the Company's registered office.

“Comply or explain” rule

The Company complies with the recommendations contained in the Afep-Medef code, except for those concerning:

| Heading | Afep-Medef | Thales at 03/03/2021 | 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 Chairman and CEO | No | Under the terms of the above-mentioned agreement, the appointment of the Chairman and CEO is decided by both shareholders (Public Sector and Dassault Aviation). |

4.2.1 Composition and procedures for the organisation and operation 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), 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, four are “external directors” selected jointly by the Public Sector and Dassault Aviation, one is the representative of employee shareholders, and the others are recommended to the General Meeting by the Public Sector (five) and by Dassault Aviation (four).

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.

• **SUMMARY OF INFORMATION RELATING TO DIRECTORS
(PREPARED IN ACCORDANCE WITH APPENDIX III OF THE AFEP-MEDEF CODE)**

| Directors at 31 December 2020 | Age | Gender | Nationality | Number of Thales shares | Number of appointments held in other listed companies |
|--|-----|--------|-------------------|-------------------------|---|
| Appointed by the Annual General Meeting (14) | | | | | |
| Recommended by the Public Sector (5) | | | | | |
| Patrice Caine, Chairman & Chief Executive Officer | 50 | M | French | 17,611 ^(e) | 1 |
| Laurence Broseta ^(b) | 52 | F | French | 700 | 1 |
| Bernard Fontana ^(b) | 59 | M | French | – | – |
| The French State, represented by Emmanuel Moulin ^(c) | 52 | M | French | 2,060 ^(a) | – |
| Delphine de Sahuguet d'Amarzit ^(b) | 47 | F | French | – | – |
| Recommended by the Industrial Partner (Dassault Aviation) (4) | | | | | |
| Charles Edelstenne | 82 | M | French | 509 | 2 |
| Loïk Segalen | 60 | M | French | 509 | 2 |
| Éric Trappier | 60 | M | French | 500 | 1 |
| Marie-Françoise Walbaum | 70 | F | French | 500 | 2 |
| Representative of employee shareholders (1) | | | | | |
| Philippe Lépinay | 67 | M | French | 3,308 | – |
| External directors (4) | | | | | |
| Philippe Knoche Independent director ^(d) | 51 | M | French and German | 500 | – |
| Armelle de Madre Independent director ^(d) | 50 | F | French and Dutch | 500 | – |
| Anne-Claire Taittinger Independent director ^(d) | 71 | F | French | 612 | – |
| Ann Taylor Independent director ^(d) | 73 | F | British | 500 | – |
| Appointed by the trade unions (2) | | | | | |
| Anne-Marie Hunot-Schmit | 56 | F | French | 453 | – |
| Frédérique Saint | 62 | F | French | 31 | – |

(a) The French State directly holds 2,060 Thales shares. Its representative, Emmanuel Moulin, is not obliged to hold any (Article 5 of Order No. 2014-948), and he does not.

(b) Director proposed by the French State (Article 6 of Order No. 2014-948).

(c) Appointed by decree as Representative of the French State (Article 4 of Order No. 2014-948).

(d) Independent within the meaning of the Afep-Medef code, confirmed by the Board of Directors on 3 March 2021.

(e) Of which 4,700 shares held through a holding company controlled by the interested party.

• **SUMMARY OF INFORMATION RELATING TO DIRECTORS
(PREPARED IN ACCORDANCE WITH APPENDIX III OF THE AFEP-MEDEF CODE) (CONT.)**

| Directors at 31 December 2020 | First appointment | Current term | | Committees* | | | Attendance 2020 | | | |
|--|-------------------|---|------------|-------------|-------|-------|--|------|------------|------|
| | | Starts | Ends | S & C | A & A | G & R | Number of meetings taken into account and attendance percentage ^(a) | | | |
| | | | | | | | Boards | | Committees | |
| Appointed by the Annual General Meeting (14) | | | | | | | | | | |
| Recommended by the Public Sector (5) | | | | | | | | | | |
| Patrice Caine, Chairman & Chief Executive Officer | 23/12/2014 | 23/05/2018 | 2022 OGM | █ | | | 7 | 100% | 2 | 100% |
| Laurence Broseta ^(b) | 14/05/2014 | 17/05/2017 | 2021 OGM | | | | 7 | 100% | N/A | N/A |
| Bernard Fontana ^(b) | 30/01/2018 | 30/01/2018 | 2021 OGM | | █ | | 7 | 100% | 5 | 100% |
| The French State, represented by Emmanuel Moulin ^(c) | 30/01/2018 | 30/01/2018 and decree of 02/11/2020 | 2021 OGM | █ | | █ | 1 | 100% | – | – |
| Delphine de Sahuguet d'Amarzit ^(b) | 12/04/2018 | 12/04/2018 | 2021 OGM | | | | 7 | 86% | N/A | N/A |
| Recommended by the Industrial Partner (Dassault Aviation) (4) | | | | | | | | | | |
| Charles Edelstenne | 19/05/2009 | 23/05/2018 | 2022 OGM | █ | | | 7 | 100% | 2 | 100% |
| Loïc Segalen | 19/05/2009 | 23/05/2018 | 2022 OGM | | █ | | 7 | 100% | 5 | 100% |
| Éric Trappier | 19/05/2009 | 23/05/2018 | 2022 OGM | | | █ | 7 | 100% | 4 | 100% |
| Marie-Françoise Walbaum | 17/09/2013 | 23/05/2018 | 2022 OGM | | | | 7 | 100% | N/A | N/A |
| Representative of employee shareholders (1) | | | | | | | | | | |
| Philippe Lépinay | 01/04/2007 | 17/05/2017 | 2021 OGM | █ | | | 7 | 100% | 2 | 100% |
| External directors (4) | | | | | | | | | | |
| Philippe Knoche (as from 06/05/2020) Independent director ^(d) | 06/05/2020 | 06/05/2020 | 2024 OGM | | | █ | 3 | 100% | 2 | 100% |
| Armelle de Madré Independent director ^(d) | 28/06/2017 | 15/05/2019 | 2023 OGM | | | | 7 | 100% | N/A | N/A |
| Anne-Claire Taittinger Independent director ^(d) | 15/05/2012 | 23/05/2018 | 2022 OGM | | █ | | 7 | 100% | 5 | 100% |
| Ann Taylor Independent director ^(d) | 15/05/2012 | 23/05/2018 | 2022 OGM | | | | 7 | 100% | N/A | N/A |
| Appointed by the trade unions (2) | | | | | | | | | | |
| Anne-Marie Hunot-Schmit | 09/12/2016 | 09/12/2020 | 08/12/2024 | █ | | | 7 | 100% | 2 | 100% |
| Frédérique Saint | 09/12/2016 | 09/12/2020 | 08/12/2024 | | █ | █ | 7 | 100% | 9 | 100% |

(a) Attendance is calculated in relation to the total number of meetings during which the director was in office, either on the Board of Directors or on the Committee concerned. The attendance rate of directors who left office in 2020 was 100%: Odile Renaud-Basso, Representative of the French State until 2 November 2020 attended six meetings of the Board of Directors, two meetings of the Strategic & CSR Committee and three meetings of the Governance and Remuneration Committee; Yannick d'Escatha, Chairman of the Governance and Remuneration Committee attended four meetings of the Board of Directors and two meetings of the Governance and Remuneration Committee.

(b) Director proposed by the French state (Article 6 of Order No. 2014-948).

(c) Appointed by decree as Representative of the French State (Article 4 of Order No. 2014-948).

(d) Independent within the meaning of the Afep-Medef code, confirmed by the Board of Directors on 3 March 2021.

* **Committee:** Strategic and CSR (S&C), Audit and Accounts (A&A) and Governance and Remuneration (G&R).

Status: █ Member, █ Chairman

• **CHANGES IN THE COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES DURING THE 2020 FINANCIAL YEAR (PREPARED IN ACCORDANCE WITH APPENDIX III OF THE AFEP-MEDEF CODE)**

| | Departures | Appointments | Reappointments |
|--|---|--|---|
| Board of Directors | Yannick d'Escatha Odile Renaud-Basso (Representative of the French State) | Philippe Knoche Emmanuel Moulin (Representative of the French State) | Anne Marie-Hunot Schmit Frédérique Saint |
| Strategic and Corporate Social Responsibility Committee | Odile Renaud-Basso | Emmanuel Moulin | Anne Marie-Hunot Schmit |
| Audit and Accounts Committee | – | – | Frédérique Saint |
| Governance and Remuneration Committee | Yannick d'Escatha (Chairman of the Committee) Odile Renaud-Basso | Philippe Knoche (Chairman of the Committee) Emmanuel Moulin | Frédérique Saint |

In accordance with the Afep-Medef code and as recommended by the AMF, the biographies in section 4.1.1 list the offices held by members of the Board of Directors in Group companies and/or listed companies, in France or abroad, and include information relating to their other activities, areas of expertise or experience.

The General Meeting of 2014 set the term of office of directors at four years.

The average age of the directors at 31 December 2020 was 60.7. On that 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. 225-19 paragraph 2 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.

Governance procedures: 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 23 May 2018, upon the reappointment of Patrice Caine as Chairman and CEO, the Board of Directors ruled that the absence of separation did 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 chapter II of the Board's rules of procedure in section 4.2.6 below).

The Chairman and CEO's compensation is reviewed by the Governance and Remuneration Committee and later by the Board of Directors, in both cases in the absence of the concerned party.

Directors may hold discussions when the Board travels to Group sites, and in particular during the annual Board meeting that examines the strategic plan. Additionally, as from 2021, the Board of Directors will hold at least one formal meeting a year without the Chairman & Chief Executive Officer. This meeting will be conducted by the Chairman of the Governance and Remuneration Committee.

Increasing the number of women on the Board of Directors

The objectives set by law No. 2011-103 of 27 January 2011 relating to balanced gender representation on boards of directors and supervisory boards and to gender equality, as amended (both men and women must represent a minimum of 40% of the directors appointed, excluding directors representing employees and employee shareholders) have been met since 29 November 2016.

On 31 December 2020, the percentage of women on the Board of Directors was 43% (6 out of 14 directors), excluding employee representatives, and 50% (8 out of 16 directors) when account is taken of employee representative directors.

Independence of directors

According to the rules of procedure, the Board of Directors, based on the report of the Governance and Remuneration Committee, conducted on 3 March 2021 its annual review of the situation of its members with reference to the definition of and criteria for independent directors, as specified by the 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 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 reviewed the responses to the detailed questionnaire sent to each of the "external directors" in January 2021.

Philippe Knoche was the only external director to have served in a professional capacity in 2020 in a group that has a business relationship with Thales, specifically Orano SA, of which he is Chief Executive Officer (see his biography on page xx).

The Committee noted that the total sales generated by Thales with Orano was very significantly below the threshold of 1% both of Thales's sales and of Orano's sales; this 1% threshold was set by the Board as a threshold of materiality in assessing whether or not the business relationship was significant.

The Committee concluded that, on this basis, nothing indicated that Philippe Knoche's judgement would be compromised while carrying out his duties as a director of Thales and that nothing could keep him 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. The questionnaires did not contain any other responses that call into question these individuals' qualification as independent directors.

The table below shows the independent directors' fulfilment of the independence criteria set out in the Afep-Medef code.

| | | Philippe Knoche | Armelle de Madre | Anne-Claire Taittinger | Ann Taylor |
|--------------------|--|-----------------|------------------|------------------------|------------|
| Criterion 1 | Employee or executive officer within the previous five years | ✓ | ✓ | ✓ | ✓ |
| Criterion 2 | Cross-directorships | ✓ | ✓ | ✓ | ✓ |
| Criterion 3 | Significant business relationships | ✓ | ✓ | ✓ | ✓ |
| Criterion 4 | Family ties | ✓ | ✓ | ✓ | ✓ |
| Criterion 5 | Auditor | ✓ | ✓ | ✓ | ✓ |
| Criterion 6 | Period of office exceeding 12 years | ✓ | ✓ | ✓ | ✓ |
| Criterion 7 | Status of non-executive Company representative | ✓ | ✓ | ✓ | ✓ |
| Criterion 8 | Status of major shareholder | ✓ | ✓ | ✓ | ✓ |

In conclusion, on the recommendation of the Governance and Remuneration Committee, the Board of Directors decided to qualify Armelle de Madre, Anne-Claire Taittinger, Ann Taylor and Philippe Knoche as independent directors.

As at 3 March 2021, the closing date of the 2020 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 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, amended most recently by the Board meeting on 3 March 2021, 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 submits for approval to 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 must, in such cases, refrain from taking part in discussions or voting on the corresponding matter.

Directors must also inform the Chairman of any proposed agreement involving them directly or indirectly which may, pursuant to the French Commercial Code, need to receive the prior authorisation of the Board of Directors.

In addition, the directors have individually issued a statement regarding the following points:

- no Board member has been convicted of fraud in the last five years;
- no Board member has been involved in the last five years as a senior executive of a company that has been the subject of bankruptcy, liquidation or receivership, 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 Board member has any family ties with another member of the Board of Directors or any members of corporate management;
- no potential conflict of interests exists between the positions held at Thales and their private interests or other positions held.

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), acquisitions or disposals of shareholdings or assets with a value exceeding €150 million (in commitments or in sales), 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)

In particular, it is expected 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 all 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, Strategic and Corporate Social Responsibility 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 annual minutes of the Board of Directors' activities, as required by law, in section 4.2.2 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 first quarter of the following year is published on the Company's website after the publication of 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.

4.2.2 Report on the Board of Directors' activities during the 2020 financial year

Number of meetings and attendance rate

The Board of Directors met seven times in 2020. The average attendance rate for directors was 99%, which is proof of their very high level of dedication during this exceptional year. The individual attendance rates are specified in section 4.2.1 above.

The statutory auditors are invited to meetings relating to the audit of the half-year and annual 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, 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, approval of Annual Meeting documents and notice of the General Meeting, prior approval if applicable for related-party commitments or agreements, annual assessment of the operating procedures of the Board and its Committees, 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 in 2020 concerned the monitoring of the management of the Covid-19 crisis and its consequences, namely:

Directors are systematically 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, and of their obligation to provide the Company with a list of people to whom they are closely connected 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.

Obligation to hold a minimum number of shares

In application of Article 10.3 of the Articles of Association, each director must hold at least 500 shares, unless legally exempt. The Chairman and CEO is also subject to an obligation to retain shares that they hold as part of their long-term compensation (see section 4.4.3.1 B).

Summary of the transactions mentioned in Article L. 621-18-2 of the French Monetary and Financial Code carried out in 2020

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 2020 by persons required to file a disclosure can be found in section 4.6.

- the assessment of the health situation and its impact on business;
- the measures taken to ensure business continuity and development, while protecting the health of Group employees;
- diverse decisions relating to the 2020 Annual General Meeting, held exceptionally in camera, and in particular the limitation of the 2019 dividend to the interim dividend paid in December 2019;
- the update of the Group's 2020 objectives in the interim financial statements.

The Board also addressed the following issues, based on the relevant Committee reports:

- assessment of the main strategic challenges of the Group's various business areas;
- the update of the Group's anti-corruption and anti-influence peddling programme;
- the Group's low-carbon policy;
- the Group's new employee engagement programme, Thales Solidarity;
- the introduction of an annual long-term incentive (LTI) plan with performance conditions, applicable to Group employees;
- a proposed employee share ownership plan;
- the process for selecting a Statutory Auditor;
- the financing of the pension plan in the United Kingdom;
- amendment of the Board's rules of procedure to include at least one Board meeting per year held without the Chairman & Chief Executive Officer, as from 2021.

4.2.3 Preparatory work for Board of Directors meetings

Information for directors

Board documents

Each year, a provisional timetable for meetings is drawn up 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, and 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.

The prior sending of documents by e-mail, which can be accessed on dedicated secure tablets, has enabled the time frame 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 2020, 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 and are also compliant with EU Regulation No. 537/2014 of 16 April 2014.

The Audit and Accounts Committee acts under the responsibility of the Board of Directors. Without prejudice to the powers of the Board of Directors, it is specifically responsible for the following tasks:

- 1) it monitors the process of drawing up the financial information and, where applicable, formulates recommendations to guarantee its integrity;
- 2) it monitors the effectiveness of internal control and risk management systems, as well as the internal audit where applicable, with regard to procedures relating to the preparation and processing of the accounting, financial and non-financial information;
- 3) it supervises the selection procedure for the statutory auditors and issues a recommendation to the Board of Directors on the statutory auditors proposed for appointment by the General Meeting, including the renewal of their mandate;
- 4) it monitors fulfilment by the statutory auditors of their mission, taking account of the findings and conclusions of the Haut Conseil du Commissariat aux Comptes (Audit Office Control Board) following audits performed;
- 5) it ensures compliance by the statutory auditors with the terms and conditions of independence prescribed by current regulations;

- 6) it approves, within the framework authorised by the Board of Directors, the provision by the statutory auditors or members of their respective networks, of services other than the certification of the financial statements of the Company and the companies that it controls directly and indirectly. It reviews and validates related procedures and ensures their compliance;
- 7) it reviews the procedure for regularly assessing whether the agreements relating to ordinary transactions entered into under normal terms and conditions actually meet these conditions, in accordance with Article L. 22-10-12 of the French Commercial Code (task added by the Board of Directors on 25 February 2020).

It consults the statutory auditors on the following:

- 1) their general programme of work as well as the various sample tests they have performed;
- 2) 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;
- 3) any irregularities and inaccuracies that they may have discovered;
- 4) conclusions resulting from the aforementioned comments and adjustments to the profits for the period compared to those of the previous period;
- 5) risks to their independence and the safeguards applied to mitigate these risks;
- 6) significant internal control weaknesses they may have identified, as regards procedures relating to the preparation and processing of accounting and financial information.

It receives from them each year:

- 1) a statement of independence;
- 2) 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 other than the certification of the financial statements that they have provided;
- 3) the additional report under Article 11 of EU Regulation No. 537/2014.

Each year, it examines the budget for professional fees for the statutory auditors. It reviews and analyses the professional fees paid to the statutory auditors for the preceding financial year.

The Committee relies in particular, for performing its duties, on the work of the Finance Department and the Internal Audit department. It approves the annual programme of the Internal Audit department and examines the activity reports.

It reports regularly to the Board of Directors on its work and the results of its assignment to certify the financial statements, the way in which this assignment contributed to the integrity of the financial information and the role that it played in this process. It informs the Board of Directors 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.

On 31 December 2020, the members of the Committee were:

- Anne-Claire Taittinger, Chairman and independent director;
- Bernard Fontana;
- Frédérique Sainct, director representing employees;
- Loik 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 at least one director, the Chair of the Committee, in addition to being qualified as an independent director, has the requisite financial, accounting and statutory audit expertise (see biography of Anne-Claire Taittinger on page 75).

However, the Committee is not composed of two thirds independent directors, as recommended by the Afep-Medef code, but only one-third (note that Frédérique Saint, the director representing employees was not taken into account for this calculation). Under the shareholders' agreement, a representative of each of the two shareholders of the agreement sits on each Committee. In the case of the Audit and Accounts Committee, the representatives are Bernard Fontana, appointed on the recommendation of the Public Sector, and Loïk Segalen, appointed on the recommendation of Dassault Aviation.

The Committee met five times in 2020, 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 General Counsel.

In addition to the annual financial statements, in 2020 the Committee also reviewed:

- the interim financial statements, and in this connection, the effects of the Covid-19 crisis on the accounts;
- 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 within the particular context of the Covid-19 crisis, and assessment of the implementation of the annual audit plan;
- the audit plan for 2021;
- the change in cyber-risk under Covid-19;
- the new risk mapping of corruption and influence peddling under the Group's updated anti-corruption and anti-influence peddling programme presented to the Board of Directors;
- the preparation of the next three-year assessment of the Group's pension commitments in the United Kingdom and the corresponding financing plan;
- the process for selecting a Statutory Auditor, which led to a proposal that the Statutory Auditor be renewed at the next General Meeting;
- the charter on related-party and current agreements concluded by the Company (see section 4.2.7);
- the Chairman's report for 2019 covering internal control and risk management.

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.

The Committee also reviewed the financial press releases on the Company's 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 report on the Audit Committee 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 the minutes, which may be more detailed.

Governance and Remuneration Committee

In compliance with Article 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 commitment concerning him, the compensation of the directors and, if applicable, that of other Company representatives⁽¹⁾;
- 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 hold 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 4.2.4 below) and reporting on it to the Board in order to facilitate discussion.

On 31 December 2020, the members of the Committee were:

- Philippe Knoche, Chairman, independent director;
- Emmanuel Moulin;
- Frédérique Saint, director representing employees;
- Éric Trappier;

The Committee met four times in 2020, with an attendance rate of 100%.

The ratio of independent directors recommended by the Afep-Medef code (at least half) is not met, because it currently stands at one-third (the director representing employees, Frédérique Saint, is not included in this calculation pursuant to the Afep-Medef code). Under the shareholders' agreement, a representative of each of the two shareholders of the agreement sits on each Committee. In the case of the Governance and Remuneration Committee, the representatives are Emmanuel Moulin, representative of the State, appointed on the recommendation of the Public Sector, and Eric Trappier, appointed on the recommendation of Dassault Aviation.

The Senior Executive Vice President, Human Resources, and the Company Secretary are invited to all Committee meetings, and the Chairman and CEO is 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 2020 included:

- the total compensation of the Chairman and CEO (*ex post* 2019 and compensation policy for 2020);
- the examination of the application of the new Committee Chairman, whose nomination was approved by the General Meeting;
- the independence of the directors;
- the Group's long-term incentive (LTI) policy and the preparation of a free share plan with performance conditions and according to the level of responsibility of the beneficiaries;
- the review of a proposed employee share ownership plan;
- the harmonisation of the variable compensation structures of managers, in particular following the integration of Gemalto;
- the terms for the annual assessment of the performance of the Board of Directors and the related report presented to the Board;
- the question of the holding of at least one Board meeting a year without the Chairman & Chief Executive Officer; and
- the Board's report on corporate governance.

For all of these items, the Committee presented its recommendations to the Board: each meeting was recorded in minutes circulated to all directors at the next Board meeting. In addition, the Committee proceedings were recorded in the minutes, which may be more detailed.

(1) In this Section 4, the term "Company Representatives" means all members of the Board of Directors, and the term "Company Representative", when used in singular form, means the Chairman and Chief Executive Officer.

Strategic and Corporate Social Responsibility Committee

In compliance with the Board's rules of procedure, the Strategic and Corporate Social Responsibility (CSR) Committee's main tasks are to assess the Group's strategy in its key business segments and with respect to CSR, and in particular:

- to examine the Group's strategic approaches 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;
- to examine the Group's CSR strategy and to ensure that the results of the strategy are monitored annually;
- examine the Group's Extra-Financial Performance Statement to make recommendations to the Board.

As at 31 December 2020, the Strategic and Corporate Social Responsibility Committee comprised:

- Patrice Caine, Chairman;
- Charles Edelstenne;
- Anne-Marie Hunot-Schmit, director representing employees;
- Philippe Lépinay, director representing employee shareholders;
- Emmanuel Moulin.

For this type of committee, no conditions are set for the independence of directors, either by law or by the Afep-Medef code.

It met twice in 2020, with a 100% attendance rate, in particular to review the 2020 budget and the report on "Corporate Responsibility and extra-financial performance" for 2019, including the Group's Extra-Financial Performance Statement.

In 2020, the Senior Executive Vice President of Finance & 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 Chair of the Committee. A written report was made for each meeting and distributed to all directors at the following Board meeting, or an oral account of the meeting was presented by the Chairman and CEO, the Committee Chairman, with supporting documentation as applicable. Meetings are recorded in minutes, which may be more detailed.

4.2.4 Assessment of the Board's performance

The Board assesses its performance each year either by means of a formal self-assessment or an external assessment. In either case, the assessment is followed by a discussion with the Governance and Remuneration Committee and then the Board.

Like the previous year, at the end of 2020, the Board conducted a self-assessment based on a questionnaire drawn up in conjunction with the Chairman of the Governance and Remuneration Committee.

At the end of this assessment, the majority of directors considered that the Board had continued to function efficiently during the Covid-19 crisis. Most of them declared that they were satisfied with the way the Board had performed its duties during this unusual situation.

In particular, the directors noted that, at each meeting, the Chairman & Chief Executive Officer had provided them with the key information about the impact of the crisis on the Group and how it was being managed by the Corporate management.

They also pointed out the successful transition with the new Chairman of the Governance and Remuneration Committee.

For 2021, they also proposed themes primarily related to the Covid-19 crisis and its consequences on the Group, and made suggestions about some organisational or information issues.

The next external assessment is scheduled for 2021.

4.2.5 Diversity policy of the Board of Directors and gender balance on management bodies

Diversity policy of the Board of Directors and its Committees (information referred to in Article L. 225-10-10, paragraph 2 of the French Commercial Code and in paragraph 6.2 of the Afep-Medef code)

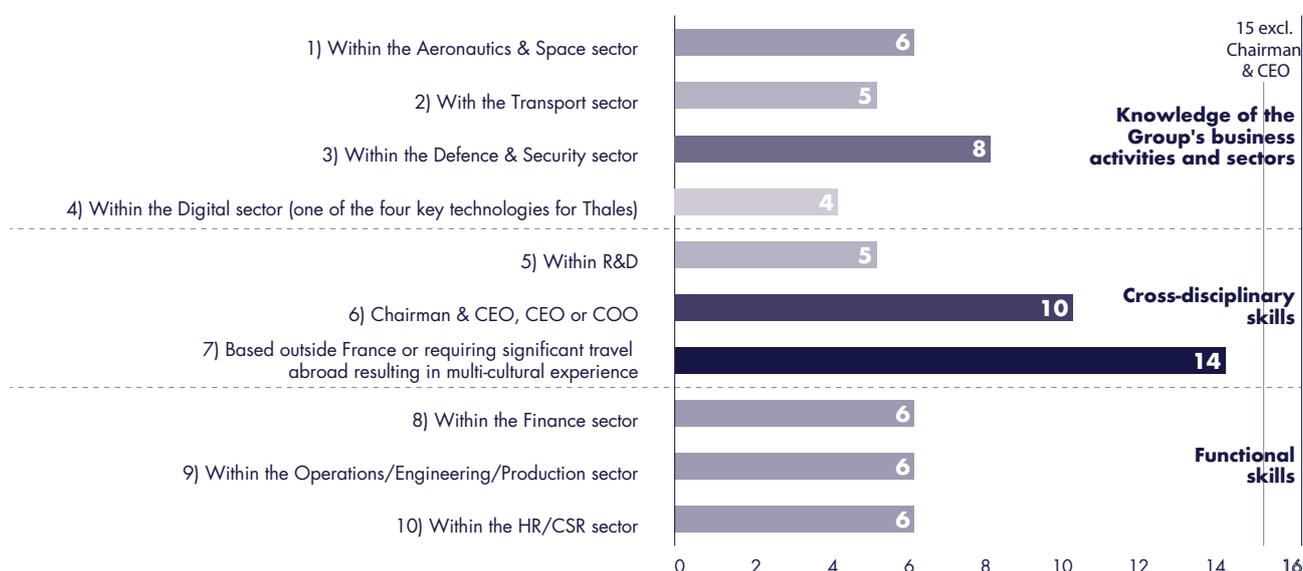
The directors assessed the achievement of the Board’s diversity targets initially set at its meeting on 5 March 2018 and confirmed at the meetings held on 25 February 2019 and 25 February 2020, as well as their potential development for 2021.

| Diversity target | Findings from 2020 | Possible reassessment of the target for 2021 |
|---|--|--|
| Varied and complementary expertise and experience within the Board | By virtue of their experience, the directors possess skills in all of the Group’s business sectors (aerospace, defence, space, transport, digital technology) as well as in key cross-disciplinary areas such as finance, industry and human resources. See matrix of director skills below. | Target unchanged |
| A balanced representation of men and women on the Board and its Committees | This target was considered met, given that 57% of Board members were men and 43% were women (excluding the directors representing employees), the percentage of women members rising to 50% when the directors representing employees were taken into account. | Target unchanged |
| Balance in terms of seniority of directors | This target was considered met, given the balanced representation on the Board of Directors with less than four years’ seniority, four to eight years’ seniority, and eight to 12 years’ seniority. | Target unchanged |

As in 2020, the Board furthermore reiterated that these diversity targets should be taken into consideration when it comes to complying with the rules of the shareholders’ agreement regarding the composition of the Board and its Committees.

The self-assessment of the Board’s skills, performed by directors on the basis of positions personally held throughout their career, is presented below in an aggregate, non-nominative form. It attests to the diversity and complementarity of expertise and experience within the Board.

• SKILLS ASSESSED BY THE DIRECTORS BASED ON PERSONAL POSITIONS (UP TO DATE AS AT 31/12/2020)



Gender balance on management bodies (information referred to in Article L. 22-10-10, paragraph 2 of the French Commercial Code and in Sections 1.7 and 7 of the Afep-Medef code)

At end 2020, the Group's Executive Committee established with Corporate Management was composed of three women and 11 men. Women thus represent 21.4% of the Committee's membership, compared with 14.3% at end 2019, when it was composed of two women and 12 men.

At end 2020, women represented 18% of employees in the highest positions of responsibility (compared with 14.7% at end-2016 and 17.2% at end-2019) on a population representing 13% of the total headcount. This population is made up of persons with a level of responsibility ranked between 10 and 12 in the current classification in force in the Group, where 12 is the highest ranking⁽¹⁾. Furthermore, at end 2020, 68% of the Group's management committees (Global Business Units, Business Lines, Major Countries) had at least three female members (compared with 27% at the end of 2016 and 50% at the end of 2019).

At its meeting on 9 February 2021, upon the recommendation of its Strategic & CSR Committee, and in accordance with the recommendations of the Afep-Medef code specified by the High Council of Corporate Governance (Haut Comité de Gouvernement d'Entreprise

(HCGE), the Board of Directors defined new medium-term diversity targets for the Group's management bodies, namely:

- a first target of 20% of women in positions with levels of responsibility between 10 and 12 by 2023, corresponding to the end of the 10-year strategic plan, Ambition 10. To give a greater impact to this target, the corporate management has decided to reflect this quantifiable criterion in the 2021 annual variable compensation for 54,000 Group executives who qualify for this;
- a second objective of 75% of Management Committees (GBUs, Business Lines, Major Countries, Group Executive Committee) with at least three women, also by 2023.

A range of initiatives designed to promote gender diversity have contributed to the achievement of these goals. They include education about stereotypes and unconscious bias, communication campaigns and training to combat sexism, support for diversity networks, specific female development and mentoring programmes, inclusive leadership models, etc.

These commitments and achievements are published in the Group's 2020 Extra-Financial Performance Statement, approved by the Board of Directors on the recommendation of its Strategic and Corporate Social Responsibility Committee and provided in section 5.

4.2.6 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 23 May 2018, 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.

The powers of the Chief Executive Officer are furthermore restricted by the Board's rules of procedure which stipulate, as mentioned in

section 4.2.1 above, that any acquisitions or disposals exceeding €150 million, or any transaction exceeding €50 million but potentially impacting the Group strategy, the fulfilment of which involves a change in the Group's strategy, must be automatically submitted for Board approval. These restrictions were confirmed without amendment by the Board of Directors when the Chairman and CEO was reappointed on 23 May 2018.

4.2.7 Other information

Notice of Annual General 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 official 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. 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.

At least 21 days prior to the General Meeting, all documentation required by current regulations is provided on the Company's website (www.thalesgroup.com). It is available for shareholders at the registered office within the statutory deadline.

The date of the General Meeting is published on the Company's website approximately six months in advance.

Participation in General Meetings, in any form whatsoever, is conditional upon registration of the shares in accordance with the conditions and within the time limits provided for under the current regulations.

Shareholders may vote through electronic means.

Any shareholder who has already voted by post or by proxy, or requested an admittance card or share ownership certificate, may sell all or some of their shares at any time.

However, in accordance with the regulations in force since 1 January 2015, should the intermediary account holder notify the Company of a disposal occurring before midnight (Paris time) on the second trading day prior to the General Meeting, the Company will invalidate or modify the vote, proxy, admittance card or share ownership certificate, as the case may be.

No sale or other operation carried out after midnight (Paris time) on the second trading day prior to the meeting, irrespective of the means used, is notified by the approved intermediary or taken into consideration by the Company, notwithstanding any agreement to the contrary.

The right to vote, and consequently the right to attend General Meetings, belongs to the beneficial owner at Ordinary General Meetings, and to the bare legal owner at Extraordinary General Meetings. Owners of pledged shares retain their voting rights. Co-owners of shares are represented at General Meetings by one of the co-owners or by a joint proxy who, in the event of disagreement, is appointed by the court at the request of the co-owner who acts first.

Each person present at the General Meeting has one vote for each share owned or represented, without limitation, subject to the following provisions on the right to a double vote, and to the exceptions provided by law.

(1) This population, which slightly exceeds that provided for in Article L. 20-10-10 paragraph 2 of the French Commercial Code (10%), has been selected for reasons of uniformity and consistency.

Double 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 6.2.1), for at least two years without interruption, are entitled to double voting rights at 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 General Meeting of Shareholders entitled to double voting rights.

Under the Articles of Association, there is no limit on voting rights.

Key factors likely to have an impact in the event of a takeover bid

The structure of share ownership and the distribution of voting rights mean that Thales is unlikely to be affected by any public offering. 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 in section 6.2.3.3, which stipulates in particular that the Chairman and CEO is chosen based on a joint proposal by the parties;
2. 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;
3. any crossing of the threshold of one-tenth or a multiple of one-tenth of the share capital or voting rights of the Company must first be approved by the Minister for the Economy; in addition, under the conditions set by Decree No. 93-1296 of 13 December 1993, the Minister for the Economy may oppose decisions on the sale or the allocation as collateral of assets referred to in the appendix of Decree No. 97-190 of 4 March 1997 (see section 6.2.3.3.5).

General Meeting authorisations valid at 31 December 2020 for capital increases

(Table pursuant to Article L. 225-37-4 paragraph 3 of the French Commercial Code)

| Annual General Meeting of 06/05/2020 | Used by the Board of Directors | Observations |
|--|--------------------------------|--|
| <p>Issue of securities giving access to equity capital</p> <ul style="list-style-type: none"> • With pre-emptive subscription rights (Resolution 11): 53 million shares, €3 billion in debt securities • Without pre-emptive subscription rights (Resolution 12): 20 million shares and €2 billion in debt securities • Without pre-emptive subscription rights by private placement (Resolution 13): 20 million shares and €2 billion in debt securities • Possibility of over-allotment ("green shoe") (Resolution 14): maximum of 15% of issues carried out attributable to each resolution/transaction above <p>26 months, i.e. until 5 July 2022</p> | Not used | <p>Overall ceilings (Resolution 16):</p> <p>In shares:</p> <ul style="list-style-type: none"> • 20 million shares for Resolutions 12, 13, 14 and 15 • 60 million shares for resolutions 11, 12, 13, 14 and 15 <p>In debt securities</p> <ul style="list-style-type: none"> • €2 billion of debt securities for resolutions 12, 13 and 14 • €3 billion of debt securities for resolutions 11, 12, 13 and 14 |
| <p>Issue of new shares as consideration for contributions of the securities of third-party companies</p> <p>Up to 21.3 million shares (Resolution 15)</p> <p>26 months, i.e. until 5 July 2022</p> | Not used | |
| <p>Issue of new shares reserved for employees who are members of the group savings scheme</p> <p>Ceiling: 2 million shares (Resolution 17)</p> <p>Maximum discount: 30% for a five-year employee savings plan and 40% for a ten-year holding period</p> <p>26 months, i.e. until 5 July 2022</p> | Not used | Note: employee shareholding operations are now conducted using existing shares, which have previously been bought back by the company under a share buy-back programme. |

Agreements entered into by a manager or major shareholder and a subsidiary

During financial year 2020, no agreement was reached, directly or through an intermediary, between, on the one hand, one of the Company representatives or one of the shareholders holding a fraction of the voting rights greater than 10% of the Company's share capital and, on the other hand, another company of which Thales holds directly or indirectly more than half the share capital, with the exception of current agreements concluded under normal conditions.

Procedure for the regular assessment of agreements relating to ordinary transactions entered into under normal terms and conditions

At its meeting of 25 February 2020, and based on the recommendation of its Governance and Remuneration Committee and Audit and Accounts Committee, the Board of Directors approved the procedure for the regular assessment of agreements relating to ordinary transactions entered into under normal terms and conditions.

This is part of an internal charter whose purpose is also to describe the methodology and procedure for identifying, qualifying and processing agreements entered into by Thales SA pursuant to the provisions of Article L. 225-38 of the French Commercial Code (related-party agreements). This charter is not made public.

The procedure provides that at the end of the calendar year, the main departments concerned (particularly the Company Secretary and Group Finance Department) shall review the information provided by the departments concerned when said agreements were signed, amended, renewed or terminated, in order to analyse the normal nature of their terms and conditions, as well as the relevance of the criteria used to draw them up.

In accordance with the provisions of Article L. 22-10-12, paragraph 2 of the French Commercial Code, any individual with a direct or indirect interest in one of the agreements concerned may not participate in this assessment.

In addition, the procedure stipulates that when the annual financial statements are being prepared, corporate management shall report on the above-mentioned work to the Audit and Accounts Committee, which in turn shall report thereon to the Board.

Following this review, and based on the recommendation of its Audit and Accounts Committee, the Board of Directors shall determine the action to be taken with respect to the agreements that no longer meet the aforementioned criteria, or shall revise said criteria or more generally the procedure itself, in order to take into account any legislative or regulatory amendments and/or changes in market practices.

In addition, should this review lead to the conclusion that the Board's prior authorisation for a given agreement had been omitted, the Board shall be asked to ratify the agreement before it is submitted to the General Meeting for after-the-fact approval in accordance with applicable legislation, or amend or even terminate it.

At its meeting of 3 March 2021, the Board of Directors reviewed the Audit and Accounts Committee's report on the implementation of said procedure for the 2020 financial year.

The review identified some fifteen agreements for Defence and Industry projects, R&D partnerships, project financing, consumable purchases or refurbishment, professional dues or the resale of over-stocked health consumables.

This review led to the conclusion that said agreements continued to be considered as ordinary operations entered into under normal conditions, and the criteria used by Thales SA to determine the agreements covered by this qualification do not require any particular amendment.

4.3 Corporate Management and the Executive Committee

Executive Committee at 31 December 2020



Patrice Caine
Chairman and CEO



Jean-Loïc Galle
Senior Executive Vice
President, Operations
& Performance



Pascale Sourisse
Senior Executive
Vice President,
International
Development



Clément de Villepin ⁽¹⁾
Senior Executive
Vice President,
Human Resources



Pascal Bouchiat
Senior Executive
Vice President,
Finance and
Information Systems



Isabelle Simon
Executive Vice
President, Group
Secretary and
General Council



Philippe Keryer
Executive
Vice President,
Strategy, Research
and Technology



Alex Cresswell
Executive Vice
President
of Thales UK



Marc Darmon
Executive Vice
President, Secure
Communications and
Information Systems



Christophe Salomon
Executive Vice
President,
Land & Air Systems



Philippe Duhamel
Executive Vice
President, Defence
Mission Systems



Yannick Assouad
Executive Vice
President, Avionics



Hervé Derrey
Executive Vice
President, Space



Millar Crawford
Executive Vice
President, Ground
Transportation
Systems



Philippe Vallée
Executive Vice
President Digital
Identity and Security

(1) From 5 April 2021.

4.4 Compensation of company representatives⁽¹⁾

4.4.1 Information regarding the 2020 compensation of company representatives

Section 4.4.1 presents the components of compensation paid or awarded to company representatives during the 2020 financial year and, more generally, information required under Article L. 22-10-9 I of the French Commercial Code. These items are addressed by Resolution 9 to be presented to the 6 May 2021 General Meeting. If the resolution is rejected, the payment of compensation awarded to directors for the 2021 financial year shall be suspended and the Board of Directors shall submit to a new General Meeting a draft resolution that introduces a revised compensation policy, in accordance with the conditions set out in Article L. 22-10-34 I of the French Commercial Code.

Sub-section 4.4.1.1 sets out the fixed, variable and exceptional components of total compensation and benefits in kind paid or awarded to the Chairman and Chief Executive Officer for the 2020 financial year. These items are addressed by Resolution 8 to be presented during the same General Meeting. The payment of the Chairman and Chief Executive Officer's 2020 annual variable compensation and the vesting of the performance units related to the 2017 Long-Term Incentive Plan are subject to the approval of this resolution.

4.4.1.1 Compensation of the Chairman and CEO in 2020

A. Annual fixed and variable compensation

Patrice Caine's annual fixed and variable compensation for 2020 was set in line with the compensation policy for the Chairman and CEO of Thales approved by the 6 May 2020 General Meeting (Resolution 7).

It comprises:

- a fixed compensation of €800,000 (gross amount);
- a target annual variable compensation of €800,000 in the event of achieving objectives and that is capped, in the event of exceeding these objectives, at a maximum of €1,200,000 (150% of the target).

The criteria for determining the variable compensation are set at an overall level of 75% financial and 25% non-financial. In order to reward outperformance on the financial criteria, the amount paid in relation to these criteria may exceed the target up to 166.66%. This is not the case for the non-financial portion, which is capped at 100%. Consequently, annual variable compensation is capped at 150% of the target.

Clawback provisions to reclaim variable compensation are not anticipated in the 2020 compensation policy for the Chairman and CEO.

(i) Financial criteria for annual variable compensation in 2020

For the financial part, the criteria were EBIT (35%), order intake (20%), and free operating cash flow (20%). The table below sets out the achievement levels against these three financial criteria.

• FINANCIAL CRITERIA FOR 2020 ANNUAL VARIABLE COMPENSATION

| Criteria | 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 ≥ 110% of budgeted objective | 58.33% |
| Order intake | 20% | If results ≤ 90% of budgeted objective | 0% |
| | | If results = 100% of budgeted objective | 20.00% |
| | | If results ≥ 110% of budgeted objective | 33.33% |
| Free operating cash flow | 20% | If results ≤ budgeted objective – 2% of budgeted sales | 0% |
| | | If results = 100% of budgeted objective | 20.00% |
| | | If results ≥ budgeted objective + 2% of budgeted sales | 33.33% |
| TOTAL FINANCIAL CRITERIA | 75% | | |

The definition and calculation of these criteria are set out in section 2.3.

Targets set by the Board at the beginning of 2020 following budget preparation have not been modified in the wake of the Covid-19 crisis. Therefore, achievement levels reflect the full impact of the crisis on the Group.

(1) In this Section 4, the term "Company Representatives" means all members of the Board of Directors, and the term "Company Representative", when used in singular form, means the Chairman and Chief Executive Officer.

| Criterion | Weighting | In € millions | Achievement level |
|---|-----------|---------------|-------------------|
| EBIT | 35% | 1,352 | 0% |
| Order intake | 20% | 18,476 | 37.6% |
| Free operating cash flow | 20% | 1,057 | 119.2% |
| Financial portion of annual variable compensation (as a % of target) | 75% | | 41.8% |

The Board of Directors met on 3 March 2021 and examined the outcomes on the financial criteria.

The Board noted that, despite the rapid implementation of an ambitious crisis adaptation plan and strong staff mobilisation, the EBIT was significantly impacted by the health crisis in the second quarter of 2020. It highlighted the strong EBIT margin recovery during the second half of the year, which reached nearly 11%. At €1,352 million for the year, EBIT was under the 90% of budget threshold and hence did not trigger any payout.

The Board also noted the Group's major commercial wins during the year, in both space observation and exploration as well as defence systems. Defence & Security order intake reached a new high record thanks to the signature of 14 contracts worth over €100 million. Yet, at €18,476 million, order intake was lower than budgeted, due to the impact of the crisis on civil aeronautics and the postponement of orders in other segments. This performance triggered a payment of 37.6% for this criterion.

Lastly, the Board welcomed the fact that free operating cash flow exceeded the budget target, given the importance of having a strong cash position in times of crisis. Free operating cash flow posted at €1,057 million, attributable to the strong mobilisation of employees, and triggered a payout of 119.2% on this criterion.

Overall, taking into account the weighting of the three financial criteria, the Board noted that the financial portion of annual variable compensation was €250,982, i.e. 41.8% of the target.

(ii) Non-financial criteria for 2020 annual variable compensation

In accordance with the aforementioned compensation policy, the Chairman and CEO's performance was assessed in 2020 based on the achievement of the following three non-financial criteria:

- Cross-functional strategic actions: continued implementation of cost synergies, gradual ramp-up of revenue synergies, strengthening of the Group's cross-fertilisation initiatives with DIS digital technologies (biometrics, big data, IoT, etc.), preparing for the recovery in the Space business segment;
- Adjustments to the Group's international expansion strategy to keep pace with the changing environment; implementation of synergies in international development organization;
- Corporate Social and Environmental Responsibility: continued roll-out of diversity and inclusion initiatives at all levels of the company; further maturation of the Group's purpose and effective implementation of initial measures thereto; deployment of the low-carbon strategy that was defined in 2019.

Each of these objectives represented 8.33% of the 25% weighting attributed to non-financial criteria.

As with the financial criteria, the Board of Directors decided to maintain these non-financial criteria despite the crisis. At its meeting on 3 March 2021, the Board reviewed and set the following achievement levels on the recommendation of the Governance and Remuneration Committee:

- 92.5% on cross-functional strategic actions, noting that (i) 2020 cost synergy targets were surpassed, (ii) revenue synergies were progressing in line with the 2023 target in spite of the Covid-19 crisis, (iii) the DIS Global Business Unit's technologies such as biometrics, IoT and Connectivity were gradually being integrated into other Group solutions, (iv) DIS "as a service" offerings grew sharply, and (v) Thales Alenia Space signed several major contracts while making substantial competitiveness gains;
- 100% on the Group's international expansion strategy, noting the effective implementation of synergies in the international development organization, and the efficiency of this new international organisation in times of crisis;
- 100% on Corporate Social and Environmental Responsibility, noting in particular (i) the successful roll-out of the Group's Low-Carbon strategy, with in particular, the training of more than 350 managers, (ii) further progress achieved on gender equality among senior management teams and (iii) the concrete roll-out of the Group's purpose and its adoption by employees. The Group's Corporate Social and Environmental Responsibility achievements are described in greater detail in Section 5.

Considering the weighting of these three non-financial criteria, the Board of Directors decided, on the recommendation of the Governance and Remuneration Committee, to set the overall achievement level at 97.5%, or €195,000.

Following this review and on the recommendation of the Governance and Remuneration Committee, the Board of Directors decided that the annual variable compensation to be paid in 2021 to Patrice Caine for financial year 2020 should be €445,982, representing 55.7% of the target annual variable compensation.

B. Long-term incentive

2017 LTIP Plan

At its 3 March 2021 meeting, the Board of Directors noted that the Chairman and CEO satisfied the continued presence requirement included in the long-term compensation plan granted on 28 September 2017. The Board had previously taken note of this plan's achievement levels when it met on 25 February 2020. Subject to the approval of Resolution 8 by the 6 May 2021 General Meeting, the Chairman and Chief Executive Officer will receive 3,840 performance units valued at the Company's closing share price on 25 February 2021, amounting to €304,281. Half of this amount will be paid in Thales shares at the closing price on the day of the General Meeting, and half in cash.

2018 LTIP Plan

At its 3 March 2021 meeting, the Board of Directors also recognised the achievement level of the performance conditions related to the long-term incentive plan granted on 5 March 2018 (2018 LTIP). The Board noted that the 6 May 2020 General Meeting had approved an upward revision of the targets set for this plan in order to take into account the acquisition of Gemalto. The revised targets are described on page 93 of the 2019 Universal Registration Document.

| Criterion | Weighting | In € millions | Achievement level |
|--|-----------|---------------|-------------------|
| Cumulative free operating cash flow for 2018/2020 (in €m) | 40% | 2,813 | 13.69% |
| Average order intake for 2018/2020 (in €m) | 40% | 17,884 | 26.84% |
| Total Shareholder Return compared with a panel of European companies ^(a) Measure based on performance at 31/12/2020 compared to 31/12/2017 | 10% | median | 5.00% |
| Total Shareholder Return compared with the Euro Stoxx index Measure based on performance at 31/12/2020 compared with 31/12/2017 | 10% | 4th quartile | 0% |
| Total achievement level (as a % of the maximum number of units) | | | 45.53% |

(a) The panel includes: Airbus, Atos, BAE Systems, Capgemini, Dassault Aviation, Leonardo, Rolls-Royce and Safran.

The Board noted that the impact of IFRS 16 on free operating cash flow could not be taken into account when setting the 2018 LTI thresholds and that this standard had had a positive impact of €203 million in 2019 and €223 million in 2020. Consequently, the Board decided to neutralise this accounting effect. Strong free operating cash flow in 2019 (€1,169 million) more than offset the weaker 2018 performance (€811 million) that fell short of the budgeted target, resulting in an aggregate figure of €2,813 million over the 2018/2020 period. The outcome, slightly above the floor set on this criterion, triggered a payout of 13.69%.

Regarding the order intake criterion, the Board noted that the Group had recorded average order intake of €17,884 million over the 2018/2020 period. This outcome, which combines performance in line with targets in 2018, outperformance in 2019, and the impact of the Covid-19 crisis in 2020, triggered a payout of 26.84% based on this criteria.

Lastly, the Board noted that Thales shares (dividend reinvested) declined by 12% between 29 December 2017 and 30 December 2020. This positions the Group at the median of the chosen panel of European companies, triggering a payout of 5% based on this criterion. It also places the Group in the 4th quintile of the broader European market (the median of the Euro Stoxx index was +12%). As a result, this last criterion did not trigger a payout.

Overall, the 2018 LTIP will pay out 45.53% of the plan's units in 2022, i.e. 2,277 performance units to Patrice Caine, subject to compliance with the continued presence requirement and approval by the 2022 General Meeting.

Adjustments to the 2020 LTI plan parameters

In 2020, the Board of Directors awarded the Chairman and Chief Executive Officer long-term variable compensation in the form of performance units (a maximum of 8,000 units) indexed to the Thales share price (2020 LTIP) and in accordance with the compensation policy approved by the 6 May 2020 General Meeting (Resolution 7).

Vesting of this compensation will occur in 2024 and depend both on performance conditions calculated over three financial years (2020, 2021 and 2022) and continued presence of four years.

At its 3 March 2021 meeting, the Board of Directors, on the recommendation of the Governance and Remuneration Committee, took the decision to make some changes to the plan, as described in section 4.4.2 below. The changes will take effect subject to the approval of Resolution 7 by the 6 May 2021 General Meeting.

If the resolution is not approved, the number and characteristics of the performance units will remain the same as in the 2020 compensation policy for the Chairman and CEO approved by the 6 May 2020 General Meeting, as set out in Table 6 below.

C. Summary of the Covid-19 impact on the 2020 compensation of the Chairman and Chief Executive Officer

The summary of the Covid-19 impact on the main components of the compensation owed or paid out to the Chairman and Chief Executive Officer in the 2020 financial year is outlined below:

| Compensation: (in € thousands) | 2020 | 2019 | Change |
|--|----------------------------------|----------------------------------|-------------|
| Annual fixed salary | 784 | 800 | -2% |
| Annual variable compensation | 446 | 849 | -47% |
| Annual fixed + variable compensation | 1,230 | 1,649 | -25% |
| Long-term incentive | 171 (2018 LTI) ^(a) | 355 (2017 LTI) ^(a) | -52% |
| Annual variable compensation + long-term incentive | 617 | 1,204 | -49% |
| TOTAL | 1,401 | 2,004 | -30% |

(a) Value of the 2018 LTI Plan performance units, the number of which was fixed at the end of 2020: 2,277 units valued at the 31/12/20 price (€74.9).

(b) Value of the 2017 LTI Plan performance units, the number of which was fixed at the end of 2019: 3,840 units valued at the 31/12/19 price (€92.52).

D. Other commitments

New defined contribution pension scheme (replacing the deferred incremental and conditional compensation scheme)

Following the approval of Resolution 7 by the 6 May 2020 General Meeting, the Chairman and CEO was extended a new supplementary defined contribution pension scheme, effective retroactively from 1 January 2020 and subject to Article 82 of the French Tax Code, under the following conditions:

- the scheme, administered by an external insurer and funded by the Company, provides an annuity or lump sum payment;
- the scheme guarantees an annuity substantially equivalent to the prevailing deferred incremental and conditional compensation scheme granted until 31 December 2019.

These characteristics consist in:

- the crystallisation of benefits accrued as an employee and Company representative, equal to a gross amount of €10,260 for the period as an employee and €101,528 for the period as a Company representative. Under the previous scheme (not subject to the French Social Security Code), the annuity was set to double after 10 years of service as a member of the Executive Committee. Since Patrice Caine had been a member of this Committee for seven years until the date of benefit crystallisation (from 2013 to 2019), the Board of Directors applied a coefficient of 1.7 to the annuity, in accordance with applicable law, and deemed that the condition of tenure at the Executive Committee had been fulfilled. Lastly, the crystallised pension benefit realised on the day of retirement will remain subject to achieving a performance condition. Namely, the average rate of achievement related to the Company representative's annual EBIT targets set by the Board must be greater than or equal to 80% over the last three financial years preceding the term of office termination date;
- the payment of an annual contribution by the Company to an external insurer (the "Insurer's Contribution"), which provides the Company representative, on the date when retirement benefits are drawn, a net annuity substantially equivalent to what would have been received if the individual had continued to benefit from the scheme in force up to that date. For a given year, this contribution represents 32% of the fixed basic compensation actually received between 1 December of the previous year and 30 November of the year concerned. In 2020, this contribution amounted to €250,880;
- the payment by the Company of an amount to offset the negative impact of this change on the Company representative's net compensation after social security contributions and income tax. Unlike the previous scheme, the Insurer's Contributions are regarded as benefits in kind and are therefore subject to social security contributions and income tax in the year they are paid. In 2020, this amount was €250,880;
- as with the previous scheme, the new scheme is not subject to the employment condition in the Company at the time of payment of the retirement benefits. It is also subject to achieving the same performance condition: the contribution will be paid only if the average rate of achievement of annual EBIT targets set by the Board for the last three financial years is greater than or equal to 80%. This performance condition will change as from the 2022 contribution, subject to the approval of Resolution 10 by the General Meeting (section 4.4.3.1.B below).

Benefits and rights upon the termination of office of Patrice Caine, Company representative

Severance pay

In accordance with the conditions laid down by the Afep-Medef code, with which the Company has declared that it complies, compensation may be paid to 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 this severance pay is fixed at 12 months of his reference salary (fixed and variable compensation paid over the last 12 months of activity, excluding long-term incentive plans). The Chairman and CEO resigned when he took up office and no longer has an employment contract with the Company.

The payment of this compensation is subject to achieving a performance criterion over the last three full financial years: the average rate of achievement of annual EBIT objectives set by the Board for the Company representative must be higher than or equal to 80%.

Private unemployment insurance

A decision was also made to take out private unemployment insurance based on the same performance criteria as for severance pay. This provides for one year's compensation for an amount limited to the sum of the amounts corresponding to 70% of the A and B (Social Security) tranches of net taxable income and 50% of the C tranche of this same income. At 31 December 2020, private unemployment insurance would have resulted in annual compensation equal to approximately €205,680, or 25.7% of the Chairman and CEO's fixed compensation.

Benefits of any kind

Patrice Caine receives the benefits in kind detailed in the table below, which summarises the 2020 compensation components.

E. Other disclosures required under Article L. 22-10-9 I of the French Commercial Code

1) Pay equity ratios

Equity ratios measure changes in compensation disparities between the Company representative and employees. To make these ratios more relevant, they have been calculated based on the scope of the Group's French companies, rather than solely on the scope of the listed parent company. The scope of the listed parent company was not used as its workforce was not deemed to be representative⁽¹⁾.

Accordingly, the ratios were calculated as follows:

- in the numerator, the compensation paid to the Company representative (fixed, annual variable, and benefits in kind) or awarded to him (LTIP)⁽²⁾;
- in the denominator, compensation paid (fixed, annual variable, benefits in kind, LTIP)⁽³⁾ or awarded, on a full-time equivalent basis, to active employees (as defined in Chapter 5 of the 2020 Universal Registration Document, page x) in continuous employment from 1 January to 31 December 2020 at a Group company having its registered office in France (Thales SA and the companies under its sole control within the meaning of Article L. 233-16 II of the French Commercial Code). Staff of French and foreign branches of these companies are included in the calculation if those branches have more than 50 employees. Expatriates are not included in the calculation. For 2019, Gemalto is excluded from the compensation calculation as the acquisition occurred during the year. For 2020, the data includes Gemalto.

(1) For example, the 2020 ratio for the parent company is 13 when calculated in relation to the employee mean and 21 when calculated in relation to the median. Given the nature of the parent company's workforce (mainly managers), these ratios are lower than those on the broader scope of French companies.

(2) The Company representative's long-term incentive was determined at fair value following the application of IFRS standards. Valuations for the 2017 to 2019 plans have been adjusted following a review by an actuary. The average ratios published in 2019 were 26, 28 and 33 in 2017, 2018 and 2019 respectively.

(3) Employee long-term incentives were assessed according to the same accounting standard (IFRS 2).

• TABLE OF RATIOS UNDER ARTICLE L. 22-10-9 I. 6° AND 7° OF THE FRENCH COMMERCIAL CODE

| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---------|--------------------------|--------------------------|--------------------------|-----------|
| Compensation paid to the Company representative (in €) | 972,274 | 1,549,349 ^(a) | 1,780,393 ^(a) | 1,918,536 ^(a) | 2,013,177 |
| <i>Change (as a %) of the Company representative's compensation</i> | | +59% | +15% | +8% | +5% |
| Average compensation paid to employees (in €) | 64,090 | 64,527 | 66,225 | 66,104 | 67,222 |
| <i>Change (as a %) of average employee compensation</i> | | +1% | +3% | +0% | +2% |
| Ratio in relation to average employee compensation | 15 | 24 | 27 | 29 | 30 |
| <i>Change in ratio (as a %) compared with the previous year</i> | | +58% | +12% | +8% | +4% |
| Ratio in relation to median employee compensation | 17 | 27 | 30 | 32 | 33 |
| <i>Change in ratio (as a %) compared with the previous year</i> | | +58% | +12% | +8% | +4% |
| Company performance: EBIT (in € millions) | 1,354 | 1,543 | 1,685 | 2,008 | 1,352 |
| <i>Change (as a %) compared with the previous year</i> | | +14% | +9% | +19% | -33% |

(a) Following a recalculation of the IFRS valuation of the Chairman & Chief Executive Officer's LTI plans, the compensation set out in this table has been amended from that in the 2019 Universal Registration Document (p. 94). The corresponding ratios have been recalculated accordingly.

The increase in the ratio in 2017 and 2019 reflects the changes in the Company representative's compensation policy, namely the revision of fixed and variable compensation and the implementation of a long-term incentive plan (LTI). The 5% increase in the Chairman and Chief Executive Officer's compensation in 2020 is due to the payment in 2020 of the annual variable compensation for 2019, which was higher than the compensation in 2018 owing to outperformance on financial criteria.

The impact of the Covid-19 crisis is clearly visible on the Company's performance indicator (EBIT), but it is not visible on the compensation "paid" in 2020 shown in the table above. This is because the compensation includes the 2019 annual variable compensation (paid in 2020) and the value of the long-term incentive plan set up in 2020. The impact of the crisis on the Chairman and CEO's compensation is described in section C above.

2) Contribution of the Chairman and CEO's 2020 compensation to long-term performance

When reviewing the 2020 variable compensation, the Board noted that its design offered simple, balanced incentives both in terms of achieving the key aspects of the annual budget (profitability, growth, cash generation), by means of the annual variable compensation component based on financial criteria, and in terms of meeting value creation targets over the longer term (growth, cash generation, stock market performance), by means of the long-term incentive.

The Board noted that the compensation policy played its role in the context of the Covid-19 crisis: while the Chairman and CEO saw a very significant decrease in annual variable compensation (-47%), the policy narrowed his focus, as well as the management team's on the key value creation levers for the post-crisis period, in particular cash generation and order intake.

The annual variable compensation also includes, each year, non-financial criteria to encourage the achievement of annual or multi-year strategic objectives and take into consideration the social and environmental issues that are central to the Group's long-term development.

In addition, the criterion used to evaluate growth is the order intake level. By nature, this criterion gives particular importance to signing contracts that extend over several years, an essential factor in the Group's long-term performance.

The fixed, variable and exceptional components of total compensation and benefits in kind paid in 2020 or awarded for the same year to the Chairman and CEO, which will be submitted to a vote by the 6 May 2021 General Meeting pursuant to Article L. 22-10-34, II of the French Commercial Code (Resolution 8), are shown above and supported by the tables below, which have been prepared in accordance with the Afep-Medef code. The compensation components are summarised in the table below.

• SUMMARY TABLE OF THE 2020 COMPENSATION COMPONENTS OF PATRICE CAINE, CHAIRMAN AND CEO

| Compensation component | Policy approved by the 6 May 2020 General Meeting | Paid for financial year 2020 | Allocated for financial year 2020 (as amount or accounting valuation) |
|----------------------------------|--|---|---|
| Annual fixed compensation | The policy provides for fixed annual compensation of €800,000. | €784,000 ^(a) | |
| Annual variable compensation | The policy provides for a target annual variable compensation of €800,000. The criteria set are as follows: <ul style="list-style-type: none"> • financial criteria account for 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; • non-financial criteria make up the remaining 25% of variable compensation (see description above). In the event of outperformance on the financial targets, the variable compensation may REACH a maximum of €1,200,000, i.e. 150% of fixed annual compensation. | | €445,982 ^(b) |
| Total annual compensation | | €1,229,982 of which 36.3% in annual variable compensation and 63.7% in fixed annual compensation | |
| Multi-year variable compensation | None | – | – |
| Long-term incentive | 2020 unit plan (2020 LTIP) The number of vested units will depend on performance condition achievement levels, calculated over three years, related to order intake, free operating cash flow and the performance of the Company's share price. Vesting is also subject to a four-year employment condition (i.e. until 24 February 2024), except in the event of death, disability or retirement. Half of the payment is made in kind with Thales shares and half is made in cash. Detailed conditions of the long-term incentive appear on page 104 of the 2019 Universal Registration Document. At its 3 March 2021 meeting, the Board of Directors, upon the recommendation of the Governance and Remuneration Committee, resolved to make certain changes to the 2020 LTI Plan. These changes are detailed in section 4.4.2 below. The changes will take effect subject to the approval of Resolution 7 by the 6 May 2021 General Meeting. If the resolution is not approved, the number and characteristics of the performance units will remain the same as in the 2020 compensation policy for the Chairman and CEO approved by the 6 May 2020 General Meeting, as set out in Table 6 below. | – | €377,890 ^(c) |
| Long-term incentive | 2017 unit plan (2017 LTIP) Number of performance units awarded: 3,840 The value of validated and vested units is equal to the closing share price on 25 February 2021, i.e. €79.24. The value of validated and vested units will be paid half in cash and half in kind with Thales shares subject to the approval by the 6 May 2021 General Meeting (Resolution 8). | €304,281 (amount definitively awarded) | |

(a) In light of the Covid-19 crisis, the Chairman and CEO proposed that the Board reduce his annual fixed compensation in a show of solidarity for the Group's employees affected by short-time working. The Board approved the request at its 23 July 2020 meeting. Accordingly, the Chairman and CEO's annual fixed compensation in 2020 came to €784,000.

(b) The payment of Patrice Caine's annual variable compensation for 2020 is conditioned on the approval by the 6 May 2021 General Meeting (Resolution 8).

(c) IFRS value at grant date (25 February 2020).

| Compensation component | Policy approved by the 6 May 2020 General Meeting | Paid for financial year 2020 | Allocated for financial year 2020 (as amount or accounting valuation) |
|--|--|------------------------------|---|
| Exceptional compensation | None | — | — |
| Non-compete clause | None | — | — |
| Compensation linked to taking up appointment | None | — | — |
| Defined contribution pension scheme | The Thales Company representative is entitled to a defined contribution pension scheme, the amount of which represents 32% of the fixed basic salary actually paid from December 2019 to November 2020. Each contribution is subject to performance conditions over the last three years. This compensation was approved by the 6 May 2020 General Meeting (Resolution 7). More details are included in section 4.4.1.1.D. | (b) | 2020 contribution to the scheme, paid by Thales to the insurer for the Company representative: €250,880 |
| Severance pay | Subject to fulfilment of the same performance conditions as for the defined contribution pension scheme, compensation could be paid to Patrice Caine if his term of office as Company representative were 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, excluding long-term incentive). More details are included in section 4.4.1.1.D. | — | — |
| Private unemployment insurance | Patrice Caine is entitled to private unemployment insurance subject to fulfilment of the same performance conditions as those in place for severance pay. More details are included in section 4.4.1.1.D. | — | 2020 employer's contribution: €12,958 |
| Compensation in respect of directorship | By decisions of the Board of Directors on 25 February 2020, Patrice Caine receives no compensation for his duties as a director. This compensation is retained by the Company. | — | — |
| Benefits of any kind | Patrice Caine is entitled to: <ul style="list-style-type: none"> • the services of a chauffeur-driven car for his business travel; • external legal and tax assistance. In addition, Mr. Caine is entitled to the private healthcare scheme in place for French employees, an annual check-up identical to that offered to other Thales senior executives, and directors and officers liability insurance, including criminal liability ^(a) . | €3,987 €28,665 | |

(a) The cost of healthcare and annual check-up benefits to the Company for financial year 2020 amounted to €2,663. Liability insurance is a collective insurance, the cost of which cannot be individualised.

(b) A sum of €250,880 was paid to compensate for the social security charges and income tax that became payable following the company's contribution to the new supplementary pension scheme in 2020.

4.4.1.2 Compensation for 2020 paid to other Company representatives

A. Principles of director compensation

The total amount of compensation to be divided among directors (and censors, if any) for services rendered to the Board, including compensation owed to Committee members for their participation on these Committees, is set at €600,000 per year, an amount that has remained unchanged since 2008. 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), adjusted down if necessary to respect the total envelope (see below), and variable compensation based on attendance at meetings amounting to €2,500 per meeting;
- for services rendered to the Committees, compensation (entirely variable), based on attendance 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 is reduced in order to remain within the annual budget approved by shareholders.

The Chairman and CEO does not receive any compensation in respect of his position as Chairman and member of the Board of Directors.

B. Compensation of directors for the 2020 financial year

For 2020, the fixed portion of this compensation amounted to the €14,000 cap, and total gross director compensation (before any deduction or withholding) was €563,750 (€599,400 in 2019). This amount includes compensation not received by the Chairman and Chief Executive Officer in his capacity as director and Chairman of the Strategic and CSR Committee, which was retained by the Company. This compensation was paid in full in January 2021. As recommended by the Afep-Medef code, the variable component represented a large proportion of the total €527,750 actually paid, amounting to €317,750 (approximately 60% of the total).

For information purposes, the gross amount (before any deduction or withholding) paid during financial year 2020 (after any retention by the Company) and representing the compensation due for financial year 2019, amounted to €557,500.

Table 3, prepared in accordance with the Afep-Medef code, provides compensation details for each director (see section 4.4.1.4 below).

4.4.1.3 Compliance with the recommendations of the Afep-Medef code

| Recommendations of the Afep-Medef code | Thales provisions for Patrice Caine, Company representative |
|--|---|
| 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) | Full year of reference salary (fixed and variable compensation paid during the last 12 months of activity, excluding long-term incentive) |
| Defined-contribution pension scheme | |
| Performance conditions | Performance conditions over the last three financial years |

4.4.1.4 Summary tables prepared in accordance with the Afep-Medef code

• TABLE 1: COMPENSATION, OPTIONS AND SHARES GRANTED TO THE COMPANY REPRESENTATIVE

| (in € thousands) | 2020 | 2019 |
|---|----------------------|----------------------|
| Patrice Caine, Chairman & Chief Executive Officer | | |
| Compensation allocated for the financial year (detailed in Table 2) | 1,230.0 | 1,649.3 |
| Value of options granted during the financial year | – | – |
| Value of performance shares granted during the financial year | – | – |
| Value of performance units granted during the financial year | 377.9 ^(a) | 431.3 ^(b) |
| TOTAL | 1,607.9 | 2,080.6 |

(a) IFRS value at the grant date of performance units to the Chairman and Chief Executive Officer under the 2020 LTI Plan. Subject to approval by the 6 May 2021 General Meeting, 3,840 performance units valued at €304,281 for which the continued presence requirement has been met will also be paid under the 2017 LTI Plan.

(b) IFRS value at the grant date of performance units to the Chairman and Chief Executive Officer under the 2019 LTI Plan. The €740,100 amount disclosed in the 2019 Universal Registration Document corresponds to the maximum number of units granted under this Plan multiplied by the share price as of 31/12/2019.

TABLE 2: COMPENSATION OF THE COMPANY REPRESENTATIVE

| (in € thousands) | 2020 | | 2019 | |
|--|------------------|----------------------|------------------|----------------------|
| | Due for the year | Paid during the year | Due for the year | Paid during the year |
| Patrice Caine, Chairman & Chief Executive Officer | | | | |
| Fixed compensation | 784.0 | 784.0 | 800.0 | 800.0 |
| Variable compensation ^(a) | 446.0 | 849.3 | 849.3 | 691.6 |
| Exceptional compensation | – | – | – | – |
| Compensation allocated in respect of directorship ^(b) | – | – | – | – |
| Benefits in kind ^(c) | 32.7 | 32.7 | 41.1 | 41.1 |
| TOTAL PATRICE CAINE | 1,262.7 | 1,666.0 | 1,690.4 | 1,532.7 |

(a) See section 4.4.1.1 on the assessment of variable compensation for 2020.

(b) Does not receive any compensation in respect of his directorship or his role on the Strategic & CSR Committee. This compensation is retained by the Company (decision of the Board of Directors on 25 February 2020). The amount calculated and not paid to Patrice Caine in respect of the 2020 financial year following these decisions was €36,000.

(c) The Company representative is entitled to the services of a chauffeur-driven car and external tax and legal advice.

TABLE 3: COMPENSATION RECEIVED BY NON-EXECUTIVE DIRECTORS
 (GROSS AMOUNTS BEFORE ANY DEDUCTION AT SOURCE OR OTHER LEVY)

| Beneficiary (gross amount in euros) | Awarded for the 2020 financial year | Variable portion/total (%) | Awarded for the 2019 financial year and paid in 2020 | Paid during the 2019 financial year ^(a) | Notes |
|--|-------------------------------------|----------------------------|--|--|-------|
| L. Broseta | 26,775 | 56% | 28,602 | 26,095 | |
| Y. d'Escatha (until 06/05/20) | 18,437 | 74% | 39,400 | 43,950 | (c) |
| Ch. Edelstenne | 34,000 | 59% | 37,400 | 36,950 | |
| B. Fontana (from 30/01/2018) | 32,087 | 63% | 34,977 | 34,912 | (c) |
| Ph. Knoche (from 06/05/20) | 20,063 | 54% | – | – | (c) |
| Ph. Lépinay | 34,000 | 59% | 39,900 | 38,200 | (b) |
| A. de Madre | 31,500 | 56% | 28,650 | 35,700 | |
| D. de Sahuguet d'Amarzit (from 03/04/2018) | 24,650 | 52% | 26,477 | 19,310 | (c) |
| L. Segalen | 37,750 | 63% | 41,150 | 41,950 | |
| A.-C. Taittinger | 39,750 | 65% | 43,150 | 43,950 | |
| A. Taylor | 31,500 | 56% | 21,150 | 25,700 | |
| É. Trappier | 36,500 | 62% | 39,900 | 39,450 | |
| M.-F. Walbaum | 31,500 | 56% | 33,650 | 30,700 | |
| Inter CFE-CGC (A. M. Hunot-Schmit) | 34,000 | 59% | 36,150 | 39,450 | |
| FGMM-CFDT (F. Sainct) | 42,750 | 67% | 47,400 | 48,200 | |
| French treasury accountant – Order No. 2014-948 (L. Broseta + B. Fontana + E. Moulin + O. Renaud-Basso + D. de Sahuguet d'Amarzit) | 52,488 | | 59,544 | 53,624 | |
| TOTAL GROSS AMOUNT OF COMPENSATION PAID | 527,750 | 60% | 557,500 | 558,141 | (d) |

(a) Following a decision by the Board of Directors on 27 February 2017, compensation for directors ("attendance fees") is paid annually at the beginning of the year.

(b) Philippe Lépinay informed the Company that he donated the sum of €3,330 to the Thales employee shareholder association (APAT) in 2020.

(c) Amounts determined on a pro rata basis for that year.

(d) These amounts do not include compensation not received by the Company representative (and retained by the Company) for duties as a director. When including this amount, total gross attendance fees awarded in the 2019 and 2020 financial years equalled €599,400 and €563,839 respectively, below the annual budget (€600,000) authorised by the 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 BY THE ISSUER OR BY ANY OTHER GROUP COMPANY**

During financial year 2020, no performance shares were awarded to Patrice Caine.

In the context of the 2020 compensation policy's seventh resolution approved by the 6 May 2020 General Meeting, Mr. Caine was awarded a long-term incentive plan in the form of performance units, the main conditions of which are set out below.

| Company representative's name | Date of plan | Maximum number of performance units | Vesting conditions |
|-------------------------------|--------------|-------------------------------------|--|
| Patrice Caine | 26/02/2020 | 8,000 ^(a) | Units vesting after a four-year vesting period from 26/02/2020 and subject to performance conditions |

(a) Subject to the approval of Resolution 7 by the 6 May 2021 General Meeting, the number of performance units that may be awarded to the Chairman and Chief Executive Officer under the 2020 LTI Plan is 7,200 at most.

• **LONG-TERM INCENTIVE PLAN 2020 (LTIP 2020) CRITERIA AND WEIGHTINGS**

| 2020 LTIP criteria | Weighting | Objectives | Threshold | Payment in number of units |
|---|------------------------------|---|--|----------------------------|
| Cumulative free operating cash flow 2020/2022 | 40% (3,200 units maximum) | Floor: €3.5 billion | If results < floor | 0 unit |
| | | | If results = floor (= 33% of maximum) | 1,070 units |
| | | Ceiling: €4.5 billion | If results ≥ ceiling for the period | 3,200 units |
| | | Variations between floor and ceiling calculated on a straight-line basis | | |
| Average order intake for 2020/2022 | 40% (3,200 units maximum) | Floor: €19.5 billion | If results < floor | 0 unit |
| | | | If results = floor (= 33% of maximum) | 1,070 units |
| | | Ceiling: €21.5 billion | If results ≥ ceiling for the period | 3,200 units |
| | | 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 31/12/2022 compared to 31/12/2019 | 10% (800 units maximum) | Floor: median of the panel | If TSR < median of the index | 0 unit |
| | | | If TSR = median of the panel | 500 units |
| | | Ceiling: highest quintile of the panel | If TSR is in the highest quintile of the panel | 800 units |
| | | 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 31/12/2022 compared to 31/12/2019 | 10% (800 units maximum) | Floor: median of the Euro Stoxx index | If TSR < median of the index | 0 unit |
| | | | If TSR = median of the index | 500 units |
| | | Ceiling: highest quintile of the index | If TSR is in the highest quintile of the index | 800 units |
| | | Variations between median and entry point of highest quintile calculated on a straight-line basis | | |

(a) The panel includes: Airbus, Atos, BAE Systems, Capgemini, Dassault Aviation, Leonardo, Rolls-Royce and Safran.

NB: Total Shareholder Return measures the performance of Thales's shares with dividend reinvested for the period in question.

Subject to the approval of Resolution 7 by the 6 May 2021 Annual General Meeting, certain parameters related to the 2020 LTIP Plan may be modified, as specified in section 4.4.2.

• **TABLE 7: PERFORMANCE SHARES OR UNITS THAT HAVE BECOME AVAILABLE DURING THE FINANCIAL YEAR FOR THE COMPANY REPRESENTATIVE**

As indicated in Tables 1 and 6, Patrice Caine's compensation as Company representative does not include performance shares. Furthermore, no performance shares or units allocated in respect of his previous duties as an employee or his duties as Company representative became available during the financial year.

• **TABLE 8: PAST AWARDS OF SUBSCRIPTION AND/OR PURCHASE OPTIONS TO THE COMPANY REPRESENTATIVE**

None. Patrice Caine has not received any subscription or purchase options during his term in office.

In 2020, Mr. Caine exercised 3,438 share subscription options awarded for his previous salaried positions.

• **TABLE 9: PAST AWARDS OF PERFORMANCE UNITS TO THE COMPANY REPRESENTATIVE**

| Company representative's name | Award year | Number of units awarded | Vesting conditions |
|-------------------------------|------------|--------------------------------|--|
| Patrice Caine | 2017 | 3,840 | Units vested after a four-year vesting period and subject to performance conditions over 2017/2019. The achievement of the performance level is presented on page 93 of the 2019 Universal Registration Document. |
| Patrice Caine | 2018 | 2,277 | Units vested after a four-year vesting period and subject to performance conditions over 2018/2020. The achievement of the performance level is presented in 4.4.1.1.B above. |
| Patrice Caine | 2019 | 8,000 (maximum) ^(a) | Units vesting after a four-year period and subject to performance conditions over 2019/2021. Details of other conditions can be found on page 97 of the 2018 Registration Document. The number of units and certain parameters of the 2019 LTIP will be adjusted subject to the approval of Resolution 6 by the 6 May 2021 General Meeting (see section 4.4.2). |
| Patrice Caine | 2020 | 8,000 (maximum) ^(b) | Units vesting after a four-year period and subject to performance conditions over 2020/2022. Details of other conditions can be found on pages 104 and 105 of the 2019 Universal Registration Document. The number of units and certain parameters of the 2020 LTIP will be adjusted subject to the approval of Resolution 7 by the 6 May 2021 General Meeting (see section 4.4.2). |

(a) Subject to the approval of Resolution 6 by the 6 May 2021 General Meeting, the number of performance units that may be awarded to the Chairman and Chief Executive Officer under the 2019 LTI Plan is 7,200 at most.

(b) Subject to the approval of Resolution 7 by the 6 May 2021 General Meeting, the number of performance units that may be awarded to the Chairman and Chief Executive Officer under the 2020 LTI Plan is 7,200 at most.

• **TABLE 10: TABLE OF MULTI-YEAR VARIABLE COMPENSATION PAID TO THE COMPANY REPRESENTATIVE**

None.

• **TABLE 11**

| Company representative | Patrice Caine |
|---|-----------------------|
| Current term of office: start date ^(a) | 23 May 2018 |
| Current term of office: end date | 2022 AGM |
| Employment contract | No |
| Supplementary pension scheme | Yes ^(c) |
| Compensation or benefits due or likely to become due as a result of termination or change of position | Yes ^{(b)(c)} |
| Compensation for non-compete clause | No |

(a) Patrice Caine was first appointed Chairman and CEO on 23 December 2014.

(b) Decision taken in 2015 and renewed in 2018.

(c) See details in section 4.4.1.1.D above.

4.4.2 Revision of certain parameters of the 2019 and 2020 LTI Plans

When reviewing the 2020 compensation of the Chairman and Chief Executive Officer, the Board of Directors noted that the Covid-19 crisis had a major impact on the 2019 and 2020 long-term incentive plans (LTI Plans), the parameters of which were defined before the crisis began.

The decline in civil aviation activity will continue at least until 2022 and will substantially reduce the incentive effect of these two plans.

To ensure that the performance criteria reflect the expected performance of the Group in this environment, and to restore a form of compensation for the long-term performance of the Chairman and Chief Executive Officer, the Board decided, at its 3 March 2021 meeting, to introduce

amendments to the 2019 and 2020 LTI Plans for approval by the 6 May 2021 General Meeting:

- the floors and ceilings would be only slightly modified, in order to maintain stringent performance conditions, with revisions concentrated on the ceilings applied to each criterion;
- in parallel, the two Plans would be scaled back by 10% to ensure that their valuations remain lower than when they were initially granted.

The changes by Plan are detailed below. They are subject to separate resolutions and will take effect only if they have been respectively approved.

Their impact on the IFRS value of the 2019 and 2020 LTI Plan is presented below:

| IFRS value | LTI 2019 | LTI 2020 |
|--------------------------------------|----------|----------|
| Value at grant | €431,272 | €377,890 |
| Value at 31/12/2020, after amendment | €228,594 | €248,585 |
| Change | -47% | -34% |

In its decision, the Board aimed to take into account the balance between the different components of the Chairman and Chief Executive Officer's compensation, the consistency between compensation policies across the Company, and the impact of the crisis on the share price and shareholder returns. The Board noted that the Group had made little use of short-time working schemes and that, given their structure, the long-term compensation plans of other Group executives would be much less affected by the crisis.

It also considered that the sharp reduction in the 2019 dividend, decided at the height of the crisis in April 2020, was a one-time event, and that this proposal for a measured adjustment to the 2019 and 2020 LTI Plans parameters was consistent with the resumption of the pre-crisis dividend pay-out rate of 40% of adjusted net income, to be proposed at the 6 May 2021 General Meeting. This was enabled, in particular, by the Group's solid cash generation.

A. Adjustments to the 2019 LTI plan parameters

The principles and criteria for the 2019 LTI Plan were established in the compensation policy approved by the 15 May 2019 General Meeting pursuant to Resolution 6 (ex ante vote) and the associated award of performance units to the Chairman and Chief Executive Officer was approved by the 6 May 2020 General Meeting pursuant to Resolution 5 (ex post vote).

The adjustments to the 2019 LTI Plan set out below are subject to the approval by the 6 May 2021 General Meeting (Resolution 6). If the resolution is not approved, the principles and criteria of the 2019 LTI Plan will remain unchanged.

The changes would lower the ceilings on average order intake and free operating cash flow by 9% and 18% respectively. Floors would be almost unchanged.

At the same time, the minimum and maximum number of performance units that can be awarded to the Chairman and Chief Executive Officer would be reduced by 10%.

| 2019 LTIP criteria | Current structure | New structure |
|---|---|---|
| Cumulative free operating cash flow over 2019/2021 | 1,070 minimum units ^(a) 3,200 maximum units Floor: €3.4 billion Ceiling: €4.4 billion | 960 minimum units ^(a) 2,880 maximum units Floor: €3.4 billion Ceiling: €3.6 billion |
| Average order intake for 2019/2021 | 1,070 minimum units ^(a) 3,200 maximum units Floor: €18.7 billion Ceiling: €20.7 billion | 960 minimum units ^(a) 2,880 maximum units Floor: €18.5 billion Ceiling: €18.9 billion |
| Total Shareholder Return compared to a panel of European companies ^(b) (Measure based on performance at 31/12/2021 compared to 31/12/2018) | 500 minimum units ^(a) 800 maximum units Floor: median of the panel Ceiling: highest quintile of the panel | 450 minimum units ^(a) 720 maximum units Floor: unchanged Ceiling: unchanged |
| Total Shareholder Return compared to the Euro Stoxx index (Measure based on performance at 31/12/2021 compared to 31/12/2018) | 500 minimum units ^(a) 800 maximum units Floor: median of the panel Ceiling: highest quintile of the panel | 450 minimum units ^(a) 720 maximum units Floor: unchanged Ceiling: unchanged |

(a) No unit is paid below the floor.

(b) The panel includes: Airbus, Atos, BAE Systems, Capgemini, Dassault Aviation, Leonardo, Rolls-Royce and Safran.

If Resolution 6 is approved by the 6 May 2021 General Meeting, the criteria for the 2019 LTI Plan would be as follows (changes resulting from the adoption of the resolution are shown in blue):

• **AMENDED CRITERIA AND WEIGHTINGS FOR THE 2019 LONG-TERM INCENTIVE PLAN (2019 LTIP)**

| Amended 2019 LTIP criteria | Weighting | Objectives | Threshold | Payment in number of units |
|--|------------------------------|--|--|----------------------------|
| Cumulative free operating cash flow over 2019/2021 | 40% (2,880 units maximum) | Floor: €3.4 billion | If result < floor | 0 units |
| | | | If result = floor (= 33% of maximum) | 960 units |
| | | Ceiling: €3.6 billion | If result ≥ ceiling for the period | 2,880 units |
| Variations between floor and ceiling calculated on a straight-line basis | | | | |
| Average order intake for 2019/2021 | 40% (2,880 units maximum) | Floor: €18.5 billion | If result < floor | 0 units |
| | | | If result = floor (= 33% of maximum) | 960 units |
| | | Ceiling: €18.9 billion | If result ≥ ceiling for the period | 2,880 units |
| 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 31/12/2021 compared to 31/12/2018 | 10% (720 units maximum) | Floor: median of the panel | If TSR < median of the index | 0 units |
| | | | If TSR = median of the panel | 450 units |
| | | Ceiling: highest quintile of the panel | If TSR is in the highest quintile of the panel | 720 units |
| 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 31/12/2021 compared to 31/12/2018 | 10% (720 units maximum) | Floor: median of the Euro Stoxx index | If TSR < median of the index | 0 units |
| | | | If TSR = median of the index | 450 units |
| | | Ceiling: highest quintile of the index | If TSR is in the highest quintile of the index | 720 units |
| Variations between median and entry point of highest quintile calculated on a straight-line basis | | | | |

(a) The panel includes: Airbus, Atos, BAE Systems, Caggemini, Dassault Aviation, Leonardo, Rolls-Royce and Safran.

NB: Total Shareholder Return measures the performance of Thales's shares with dividend reinvested for the period in question.

B. Adjustments to the 2020 LTI plan parameters

The principles and criteria for the 2020 LTI Plan were established in the compensation policy approved by the 6 May 2020 General Meeting, pursuant to Resolution 7 (*ex ante* vote).

The adjustments to the 2020 LTI Plan set out below are subject to the approval by the 6 May 2021 General Meeting (Resolution 7). If the resolution is not approved, the principles and criteria of the 2020 LTI Plan will remain unchanged.

In this LTI 2020 plan, the performance measures of every year are affected by the crisis. The changes would lower the floors by 6% and 7% respectively. The ceiling on average order intake would be reduced by 11% and the ceiling on free operating cash flow would be lowered by 20%.

At the same time, the minimum and maximum number of performance units that can be awarded to the Chairman and Chief Executive Officer would be reduced by 10%.

| 2020 LTIP criteria | Current structure | New structure |
|---|---|---|
| Cumulative free operating cash flow over 2020/2022 | 1,070 minimum units ^(a) 3,200 maximum units Floor: €3.5 billion Ceiling: €4.5 billion | 960 minimum units ^(a) 2,880 maximum units Floor: €3.3 billion Ceiling: €3.6 billion |
| Average order intake for 2020/2022 | 1,070 minimum units ^(a) 3,200 maximum units Floor: €19.5 billion Ceiling: €21.5 billion | 960 minimum units ^(a) 2,880 maximum units Floor: €18.2 billion Ceiling: €19.1 billion |
| Total Shareholder Return compared to a panel of European companies ^(b) (Measure based on performance at 31/12/2022 compared to 31/12/2019) | 500 minimum units ^(a) 800 maximum units Floor: median of the panel Ceiling: highest quintile of the panel | 450 minimum units ^(a) 720 maximum units Floor: unchanged Ceiling: unchanged |
| Total Shareholder Return compared to the Euro Stoxx index (Measure based on performance at 31/12/2022 compared to 31/12/2019) | 500 minimum units ^(a) 800 maximum units Floor: median of the panel Ceiling: highest quintile of the panel | 450 minimum units ^(a) 720 maximum units Floor: unchanged Ceiling: unchanged |

(a) No unit below the floor.

(b) The panel includes: Airbus, Atos, BAE Systems, Capgemini, Dassault Aviation, Leonardo, Rolls-Royce and Safran.

If Resolution 7 is approved by the 6 May 2021 General Meeting, the criteria for the 2020 LTI Plan would be as follows (changes resulting from the adoption of the resolution are shown in blue):

• **AMENDED CRITERIA AND WEIGHTINGS FOR THE 2020 LONG-TERM INCENTIVE PLAN (2020 LTIP)**

| Amended 2020 LTIP criteria | Weighting | Objectives | Threshold | Payment in number of units |
|---|------------------------------|--|--|----------------------------|
| Cumulative free operating cash flow 2020/2022 | 40% (2,880 units maximum) | Floor: | If results < floor | 0 units |
| | | €3.3 billion | If results = floor (= 33% of maximum) | 960 units |
| | | Ceiling: | If results ≥ ceiling for the period | 2,880 units |
| Variations between floor and ceiling calculated on a straight-line basis | | | | |
| Average order intake for 2020/2022 | 40% (2,880 units maximum) | Floor: | If results < floor | 0 units |
| | | €18.2 billion | If results = floor (= 33% of maximum) | 960 units |
| | | Ceiling: | If results ≥ ceiling for the period | 2,880 units |
| 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 31/12/2022 compared to 31/12/2019) | 10% (720 units maximum) | Floor: median of the panel | If TSR < median of the index | 0 units |
| | | | If TSR = median of the panel | 450 units |
| | | Ceiling: highest quintile of the panel | If TSR is in the highest quintile of the panel | 720 units |
| 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 31/12/2022 compared to 31/12/2019) | 10% (720 units maximum) | Floor: median of the Euro Stoxx index | If TSR < median of the index | 0 units |
| | | | If TSR = median of the index | 450 units |
| | | Ceiling: highest quintile of the index | If TSR is in the highest quintile of the index | 720 units |
| Variations between median and entry point of highest quintile calculated on a straight-line basis | | | | |

(a) The panel includes: Airbus, Atos, BAE Systems, Capgemini, Dassault Aviation, Leonardo, Rolls-Royce and Safran.

NB: Total Shareholder Return measures the performance of Thales's shares with dividend reinvested for the period in question.

4.4.3 Compensation policy for Company representatives for the 2021 financial year

Section 4.4.3 presents the compensation policy for company representatives, in accordance with Article L22-10-8 of the French Commercial Code.

Sections 4.4.3.1 and 4.4.3.2 respectively set out the compensation policies for the Chairman and Chief Executive Officer and for directors as from the 2021 financial years, which will be submitted for approval at the 6 May 2021 General Meeting (Resolutions 10 and 11).

If Resolution 10 is approved:

- the compensation policy set out in section 4.4.3.1 will apply to the Chairman and CEO as from the 2021 financial year, in accordance with Article L22-10-8 of the French Commercial Code, and subject to any amendment at a subsequent General Meeting deliberating on the same subject;
- in accordance with the compensation policy, the components of total compensation and benefits in kind for the Chairman and CEO, paid during the 2021 financial year or awarded for that same year, will be put to the vote of shareholders at the General Meeting called to approve the financial statements for 2021, pursuant to Articles L22-10-9 and L22-10-34 I and II of the French Commercial Code, which moreover stipulate that payment of variable and exceptional items are subject to the approval of the General Meeting.

If Resolution 11 is approved, the compensation policy presented in section 4.4.3.2 will apply to directors as from the 2021 financial year, subject to any amendment at a subsequent General Meeting deliberating on the same subject, in accordance with Article L. 22-10-8 of the French Commercial Code.

Process to establish the compensation policy for Company representatives

This process is managed by the Governance and Remuneration Committee in accordance with the Board of Directors' rules of procedure.

To design the Chairman and CEO's compensation policy, the Governance and Compensation Committee takes into consideration many parameters: compensation policy in place for Group executives and employees, analyses prepared by an external consultant, comparable company practices, strategic priorities, shareholders feedbacks, proxy-voting firm recommendations, stakeholder comments, changes in the Afep-Medef code, etc. It also considers financial and non-financial objective achievement levels in past years, as well as the budget for the coming year. Through its Chairman, the Committee gathers all pertinent information from the Human Resources Department, particularly regarding changes in wage practices within the Group, or from other departments that can contribute to drawing up the compensation policy (Finance Department and Company Secretary).

The Governance and Remuneration Committee issues recommendations to the Board of Directors. After examining these recommendations, the Board submits its decision to the vote of the General Meeting. Any change becomes effective only after approval by the General Meeting.

To limit conflicts of interest, the Governance and Remuneration Committee is chaired by an independent director. It may also call on an outside consultant. Lastly, the Chairman and CEO never participates in the Board's deliberations or votes on his own compensation.

Whenever it deems it necessary, and especially if there have been changes to the Afep-Medef code, the Governance and Remuneration Committee reviews whether it is appropriate to update the compensation policy for directors.

4.4.3.1 Compensation policy for the Chairman and CEO for the 2021 financial year

The Governance and Remuneration Committee met on 9 February and 1 March 2021 to recommend that the Board of Directors set the compensation of the Chairman and CEO for the 2021 financial year in accordance with the framework approved by the 6 May 2020 General Meeting, as described below.

A. General framework

The 6 May 2020 General Meeting approved a compensation structure for the Chairman and CEO with the following components:

- 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 incentive plan (LTIP) linked to the value of the Thales share, in the form of performance shares or units; The variable compensation of the Company representative systematically includes one or more criteria related to social and environmental responsibility in its annual or long-term component;
- severance pay⁽¹⁾;
- private unemployment insurance⁽¹⁾;
- a defined contribution pension scheme⁽¹⁾;
- legal and tax advice;
- private healthcare benefits identical to those offered to senior executives;
- company representatives' liability insurance;
- reimbursement of business expenses in accordance with Thales's rules and guidelines;
- an annual medical check-up, like other senior executives;
- the services of a chauffeur-driven car.

The Company complies with the Afep-Medef code (section 25.1), 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 medium to long-term performance and competitiveness. It must be designed to attract, retain and motivate an effective Company representative;
- when determining the compensation, the following principles must be considered: comprehensiveness, balance between the 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 compensation of Executive Committee members and most of the Group's senior executives is made up of a fixed component, an annual variable component and a long-term incentive plan (LTIP). The respective proportion of each component is determined based on the level of responsibility of each position and on benchmark compensation studies conducted in the various national markets where Thales is present.

(1) Other compensation subject to performance conditions.

For the Chairman and CEO, 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;
- the target annual variable compensation is equal to 100% of fixed compensation; this annual variable compensation is capped at 150% of fixed compensation;
- the value of the target long-term incentive plan at grant date may not exceed 100% of fixed compensation.

The long-term incentive plan 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 they exist).

The Chairman and CEO must hold the Thales shares delivered to him at each LTIP maturity date, at an amount of 50% of the net after-tax gain from these LTIPs, until he has accumulated the equivalent of one year's fixed salary in shares. He must keep these shares for his entire term of office as Chairman and CEO.

The Chairman and CEO is also entitled to a defined contribution pension scheme detailed in section 4.4.1.1.

Lastly, the severance payment shall only be paid to the Chairman and CEO in the event of forced departure, contingent upon the achievement of performance targets over three financial years. It is capped at 12 months of reference salary (fixed and variable compensation paid over the last 12 months of activity, excluding LTIP), which is less than the amount recommended under the Afep-Medef code.

Pursuant to the Afep-Medef code (section 25.1.2), the rules for determining the Chairman and CEO's compensation should be stable and the performance criteria used should be, to the greatest extent possible, long lasting. In principle, fixed compensation should only be reviewed at relatively long intervals (section 25.3.1 of the Afep-Medef code).

The compensation policy for the Chairman and Chief Executive Officer provides for a plan applicable to exceptional circumstances (see section 4.4.3.2.B.f).

B. Implementation of compensation policy for the Chairman and CEO for the 2021 financial year

a) Overall compensation structure

At its meeting on 3 March 2021, based on the recommendations of the Governance and Remuneration Committee and in accordance with the general framework described in A. above, the Board of Directors decided to apply for the 2021 financial year the 2020 compensation policy for the Chairman and CEO, making the adjustments detailed below:

- annualisation of the 2021 LTIP targets,
- measured increase in the weight of CSR criteria in annual variable compensation,
- adjustment of the performance condition related to the defined contribution pension plan, applicable from the 2022 contribution,
- limited modification of the "exceptional circumstances" clause.

When reaching its decision, the Board took into account the fact that the compensation policy for the Chairman and CEO had been adopted by the 6 May 2020 General Meeting (Resolution 7) with an approval rate of 59.84%, mostly due to the decision by the French State, which holds 39% of voting rights, to vote against the resolution.

The Board of Directors therefore decided to:

- maintain the annual fixed compensation at €800,000;
- maintain targeted annual variable compensation at 100% of annual fixed compensation, capped at 150% of the annual fixed compensation, i.e. €1,200,000, in the event objectives are surpassed.

The Board of Directors also decided to grant, under the 2021 LTI Plan, a target of 6,700 performance units (capped at 10,720) valued at €443,111 under IFRS standards at the grant date. Each unit will be valued at the Thales closing share price on 3 March 2025. The exact amount of the compensation will depend on the fulfilment of performance and employment conditions, as well as on the Thales share price on the unit vesting date.

In accordance with prior practice, the Board does not apply any deferral period to the payment of the Chairman and CEO's compensation, other than that provided for in Article L. 22-10-34 of the French Commercial Code, pursuant to which the Chairman and CEO's 2021 annual variable compensation will be paid after approval by the shareholders at the 2022 General Meeting.

Lastly, the compensation policy does not provide for the possibility of asking the Chairman and CEO to return his annual variable compensation or performance units vested under his LTIP.

In summary, the components of annual fixed, variable compensation and long-term incentive are allocated as follows:



* LTIP valued at their IFRS fair value on grant date.

Rationale for the policy and its criteria

For annual variable compensation and the long-term incentive, the Board adopted thresholds and performance criteria that contribute to the goals of the compensation policy. The financial criteria (EBIT, order intake, free operating cash flow) are key indicators of the Group's performance and competitiveness. Moreover, these criteria are consistent with those adopted for the compensation policy of other Group executives and employees. The thresholds are such that they will boost the incentives to exceed budgeted targets and, in the case of the long-term incentive plan, stimulate the Group's development over time. The Board also paid close attention to the clarity and stability of the rules.

The Board noted that the overall compensation policy offered clear, balanced incentives both in terms of achieving the key aspects of the annual budget (profitability, growth, cash generation), by means of the annual variable compensation component, and in terms of meeting value creation targets over the longer term (growth, cash generation, stock market performance), by means of the long-term incentive. Furthermore, it deemed it important to supplement this financial approach by including, on an annual basis, non-financial criteria to encourage the achievement of annual or multi-year strategic objectives and to give greater weight to the social and environmental issues that are central to the Group's long-term development.

The Board also stressed that this compensation policy contributes to the Group's business development strategy. The incentives for developing new business (variable compensation linked to order intake) are counter-balanced by incentives to achieve profitability (EBIT and free operating cash flow criteria), both for the current year (annual variable compensation) and over the medium term (LTI performance measure computed over three years).

Finally, the balance between annual and long-term variable components ensures that the compensation policy contributes to the Group's long-term

development by minimising the incentive to achieve annual targets at the expense of medium-term development.

The Board also noted that the annual fixed compensation and other compensation components (defined contribution pension scheme, severance pay, private unemployment insurance, benefits in kind) contribute to the competitiveness of the compensation policy, which is designed to attract, retain and motivate top performing executives. These three objectives serve both the Group's corporate interest and its long-term development.

b) Criteria for setting annual variable compensation for 2021

As in 2020, 75% of the annual variable compensation is set on financial criteria and 25% is set on non-financial criteria. In order to reward outperformance on the financial criteria, payment relative to these criteria may exceed the target and amount to a maximum of 125% of annual fixed compensation. This is not the case for the non-financial portion which remains capped at 25%. Consequently, annual variable compensation is capped at 150% of the target.

(i) Financial criteria for 2021

The Board of Directors has decided to keep financial criteria and weightings identical to those prevailing in the calculation of the 2020 variable compensation, namely:

- 35% based on EBIT;
- 20% based on order intake;
- 20% based on free operating cash flow.

For each criterion, 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 sales.

Triggering ranges for each of the financial criteria, also unchanged from 2020, are detailed below:

| Financial criteria for annual variable compensation | Weighting | Threshold | Payment as % of target |
|---|------------|---|------------------------|
| EBIT | 35% | If results \leq 90% of budgeted objective | 0% |
| | | If results = 100% of budgeted objective | 35.00% |
| | | If results \geq 110% of budgeted objective | 58.33% |
| Order intake | 20% | If results \leq 90% of budgeted objective | 0% |
| | | If results = 100% of budgeted objective | 20.00% |
| | | If results \geq 110% of budgeted objective | 33.33% |
| Free operating cash flow | 20% | If results \leq budgeted objective – 2% of budgeted sales | 0% |
| | | If results = 100% of budgeted objective | 20.00% |
| | | If results \geq budgeted objective + 2% of budgeted sales | 33.33% |
| TOTAL FINANCIAL CRITERIA | 75% | | |

The definition and calculation of these criteria are set out in Section 2.3.

As in previous years, the objectives for each financial criterion correspond to those in the Group's annual budget as approved by the Board of Directors. For reasons of confidentiality, the exact objectives underlying these financial criteria cannot be disclosed.

The level of achievement for each financial criterion will be detailed *a posteriori* in the 2021 Universal Registration Document.

(ii) Non-financial criteria for 2021

For 2021, the Board decided to retain four non-financial criteria, including one criterion related to Social and Environmental Responsibility accounting for 10% of the target variable compensation, and three individual criteria accounting for 5% each:

- impact of the Covid-19 crisis (5%): continued implementation of structural adaptation measures in activities exposed to civil aeronautics, with a view to preserving skills for future recovery;
- cross-functional actions and strategy (5%): further capture of synergies with Gemalto;
- preparation for the future (5%): detailed review of short and medium-term R&D investment plans, promotion of apprenticeship and youth recruitment;

- CSR criteria (10%) broken down into four themes, the first three of which will be assessed in light of the progress towards the quantified objectives presented in chapter 5:
 - diversity and Inclusion: increase the representation of women on management teams throughout the Group,
 - workplace health and safety: strengthen the workplace safety culture to ensure a lasting reduction in the frequency of work-related accidents,
 - deployment of the Low-Carbon strategy: reduce direct operational emissions by acting on operations (production and property management activities) and on employee mobility; reduce indirect emissions by acting on purchases of goods and services and by investing in the development of increasingly eco-responsible products,
 - continue to enhance Compliance programmes.

c) 2021 Long-Term Incentive Plan (LTIP)

The LTIP is designed to reward the Chairman and CEO for the Group's long-term performance. In accordance with the Afep-Medef code (section 25.1.2), the performance and employment conditions applicable to this plan are inspired by those that apply to the LTIPs of Executive Committee members and other senior executives who are LTIP beneficiaries (see section 6.2.3.5.1), without said conditions being identical. As such, only the LTIP of the Chairman and CEO contains an external financial criterion linked to Thales's stock market performance, which is justified by his corporate office.

To take into account the particularly uncertain health and macro-economic context at the beginning of 2021, the Board of Directors decided to adapt the performance measurement for the two internal performance criteria. The measurement would still be carried out on a three-year basis, but would be based on the average (for order intake) or cumulative (for free operating cash flow) achievement of annual budget targets, instead of targets set a priori in absolute terms over three years. The calculation method is detailed in section (ii) below.

The LTIP consists of performance units tied to the value of the Thales share. The units will be paid 50% in Thales shares and 50% in cash.

For the 2021 LTI Plan, the Board decided to grant a target number of 6,700 performance units (capped at 10,720) valued at €443,111 under IFRS standards at grant date. The IFRS valuation is comparable to the valuation of the 2019 LTI Plan (€431,272) and 2020 LTI Plan (€377,890). The valuations according to the calculation method previously used (maximum number of units multiplied by the share price on 31 December of the year preceding the grant) are also comparable: €816,000 for the 2019 LTI Plan, €740,160 for the 2020 LTI plan and €802,928 for the 2021 LTI plan. The lower valuation of the LTI 2020 plan compared to the LTI 2019 plan reflects the lower share price during the year, as the number of units granted remained unchanged.

These units are subject to a vesting period of four years from 3 March 2021. The performance units that actually vest in 2025 will depend on the achievement of performance conditions measured over a three-year period (2021/2023).

Pursuant to Article L. 22-10-34-II of the French Commercial Code, the payments related to the performance units will be submitted to a General Meeting vote under conditions provided for by law.

(i) 2021 LTIP performance criteria

The Board of Directors decided to keep the same 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 plan 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 2021/2023;
- 40% based on a competitiveness objective measured in terms of cumulative free operating cash flow over 2021/2023; and
- 20% based on Thales's stock market performance and measured by Total Shareholder Return (which includes reinvested dividends). Half of this stock market performance (10%) is compared to a panel of European companies in comparable industry sectors, including the following eight weighted companies: Airbus, Atos, BAE Systems, Capgemini, Dassault Aviation, Leonardo, Rolls-Royce and Safran), and the other half (10%) to the Euro Stoxx index. The calculation is based on a comparison of performance at 31 December 2023 against performance at 31 December 2020.

(ii) Thresholds and objectives attached to the 2021 LTIP performance criteria

The thresholds and objectives set by the Board to be both demanding and motivating are as follows:

| 2021 LTI criteria | Weighting | Objectives | Threshold | Payment as % of total target |
|---|--|---|---|------------------------------|
| Cumulative free operating cash flow over 2021/2023 | 40% (2,680 units on the target, 4,288 on the ceiling) | Floor: 90% x (2021 budget + 2022 budget + 2023 budget) | If results < floor | 0% |
| | | | If results = floor | 20% (1,340 units) |
| | | Target: 2021 budget + 2022 budget + 2023 budget | If result = target | 40% (2,680 units) |
| | | Ceiling: 120% x (2021 budget + 2022 budget + 2023 budget) | If results ≥ ceiling for the period Variations between floor and target and between target and ceiling calculated on a straight-line basis | 64% (4,288 units) |
| Average order intake over 2021/2023 | 40% (2,680 units on the target, 4,288 on the ceiling) | Floor: 95% x (2021 budget + 2022 budget + 2023 budget)/3 | If results < floor | 0% |
| | | | If results = floor | 20% (1,340 units) |
| | | Target (2021 budget + 2022 budget + 2023 budget)/3 | If result = target | 40% (2,680 units) |
| | | Ceiling: 110% x (2021 budget + 2022 budget + 2023 budget)/3 | If results ≥ ceiling for the period Variations between floor and target and between target and ceiling calculated on a straight-line basis | 64% (4,288 units) |
| Total Shareholder Return compared with a panel of European companies ^(a) (Measure based on performance at 31/12/2023 compared with 31/12/2020) | 10% (670 units on the target, 1,072 units on the ceiling) | Floor: median of the panel Ceiling: highest quintile of the panel | If TSR < median of the panel | 0% |
| | | | If TSR = median of the panel | 10% (670 units) |
| | | | If TSR is in the highest quintile of the panel | 16% (1,072 units) |
| | | | 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 31/12/2023 compared with 31/12/2020) | 10% (670 units on the target, 1,072 units on the ceiling) | Floor: median of the Euro Stoxx index Ceiling: highest quintile of the index | If TSR < median of the index | 0% |
| | | | If TSR = median of the index | 10% (670 units) |
| | | | If TSR is in the highest quintile of the index | 16% (1,072 units) |
| | | | Variations between median and entry point of highest quintile calculated on a straight-line basis | |

(a) The panel includes: Airbus, Atos, BAE Systems, Capgemini, Dassault Aviation, Leonardo, Rolls-Royce and Safran.

For the free operating cash flow and order intake criteria, objectives shall correspond to the cumulative amount (for free operating cash flow) or to the average (for order intake) of the amounts set out in the annual Group budgets approved by the Board of Directors in 2021, 2022 and 2023 for the corresponding financial years.

After the end of the 2023 financial year, the Board of Directors will disclose the number of performance units that actually vest following a review of the achievement of said performance conditions.

(iii) Additional 2021 LTIP vesting criteria⁽¹⁾

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 performance unit will be equal to the average of the share prices quoted at the closing of the Euronext market over the 20 trading days preceding 3 March 2025.

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 25.3.3 of the Afep-Medef 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.

(1) Unchanged from the 2020 compensation policy.

d) Defined-contribution pension scheme of the Chairman and CEO

Following the decision of the 6 May 2020 General Meeting, the Chairman and Chief Executive Officer is entitled to a defined contribution pension plan provided by an external insurer and funded by the Company, which provides an annuity or lump sum payment.

For a given year, the Company contributes 32% of the fixed basic compensation actually received by the Company representative between 1 December of the previous year and 30 November of the year concerned. The Company also pays an additional annual amount to the individual to offset the impact of payroll expenses and income tax that are triggered by the contribution paid by the Company.

The defined contribution plan makes the payment of the contribution subject to a performance condition that the Board would like to correct as from 2022:

- the previous plan made the payment of the annuity subject to the fulfilment of the following performance condition: the average rate of achievement of annual operating profitability target (EBIT), assessed on the date when term of office ends, must be equal to or higher than 80% over the last three financial years. Following the termination of the plan, this condition will continue to apply to the crystallised annuity at 31/12/2019.
- the 2020 compensation policy provided for the application of an identical condition to the new defined-contribution plan. The nature of this plan requires verifying that the performance condition has been met before each annual contribution. This condition has been met for the 2021 contribution owing to the average operating profitability performance over 2018/2020 (89%);
- as from the 2022 contribution, which will be calculated based on profit for the 2021 financial year, it is proposed to adjust the performance condition as follows, in order to assess it every year before the payment of each contribution:
 - if annual variable compensation < 50% of target: no contribution is paid,
 - if annual variable compensation is between 50 and 80% of target: between 0 and 100% of the contribution (straight-line basis),
 - if annual variable compensation ≥ 80% of target: the whole contribution is paid.

e) Other items of the Chairman and CEO's compensation

The Chairman and CEO is entitled to two other compensation components subject to related-party commitments, described in section 4.4.1.1:

- severance pay;
- private unemployment insurance.

The Chairman and CEO is furthermore entitled to other compensation components, also unchanged from 2020, as follows:

- legal and tax advice;
- private healthcare benefits identical to those offered to senior executives;
- company representatives' liability insurance;
- reimbursement of business expenses in accordance with Thales's rules and guidelines;
- an annual medical check-up, like other Thales senior executives;
- the services of a chauffeur-driven car.

The Chairman and CEO does not receive attendance fees in his capacity as a director of Thales. He has no service contract with Thales SA or any of the companies it controls within the meaning of Article L. 233-16 II or III of the French Commercial Code.

For more information, please refer to section 4.4.1.1.

f) Exceptional circumstances

This section describes the measures envisaged should an exceptional event occur. In this framework, the Board proposes to add the new case described in (ii) below as from 2021.

In the event (i) of a transaction that significantly changes the Group's scope of consolidation, or (ii) the occurrence of circumstances or events outside the Company that have a significant impact on the Group and could not have been foreseen at the time of approval of this remuneration policy by the Board of Directors for presentation at the General Meeting, the Board of Directors reserves the right to exercise its discretionary power to adjust, upwards or downwards, one or more of the parameters attached to the performance criteria (weighting, triggering thresholds, objectives, targets, etc.) of the Company representative's annual variable compensation or long-term incentive plan (LTIP). This will ensure that the results of the application of said criteria reflect both the performance of the company representative and that of the Group. By the same reasoning, the Board of Directors may adjust the triggering thresholds, objectives and targets in the event of changes in accounting standards.

These adjustments will be decided by the Board of Directors, based on the recommendation of its Governance and Remuneration Committee, and disclosed on the Company's website.

It must be noted that this option is different from the one provided for in Article L. 22-10-8-III paragraph 2 of the French Commercial Code.

No provision has been made for the Board of Directors to depart from this compensation policy in the event of exceptional circumstances other than those mentioned above.

4.4.3.2 Compensation policy for the directors for financial year 2021

At its meeting on 3 March 2021, the Board of Directors renewed the compensation policy approved by the 6 May 2020 General Meeting (Resolution 8).

a) Annual compensation

The total amount of compensation 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, is set at €600,000 per year.

Directors receive:

- for services to the Board, fixed compensation of €14,000 per year (prorated in the event of appointment or resignation during the year), adjusted down if necessary to respect the total envelope (see below), 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 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).

Censors, if any, receive compensation that is entirely variable, based on attendance at meetings and amounting to €2,500 (or less, if the Board so decides) per meeting;

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 is reduced in order to remain within the annual budget approved by shareholders.

The Chairman and CEO does not receive any compensation in respect of his office as director.

In accordance with the recommendations of the Afep-Medef code, this structure was set up so that the variable component makes up most of the directors' compensation. Directors are therefore encouraged to observe strict attendance at meetings, which is essential if they are to carry out their duties effectively.

No provision has been made for the possibility of requesting that directors return the variable component of their compensation.

b) Exceptional compensation

In accordance with Article L. 225-46 of the French Commercial Code, additional compensation may be allocated to directors outside the authorised annual budget of €600,000 on an exceptional basis by decision of the Board in the following cases:

- pursuant to the Board's rules of procedure, the Chairman may request that specific committees be set up to study a proposed transaction, such as the signature of a major contract or the completion of an investment or divestment, for which the referral to one of the standing committees does not seem the best way for such transaction to be appraised and subsequently voted on by the Board. In such cases, the Board of Directors may decide to grant its members exceptional compensation in the form of a flat fee pro-rated for the meetings attended;
- the Board may also entrust specific tasks to a director and decide to grant him or her exceptional compensation commensurate with the work performed.

4.5 Compensation of other executives

The total compensation paid in 2020 to members of the Executive Committee, excluding the Chairman and CEO, totalled €13,005k. This included a variable component of 29.9% for 2019. As is the case for the Chairman and CEO, the variable component is based on financial and non-financial performance criteria.

• DETAILS OF COMPENSATION PAID TO THE EXECUTIVE COMMITTEE (EXCLUDING THE CHAIRMAN AND CEO) IN 2019 AND 2020

| (in € thousands) | 2020 | 2019 |
|---|--------------------------------|--------------------------------|
| | Paid during the financial year | Paid during the financial year |
| Executive Committee (excl. Chairman and CEO) | | |
| Fixed compensation | 5,754 | 5,268 |
| Variable compensation | 3,883 | 4,056 |
| Compensation in units subject to performance and employment conditions under the 2015 LTI plan ^(a) | – | 4,195 |
| Defined-contribution pension scheme (gross up premium) | 1,926 | – |
| Severance pay | 1,400 | – |
| Benefits in kind | 42 | 49 |
| Total before social contributions | 13,005 | 13,568 |
| Employer social contributions | 3,713 | 4,000 |
| TOTAL EXPENSE | 16,617 | 17,568 |

(a) Plan maturing in 2019. Half of the total value referred to above was paid in the form of shares.

From 2020, Executive Committee members benefit from a defined contribution pension. The corresponding contribution paid by Thales to the insurer is considered as a benefit in kind.

In addition, at the end of December 2020, the members of the Executive Committee, other than the Chairman and CEO, together held a total of 228,332 performance shares and 27,237 phantom shares. The breakdown by grant date and characteristics, as well as any options exercised, are shown in Sections 6.2.2.2 and 6.2.3.5 (pages 185 and 191). The summary of transactions carried out by directors, non-voting directors and related persons is shown in section 4.6.

4.6 Summary statement of transactions mentioned in Article L. 621-18-2 of the French Monetary and Financial Code carried out in 2020

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 have been made to the AMF for publication on its⁽¹⁾ website (<http://www.amffrance.org>):

| Director's name | Financial instrument | Type of transaction | Transaction amount (in euros) | Unit price (in euros) |
|---|------------------------|-------------------------------------|-------------------------------|-----------------------|
| Patrice Caine | Share purchase options | Financial year | 50,046.00 | 26.3400 |
| | Share purchase options | Financial year | 40,510.92 | 26.3400 |
| Person with ties to Patrice Caine | Share | Acquisition | 301,175.06 | 64.0798 |
| Philippe Knoche | Share | Acquisition | 34,280.15 | 68.5603 |
| Pascal Bouchiat | Share | Free share allotment ^(a) | 0.00 | 0.0000 |
| Marc Darmon | Share | Free share allotment ^(a) | 0.00 | 0.0000 |
| Hervé Derrey | Share | Free share allotment ^(a) | 0.00 | 0.0000 |
| Philippe Duhamel | Share | Free share allotment ^(a) | 0.00 | 0.0000 |
| Person with ties to Philippe Duhamel | Share | Free share allotment ^(a) | 0.00 | 0.0000 |
| Jean-Loïc Galle | Share | Free share allotment ^(a) | 0.00 | 0.0000 |
| Gil Michielin | Share | Free share allotment ^(a) | 0.00 | 0.0000 |
| Pierre-Éric Pommellet | Share | Sale | 485,982.64 | 91.9899 |
| | Share | Sale | 186,568.80 | 91.6800 |
| | Share | Free share allotment ^(a) | 0.00 | 0.0000 |
| Isabelle Simon | Share | Free share allotment ^(a) | 0.00 | 0.0000 |
| Pascale Sourisse | Share | Free share allotment ^(a) | 0.00 | 0.0000 |
| David Tournadre | Share | Free share allotment ^(a) | 0.00 | 0.0000 |

(a) Acquisition price: €57.40.

(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.

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Corporate responsibility and non-financial performance

5

| | | |
|-------------|--|------------|
| 5.1 | A corporate responsibility policy to support sustainable economic growth | 118 |
| 5.2 | Risks taken into account for the non-financial performance statement | 119 |
| 5.3 | Non-financial performance scorecard | 122 |
| 5.4 | Human resources geared towards company performance | 123 |
| 5.4.1 | Strengthen the Group's appeal | 123 |
| 5.4.2 | Promote diversity and an inclusive culture | 127 |
| 5.4.3 | Offer a safe and high-quality work environment | 130 |
| 5.4.4 | Other employment indicators | 136 |
| 5.5 | A committed approach to meet environmental challenges | 138 |
| 5.5.1 | General policy on environmental issues | 138 |
| 5.5.2 | Reduce the environmental impact across the entire value chain | 142 |
| 5.5.3 | Overview of eco-responsible products and services | 152 |
| 5.5.4 | Environmental indicators | 155 |
| 5.6 | A corporate responsibility policy based on strong ethical commitments | 156 |
| 5.6.1 | Prevention of corruption and influence peddling | 156 |
| 5.6.2 | Actions to support Human Rights and fundamental freedoms | 157 |
| 5.6.3 | A responsible tax policy | 158 |
| 5.7 | An organisation that is proactive towards its stakeholders | 159 |
| 5.7.1 | Stakeholder mapping | 159 |
| 5.7.2 | Creation of the materiality matrix | 160 |
| 5.7.3 | Relationships of trust with customers | 160 |
| 5.7.4 | Incorporating the challenges of corporate responsibility in the supply chain | 161 |
| 5.7.5 | Duty of Care Plan | 164 |
| 5.7.6 | Thales's commitments to civil society | 168 |
| 5.8 | Methodological notes | 173 |
| 5.8.1 | Human resources data | 173 |
| 5.8.2 | Environmental data | 174 |
| 5.9 | Report by the independent third party on the consolidated non-financial statement | 175 |
| 5.10 | Cross-reference table for TCFD recommendations | 177 |

5.1 A corporate responsibility policy to support sustainable economic growth

For more than 20 years, Thales has been proactively implementing a strong corporate responsibility policy based on the highest international standards. This is now illustrated by the company's *raison d'être*, newly adopted in 2020: "Building a future we can all trust".

The implementation of a long-term corporate responsibility policy, a key to Thales's economic performance, is one of the fundamental expectations of its customers and employees. Through this approach, the Group is also addressing the demands of its investors and the financial markets for a company that is increasingly efficient, innovative and mindful of its responsibilities, while at the same time aligning with current societal trends towards building a more transparent and trustworthy relationship between companies and all their stakeholders.

In 2020, Thales again confirmed its commitment to the United Nations Global Compact, which it signed 2003, and through agreements and procedures is implementing its ten principles relating to Human Rights, labour standards, environmental protection, and the fight against corruption. This initiative has allowed Thales, since 2012, to achieve Global Compact Advanced status, the highest level of distinction of the United Nations Global Compact, which aims to create a high standard of CSR performance and encourage transparency.

2020 was also marked by Thales's establishment of a Corporate Social Responsibility (CSR) Committee, replacing the Ethics & Corporate Responsibility Committee formed in 2001. The aim of this change in internal governance in the area of corporate responsibility is to better manage the Group's commitments and actions in favour of responsible and sustainable development and thereby strengthen its contribution to society. The CSR Committee is led by the Company Secretary, the Senior Executive Vice President, Human Resources, and the Senior Executive Vice President, Operations & Performance. It reports directly to the Chairman & Chief Executive Officer of Thales, and reports annually on its activities to the Executive Committee, Thales's Board of Directors, and its Strategic and CSR Committee.

In 2020, the Group's Management sought to strengthen the financial portion of the variable compensation and to involve all employees more closely in the CSR policy. Accordingly, it was decided, as from 2021 and for employees eligible for variable compensation, to dedicate 10% of this amount to CSR objectives, corresponding to the Group's commitments to the four pillars of its strategy:

- diversity and inclusion;

- compliance: the fight against corruption and influence peddling;
- workplace health and safety;
- environment and low-carbon strategy.

In December 2020, Thales took the initiative, for the first time, to include climate targets in the conditions of its new €1.5 billion credit line signed with 17 international banks. Its interest rate will be linked to the reduction in the Group's direct and indirect carbon footprint (Scopes 1, 2, and 3), in line with the low-carbon policy implemented and the commitments over the next ten years. Depending on the achievement of these targets, the interest will be adjusted upwards or downwards by means of a bonus/malus system.

Since 2016, Thales has published an integrated annual corporate responsibility report which aims to provide all stakeholders – employees, customers, suppliers, business partners, local communities, public authorities, NGOs, etc. – with details about how the organisation interacts with its ecosystem and uses capital to create value in the short, medium and long term. In this document, Thales sets out its ever-growing commitment to the Sustainable Development Goals defined by the United Nations in 2015.

The appropriateness of the Group's corporate responsibility policy was also recognised by the Dow Jones Sustainability Index (DJSI). In 2020, for the fourth year in a row, Thales was ranked as one of the companies in the Aerospace & Defence segment with the most advanced corporate responsibility policy worldwide. Similarly, the non-financial rating agencies MSCI and Ethifinance (Gaia rating) gave Thales a rating of AA (for the fifth consecutive year) and an index of 83/100 for its corporate responsibility policy, acknowledging the Group's sustained efforts in this area.

In 2020, Thales embarked on a certification process pursuant to ISO 37001:2016 "Anti-bribery management systems". Certification was issued by AFNOR in March 2021, with the scope covering Thales SA and the companies in France, and some international subsidiaries of Thales International SAS⁽¹⁾ (Thales EURAM, Thales AMEWA and Thales NSEA, each on their own perimeter in Europe and Latin America, Middle-East and Africa and in Asia). The Group plans to further pursue this process with a view to extending the scope of this certification.

Lastly, it is important to note that, despite the Covid-19 pandemic, Thales reaffirmed all its priorities and confirmed all its CSR objectives.

(1) Including the 3 regional companies Thales EURAM, Thales AMEWA and Thales NSEA, each on their own perimeter in Europe and Latin America, Middle-East and Africa and in Asia.

5.2 Risks taken into account for the non-financial performance statement

In 2018, to identify the main CSR risks to disclose in the Non-Financial Performance Statement, the Group conducted a risk identification and mapping exercise with the participation of the main corporate support functions⁽¹⁾ and the assistance of an external consulting firm.

In 2020, this working group met again to assess the impact of the global Covid-19 pandemic on the six risks selected for the Non-Financial Performance Statement. The Group considers that this crisis has not substantially changed the type of CSR risks to which it is exposed.

The six risks selected on that basis relate to:

1. diversity and inclusion,
2. protection of the health and safety of employees,
3. environmental impacts of the Group's activities⁽²⁾,
4. anticipation of environmental standards in product design⁽²⁾,
5. compliance with rules of ethical business conduct (especially the fight against corruption and influence peddling)⁽²⁾,
6. vigilance regarding suppliers' compliance with corporate responsibility issues.

Risk identification

1. Diversity and inclusion

In a more globalised cultural and technological environment, increasing team diversity and developing a more inclusive corporate culture are key ways to support innovation and creativity thanks to a broader range of approaches, perspectives and ideas.

A lack of diversity of its teams could affect the Group's ability to properly account for major technological changes and respond to changes in customer expectations. This could in turn have a negative effect on its competitiveness and profitability.

Risk monitoring and management

Since 2016, proactive targets have been introduced Group-wide to strengthen diversity and inclusion in the broad sense of the term. These targets are covered in a quarterly scorecard (see Chapter 5.4.2).

In an effort to encourage team diversity and employee inclusion and ensure differences are respected, the Group has adopted a dedicated governance system structured around a Steering Committee, a Diversity and Inclusion Council and a central Diversity and Inclusion department.

In terms of gender diversity and professional equality, the Group has been rolling out negotiated action plans in France since 2004 under agreements signed with trade unions.

Since 2009, Thales has been a signatory of a European agreement called IDEA, which includes gender equality commitments. The Group's initiatives in this area are discussed in greater detail in Chapter 5.4.2.

(1) Representatives from the Finance, Health, Safety & Environment, Human Resources, Purchasing, Audit, Risks & Internal Control, Strategy & Marketing, Ethics & Corporate Responsibility, and Communications Departments, plus the Company Secretary and corporate management.

(2) These 3 risks are included in Chapter 3, Risk factors.

Risk identification

2. Workplace health and safety

Some of Thales's activities could expose its employees, visitors, or subcontractors to various physical risks (electrical, chemical, radiation, railway worksites, work at height, etc.).

These activities require compliance, wherever the Group operates, with a wide range of different regulations relating to the work environment and industrial safety in order to ensure a safe and healthy workplace for all employees concerned.

Failure to comply with these requirements or insufficient measures to protect the health, safety and quality of life at work of the employees for which the Group is responsible could expose it to sanctions, a deterioration in its operating performance, and may damage its reputation or attractiveness.

The Group's activities may be significantly impacted by a national, regional, or even a global health crisis. Preserving the health of its employees, partners, and customers may entail significant costs, while materially affecting its business continuity. The Group's ability to meet its commitments could be impacted. Customers' needs could likewise be sharply, significantly, and permanently diminished, leading to a collapse in activity.

Risk monitoring and management

Thales has set up a dedicated framework aimed at preventing risks related to workplace health and safety, both at the Group's facilities and its external sites. Thales has worked to analyse the risks related to substances and products handled as well as anticipate major global health crises.

The Human Resources and Health, Safety and Environment departments have introduced tangible measures to prevent risks related to workplace health and safety and improve quality of life and well-being at work (see Chapter 5.4.3).

The risks to which employees and outside contractors may be exposed are assessed and monitored on a regular basis throughout the Group.

Cross-functional and multi-disciplinary steering committees created to eliminate or reduce these risks meet several times a year (see Chapter 5.4.3).

The specific risk linked to the Covid-19 pandemic has been factored into all of the Group's activities. A Group Central Crisis Unit (CCU) was established, coordinating with more than 55 local crisis units and the Executive Committee. These units are responsible for making decisions and establishing coordinated rules and recommendations, implementing them, monitoring the situation, optimising the provision of the necessary protection resources, telecommuting, the flow of information, and communications.

Furthermore, particular attention was given this year to the required flexibility and management of risks linked to the adaptation of modes of working, to the specific aspects of psychosocial risks, and to the quality of life in a hybrid mode of telecommuting and working on-site.

3. Environmental impacts related to the Group's activities

Emissions generated by the Group's activities have the potential to affect the environment. The Group's exposure to this risk is limited insofar as the industrial footprint of its sites and activities is small. Nevertheless, should some of its manufacturing activities fail to comply with the applicable laws and regulations on the matter, the Group would run the risk of sanctions, damage to its image or even refusal by some customers to do business with Thales.

The use by Group customers of its products and solutions throughout their life cycle, particularly in the air transport and digital segments, also contributes to producing greenhouse gases that induce global warming.

Lastly, the risks related to climate change (natural disasters, supply chain disruption, market instability, etc.) are leading to increasingly complex regulatory changes. These could have adverse effects on the Group's performance and business model, or on its customers.

The analysis of the Group's environmental risks is updated once a year. It includes an assessment of the significant impacts, a review of scientific and technical developments, and of changes in issues and regulations based on a global regulatory monitoring.

The Group has put in place an organisational structure and tools at all its sites to control and limit the environmental impacts of its activities (see Chapter 5.5.2.1).

In recent years, Thales has performed assessments of its sites' exposure to natural disasters in order to reduce its vulnerability to the effects of climate change, such as floods, hurricanes, fires and water stress (see Chapter 5.5.1.3.3).

The Group has implemented a strategy to reduce its carbon footprint across its entire value chain, with targets for 2023 and 2030 that are aligned with the 2°C trajectory of the Paris Agreement and that take into account the Science-Based Targets methodology. The progress made towards achieving these targets is assessed regularly and consolidated annually (see Chapter 5.5.2.3).

Risk identification

4. Anticipation of environmental standards in product design

Accelerated changes in environmental regulations could rule out certain technical solutions, particularly for certain suppliers or subcontractors. This could require the Group to qualify and implement alternative solutions, adapt its supply chain, or upgrade certain industrial resources, with the costs and delays associated with such changes.

Regulatory differences between countries and constant changes to regulations also make it more difficult for Thales to verify the compliance of solutions that are marketed, and could put the company at a competitive disadvantage.

Lastly, the expectations and voluntary segment-specific national or international commitments relating to the circular economy or the reduction of the carbon footprint, in particular for products with a long life cycle (e.g. aerospace), could lead to technical impossibilities or significant additional costs.

Risk monitoring and management

The Group's analyses of environmental risks are regularly updated based on new issues, customer needs, regulatory changes and voluntary commitments (e.g.: REACH in Europe, chemicals, circular economy, climate change, etc.) based on active global regulatory monitoring. Specific attention was given in 2020 to the regulatory consequences of Brexit.

These factors are taken into account in the design of the Group's products and solutions:

- Thales is committed to the eco-design of all its new products and deploys tools to promote its adoption by employees, anticipate obsolescence, and limit CO₂ emissions in product use phases.
- numerous examples illustrate the significant contribution of the Group's products, solutions and services to carbon reduction, particularly in the field of transportation (see Chapter 5.5.3).

The Group's commitments to a low-carbon future and the associated targets are also passed on to suppliers and the supply chain and integrated into the contracts and/or specifications sent to them.

Solutions for replacing hazardous substances are also being developed ahead of regulatory deadlines (see Chapter 5.5.2.2.2).

5. Compliance with rules of ethical business conduct (particularly anti-corruption and influence peddling)

Thales's business encompasses more than 70 countries.

Failure to comply with applicable laws and regulations relating to ethical business conduct, especially the fight against corruption and influence peddling, may have serious legal and financial consequences for the Group and severely damage its reputation.

The Group's anti-corruption compliance programme, which has been in place for many years, was strengthened in 2018 and 2019 to take account of recent legislative and regulatory changes, especially those resulting from France's Sapin II law.

In 2020, Thales embarked on a certification process pursuant to ISO 37001:2016 "Anti-bribery management systems. Certification was issued by AFNOR in March 2021, with the scope covering Thales SA and the companies in France, and some international subsidiaries of Thales International SAS (Thales EURAM, Thales AMEWA and Thales NSEA, each on their own perimeter in Europe and Latin America, Middle-East and Africa and in Asia). The Group plans to further pursue this process with a view to extending the scope of this certification.

The Group's anti-corruption policy is described in Chapter 5.6.1.

6. Vigilance concerning supplier compliance with corporate responsibility issues

The Group's purchases account for approximately 40% of its sales. They are made worldwide from around 19,000 active suppliers of all sizes, many of whom have their own subcontracting chains.

Despite the Group's increased vigilance, it is difficult to guarantee that all stakeholders in the supply chain will be fully compliant with laws relating to social, environmental and ethical responsibility.

Should any supplier fail to comply, it might affect the Group's business activity, image and profitability.

Monitoring and management of this risk are included in the Duty of Care Plan (see Chapter 5.7.5) pursuant to law No. 2017-399 of 27 March 2017 on the Duty of Care of parent companies and contracting companies.

The Non-Financial Performance Statement also includes the disclosures required under Article L. 225-102-1, III, paragraph 2 of the French Commercial Code. These include disclosures about the consequences of the company's business activities and the use of the goods and services it produces on climate change, its corporate commitments to sustainable development, the circular economy, the fight against food waste and food insecurity, respect for animal welfare and responsible, fair and sustainable food, collective agreements signed within the company and their impact on the company's economic performance and employees' working conditions, initiatives aimed at combating discrimination and promoting diversity, and measures taken for people with disabilities.

See the related cross-reference table in Chapter 8.6.

5.3 Non-financial performance scorecard

| Issue/Risk | Policies | Key performance indicator | 2019 | 2020 |
|---|--|--|-------------------------|-------------------------|
| | | | Outcomes ^(a) | Outcomes ^(a) |
| 1. Diversity and inclusion | <p>Thales's commitment: Bring out the best in everyone</p> <p><i>"At Thales, I work in teams that are open to diversity and value our differences and backgrounds."</i></p> <p>Cross-functional initiative taken by the Executive Committee as part of the Ambition 10 plan Being a global leader with a strong local presence means embracing diversity in all its forms: gender, age, origin and nationality. A truly diverse, global organisation has an additional advantage when it comes to competitiveness and attracting and retaining top local talent. Diversity stimulates innovation and creativity thanks to a broad range of approaches, perspectives and ideas. Inclusion, which presupposes the acceptance of diversity and recognition of its importance, improves Thales's collective performance.</p> | % of women in top positions | 17.2% | 18% |
| | | % of Management Committees with at least three female members | 50% | 68% |
| 2. Workplace health and safety | <p>Thales's commitment: Be attentive to everyone</p> <p><i>"At Thales, my manager trusts me: he empowers me and ensures my well-being." "At Thales, I have all the resources and support I need to maintain a healthy work-life balance."</i></p> <p>Thales's commitment: HSE policy <i>"Thales is committed to providing a safe and healthy working environment for its employees at its own sites and at external sites."</i></p> | Absenteeism rate | 2.56% | 3.30% |
| | | Frequency rate of accidents at work | 2.32 | 1.66 |
| | | Severity rate of accidents at work | 0.057 | 0.056 |
| | | Percentage of employees working at an OHSAS 18001/ISO 45001-certified site | 77.5% | 77.1% |
| 3. Environmental impacts related to the Group's activities | <p>Thales's commitment: HSE policy</p> <p><i>"Thales is committed to safeguarding the environment by limiting impacts (energy, climate, natural resources, etc.) and preventing pollution risks."</i></p> | Reduction of direct operational emissions ^(b) Absolute value compared with 2018 | 1.8% | 35% |
| | | Reduction of indirect emissions ^(c) Absolute value compared with 2018 | 1.7% | -29% |
| | | Recycling rate of non-hazardous waste | 58% | 60% |
| | | Percentage of employees working at ISO 14001-certified sites | 84% | 84% |
| 4. Anticipation of environmental standards in product design | <p>Thales's commitment: HSE policy</p> <p><i>"Thales is committed to designing, purchasing, producing and providing solutions, products and services that meet health, safety and environmental requirements."</i></p> | New developments incorporating eco-design | pending | 44% |
| | | Percentage of Product Line Architects and Product Line Managers trained in or made aware of eco-design | 5% | 33% |

(a) 2019 scope after the integration of Gemalto's business activities – Data provided for comparison purposes, where available, in accordance with Article R. 225-105-1 of the French Commercial Code.

(b) Direct operational emissions: Internal operations (Scope 1, 2 and 3 – business travel).

(c) Indirect emissions: Scope 3 "purchases of goods and services" and "use of products and services sold".

| Issue/Risk | Policies | Key performance indicator | 2019 Outcomes ^(a) | 2020 Outcomes ^(a) |
|--|---|--|------------------------------|------------------------------|
| 5. Compliance with rules of ethical business conduct (especially the fight against corruption and influence peddling) | Thales's commitment: Zero tolerance for corruption <i>"Ethical conduct, integrity and compliance with regulations must be the rule for all Group employees throughout the world and at all levels of the company."</i> (extract from the Code of Ethics) | Number of operational entities that assessed risks of corruption | 108 ^(d) | 149 |
| 6. Vigilance concerning supplier compliance with corporate responsibility issues | Thales's commitment: Get all its suppliers to support its approach to corporate responsibility <i>"Thales establishes relationships of mutual cooperation with its suppliers, based on mutual loyalty."</i> (extract from the Code of Ethics) Thales requires its suppliers to comply with commitments relating to Human Rights, labour standards and environmental protection. | Anti-corruption training ^(e) | 9,920 | 1,350 |
| | | Alerts received via the Group's alert system of which alerts concerning allegations of acts of corruption ^(f) | 34 4 | 25 – |
| | | Percentage of new suppliers committed to the principles of Thales's new Integrity & Corporate Responsibility Charter 2023 target: 100% | N/A ^(g) | 91% |
| | | Percentage of suppliers assessed among those considered as "at risk" according to the Duty of Care mapping 2023 target: 100% | N/A ^(g) | 24% |

(d) DIS operational entities were not included in 2019, as these assessments are made via the Yearly Attestation Letters that are produced at the beginning of the year. For 2020, this figure covers 100% of entities.

(e) Comprising 597 distance learning training sessions and 753 face-to-face training sessions in 2020.

(f) The four alerts concerning allegations of possible acts of corruption in 2019 were all closed, after internal investigations confirmed that there were no acts of corruption.

(g) New 2020 indicator.

5.4 Human resources geared towards company performance

At the end of 2020, Thales had more than 80,500 employees working in the Group's seven Global Business Units. Their dedication throughout the year enabled the Group to meet its customers' needs and to contribute to initiatives to improve the Group's performance, despite the exceptional circumstances linked to the health crisis.

In 2020, against the backdrop of the Covid-19 global pandemic, the Human Resources function, working with the HSE, Operations, and Security Departments, defined and deployed a set of measures to protect employee health and ensure the continuation of the Group's activities.

5.4.1 Strengthen the Group's appeal

The Group is facing several challenges:

- promote awareness of technical and scientific fields and the opportunities they can offer to young graduates, especially women;
- attract candidates with rare and sought-after skills;
- develop and reward the Group's talent in order to retain and support them in their professional development.

5.4.1.1 Spark interest in technical and scientific careers

During 2020, Thales continued its actions to promote awareness of technical and scientific fields and the professional opportunities they can offer to young people, especially young women, in order to encourage them to consider scientific careers in industrial and technological companies.

- **Partnerships with educational institutions**

In 2020, Thales continued its partnerships with schools and universities in France and abroad, in an effort to encourage the professional integration of young people and attract the Group's future employees, notably by participating in forums, round tables and conferences. Amidst the unprecedented health crisis, the teams in charge of these partnerships quickly adapted to maintain connections with the academic world and to continue to promote Thales to young people through new modes of communication and collaboration.

Thales strengthened its partnership with the association Article 1 which helps students from less privileged backgrounds to be mentored by professionals throughout their studies, during their search for internships, and when choosing their career. Under this programme, 27 mentors were paired with students in 2020 (compared with 15 in 2019).

Long-time partner of the association Elles Bougent, whose objective is to attract young women to engineering careers, Thales today has 410 female employees who are sponsors within the association, and who share their passion for their profession in order to encourage young women in their career choices. To this end, they participate in the association's actions (round tables, forums, school events) and regularly welcome secondary school students on site so they can discover the engineering professions at an industrial group like Thales.

- **The Thales ambassador network**

There are nearly 120 Campus Managers in an internal network made up of former students of partner schools now working at the Group who act as Thales ambassadors with students. In 2020, despite the health crisis, they took part in 70 events carried out with schools and universities and in 20 recruitment fairs.

5.4.1.2 Attract the best talent

- **The Thales Employer brand**

The employer brand showcases the values championed by the Group. It is regularly highlighted on the Group website, social networks, and during different events in which the Group participates.

Begun in 2019, the redesign of the employer brand was finalised in 2020. Digital promotion of the brand (forums, testimonials, etc.) has been strengthened both for employees and for candidates or people outside the Group who follow Thales news. These efforts have been rewarded by Thales's position in the various French rankings of companies preferred by employees and young graduates. For example, in 2020, Thales placed fifth in the Glassdoor ranking of best employers, and fourth place in the Universum ranking of senior engineers.

In 2020, Thales participated in the first edition of Fabrique Défense, an event aimed at young people to help strengthen the connection between the French Armed Forces and young people in France and foster the emergence of a common European culture. On this occasion, the Group presented its various business lines, its involvement in major French and European defence programmes, and its ambitions for the future.

- **The use of social networks and digital tools**

In 2020, Thales continued to develop its presence on social networks to boost the Group's attractiveness and REACh. At the end of 2020, more than 721,000 people were following news about the Group on LinkedIn (compared with 550,000 in 2019 and 375,000 in 2018) and 75,000 people were following the Group on Twitter at @thalesgroup. Job applications received in 2020 came mainly from social networks (35%) and recruitment websites (42%).

The redesign of the Thales careers website was finalised in 2020 and better highlights its activities. At the same time, a new section devoted to internal mobility is set to be rolled out in 2021 with a view to strengthening the visibility of internal mobility opportunities and supporting employees who wish to take part in this process.

- **An active policy to integrate young people**

Thales has long had a dynamic policy of integrating young people into the workforce. Despite the health crisis, the Group has maintained its commitment to this integration through a high level of work-study recruitment and internships. In France, Thales thus signed 1,295 work-study contracts and 1,270 internship contracts in 2020.

5.4.1.3 Develop and reward the Group's talent

Thales's success and performance depend on its ability to retain and support the Group's talents in their professional development, to anticipate transformations and changes in work organisation, and to reward employees as much as possible in the performance of their activities. Thales also deploys a global and responsible compensation policy that gives employees a stake in the Group's results and rewards their investment.

The Group's employment policy has always been characterised by the desire to create long-term jobs and to limit the use of short-term contracts (fixed-term contracts and temporary staff). Thus, 98% of the workforce is under permanent employment contracts.

Thales's turnover rate⁽¹⁾ in 2020 was 3.85% (compared to 4.1% in 2019⁽²⁾).

5.4.1.3.1 Dynamic and forward-looking skills management by job family

All employees are divided into 15 job families, each of which benefits from the expertise of an operational leader and an operational committee, an HR contact person, and a training support team to anticipate short- and medium-term changes, future trends, and put forward a collective professional development action plan.

Skills management plays an essential role in ensuring the Group's development in an environment where some activities have been affected by the Covid-19 crisis in a lasting way, while other activities are experiencing significant growth.

To this end, the Group has developed a "skills management" approach for six job families (R&D, Industry, Customer Service, Quality, Purchasing, Bid & Project Management), centred on the identification and sharing of available technical skills. This approach makes it possible to maintain the teams' key skills by fine-tuning professional development plans (skills transfer, coaching, training, recruitment of candidates with specific backgrounds) to anticipate future operational needs. This initiative will be extended to other job families in 2021 and the data will be integrated into the Workday information system.

5.4.1.3.2 Update of the leadership model

In 2020, in line with Gemalto's integration, the definition of the company purpose, and the roll-out of new modes of work organisation through the "Smart Working" approach (see Chapter 5.4.3.2), Thales also reviewed its leadership model, "Leadership@Thales".

(1) The turnover rate corresponds to voluntary turnover, i.e. the ratio of resignations to the average headcount. See note on methodology.

(2) Excluding Digital Identity & Security Global Business Unit.

The new key skills that were defined under this model specify the behaviours expected from all employees. These skills are grouped into three themes: “Think Big”, “Make it Happen”, and “Together”, and serve as points of reference and as guidance both during the regular Check-In discussions and for mobility and recruitment processes.

Developments in this leadership model will be addressed in dedicated communications within the Group during 2021 in order to promote the adoption and development of the associated key skills, in particular by providing an online resource, the *Leadership@Thales E-Book*, and during leadership programmes.

5.4.1.3.3 Professional support for employees

In order to improve the “employee experience” and contribute more effectively to employees’ professional development, the Group launched in 2020 the so-called “Check-In” discussions after a successful trial in five pilot countries in 2019, which are now replacing the Annual Activity Discussions (AAD) and Professional Development Discussions (PDD).

These interviews, which are scheduled regularly during the year, allow the manager to have a discussion with each employee several times a year about their objectives, provide feedback from their professional colleagues, identify training needs, and talk about their workload. Through these Check-In discussions, and with the help of the associated software, more than 61,000 employees were able to define their annual objectives with their managers.

5.4.1.3.4 Training sessions

Thales’s commitment to training stems from the view that building a successful career path means maintaining every employee’s expertise at all times. The Group’s training policy has a dual aim:

- meeting the Group’s training needs in order to implement growth and performance improvement projects, and support transformations;
- taking into account employees’ individual aspirations in terms of professional development, mobility, and the acquisition of new skills.

The Talent & Culture International Learning Department contributes to the training and professional development of employees in the various countries where the Group operates by creating a shared training culture. Its tasks include helping employees to adapt their individual and collective skills to changing job roles while supporting the Group’s strategic goals. It is also in charge of managing the Digital Learning portal, a user-oriented interface available to all Group employees which offers customised experiences and tracks the user’s learning progress.

In the major countries where it operates⁽¹⁾, the Group has 12 corporate university campuses called Thales Learning Hubs, which have special facilities for organising seminars, training sessions and workshops.

The health crisis has significantly impacted the ability to organise in-person training sessions. In France, nearly 1,500 training sessions for more than 9,000 employees had to be cancelled in the first half of 2020. This situation led to an acceleration in online training sessions, and to an expansion of remote training offerings. To achieve this, the skills of the Talent & Culture teams were reinforced and expanded to be able to offer a fully digital training programme, to master the tools for organising virtual classes and, more generally, to organise distance learning.

Despite the health crisis, the Group’s employees received an average of seven hours of training in 2020. Overall, a total of 524,236 hours of training were provided by the Group during the year.

The acceleration in digital training offerings notably resulted in:

- more than 170,239 hours of digital training delivered through e-learning platforms, a 15% increase compared to 2019. During the year, the Thales “Digital Learning” portal was used by more than 43,280 employees and the Udemy platform, which provides external digital training, was used by more than 7,500 employees;
- 88,000 hours of training via virtual classes (compared to 1,700 hours in 2019).

Implementation of the “FNE Formation” training scheme during the furlough period

Due to the health crisis, the majority of French subsidiaries enrolled in the State-funded “FNE Formation” training scheme, which allowed employees who so chose, during their furlough period:

- to take advantage of their time off to receive training in new skills;
- to maintain, strengthen, and develop their key skills;
- to remain connected to the outside world and maintain social connections, in particular in their professional environment.

More than 780 training actions were undertaken within this scheme.

In 2020, the trainings provided primarily concerned programmes linked to:

- the transformation of the business lines, especially for the Sales, Marketing, Technology and Information System teams, as well as Software Engineering;
- leadership development during a crisis period and in the digital era. The Thales Leadership Insights Channel, whose content is included in a monthly communication sent to more than 1,750 managers, gives access to external webinars, articles, industry discussions, and online training sessions. Webinars on resiliency, in which more than 160 of the Group’s senior leaders participate, were viewed more than 3,400 times;
- support for the Talent & Culture teams in taking their activity online, thereby helping internal training instructors to improve how they lead virtual classes.

5.4.1.3.5 An attractive mobility and expatriation policy

The new International Mobility policy, established in summer 2019 to align the Group with current market practices, continued to be implemented in 2020. This policy notably gives priority to a local approach for certain destination countries (Singapore, United States, Canada, and Australia) by signing local employment contracts that offer a wider range of solutions in terms of relocation conditions and employee compensation.

At 31 December 2020, 743 employees were on international mobility assignments within the Group via three main schemes:

- long-term international secondments (long-term assignment, Thales Global Mobility, commuters) and short-term secondments (short-term assignment). At end-December 2020, 616 employees were on short- or long-term international assignments;

(1) Germany, France, Italy, the Netherlands, the UK, Canada, the United States, the United Arab Emirates for the Middle East and Africa, Australia and Singapore for Southeast Asia.

- the Career Plus programme, which matches operational needs with the desire of employees of all kinds aspiring to temporarily move overseas. At end-December 2020, a total of 73 employees were enrolled in this programme;
- at end-December 2020, the International Business Volunteers (IVB) programme had made it possible for 54 young people aged between 18 and 28 from the European Economic Area to benefit from an assignment in a foreign country for 6 to 24 months;

In 2020, employees from 23 countries have been sent on international mobility assignments to 61 host countries. (1) Participating employees were primarily from Europe, especially France (69%), Asia-Pacific (Singapore, Australia, etc.), North America, and some emerging economies. As for the host countries, employees on international mobility assignments were mainly working in Europe (39%), Asia-Pacific (24%) and the Middle East (20%).

Supporting expatriates during the Covid-19 crisis

Throughout the health crisis, the International Mobility office individually assisted the Group's expatriate employees, making sure that they benefited from a work environment that complied with the Group's health recommendations, responding to their queries on how the epidemic was evolving, and organising a return to their home country or transfer to a nearby country for those who so wished.

In 2020, the health crisis understandably limited the number of employees on international mobility assignments. Travel bans, border closings, and the tightening of immigration procedures have restricted the length of assignments and cut some assignments short.

5.4.1.3.6 A compensation system that gives employees a stake in the Group's results

The Group's compensation and benefits policy is based on transparency, fairness and dialogue.

• Compensation

Compensation is a key component of Thales's employment policy, aimed at encouraging performance, recognising skills and retaining talented employees. It combines collective results and individual performance and takes into account market practices in the countries where the Group operates.

For more than 20 years, the compensation policy applied within the Group for employees in a position with a level of responsibility between grades 8 and 12 has included a global variable compensation plan that defines a target rate of variable compensation for each grade. Allocation

of this variable compensation depends on the achievement of individual objectives and the collective results of the business. In 2020, 65% of the workforce, i.e. more than 54,000 people, thus benefited from variable compensation within the Group.

At the end of 2020, Group Management decided to increase the financial portion of variable compensation and further involve all employees in the CSR policy. To this end, it was decided as from 2021, for employees eligible for variable compensation, to increase the proportion of such compensation linked to financial objectives to 50% (compared to 40% previously), and to link 10% of variable compensation to the achievement of CSR objectives corresponding to the Group's commitments to the four main pillars of its CSR strategy:

- diversity and inclusion (2.5%);
- compliance: the fight against corruption and influence peddling (2.5%);
- workplace health and safety (2.5%);
- environment and low-carbon strategy (2.5%).

The portion of variable compensation which depends on the level of achievement of individual objectives represents 40% of this compensation.

In 2020, compensation rose by over 2.4% in France. This increase includes both individual pay rises and the collective pay rises negotiated with trade unions.

Group payroll, including profit-sharing and incentive schemes, totalled €7,419 million in 2020, compared with €7,389 million in 2019.

Covid-19: Maintaining salaries in the event of furloughs

In application of the French Group Agreement on the measures implemented within Thales to deal with the Covid-19 epidemic, employees earning a gross monthly base salary of €2,300 or less have seen their full net monthly compensation maintained under the furlough scheme. For other employees placed on furlough, their net monthly compensation has been maintained at 92%. As a show of solidarity with the teams placed on furlough, the Group's senior executives have voluntarily waived a portion of their gross base compensation.

• Employee profit-sharing and incentive schemes

In order to strengthen the loyalty of employees beyond their local entity and demonstrate solidarity among the French entities of the Group, as well as to give employees more of a stake in its results, development, and improved performance, the Group has entered into pooled profit-sharing and incentive agreements since 2004. A new three-year profit-sharing agreement was signed with social partners on 5 June 2020.

| (in € millions) | 2018 | 2019 | 2020 |
|---|--------|--------|-------|
| Amount distributed as profit-sharing | 46.2 | 36.4 | 80.3 |
| • (of which, share of Thales, parent company) | (1.37) | (1.09) | (2.4) |
| Amount distributed as part of incentive schemes | 51.4 | 42.6 | 27.2 |
| • (of which, share of Thales, parent company) | (1.4) | (1.2) | (0.8) |

(1) Excluding the DIS Global Business Unit.

• Employee savings and share ownership

In France, employees benefit from an employee savings scheme that allows them to build up savings.

This scheme consists of:

- a Group savings plan (PEG) with assets totalling approximately €370 million as at 31 December 2020 (excluding employee shareholding). The mutual fund for employee shareholders is the main framework within which the Group's employees hold company shares under the Group savings plan. Thales's assets under management in this fund total €263 million for 26,199 unit holders;
- a collective retirement savings plan (PERCO) which allows employees to build up savings for their retirement. Employees benefit from a matching contribution from the company that increases with their seniority. At 31 December 2020, the assets under management as part of the PERCO plan amounted to €507 million for 41,308 unit holders.

Notably due to the success of the regular share ownership offerings, the most recent of which was in 2019, the Thales shareholding of current (or former) employees amounted to 2.98% of the company's share capital as at 31 December 2020, including all shareholding types (FCPE, direct shareholding, and shares from free share plans)⁽¹⁾.

• Long-term compensation

The Group's senior executives benefit from long-term compensation by way of free shares subject to performance conditions (or monetary equivalents for beneficiaries outside of France). The 2020 scheme, which was approved by the Board of Directors in November 2020, benefits 1,505 employees across 44 countries (957 in France and 548 outside of France).

Short- and medium-term loyalty development programmes lasting between two and three years have also been introduced for some technicians, engineers and managers.

5.4.2 Promote diversity and an inclusive culture

In a constantly evolving international environment, diversity and inclusion are key to staying innovative and successful in the Group's business domains. Thales promotes work environments that are respectful of everyone, stimulating, and conducive to the creativity and well-being of employees, enabling each one to give their best in support of the collective performance.

Within this context, building a global and diversified company remains a major priority of the Group, essential for its development.

In particular, the Group seeks to promote broader access for women to the highest levels of responsibility, in management teams and executive bodies.

In 2016, Thales's Chairman and Chief Executive Officer made ambitious long-term commitments to recruit women, ensure women's access to high-level positions, and to increase the presence of women on management committees.

In early 2021, the Group decided to adopt medium-term objectives aimed at further strengthening the dynamic regarding the presence of women in management positions. To this end, the Group has set the following targets by the end of 2023:

- the proportion of women in the highest levels of responsibility of the Group (grades 10 to 12) at 20%;
- the proportion of Management Committees including at least three women at 75%.

At the end of 2020, women represented 18% of the 10,230 employees holding the highest responsibilities (grades 10 to 12) and 68% of the 44 Management Committees included at least three women.

• Governance

To reflect its commitment to becoming a more diverse and inclusive company at all levels of the organisation, whether central or local, the Group has set up a dedicated governance structure based on the following principles:

- a Steering Committee made up of members of the Group's Executive Committee and chaired by the Chairman and Chief Executive Officer. The Steering Committee is responsible for defining the strategy, approving the resources allocated, promoting any commitments made for diversity and inclusion, and monitoring their fulfilment;

- a central Diversity & Inclusion function;
- an international network of Diversity & Inclusion representatives in charge of promoting and supporting the deployment of the Group's strategy at GBU, regional and country level by adapting it to local characteristics;
- *ad hoc* Diversity & Inclusion Steering Committees at GBU, regional and country level.

The governance structure also draws on existing HR (e.g., Talent & Culture and Recruitment) and Communication networks to pass on the actions taken within the organisation.

In January 2020, the Steering Committee determined three main focuses for the year: the continuation of actions to promote women, the fight against everyday sexism, and the inclusion of LGBT+ persons.

5.4.2.1 Policies implemented to increase employee commitment towards greater diversity

The Group has long been committed to proactively making advances with regard to professional equality. In France, since 2004, Thales has implemented decisive actions in this area, in cooperation with the representative trade unions. These action plans were negotiated and prepared on the basis of comparative situation reports. In Europe, the IDEA agreement signed in 2009 includes commitments in all areas of gender equality: recruitment, career development, equal pay and work-life balance. Local initiatives also continued, in particular to raise employee awareness on diversity and inclusion issues.

In 2020, the share of women in the Group continued to grow, and by the end of the year they represented 26.3% of the total workforce.

(1) Total employee share ownership. For information, under law No. 2019-486 of 22 May 2019, employee share ownership, within the meaning of the French Commercial Code (Art. L. 225-102), excludes free shares allotted under LTI Plans prior to 2016 (without amending the bylaws to include them) and amounts, as at 31 December 2020, to 4,651,454 shares and 8,276,889 voting rights, i.e. 2.18% of the share capital and 2.63% of the exercisable voting rights.

5.4.2.1.1 Recruitment and career development of women in the company

• Hiring

The Group pays particular attention to the recruitment and promotion of women to top positions in order to increase gender equality across the organisation.

Accordingly, in 2020, all contract types combined, women accounted for 31% of Group new hires (2,230 women out of 7,201 new hires). This share remains constrained by the under-representation of women in engineering and IT higher education, in which they account for around 20% in most countries where the Group operates.

• Promotion

In 2020, the proportion of women continued to increase at the highest levels of responsibility. In four years, this rate has risen by more than three points, from 14.9% to 18.0%.

The increased diversity within the management committees is even more remarkable: at the end of 2020, 68% included at least three women, up 41 points from 2016.

| | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|-------|-------|-------|-------|-------|
| Percentage of women in top positions (grades 10 to 12): | 14.9% | 15.5% | 16.5% | 17.2% | 18.0% |
| Percentage of management committees with at least three female members | 27% | 34% | 49% | 50% | 68% |

Performance related to Diversity and Inclusion in 2020 (NFPS)

Percentage of women in top positions: **18%**

Percentage of management committees with at least three female members: **68%**

• Mentorship

Within the Group, mentoring is a powerful tool for promoting women.

An international mentorship programme dedicated to women, launched several years ago and involving the Group's senior executives, was extended in 2020. This programme involves meetings between mentors and mentees every four to six weeks as well as group gatherings. Employees from 14 of the Group's countries comprise the 2019/2021 class.

In North America, an innovative mentorship platform, "MentorcliQ," was established. This platform offers five mentorship programmes combining more than 400 employees in cycles of approximately six months each. One of them, the Women@Thales programme, is specifically dedicated to women's career development.

• Variable compensation

In 2020, diversity and inclusion were among the individual CSR objectives that could be selected by the employees at the highest level of responsibility (grade 12), representing 10% of their variable compensation. In 2021, a diversity and inclusion objective is included in the compensation of 54,000 employees (see Chapter 5.4.1.3.6).

• Coordination of the WiTh network

With more than 3,000 men and women members, "WiTh" (We in Thales), an international network of solidarity and support for gender equality within Thales, contributes to women's career development.

This network's 2020 annual conference brought together several hundred Group employees and provided an opportunity to highlight the men and women actively involved in the issue of diversity, to learn about the initiatives of other companies, and to take part in online workshops on topics related to promotion, parenting, and the impact of the health crisis on diversity.

5.4.2.1.2 Ensuring equal treatment

Since 2019, the Group's French companies have been required to publish a Gender Equality Index. This index is based on four or five indicators (depending on the number of employees) related to pay gaps, gaps in the proportion of women and men receiving pay rises, gaps in the proportion of women and men promoted, systematic pay rises for women the year they take maternity leave, and the number of women in the top 10 highest paid positions in the company. It helps in assessing the pay gaps between women and men using a score calculated on a scale of 100 points.

On 1 March 2020, 18 of the Group's companies in France published their index for 2019. Fourteen of these companies, representing more than 37,000 employees in France, had scores of over 85/100. Thales SA had a score of 90/100, Thales SIX GTS France, Thales DMS France, Thales AVS France, Thales LAS France, and Thales Alenia Space France had respective scores of 89/100 (for the first two), and 94/100 for the three others.

These results attest to the Group's long-standing commitment to professional equality between men and women and to the actions taken in recent years on this issue.

As in previous years, a specific annual budget of up to 0.15% of the total payroll of the Group's French entities was renewed for 2020 to address any pay gaps between men and women, to implement actions to promote women, as well as actions to raise awareness and provide training to support women's professional development.

5.4.2.1.3 The fight against everyday sexism

In 2019, Thales joined the #StOpE (stop everyday sexism at work) initiative alongside 56 other companies. In 2020, this commitment to fight against everyday sexism resulted in:

- the training of nearly 100 sexual harassment and sexist conduct advisers coming from Management and the Social and Economic Committees, and of more than 40 people directly involved in these issues (HR, legal experts, etc.);
- the roll-out of actions to raise awareness in the Group's various Global Business Units;
- participation in developing an online training course in partnership with other companies taking part in the #StOpE initiative and distribution of this module to all Group employees.

5.4.2.2 Policies to engage teams towards greater inclusion

Offering a work environment that is caring and respectful of people's differences in order to bring out the best in everyone is at the heart of the Group's diversity and inclusion policy.

| | 2017 | 2018 | 2019 ^(a) |
|------------------------------------|-------|-------|---------------------|
| Disabled employment rate in France | 6.52% | 6.71% | 6.92% |

(a) Data relating to 2019, reported in 2020.

In 2020, the Group maintained its commitment to integrating people with disabilities. In France, a new three-year agreement in favour of people with disabilities covering all entities of the Digital Identity and Security Global Business Unit in France was signed on 17 November 2020 with all representative trade unions.

During 2020, and despite the health crisis, Thales integrated 45 people with disabilities in France, including 16 interns and 12 young people on work-study programmes.

As part of its partnership on disability with Université Paris-Est Créteil (UPEC), Thales contributed as a founding member, and alongside other economic and institutional players, to the creation in 2020 of the UPEC Partnership Foundation. A "Disability, Autonomy, Employment, and Occupational Health chair" should be created for this foundation in 2021.

After having appointed 59 disability advisers in 2019, Thales launched an online training cycle in 2020, again in partnership with UPEC.

5.4.2.2.1 Inclusion of employees with disabilities

The Group's policy on disabled employment, which has been implemented for many years, has enabled it to make progress each year in the employment of people with disabilities.

Fourteen advisers began their training in 2020, and all will conclude their training before 2023.

Thales also continued the certification process for the AFNOR X50- 83 "disability-friendly organisations" standard by all sites in France. At the end of 2020, 40 sites complied with this standard (31 at the end of 2019).

Participation continued in the HUGO programme aimed at training and employing young, disabled people under work-study programmes in the software industry.

In 2020, the signing of partnerships with players in the disability-friendly sector represented a volume of purchases and subcontracting from specialised disabled work centres ("Entreprises Adaptées") and rehabilitation centres for persons with disabilities (ESAT) totalling €6 million;

On the International Day of Persons with Disabilities, multiple events organised at the Group's sites in France and abroad provided an opportunity for everyone, disabled or otherwise, to learn about and discuss the situation of people with disabilities.

Supporting people with disabilities during the Covid-19 crisis

The high quality of the Group's processes for employing and integrating people with disabilities allowed support for the employees concerned to continue during the Covid-19 health crisis. For example, needed work equipment was sent to their homes for telecommuting. On-site work resumed following approval from the occupational physician. Employees concerned were reminded of the contact information for the relevant disability networks (occupational physician, disability representatives, social workers). Suitable personal protective equipment was provided for managers during their interactions with hearing-impaired employees. Support was offered to parents of disabled children dealing with the closure of specialised structures, and so on.

5.4.2.2.2 Inclusion of LGBT+ people

Thales is firmly committed to fighting against all forms of discrimination and to support the inclusion of lesbian, gay, bisexual, and transgender people (LGBT+).

In France, after the 2019 signing of the LGBT+ charter of the Autre Cercle association, a national benchmark in this area, the Group distributed a booklet to raise awareness on the issue of inclusion of LGBT+ people. An online training course will also be set up in 2021 and will be available to the Group's employees in French and in English.

In Australia, Thales has joined the Pride in Diversity organisation, which notably provides access to awareness training and resources that promote an inclusive and caring work environment.

5.4.2.2.3 Cultural diversity

With a presence in over 60 countries, Thales is fundamentally multicultural. This diversity is a source of wealth and contributes to the Group's strength, allowing it to understand the ecosystems in which it operates. Its teams, which are often engaged in projects involving several countries, bring together employees from different cultures whose discussions and interactions are sources of innovation.

In response to the Black Lives Matter movement in North America, Thales undertook a series of initiatives by the teams in the countries concerned (United States and Canada) on the subject of racial equality, along with a communication campaign and actions to raise awareness about the topic of inclusion and celebrating differences.

Through the Reconciliation Action Plan (RAP) in Australia, Thales has, through a coordinated national approach, formalised its ongoing commitment to building meaningful relationships and improving opportunities for the Torres Strait Aboriginal and Islander people, communities and businesses.

5.4.2.2.4 Intergenerational diversity

While Thales benefits from strong appeal and is one of the preferred companies for young graduates each year, the Group strives to maintain a broad and balanced representation of age groups in its workforce, as it is convinced of the value of complementary experiences and intergenerational exchange.

Breakdown of the Group's workforce by age

- **Some examples of initiatives carried out in the various countries:**

In the United Kingdom, Thales is continuing its partnership with the Prince's Trust charity, through the "Get Into" programme, aimed at helping young people between 16 and 30, who are outside the education system or job market, to gain skills and experience to enable them to access or return to employment.

In Brazil, Thales is opening its doors to young people from disadvantaged areas, offering them vocational training as part of the Formare project, a solidarity training programme. This partnership between Thales and "Fundação Lochpe" relies on the voluntary commitment of employees who teach courses in the administrative and technical domains to young people in the São Paulo metropolitan region from the São Bernardo do Campo site.

5.4.2.2.5 Cognitive diversity

Thales seeks to address diversity in all its forms, including those that are less visible, such as cognitive diversity, which accounts for neurological differences that are sometimes misunderstood (such as Asperger's syndrome, giftedness, dyslexia, etc.).

In the United Kingdom and France, networks of employees, supported by the Group, have been created with the aim of improving understanding of this subject, raising awareness amongst all employees, and supporting cognitively diverse people.

5.4.3 Offer a safe and high-quality work environment

For many years, Thales has undertaken to provide a safe and healthy work environment for all its employees, where everyone has the trust and support of the management teams and benefits from resources that allow them to perform their jobs and have a healthy work-life balance.

Firmly committed to a proactive, responsible approach to prevention and protection of the health and safety of the Group's employees, the Human Resources and Health, Safety and Environment Departments, together with the Occupational Health Department, mobilised strongly in 2020 to support employees during the Covid-19 global health crisis, whether it involved helping employees in difficulty, or adapting work organisations.

5.4.3.1 Pursue a dynamic and constructive dialogue

- **Specific forums for social dialogue**

Thales has long promoted cooperation with social partners on subjects of shared interest. In 2020, this cooperation was reflected in social dialogue that was especially aimed at addressing the impacts of the crisis on employees and work organisation.

In 2020, the European Works Council, comprised of 39 members from 13 European countries, met three times (two plenary meetings and one Executive Committee meeting) to discuss the Group's economic and financial outlook, news from the Global Business Units, the impact of the health crisis and Brexit, and the integration of Gemalto.

The European Works Council agreement also provides for informational meetings to be held at the Global Business Unit level to allow committee members who belong to each GBU to discuss their transnational strategic and social outlook. The output of these meetings was presented at the plenary meeting.

In France, employee representation is structured around the Central Economic and Social Committees, Works Councils, as well as a network of local representatives. These bodies were organised through collective bargaining.

- **Dynamic social dialogue**

The Group's social partners in France entered into an agreement on 26 March 2020 to support the adaptation of activities to health constraints. Furlough and telecommuting schemes were defined under this framework.

In June 2020, following the first lockdown in France, a new Group agreement set out the terms and conditions for a broader resumption of activity and support for employees dealing with specific situations.

The health situation and "Smart Working" initiative (see Chapter 5.4.3.2) also led the social partners to renegotiate the contractual provisions in effect within the Group in relation to telecommuting. In fact, telecommuting, which the Group has tested since 2013, formally adopted in 2015, and renewed in 2018, has gradually expanded within the Group. Based on this experience with telecommuting and the lessons learned from its widespread use during the health crisis, the Group's Management and representative trade unions signed a new agreement on 17 December 2020 in order to:

- simplify and broaden the use of this mode of organisation on a routine and regular basis, for all activities capable of being partially or fully performed remotely, and for all employees (permanent contracts, fixed-term contracts, work-study contracts, and industrial research contracts), with no seniority requirements;
- better anticipate new extraordinary circumstances in the future;
- improve the resources provided to telecommuters.

The dynamic social dialogue in France notably resulted in the signing of the following Group collective agreements in 2020:

- agreement on the composition and functioning of the Intercompany Committee, signed on 31 March 2020;
- disability Agreement, signed on 17 November 2020;
- agreement relating to the specific furlough scheme, signed on 13 November 2020.

Additionally, 30 company and site collective agreements were signed in the Group's various French entities in 2020.

At the end of 2020, 77% of Group employees worldwide were covered by collective agreements.

- **Social dialogue to support with Group transformation**

As the health crisis strongly impacted air transport and its related activities, talks with social partners were begun in September 2020 to determine a global approach to supporting and adapting jobs. These talks led to the signing in January 2021 of an agreement designed, on the one hand, to adopt specific measures to promote the recovery and sustainability of activities impacted by the crisis and, on the other hand, to preserve the skills needed to facilitate the recovery of these activities.

5.4.3.2 The “Smart Working” initiative

- **From telecommuting to Smart Working**

Over the past few years, “Smart Working” initiatives have been undertaken in several countries. In 2020, they were extended to the entire Group.

This initiative is designed to boost the collective performance of the teams and to improve employee well-being, in particular by enabling a better work-life balance, and by providing a work environment and tools that allow jobs to be performed under optimal conditions.

This initiative aims to allow teams to adapt their organisation to their particular situation and therefore requires assessing management methods, interactions within the team, the work environment, and the work tools required. Following this collective reflection, teams draft a charter and equip themselves with the resources to implement this new organisation.

- **Monitor employee commitments**

The majority of entities in France have established internal surveys aimed at assessing employee satisfaction with the management of the health crisis, telecommuting during lockdowns, and the organisation of the resumption of activity. These assessments enabled dedicated action plans to be put into place.

5.4.3.3 Top-quality working conditions

Convinced that employee well-being is a key factor in long-term performance and in attracting and retaining talent, in 2020 the Group continued its commitments and actions to improve the quality of life at work.

- **The actions taken to improve work-life balance**

Each country adapts its working time to applicable local laws and agreements. At the end of 2020, 94% of employees were employed full-time; part-time contracts generally reflected an employee’s personal choice.

In 2020, Thales continued actions taken to promote parenthood and work-life balance. For instance, in 2020, 444 children of employees in France were given spots in day care centres (compared with 426 in 2019 and 381 in 2018). In France, the Group also offers an emergency childcare solution in the event that the usual mode of childcare is not available.

The Smart Working initiative is also part of the deployment of a work organisation that reconciles operational efficiency and better personal organisation that is sensitive to life’s various stages.

- **Personal data protection**

Personal data processing was required in 2020 to enable the Group’s companies to implement appropriate prevention measures, to manage work organisation and to monitor the furlough scheme.

Particular attention was given to this data processing, in cooperation with the occupational health offices and the Group’s Data Protection Officer, to ensure it complied with the GDPR.

Various actions (such as employee information, the creation of registration sheets, obtaining consent from visitors, etc.) were implemented to ensure that regulations were respected.

5.4.3.4 Support for employees during the health crisis

5.4.3.4.1 Support from the Human Resources Office and the Occupational Health Offices

From the start of the crisis, the Group activated crisis units to better deal with the evolving health situation, protect employees’ health, and organise business continuity. These crisis units helped develop health standards and contributed to preparing communications for employees. The organisation of these crisis units, in which the Human Resources teams actively participated, is described in paragraph 5.4.3.5.3.

Covid-19 : communicate during the health crisis

During the health crisis, the Group established a workshop called “Listen” to raise managers’ awareness about the need to adapt their management methods, making sure to actively listen to their employees.

Regular communications relating to the successes and challenges met during the crisis were distributed to employees to allow them to continue to feel involved in their work community while telecommuting.

From the start of the pandemic and all throughout, the occupational health office in France was involved with the Group’s crisis management unit and thus contributed, in close collaboration with the HSE Department and the members of the crisis unit, to support all sites. This framework served to organise discussions on identifying appropriate personal protective equipment, team awareness training modules, in particular in the context of business continuity, harmonising health recommendations given to employees, and building a partnership with a medical testing lab to provide easier access for the Group’s employees.

In Australia, the emergency childcare service was frequently requested by the Group’s employees. At some sites, private transport services were set up to limit the use of public transport. Certain countries, notably Mexico, also maintained salaries and benefits during furlough periods.

A remote consultation service was set up by French healthcare offices to support employees, in particular at-risk people.

In France, mental health services were provided through a telephone platform which is still available to employees who feel they need it.

5.4.3.4.2 Adaptation of work organisation

Within the framework of the collective agreements signed in France, and more broadly across all Group countries, local entities quickly adapted their organisations to deal with the health crisis and the restrictions imposed in the countries.

In Poland and Switzerland, for example, employees who could only work on-site were divided into teams in order to limit the movement and grouping of employees in the same areas. In China and Brazil, teams' working hours were adapted to limit how many employees were present at the same time on-site.

Already used in many of the Group's countries, telecommuting was broadly implemented due to the health crisis, in particular by relying on pre-existing agreements on the subject, as in France, where telecommuting has been possible since 2013 within the framework of successive collective agreements.

A "Living better while telecommuting" information campaign was launched in 2020 by several Group companies in France and will continue in 2021. This campaign uses webinars to raise employee awareness on topics such as musculoskeletal disorders, sleep, anxiety, and a balanced diet.

In Canada, 75% of employees were telecommuting during the first lockdown. In the Netherlands, as from September 2020, when the epidemic was again on the rise, all employees were telecommuting. In Australia, employees were surveyed on telecommuting, a form of work organisation that was already widely implemented, to measure its full effectiveness.

The intensive use of telecommuting in the Group overall was also facilitated by the quality of the IT tools and equipment, and the mobilisation of IT teams to ensure access to and maintenance of equipment.

5.4.3.5 Preventing hygiene, health and safety risks at work

5.4.3.5.1 Policy and governance

- **Risk policy and analysis**

Since March 2016, Thales has reaffirmed its commitments to risk prevention and employee protection through one of the three fundamental priorities of its Hygiene, Health, Safety and Environment (HSE) policy. These commitments have featured among the Group's ethical principles for over 15 years.

This proactive, responsible approach is coordinated by the Group's Hygiene, Health, Safety and Environment (HSE) Department. It has been implemented at the operational level in countries and GBUs through concrete actions strengthening the safety culture and the managerial skills related to preventing health and safety risks in the workplace. In 2019, the Group's Executive Committee adopted a renewed HSE vision, which set new objectives for 2023 to strengthen this policy and its implementation.

The Group's policy has two key areas of focus:

- provide a safe and healthy working environment for employees and subcontractors, on its own premises and at external sites;
- design, purchase, produce and provide solutions, products and services that are responsible when it comes to health, safety and environmental requirements.

Performance is regularly managed through the monitoring of specific indicators.

- **PERFORMANCE RELATED TO OCCUPATIONAL SAFETY (NFPS):**

| | 2023 target | 2030 target | 2018 | 2019 | 2020 | Change 2018/2020 |
|---|-------------|-------------|-------|-------|-------|------------------|
| Accidents at work | | | | | | |
| Frequency rate of accidents at work with subsequent lost work time (Tf1 for Thales employees) | 1.55 | | 2.22 | 2.32 | 1.66 | -25.2% |
| Change in severity rate of accidents at work | – | | 0.053 | 0.057 | 0.056 | +5.6% |
| ISO 45001 Certification | | | | | | |
| Share of employees working at an OHSAS 18001/ISO 45001-certified site | – | | 83% | 77.5% | 77.1% | -6 pts |

Note: Frequency rate of accidents at work and severity rate for 2018 restated to include Gemalto. Share of employees working at certified sites excluding Gemalto in 2018.

At the end of 2020, the Executive Committee sought to strengthen the collective aspect of performance recognition. To this end, it was decided that starting in 2021, for employees eligible for variable compensation, 10% of this compensation would be related to CSR targets corresponding to the Group's commitments, of which safety performance accounts for 2.5% (see section 5.4.1.3.6).

To support the achievement of these targets, in 2019, the Group defined an "HSE culture" roadmap which provides for the following over a four-year period (see section 5.4.3.5.2, Training):

- increased actions to support leadership and help all employees develop a sense of ownership regarding the importance of HSE issues ("HSE Masterclass");

- support of teams in implementing best practices on the ground ("HSE 4 US").

Aspects relating to quality of life at work, well-being, and psychosocial risks are closely coordinated with the Group's Human Resources Department and with the occupational health services (see Chapter 5.4.3.4.1).

Workplace health and safety risks are the subject of an annual self-assessment by each of the operating entities that is coordinated by the Group Risk Supervision Committee. This ensures that best HSE management practices are implemented at external premises and worksites, which may lead, if necessary, to an annual improvement plan drawn up with the Group's experts.

• A dedicated HSE structure

In order to keep improving its health, safety, and environmental performance, and to prevent industrial risks, Thales has implemented a global governance system based on a network of HSE managers:

- a dedicated network of “HSE site/operation” coordinators at the country, entity, and external site levels, depending on geographical location;
- a dedicated network of “HSE Products and Services” coordinators at Global Business Unit and business line levels, bolstered by correspondents from cross-functional departments (e.g. product policy, engineering, operations, purchasing, services, bids and projects).

Cross-functional and international HSE Steering Committees are in charge of implementing the HSE policy, providing expertise and momentum, and ensuring that prevention standards are rolled out. They define the annual action plans and capitalise on feedback to improve the HSE culture. Operational management relies on these networks, which are coordinated within a dedicated job family, to increase momentum and boost leadership, determine recruitment and training needs, and anticipate future developments.

Other operational and cross-functional departments (human resources, occupational health, operations, engineering, purchasing, etc.) are also involved in this work to ensure that policies on the prevention of workplace hygiene, health and safety and environmental risks are consistent.

The community of members of the extended international HSE network gathers at a conference once a year. In 2020, this two-day event was held as a web conference which brought together over 860 employees from all functions around the world. Four major topics were discussed:

- The Group’s HSE vision, performance, and health situation;
- The strategy for a low-carbon future;
- Environmental issues, in particular substances, eco-design, and operations;
- The company’s social and environmental responsibility.

An international scorecard is issued and distributed by the Operations and Performance Department and includes, for safety purposes, the performance of tier 1 subcontractors.

The network of HSE experts played a central role in managing the health crisis supported by the international HSE Steering Committee. The latter’s role was to ensure the coherent implementation of health guidelines at the sites, while taking into account country-specific particularities, in close coordination with the other functions and crisis units in the countries. This expert network was mobilised on a daily basis to support employees and ensure their health safety.

Cases of infection and the proper implementation of health regulations were continuously monitored.

5.4.3.5.2 Maintaining skills and risk awareness

• Training

Knowledge of operational risks and related prevention measures is crucial for managers and employees to maintain the right level of vigilance, as well as maintain their awareness of risks, measures to manage them and the appropriate behaviours to be adopted.

Thales’s Human Resources and HSE departments implement and maintain training courses on workplace health and safety across the Group.

Specific needs are identified at individual premises and worksites and supplement the programmes defined at Group level. Risk training plans built in late 2019 were scaled back during the health crisis and replaced by pandemic-related training and awareness sessions: understanding the crisis and how Covid-19 infection occurs, receiving employees and visitors at the sites, adopting protective behaviours, the proper use of personal protective equipment, good cleaning practices, and general conduct rules on site. Special attention was paid to considering the specific risks linked to telecommuting as well as psychosocial risks (best practices for safety and quality of life to implement when telecommuting, the right to disconnect, healthy lifestyle, etc.).

To maintain knowledge and skills relating to health and safety, dedicated training modules are delivered throughout the Group by in-house trainers, HSE managers, or specialist external bodies. Online training modules are available to all through the Thales Learning Hub. In addition, specific, continuously updated content has been made directly accessible to employees on the intranet via a page dedicated to Covid-19 and telecommuting.

All of these training courses involve (on top of courses related to the health crisis):

- general workplace safety training courses (introduction and on-the-job training, fire safety, first aid, etc.);
- specific training courses on risks encountered (electrical, chemical, radiation, ergonomic, psychosocial, etc.);
- training courses on tools (risk analysis, regulatory monitoring, standards, audit and inspection techniques);
- training courses on management and best safety practices.

Excluding specific “Covid” awareness actions, and not counting distance learning training modules, more than 50,000 in-person safety training hours continued to be delivered within the Group in 2020.

To improve support for managers and employees on HSE issues, in 2019, the Group defined a specific training programme for HSE coordinators aimed at developing their operational leadership skills in this area, with a particular focus on support for local managers. Additionally, training sessions in “HSE culture” defining the leadership model were developed for site/country/Global Business Unit management committees. They were rolled out in some units in France, Australia, and Germany. Based on these experiences, an “HSE Masterclass” was developed with an expert HSE consultant. The deployment of this training programme, which was slowed by the 2020 health crisis, is one of the management objectives to be largely rolled out in 2021.

• Awareness – Communication

Awareness and communication programmes, which are defined and implemented locally, also allow the level of ownership and awareness of risks to be maintained among all employees. The Group publishes a quarterly HSE newsletter and organises a Group awareness campaign every year.

The last four campaigns focused on: best practices related to tripping risk (2015), material handling risks (2016), road risks (2017), or good managerial practices to integrate hygiene, health and safety, and the environment into everyday practices (2019). In October 2020, the Group launched the global “HSE 4 US” campaign on the four basic rules of health, safety and environment. Each employee was asked to organise an exercise within their team that enables these rules to be appropriated and responsible behaviours to be adopted.

Lastly, a dedicated HSE portal is available to all employees on the Group intranet.

5.4.3.5.3 Risk management and operational control

• The Covid-19 health crisis

Thales activated its crisis management system in January 2020. The Group supported its offices in Asia in their management of the health crisis by developing initial health safety measures, new work organisation systems (shift work and telecommuting), providing personal protective equipment (masks, gowns, etc.) as well as travel guidelines.

The Central Crisis Unit (CCU) was activated on 26 February 2020. This central crisis unit connected with all the entity and country crisis units to coordinate actions and define the health safety policy. This unit brings together all the functions that are directly impacted by the crisis: Health, Safety and Environment, advising Physician, Human Resources, Security, Communications, Information Systems, Operations, Purchasing & Logistics.

This network helped develop health standards and guidelines for business continuation, and closely monitored the situation in order to make the appropriate adjustments. It also contributed to developing communications and tools for employees.

A set of health protection measures common to all the Group's entities worldwide was defined: health safety rules, personal and group protective equipment, protective behaviours, ventilation of work spaces, management of corporate restaurants, travel policy, guides for managers, support for returning to work after lockdown, good telecommuting practices, etc. These measures are applied in addition to national regulations or in countries where health regulations are less restrictive.

The Central Crisis Unit met daily during the first months of the crisis to monitor events and coordinate with the Executive Committee. It then moved to a weekly schedule.

In addition to the coordinated network of crisis units, a purchasing and logistics task force was activated in March to secure the supply of protection and disinfection resources at Group level.

Employees have been kept regularly informed, especially during lockdowns or periods with heavy restrictions.

Covid-19
More than 50 reference documents, booklets, videos, and materials to raise awareness were published in French and English

• Management on the ground

Thales has integrated the management of risks related to occupational safety into its Group management system, which can be accessed by all employees, at all entities worldwide.

The HSE process requires a safety management system to be implemented at all sites to ensure that operating risks are avoided, managed and limited, while complying with the general principles of prevention. In 2020, the analyses of risks, the necessary adjustments, and the rules adopted to take into account the health aspects resulting from the pandemic were incorporated into the process.

Integrated into the different processes governing the Group's activities, it defines best practices and methodological guides, and specifies the rules that must be followed at all levels of the organisation. It also defines the risk management and alert procedures in the event of an accident.

Thales produces risk analyses at all its sites and updates them on a regular basis according to its business activities, scientific and technical developments, and emerging issues. These analyses enable the operational departments, with the support of HSE experts, to:

- check that the business activities carried out and the products used or placed on the market are compliant to ensure that facilities meet safety standards at all times;
- ensure that employees are not exposed to specific risks, and reduce and manage them if they are;
- ensure that personal and group protective equipment is available for residual risks that cannot be avoided;
- monitor business activities to make sure they are not likely to affect people and/or the environment through technological accidents;
- analyse and anticipate the impact of new regulations;
- make sure that employees and external partners adhere to instructions and procedures, including through the organisation of emergency scenario drills;
- integrate hygiene, health and safety into on-the-ground management.

Risk assessments and analyses of legal requirements and compliance obligations are based on active regulatory monitoring. They are formally documented at all Group facilities, as well as at external sites.

Furthermore, the deployment of lean culture combines HSE aspects with operational practices: team coordination, site inspections, and improvement actions. At the same time, the Group's HSE experts provide support for the application of HSE standards on premises and worksites, and also support employees to ensure consistency and monitoring on the ground, by drawing on the ISO 45001 management standard. For example, as at 31 December 2020, 77.1% of the Group's global workforce worked at a site or in an organisation certified to this management standard. Certifications grouped by country are in broad use at Thales; there are now 128 certified sites compared to 120 in 2019. It should be noted that the downsizing of some entities during the year, particularly in the United States and the United Kingdom, caused this indicator to decline in 2020.

Performance related to workplace health and safety (NFPS):
Number of employees working at ISO 45001 certified sites in 2020: 77.1%

• CHANGE IN THE NUMBER OF EMPLOYEES WORKING AT ISO 45001 CERTIFIED SITES*



* 2018: without Gemalto; 2019 and 2020: with Gemalto.

• **Employee performance reviews and continuous improvement**

Certified sites carry out internal audits so they can share best practices on an ongoing basis and improve HSE management systems. This monitoring was maintained in 2020 despite the crisis, and self-assessments were carried out to verify proper deployment of the health rules. Monitoring audits are carried out by external bodies to ensure an external review. They were also maintained in 2020. The Group has reinforced its internal tools by introducing a system to assess HSE maturity. It has been in use at all entities since 2017. This tool bolsters HSE culture and the commitment of managers and employees, so as to strengthen the performance of the Group and that of its partners. HSE maturity self-assessments are conducted at all industrial facilities and are supported by audits conducted by a team of 22 qualified auditors.

Therefore, all sites must conduct an internal audit once a year, and 23 sites had a maturity assessment completed by the Group's experts in 2018 and 2019, primarily at locations or work sites presenting the biggest risks (i.e. 22% of the Group's industrial sites). In 2020, as a result of the pandemic, only one audit was conducted, although all sites completed a self-assessment on the deployment of the health rules, which were consolidated at Group level.

Moreover, the 2020 employee health safety performance, monitored at Executive Committee level by the Operations and Performance Department, was significantly influenced by:

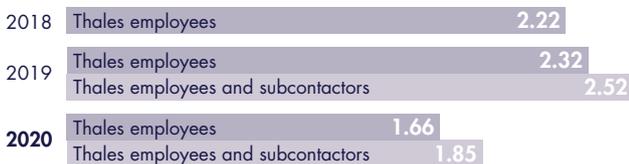
- the health crisis and lockdowns;
- the adaptation of work organisation, with a large number of employees telecommuting for a significant part of the year;
- the disruption of some operations induced by the crisis.

In 2020, the Group mourned the death of one of its employees and that of a direct subcontractor at one of its work sites. The employee died in Australia after a piece of equipment fell on him, and the subcontractor passed away in Shanghai following a cardiac arrest. Australia has engaged all of its teams in an extensive process of leadership and transformation of the safety culture. As such, all management committees and all sites have been trained and involved in dynamic processes and action plans to develop maturity geared towards concrete action.

Performance related to workplace health and safety (NFPS):

Frequency rate of accidents at work worldwide:
1.66 in 2020
 (1.85 with subcontractors)

• **CHANGE IN FREQUENCY RATE (WORKING DAYS LOST DUE TO ACCIDENTS AT WORK)**



Note: A specific California regulation (CAL-OSHA) requires the inclusion of positive Covid-19 cases when calculating the frequency rate of accidents at work. This local requirement was not consolidated under the Group's performance. It accounted for 14 cases in 2020, which would have brought the frequency rate to 1.76.

The rates differ substantially for each country, depending in particular on the activities taking place there. Including Gemalto, the consolidated rate at end-2018 would have been 2.22. In 2020, the specific context of the pandemic, with the significant use of telecommuting, was a factor in the sharp

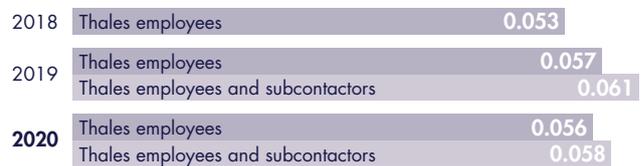
improvement in this rate to 1.66, i.e. 25% below the 2018 rate. The Group's is targeting a consolidated rate of 1.55 in 2023. A great deal of prevention work is carried out by the teams on the ground, and attention remains focused on actions that help to reduce the incidence of the most serious accidents, particularly in Australia, Germany, and in some organisations in France. In contrast to previous years when the causes of accidents were either industrial or behavioural, in 2020, accidents of psychosocial origins emerged as a new source (10%), specifically linked to the pandemic.

Since 2019, the frequency rate has also been consolidated including subcontractors who work in an ongoing manner at the Group's premises and worksites. For Thales, the aim is to verify that safety practices are being correctly implemented across operations. This consolidation impacts the Group's accident frequency rate, raising it to 1.85.

Performance related to workplace health and safety (NFPS):

Severity rate of accidents at work worldwide:
0.056 in 2020 (0.058 with subcontractors)

• **CHANGE IN SEVERITY RATE***



*: Note: 2018 severity rate with Gemalto. Without Gemalto, the severity rate was 0.048 in 2018.

• **CHANGE IN THE NUMBER OF DAYS LOST***



■ Number of days lost to accidents at work.
 ■ Number of days lost to accidents during commuting times.

Translation: Thales employees/Thales employees and subcontractors

The severity rate of accidents at work was 0.053 in 2018 for the entire Group after consolidation of the former Gemalto employees.

In 2020, the severity rate of accidents at work was 0.056 (0.058 with the integration of tier 1 subcontractors), an improvement over 2019 but slightly worse than in 2018. Despite a lower number of accidents, the number of days lost increased compared to 2018. This result is partially due to extended medical leaves related to two accidents that occurred in 2019. Furthermore, 9% of accidents in 2020 accounted for no less than 40% of the number of days lost.

61% of Group sites did not have any lost day due to accidents at work in 2020, and therefore had frequency and severity rates of zero.

5.4.4 Other employment indicators

5.4.4.1 Breakdown of worldwide workforce

The geographical mix of the Group workforce was broadly unchanged in 2020.

With 60,600 active employees, i.e. 75% of the workforce, Europe continues to be the main employment zone.

| Workforce as at 31 December 2020 | | 2019 | 2020 |
|----------------------------------|---|---------------|---------------|
| Major Group countries | Germany | 3,668 | 3,738 |
| | Australia | 3,745 | 3,573 |
| | Canada | 2,094 | 2,036 |
| | United States | 4,823 | 3,995 |
| | Netherlands | 2,052 | 2,176 |
| | United Kingdom | 6,535 | 6,471 |
| Rest of Europe | Austria | 333 | 351 |
| | Belgium | 923 | 895 |
| | Denmark | 204 | 220 |
| | Spain | 1,269 | 1,294 |
| | Finland | 367 | 346 |
| | Italy | 2,792 | 2,827 |
| | Norway | 238 | 269 |
| | Poland | 1,380 | 1,275 |
| | Portugal | 464 | 445 |
| | Czech Republic | 337 | 311 |
| | Romania | 588 | 699 |
| | Sweden | 142 | 115 |
| | Switzerland | 504 | 461 |
| | Other ^(a) | 74 | 63 |
| Emerging markets | South Africa | 225 | 191 |
| | Saudi Arabia | 404 | 343 |
| | Brazil | 892 | 1,034 |
| | China-Hong Kong | 1,542 | 1,433 |
| | Colombia | 139 | 147 |
| | Egypt ^(b) | 306 | 310 |
| | India | 1,345 | 1,418 |
| | Israel | 197 | 192 |
| | Japan | 135 | 128 |
| | Mexico | 1,311 | 1,176 |
| | Middle East (excluding Saudi Arabia) ^(c) | 937 | 728 |
| | Philippines | 187 | 181 |
| | Russia | 124 | 116 |
| | Singapore | 2,091 | 1,881 |
| | Taiwan | 115 | 122 |
| | Thailand | 59 | 103 |
| | Turkey | 307 | 299 |
| | Others ^(a) | 623 | 559 |
| France | France ^(d) | 39,306 | 38,644 |
| WORLD | | 82,718 | 80,569 |

- (a) Other countries with fewer than 100 employees and permanent facilities: Algeria, Argentina Azerbaijan, Bolivia, Chile, South Korea, Ivory Coast, Croatia, Estonia, Greece, Hungary, Indonesia, Ireland, Jordan, Kazakhstan, Latvia, Malaysia, Morocco, New Zealand, Nigeria, Uzbekistan, Panama, Peru, Dominican Republic, Senegal, Turkmenistan, Venezuela, Vietnam.
 (b) Thales's workforce in these countries also includes the employees of permanent establishments belonging to Thales Communications & Security, one in Qatar and one in Egypt.
 (c) The Middle East includes: United Arab Emirates, Lebanon, Oman, Pakistan, Qatar and Bahrain.
 (d) At 31 December 2020, the total workforce registered in France was 42,701.

5.4.4.2 Additional employment indicators

| Employment indicators | 2020 data | Scope of consolidation |
|--|---------------|------------------------|
| GLOBAL^(a) WORKFORCE AT 31 DECEMBER 2020 | 80,569 | 100% |
| Workforce by gender | | |
| % of women | 26% | 99.9% |
| % of men | 74% | |
| Workforce by type of contract | | |
| % of permanent contracts | 98% | 99.9% |
| % of full-time contracts | 94% | 99.6% |
| Workforce by age group | | |
| < 30 | 12% | 99.8% |
| 30-39 | 25% | 99.8% |
| 40-50 | 28% | 99.8% |
| > 50 | 35% | 99.8% |
| Departures | | |
| Number of departures | 7,650 | 100% |
| % of departures due to redundancies | 24.6% | 100% |
| Recruitment | | |
| Total number of new hires | 7,427 | 100% |
| % of women | 31% | 97% |
| Training | | |
| Average number of hours of training per employee | 7 | 95% |
| % of employees covered by a collective agreement | 77% | 92% |
| Health and safety indicators | | |
| Absenteeism rate | 3.30% | 98.27% |
| Frequency rate of accidents at work | 1.66 | |
| Severity rate of accidents at work | 0.056 | |
| Other | | |
| Payroll (€ million) | €7,419 | |
| % of employees covered by a collective agreement | 77% | 92% |
| Employment rate of people with disabilities in France ^(b) | 6.92% | |
| Number of jobs created by GÉRIS in 2020 | 515 | |

(a) Workforce shown corresponds to active workforce.

(b) 2019 data reported in 2020.

5.5 A committed approach to meet environmental challenges

5.5.1 General policy on environmental issues

5.5.1.1 Long-standing commitments renewed and strengthened

In line with its values, its purpose (“building a future we can all trust”) and its social responsibility strategy, Thales has been committed to a proactive and responsible approach to environmental protection for over 15 years. This commitment, written into the Code of Ethics, is reflected in a policy to reduce the environmental impacts and risks from business activities and products worldwide at all levels of the organisation. The environmental risks identified in the NFPS are those corresponding to material environmental impacts in connection with the Group’s activities and anticipation of environmental standards in product design. They are described in Chapter 5.2.

To ensure compliance with applicable regulations and anticipate future standards, the policy has four key areas of focus:

- preventing impacts on people and the environment from the Group’s activities;
- factoring the environment into product policies and services;

- significantly reducing the Group’s own carbon footprint, as well as that of its customers and civil society; and
- fostering a spirit of innovation with regard to the environment.

To turn its commitments into action, the Group has set environmental and sustainability performance targets since 2007. New targets were set by the Executive Committee in 2019 for a five-year period to 2023 with an extension to 2030 for greenhouse gas reduction targets.

Thus, in line with its commitments, the Group has strengthened its environmental strategy through the launch of its “strategy for a low-carbon future”, with ambitious targets that involve its entire value chain. This policy can be consulted on Thales’s website and is set out in Chapter 5.5.2.3.

In parallel, the Group is continuing to work on optimising the management of its waste and to manage the anticipated gradual replacement of hazardous substances which could result in the obsolescence of some products.

Performance related to environmental impacts in connection with the Group’s activities and anticipation of environmental standards in product design (NFPS)

| | 2018 | 2019 | 2020 | Change 2018/2020 | 2023 target | 2030 target | Trend |
|---|--------|--------|-------|---------------------|----------------|----------------|-------|
| Environmental management | | | | | | | |
| Percentage of employees working at ISO 14001 certified sites | 89% | 84% | 84% | -5 pts | | | |
| Natural resources | | | | | | | |
| Recycling rate of non-hazardous waste ^(a) | 55% | 58% | 60% | +5 pts | 75% | | ☺ |
| Écoconception | | | | | | | |
| New developments incorporating eco-design | NA | NA | 44% | +44 pts | 100% | | ☺ |
| Percentage of Product Line Architects, Product Line Managers, Product Design Authorities, and Design Authorities trained in or made aware of eco-design | NA | 5% | 33% | +28 pts | 75% | | ☺ |
| Climate (thousands of tCO ₂) | | | | | | | |
| Reduction of direct operational emissions ^(b) | 344 | 340 | 225 | -35% | -20% | -40% | ☺ |
| Reduction of indirect emissions ^{(b) (c)} | 13,584 | 13,189 | 9,592 | -29% | -7% | -15% | ☺ |

Detailed figures can be found in Chapter 5.5.4 “Environmental indicators” table.

(a) Excluding exceptional waste, which corresponds to waste that is produced outside of the Group’s normal activities, for example during construction.

(b) Expressed as an absolute value compared to 2018.

(c) After integrating improvements in modelling carried in 2019 and 2020, see 5.5.2.4.3.

5.5.1.2 A shared momentum and organisation

5.5.1.2.1 Global organisation

Aiming to consistently improve its environmental performance and prevent risks, the Group has set up an organisation that addresses these challenges: a Group Health Safety Environment (HSE) Department that is responsible for defining its strategy, policy, processes, methods and associated standards, and for supervising and monitoring their implementation across the Group, which coordinates a dedicated global HSE network. This organisation is described in section 5.4.3.5.

5.5.1.2.2 Awareness, training, and involvement of employees

The members of the expanded international HSE network meets at a conference once a year. In 2020, this two-day event was held as a web conference which brought together over 860 employees from all functions around the world. Four major topics were discussed, including environmental challenges and the strategy for a low-carbon future (see Chapter 5.5.2.3).

Online training modules are available to educate Group employees on the basic aspects of environmental risk control, general themes such as eco-responsibility, or specific issues such as managing chemicals, labelling hazardous materials, or issues related to climate change.

In 2020, several information sessions on the Group's strategy for a low-carbon future were organised, complemented by a recording made available to all employees via the Group's intranet site. These sessions made it possible to raise awareness among over 600 people. Continuing the momentum begun in 2019, the Group paid special attention to raising awareness and training managerial teams on rolling out the HSE 2023 vision, to management committees' commitment to climate issues, and to the roll-out of the low-carbon future policy.

In addition, nearly 500 employees completed specific eco-design awareness sessions in 2020. To further support environmental knowledge within the Group, the various job families (environment, purchasing, design, sales, etc.) are offered additional training modules.

The Group HSE Department also takes part in the various gatherings organised by other business lines (supplier conferences, product seminars, etc.), to explain the HSE commitments, targets and action plans applied by the operational teams, as well as their implications on all of the Group's processes.

Thales's global teams are also committed to protecting the environment through proactive local actions. The year 2020 was notably marked by a week dedicated to Sustainable Development during which the teams from each site were invited to reflect on their best practices in terms of workplace health, safety, and environment, and to carry out concrete actions in favour of responsible energy management, such as unplugging their non-essential electronic equipment outside office hours. The results of these actions were then shared to encourage best practices and support worthwhile initiatives.

It is also noteworthy that several groups of eco-conscious employees, who want to be more engaged in their workplace as part of their daily activities and duties, have formed throughout the Group, particularly in France, around various subjects such as energy savings and waste. The HSE teams work in concert with these groups to develop synergies.

5.5.1.2.3 Relations with external stakeholders

Thales is committed to communicating in a totally transparent way with government authorities and its employees, customers, partners, suppliers, and subcontractors, as well as civil society stakeholders, sharing its environmental challenges with them. Procedures are also in place to receive, deal with, and communicate alerts and requests swiftly. It is also possible to send questions to the Group's HSE Department using a dedicated e-mail address.

To meet the requirements of its stakeholders (customers, civil society, investors, employees, rating agencies, etc.), Thales provides its environmental data on its website and responds to information requests from non-financial rating agencies (see Chapter 5.1).

In the course of its partnerships, particularly with schools, Thales promotes the preservation of the environment through presentations on climate change and natural resources, or by working with universities.

Lastly, the Group's HSE teams participate in the work of the International Aerospace Environmental Group (IAEG) and the French Aerospace Industries Association (GIFAS). Thales's Vice President of Health, Safety and Environment chairs the IAEG's Strategic Planning Committee and the Environmental and Sustainable Development Commission of the French Aerospace Industries Association (GIFAS).

Beyond its contribution to these organisations, Thales maintains direct relations on environmental issues with numerous customers in its various business segments, particularly in the fields of Aeronautics, Space, Defence, Cybersecurity, and the Internet of Things (IoT). These relations allow for a better understanding and integration of their environmental requirements into developments and projects and ensures the sharing of common positions on still-developing ideas and initiatives.

5.5.1.3 A continuous improvement and risk prevention process

5.5.1.3.1 Continuous improvement and prevention process

Thales has integrated the control of environmental impacts and risks in its Group management system, which is available to all employees.

The Environmental Management System has been implemented at all sites as part of a dedicated process for ensuring the management and limitation of environmental risks and of the environmental impacts of operational activities (buildings, industrial facilities, equipment and worksites), the supply chain (purchasing, supplier audits) and products delivered (product policy, design, bids, projects and services).

Integrated into the different processes governing the Group's activities, it defines best practices and methodological guidelines, and specifies the rules that must be followed at all levels of the organisation. It also defines the risk management and alert procedures in the event of an accident.

Performance related to environmental impacts in connection with the Group's activities and anticipation of environmental standards in product design (NFPS):

Employees working at ISO 14001 sites in 2020: **84%**

● **CHANGES IN THE NUMBER OF EMPLOYEES WORKING AT AN ISO 14001 SITE**

| | | |
|------|----------|-----|
| 2018 | Hors DIS | 89% |
| 2019 | | 84% |
| 2020 | | 84% |

The decline recorded between 2018 and 2019 is linked to the integration of Gemalto.

At the end of 2020, 144 sites were certified, compared to 138 in 2019. 84% of the Group's employees work at an ISO14001-certified site, which includes, among other, the management of the environmental impacts of products. Each year, audits are conducted by the internal audit teams (audit policy, maturity assessment) or external auditors for ISO 14001 certification or preventive inspections from insurers.

In addition, to provide support to sites, the eHSE risk management software suite was adapted to the changes in the ISO14001 standard, particularly in relation to taking into account challenges of stakeholder demands, risks and opportunities related to environmental analysis, and the effectiveness of actions and the associated resources.

Using a single tool allows all Group entities to report, record and manage action plans related to any environmental incidents or accidents.

These environmental risk management processes, and in particular those related to climate change, are described in Chapter 3.1.8.

5.5.1.3.2 Industrial risk management

Only six of the Group's sites present significant industrial risks: Four sites are Seveso-classified in Europe (one as "upper tier" and three as "lower tier"), while two sites in Australia are classified as high industrial risk.

Safety management systems (covering major accident prevention policy, contingency plan, risk assessment, the associated risk management scenarios...) are in place and are regularly inspected by the country HSE departments and regulatory authorities, in accordance with applicable regulations. After the Lubrizol accident in Rouen, France, the Group assessed the regulatory status and the situation of its four Seveso sites in Europe in 2020.

The insurance and compensation policies for victims of accidents, including technological accidents for which the Group may be liable, cover all sites insured by the Group, including Seveso-listed sites. Risks arising from accidents (such as fire or pollution) are managed locally, with the support of the relevant Group 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 2020, there were only 10 incidents across the Group, which had no significant impact on health or the environment.

5.5.1.3.3 Environmental risk mapping

The Group's risk mapping incorporates an environmental component: it addresses the environmental risk factors linked to the Group's activities, the increasing changes in environmental standards in the countries where it operates, and the risk factors induced by climate change.

The analysis of environmental risks that could impact people's health, the environment, and the Group (reputational and financial impacts, the ability to continue certain activities, etc.) is periodically reviewed and,

if necessary, updated to keep pace with changes in business activities, scientific and technical developments and emerging challenges and opportunities.

This analysis is intended to:

- verify that Group employees, people working at its permanent premises or worksites, and more broadly local residents, are not exposed to health or environmental risks;
- check that the Group's activities do not present a threat to the environment;
- ensure that activities and products sold are compliant;
- analyse and anticipate the long-term impact of new regulations on the Group's commitments and on the design of new products or services;
- evaluate the impact of climate change on the Group's activities.

A Risk Assessment Committee coordinates an annual evaluation of the risk management system for each legal entity, leading to:

- an improvement plan that incorporates the recommendations of experts and translates into action plans at all levels of the company;
- a summary of the materiality of the impacts for the Group, drawn up in consultation with the International HSE Committee.

In parallel, Thales pursues an active risk prevention engineering policy with the support of specialised partners. Risks that could trigger a major loss affecting people, the environment, and/or significantly impacting the value chain (fire, machinery breakdown, etc.) are closely monitored.

To this end, the Group's Insurance Department draws up and manages a site inspection plan as part of a prevention strategy aimed at reducing the likelihood of claims and limiting the impact of incidents. In 2020, 40 sites were thus visited. Additionally, and in order to comply with travel restrictions, risk prevention conference calls were organised for more than 20 Group sites.

The scope of prevention visits covers more than 230 sites, 184 of which received a risk prevention visit. Risk inspection visits cover several areas: property damage, fire, multiple natural hazards, and machinery breakdown. As a reminder, in 2019, prevention visits were carried out at around 160 sites (2018 scope before the integration of Gemalto).

In addition to the risks related to the Group's activities and to natural disasters (earthquakes, etc.), risks associated with adapting to climate change are specifically analysed and re-evaluated in order to reduce the Group's exposure and vulnerability:

- forest fires (e.g., in the United States and Australia);
- water stress;
- floods;
- storms, high winds;
- consequences of deforestation and disruptions to wildlife habitat;
- etc.

In 2020, the Group was not subject to any claims related to weather events or natural disasters.

Beyond its ordinary operations, environmental risk management is applied with the same rigour to disposal and acquisition transactions in order to limit the guarantees given or the risks assumed for these transactions, regardless of their nature, amount, or duration.

The materiality grid below is built based on the compilation of all the evaluation grids for the significant environmental impacts of the Group's sites and activities, as well as the evaluation of their materiality on the surrounding environment, and in particular with regard to their nature, quantification, and the sensitivity of the host environments.

• MATERIALITY OF ENVIRONMENTAL IMPACTS

| Materiality of impacts | Industrial activities | Tertiary activities | Comments |
|-----------------------------------|-----------------------|---------------------|--|
| Greenhouse gas emissions | Low | Low | The Group's industrial activities do not require intensive energy consumption and therefore generate only small quantities of greenhouse gases (scope 1 and 2). |
| Soil pollution | Moderate | Insignificant | |
| Energy consumption | Low | Insignificant | |
| Production of non-hazardous waste | Low | Insignificant | |
| Production of hazardous waste | Low | Insignificant | Given its industrial activities, the production of hazardous waste is limited and represents only 18% of the total production of waste, which is processed through appropriate channels. |
| Water consumption | Low | Insignificant | The Group's water consumption is low as a result of not operating in water-stressed areas and due to the many plans it has implemented over the past 15 years. These plans are supplemented and optimised by establishing recycling loops wherever possible. This impact is thus not material. |
| Emissions in water | Insignificant | None | Industrial sites collect and process their wastewater before discharge. Only 31 of the 188 sites within the Group's environmental reporting scope have to deal with emissions in water. |
| Atmospheric emissions | Insignificant | None | |

5.5.1.3.4 Vulnerability and adaptation to climate risk

The approach adopted by the Group to adapt to climate change is designed to reduce its vulnerability to the effects of climate change such as the hazards of natural disasters (storms, floods, etc.), earthquakes, fires, or the depletion of resources (see 5.5.1.3.3).

The Group's commitments under its strategy for a Low-Carbon Future in accordance with the 2°C trajectory of the Paris Agreement also highlight the many opportunities associated with the fight against climate change, both in terms of energy performance and industrial processes (see 5.5.2.3.3), as well as the development of low-carbon products and solutions (see 5.5.2.3.5 and 5.5.2.3.6).

Thales remains involved in the study conducted jointly by AFEP (French private companies association) and the French think tank the Shift Project to analyse energy and climate scenarios, and make recommendations to companies.

5.5.1.3.5 Disputes and environmental alerts

Thales was not cited in any environmental dispute that gave rise to compensation in 2020 and made no generic guarantees in relation to the environment. In addition, four sites (including one site on two occasions) were the subject of a letter, request or environmental complaint (as defined by ISO 14001) from local authorities, employees or third parties, for a total of five in 2020 which have either been dealt with or are in the process of being dealt with. At 31 December 2020, total provisions for environmental risks at Group level amounted to €4.3 million.

5.5.2 Reduce the environmental impact across the entire value chain

5.5.2.1 Reducing the environmental impact of our activities

5.5.2.1.1 Reducing, reusing and recycling waste

Thales's responsible waste management commitments seek to reduce the quantity of waste the company produces, limit the amount of waste sent to landfill, and optimise recycling of non-hazardous waste.

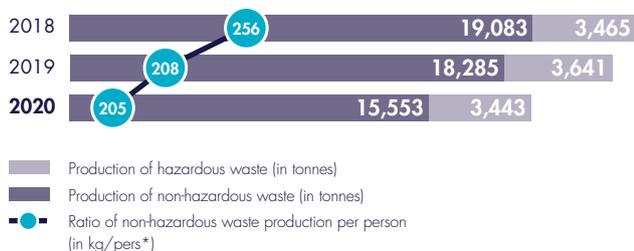
| Performance related to environmental impacts in connection with the Group's activities and anticipation of environmental standards in product design (NFPS) | | | | | |
|---|------|------|------|------------------|------------------------|
| | 2018 | 2019 | 2020 | Change 2018/2020 | 2023 Natural resources |
| Natural resources | | | | | |
| Recycling rate of non-hazardous waste ⁽¹⁾ | 55% | 58% | 60% | +5 pts | 75% |

These commitments have helped to reduce the non-hazardous waste produced per person by 20% between 2018 and 2020 (excluding exceptional waste⁽¹⁾), with a 16% drop in total waste produced.

The landfilling rate was also reduced between 2018 and 2020 from 18.7% to 13.5% (excluding exceptional waste).

In October 2020, an initiative called "Energy from Waste," was launched at the Piscataway site (United States) and now allows waste that was previously landfilled to be used to generate electricity. In just three months, seven tons of waste has generated four MWh through this alternative to landfilling.

• CHANGE IN WASTE PRODUCTION EXCLUDING EXCEPTIONAL WASTE⁽¹⁾



* Based on the average annual headcount at the sites, including permanent employees, temporary employees, trainees and service providers permanently on site, and excluding employees on permanent assignment or based at external sites.

As a result of measures taken, 85% of all waste (excluding exceptional waste) was recovered and, more specifically, 60% of non-hazardous waste (excluding exceptional waste) was recycled in 2020.

To achieve this, various measures related to selective waste sorting, the search for recycling channels or 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 aimed at reducing waste production and improving waste treatment. For example, the amount of paper and packaging waste fell by 24% compared to 2018.

Certain Group sites reuse packaging either to supply 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 prior to disposal. The quantity of hazardous waste (excluding exceptional waste) has fallen by 0.6% since 2018.

Lastly, the majority of Thales sites have opted for food service companies to manage their corporate restaurants. Therefore, the Group does not have a direct impact on food waste. Nevertheless, Thales, works with these partner companies to set up responsible handling solutions that encourage less food waste, as does all its partners.

This is particularly true at the Bordeaux campus, where an initiative was established in 2020 to recover surplus food from the corporate restaurant to benefit a local association. This collaboration allowed an average of 48 kilos of food per week to be donated, or approximately 120 meals, which the association then distributed.

5.5.2.1.2 Preserving water

Water is a vital resource to be protected. For more than 20 years, Thales has engaged in a far-reaching programme to reduce its water consumption by, among other things, dealing with leaks, centralising the management of its water networks, replacing water-intensive equipment, optimising industrial processes, and recycling water for reuse in industrial processes. This has allowed the Group to significantly reduce and stabilise its water needs over the past 15 years, thereby reducing the pressure on this rare resource in a sustainable way.

Risks linked to water management have not been identified as material at Group level (see 5.5.1.3.3). Nevertheless, despite the low level of consumption achieved as a result of optimised multi-year management plans (including the promotion of recycling loops), and not operating in water-stress areas, the management of water resources remains a point of focus for the Group as it remains committed to not increasing its consumption.

Furthermore, in 2019, Thales completed the CDP's water security questionnaire (Carbon Disclosure Project), which helps assess how current and future water management risks are being accounted for, at both strategic and usage levels, and obtained a B- grade, which corresponds to the industry average. Thales also completed this questionnaire in 2020, in order to provide transparency to its stakeholders, although it was not graded.

(1) Exceptional waste refers to waste produced outside the normal day to day Group's activities, for example during construction and repairs.

| | 2018 | 2019 | 2020 | 2018/2020 | Target |
|--|-------|-------|-------|-----------|----------------------------|
| Water | | | | | |
| Water consumption (thousand m ³) | 1,771 | 1,776 | 1,661 | -6% | No increase in consumption |

In 2020, overall water consumption amounted to 1,661,000 m³, down 6.2% from 2018. This drop confirms the collective effort at all sites, including the Mulwala site (Australia), which alone represents 36% of the Group's water consumption due to its industrial processes and activities.

These achievements benefited from increased employee awareness and from the continuous expansion in the use of best practices.

5.5.2.1.3 Impact of industrial activities

Industrial wastewater discharge

Thales's activities generate little in the way of industrial wastewater: slightly more than 600,000 m³ in 2020. 97% of wastewater is discharged from eight sites and 66% comes from the Mulwala site (Australia). Consolidated wastewater discharges have fallen by 4.5% compared with 2018, as a result of ongoing plant optimisation and modernisation measures, and wastewater recycling and reuse.

Industrial atmospheric emissions

In general, Thales's activities do not generate atmospheric emissions, except for activities at a few specific industrial sites or activities linked to site operations (for example, heating).

For those few sites, industrial atmospheric emissions are channelled and treated where necessary (with filters, scrubbers, etc.) and regularly checked. This primarily relates to solvents.

The quantities used are low: slightly less than 600 tonnes in 2020. Just eight of the 142 sites concerned (out of 188) account for 79% of solvent purchases. The Mulwala site alone accounts for 65% of these purchases and 69% of atmospheric emissions resulting from the manufacture of propellants requiring a large quantity of solvents.

In 2020, 8% of solvent purchases were linked to measures to prevent and combat Covid-19, leading many sites that do not usually use solvents to report purchasing them. As a result, between 2019 and 2020, industrial atmospheric emissions associated with solvents increased 11% due to solvents used in relation to the health crisis, as well as due to an improved monitoring and reporting of the quantities of solvents used for industrial processes in Singapore and Poland.

Although certain sites eliminated or replaced solvents with detergents, industrial atmospheric emissions increased 52% between 2018 and 2020 due to commissioning in 2019 and the ramp-up phases of the new manufacturing process associated with increased production capacity at the Mulwala site.

Combating noise and odour pollution

While Thales's activities generate very little noise or odour pollution, measures are still put in place to limit them. 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 at specific times. The increased use of computer simulations for pyrotechnic testing, for example, also helps to reduce noise.

Only five of the Group's sites report generating odour pollution. This concerns odours resulting from evaporation basins for solvents and paints. Appropriate actions are implemented to reduce this pollution: dredging, installation of water wheels to increase the dissolved oxygen levels, reduced usage, installation of waste treatment and suction equipment, use of specific protective equipment for operators.

Land use and pollution prevention

For more than 20 years, the Group has implemented a policy of anticipating and responsibly managing its pollution risks. Few sites are subject to significant contamination, and where contamination has been identified, it is usually due to earlier industrial activities (some of which are independent of Thales and related to previous owners). Any new situation identified as presenting a risk of pollution or proven pollution is dealt with by means of a rigorous investigation process supervised by external expert firms and is managed and monitored responsibly.

When available techniques allow, appropriate treatments are implemented. Their aim is to minimize impacts on the environment while favouring on-site treatments over transferring pollution to be treated at another site.

The water table is periodically monitored at some industrial sites. The cases in question are regularly monitored by the Group's HSE Department, in conjunction with the Legal Department dedicated to real estate and environmental issues, while closely coordinating with the local authorities concerned (Regional Environment Directorates, Regional health authorities, Prefects, etc.).

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 those activities generate, and need to be bounded by extensive security areas and suitable geology. These areas account for approximately 79% of the total land area occupied by the Group (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 farmland.

The remainder of the Group's land areas are mostly industrial (51%) and offices (41%).

5.5.2.1.4 Protecting biodiversity

The preservation of species, their habitat and ecosystems, the preferential use of areas dedicated to flora and the protection of historical and natural heritage are taken into account in all decisions to help protect the environment. As early as 2006, Thales drew up a preliminary inventory of its sites in France located near or within protected areas and, at certain sites, assessed the impact of business activities on biodiversity and the degree to which the site depends on the surrounding ecosystem services provided by nature. It then consolidated this information into a map of biodiversity-related risks for Group sites located in the most vulnerable areas. Although the overall impact of the Group's activities on biodiversity is low, Thales encourages its sites and employees to continue to promote actions to protect biodiversity. 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.

Several Australian sites have had habitat management plans in place for several years, notably concerning erosion prevention. In France, during the construction of the Mérignac campus in 2014, 30-year commitments were entered into to ensure environmental offsets, such as reforestation, preservation of wildlife and habitat, and replanting in wetlands. The corresponding action plans continue to be carried out and are delivering all of the expected benefits in terms of biodiversity.

Many sites prioritise outdoor features to favour the natural habitat and bring attention to wildlife. At the Pont-Audemer site, a global project was rolled out in partnership with the regional park and town: employees did an inventory of the wildlife with high school students, built bat shelters and birdhouses, planted fruit trees, and helped create two ponds and brought in geese for eco-pasturing. The Toulouse site created an apiary and a shared garden, the Meudon and La Ciotat sites installed beehives, and at the Gémenos site, employees are cultivating a permaculture hill.

For sites with large areas of plains or forests, special precautions are taken to protect fauna and flora by promoting environmentally friendly and natural techniques for mowing and grazing and by eliminating crop protection products. Other sites raise employee awareness through photography exhibitions on forests, agroforestry, and the species that can be found on-site.

It should be noted that the impact of activities on biodiversity is considered low.

5.5.2.2 An innovative dynamic to help reduce environmental footprint

Thales has embarked on a process to develop eco-responsible products and systems that meet different needs, specifically:

- compliance with and anticipation of environmental regulations for the purpose of managing obsolescence and the associated industrial risk;
- creation of value for customers and differentiators for the market through innovation;
- reduction in environmental impacts and compliance with the Group's commitments.

The three main guidelines of this process are:

- consideration for the environment throughout a product's life cycle;
- the development of features to improve customers' environmental performance;
- the development of products that strengthen the monitoring and understanding of environmental issues.

The process is embedded in other key processes undertaken by the Group, such as Product Policy, Engineering, Operations and Purchasing. The Group is also developing methods and tools to help product designers and architects make eco-responsible choices, leverage environmental information and verify that chosen solutions comply with regulatory requirements.

Life cycle and environmental impact analyses of products performed in previous years have highlighted the need to replace hazardous products and determine the life cycle phases that have the highest impact in terms of CO₂ emissions. For the majority of the Group's products and solutions, use phases have the highest carbon footprint. This is primarily due to the potentially very long product life (20 years and above), and to high rates of use. The analyses also showed that actions to reduce CO₂ emissions generally lead to a reduction in other environmental impacts, thus identifying actual attractive action levers. In 2020, Thales conducted simplified life cycle analyses on 12 products under development.

For products installed on board mobile platforms, the main parameters in terms of environmental impact were the nature of the platform (air, naval, rail, etc.) and its characteristics (service life, percentage of time spent in motion, etc.). This was largely due to the impact of the weight being moved and, to a lesser extent, the platforms' energy consumption. For fixed products, the predominant parameter was energy consumption. Reducing impacts thus depends both on our ability to reduce their intensity through the direct contribution of product design and on our customers' ability to reduce the energy intensity of the platforms on which they are installed.

For a limited number of products, which have a short service life and concerning consumer applications, particularly bank or SIM cards and associated peripherals, the analysis shows that the production phase generates the most significant impacts. Efforts are thus focused on the reduction of environmental impacts in this life cycle phase.

Lastly, the Group is contributing to the low-carbon efforts of its customers. Indeed, several products and systems developed by Thales make it possible to very significantly avoid some emissions of the customers who use them. Examples include traffic management, flight path optimisation, driver or pilot assistance systems, as well as simulators that limit the amount of training required in actual flight (see 5.5.2.3.5).

Performance related to the anticipation of environmental standards in product design (NFPS):

Percentage of Product Line Architects, Product Line Managers, Design Authorities, and Product Design Authorities trained in or made aware of eco-design: **33%**

Creating awareness of environmental issues and taking them into account in new product development are an essential part of eco-design policy. Training tools and sessions have been in place at the Group's various entities since 2019 and have reached some 500 employees, a pace that accelerated in 2020 despite the crisis. Furthermore, training sessions are currently being rolled out specifically targeting people in charge of the Group's product policies.

5.5.2.2.1 Developing eco-design

In order to be part of an overall sustainable process, the way we account for environmental challenges in how products are developed must also create value for Thales and its customers: improved operating conditions, reduction of total ownership costs, optimisation of end-of-life management. This aspect is being addressed specifically through the product policy and the eco-design initiative that has been put in place, which is aimed at reconciling value proposition with reduced environmental impact.

Research conducted in recent years to characterise Thales's main products has identified two priority areas for improvement:

- the use of sustainable resources for product design and manufacturing, with a particular focus on hazardous substances, quantities of materials, and their recyclability;
- the reduction of the energy consumed and CO₂ emitted during the product use phase.

A cross-functional Group Steering Committee, coordinated by the HSE Department and comprising HSE product coordinators from all the GBUs allows for a coherent approach, the sharing of information and best practices, and for sustainable performance indicators to be established and monitored on a quarterly basis by the Director of Operations and Performance, who is a member of the Group's Executive Committee.

Performance related to the anticipation of environmental standards in product design (NFPS):

New developments incorporating eco-design: **44%**

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, as well as replacing the substances that are most toxic for health and the environment. 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.

For example, using standard dimensions to produce plates and structural sections leads to fewer "shavings". Moreover, since 2017, Thales has been using the additive manufacturing process (3D printing) to manufacture space parts. There are ongoing studies to expand the scope of use of this technique, particularly in aeronautics. This technology, combined with the use of topological optimisation tools, limits the quantity of materials used to address a given need. It also makes it easier to repair parts and optimises service offerings. In addition, for specific activities such as bank cards and SIM cards, Thales is developing manufacturing processes that allow recycled plastic to be used for the body of the card.

The table in Chapter 5.5.3 includes examples of products whose environmental impacts have been reduced using the measures discussed above.

Thales also pays close attention to the availability of critical resources such as rare earth metals and responds to surveys conducted by European and French authorities. Lastly, Thales has reduced the use of materials such as wood, cardboard and plastic by rationalising, limiting, and reusing packaging, both for supplying Thales sites and for transferring equipment from one site to another.

5.5.2.2.2 Obsolescence and replacement of hazardous materials

The increase of and changes in environmental regulations have led to the restriction – and, in some cases, prohibition – of the use of certain substances. This has led to the growing risk that it may become impossible to manufacture or provide through-life maintenance to a system or piece of equipment. For this reason, Thales has taken a proactive approach which involves anticipating risks and implementing the measures required to manage them. The Group pays particularly close attention to technologies requiring the use of substances on the European REACH Regulation Candidate List, as well as other regulations such as RoHS, WEEE, and POP.

This approach relies on centralised regulatory monitoring, which is constantly increasing in scope; the resulting information is then summarised and disseminated as alerts based on the priority and criticality of the subjects. It includes the collection of data on substances directly concerned by the regulations and which are present in the components and sub-components used in the products and solutions developed by the Group. All of these data are entered into a central database, which is accessible to all Group entities, and in the PLM (Product Lifecycle Management) tools and ERP (Enterprise Resource Planning) systems. An analysis tool developed in-house enables the cross-referencing of all of this information to ensure compliance with regulations and perform the impact analyses needed to anticipate the risk of obsolescence and eco-responsible management.

Thales has developed replacement plans to keep obsolescence risks under control. These investigations into replacements, produced internally or with manufacturing partners, aim to assess the performance of alternative industrial processes and ensure that manufactured products remain compliant with technical requirements. In some cases, it is necessary to redesign products and their interfaces and rescope industrial tools, a process that is implemented over several years.

Performance related to the anticipation of environmental standards in product design (NFPS):

Industrial processes affected by the replacement of chromates: **adherence to schedule in line with the cut-off dates set by the European Commission (2024 and 2026)**

In the case of chromates, Thales began researching replacement processes in 2013 for more than 30 industrial processes used by subcontractors in its applications. The Group has thus committed more than €7 million for this work and to the deployment of replacement processes in equipment and systems. At the end of 2020, between 60% and 100% of replacements had already been made, in line with the cut-off dates. For the few processes where there is so far no qualified technical solution, or when the industrial deployment of alternative solutions has not been completely finalised, Thales has ensured that both itself and its supply chains are covered:

- by REACh authorisation applications, for which the final decisions were voted on in 2020 by the European Commission.
- through compliance with conditions for use linked to these authorisations,
- by continuing its research into alternative solutions to arrive at qualified solutions that are technologically feasible.

Similarly, the Group is evaluating exposure to potential risks linked to other substances, such as lead or cadmium, and setting up studies to find alternative solutions whenever necessary.

5.5.2.3 The challenge of climate change

5.5.2.3.1 Strategy for a low-carbon future

| Performance related to environmental impacts in connection with the Group's activities and anticipation of environmental standards in product design (NFPS) | | | | |
|---|-------------|-------------|-------------|-------|
| (in ktCO ₂) | 2023 target | 2030 target | 2020 actual | Trend |
| Climate | | | | |
| Reduction of direct operational emissions (compared with 2018, in absolute terms) | -20% | -40% | -35% | ☺ |
| Reduction of indirect emissions (compared with 2018, in absolute terms) | -7% | -15% | -29% | ☺ |

To continue the commitments it affirmed in the "Business Proposals for COP21" in 2015, and later in the "French Business Climate Pledge" in 2017 and 2019, Thales confirmed its commitment in November 2019 through the adoption of its strategy for a low-carbon future, which is based on three pillars:

1. Reduce direct emissions and emissions from products

Thales aims to ambitiously reduce its greenhouse gas emissions with targets expressed in absolute values aligned with the 2°C trajectory and by involving its entire value chain⁽¹⁾:

- 40% reduction in operational direct emissions by 2030 (internal operations, employee mobility) with an interim target of 20% in 2023;
- 15% reduction in indirect emissions by 2030 (purchasing, use of Thales equipment by customers) with an interim target of 7% in 2023.

2. Offer its customers innovative and eco-responsible functions and services that will enable them to reduce their own greenhouse gas emissions

- by developing smart traffic management solutions (rail, road, sea and air), that will reduce emissions;
- by optimising the energy efficiency of the digital world with the development of solutions that are "designed for energy efficiency" for digital data science, algorithms and artificial intelligence.

3. Contribute to a better understanding of climate phenomena, especially through the development of dedicated space systems

The progress relating to these targets is measured against a 2018 baseline. It is regularly monitored and an annual mapping of the Group's carbon footprint is published.

The strategy for a Low-Carbon Future adopted by the Group was developed in 2018 following the globally recognised methodology of the updated Science Based Targets initiative (SBTi). The application of this methodology is a voluntary initiative used to determine greenhouse gas reduction targets that are consistent with the "2°C vs pre-industrial levels" climate scenarios set out in the Paris Agreement. This international initiative was launched by

the World Wildlife Fund (WWF), the World Resources Institute (WRI) and the Carbon Disclosure Project (CDP). The methodology is also recognised by the TCFD (Task Force on Climate-related Financial Disclosures) set up by the G20, to which the Group committed in 2020 by becoming a signatory to its principles and recommendations. A cross reference table of TCFD-related elements is provided in Chapter 5.8.2. The Group aligns with the four pillars of the TCFD recommendations:

1. Disclose the organisation's governance around climate related-risks and opportunities;
2. Disclose climate-related risks and opportunities;
3. Disclose how the organisation identifies, assesses and manages climate-related risks;
4. Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

5.5.2.3.2 Governance of the strategy for a Low-Carbon Future

The strategy for a Low-Carbon Future engages all the company's employees, who are responsible for translating and deploying it in their day-to-day activities within the organisation.

The strategy's deployment is supported by a dedicated governance at various levels of the Group and structured around:

The Group Central Steering Committee

- This Steering Committee is headed by the Senior EVP, Chief Operating Office and Chief Performance Office, who is also a member of the Executive Committee;
- it brings together:
 - two Global Business Unit Executive Vice Presidents and the Executive Vice President, Group Secretary and General Counsel, in charge of steering the Group CSR policy,
 - the leaders of each of these four pillars (operations, purchasing, mobility and products), as well as other key functions in the Group such as HSE, Finance and Communication;

(1) The "2°C trajectory" refers to a reduction in greenhouse gases compatible with the Paris Agreement targets to limit global warming to 2°C, using a methodology based on the recognised Science Based Targets standard.

- It ensures the monitoring, coordination, identification and management of risks and opportunities related to achieving the 2023 and 2030 targets;
- the Committee's first meeting was held in December 2020.

A steering committee for each of the four pillars: Operations, Products, Purchasing and Mobility

- These Steering Committees meet twice a year and report to the Group Central Steering Committee.
- They are supported by multidisciplinary work groups meeting on regular basis to design roadmaps and implement action plans.

The Group has conducted many awareness-raising and training sessions since 2019 to facilitate the implementation of the policy (over 600 people involved).

Alongside these strategic governance bodies, there is a CSR Committee created in October 2020 and chaired by the Chairman & Chief Executive Officer (see Chapter 5.1).

The possible impacts of climate challenges and risks are integrated in the Group's strategic thinking, and the implementation of its strategy remains aligned with the Paris Agreement, especially:

- identifying not only risks but also market opportunities, benefits, and financial challenges;
- implementing a responsible purchasing policy;
- updating the Group's risk mapping integrating resiliency challenges. An initial meeting on this topic was held during the fourth quarter of 2020.

The corresponding risk assessment to date is included in Chapter 5.2

At local level, all the Group's operational units launched working groups to provide concrete support for action plans and related awareness-raising.

Lastly, in 2020, the Executive Committee sought to strengthen the collective aspect of CSR performance recognition. To this end, it was decided that, starting in 2021, for employees eligible for variable compensation, 10% of this compensation would be related to CSR targets corresponding to the Group's commitments. The strategy for a Low-Carbon Future accounts for 25% of this objective (see Chapter 5.4.1.3.6).

5.5.2.3.3 Reduce the carbon footprint of direct operational emissions

The Group's direct operational emissions refer to emissions related to energy consumption and use of chemicals (scope 1 & 2) and emissions relating to employee mobility (scope 3 – business travel). In 2019, the Group made a commitment to reduce these emissions by 20% by 2023 and 40% by 2030 in absolute value against a 2018 baseline.

Performance related to environmental impacts in connection with the Group's activities and anticipation of environmental standards in product design (NFPS)^(a)

| (in ktCO ₂) | 2018 | 2019 | 2020 | Change 2018/2020 | 2023 target | 2030 target |
|--|------|------|------|---------------------|----------------|----------------|
| Climate | | | | | | |
| Reduction of direct operational emissions | 344 | 340 | 225 | -35% | | |
| Emissions related to energy consumption and the use of chemicals (scope 1 and 2) | 252 | 249 | 196 | -22% | -20% | -40% |
| Emissions related to employee mobility (scope 3 business travel) | 93 | 91 | 29 | -69% | | |

(a) Changes are explained in each of the following dedicated sections.

Reduce emissions related to energy consumption and the use of chemicals

| (in ktCO ₂) | 2018 | | 2019 | | 2020 | Change 2018/2020 |
|--|----------|----------|----------|----------|------|---------------------|
| | Reported | Adjusted | Reported | Adjusted | | |
| Emissions related to energy consumption and the use of chemicals (scope 1 and 2) | 233 | 251 | 230 | 249 | 196 | -22% |
| Emissions related to energy | 208 | 226 | 204 | 223 | 160 | -29% |
| • of which emissions related to electricity consumption (scope 2) | N/A | 167 | N/A | 165 | 105 | -37% |
| Emissions related to chemicals (scope 1) | | 25 | | 26 | 36 | +44% |

Reduce emissions related to energy consumption

In 2020, Thales changed its methodology for calculating CO₂ emissions related to electricity in order to take better account of electricity from eligible renewable sources. The 2018 baseline for electricity-related CO₂ emissions used in the Group's strategy for a Low-Carbon Future published in 2019 was calculated using the location-based method, in alignment with

the Science Based Targets Initiative methodology. However, the Thales reporting of data published in previous NFPS considered all green energy as eligible for CO₂ emissions reduction for 2018 and 2019. This change led to a recalculation of CO₂ emissions related to electricity consumption for 2018 and 2019, with strict application of the location-based method, as recommended by the Group's external expert, Carbone 4.

| | 2018 | 2019 | 2020 | Change 2018/2020 |
|--|------------|------------|------------|------------------|
| Emissions related to electricity consumption (in ktCO ₂) | 167 | 165 | 105 | -37% |
| Total share of electricity from renewable sources (%) | 25% | 26% | 27% | +2 pts* |
| • of which electricity from renewable sources related to a specific contract (%) | N/A | N/A | 80% | |

(a) In the absence of specific information about the nature of the supply contracts, the benefits of renewable electricity supplies were not taken into account when calculating CO₂ emissions related to electricity consumption in 2018 and 2019.

Before 2020, sites lacked specific information on the nature of the contracts for the supply of electricity from renewable sources. Electricity from eligible renewable sources has only been taken into account from 2020 onwards and only if a specific contract identifies the categories of origin as described below.

Thus, in 2020, the in-depth review of the Group's renewable electricity contracts determined that 47 sites had a specific eligible contract, compared to only 16 in 2019. These specific supply contracts are mainly agreements with binding guarantees of origin (46%), as well as non-binding guarantees of origin (28%), Power Purchase Agreements (23%) and self-consumption (3%).

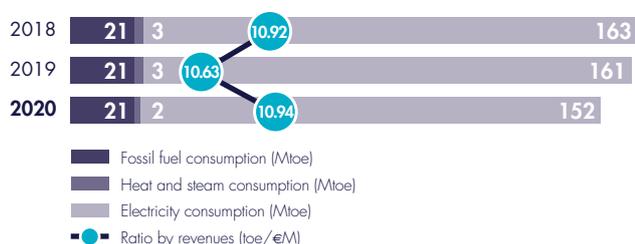
This new methodology with stricter definitions could only be consolidated in 2020 and retrospectively applied to the years 2018 and 2019, resulting in a recalculation of corresponding CO₂ emissions in order to ensure the consistency and robustness of the targets set in the strategy for a Low-Carbon Future.

The significant reduction of emissions related to electricity consumption is explained by the large increase in the number of sites supplied with electricity from renewable sources, owing to this methodological change.

Note: CO₂ emissions relating to energy consumption using the market-based and location-based methodologies are as follows:

| (in ktCO ₂) | 2018 | 2019 | 2020 | Change 2018/2020 |
|--|------|------|------|------------------|
| Emissions related to electricity | | | | |
| Location-based methodology | 167 | 165 | 157 | -6% |
| Market-based methodology | 125 | 120 | 96 | -23% |
| Thales methodology (criteria for eligible renewable electricity) | – | – | 105 | NA |

• CHANGE IN ENERGY CONSUMPTION



By the end of 2020, 23% of the Group's workforce was employed in Group entities certified to ISO 50001 "Energy Management Systems". In addition, 20 sites employing 16% of the Group's workforce have obtained an environmental performance certification for buildings (HQE, BREEAM, etc.).

In 2020, the Group continued to reduce its fossil fuel consumption (gas, fuel oil and coal), down 2.5% compared with 2018.

Reduce emissions related to the use of chemicals

Along with energy, products with high global warming potential, used mainly in refrigeration systems, have been subjected to detailed action plans.

Many sites have continued to replace high-emitting refrigerants with equipment containing lower emitting refrigerants and have implemented action plans to limit leaks and, in some cases, even replaced the less

efficient equipment. Thus, in 2020, SF₆, one of the main greenhouse gases contained in air conditioning systems, was reduced to just 1% of Group CO₂ emissions related to chemicals.

Total scope 1 emissions increased by 10% between 2018 and 2020, due to a 43% increase in CO₂ emissions related to the use of chemicals (Kyoto Protocol). This increase resulted from a leak of extinguishing gas from a fire protection system in France and, in Australia, from the slight increase in the use of solvents to support a site's ramp-up of production.

Reduce emissions related to employee mobility

The Group implements an action plan to reduce emissions related to all employee travel.

In the coming years, this plan will benefit from the Smart Working initiative launched in 2020, which aims to rethink the way the Group's employees work and to redesign their workspaces (see 5.4.3.2).

Work organisation

The organisation of work is thus being redesigned to encourage the gradual adoption of alternatives to travel, including shared offices, co-working spaces and telecommuting.

On this last point, the agreement on telecommuting signed on 17 December 2020 for employee working in France expands and harmonises telecommuting provisions. (see 5.4.3.4.2).

Business travel

For several years, the Group has implemented a business travel policy aiming at minimizing the associated carbon footprint. Investments in communication tools (telepresence rooms, video conferencing, etc.) make it possible to limit business travel.

For business travel that cannot be avoided, the Group encourages the use of more eco-friendly modes of transport such as trains and low-energy use vehicles. In this regard, short-term car rental companies are encouraged to offer hybrid or electric vehicles.

In 2020, CO₂ emissions related to business travel were assessed at 29 ktCO₂e, i.e. a 68% drop compared with 2019 and 69% compared with 2018. This sharp decline is explained by the reduction of business travel induced by the Covid-19 pandemic.

Company car policy

The policy on Company cars is determined by the Group and is implemented in each country depending on legal and taxation provisions, local practices and the energy mix.

In France, which accounts for about 50% of the vehicle fleet, a range of vehicles is available for each use with the aim of significantly reducing the associated carbon footprint, in line with the target of a 40% reduction in operational emissions by 2030. To this effect:

- diesel engine cars have been banned for employees travelling less than 15,000 km per year;
- other types of engines are preferred, with an emission target below 120g CO₂/km (according to the NEDC standard, or 160g CO₂/km according to the WLTP standard). To support this move, company financial support is larger for company cars that emit fewer carbon emissions.

In 2020, the roll-out of this policy resulted in a significant increase in orders for hybrid company vehicles, which now represent almost 50% of orders.

Orders for electric company vehicles are encouraged, including for utility vehicles, associated with the installation of charging stations at the sites (69 in France, or 138 charging stations) and the introduction of a roaming charging service now available for company vehicles.

This trend is expected to gain strength as the fleet is renewed, with additional demand for various ranges of electric vehicles.

Commuting

With regard to commuting, a wide-ranging analysis is underway to encourage car-sharing and the use of eco-friendly transport, while ensuring employee safety.

The use of charging stations at the Group's sites in France is picking up: the number of individual users rose by 52% over the October 2019-September 2020 period, with a 33% increase for company vehicles over the same period. Together, they represent about 900 recharges per month, even with the sharp drop observed during the first lockdown in 2020. The average electricity consumption is around 14,000 kWh per month, corresponding to 90,000 km without CO₂ emissions, thus avoiding 11 tonnes of CO₂ emissions. These results are evidence of employees' enthusiasm for clean vehicles.

5.5.2.3.4 Reduce indirect carbon emissions

The Group's indirect emissions refer to emissions related to the purchase of goods and services as well as emissions related to products and services sold (scope 3). In 2019, the Group made a commitment to reduce these emissions by 7% by 2023 and 15% by 2030, in absolute value compared with the 2018 baseline.

Performance related to environmental impacts in connection with the Group's activities and anticipation of environmental standards in product design (NFPS)

| (in ktCO ₂) | 2018 | 2019 | 2020 | Change 2018/2020 | 2023 target | 2030 target |
|--|--------|--------|-------|------------------|-------------|-------------|
| Climat | | | | | | |
| Indirect emissions | 13,584 | 13,189 | 9,592 | -29% | | |
| Emissions related to the purchase of goods and services | 2,384 | 2,289 | 1,992 | -16% | -7% | -15% |
| Emissions related to the use of products and services sold (scope 3) | 11,200 | 10,900 | 7,600 | -32% | | |

Reduce emissions related to the purchase of goods and services

As part of its strategy for a Low-Carbon Future, Thales is committed to reducing emissions related to its purchases of goods and services (scope 3).

These emissions were measured at 2,289 ktCO₂e for 2019 and 1,992 ktCO₂e for 2020, i.e. a drop of 13% compared with 2019 and of 16% compared with 2018. These estimates were made using emission factors associated with each of the Group's purchasing categories, in agreement with the external expert (Carbone 4).

The total amount of emissions was calculated at constant 2018 scope, i.e. excluding the purchases of the DIS Global Business Unit. An action plan is in place to integrate the purchases of the DIS Global Business Unit into the Group's emissions measurement.

An action plan has been deployed to reduce emissions related to the Group's supply chain, in particular by establishing dialogue with its suppliers. This action plan aims to:

- progressively collect real data on greenhouse gas emissions related to the production of goods and services purchased;

- assess and take action to reduce the carbon footprint of these purchases;
- encourage the use of suppliers with a low carbon footprint, especially through a responsible purchasing policy (see section 5.7.4.1).

In addition, as a member of a dedicated working group within the International Aerospace Environmental Group (IAEG), Thales took part in the drafting of a sector methodology guide for calculating emissions related to the purchase of goods and services and capital goods.

Reduce emissions related to products and services sold

In 2020, Thales continued to fine-tune its work on modelling CO₂ emissions during the use phases of products and services sold. Although uncertainties relating to these models remain significant (at around 15%), the Group is convinced of the importance of setting targets and implementing action plans aimed at reducing emissions during these phases which, for most of the Group's products, represent the majority of their life cycle emissions.

In order to make the calculations more representative, possible use scenarios were expanded, while taking into account the real lifetimes of the platforms (sometimes considerably lower than the theoretical potentials taken as reference), and adjusting the characteristics of some equipment (typical consumption, utilisation profile, lifetime). To maintain the comparability of data, calculations relating to the use phases of products and services sold have been updated for 2018 and 2019.

In parallel, Global Business Units continued working on their roadmaps, identifying priority products and work to be undertaken to meet the objectives set for 2023 and 2030.

CO₂ emissions related to the use phase of products put on the market in 2020 are estimated at 7.6 million tCO₂e, down by 30% compared with 2019 and 32% compared with 2018 (11.2 million tCO₂e updated using the fine-tuned methodology and retroactively including the DIS Global Business Unit reporting scope for hardware).

This sharp decline compared with the 2018 baseline reflects the impact of the Covid-19 pandemic on production volumes of aircraft manufacturers and, to a lesser extent, changes in activity in other segments as well as improvements made to products and solutions.

5.5.2.3.5 Solutions supporting the fight against climate change

• Innovative solutions for sustainable mobility

The solutions Thales offers to air and ground transportation operators are designed to optimise operating efficiency for customers while limiting environmental impact (optimising flight times, securing flight paths, reducing fossil fuel consumption and helping to reduce the emission of pollutants such as carbon, sulphur and hydrogen oxides). Thales designs complex Artificial Intelligence (AI)-based systems and dedicates its expertise to the development of an AI that is eco-responsible, less energy-intensive, and based on learning and leveraging knowledge or the only use of useful data. These developments concern air and rail traffic management systems, as well as flight management and train operating assistance systems.

When it comes to flight and air traffic management, Thales has been developing functionalities for over 30 years that improve performance and lower impacts (noise, fuel consumption and emissions) during all phases of a flight. Recent achievements include:

- an air traffic management system with the ability to refresh flight paths every minute according to aircraft's real position, combined with atmospheric monitoring that integrates wind and weather phenomena.
- a flight management system that continuously monitors, adapts and fine-tunes the aircraft's path for an optimised, safer flight (avoiding hazardous weather phenomena) and lower fuel consumption.

Thales participates in the European SESAR programme, which coordinates R&D in the Air Traffic Management domain. In 2020, Thales notably contributed to equipping commercial aircraft with new-generation flight management systems on over 50,000 flights whose environmental performance was recorded.

In an increasingly urbanised world where 75% of the population is expected to live in cities by 2050, creating the conditions for sustainable

mobility is one of the most effective factors to contribute to the reduction of CO₂ emissions. To this end, traffic management and driving assistance systems make it possible to safely increase the number of vehicles circulating in real time on rail and urban transport networks, while optimising energy consumption and reducing congestion. In addition, Thales develops payment solutions facilitating the interoperability of transport modes, making public transport more attractive and hence contributing to the reduction of CO₂ emissions.

Thales's signalling systems are evolving towards more decentralisation and digitalisation, with the development of individualised object controllers (switches, signals) capable of directly steering actuators (parts of the switching system). This leads to a reduced need for cables and fewer safety relay installations with the corresponding reduction in energy consumption (3 watts per old generation relay retired). Moreover, a decentralised architecture requires fewer buildings, thereby reducing the system's environmental footprint.

The contribution made by navigation satellites to traffic fluidity and management is another important aspect. It plays a key role in a smarter and thus greener mobility. Navigation projects represent around one-third of sales in Thales Alenia Space's Observation, Exploration and Navigation Product Line.

Thales is a founding member of the Movin'On LAB, a "Think and Do Tank" made up of key players in the mobility ecosystem. Thales contributes its expertise in the areas of digital and cybersecurity to promote sustainable mobility.

• Smart cities

Data analysis makes cities function more efficiently. Thales's 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 smart city data reservoirs efficiently, to better understand and anticipate the needs of residents and offer them secure and optimised 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 various stakeholders, 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.

Another example is the development of simulators in the fields of civil and military aviation. In addition to a clean, eco-design approach, these reduce the number of flight hours necessary for pilot training and thus avoid the corresponding real flight emissions. The increased use of Artificial Intelligence will make simulations increasingly realistic, with even greater avoidance of CO₂ emissions. For example, Helisim, a joint venture between Thales, Airbus Helicopters and Défense Conseil International that is specialised in helicopter flight simulator training estimates that it has avoided the emission of 8,800 tonnes of CO₂ into the atmosphere and continues to avoid the emission of over 18g of CO₂ every second.

5.5.2.3.6 Monitoring and understanding the effects of climate change

Through Thales Alenia Space, its joint venture with Leonardo, the Group has been a major player in Earth observation, understanding climate change and monitoring the environment for over 40 years. These activities, mainly undertaken within the Observation, Exploration and Navigation Product Line, account for about 25% of its business.

Some of these observation methods are also being used for control and prevention. They make it possible to better manage fishery, agricultural and forest resources and are supplemented by monitoring systems set up on ships and aircraft. Examples of some of the specific items that are being monitored so that action can be taken as needed to protect the environment include:

- pollution and tracking of pollution movements;
- forest fires;
- beach erosion;
- deforestation;
- illegal exploitation of mines or natural resources;
- improving maritime transport security.

These observations are enabled by many Thales Alenia Space solutions, such as Geostationary weather satellites, optical measuring instruments, the ERS and COSMO-SkyMed radar satellites, altimetric instruments and satellites used in oceanography and radars for monitoring ice. Today, Thales Alenia Space is in charge of the Sentinel radars S1 (A, B, C & D) and oceanographic S3 (A, B, C & D) and Jason CS S6.

Moreover, all European geostationary weather satellites have been developed by Thales Alenia Space, which is currently working on the third generation for the European Space Agency (ESA) and EUMETSAT.

In 2020, Thales Alenia Space was selected by the European Space Agency (ESA) for five of the six missions of the new phase of Copernicus, the flagship Earth observation satellite programme of the European Commission and the ESA. Specifically, Thales will be the prime contractor for the CHIME mission (hyperspectral imaging for agriculture, food security, soil condition, biodiversity, etc.), the CIMR mission (passive microwave imaging to measure ocean surface temperature and a number of marine parameters) and the Rose-L mission (L-Band radar to monitor soil moisture and polar ice thickness). The Group will also be responsible for the CO2M payload (CO₂ emissions monitoring) and for the altimetry of the CRISTAL mission (polar ice and snow topography).

Images gathered through these various observation tools provide extremely valuable information to the scientific community, as well as to agencies and authorities who intervene in natural disasters. These data can also be used to create digital models that help in understanding and modelling climate phenomena.

5.5.3 Overview of eco-responsible products and services

| Innovation | Domain/Segment | Products, service or solution | Environmental Impact | Key figures |
|--|---------------------------------|--|---|---|
| Eco-designed products | | | | |
| Product architecture optimisation | Space | Low noise amplifier | Reduction of materials use and CO ₂ emissions during launch phase | CO ₂ emissions reduced by 50% |
| System architecture optimisation | Aeronautics | Multi Application Critical Controller (MACC) Replacement of 5 modules by a single one to cover auxiliary system needs | Reduction of materials use and CO ₂ emissions during use phase | CO ₂ emissions reduced by 60% |
| Use of recycled or bio-sourced plastic for SIM cards and bank cards | Digital | New manufacturing processes allowing recycled plastic to be used to manufacture products: PET recycled avoiding release into the ocean and polystyrene recycled from electronics | Reduced use of natural resources, recyclability, circular economy Reduction of waste volume and related potential pollution | Over 5 million recycled plastic containers sold in 2020 |
| Energy hybridisation to power on-board systems on military vehicles and shelters | Defence | DYON Automation of the switch between a vehicle alternator and lithium batteries, supplemented by solar panels | Reduction of fossil fuel consumption, energy transmission requirements, logistics footprint and CO ₂ emissions while providing operational benefits (autonomy, absence of noise and heat signature, secure transport, etc.). | |
| Power supply through renewable energy | Defence Coastal surveillance | Use of solar panels to charge the GOI2 radar batteries Use of solar panels to charge camera batteries | Reduction of CO ₂ emissions Avoid connecting to the grid in hard-to-REACH areas or using a generator | |

| Features that help the climate | | | | |
|---|-----------------------|---|--|--|
| Ticketing solution for interoperable mobility | | TRANSCITY , an evolving and modular ticketing solution integrating cybersecurity constraints and personal data protection | Improving public transport networks' attractiveness, contributing to the reduction of CO ₂ emissions | 50 million daily transactions managed by TRANSCITY |
| Equipment monitoring and control systems in stations | | Monitoring and control of equipment in stations, enabling real-time optimisation of the mode of operation adapted to needs | Improved energy efficiency and thus reduced CO ₂ emissions while ensuring passenger safety and comfort | Control centres for over 100 metro lines in 31 countries |
| Optimisation of train driving strategy based on data provided by on-board equipment | Ground transportation | GREENSPEED Driver Advisory System Determines the best driving strategy based on statistical tables or by working with dynamic data from a Greenspeed Train Management System, which improves performance. | Improved energy efficiency and thus reduced CO ₂ emissions while ensuring punctuality and safety: 15% reduction in traction energy consumption. | Over 4,000 GREENSPEED users |
| Optimisation of metro driving, with or without driver | | The Green CBTC feature of the SELTRAC CBTC solution uses automatic driving that reduces energy consumption and promotes regeneration during braking. | Improved energy efficiency and thus reduced CO ₂ emissions while ensuring frequent service (benefit comparable with the Greenspeed solution mentioned above): 15% reduction in traction energy consumption. | SELTRAC CBTC on over 100 metro lines in 40 cities |
| Data-driven software solution operating in a private cloud, fully online and cyber-secure | | ARAMIS , a management, control and command solution for reliable, safe, punctual and energy-efficient rail traffic management | Over 30% efficiency improvement Over 30% capacity increase Both effects leading to a reduction of CO ₂ emissions | 72,000 km of track equipped and 52,000 trains per day in 16 countries managed with ARAMIS |
| Fully connected and scalable new generation flight management system | Aeronautics | PureFlyt Enables the aircraft flight path to be continuously monitored, adapted and fine-tuned for an optimised flight | Reduction of fuel consumption and associated CO ₂ emissions, improvement of flight security (avoidance of most severe weather phenomena) | The combination of ATFM et PureFlyt systems can lead to a 10% reduction of CO ₂ emissions from commercial aircraft by 2023. |
| Mastery of path prediction algorithms coupled with the use of AI | | Air Traffic Flow Management (ATFM) | Reduction of fuel consumption and associated CO ₂ emissions, improvement of flight security (avoidance of most severe weather phenomena) | |



| Products for monitoring and understanding climatic phenomena | | | | |
|---|--------------|---|---|---|
| <p>A near-infrared and shortwave infrared spectrometer to measure human-produced CO₂ emissions</p> | <p>Space</p> | <p>CO₂M instrument for the future mission of the Copernicus flagship programme. This will be the only CO₂ imager, with a swath width of approximately 200 km.</p> | <p>Measurement of CO₂ emissions and distinction between natural CO₂ and CO₂ from human activity.</p> <p>Evaluation of the effectiveness of country climate policies</p> <p>Steering of country climate policies</p> <p>Monitoring of achievement of national targets</p> | <p>1st tranche of contract: €72m</p> <p>Emissions measurement with enhanced accuracy over a 4 km² area</p> |
| <p>Satellite carrying an L-band synthetic aperture radar (SAR) instrument</p> | | <p>Rose-L, a Copernicus environmental monitoring satellite</p> | <p>Reduction of the time between occurrence of a natural or human-caused disaster and the first image taken after that disaster</p> <p>Land monitoring and emergency management</p> | <p>1st tranche of contract: €40m</p> |

5.5.4 Environmental indicators

The table below includes a number of items for assessing trends in Thales's environmental performance on a comparable basis. In 2020, the scope comprised 32 countries and 188 sites. This scope represents 94% of sales and 95% of the Group's workforce. 2018 is the base year for all 2019/2023/2030 targets. This chapter was reviewed for fair presentation by Mazars. Most of the indicators included in the table below are subject to a moderate assurance conclusion. They are listed in the detailed opinion set out in Chapter 5.8. "Independent Third Party Report"

| | Units | 2018 | 2019 | 2020 | 2018/2020 change |
|---|---------------------------------------|-----------------------|-----------------------|--------------|------------------|
| Waste | | | | | |
| Non-hazardous waste recycling rate ^(a) | % | 55% ^(c) | 58% ^(c) | 60% | +5 pts |
| <i>Including exceptional waste</i> | % | 56% ^(c) | 63% ^(c) | 41% | -15 pts |
| Hazardous waste recycling rate | % | 38% | 45% | 37% | -1 pt |
| Total waste production ^(a) | tonnes | 22,548 ^(c) | 21,926 ^(c) | 18,996 | -16% |
| <i>Per €m in sales</i> | kg/€m | 1.31 | 1.26 | 1.19 | -10% |
| Ratio of non-hazardous waste ^(a) | % | 85% ^(c) | 83% ^(c) | 82% | -3 pts |
| Non-hazardous waste per person ^(a) | kg/pers. | 256 ^(c) | 208 ^(c) | 205 | -20% |
| Water | | | | | |
| Water consumption | thousand m ³ | 1,771 | 1,776 | 1,661 | -6% |
| <i>Per €m in sales</i> | m ³ /€m | 103 | 102 | 104 | +1% |
| Industrial discharge | | | | | |
| Industrial wastewater discharge | thousand m ³ | 629 | 566 | 601 | -4.5% |
| Solvent discharges to the atmosphere | tonnes | 373 ^(e) | 510 ^(e) | 567 | +52% |
| Energy | | | | | |
| Total energy consumption | (thousand toe) | 187 ^(d) | 184 | 175 | -7% |
| <i>Per €m in sales</i> | toe/€m | 10.92 | 10.63 | 10.94 | +0% |
| Electricity consumption | (thousand toe) | 163 ^(d) | 161 ^(d) | 152 | -7% |
| <i>Per €m in sales</i> | toe/€m | 9.5 | 9.3 | 9.5 | +0% |
| Share of electricity from renewable sources | % | 25% | 26% | 27% | +2 pts |
| Fossil fuel consumption | (thousand toe) | 21.3 ^(d) | 21.0 ^(d) | 20.7 | -3% |
| <i>Per €m in sales</i> | toe/€m | 1.24 | 1.21 | 1.30 | +5% |
| Carbon footprint | | | | | |
| Direct CO ₂ emissions from operations | thousand tonnes CO ₂ | 344 ^(b) | 340 ^(b) | 225 | -35% |
| CO ₂ emissions from energy use | thousand tonnes CO ₂ | 224 ^(b) | 221 ^(b) | 160 | -29% |
| <i>Per €m in sales</i> | kg CO ₂ /€m | 13.1 | 12.8 | 10.0 | -24% |
| CO ₂ emissions linked to Kyoto Protocol substances and R22 | thousand tonnes CO ₂ | 25 | 26 | 36 | +43% |
| <i>Of which related SF₆</i> | thousand tonnes CO ₂ | 1.3 | 0.7 | 0.2 | -85% |
| CO ₂ emissions from business travel | thousand tonnes CO ₂ | 93 | 91 | 29 | -69% |
| <i>Per €m in sales</i> | kg CO ₂ /€m | 5.4 | 5.2 | 1.8 | -67% |
| Indirect CO₂ emissions^(f) | | | | | |
| Indirect CO₂ emissions^(f) | thousand tonnes CO₂ | 13,584 | 13,189 | 9,592 | -29% |
| CO ₂ emissions from the purchase of goods and services | thousand tonnes CO ₂ | 2,384 | 2,289 | 1,992 | -16% |
| CO ₂ emissions from the use phase of products sold | thousand tonnes CO ₂ | 11,200 | 10,900 | 7,600 | -32% |
| Scopes 1, 2 and 3 according to the GHG Protocol | thousand tonnes CO ₂ | 13,928 | 13,529 | 9,817 | -30% |
| Scope 1 | thousand tonnes CO ₂ | 78 ^(d) | 78 | 86 | +10% |
| Scope 2 | thousand tonnes CO ₂ | 173 ^(b) | 171 ^(b) | 110 | -37% |
| Scope 3 | thousand tonnes CO ₂ | 13,676.8 | 13,279.9 | 9,620.7 | -30% |
| TOTAL SCOPES 1, 2 AND 3 PER €M IN SALES | TONNES CO₂/€M | 0.812 | 0.780 | 0.614 | -24% |
| Environmental management | | | | | |
| ISO 14001-certified sites | | – | 138 | 144 | – |
| Percentage of employees working at ISO 14001-certified sites | % | 89% ^(g) | 84% | 84% | -5 pts |

(a) Excluding exceptional waste. Exceptional waste is waste that is produced outside of the Group's normal activities, for example during construction.

(b) Data updated in 2020 (recalculation of 2018/2019 CO₂ emissions from electricity using new methodology, see chapter 5.5.2.3.2).

(c) Data for 2018 and 2019 were updated in 2020 following a review of the data.

(d) Data for 2018 and 2019 were updated in 2020 following a review of the data.

(e) The method used to calculate solvent emissions was improved in 2020 and reapplied to the 2018 and 2019 data.

(f) Excluding DIS Global Business Unit for emissions related to purchase of goods and services.

(g) 2018 percentage excluding DIS Global Business Unit.

5.6 A corporate responsibility policy based on strong ethical commitments

5.6.1 Prevention of corruption and influence peddling

Corruption and influence peddling represent 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 damaging to their reputation.

At the end of the 1990s, in order to protect itself from these risks, Thales introduced a corruption risk prevention policy, which is continually being improved. This policy is regularly reviewed and the provisions are constantly adjusted to reflect legislative and regulatory developments, including the entry into force in June 2017 of the French law on transparency, the fight against corruption and modernisation of the economy (known as the Sapin II law).

The policy is based on a programme of compliance, the various components of which are integrated into the operational procedures, and supported by a dedicated organisation.

5.6.1.1 Anti-corruption compliance programme

Thales's anti-corruption compliance programme is based on:

- a commitment to zero tolerance of corruption and influence peddling at the highest level of the Group. In 2020, the Group's Executive Committee, its Audit and Accounts Committee and the Board of Directors reviewed the Anti-Corruption Compliance Programme applicable to all subsidiaries and companies controlled by the Group, in France and abroad. In September 2020, the Chairman & Chief Executive Officer sent a letter to the members of his Executive Committee reiterating his personal commitment to the Group's integrity and compliance rules. He also asked them to do likewise and to communicate that renewed commitment to their direct reports. In all, over 300 managers of the Group signed this commitment.
- a "Prevention of corruption and influence peddling" Code of Conduct, which, in keeping with the commitments of the Code of Ethics, defines the various types of behaviour that are prohibited due to their potential to be characterised as acts of corruption or influence peddling;
- a corruption and influence peddling risk map, drawn up in accordance with the Group's general methodology for risk mapping. The corruption and influence peddling risk mapping methodology was reviewed in 2020;
- a system for evaluating third parties (mainly customers, suppliers, subcontractors and partners), including preventive measures proportionate to the identified risks;
- accounting controls integrated into the Group's internal control rules to prevent and detect acts of corruption and fraud;
- a training programme reviewed in 2018 to provide innovative training tailored to employees' exposure to corruption risk. It comprises a mandatory online training module, completed by 597 people in 2020,

and a new in-person training course rolled out for 753 employees in 2020, mainly targeting the functions identified as most at risk. In 2020, anti-corruption training was one of the objectives taken into account in determining the amount of variable compensation of Group managers. The objective mainly concerned new arrivals (via mobility or recruitment) in at-risk positions who had been trained on the prevention of corruption and influence peddling. Over the 2019/2020 period, 11,270 anti-corruption and influence peddling awareness training courses were conducted, in which 5,794 people were trained in person and 5,476 online.

- an extensive alert system.

Thales has set up a Group-wide alert system open to employees and external and occasional workers as well as employees of the Group's partners, suppliers, subcontractors and joint ventures in which Thales holds a stake.

This system enables communication of any alert that falls within the scope of France's Sapin II law on law and Duty of Care law, as well as laws relating to the reporting of practices that are contrary to the Group's Code of Ethics (harassment, sexist behaviour, infringements of freedom of association or trade union rights, etc.).

The Group alert system received 25 workplace alerts in 2020 (against 34 in 2019). The 26% drop in the number of alerts can be explained by the Covid-19 global pandemic.

Of the 25 alerts received, 18 were considered valid, six concerned suspected fraud, three were potential cases of harassment, three concerned potential discrimination, two involved security issues, one was a potential conflict of interest and one was a quality issue. Two other alerts concerned conduct deemed to be inappropriate or non-compliant with the Code of Ethics (verbal abuse, disrespectful behaviours, etc.). No alert was received concerning alleged acts of corruption.

Two of these alerts resulted in sanctions (up to and including dismissal) and three led to reminders about procedures.

Performance related to the risk of non-compliance with the rules of ethical business conduct (particularly the fight against corruption and influence peddling) (NFPS):

- Number of operational entities that assessed risks of corruption in 2020: **149**
- Anti-corruption training (e-learning and classroom-based) in 2020: **1,350**
- Alerts received via the Thales alert system in 2020: **25**
- including alerts about alleged acts of corruption: **0**

11 measures implemented under the anti-corruption compliance programme are monitored on a regular basis.

The overall system is supplemented by Thales's active participation in various initiatives in the fight against corruption. Thales therefore actively participates in national professional organisations (including MEDEF⁽¹⁾, GIFAS⁽²⁾, etc.), and international organisations (ICC⁽³⁾, IFBEC⁽⁴⁾, etc.) that deal with ethical business conduct, and has an active presence within the working groups of intergovernmental organisations (OECD, United Nations, etc.).

5.6.1.2 Clear operational measures

The pillars of the anti-corruption compliance programme are integrated into the various operational processes of Thales's reference system (Chorus 2.0). From the preliminary phase of a project, the processes which govern the management of offers and projects also provide for action plans to mitigate business risks, with a particular focus on anti-corruption and influence peddling.

5.6.1.3 A dedicated organisational structure

The Group's anti-corruption compliance programme includes a dedicated organisational structure. The Integrity and Compliance Committee, chaired by the Company Secretary, comprises the heads of the Ethics, Integrity and Corporate Responsibility Department, the Legal and Contracts Department, and the Audit, Risks & Internal Control Department. The Integrity and Compliance Committee oversees the preparation, roll-out, implementation, assessment and updating of the Group's Integrity and Compliance programme. The Integrity and Compliance Committee meets once a month, and if necessary, at the request of one of its members. The Company Secretary reports periodically on the activities of the Integrity and Compliance Committee to the Executive Committee, the Risks Management Committee and the Board of Directors and/or its relevant committees (Audit and Accounts Committee and Strategic and Corporate Social Responsibility Committee).

The Integrity and Compliance Committee relies on a network of 18 Chief Compliance Officers and 102 Compliance Officers. Except for the HR Chief Compliance Officer (appointed by the Senior Executive Vice President, Human Resources with the approval of the Company Secretary), Chief Compliance Officers are appointed within the Legal and Contracts Department. As such, they hold a dual reporting status – to the Group's Legal and Contracts Department on the one hand, and to their respective Directors on the other hand.

In 2020, the Integrity and Compliance Committee implemented an Anti-Corruption Management System covering all anti-corruption compliance measures.

The anti-corruption Management System:

- sets the objectives of the compliance programme for the prevention of corruption and influence peddling;
- reiterates the related policies and instructions;
- specifies the programme's monitoring and performance indicators as well as related controls.

At least once a year, the Committee carries out a dedicated management review to steer the Group's Anti-Corruption Management System: Among other things, it reviews changes in the Group's internal and external environment and that of its stakeholders, managerial commitment, assessment of the risks of corruption and influence peddling, achievement of the objectives of the Anti-Corruption Management System using the monitoring and performance indicators, management of non-compliance, measurement of the effectiveness of the Anti-Corruption Management System, adequacy of human and material resources to support the Group's actions for the prevention and detection of corruption and influence peddling.

In 2020, Thales embarked on a certification process pursuant to ISO 37001:2016 "Anti-bribery management systems". Certification was issued by AFNOR in March 2021, with the scope covering Thales SA and the companies in France, and some international subsidiaries of Thales International SAS (Thales EURAM, Thales AMEWA and Thales NSEA). The Group plans to further pursue this process with a view to extending the scope of this certification.

5.6.2 Actions to support Human Rights and fundamental freedoms

Thales signed the United Nations Global Compact in 2003 and complies with its ten principles relating to Human Rights, labour standards and environmental law inspired by the Universal Declaration of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. In 2020, for the ninth year in a row, Thales reached 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. Of the 12,658 companies that are members of the Global Compact, only 663 obtained the Global Compact Advanced level in 2020, including 137 french companies (in France, the Global Compact has 1,430 members, of which 1,324 are companies).

In September 2020, Thales signed the Statement from Business Leaders for Renewed Global Cooperation introduced by the United Nations Global Compact at the opening of the UN's 75th General Assembly. Thales's signature affirms its commitment to:

- demonstrate ethical leadership and good governance through values-based strategies, policies, operations and relationships when engaging with all stakeholders;
- invest in addressing systemic inequalities and injustices through inclusive, participatory and representative decision-making at all levels of the business;
- partner with the UN, Government and civil society to strengthen access to justice, ensure accountability and transparency, provide legal certainty, promote equality and respect Human Rights.

(1) Mouvement des Entreprises de France.

(2) Groupement des Industries Françaises Aéronautiques et Spatiales.

(3) International Chamber of Commerce.

(4) International Forum on Business Ethical Conduct.

The Group also took part in the Uniting Business LIVE summit, which convened business leaders, government and civil society for a three-day virtual meeting in advance of the General Assembly to highlight their commitment to the UN's mission.

With regard to compliance with international business rules (including the export control process, restrictive measures and economic sanctions related to the export and re-export of armaments and related services, as well as commercial equipment and dual-use goods and technologies), Thales has established a global organisational structure and strengthens its internal measures and procedures on an ongoing basis. 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 ceased all business activities in the field of cluster munitions, opting to respond in a proactive manner to the expectations of the NGOs involved in Human Rights issues, as well as anticipate the principles and definitions of the Oslo Convention on Cluster Munitions.

In 2019, Thales made a public commitment to stop selling and producing weapons that use white phosphorus by no later than June 2022. This decision proactively addresses the concerns of some stakeholders, such as NGOs and investment funds.

Thales remains very much involved in thinking about the Human Rights impact of its activities. As such, since 2019, Thales has been a member of *Enterprises pour les Droits de L'Homme* (Businesses for Human Rights), an association which offers a platform where international companies can exchange, work together and propose solutions to better incorporate Human Rights into corporate policies and practices by implementing vigilance measures. As a member of this association, Thales has participated in several working groups involving a variety of stakeholders, including the group created by the Chair of the United Nations Working Group on Business and Human Rights.

Lastly, in November 2020, the company took part in the Forum on Business and Human Rights for the third consecutive year. This is the world's largest annual gathering on business and Human Rights with more than 2,000 participants from government, business, community groups and civil society, law firms, investor organisations, UN bodies, national Human Rights institutions, trade unions, academia and the media.

5.6.3 A responsible tax policy

Thales's tax policy is a global policy that applies to all countries and incorporates the Group's ethics rules, including the fight against tax evasion.

As an international organisation, Thales pays significant taxes and duties in many countries. The Group rigorously applies tax rules and is careful to comply with local regulations, international treaties and the guidelines of international organisations.

The Group's taxation is directly related to its business strategy and activities. Thales has offices abroad only for the purpose of developing its business or meeting operational needs. Thales also complies with the OECD's transfer pricing guidelines.

The tax function is managed by the Group Tax Director, who reports directly to the Senior Executive Vice President, Finance & Information Systems, who is a member of the Group's Executive Committee.

Tax risk is fully integrated into the risk-analysis role of the Audit, Risks & Internal Control Department and is one of the internal control assessment items of the "Yearly Attestation Letter".

5.7 An organisation that is proactive towards its stakeholders

5.7.1 Stakeholder mapping

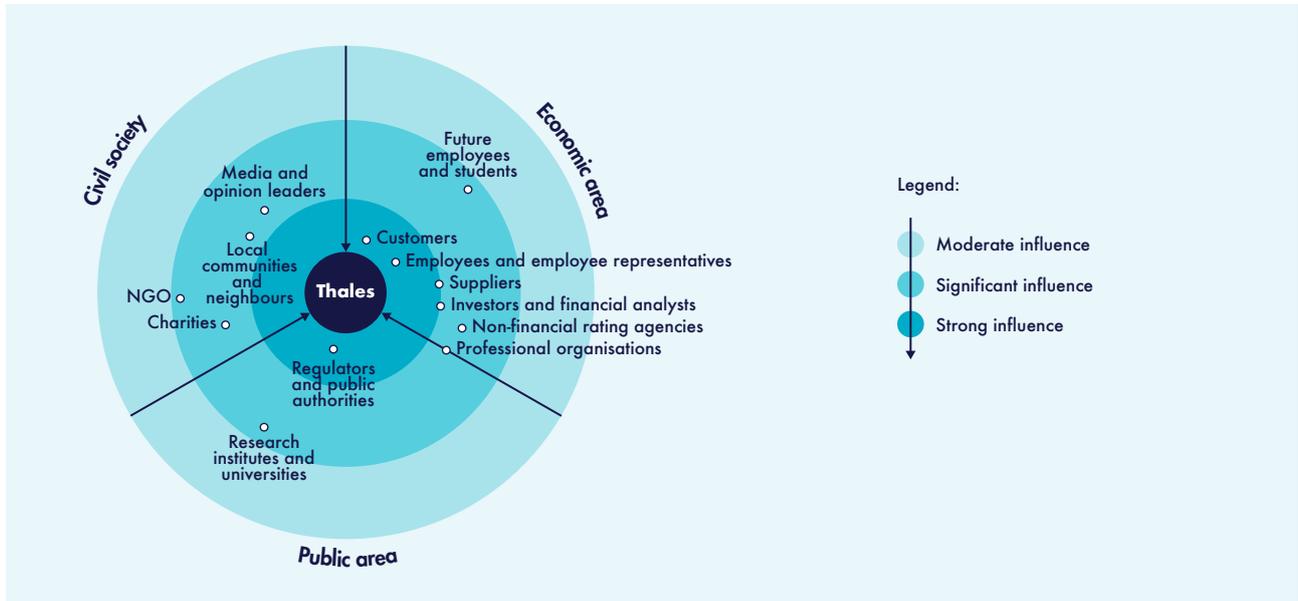
The company’s rapid transformation, the globalisation of trade and the development of digital technologies are generating new challenges in terms of ethics and responsibility, not just for Thales but also for its stakeholders.

Teams at Thales promote dialogue with their ecosystems in the firm belief that listening to stakeholders is a precious source of knowledge and that decision-making is enriched by sharing different points of view.

Thales’s interaction with its stakeholders is structured so that the relevant information channels, frameworks and forums for dialogue are appropriate to each stakeholder and to the issues at stake.

The dialogue policy and the method for identifying stakeholders are based on the stakeholders’ power of influence, i.e. their capacity to influence and impact the Group’s decisions, and the level of engagement that Thales wishes to develop with them.

Stakeholders have been grouped by priority concerns to manage dialogue more effectively, improve feedback regarding their expectations and make sure their expectations are aligned with the Group’s long-term objectives.



5.7.2 Creation of the materiality matrix

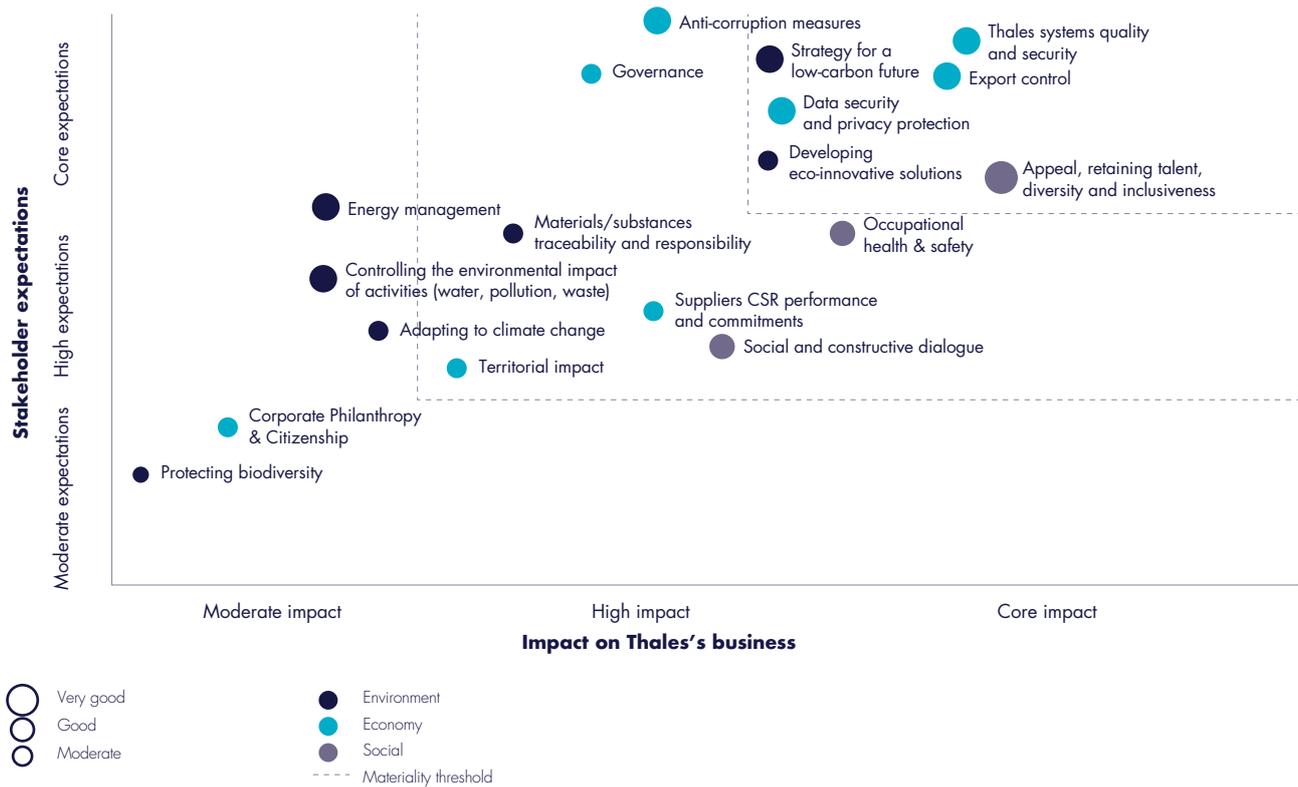
The dialogue with stakeholders, along with the organisation of specific internal workshops, made it possible to identify and classify Thales's environmental, social and economic challenges based on:

- stakeholders' expectations;
- their impacts on the Group's business.

These challenges have been formalised in the materiality matrix presented below. To ensure that it has long-term relevance, the matrix

is reviewed on a regular basis (the last revision was in January 2021) at a dedicated work session of the Group's main functions (the Human Resources, Investor Relations, HSE, Purchasing, and Ethics, Integrity and Corporate Responsibility departments).

Thales also evaluated the Group's performance on each challenge. Incorporating this additional dimension into the matrix enables the Group to fine-tune its strategy and the policies it has implemented; it is thus better able to anticipate expectations and seize opportunities.



This materiality matrix, which takes a different approach to the risks selected for the Group's Non-Financial Performance Statement, reinforces the relevance and effectiveness of the Group's CSR policy.

5.7.3 Relationships of trust with customers

Customer confidence is central to Thales's commitments and one of its key values. The very nature of Thales's activities requires a sustainable relationship and commitment. Thales must act as a strategic partner towards its customers, understanding their challenges, strategic objectives and operational needs. Thanks to its policy of ensuring a local presence, based on offering customers proximity, attentiveness and support over the long term, it has established itself as a major industrial player in the main countries where it operates with the ability to expand its presence in high-growth countries.

5.7.3.1 An organisation which promotes customer relations

Thales is structured to develop relationships as close as possible to its customers' environments and business activities:

- a global footprint providing a local presence, both commercially and in terms of operational capacity;
- a global network of 250 Key Account Managers (KAM) dedicated to managing customer relations, covering all the different organisations and activities of the Group;
- product lines building a strategy and a range of products, systems and services tailored to the needs and strategic developments of markets and customers;
- a marketing department which ensures consistency between Thales's offering and the requirements of its markets and customers;

- project and support teams at the ready to satisfy contractual requirements and operational needs, working in close collaboration with customers and partners;
- a Quality and Customer Satisfaction department to support the teams and monitor customer interests.

5.7.3.2 Regular assessment of customer satisfaction and confidence

For Thales, assessing the satisfaction and confidence of its customers is a key indicator of its operational performance and a constant source of progress. Thales therefore has a global system for gauging and managing the quality of customer relations based on:

- a satisfaction survey schedule with a frequency of 18 months to 2 years;
- a network of independent consultants to meet customers and take stock of relations;

- a centralised digital platform for customer data and feedback;
- indicators and analyses for different market segments, types of customers, product lines, etc.;
- action plans coordinated by account managers to respond to the specific issues of each customer;
- cross-functional analyses, which can detect weak signals and showcase advantages and differentiating factors as well as recurring customer expectations for use in performance plans;
- special tours arranged with customers to share this information, implement actions and monitor developments.

The global scope of this approach is appreciated by customers, who clearly see Thales’s desire to forge relationships based on trust and cooperation and that it is constantly striving to respond better their key challenges, both today and in the future.

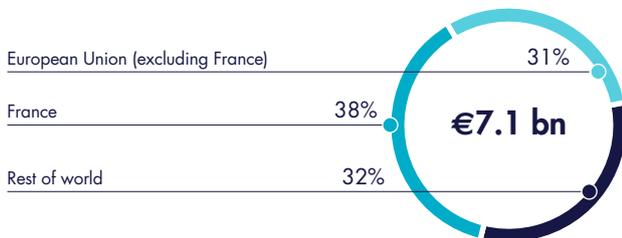
Thales did not conduct a customer satisfaction survey in 2020 due to the Covid-19 pandemic. The next survey will be launched in 2021.

5.7.4 Incorporating the challenges of corporate responsibility in the supply chain

Thales designs and produces integrated solutions consisting of equipment, sub-systems or full systems, most of which are developed with the help of external partners. For example, purchases account for approximately 40% of the Group’s sales and, in a reflection of the Group’s industrial footprint, more than 80% of purchases come from France, Europe and North America.

The quality and reliability of the supply chain therefore actively contribute to Thales’s added value and to customer satisfaction.

Geographic breakdown of 2020 Group purchases



Segment mix of 2020 Group purchases



5.7.4.1 Sustainable procurement commitments

The Group’s corporate management set out clear sustainable procurement commitments in 2020.

This Sustainable Procurement policy aims to give Thales a lasting competitive advantage at the global level, focused on value creation, innovation, business partnerships and operational excellence.

The policy has six key priorities:

- holding suppliers’ accountable with respect to applicable laws and regulations;
- establishing quality relations based on mutual loyalty;
- sharing expertise to boost innovation;
- involving suppliers alongside Thales in the fight against climate change;
- providing specific support to local SMEs with opportunities for international development;
- expanding the use of third-sector economy and social outreach players.

5.7.4.1.1 Acting responsibly

Thales believes that building a relationship of trust with its suppliers and subcontractors is a key component of its sustainable development success.

Thales expects them to comply fully with the laws and regulations applicable in the countries where they are registered and where they operate or provide their services, as well as to impose these same requirements on their own suppliers and subcontractors.

To realise these expectations, Thales requires its suppliers and subcontractors around the world to adhere to its corporate responsibility approach by signing an Integrity and Corporate Responsibility Charter that requires them to uphold the principles of Thales’s Code of Ethics, the principles of the United Nations Global Compact and OECD guidelines.



This charter, which was updated in 2019, forms the basis for best practices applicable to key corporate responsibility principles. It calls for compliance with laws and regulations on Human Rights, employment conditions, anti-corruption and conflicts of interest, protection of information, the environment, health and safety, compliance with trade rules and practices (including those relating to export control), ethics, etc.

To assess its suppliers' and subcontractors' capacity and determination to comply with these commitments, Thales has improved the management of its supply chain risks by setting up specific processes for anti-corruption and influence peddling, as well as other corporate responsibility issues. Based on the results achieved once these processes have been

implemented, Thales may decide to take corrective action or conduct audits. These processes are detailed in section 5.7.5.4.2.

A supplier's or sub-contractor's refusal to comply with these processes may jeopardise the business relationship developed with Thales or be a criterion for its non-selection. The ongoing corporate responsibility assessment procedure thus helps Thales fulfil its duty of care with respect to its suppliers and subcontractors.

This duty of care targets Human Rights, the health and safety of persons, and harms to the environment, and is focused on suppliers considered as potentially at risk based on criteria relating to purchasing category, the country in which the supplier or subcontractor operates, and the amount of Thales's commitment to that supplier.

| Sustainable procurement indicators (NFPS) | 2020 | 2023 target |
|---|------|-------------|
| Percentage of new suppliers committed to the principles of Thales's new Integrity & Corporate Responsibility Charter | 91% | 100% |
| Percentage of suppliers assessed among those considered as "at risk" according to the duty of care mapping ^(a) | 24% | 100% |

(a) This is the first measurement of this indicator, for which the relevant process was rolled out in 2020. A significant improvement is expected in 2021.

5.7.4.1.2 Quality relationships

Thales establishes relationships of mutual cooperation with its partners, based on mutual loyalty; this reciprocity means that the procurement process must ensure:

- the transparency of the selection rules in place;
- the fair treatment of companies during the competitive bidding process;
- the development of balanced relationships based on trust and respect;
- a commitment to apply the negotiated terms;
- a guarantee of the neutrality and independence of the relationships between Thales and its suppliers.

The Group's purchasing policy is also based on ten sustainable procurement practices specified in the Responsible Supplier Relations Charter, which Thales signed in 2010. The aim of the charter is to develop a balanced relationship based on trust between suppliers and customers with full knowledge and respect for their respective rights and obligations. To this end, the Group has also appointed an internal mediator to liaise with suppliers to avoid or quickly resolve potential conflicts that could arise with them. The Thales internal mediator's actions are also in line with the initiatives carried out by the mediator of the French Aerospace industries association, GIFAS.

5.7.4.1.3 Fostering innovation

With its extensive expertise in the supplier ecosystem, the Purchasing Department is a key contributor to Thales's innovation initiative. An understanding of technology roadmaps therefore needs to be at the heart of the relationships and interactions between Thales and its suppliers.

Accordingly, Thales regularly holds information-sharing reviews on these topics with its strategic suppliers.

The Group has also adjusted its procurement process to give start-ups easier access and the Purchasing and Technical departments regularly hold discussions about the innovative young companies with which Thales has relationships. As such, more than 160 proofs of concept (PoCs) involving these start-ups have already been realised to date.

Thales also forms partnerships with incubators and accelerators to help high-potential start-ups grow (Starburst Aerospace, AI@Centech, etc.).

Since 2012, this commitment has been realised in France through the Innovative SME charter of the French Ministry of the Economy.

5.7.4.1.4 Meeting the challenge of climate change

Climate change is a major challenge which Thales wishes to address in a consistent manner through its activities and services, in particular as part of its strategy for a Low-Carbon Future. It thus seeks to contribute to the achievement of an overall trajectory that would limit global warming to 2°C as set out in the Paris Agreement (see section 5.5.2).

The Purchasing Department plays a key role in meeting this challenge and Thales is committed to better understanding the carbon footprint of those suppliers whose products or services generate the highest emission levels. The objective is to implement emissions reduction action plans.

In 2020, a "Low Carbon" questionnaire was developed and sent to more than 100 suppliers in the purchasing categories identified as having the highest greenhouse gas emissions. This questionnaire is used to measure suppliers' maturity through communication of their own carbon footprint and their reduction strategy. The initial responses from the suppliers surveyed show a growing commitment to this issue; for example, more than 40% of suppliers who filled out the questionnaire are committed to complying with the Paris Agreement.

In 2020, Purchasing launched pilot consultations for air travel, short- and long-term car rentals and packaging that included weighted selection criteria related to the reduction in the carbon footprint of the goods and services purchased and to respect for the environment. When entering into the relevant purchasing contracts, suppliers will commit to quantified and milestone-based emissions reduction targets.

5.7.4.1.5 Thinking globally and acting locally

Given the increasing complexity of its customers' environments and their global footprint, Thales is developing a full understanding of their challenges, strategic objectives and operating needs; to meet their expectations, the Group is rolling out global strategies, in particular in Purchasing.

Thales is nevertheless aware that, in certain regions, it is often a major employer or customer and it therefore pays particularly close attention to the public and private players in the ecosystems in which it is involved.

Against this backdrop, the Purchasing Department is rolling out specific actions to support SMEs at the regional, national and even international

level, so that they can benefit, as they grow, from Thales's sales force and its knowledge of local markets and environments.

These actions reflect Thales's regional policies and its commitment to the SME Pact association, which it joined in 2010, and to the SME Action Agreement signed in France in 2019 with the French Ministry of the Armed Forces.

The primary aims of this Agreement are to improve SMEs' information, increase experimentation, continue partnerships developed in the upstream study phase, support their exports and, lastly, promote start-ups.

In 2020, Thales made more than €1.6 billion in purchases from more than 2,500 SMEs and mid-market companies in France, i.e., more than 65% of its national purchasing.

Covid-19: Support for suppliers

Thales responded to the health crisis by implementing a system to closely monitor its suppliers through the supply chain, and in particular those involved in critical operations.

Thales took action as soon as the crisis began and created a crisis unit for its suppliers. This unit was tasked with:

- analysing critical suppliers and determining which had continued to operate and which had not. It was thus able to identify potential impacts on projects and programmes, including for the French Ministry of the Armed Forces;
- identifying situations that pose an operational risk so as to detect any cash flow problems suppliers might be experiencing. In aeronautics, specific monitoring is carried out in France in conjunction with GIFAS. This was addressed in a Commitment charter signed by Customers and Suppliers;
- accounting for the crisis environment in the processes for handling for claims and penalties against SMEs;
- ensuring that payment deadlines were met despite any internal disruptions.

Thales also provided information on measures taken by governments in order to support companies in difficulty. To that end, on a case-by-case basis, orders were placed early, advances were made, and payments were accelerated to support SMEs' cash flow. These actions are fully in line with best practices developed as part of the SME Action plan implemented in France by the Ministry of the Armed Forces, and those of the SME Pact association, of which Thales is a founding member.

More specifically, with regard to industrial and technological defence base (BITD) players, Thales shared critical situations with the French defence procurement agency (DGA) so they could take joint action. It also reduced some of the payment periods, and reviewed certain contractual conditions, etc

• Procurement of personal protective equipment for employees

As soon as the government directives took effect in different countries, Thales formed a task force made up of the HSE, Purchasing and Real Estate departments to manage operations at the Group's sites. Within this task force, Purchasing was confronted with the major challenges of the time: shortages of consumables (masks, hand sanitiser, gloves), limited air transport resources, and constant changes in customs restrictions. However, a supply chain was set up at short notice for this unfamiliar market that had become extremely tight due to international demand. The first massive deliveries began to arrive in stages in early April to cover all of the Group's long-term needs for all the countries where the Group operates. These had to be monitored continuously and tracked carefully worldwide.

Purchasing's responsiveness and know-how facilitated compliance with the various health protocols and the protection of personnel, while ensuring business continuity

5.7.4.1.6 Moving forward together

Specialised disabled work centres (EAs) and rehabilitation centres for persons with disabilities (ESATs) are key players in the third-sector economy and social outreach. For many years, Thales has maintained relationships with these players, in particular for industrial subcontracting work and for general purchases.

Through its Sustainable Procurement commitments, Thales would like to make greater use of companies and institutions that employ the disabled by broadening its relationships to other purchasing segments and categories. This ambition is reflected in the Group disability agreements and has led to regular discussions with the Human Resources Department.

An initiative was launched in early 2020, in cooperation with the GESAT network, to expand the use of EAs and ESATs to the electronics, engineering and mechanical industrial purchasing segments. GESAT conducted an analysis of industrial services purchasing for these segments and project launches will continue in 2021 under the partnership agreement between the GESAT network and Thales.

In 2020, the amount of Thales's commitments to EAs and ESATs was nearly €3.5 million.

SPOTLIGHT: special attention paid to conflict minerals

Although Thales is not subject to section 1502 of the US Dodd-Frank Act, since it is not listed on the US financial market, the Group still exercises due diligence when it comes to conflict minerals to meet customer expectations and comply with its commitments. In addition, its approach incorporates the obligations under European Regulation (EU) 2017/821 which took effect on 1 January 2021.

Thales submits these queries to its supply chain to ensure that the origin of the metals covered by these regulations can be verified to the greatest extent possible. Thales requires its suppliers to adhere to its Integrity and Corporate Responsibility Charter, which requires compliance with the laws and regulations applicable to the procurement of conflict minerals such as T3G (tungsten, tin, tantalum and gold).

The Group also regularly surveys any relevant suppliers in order to collect information on the origin of the T3G present in their products.

If requested by a customer, Group entities fill in and provide the "Conflict Minerals Reporting Template" form.

5.7.5 Duty of Care Plan

France's law No. 2017-399 of 27 March 2017 on the Duty of Care of parent companies and contracting companies requires the implementation of "reasonable vigilance measures to identify risks and prevent serious violations of Human Rights and fundamental freedoms, the health and safety of persons and the environment resulting from the activities of the company or those of the companies it controls, directly or indirectly, as well as the activities of subcontractors or suppliers with whom the company has an established business relationship, when such activities are related to this relationship".

Article L225-104-1 paragraph 4 of the French Commercial Code requires that the requisite vigilance measures be grouped together in a "duty of care" plan that contains the following:

1. A risk map to identify, analyse and prioritise risks (see section 5.7.5.2).
2. Procedures for regular assessment of the situation of subsidiaries, subcontractors or suppliers with whom the company has an established business relationship, in respect of the risk map (see section 5.7.5.3).
3. Appropriate measures to mitigate risks or prevent serious violations (see section 5.7.5.4).
4. A mechanism for issuing or collecting alerts on the existence or occurrence of risks (see section 5.7.5.5).
5. A system for monitoring the measures implemented and assessing their effectiveness (see section 5.7.5.6).

5.7.5.1 Governance of the Duty of Care Plan

The Group's Duty of Care Plan is defined by the Ethics, Integrity and Corporate Responsibility Department within the Company Secretary's office which coordinates its implementation alongside the Human Resources, Hygiene, Safety and Environment, Purchasing, Audit, Risks & Internal Control, Legal and Contracts, and Investor Relations departments.

5.7.5.2 Risk map related to the Duty of Care

5.7.5.2.1 Risk identification

The identification of the risks related to the Duty of Care includes risks that could cause serious harm to:

- Human Rights (child labour, forced or clandestine labour, wages below legal minimums, sexual harassment and/or violence in the workplace, failure to comply with the International Labour Organization's rules on the maximum number of work hours and/or

rest, failure to comply with the principle of equal treatment at work, failure to respect employees' privacy);

- the health and safety of workers (lack of prevention or monitoring of serious work accidents, the lack of an emergency policy in the event of an accident at work, the absence of a policy or monitoring of health and safety in the workplace);
- the environment (significant pollution due to industrial activities, including greenhouse gas emissions, non-compliance with regulations on hazardous products).

This risk identification is the result of discussions within the internal, multidisciplinary working group coordinated by the Ethics, Integrity and Corporate Responsibility Department.

It also drew on the work of the trade and industry associations of which Thales is a member (GIFAS, EDH, Medef, etc.) and involved various external stakeholders (governments, NGOs, trade unions, etc.) who brought their experience to bear in the Group's discussions and analyses.

5.7.5.2.2 Risk prioritisation

The risks related to the Duty of Care are prioritised as part of the effort to create the materiality matrix (see section 5.7.2) and draft Thales's Non-Financial Performance Statement (see section 5.2).

At the supplier and subcontractor level, the analysis and prioritisation of the risks related to the Duty of Care are based on three criteria: the type of purchase made, the country where the supplier or subcontractor operates, and the amount Thales has committed to purchase from that supplier or subcontractor.

Thales manages a broad portfolio of approved suppliers for the purchasing segments. The latter are broken down into purchasing categories, which are in turn subdivided into Technical Purchasing Codes (CTAs).

Each approved supplier focuses on one or more CTAs depending on its business area; the CTA is the smallest unit of the purchasing segmentation and is therefore the most accurate way to characterise the type of purchase in question.

Each CTA is reviewed by the Purchasing Department, the Ethics, Integrity and Corporate Responsibility Department (DEIRE), the Audit, Risks & Internal Control Department (DARCI) and the Hygiene, Safety and Environment Department in order to identify the CTAs whose activities are the most at risk (e.g., activities that pollute or are hazardous for human health or the environment, construction work, etc.). As a result of this assessment, 17 CTAs were identified as being at risk. They concerned the following purchases:

- machining, smelting, sheet metal working;
- manufacture of mechanical subassemblies;
- adhesives, solvents, paint, acids, alcohols, resins, oils, etc;
- surface treatments;

- printed circuit boards;
- components;
- installation and civil engineering work;
- munitions.

The countries where the suppliers and subcontractors operate and the amounts of Thales's commitments to these suppliers and subcontractors are also taken into account to assess their level of risk relative to the Duty of Care.

With this in mind, based on three external benchmarks, the Environmental Performance Index (EPI), the International Trade Union Confederation (ITUC), and the Global Slavery Index, the Group identified 25 at-risk countries.

For example, suppliers and subcontractors who are in a high-risk country as well in a high-risk CTA are assigned a high level of risk.

Those who are either in a high-risk country or a high-risk CTA are assigned a moderate level risk level.

Based on this, a series of prevention measures have been defined in proportion to the level of risk associated with each of these cases.

The lists of CTAs and countries at risk may be revised to keep pace with changes in the Group's requirements and with updates to the external benchmarks used by Thales.

5.7.5.3 Procedures for regular assessment in respect of the risk map

5.7.5.3.1 Procedures for regular assessment of the situation of subsidiaries

Each year, all the Group's subsidiaries and entities are assessed using an internal control questionnaire, the Yearly Attestation Letter (YAL), which is sent out by the Audit, Risks and Internal Control Department to the Group's operational entities (149 questionnaires were sent out in 2020). This procedure is detailed in section 3.4.1.

Since the entry into force of France's law No. 2017-399 of 27 March 2017 on the duty of care, the control points of the YAL have been completed to cover the issues raised by this law:

- two control points concern the protection of Human Rights and the prevention of discrimination at the workplace,
- five control points cover the health and safety of employees and environmental protection, both on the Group's premises and at its worksites.

5.7.5.3.2 Procedures for regularly assessing the situation of suppliers and subcontractors with which an established commercial relationship is maintained

The procedures for regularly assessing the situation of suppliers and subcontractors under the Duty of Care plan are part of the Group's procurement compliance policy.

All Thales suppliers and subcontractors must sign the Partner and Supplier Integrity and Corporate Responsibility Charter before they establish a relationship.

This charter, the terms of which were revised in 2019, in particular based on the Code of Conduct of the International Forum on Business Ethical Conduct (IFBEC), sets out specific commitments expected from Thales suppliers and subcontractors in terms of Human Rights (e.g. child labour, forced or clandestine labour, wages below legal minimums, sexual harassment and/or violence in the workplace, failure to comply with ILO rules, etc.), environmental protection (significant pollution due

to industrial activities, non-compliance with regulations on hazardous products, etc.) and the health and safety of persons (lack of prevention and monitoring of serious accidents at work, the lack of an emergency policy in the event of an accident at work, the absence of a policy or monitoring of health and safety in the workplace, etc.).

The number of new suppliers who have signed this charter is measured in an indicator described in section 5.7.4.1.

Furthermore, since the introduction of France's law No. 2017-399 of 27 March 2017 on the Duty of Care, suppliers or subcontractors who sign a purchasing contract or who accept an order from Thales undertake to comply with the specific contractual clauses related to "Integrity and Corporate Responsibility" and to "Compliance with provisions on the environment and prevention of safety risks", which includes provisions regarding the areas covered by duty of care.

This general provision, which concerns all suppliers, is supplemented by additional preventive measures for suppliers and subcontractors identified as being at risk according to the three criteria described in section 5.7.5.2 above.

• Additional assessment measures:

Thales uses specific tools to extract from its supplier database those suppliers considered to be at high and moderate risk according to the criteria defined above.

Thales then calls on the services of a third-party supplier risk management specialist to conduct a detailed three-phase assessment process with its at-risk suppliers.

• Phase 1:

at-risk suppliers are registered on a dedicated Thales platform either by groups or individually.

A Country Risk Index score (IR score) is assigned to each supplier depending on the country where it operates according to the ratings of four external benchmarks:

- World Bank (WGI),
- United Nations Human Development Index (HDI),
- Transparency International Corruption Perception Index (CPI),
- US Department Human Trafficking report.

• Phase 2:

The supplier fills out of a self-assessment questionnaire (SAQ) to obtain an SAQ score of up to 100 points.

• Phase 3:

The third-party specialist checks the supporting evidence submitted by the supplier and then assigns a desk verification (DV) score.

• Description of the detailed self-assessment questionnaire (SAQ):

This questionnaire, made up of about 100 items, was prepared in conjunction with the International Aerospace Environmental Group (IAEG) and GIFAS. Its purpose is to assess the policies and actions implemented by the supplier in terms of Human Rights, protection of fundamental freedoms, health and safety of persons, and the environment.

Suppliers are required to complete the entire questionnaire and to submit documentary evidence of the measures and processes implemented.

The structure of this questionnaire and the rating system associated with each answer contribute to the assessment of the supplier's maturity in each of the areas and allow the identification of weak points to be analysed that could potentially become risk factors.

This supplier assessment process requires extensive work by Thales experts and service providers. To facilitate this process, Thales therefore carries out a major campaign to educate its suppliers and subcontractors.

In 2020, Thales drafted a user guide for the procedure that it had developed and made it available to the Group's buyers. More than 20 awareness-raising sessions were held to explain the assessment process and to answer questions from its buyers in all purchasing segments and geographic areas. The Group Purchasing Department provides support to advise buyers and to facilitate completion of the process.

5.7.5.4 Appropriate measures to mitigate risks or prevent serious violations

5.7.5.4.1 Appropriate measures to mitigate risks or prevent serious violations adapted to subsidiaries

All Group subsidiaries and entities must use the Group's process management reference system, Chorus 2. This is a unified set of management processes that defines the way Thales works: its rules, practices and modes of operation. It covers all the Group's operational activities including the Human Resources, Health, Safety and Environment departments.

The internal processes and related policies deployed by Thales in the areas covered by Duty of Care are based in particular on the eight fundamental conventions of the International Labour Organisation (ILO):

- Convention No. 87 on freedom of association and protection of the right to organise and Convention No. 98 on the right to organise and collective bargaining;
- Convention No. 29 on forced labour and Convention No. 105 on the abolition of forced labour;
- Convention No. 138 on minimum age and Convention No. 182 on the worst forms of child labour;
- Convention No. 100 on equal remuneration and Convention No. 111 on discrimination (employment and occupation).

The Group's social policy is based on social dialogue (see Chapter 5.4.3.1) as well as a policy of diversity and inclusion (see Chapter 5.4.2) which contribute to risk prevention.

In terms of health and safety, Thales is committed to providing a safe and healthy working environment for its employees on its own premises and at external worksites. The Group has set an objective of anticipating and preventing these risks, including psychosocial risks, and ensuring hygiene, safety, health and quality of life at work (see section 5.4.3.5). Furthermore, more than 77% of employees work at

ISO 45001-certified sites (Safety Management System). Likewise, more than 80% of employees work at ISO 14001-certified sites (Environmental Management System). Lastly, Thales conducts health-safety-environment maturity audits at all its sites. The results of these audits are reviewed annually through the Yearly Attestation Letter (see section 3.4.1).

Since 2007, the Group has set performance targets for the environment. These targets were renewed by the Group Executive Committee at the beginning of 2019 and set for a five-year period (2019/2023) with an extension until 2030 for greenhouse gas reduction targets (see Chapter 5.5.2.3).

Lastly, the Thales Code of Ethics, available on the Group's website and intranet, is systematically given to new employees and signed by them. This makes them aware, from the very beginning, of the ethical principles that govern the company, including, in particular, principles related to strict compliance with Human Rights, rules aimed at ensuring the health and safety of employees, as well as the Group's environmental commitments.

5.7.5.4.2 Description of the procedure and appropriate actions to mitigate risks or prevent serious harm for suppliers and subcontractors.

At the end of the detailed assessment of suppliers and subcontractors described in section 5.7.4.4 below, risk mitigation and prevention measures are implemented depending on the desk verification (DV) score obtained by the supplier after it has completed the SAQ and has been audited. These preventive measures are applied based on the following scale, defined on three levels, with 100 being the best score:

- if the DV score is higher than 50, the risk is low, there are no additional measures and the supplier will be re-assessed in three years, unless there is an alert;
- if the DV Score is between 30 and 50, the risk is moderate, and the third-party specialist proposes a corrective action plan at Thales's request;
- if the DV Score is less than or equal to 30, the risk is high. In this case the third-party specialist may perform a site audit at Thales's request.

If the supplier or subcontractor does not take appropriate steps to implement the required corrective actions, or if it refuses to take part in the process, Thales may decide, as applicable, either to not select this supplier or subcontractor during the tender or to discontinue the commercial relationship.

For example, in 2020, Thales ended commercial relations with around 10 listed suppliers and subcontractors.

SPOTLIGHT: Comprehensive site management and security services

For services related to the management of its sites in France, whether commercial or industrial, Thales has set up an integrated model which entrusts these services to a single partner. This approach allows for a centralised and global management which reduces the number of contacts thanks to a single governance source.

This choice results in more effective control of the risks to which workers may be exposed, particularly in the case of cleaning and multi-technical maintenance services, by monitoring the terms of compensation of these personnel and including them in site prevention plans. Finally, in terms of the environment, this approach ensures secure waste processing through the services of recognised national providers.

The same model is also applied to all the security services of Thales sites in France.

Such centralised services now concern 65 Thales sites in France, i.e. more than 80% of Thales's global real estate assets, and are carried out by some 1,500 people.

Moreover, the framework agreement for site management services includes an incentive to employ people from the disability-friendly sector, thus enabling the integration of more than 20 people with disabilities into the on-site teams each year.

Thales's management of these contracts involves the Operations Department, the Security Department, the HSE Department, the Purchasing Department and the Legal Department.

This approach demonstrated its efficiency and resilience during the Covid-19 health crisis. It enabled the rapid deployment of health protocols for both employees and workers and the reopening of sites under the best possible conditions

5.7.5.5 Mechanism for issuing or collecting alerts on the existence or occurrence of risks

In 2019, Thales reviewed its internal alert system to extend its scope to internal or external alerts that fall within the scope of France's law No. 2016/1691 of 9 December 2016 on transparency, anti-corruption and economic modernisation and law No. 2017-399 of 27 March 2017 on the duty of care of parent companies and contracting companies.

In 2020, the Group's alert system received 25 workplace alerts, 18 of which were considered valid. Two of the 18 alerts fell under French law No. 2017-399 of 27 March 2017 on the duty of care of parent companies and contracting companies and concerned workplace health safety issues in the context of the Covid-19 pandemic. The pandemic risk management processes put in place by Thales addressed the concerns raised by these alerts and thus enabled them to be resolved.

5.7.5.6 System for monitoring the measures implemented and assessing their effectiveness

The measures in the duty of care plan are assessed through a report and the indicators described in sections 5.3, especially: rates of frequency and severity of workplace accidents, percentage of employees working at OHSAS 18001, ISO 45001 and ISO 14001-certified sites, the percentage of new suppliers committed to the principles of Thales's new Integrity and Corporate Responsibility Charter (67% in 2020), the percentage of suppliers assessed among those considered "at-risk" according to the duty of care mapping (24% in 2020) and the changes in the number of alerts received via the Thales alert system in 2020 (25 in 2020 versus 34 in 2019).

Furthermore, in October 2020, Thales set up a CSR Committee tasked with ensuring improved management of commitments and actions in favour of responsible and sustainable development, thus reinforcing the Group's societal contribution (see section 5.1).

At the end of 2020, the Executive Committee sought to strengthen the collective aspect of performance recognition. To this end, it was decided that, starting in 2021, for employees eligible for variable compensation, 10% of this compensation would be related to CSR targets corresponding to the Group's commitments. Duty of Care issues (health and safety of employees, environmental protection and the Group's low-carbon strategy) are directly tied to 50% of this amount.

5.7.6 Thales's commitments to civil society

In December 2019, Thales announced the launch of its Thales Solidarity programme and a new special endowment fund whose first projects began in 2020.

5.7.6.1 Roll-out of the Thales Solidarity programme

Thales's social commitment aims at coordinating the Group's outreach initiatives around shared priorities and criteria and to increase their impact by mobilising its resources and internal networks to achieve common goals. This development is the logical continuation of the efforts of the Thales Foundation after five years of significant achievements.

The strategy is organised under the Thales Solidarity programme and supports a societal mission aligned on the Group's *raison d'être*. Because trust is an essential ingredient for any company to thrive, innovation must be accessible to the largest number of people. Thales is committed to putting its expertise and talents at the service of civil society to allow everyone to actively participate today in the decisive transformations of tomorrow.

Therefore, the outreach initiatives supported throughout the Group are in line with three commitment priorities that put technology and innovation at the service of education and professional integration, digital citizenship, and environmental protection.

These themes are aligned with the Thales culture of a company of research scientists, engineers, technicians and technology enthusiasts for whom education and collective intelligence are essential drivers for improving the world around us. It is by sharing its expertise and its ability to understand the technological and digital world that Thales can make significant contributions in these areas.

Commitment at every level of the Group

The Thales Solidarity Endowment Fund is one of the pillars of the programme and a tool to fund and support projects and outreach initiatives. It ensures that projects are feasible and that funds are used properly.

The Thales entities – sites, countries, and business units – support and take community action locally or in their fields to strengthen the Group's impact in the communities where it operates. These actions must gradually be aligned with the three shared commitment priorities and criteria of the programme and are approved in accordance with the Group's Patronage and Sponsoring policy.

A network of 17 Thales Solidarity delegates is in charge of launching and promoting the programme in countries and Global Business Units, with the support of local ambassadors at Group sites who act as special contacts for employees and local charities.

A volunteer commitment platform, implemented with the social outreach company MicroDON, aims at facilitating employee outreach initiatives throughout the year. On this website, employees can propose projects, sign up for volunteer missions that are regularly published on the site, or join the "Round off your pay" campaign in France.

5.7.6.2 Projects supported by the Thales Solidarity Endowment Fund

The mission of the Thales Solidarity Endowment Fund is to work with those who are preparing the critical societal transformations of the future to help develop innovations that are responsible, accessible and useful to all. To this end, the Fund intends to open up and share the Group's ability to innovate as well as its skills and talent to take action on the three

public-interest issues defined in the Group programme: education and professional integration, digital citizenship and environmental protection.

In 2020, the Endowment Fund selected and funded a total of 15 projects in eight countries which are targeting more than 7,000 student and adult beneficiaries over the 2020/2021 period.

5.7.6.2.1 Eleven projects sponsored by employees

The annual call for projects launched by the Thales Solidarity Fund aims at supporting and promoting the commitment of employees by financially supporting the public-interest initiatives in which they are involved and which fall within one of the Fund's focus areas.

In July 2020, 11 winning projects were selected in eight countries. These received funding in the autumn to launch their first actions, often remotely. Sponsored by employees based in Spain, the United States, France and Italy, these projects will provide support to more than 2,600 children and adults in Asia, Africa, Central America and Europe in the 2020-21 school year:

- four projects for education in technologies and digital resources are designed to encourage learning and scientific curiosity among disadvantaged youth by giving them access to innovative education methods and computer tools in Benin, Cambodia and France. For example, to fight against the digital divide and reduce school dropout levels, the St Pie X des Apprentis d'Auteuil de Domont middle school in Val d'Oise, France, has created a FabLab to provide 115 students and teaching staff with a technology workshop where they can learn about, discuss, and build a variety of technical tools.
- three professional integration projects in Italy and Senegal aim at offering employment opportunities to immigrant women or young people in difficulty. For example, to better prepare young people for job search, the Senegalese association Concept is developing an online platform with seven training modules that will enable 450 unemployed young people to enhance their skills through distance learning.
- digital citizenship is the central theme of two projects in Spain and France designed to make teenagers more aware of the responsible use of digital resources and to sharpen their critical thinking in the face of the proliferation of information. For example, the NGO Cesal in Madrid offers awareness-raising workshops on the best use of technology to foster the development of academic, social and personal skills for some 30 teenagers at risk of exclusion, as well as their families.
- two environmental protection projects aim to guide local populations in the ecological transition in Ecuador and to support the deployment of sustainable low-tech solutions in Haiti. This project, managed by an American NGO, plans to bring a new solar cooker to a community of families in Haiti in order to reduce the impacts of coal use while mitigating the economic impact of its replacement through the establishment of local production.

5.7.6.2.2 A five-year partnership to promote education through research

For the 2019-20 school year, the Fund renewed for its final year the partnership begun in 2015 by the Thales Foundation with the *Savanturiers du Numérique* (scholars of digital technology and technologies) pilot programme, supported by the Centre for Interdisciplinary Research in France. This approach of learning through research, carried out in primary and secondary schools and mentored by engineers, is based on research and ethics methods as a model for collaborative and ambitious learning. In five years, the programme involved 3,970 young people, 183 teachers and 99 volunteer mentors from Thales.

The first educational actions and training courses involved 525 pupils and 32 teachers. With the lockdown and the restrictions applied in France from March to June 2020, in-person classes were cancelled and activities had to be reorganised. The programme was therefore transformed to become a tool in support of educational continuity. Educational content was published through weekly bulletins sent to more than 3,700 people to enable parents and teaching staff to continue their educational activities in an engaging and accessible way and to provide regular science-based updates on Covid-19 for educational purposes.

5.7.6.2.3 Three new social innovation projects in France

Three projects in France, launched in autumn 2020, reflect Thales' commitment to solidarity in the face of the challenges highlighted by the health crisis. These are aimed at enabling young people who have dropped out of school, persons who have fallen out of the job market and people working for the public interest to develop their skills and ability to act.

Support from the Fund is intended to enable trials of these solutions in 2021 with a view to their subsequent deployment in other regions:

- **Défi Insertion:** this project, organised by the charity We Tech Care, aims to open up digital opportunities to employees hired under social insertion programmes to enable them to acquire the minimum digital skills that they need for their social and professional integration. The pilot project is targeting 4,000 people in three trial regions: Occitanie, Hauts de France and Grand-Est.
- **Agir pour la jeunesse:** the partnership with Bordeaux Mécènes Solidaires is testing an educational support programme for young dropouts in the Méridonac region to combat educational inequalities. From September 2020, two social centres were able to resume face-to-face tutoring for 117 pupils in science education and orientation thanks to the involvement of Thales employee volunteers.
- **Tech for Good Enthusiasts:** using a web platform, the charity Latitudes supports charities to overcome their technological challenges by enabling them to interact and work with tech professionals. In 2020, virtual meetings were organised with 103 charities and contributed to reinforcing Latitudes' mission to help public-interest stakeholders to make optimal use of technological innovation.

5.7.6.3 Employee commitment facilitated by a new digital platform

In 2020, Thales Solidarity launched a digital platform aimed at facilitating employees' commitment to solidarity by enabling them to find out about the programme's projects and news and, especially, to discover the various ways to get involved. The platform has been active since January 2020 and has proposed various programmes such as participation in a call for projects, volunteer missions and a salary rounding initiative.

5,587 employees have activated their accounts on this platform and over 10% signed up for the newsletter, the call for projects or missions.

5.7.6.3.1 Volunteer campaigns all year round

In March 2020, Thales Solidarity launched the first volunteer campaign in France on the commitment platform called "Mobilised against Covid", which proposes Ten simple outreach actions to be carried out in strict compliance with lockdown measures, such as helping healthcare workers in their daily tasks, support for vulnerable people, remote tutoring, and helping teachers in their use of digital technology.

From July onwards, Thales Solidarity proposed volunteer missions that could be carried out remotely, in line with the priorities of its programme or in favour of the charities sponsored by the Fund, mainly in the areas of education, integration and inclusion: sponsorship or mentoring of pupils and job seekers from priority neighbourhoods, sharing of skills or technical expertise with charities or their beneficiaries; *ad hoc* coaching activities, participation in selection panels, or the collection of school equipment. Mobilisation campaigns were also launched for the European Sustainable Development Week, with new missions related to the environment, as well as for Giving Tuesday, the international day dedicated to solidarity and commitment. In 2020, more than 85 employees, mainly from France, committed to 18 different missions.

5.7.6.3.2 Calls for applications to become an Ambassador or to submit a project

The Thales Solidarity call for Ambassadors, launched on the platform in the autumn, received 22 applications. All employees could apply for this role which consists in promoting the Fund's programme volunteer commitment opportunities at each Thales site, guiding employees who wish to get involved, and developing a local network of volunteers and partner charities.

Lastly, the platform also enables employees to submit a project for the annual call for projects launched by the Thales Solidarity fund. 58 employees from 16 countries took part in the 2020 edition, which opened in the first quarter.

5.7.6.3.3 Continuous support for charitable organisations thanks to salary rounding

Launched in May 2016, the salary rounding initiative, designed by the social outreach company microDON, allows every Thales employee in France to support a charitable project by donating the cents from their pay every month, with an optional additional donation of up to €10 per month. All employee donations are matched by the Thales Group up to €180,000 and fully paid on to charities.

In 2020, this outreach tool once again mobilised more than 5,000 micro-donors in the Group's companies, who made it possible to allocate €364,729.82 to nine public-interest projects chosen by employees. A total of more than €1,350,000 has been collected over the last five years, with half of this amount coming from the Group's matching contribution.

Two new beneficiary organisations were added to this scheme to replace projects for which collections ended during the year: Secours Populaire and Fondation AP-HP (Assistance Publique – Hôpitaux de Paris) to support actions during the health crisis.

Thanks to these funds, the charities supported were able to adapt their actions to cope with the health crisis, with significant results. They included:

- **Planète Urgence:** 24,507 pupils, 54% of whom were girls, were equipped with school kits in 133 schools in Benin, Cameroon, Togo and Madagascar. The schools also received hygiene kits to improve their health conditions.
- **Pour Un Sourire d'Enfant:** 324 Cambodian secondary and primary school children, 54% of whom were girls, received remedial classes and continued to go to school through remote learning in Phnom Penh for 12 months.
- **Bibliothèques Sans Frontières:** Faced with the schooling emergency, two "Ideas Box" mobile media libraries were deployed during the summer holidays in Marseille and Bordeaux to provide educational and cultural content to 842 children.

- **Le Cartable Fantastique:** 800 teachers and carers in France have been trained in the use of digital tools to promote the inclusion in school of children with DCD (developmental coordination disorder).
- **Télécoms Sans Frontières:** 52,000 vulnerable persons and 30 organisations in seven countries were assisted, thanks to emergency technologies, in dealing with disasters and humanitarian crises, such as in Lebanon or Honduras.
- **Fondation AP-HP:** the Covid emergency fund helped to quickly release additional resources to support hospital staff.
- **Other examples of local engagement initiatives outside France**

Group companies adapted their support to certain local projects and facilitated the volunteer commitment of employees in outreach initiatives. Several initiatives, in particular, are boosting Thales's contribution to education in science, technology, engineering and mathematics (STEM) and professional integration.

In North America, despite the pandemic, Thales maintained its support for the innovative Technovation Challenge programme, an international competition for girls aged between 10 and 18 designed to develop their entrepreneurial skills. 147 employees with a sales or technological background volunteered to become mentors or members of the final selection panels. Because of the obligation to carry out activities virtually, mentors were able to participate remotely in the partnership programme organised with UNESCO's Global Education Coalition for Covid-19 response to support the education of girls, who have been disproportionately affected by the pandemic.

Moreover, on 1 December, over 100 employees from across the North American region gathered together to celebrate virtually 'Giving Tuesday' – an international day dedicated to solidarity and engagement whose purpose is to highlight employee volunteering and encourage others to join in.

To adapt to the health situation in the United Kingdom, Thales UK offered remote support to its partner schools and colleges and was thus able to engage with young people. It successfully reached out to over 1,100 young people, through interviews and pre-recorded videos. It also organised careers events and STEM activities for over 400 students in 12 schools.

As an alternative to the usual and highly sought after on-site visits, three Insight Events were organised over the last quarter: eighty-three students from all over the United Kingdom were able to work remotely with Thales for one day to learn more about STEM careers, take part in live activities and challenges, and receive personalised feedback. These STEM careers events had a great impact on the young people, but they were also beneficial for teachers, career advisors and parents.

Thales UK also worked with the Smallpeice Trust alongside Leonardo, Siemens and GE on the "Engineering at Home" project, which is aimed at increasing the interest of young people in sciences. The videos produced were viewed over 1,000 times in 2020. The "If I were an Engineer" competition was used to relaunch the partnership with Primary Engineers.

In Brazil, the partnership between Thales and Fundação lochpe focused on rolling out "Formare", a professional training programme for young people from disadvantaged backgrounds, based on volunteering. Thus, across Greater São Paulo, 49 employees provided 900 hours of administrative and technical training for 10 young people. In Brazil and in four other Latin American countries, support in the form of donations of funds and equipment and the organisation of collections was also provided to around ten or so associations primarily focused on helping children.

In India, four students were selected in 2020 as part of Shikhar Thales, a scholarship programme designed for Indian students who want to study on a master's programme in France. Most employees also paid a day's salary into the Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES) – a public charitable fund launched by the Indian government as a response to the Covid-19 pandemic. In addition to the PM CARES Fund, employees have also made donations to various not-for-profit organisations including Save The Children, Uber Care, United Sikhs Foundation, Future Point Foundation, Elixir Foundation and Akshaya Patra Foundation, among others.

Collections of funds, materials and food were organised in all countries to support charities working for people adversely affected by the health crisis and local communities.

5.7.6.4 Thales employees and sites mobilised to combat the Covid-19 pandemic

All over the world Thales employees have contributed to the fight against Covid-19 and its effects, both through the Group's efforts and also through individual initiatives.

5.7.6.4.1 Employees' citizens' initiatives

Many employees have used their technical skills by joining local or national citizen initiatives to produce masks and visors for staff. Such initiatives have been launched in Spain and also in France at sites in Toulouse, Bordeaux, Sofia-Antipolis, Aubagne, Thonon, Moirans, Brest and Vélizy. Employees have shared their skills to supply regional hospitals, by helping manufacture the equipment needed, using either their own 3D printers or those of the company. They have also helped coordinate production by volunteers at local FabLabs.

In Singapore, as part of a local initiative, employees volunteered to sew reusable fabric masks, which were handed out to people in need, including children and foreign migrant workers.

In Brazil, to support Antonio Pedro University Hospital, teams at São Bernardo do Campo repaired motors on medical beds and investigated the option of using 3D printers to produce the parts required to repair faulty equipment.

5.7.6.4.2 Technical expertise and protective equipment for medical teams

In France, 20,000 FFP2 masks were donated to hospitals and healthcare staff, in addition to 260,000 masks given to the French government.

Several Thales sites in China, France and the Netherlands came together to collect and distribute disposable protective clothing to local healthcare staff and hospitals, including establishments located in Wuhan as early as January 2020. Unused tablets were also donated to allow patients to keep in touch with their friends and family, as was the case in Huizen, in the Netherlands. In Panama, Thales also donated 10,000 masks to staff who run the metro system.

In the United Kingdom, Thales, in partnership with Airbus and some 20 other companies, manufactured respirators to meet the increasing demand from hospitals, and provided their expertise in training and simulation of complex systems. In Brazil, Thales engineers also worked with local university teams on a project to manufacture ventilators.

5.7.6.4.3 Thales solutions to support operators involved in combating the crisis and keeping essential businesses running

Working alongside hospitals forced to increase their capacity and equipment levels in record time, the Group has supplied radiology sensors to produce high-quality images that are extremely useful for screening patients and monitoring and analysing lesions and damage to their lungs.

As part of the widescale adoption of the working-from-home policy, Thales has provided enhanced IT security solutions free of charge to key workers, to protect data, networks and remote communications, via:

- the installation of a pack allowing the Citadel app to cover an entire organisation;
- access to Cryptobox for 45 days, which is a secure collaborative working solution that can be used to create virtual workspaces to share and store all useful documents;
- provision of a Report on the risks of cyberthreats. More than fifty medical organisations in France then requested to receive regular newsfeeds on the analysis of cyberthreats;
- access to its cyber-threat information centre for hospitals in the national health service (NHS) in Wales, to allow them to understand how and where their systems may be targeted and what can be done to protect them.

To ensure the continuity of civil defence operations in France, at the Châtelleraut site and elsewhere, Thales teams are providing maintenance, spare parts and support services for civil defence helicopters, to ensure they keep flying, which is crucial during the health crisis. In the Netherlands, Thales also helped the Dutch police keep information flowing between the various emergency rooms and crisis centres. Data from across the country is integrated into a secure online system, enabling teams at these crisis centres to have a better view of the overall situation and make the right decisions as quickly as possible.

Thales also provides support to:

- the emergency and fire services, to help them cope with the exponential growth in the number of emergency telephone calls in France;
- telemedicine, in France, to allow doctors to monitor the vital signs of their patients remotely during lockdown, using connectivity modules integrated into smart medical devices and using Thales secure connections;
- telecom operators in Latin America, for the dissemination of public service announcements: Thales mobile marketing solutions are being used to distribute information extensively and in a smart way to ensure a high level of awareness;
- public record offices in the United States, responsible for providing the ID documents required to access key social services. Thales is committed to issuing new documents as soon as possible to citizens whose ID documents have expired during the crisis;
- transport operators, essential to ensure frontline crisis-management staff can get to work, so as to ensure continuity of public transport and emergency maintenance, for example in Cairo, after floods affected the operation of metro lines.

5.7.6.4.4 Proposals and partnerships for innovative solutions

As part of a project tender by the French Ministry of Armed Forces, launched specifically by the Defence Innovation Agency (AID), Thales has submitted around ten technology-driven projects involving innovative solutions that can be implemented rapidly to protect the population, support the treatment of patients, test the population, monitor the development of the disease at an individual level as well as the progression of the pandemic, or help to limit restrictions during the crisis. These projects, which sometimes support innovative SMEs/start-ups or are conducted in collaboration with medical partners, relate to crisis management support tools, medical support solutions for healthcare staff, rapid diagnostic techniques or improving remote working.

Finally, Thales Digital Solutions in Montreal submitted nine projects, developed in partnership and with government funding, to provide innovative solutions to strengthen the capacities of healthcare organisations and support decision-making by the public authorities.

5.7.6.5 Community outreach through teaching and research chairs

• Creation of a Responsible Digital Identity chair

In 2019, Thales teamed up with Télécom ParisTech to create an international research chair on Responsible Digital Identity. Its first research theme will focus on the issues of trust in digital identity. Identity is central to the challenges of the digital world. It is also one of Thales's areas of expertise. By supporting this chair focused on the human and sociological aspects of digital identity, Thales would like to contribute to a holistic and forward-looking discussion beyond purely technological aspects.

• Chair of Major Contemporary Strategic Issues

Developed under the aegis of the Saint Cyr Foundation, in partnership with Paris-Sorbonne University and the Saint-Cyr Military Academy, the primary goal of the Chair of Major Contemporary Strategic Issues (GESCI) is to make the students of these training institutions aware of current and future geopolitical changes, and their consequences on European and French strategic positions. The role of the chair is to make it easier to invite French and international experts by organising conferences and lectures. Since the start of 2021, these lectures can be accessed live or at a later date on social networks, thus reaching a very wide audience.

• Chair of Defence Economics (ECODEF)

Hosted by the IHEDN (Institut des hautes études de défense nationale) endowment fund and headed by a scientific board which includes well-known economists and experts from the French Defence Procurement Agency (DGA) and SGA (French General Secretariat for Administration), the purpose of this chair is to study the economic impact of the defence sector by producing scientific studies and organising lectures on the subject. The chair contributed to the Ministry of Armed Forces (MINARM) discussions on the recovery plan and the Military Programming law following the health crisis.

• Defence and Aerospace Chair

Supported by the Bordeaux University foundation, the Defence and Aerospace chair, involving Sciences Po Bordeaux and Bordeaux University, is responsible for communicating research and training on strategic, operational, economic and industrial issues related to defence and aerospace. It encourages innovation in training (creation of introductory training, continuous professional development and specific courses), research (investigation into conflict between powers, and space defence) and the dissemination of knowledge (publications, conferences, etc.). The scope of the academic chair is global and integrates the study of conflict, security strategies on a national, European and alliance level, operational positions and commitments, disruptive military technologies and the impact on society due to defence.

5.7.6.6 Other Group community initiatives

The Group's strong commitments to community and corporate responsibility resulted in November 2006 in the signing of the "Accord d'Anticipation", which is an agreement to promote professional development through proactive initiatives. The agreement was renewed on 24 April 2019 for six years.

Among its provisions, this agreement defines the Group's **regional** policy, its goals, organisation and implementation.

This policy focuses on three priority areas:

- skills maintenance and development;
- the integration of young people into the workplace, education and training;
- the co-development of the industrial fabric and open innovation.

In France, Thales operates in nine labour pools which represent the locations for implementation of its regional policy.

Its equality-based organisation is underpinned by a national structure – the central territorial committee with local committees in each area. The Group Anticipation representative oversees and coordinates the Thales Regional Initiatives community. Local regional actions are coordinated by a two-person team composed of employees from HR and Operations.

Its implementation is based on in-depth and shared knowledge of the region. The aim is to foster high-quality partnerships with economic and corporate operators, representatives of local institutions and services and their elected representatives.

The "Territorialité – Mode d'Emploi" brochure, published in 2018 for all Thales employees and managers in France, describes clearly and practically the approach and actions adopted.

In France, Thales also makes use of a dedicated local economic development company, G ris Consultants. G ris Consultants, in collaboration with the Anticipation representative, uses its economic, social and institutional expertise to assist with the roll-out of the Group agreement by:

- coordinating the "Engineers for Schools" network alongside the General Representative of the national association, seconded by Thales in 2020, and by participating in the recruitment or replacement of employees made available by the Group to local

education authorities (10 Thales Engineers for Schools seconded in 2020);

- assisting Group employees in takeover or business start-up projects (54 new projects in 2020);
- developing the skills and performance of small- and medium-sized enterprises in the labour pools, primarily via the Pass'Comp tences scheme:
 - the inter-company Pass'Comp tences outreach initiative is designed to stimulate SME development by assigning them expert employee volunteers from large companies for pivotal assignments lasting between 12 to 18 months. Forty-five employees have been made available for this initiative since 2012,
 - in 2020, four Pass'Comp tences initiatives were rolled out in Ile de France, Nouvelle Aquitaine and PACA (Provence, Alpes, C te d'Azur);
- in April 2020, defining an innovative inter-company initiative to respond in a highly agile manner to the problems facing SMEs affected by the health crisis. The aim of this initiative is to bring in the skills of SMEs within participating larger companies for assignments lasting 6 to 12 months;
- facilitating the professional integration of young people through activities within the FIPA foundation (French innovations for learning foundation, FIPA) of which Thales is a member, or internally:
 - promotion of the "Shared Learning Path" initiative with the large group members of FIPA;
- organisation of the participation by Thales work-study trainees in the annual Altern'Up competition;
- participation of SMEs at the annual Talent Day forum organised by Thales.

G ris Consultants also shares its expertise with large companies and local authorities in order to provide assistance, in the form of advice and innovative financial engineering, to SMEs and SMIs that create long-term employment in regions impacted by the loss of industrial jobs. The revitalisation projects led by G ris Consultants since 2009 have resulted in the creation of more than 5,900 jobs in France (**including more than 515 in 2020**), in around 1,000 small- and medium-sized enterprises.

5.8 Methodological notes

5.8.1 Human resources data

Social reporting method

The human resources data section of the Universal Registration Document provides detailed information on social data, the social policies implemented, and practices and actions that fall within the Group's corporate social responsibility, and their impacts. It reflects Thales's international dimension. The information it contains reflects the position of the Thales Group at 31 December 2020.

Organisation and methodology

In 2020, information was reported through the Workday digital platform. The country Human Resources Directors were previously encouraged to verify that the data in the local payroll systems or in their local Workday tool were accurate and updated. The information contained in this Universal Registration Document was subsequently retrieved centrally. Since some companies were not included in the Workday tool, a quantitative and qualitative questionnaire comprising all the indicators printed in this document was sent to the Human Resources Directors/HR representatives of the entities or countries, as appropriate.

The country Human Resources Directors from all the Group's entities 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.

All the data sent are consolidated by the Group HR Department, which checks for consistency before drafting the Universal Registration Document.

Scope

The definition of the companies taken into account for the purposes of preparing the Universal Registration Document was not modified this year and is in accordance with IFRS 10 and 11 on financial consolidation. The workforce under Group management as at 31 December 2020 thus includes only the workforce of companies controlled by Thales pursuant to Article L. 233-3 of the French Commercial Code, as well as companies meeting those criteria but below the threshold for financial consolidation.

Moreover, the scope of the Universal Registration Document 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

- Workforce under Group management as included in the Universal 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 these types 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.
- As from financial year 2019, employees on maternity leave and employees whose last day of work was 31 December of the year in question are counted as active employees.
- The total number of new hires includes the work-study contracts entered into in 2020 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 or personal reasons), mutually agreed contract terminations, retirements, deaths and other types of termination, as well as expiries of short-term employment contracts.
- The turnover rate corresponds to the number of resignations relative to the average active workforce as at 31 December of year N-1 and the active workforce as at 31 December of the year N.
- The number of non-French employees and expatriates in French teams takes into account non-French employees, working in France with a French contract or in a situation of international mobility in France.
- To calculate the percentage of Management Committees with at least three female members, the figure includes the Group's Executive Committee, the Management Committees of the GBUs, the major countries/regions (North America, the United Kingdom, Australia, Germany, the Netherlands), and the International Development Departments (DGDs), as well as the Management Committees of the Product Lines.
- The percentage of women in top positions measures the percentage of women in grade 10 to 12 positions relative to the total number of employees in positions at the same level.
- The average number of training hours per employee corresponds to the total number of training hours relative to the Thales workforce as at 31 December of the year in question.
- Data relating to absenteeism and rates of frequency and severity of accidents at work are calculated according to a number of days theoretically worked in a country and based on active headcount and paid inactive employees (employees on unpaid leave due to long-term illness do not 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 absences such as annual leave, studies, parental leave or time off for family events are excluded. Leave for which the employee is no longer paid by Thales is also excluded.
- The total rate of absenteeism in France, calculated in accordance with the social report, 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. By contrast, leave for which the employee is no longer paid by Thales is excluded.

(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 these guidelines is completely voluntary.

- The frequency rate is the number of lost-time accidents at work over the course of the year, multiplied by 1,000,000 and divided by the number of hours theoretically worked during the year.
- The severity rate is the number of days lost due to accidents at work, multiplied by 1,000 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 beneficiaries (disabled workers and use of subcontracting from the social enterprise sector) as reported in the Mandatory Declaration on the Employment of Disabled Workers.

5.8.2 Environmental data

Scope

The scope of consolidation 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.

For this report, the 2020 indicators are provided on a comparable basis with 2018.

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.

Subsidiaries and joint ventures not meeting the above criteria are not included in Thales's environmental reporting.

Activity/workforce

- "establishment/site" carrying out an activity covered by Operating Model 4, regardless of headcount;
- "establishment/site" carrying out an activity covered by Operating Model 3, with a headcount of more than 50;
- "establishment/site" carrying out an activity covered by Operating Model 2, with a headcount of more than 100.

The instruction "Definition of HSE Management System levels" provides details of the operating model levels (classified according to type of activity: industrial, semi-industrial, tertiary).

Changes to the scope of consolidation

- Disposals/acquisitions: company to be included as soon as one full calendar year has elapsed and if the company meets the scope selection criteria.
- New business: company to be included as soon as one full calendar year has elapsed 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.

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 promotes the recording of data (traceability, archiving, etc.).

Indicators

Environmental concerns change over time. Environmental performance indicators therefore have to evolve to remain aligned with 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.

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.

Analysis of performance

For easier analysis of results, 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 account for changes in scope (e.g., water consumption per person);
- Group targets are set for a given period. During that period:
 - changes in performance are assessed on a like-for-like basis (i.e. at constant scope of consolidation),
 - coefficients such as emission factors for CO₂ emissions are constant;
- if emission factors are modified at the start of a new period, the performance data for the reference year are recalculated using the new coefficients; only the electricity emission factors are modified each year without retroactively applying data from previous years, to take into account changes in the energy production mix in countries/regions where the sites operate and the power purchase agreements signed by the Group.
- the principles and methods for reporting on data are described in the methodological guides to environmental reporting and calculation of CO₂ emissions, which are available in the Group reporting system.

5.9 Report by the independent third party on the consolidated non-financial statement

This is a free translation into English of the independent third party's report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the shareholders,

In our capacity as independent third party, accredited by COFRAC number 3-1058 (scope available at www.cofrac.fr), and member of the Mazars network of one of the company's Statutory Auditors, we hereby report to you on the non-financial statement⁽¹⁾ for the year ended 31, December 2020 (hereinafter the "Statement"), included in the group management report pursuant to the requirements of articles L. 225-102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code (Code de commerce).

The entity's responsibility

The Board of Directors is responsible for preparing the Statement, including a presentation of the business model, a description of the principal non financial risks, a presentation of the policies implemented considering those risks and the outcomes of said policies, including key performance indicators.

The Statement has been prepared in accordance with the entity's procedures (hereinafter the "Guidelines"), the main elements of which are presented in the Statement and are available on request at the company's headquarters.

Independence and quality control

Our independence is defined by the requirements of article L. 822-11-3 of the French Commercial Code and the French Code of Ethics (Code de déontologie) of our profession. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with applicable legal and regulatory requirements, the ethical requirements and French professional guidance.

Responsibility of the independent third party

On the basis of our work, our responsibility is to provide a report expressing a limited assurance conclusion on:

- the compliance of the Statement with the requirements of article R. 225-105 of the French Commercial Code;
- the fairness of the information provided in accordance with article R. 225 105 I, 3° and II of the French Commercial Code, i.e., the outcomes, including key performance indicators, and the measures implemented considering the principal risks (hereinafter the "Information").

However, it is not our responsibility to comment on the entity's compliance with other applicable legal and regulatory requirements, in particular the French duty of care law and anti-corruption and tax avoidance legislation nor on the compliance of products and services with the applicable regulations.

Nature and scope of our work

The work described below was performed in accordance with the provisions of articles A. 225-1 et seq. of the French Commercial Code, as well as with the professional guidance of the French Institute of Statutory Auditors ("CNCC") applicable to such engagements⁽¹⁾:

- we obtained an understanding of all the consolidated entities' activities and the description of the principal risks associated;
- we assessed the suitability of the criteria of the Guidelines with respect to their relevance, completeness, reliability, neutrality and understandability, with due consideration of industry best practices, where appropriate;
- we verified that the Statement includes each category of social and environmental information set out in article L. 225 102 1 III as well as information set out in the second paragraph of article L. 22-10-36 regarding compliance with human rights and anti-corruption and tax avoidance legislation;
- we verified that the Statement provides the information required under article R. 225-105 II of the French Commercial Code, where relevant with respect to the principal risks, and includes, where applicable, an explanation for the absence of the information required under article L. 225-102-1 III, paragraph 2 of the French Commercial Code;
- we verified that the Statement presents the business model and a description of principal risks associated with the all the consolidated entities' activities, including where relevant and proportionate, the risks associated with their business relationships, their products or services, as well as their policies, measures and the outcomes thereof, including key performance indicators associated to the principal risks;
- we referred to documentary sources and conducted interviews to:
 - assess the process used to identify and confirm the principal risks as well as the consistency of the outcomes, including the key performance indicators used, with respect to the principal risks and the policies presented, and;
 - corroborate the qualitative information (measures and outcomes) that we considered to be the most important presented in appendix; concerning certain risks; for the risks of Compliance with rules concerning business ethics, Care on suppliers' compliance with corporate responsibility issues and Anticipation of environmental standards in product design, our work was carried out on the consolidating entity, for the others risks, our work was carried out on the consolidating entity and on a selection of entities⁽²⁾;
- we verified that the Statement covers the scope of consolidation, i.e. all the consolidated entities in accordance with article L. 233-16 of the French Commercial Code within the limitations set out in the Statement;
- we obtained an understanding of internal control and risk management procedures the entity has put in place and assessed the data collection process to ensure the completeness and fairness of the Information;

(1) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

(2) HR information: legal entities of the Thales legacy France scope; legal entities of the Thales legacy Netherland.

Environmental information: Thales Land Mulwala (Australia); Thales Alenia Space - Cannes (France); Thales LAS - Elancourt (France); THAV Mérignac (France); Thales DMS France - Mérignac (France); Tczew - DIS (Poland); Thales Deutschland GmbH (MIS) - Ulm (Germany); Thales AOW (Air Operations Weapons) - Belfast (Ireland); Thales Nederlands B.V. - Hengelo (Netherlands).

Social information: Contributing departments at Group level.

- for the key performance indicators and other quantitative outcomes that we considered to be the most important presented in appendix, we implemented:
 - analytical procedures to verify the proper consolidation of the data collected and the consistency of any changes in those data;
 - tests of details, using sampling techniques, in order to verify the proper application of the definitions and procedures and reconcile the data with the supporting documents. This work was carried out on a selection of contributing entities and covers between 17% and 100% of the consolidated data relating to the key performance indicators and outcomes selected for these tests;
- we assessed the overall consistency of the Statement based on our knowledge of all the consolidated entities.

We believe that the work carried out, based on our professional judgement, is sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures.

Means and resources

Our work was carried out by a team of 12 people between October 2020 and March 2021 and took a total of 15 weeks.

We conducted ten interviews with the people responsible for preparing the Statement, representing in particular the CSR, Audit and Risks, Legal, Human Resources, HSE and Purchasing departments.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the consolidated non-financial statement is not presented in accordance with the applicable regulatory requirements and that the Information, taken as a whole, is not presented fairly in accordance with the Guidelines, in all material respects.

Paris-La Défense, March 3, 2021

The Independent Third-Party

Mazars SAS

Edwige REY

CSR & Sustainable development Partner

5.10 Cross-reference table for TCFD recommendations

| TCFD pillar | TCFD recommendation | Corresponding chapter of the Universal Registration Document |
|------------------------|--|---|
| Governance | Oversight by the Board of Directors: | 5.5.2.3.2 Governance of the strategy for a Low-Carbon Future |
| | a) Describe the Board's oversight of climate-related risks and opportunities | |
| Strategy | Identification of risks and opportunities: | 5.5.1.3.3 Environmental risk mapping |
| | b) Describe the climate-related risks and opportunities over the short, medium, and long term | |
| | Impact on the investment strategy: | 5.5.1.3.3 Environmental risk mapping |
| | c) Describe the impact of climate-related risks and opportunities on the investment strategy | |
| | Resilience of the investment strategy: Detail the resilience of the investment strategy, taking into consideration different climate-related scenarios, including a temperature increase of 2°C or lower | 5.5.1.3.4 Vulnerability and adaptation to climate risks |
| Risk management | Risk assessment: | 5.5.1.3.1 Continuous improvement and prevention process |
| | d) Describe your risk management processes for identifying, assessing and managing climate-related risks | 5.5.2.3.6 Monitoring and understanding the effects of climate change |
| | Risk management: | 5.5.2.3.2 Governance of the strategy for a Low-Carbon Future |
| | e) Describe the processes for managing climate-related risks | 5.5.2.3.2 Governance of the strategy for a Low-Carbon Future |
| | Risk integration: | 5.5.2.3.2 Governance of the strategy for a Low-Carbon Future |
| | f) Describe how climate-related risks are integrated into the risk management processes | |
| Indicators/ Targets | g) Use of indicators: | 5.5.4 Environmental indicators |
| | Provide information on the indicators used to assess climate-related risks and opportunities in line with the investment strategy and risk management process | |
| | h) Measurement of GHG emissions: | 5.5.4 Environmental indicators |
| | Provide information on Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks | |
| | i) Target setting: | 5.5.2.3.3 Reduce the carbon footprint of our direct operational emissions |
| | Provide information on the targets set to manage climate-related risks and opportunities and performance against targets | 5.5.2.3.4 Reduce our indirect emissions |
| | | 5.5.4 Environmental indicators |

Appendix 1: information considered to be the most important

Qualitative information (actions and results) on key risks

- Diversity and inclusion.
- Occupational health and safety.
- Environmental impacts related to the Group's activities.
- Anticipation of environmental standards in product design.
- Compliance with business ethics rules (including anti-corruption and bribery).
- Vigilance on suppliers' compliance with corporate responsibility issues

Quantitative indicators including key performance indicators

Social indicators

- Total headcount.
- Absenteeism rate.
- Percentage of redundancies in departures total.
- Percentage of women among new recruits.
- Percentage of women in the highest positions of responsibility.
- Percentage of Executive Committees with at least 3 women.
- Average number of hours of training per employee in the Group.

HSE indicators

- Energy intensity (CO₂equivalent/hours worked).
- Reduction in CO₂ emissions (scopes 1 and 2) in tCO₂/€ million in sales.
- Non-hazardous waste recycling rate.
- Frequency rate of work-related accidents (Thales employees) and severity rate.
- Percentage of employees working at ISO 14001 certified sites.
- Percentage of employees working at an OHSAS 18001/ISO 45001 certified site.
- Rate of Product Line Architects and Product Line Managers trained in or made aware of eco-design.

Societal indicators

- Number of operational entities that have conducted a corruption risk assessment.
- Number of alerts related to corruption issues.
- Number of people trained regarding corruption.
- Supplier performance in domains of corporate responsibility.

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Company and share capital

6

| | | |
|------------|---|------------|
| 6.1 | General information about the company | 182 |
| <hr/> | | |
| 6.2 | Share capital and shareholders | 183 |
| 6.2.1 | Information on the distribution of capital issued | 183 |
| 6.2.2 | Potential capital | 185 |
| 6.2.3 | Shareholders | 186 |
| <hr/> | | |
| 6.3 | Related-party agreements | 194 |
| 6.3.1 | Commitments and agreements authorised after year end | 194 |
| 6.3.2 | Commitments and agreements authorised during 2020 | 194 |
| 6.3.3 | Agreements authorised during previous financial years | 194 |
| 6.3.4 | Statutory auditors' report on regulated party agreements | 195 |
| <hr/> | | |
| 6.4 | Stock market information and financial communication | 196 |
| 6.4.1 | Thales shares | 196 |
| 6.4.2 | Financial communication policy | 199 |
| 6.4.3 | Other market securities | 199 |
| <hr/> | | |
| 6.5 | History | 200 |

6.1 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.

Legal Entity Identifier (LEI): 529900FNDVTQJOVVPZ19.

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 domain.

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.

Notifications concerning the crossing of 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).

Annual General Meeting: notice of meetings and conditions for attendance, double voting rights and exercise of voting rights

Information on these sections can be found in Chapter 4, Governance and compensation, section 4.2.7

6.2 Share capital and shareholders

6.2.1 Information on the distribution of capital issued

At 31 December 2020, the share capital stood at **€640,097,874**, divided into **213,365,958 shares** with a par value of €3 each.

Pursuant to the applicable regulations, each month the Company publishes on its website (www.thalesgroup.com), 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 189).

6.2.1.1 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 2015 | | 3,995,444,538 | | | 632,884,212 | 210,961,404 |
| Financial year 2016 | Exercise of stock subscription options | 4,148,459 | 1,233,362 | 3,700,086 | | |
| 31 December 2016 | | 4,036,928,997 | | | 636,584,298 | 212,194,766 |
| Financial year 2017 | Exercise of stock subscription options | 16,276,572 | 463,959 | 1,391,877 | | |
| At 31 December 2017 | | 4,053,205,569 | | | 637,976,175 | 212,658,725 |
| Financial year 2018 | Exercise of stock subscription options | 14,940,842 | 445,356 | 1,336,068 | | |
| At 31 December 2018 | | 4,068,146,411 | | | 639,312,243 | 213,104,081 |
| Financial year 2019 | Exercise of stock subscription options | 6,192,050 | 213,425 | 640,275 | | |
| At 31 December 2019 | | 4,074,338,461 | | | 639,952,518 | 213,317,506 |
| Financial year 2020 | Exercise of stock subscription options | 1,130,870 | 48,452 | 145,356 | | |
| 31 DECEMBER 2020 | | 4,075,469,331 | | | 640,097,874 | 213,365,958 |

6.2.1.2 Changes in the distribution of capital and voting rights over the last three financial years

At 31 December 2020, the total number of exercisable voting rights was 314,497,147. 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 4.2.7).

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").

| | 31/12/2020 | | | 31 December 2019 | | | 31 December 2018 | | |
|---|--------------------|--------------|--------------------|--------------------|------------------|--------------------|--------------------|--------------|--------------------|
| | Number of shares | % of capital | % of voting rights | Number of shares | Number of shares | % of voting rights | Number of shares | % of capital | % of voting rights |
| TSA ^(a) | 54,786,654 | 25.68% | 34.84% | 54,786,654 | 25.68% | 34.87% | 54,786,654 | 25.71% | 35.68% |
| French State (including 1 golden share) | 2,060 | – | – | 2,060 | – | – | 2,060 | – | – |
| Public Sector ^(b) | 54,788,714 | 25.68% | 34.84% | 54,788,714 | 25.68% | 34.87% | 54,788,714 | 25.71% | 35.68% |
| Dassault Aviation ^(b) | 52,531,431 | 24.62% | 29.79% | 52,531,431 | 24.63% | 29.81% | 52,531,431 | 24.65% | 28.39% |
| Thales | 497,596 | 0.23% | – | 560,866 | 0.26% | – | 648,295 | 0.30% | – |
| Employees ^(c) | 6,356,208 | 2.98% | 3.66% | 6,183,434 | 2.90% | 3.58% | 5,575,167 | 2.62% | 3.37% |
| Other shareholders | 99,192,009 | 46.49% | 31.71% | 99,253,061 | 46.53% | 31.74% | 99,560,474 | 46.72% | 32.56% |
| TOTAL | 213,365,958 | 100% | 100% | 213,317,506 | 100% | 100% | 213,104,081 | 100% | 100% |

(a) Under the terms of the shareholders' agreement with Dassault Aviation (the "Industrial Partner"), the "Public Sector" (the French State) is represented by TSA, excluding the French State directly. Since 29 January 2018, public institution EPIC Bpifrance has held all TSA capital apart from one preferred share that is held by the French State. EPIC Bpifrance and the French State have also agreed to consult with TSA under the terms and conditions described in AMF Notice No. 218C0137 of 16 January 2018. 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 2020.

(b) As at 31 December 2020, Dassault Aviation held 42,154,349 shares in directly registered form, including 41,154,349 for more than two years, thus granting it double voting rights, and also held 10,377,082 shares in bearer form.

(c) This line represents the full employees shareholding. Since law No 219-846 of 22nd May 2019, employees shareholding, according to the *Code du commerce* (article L. 225-102), excludes free shares granted within LTI plans prior to 2016 (without explicit change in the articles of incorporation to include them) and represent, at 31/12/2020, 4 651 454 shares and 8 276 899 voting rights, hence 2,18% of the capital and 2,63 % of the voting rights.

6.2.1.3 Major changes in share ownership over the last five years

During 2016, the number of treasury shares was reduced due to the following transactions:

- 575,000 shares were purchased on the market;
- 513,001 shares were purchased under a liquidity contract;
- 472,001 shares were sold under a liquidity contract;
- 607,381 shares were assigned as free shares;
- 56,600 shares were assigned under an allocation of stock options;
- 41,714 shares were sold to English employees as part of the 2015 employee shareholding scheme.

Treasury shares thus represented 0.35% of the capital, i.e. 749,559 shares, at 31 December 2016.

During 2017, the number of treasury shares was reduced due to the following transactions:

- 852,000 shares were purchased on the market;
- 819,512 shares were purchased under a liquidity contract;
- 743,512 shares were sold under a liquidity contract;
- 606,653 shares were assigned as free shares;

- 40,000 shares were assigned under an allocation of stock options;
- 462,167 shares were sold to employees as part of the 2017 employee shareholding scheme.

Treasury shares thus represented 0.27% of the capital, i.e. 568,739 shares, at 31 December 2017.

During 2018, the number of treasury shares increased due to the following transactions:

- 220,000 shares were purchased on the market;
- 838,402 shares were purchased under a liquidity contract;
- 702,128 shares were sold under a liquidity contract;
- 238,750 shares were assigned as free shares;
- 850 shares were assigned under an allocation of stock options;
- 37,118 shares were sold to employees as part of the balance of the 2017 employee shareholding scheme.

Treasury shares thus represented 0.30% of the capital, i.e. 648,295 shares, at 31 December 2018.

During 2019, the number of treasury shares changed due to the following transactions:

- 730,000 shares were purchased on the market;
- 906,402 shares were purchased under a liquidity contract;
- 993,676 shares were sold under a liquidity contract;
- 223,640 shares were assigned as free shares;
- 506,515 shares were sold to employees as part of the 2019 employee shareholding scheme.

Treasury shares thus represented 0.26% of the capital, i.e. 560,866 shares, at 31 December 2019.

During 2020, the number of treasury shares changed due to the following transactions:

- 180,000 shares were purchased on the market;
- 1,310,502 shares were purchased under a liquidity contract;
- 1,285,002 shares were sold under a liquidity contract;
- 226,125 shares were assigned as free shares;
- 42,645 shares were sold to employees as part of the 2019 employee shareholding scheme.

Treasury shares thus represented 0.23% of the capital, i.e. 497,596 shares, at 31 December 2020.

6.2.2 Potential capital

6.2.2.1 Maximum potential capital at 31 December 2020

| | In number of shares with par value of €3 |
|--|--|
| Share capital at 31/12/2020 | 213,365,958 |
| Outstanding stock subscription options under the 15 September 2011 plan, options at €26.34 | 43,305 |
| Maximum potential capital (+0.02%) | 213,409,263 |

6.2.2.2 Outstanding securities giving access to share capital (bonds, warrants and options)

At 31 December 2020, 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 Note 15 to the financial statements of the parent company.

Share purchase and stock subscription options

As at 31 December 2020, 43,305 stock subscription options subject to performance conditions remained outstanding at an exercise price of €26.34.

All share purchase option plans have reached maturity.

Thales decided to stop granting options in 2012.

• SHARE SUBSCRIPTION OPTIONS

| | |
|--|----------------------------------|
| Date of Board decision | 15/09/2011 |
| Discount at grant | Nil |
| Performance conditions | Yes |
| Exercise period | from 15/09/2015 to 14/09/2021 |
| Exercise price | €26.34 |
| NUMBER OF OPTIONS OUTSTANDING AT 31/12/2020, ALL SUBJECT TO PERFORMANCE CONDITIONS NET OF OPTIONS CANCELLED^(a) AND EXERCISED | 43,305 |
| Of which exercisable options at 31/12/2020 | 43,305 |
| Of which outstanding options at 31/12/2020 held by: | |
| • the Chairman & Chief Executive Officer, Patrice Caine^(b) | – |
| • the other members of the Executive Committee | – |
| NUMBER OF BENEFICIARIES OF OUTSTANDING OPTIONS | 19 |
| Of whom members of the Executive Committee (excluding the Chairman & Chief Executive Officer) at 31/12/2020 | – |
| Total grant to top ten beneficiaries (at plan date) | 124,000 |

(a) 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.

(b) Grant prior to his appointment as Chief Executive Officer.

Conditions of exercise

All Thales share subscription options are granted for a 10-year period, at no discount to the market price.

Share subscription options may 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.

• RECAP ON PERFORMANCE CONDITIONS FOR EXISTING PLANS

| Option plans subject to performance conditions | Validation of the 1st tier of the award | | Validation of the 2nd tier of the award | | Validation of the 3rd tier of the award | |
|--|---|---|---|---|---|---|
| | Reference year | % achievement of performance conditions | Reference year | % achievement of performance conditions | Reference year | % achievement of performance conditions |
| 15 September 2011 | 2012 | 100% | 2013 | 100% | 2014 | 42.71% |

• OPTIONS GRANTED AND EXERCISED IN 2020

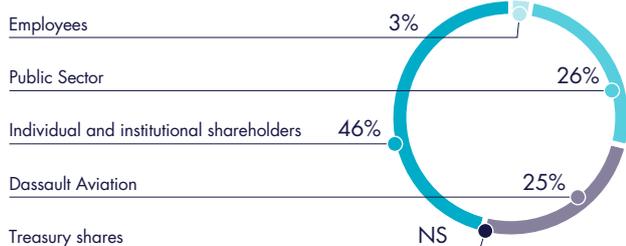
| | Number of options granted/shares subscribed or purchased | Exercise price | Maturity date | Date of plan |
|---|--|----------------|---------------|--------------|
| 1. Directors | | | | |
| Options granted in 2020 | None | | | |
| Of which Patrice Caine | None | | | |
| 2. The ten biggest option awards granted to employees | | | | |
| Options granted in 2020 | None | | | |
| 3. The ten biggest exercises of options by employees^(a) | | | | |
| Options exercised in 2020 | 8,000 | 26.34 | – | 23/09/2010 |
| | 7,000 | 26.34 | – | 23/09/2010 |
| | 3,000 | 26.34 | – | 23/09/2010 |
| | 1,900 | 26.34 | – | 23/09/2010 |
| | 1,900 | 26.34 | – | 23/09/2010 |
| | 15.38 | 26.34 | – | 15/09/2011 |
| | 1,350 | 26.34 | – | 23/09/2010 |
| | 1,335 | 26.34 | – | 15/09/2011 |
| | 1,200 | 26.34 | – | 23/09/2010 |
| | 1,200 | 26.34 | – | 23/09/2010 |

(a) All Group companies combined.

6.2.3 Shareholders

6.2.3.1 Breakdown at 31 December 2020

Breakdown of share capital



Breakdown of voting rights



6.2.3.2 Shareholders acting in concert

6.2.3.2.1 “Public Sector” (TSA)

TSA is a holding company wholly owned at 31 December 2020 by EPIC Bpifrance with the exception of one preferred share, kept by the French State. TSA directly holds 54,786,654 Thales shares.

The French State directly holds 2,060 shares, including a golden share, which gives it the principal rights⁽¹⁾ described in section 6.2.3.3.5.

6.2.3.2.2 “Industrial Partner” (Dassault Aviation)

Dassault Aviation, whose shares are listed on the Euronext Paris market, is a public limited company that owns 24.62% of Thales's share capital, i.e. 52,531,431 Thales shares at 31 December 2020.

Dassault Aviation is controlled by Groupe Industriel Marcel Dassault (GIMD), which, at 31 December 2020, held 62.24% of the share capital and 76.87% of the exercisable voting rights of Dassault Aviation.

6.2.3.3 Shareholders' agreement, agreement on the protection of strategic national interests, specific agreement and golden share

By signing an “endorsement agreement” with the French State and Alcatel-Lucent in 2009, Dassault Aviation assumed the rights and obligations of Alcatel-Lucent, subject to certain amendments, 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⁾.

6.2.3.3.1 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 adopted the provisions of the shareholder agreement entered into on 14 April 1998, which it replaced⁽⁴⁾.

On 19 May 2009, when Dassault Aviation acquired the Thales shares previously owned by Alcatel-Lucent, an agreement took effect under which Dassault Aviation endorsed the shareholders' agreement existing between Alcatel-Lucent and the Public Sector, subject to amendments. The agreement under which TSA and Dassault Aviation act in concert with regard to Thales under Article L. 233-10 of the French Commercial Code, as TSA has a majority within the concert, sets out the following provisions⁽⁵⁾.

Members of the executive bodies of Thales

Thales's Board of Directors, which has 16 members, has to adhere to the following breakdown at 31 December 2020:

- 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 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 (*Bulletin officiel des annonces légales obligatoires*, 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) pursuant to 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 mentioned above.

(4) This agreement is set out in the appendix 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 six proposed by the Public Sector, five by the Industrial Partner (Dassault Aviation), two employee representatives, one representative of employee-shareholders and four 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⁾.

6.2.3.3.2 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 uses its best endeavours 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.

- 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.

6.2.3.3.3 Crossing of 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, 1/3 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 Decision No. 208C2115 of 27 November 2008 and published in the BALO of 1 December 2008.

It is available on the BALO website: <https://www.journal-officiel.gouv.fr/balo/>

- Dassault Aviation announced⁽³⁾ 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 announced⁽⁴⁾ 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.

(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 Legal Gazette (Bulletin officiel des annonces légales obligatoires, BALO) of 1 December 2008, available for consultation on the AMF's website. "The Public Sector shall agree to hold, following the standard expiry of the shareholders' agreement, a stake in Thales granting it at least 10% of the voting rights, 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. 212C0909 of 12 July 2012, which can be viewed on the AMF's website.

(4) See AMF Decision No. 216C0199 of 20 January 2016, which can be viewed on the AMF's website.

- On 15 January 2018, the French State and EPIC Bpifrance entered into an allocation agreement under which the State decided to allocate EPIC Bpifrance 109,999,999 TSA shares, or 99.99% of TSA's capital (the State keeping one TSA share), it being specified that TSA holds 54,786,654 Thales shares representing 109,573,308 voting rights.

This allocation agreement provides in particular for EPIC Bpifrance to act in concert with the French State with regard to TSA and, through TSA, alongside the French State, to act in concert with Dassault Aviation *vis-à-vis* Thales.

EPIC Bpifrance's joint exceeding of the 30% threshold of Thales's capital and voting rights was the subject of a prior decision by the AMF to waive the obligation to file a public offering. This was reproduced in Decision No. 217C0137 dated 16 January 2018.

Following the completion of the allocation on 29 January 2018, EPIC Bpifrance⁽¹⁾ disclosed that, jointly with the French State and indirectly through TSA, which acts in concert with Dassault Aviation *vis-à-vis* Thales, it had exceeded the thresholds of 5%, 10%, 15%, 20%, 25%, 30% and 50% of the capital and voting rights and 1/3 of the voting rights of Thales. In this occasion, the EPIC Bpifrance exceeded indirectly, on 29 January 2018, through TSA, the thresholds of 5%, 10%, 15%, 20% and 25% of the capital and voting rights and 1/3 of the voting rights of Thales. The disclosure mentioned in particular that this transaction did not modify the terms and conditions of the concert between TSA and Dassault Aviation or the percentages of the joint stake in the capital and voting rights of Thales, that the French State remains the dominant party within this concert, and that, in accordance with the allocation agreement, EPIC Bpifrance will not ask to be represented on the Thales Board of Directors, such that the representation of the French State and Dassault Aviation on said Board will remain unchanged.

6.2.3.3.4 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 appendix 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"). The main elements of this agreement are as follows:

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.

6.2.3.3.5 Golden share held by the French State and other restrictions related to foreign investments in France

The golden share held by the French State⁽²⁾ 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 appendix to this decree may be opposed."

At 31 December 2020, these assets consisted of the majority of the share capital in the following companies:

Thales DMS France SAS, Thales (Wigmore Street) Ltd, Thales SIX GTS France SAS, Thales LAS France SAS, Thales Nederland BV, Thales AVS France SAS, Thales Underwater Systems NV.

In addition, as a result of some of Thales's activities, particularly in the defence sector, shareholders and investors may be subject to certain restrictions applicable to foreign investments in France in accordance with Article L. 151-3 of the French Monetary and Financial Code and Article 10 of law No. 86-912 of 6 August 1986 on the terms and conditions of privatisation.

(1) See AMF Decision No. 218C0345 of 6 February 2018, which can be viewed on the AMF's website.

(2) Pursuant to Article 3 of Decree No. 97-190 of 4 March 1997.

6.2.3.4 Treasury shares

At 31 December 2020, Thales held 497,596 treasury shares (0.23% of the capital), i.e. the balance after shares bought and sold in the market or otherwise under the authorisations described below granted to the Board of Directors by the Annual General Meeting.

Treasury shares are not subject to any restrictions and are freely transferable.

6.2.3.4.1 Authority to trade in the Company's shares

At its meeting of 3 April 2019, at which it delegated to the Chairman & Chief Executive Officer the authority to trade in the Company's shares, the Board of Directors set the maximum buy-back price at €140 per share, subject to adoption of the share buy-back resolution by the Annual General Meeting of 15 May 2019. At its meeting of 24 March 2020, subject to adoption of the share buy-back resolution by the Annual General Meeting of 6 May 2020, the Board of Directors decided to maintain this maximum buy-back price at €140 as from 7 May 2020.

The transactions carried out in 2020 show a net sale of 63,270 treasury shares, the details of which are as follows:

- transactions related to the delivery of securities to employees (net sale of 88,770 shares):
 - delivery of free shares to employees (-226,125 shares),
 - shares sold to employees under the 2019 employee shareholding scheme (-42,645 shares),
 - shares purchased directly in the market to meet the commitments of the delivery of free shares (180,000 shares);
- liquidity contract, net purchase for the period: 25,500 shares.

6.2.3.4.2 Authority to cancel Company shares

The 24-month authorisation granted to the Board of Directors by the Annual General Meeting of 17 May 2005 to cancel – on one or more occasions – shares held by the Company, up to a limit of 10% of share capital, as part of an authorisation to buy back its own shares, was renewed by the Annual General Meetings of 16 May 2007, 15 May 2009, 18 May 2011, 24 May 2013, 13 May 2015, 17 May 2017 and 15 May 2019, without that authorisation ever being used.

6.2.3.4.3 Share buy-back programme

6.2.3.4.3.1 Description of the share buy-back programme approved during the Annual General Meeting of 6 May 2020

- Maximum proportion of capital subject to repurchase: 10%, on the buy-back date.

The balance of 2020 trading was the net disposal of 63,270 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 | (88,770) |
| b) Regulation of the market price by a liquidity contract drawn up in accordance with the AFEI Code of Conduct | 25,500 |

Breakdown of treasury shares by objective at 31 December 2020

The total number of shares held at that date was 497,596, representing 0.23% of Thales's share capital. The breakdown by objective was as follows:

| | |
|---|---------|
| a) Disposal or allotment of shares to Group employees and directors as stipulated by law, particularly when share purchase options are exercised or existing free shares are allotted | 297,096 |
| b) Regulation of the market price by a liquidity contract drawn up in accordance with the AFEI Code of Conduct | 200,500 |

- Maximum number of shares that may be purchased: 21,336,595 (For information purposes and given the number of shares making up the share capital as at 31 December 2020).
- Maximum amount of the programme: €2,987,123,300.
- Maximum unit purchase price: €140.

Objectives of the programme

- To sell or allot shares to Group employees under the conditions and in the manner stipulated by law, particularly when share purchase options are exercised or existing free shares are allotted, or when shares are sold and/or supplemented under an employee shareholding scheme transaction on existing shares;
- to retain shares for later use in connection with acquisitions, mergers, demergers or contributions;
- 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 deliver shares upon the exercise of rights attached to securities conferring the right in any way to the allotment of Company shares;
- **Duration of the programme:** 18 months from the Annual General Meeting of 6 May 2020, i.e. no later than 3 November 2021;
- **Liquidity contract:** In November 2004, Thales entered into 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 and since January 2019 with AMF Decision No. 2018-01 of 2 July 2018 establishing liquidity contracts on equity securities as an accepted market practice.

6.2.3.4.3.2 Trading in Company shares during 2020

In 2020, 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 15 May 2019 for transactions performed between 1 January 2020 and 6 May 2020, and in accordance with the authorisation given by the Annual General Meeting of 6 May 2020 for transactions performed between 6 May 2020 and 31 December 2020.

At 1 January 2020, Thales held 560,866 treasury shares, representing 0.26% of the capital, and 497,596 at 31 December 2020.

Market value of the portfolio at 31 December 2020

€37,269,940, at the closing price on 31 December 2020 of €74.90.

| | Aggregate gross amounts from 1 January 2020 to 31 December 2020 | |
|---|--|-------------|
| | Purchases | Sales |
| No. of shares | 1,490,502 | 1,553,772 |
| Average transaction price (in euros) including possible discounts and free shares | 71.28 | 79.91 |
| Amounts (in euros) | 106,247,108 | 124,158,429 |

Thales did not make use of derivatives (futures sales) as part of this redemption programme.

Treasury shares thus represented 0.23% of the capital, i.e. 497,596 shares, at 31 December 2020

The Chairman and Chief Executive Officer (the only Company representative) is not entitled to benefit from this plan.

The allotment on 24 November 2020 took the following form:

Performance shares

- The allotted shares are all 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;
- 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 in the plan's rules.

6.2.3.5 Free share, unit or phantom share plans subject or not subject to performance conditions

The Group regularly grants its employees and executives free shares as part of its performance management policy for Group employees. The various plans are described below.

6.2.3.5.1 Allotment of free shares

Allotment of free shares and/or performance shares

In 2020 the Board of Directors, with the approval of the Annual General Meeting, set up a twelfth free share allotment plan.

| Date of Board decision | 24/11/2020 | 25/09/2019 | 27/09/2018 | 28/09/2017 | 27/10/2016 | |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------|-------------------------------|
| | Performance shares | Performance shares | Performance shares | Performance shares | Free shares | Performance shares |
| Number of beneficiaries at grant date | 957 | 917 | 738 | 764 | 550 | 232 |
| Share price at grant date | €80.52 | €104.50 | €121.75 | €94.66 | €83.10 | €83.10 |
| Number of shares allotted | 375,235 | 325,865 | 181,515 | 212,540 | 88,020 | 148,070 |
| Number of free shares at 31/12/2019 | – | 325,545 | 179,790 | 208,210 | 84,290 | 142,590 |
| Cancellation of allotments during the financial year 2020 ^(a) | | 82,566 | 44,592 | 52,288 | 1480 | |
| Adjustment ^(c) | | | | | | 280 |
| Early allotments during the financial year 2020 ^(b) | – | | 195 | 250 | 350 | |
| Number of shares delivered on expiry of the plan | N/A | N/A | N/A | N/A | 82,460 | 142,870 |
| Balance of free shares net of cancellations and early allotments at 31/12/2020 | 375,235 | 242,979 | 135,003 | 155,672 | – | – |
| Number of beneficiaries remaining at 31/12/2020 | 957 | 906 | 719 | 734 | – | – |
| Vesting period | from 24/11/2020 to 24/11/2024 | from 25/09/2019 to 25/09/2023 | from 27/09/2018 to 27/09/2022 | from 28/09/2017 to 28/09/2021 | | from 27/10/2016 to 27/10/2020 |

(a) Due to the departure of the beneficiary or, for the plans concerned, to cancellations related to partial or complete failure to achieve of the performance conditions.

(b) Due to death of the beneficiary during the vesting period.

(c) Re-inclusion of an employee erroneously cancelled in 2019.

Allotment of shares in financial year 2020

| The ten biggest option awards granted to employees during the financial year | Number of shares granted | Share price at grant date | Date of plan |
|--|--------------------------|---------------------------|---------------|
| Performance shares | 50,835 | €80.52 | At 24/11/2020 |

During 2020, the allotment of shares subject to performance conditions to employees of the Company or its subsidiaries, excluding Thales executive officers, was between 105 and 7,500 shares.

6.2.3.5.2 Allotment of units or units subject to performance conditions indexed to the Thales share price

No plan for the allotment of units was set up for employees in 2020 except for that granted for the only Company representative (page 102).

6.2.3.5.3 Allotment of phantom shares or phantom shares subject to performance conditions indexed to the Thales share price

In September 2020, a phantom share plan based on the Thales share price was put in place for certain international employees. This plan is equivalent to the performance-based free share plans offered to employees in France.

Through this plan, 548 people received 224,160 phantom shares under the same performance conditions as the free shares allotted on the same date.

6.2.3.5.4 Validation of performance conditions for financial year 2020

| Share, unit and phantom share plans subject to performance conditions | Validation of the 1st tier of the award | | Validation of the 2nd tier of the award | | Validation of the 3rd tier of the award | |
|---|---|---|---|---|---|---|
| | Reference year | % achievement of performance conditions | Reference year | % achievement of performance conditions | Reference year | % achievement of performance conditions |
| 28 September 2017 | 2018 | 100% | 2019 | 100% | 2020 | 75.52% |
| 27 September 2018 | 2019 | 100% | 2020 | 75.52% | 2021 | – |
| 25 September 2019 | 2020 | 75.52% | 2021 | – | 2022 | – |
| 25 November 2020 | 2021 | – | 2022 | – | 2023 | – |

6.2.3.6 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 of 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) | 31/12/2020 | At 31/12/2019 |
|---|----------------|----------------|
| French institutional investors | 26,143 | 26,377 |
| Non-resident institutional investors | 60,604 | 60,556 |
| Others (e.g. brokerage firms) | 5,168 | 6,141 |
| Employee share ownership | 6,356 | 6,183 |
| Individual shareholders and associations ^(a) | 6,635 | 5,364 |
| Not identified | 642 | 816 |
| Subtotal entire public | 105,548 | 105,436 |
| TOTAL NUMBER OF SHARES | 213,366 | 213,318 |

(a) Mainly French residents.

| | As % of the total capital | | As % of the free float (excluding treasury shares) | |
|--|---------------------------|---------------|---|---------------|
| | 31/12/2020 | At 31/12/2019 | 31/12/2020 | At 31/12/2019 |
| French institutional investors | 12.3 | 12.4 | 24.6 | 25.0 |
| Non-resident institutional investors | 28.4 | 28.4 | 56.8 | 57.4 |
| Others (e.g. brokerage firms) | 2.4 | 2.9 | 4.8 | 5.8 |
| Employee share ownership | 3.0 | 2.9 | 6.0 | 5.9 |
| Individual shareholders and associations | 3.1 | 2.5 | 6.2 | 5.1 |
| Not identified | 0.3 | 0.4 | 0.6 | 0.8 |
| ENTIRE PUBLIC | 49.5 | 49.4 | 100.0 | 100.0 |

• GEOGRAPHIC BREAKDOWN OF INSTITUTIONAL INVESTORS

| 31/12/2020 | Number of shares held (in thousands) | As % of total share capital | As % of the free float | Number of investors |
|----------------------------------|---|-----------------------------|------------------------|---------------------|
| France | 26,143 | 12.3 | 24.8 | 94 |
| Continental Europe (exc. France) | 8,184 | 3.8 | 7.8 | 188 |
| North America | 30,622 | 14.4 | 29.0 | 136 |
| United Kingdom & Ireland | 19,109 | 9.0 | 18.1 | 70 |
| Rest of world | 2,690 | 1.3 | 2.5 | 67 |
| TOTAL | 86,748 | 40.8 | 82.2 | 555 |

6.2.3.7 Employee shareholdings at 31 December 2020

At 31 December 2020, current or former Group employees held 6,356,208 Thales shares, representing 2.98% of the capital (and 3.66% of voting rights).

| Holding by country | In number of shares | As % of employee shareholding | As % of capital | Related voting rights as % of total voting rights |
|--|---------------------|-------------------------------|-----------------|---|
| Shares held through the Group savings scheme (PEG) – France and world (2 dedicated funds ^(a)) | 3,933,525 | 61.88% | 1.85% | 2.36% |
| Shares held through the Group savings scheme (PEG) – Netherlands (1 dedicated fund ^(b)) | 75,570 | 1.19% | 0.04% | 0.04% |
| Shares held through a Trust/SIP ^(c) – United Kingdom | 243,738 | 3.83% | 0.11% | 0.08% |
| Shares held directly – United States | 73,189 | 1.15% | 0.03% | 0.02% |
| Shares held directly – France and world | 111,547 | 1.75% | 0.05% | 0.06% |
| Shares held directly as a result of the allotment of free shares (Article L. 225-197-1 of the French Commercial Code) – France and world | 1,918,639 | 30.19% | 0.90% | 1.10% |
| Total number of shares held by current or former employees^(d) | 6,356,208 | 100% | 2.98% | 3.66% |
| TOTAL SHARE CAPITAL | 213,365,958 | – | – | – |

(a) "Actions Thales" and "World Classic" funds.

(b) "Netherlands Classic" fund.

(c) Share Incentive Plan equivalents.

(d) This line shows total employee share ownership. For information purposes, since the entry into force of law No. 2019-486 of 22 May 2019, employee share ownership within the meaning of the French Commercial Code (Article L. 225-102) excludes shares granted as free shares under LTI Plans prior to 2016 (if the articles of association have not been amended to include them) and, at 31/12/2020, stood at 4,651,454 shares and 8,276,889 voting rights, i.e. 2.18% of the capital and 2.63% of the exercisable voting rights.

6.3 Related-party agreements

6.3.1 Commitments and agreements authorised after year end

The Board of Directors has not authorised any new related-party commitments or agreements since year end.

6.3.2 Commitments and agreements authorised during 2020

No new related-party commitments or agreements were authorised by the Board of Directors in 2020.

6.3.3 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 2020 have been disclosed to the statutory auditors in accordance with the applicable regulations. They are also described in a special report presented in section 6.3.4.

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 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 transaction to be concluded by Thales UK Ltd in its capacity as a member and subcontractor of the consortium (Thales UK Ltd has since assumed the subcontracting commitments of the companies Thales Avionics Ltd, Thales Training & Simulation Ltd and Thales Air Operations Ltd);

- 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 27/10/2019 to 27/10/2020, Thales invoiced Air Tanker the amount of £312,668 (or €355,010), pursuant to letters of credit in force

6.3.4 Statutory auditors' report on regulated party agreements

To the Annual General Meeting of Thales S.A.,

In our capacity as your company's statutory auditors, we hereby report to you on regulated party agreements.

It is our responsibility to report to the shareholders, based on the information provided to us, on the main terms and conditions of agreements that have been indicated to us or that we may have identified as part of our engagement, as well as the reasons why they benefit the company, without commenting on their relevance or substance or identifying any undisclosed agreements. 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 are appropriate and should be approved.

Where applicable, it is also our responsibility to provide the shareholders with the information required by Article R. 225-31 of the French Commercial Code in relation to the implementation during the year ended 31 December 2020 of the agreements previously approved by the Annual General 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 submitted for approval to the Annual General Meeting

Agreements authorized and concluded during year ended

We have been informed of no agreements authorized during the year and requiring the approval of the Annual General Meeting by virtue of Article L. 225-38 of the French Commercial Code.

Paris-La Défense and Courbevoie, 3 March 2021

The statutory auditors

Mazars

Dominique Muller

Gregory Derouet

Ernst & Young Audit

Jean-François Ginies

Serge Pottiez

Agreements previously approved by the Annual General Meeting

Agreements approved in previous years whose implementation continued during the year ended 31 December 2020

In accordance with Article L. 225-30 of the French Commercial Code, we have been informed of the following agreement approved in prior years and which continued during the year ended 31 December 2020.

- **With Thales UK, a wholly-owned subsidiary of your Company**

Commitments undertaken within the framework of the "FSTA" public-private partnership

Under the "FSTA" public-private partnership, your Company granted guarantees to Thales UK Ltd., as a member of the Air Tanker consortium (Thales UK Ltd. had taken over the subcontracting commitments of Thales Avionics Ltd. and Thales Training & Simulation Ltd.).

At its meeting held on 6 March 2008, your Board of Directors 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 from 27 October 2019 to 27 October 2020, your company invoiced the Air Tanker consortium the total amount of GBP 312,668 (EUR 355,010.05).

6.4 Stock market information and financial communication

6.4.1 Thales shares

6.4.1.1 Listing markets

Thales's share is listed on the Euronext Paris regulated market (Compartment A). It is eligible for the SRD deferred settlement system.

ISIN code: FR0000121329

Reuters: TCFP.PA

Bloomberg: HO FP

6.4.1.2 Index listing

At 31 December 2020, Thales's stock was included in the following main indices:

- Euronext Paris indices: CAC 40, SBF 120, SBF 250, CAC Large60 and CAC All-Shares;
- international indices: DJ Euro Stoxx, FTSEurofirst 300.

Thales' stock is listed on the CAC 40 since 21 June 2019.

6.4.1.3 Share price and trading volumes on Euronext Paris

6.4.1.3.1 Monthly data from January 2019 to December 2020 (share prices in euros)

| | No. of trading days | Number of shares traded | Total value traded (€m) | Average daily volume | Weighted average price (€) | Share price high (€) | Share price low (€) | Closing price (€) |
|----------------|---------------------|-------------------------|-------------------------|----------------------|----------------------------|----------------------|---------------------|-------------------|
| 2020 | | | | | | | | |
| January | 22 | 7,682,770 | 746.1 | 349,217 | 97.12 | 99.96 | 92.42 | 99.22 |
| February | 20 | 9,088,206 | 864.1 | 454,410 | 95.08 | 99.64 | 90.12 | 90.8 |
| March | 22 | 13,604,805 | 1,026.60 | 618,400 | 75.46 | 94.7 | 52.5 | 76.38 |
| Q1 2020 | 64 | 30,375,781 | 2,636.90 | 474,622 | 86.81 | 99.96 | 52.5 | 76.38 |
| April | 20 | 6,576,113 | 471.4 | 328,806 | 71.69 | 77.92 | 67.4 | 69.14 |
| May | 20 | 8,080,720 | 533 | 404,036 | 65.95 | 71.62 | 59.76 | 68.78 |
| June | 22 | 9,564,387 | 701.9 | 434,745 | 73.39 | 81.58 | 67.62 | 71.88 |
| Q2 2020 | 62 | 24,221,220 | 1,706.30 | 390,665 | 70.45 | 81.58 | 59.76 | 71.88 |
| July | 23 | 9,500,759 | 661.4 | 413,076 | 69.62 | 76.14 | 61.36 | 61.36 |
| August | 21 | 6,560,212 | 443.2 | 312,391 | 67.55 | 71.72 | 60.96 | 65.5 |
| September | 22 | 7,880,132 | 513.8 | 358,188 | 65.2 | 69.3 | 60.96 | 64.16 |
| Q3 2020 | 66 | 23,941,103 | 1,618.40 | 362,744 | 67.6 | 76.14 | 60.96 | 64.16 |
| October | 22 | 8,930,935 | 560.6 | 405,952 | 62.77 | 67.76 | 55.02 | 55.88 |
| November | 21 | 11,789,939 | 864.3 | 561,426 | 73.31 | 83.14 | 55.7 | 77.06 |
| December | 22 | 6,721,410 | 517.6 | 305,519 | 77.01 | 81.88 | 70.86 | 74.9 |
| Q4 2020 | 65 | 27,442,284 | 1,942.50 | 422,189 | 70.78 | 83.14 | 55.02 | 74.9 |
| 2020 | 257 | 105,980,388 | 7,904.10 | 412,375 | 74.58 | 99.96 | 52.5 | 74.9 |

| | No. of trading days | Number of shares traded | Total value traded (€m) | Average daily volume | Weighted average price (€) | Share price high (€) | Share price low (€) | Closing price (€) |
|----------------|---------------------|-------------------------|-------------------------|----------------------|----------------------------|----------------------|---------------------|-------------------|
| 2019 | | | | | | | | |
| January | 22 | 6,747,527 | 669.34 | 306,706 | 99.20 | 105.200 | 94.320 | 96.660 |
| February | 20 | 6,786,821 | 706.88 | 339,341 | 104.15 | 109.200 | 96.380 | 108.250 |
| March | 21 | 5,496,065 | 592.35 | 261,717 | 107.78 | 110.900 | 104.500 | 106.750 |
| Q1 2019 | 63 | 19,030,413 | 1,968.57 | 302,070 | 103.443 | 110.900 | 94.320 | 106.750 |
| April | 20 | 5,357,891 | 578.62 | 267,895 | 107.99 | 112.500 | 104.550 | 106.450 |
| May | 22 | 7,054,348 | 709.54 | 320,652 | 100.58 | 105.500 | 96.840 | 98.560 |
| June | 20 | 8,671,571 | 913.44 | 433,579 | 105.34 | 108.850 | 97.400 | 108.650 |
| Q2 2019 | 62 | 21,083,810 | 2,201.60 | 340,061 | 104.421 | 112.500 | 96.840 | 108.650 |
| July | 23 | 6,369,170 | 666.37 | 276,920 | 104.62 | 109.750 | 101.150 | 102.050 |
| August | 22 | 6,184,876 | 630.91 | 281,131 | 102.01 | 106.750 | 97.300 | 105.150 |
| September | 21 | 6,702,986 | 715.78 | 319,190 | 106.79 | 112.050 | 102.850 | 105.500 |
| Q3 2019 | 66 | 19,257,032 | 2,013.07 | 291,773 | 104.537 | 112.050 | 97.300 | 105.500 |
| October | 23 | 13,055,203 | 1,220.63 | 567,618 | 93.50 | 107.200 | 86.200 | 87.640 |
| November | 21 | 10,229,848 | 906.00 | 487,136 | 88.56 | 92.300 | 84.960 | 88.920 |
| December | 20 | 8,623,538 | 770.25 | 431,177 | 89.32 | 93.920 | 85.780 | 92.520 |
| Q4 2019 | 64 | 31,908,589 | 2,896.87 | 498,572 | 90.787 | 107.200 | 84.960 | 92.520 |
| 2019 | 255 | 91,279,844 | 9,080.11 | 357,960 | 99.475 | 112.500 | 84.960 | 92.520 |

6.4.1.3.2 Annual data from 2019 and 2020

• SHARE PRICE AND PERFORMANCE

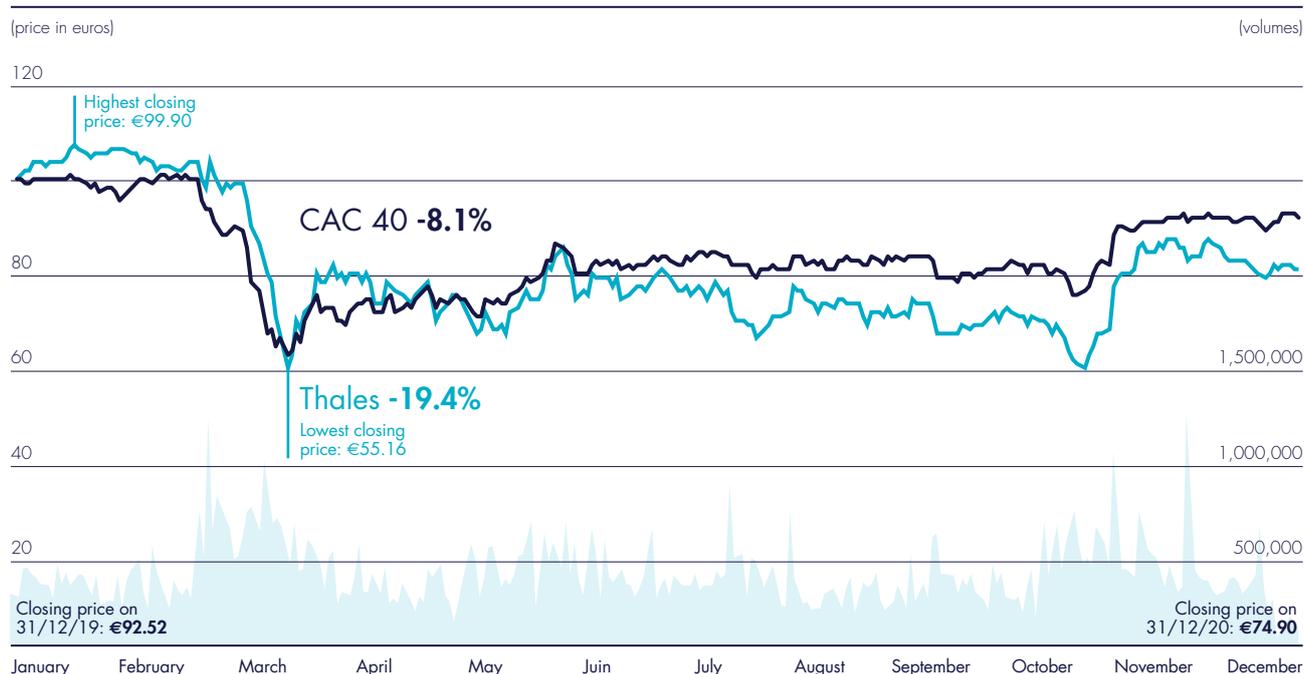
| | 2020 | 2019 |
|---|--------|--------|
| Closing price (in €) | 74.90 | 92.52 |
| Session high (in €) | 99.96 | 112.50 |
| Session low (in €) | 52.50 | 84.96 |
| Weighted average price (in €) | 74.58 | 99.48 |
| Net dividend in respect of the previous year (in €) | 0.60 | 2.08 |
| Total Shareholder Return (TSR) ^(a) (%) | -18.6% | -7.2% |
| Change in Thales stock over the period (%) | -19.4% | -9.3% |
| CAC 40 performance over the period (%) | -8.1% | +27.5% |

(a) Total Shareholder Return: differential between annual closing prices, plus dividend paid during the year in respect of the previous year, relative to the opening price.

| | 2020 | 2019 |
|---|---------|---------|
| Average number of shares traded daily (thousands) | 412.4 | 358.0 |
| Total number of shares traded over the period (millions) | 106.0 | 91.3 |
| Total value traded over the period (€ million) | 7,904.1 | 9,080.0 |
| Average number of shares traded per month (thousands) | 8832 | 7607 |
| Average value traded per month (€ million) | 658.7 | 756.7 |
| Total number of shares in capital (period-end, in millions) | 213.4 | 213.3 |

6.4.1.3.3 Chart and comments on the change in price and volumes traded from 1 January 2020 to 31 December 2020

CHANGE IN SHARE PRICE AND TRADED VOLUMES FROM 1 JANUARY 2020 TO 31 DECEMBER 2020



Comments on share price in 2019 and 2020

- The year **2020** was marked by the health crisis and the sudden collapse of all markets during the month of March. The share therefore lost 19.4%, while its benchmark index, the CAC 40, lost 8.1%.
- In **2019**, the Thales share fell by more than 9%, largely underperforming its benchmark index, the CAC 40, which rose by 27.5% during the same period.

Comments on traded volumes in 2019 and 2020

- 2020** was another year of increased trading with over 105 million shares changing ownership (up by 16%). Daily trading volumes also rose to 412,375 shares per day. Traded volumes experienced one-off peaks throughout the year, typically when the annual and half-year results were announced, as well as in March when the health crisis began in Europe.
- 2019** was a year of increased trading with over 91 million shares changing ownership (up by 18.2%). Daily trading volumes also rose, to 357,960 shares per day. Traded volumes experienced one-off increases throughout the year, typically when the annual and half-year results were announced.

6.4.1.4 Dividend policy

Dividends are paid to the holders of shares in accordance with the law. The Company uses the Euroclear direct payment procedure.

In a spirit of responsibility vis-à-vis all Group stakeholders, and in order to preserve funding capacity if the Covid-19 crisis were to last, the Board of Directors decided, during its meeting of 6 April 2020, to modify its 2019 dividend proposal.

Consequently, the Thales Annual General Meeting on 6 May 2020 approved the payment of a dividend of €0.60 per share for 2019, corresponding to the interim dividend already paid in December 2019.

Per-unit dividend information is provided below. In accordance with the French General Tax Code (Article 158-3, point 2), dividends paid in respect of 2016, 2017 and 2018 qualified for a possible tax credit:

DIVIDENDS PAID FOR THE PAST FOUR YEARS

| (in €) | 2020 ^(a) | 2019 | 2018 | 2017 |
|----------|---------------------|------|------|------|
| Dividend | 1.76 | 0.60 | 2.08 | 1.75 |

(a) Subject to the approval of the Annual General Meeting of 6 May 2021.

6.4.2 Financial communication policy

6.4.2.1 General overview

Thales's policy is to provide its shareholders with regular, clear and transparent information, in compliance with the financial reporting rules and practices on disseminating information applicable to listed companies.

In addition to this Universal Registration Document filed with 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 as well as press releases. Other publications include an integrated report and a social report providing a detailed description of its commitments and achievements in these areas.

All Thales's 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, Capital Markets Days or visits to operational sites. These include a more detailed presentation of the Group'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 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 Group's business activities and strategy.

6.4.3 Other market securities

As of 31 December 2020, nine of the Group's bonds were listed. Their amounts and main characteristics are set out in Note 6.2 to the consolidated financial statements (page 223).

6.4.2.2 Provisional financial reporting calendar for 2021

| | |
|-------------------|-------------------------------|
| 6 May | Q1 2021 financial information |
| 6 May | Annual General Meeting |
| 23 July | H1 2021 consolidated results |
| 26 October | Q3 2021 financial information |

6.4.2.3 Contacts

Investor Relations Department

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31 Place des Corolles – CS 20001
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6.4.2.4 Documents on Display

Thales's articles of association, minutes of the General Meetings and Board of Directors' reports to the General Meetings, reports of the statutory auditors, financial statements for the last three years and, more generally, all documents provided or made available to shareholders pursuant to the law may be viewed at Thales's registered office.

Some of these documents are also available on the Group's website (<https://www.thalesgroup.com/en/investor/regulated-information>).

6.5 History

1893

Compagnie Française Thomson-Houston (CFTH) established to exploit the patents of the US company Thomson-Houston Electric Corp. in France, in the field of power generation and transport.

1918

Compagnie Générale de Télégraphie Sans Fil (CSF), a pioneer in broadcasting, electroacoustics and radar technology, set up.

1968

CSF and the professional electronics businesses of Thomson-Brandt merge to form Thomson-CSF.

1982

Thomson-CSF nationalised.

1983

Civil telecommunications businesses sold to Compagnie Générale d'Électricité (now Alcatel-Lucent).

1987

Medical imaging business (CGR) sold to General Electric; semiconductor business merged with that of the Italian company SGS to form SGS-Thomson.

1989

Acquisition of the defence electronics business of the Philips group.

1997

Interest in SGS-Thomson (now STMicroelectronics) divested.

1998

Thomson-CSF privatised; Alcatel and Groupe Industriel Marcel Dassault (GIMD) contribute assets and become shareholders. Satellite businesses of Alcatel, Aerospatiale and Thomson-CSF merge to form Alcatel Space, jointly owned by Thomson-CSF (49%) and Alcatel (51%).

1999

Thomson-CSF acquires 100% control of Sextant Avionique, the avionics joint venture between Thomson-CSF and Aerospatiale (now Airbus Group).

2000

Takeover of Racal electronics in the United Kingdom. Thomson CSF changes its name to Thales.

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.

2019

Acquisition of Gemalto finalised on 2 April 2019.

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Consolidated financial statements

7

| | | |
|------------|--|------------|
| 7.1 | Consolidated financial statements | 204 |
| 7.1.1 | Consolidated profit and loss account | 204 |
| 7.1.2 | Consolidated statement of comprehensive income | 205 |
| 7.1.3 | Consolidated statement of changes in equity | 206 |
| 7.1.4 | Consolidated balance sheet | 207 |
| 7.1.5 | Consolidated statement of cash flows | 209 |
| 7.1.6 | Notes to the consolidated financial statements | 210 |

| | | |
|------------|---|------------|
| 7.2 | Parent company management report | 254 |
| 7.2.1 | Parent company management report | 254 |
| 7.2.2 | Parent company financial statements | 258 |

| | | |
|------------|---|------------|
| 7.3 | Statutory auditors' report | 286 |
| 7.3.1 | Statutory auditors' report on the consolidated financial statements | 286 |
| 7.3.2 | Statutory auditors' report on the financial statements | 290 |

| | | |
|------------|-------------------------------|------------|
| 7.4 | Statutory auditors | 293 |
| 7.4.1 | Principal statutory auditors | 293 |
| 7.4.2 | Additional statutory auditors | 293 |
| 7.4.3 | Statutory auditors' fees | 293 |

7.1 Consolidated financial statements

7.1.1 Consolidated profit and loss account

| (in € millions) | Notes | 2020 | 2019 |
|---|-----------|-----------------|-----------------|
| Sales | Note 2 | 16,988.9 | 18,401.0 |
| Cost of sales | | (13,053.7) | (13,877.3) |
| Research and development expenses | | (1,024.7) | (1,098.5) |
| Marketing and selling expenses | | (1,306.2) | (1,382.9) |
| General and administrative expenses | | (613.1) | (636.7) |
| Restructuring costs | Note 10.3 | (173.6) | (122.2) |
| Income from operations | Note 2 | 817.6 | 1,283.4 |
| Disposal of assets, changes in scope of consolidation and other | Note 3.2 | 42.0 | 218.6 |
| Impairment on non-current fixed assets | Note 4.1 | (135.4) | |
| Income of operating activities before share in net income of equity affiliates | | 724.2 | 1,502.0 |
| Share in net income of equity affiliates | Note 5.1 | 44.3 | 142.0 |
| Income of operating activities after share in net income of equity affiliates | | 768.5 | 1,644.0 |
| <i>Interest expense on gross debt</i> | | (67.3) | (62.9) |
| <i>Interest income on cash and cash equivalents</i> | | 7.6 | 19.6 |
| Interest income (expenses), net | Note 6.1 | (59.7) | (43.3) |
| Other financial expenses | Note 6.1 | (81.5) | (84.4) |
| Finance costs on pensions and other employee benefits | Note 9.3 | (45.1) | (68.9) |
| Income tax | Note 7.1 | (90.3) | (301.0) |
| NET INCOME | | 491.9 | 1,146.4 |
| Attributable to: | | | |
| Shareholders of the parent company | | 483.4 | 1,121.9 |
| Non-controlling interests | | 8.5 | 24.5 |
| Basic earnings per share (in euros) | Note 8.2 | 2.27 | 5.28 |
| Diluted earnings per share (in euros) | Note 8.2 | 2.27 | 5.26 |

Segment information (including EBIT calculation) is detailed in Note 2.3.

7.1.2 Consolidated statement of comprehensive income

| (in € millions) | | 2020 | | | 2019 | | |
|--|------------------------------------|---------------------------|------------------------------------|----------------|---------------------------|--------------|----------------|
| | | Total attributable to: | | Total | Total attributable to: | | Total |
| | Shareholders of the parent company | Non-controlling interests | Shareholders of the parent company | | Non-controlling interests | | |
| NET INCOME | | 483.4 | 8.5 | 491.9 | 1,121.9 | 24.5 | 1,146.4 |
| Translation adjustments ^(a) | Note 8.1 | (79.4) | (2.5) | (81.9) | 35.9 | (0.3) | 35.6 |
| Cash flow hedge ^(a) | Note 8.1 | 93.7 | 0.6 | 94.3 | (40.8) | 0.6 | (40.2) |
| Equity affiliates | Note 5.1 | (11.5) | – | (11.5) | 3.9 | – | 3.9 |
| Items that may be reclassified to income | | 2.8 | (1.9) | 0.9 | (1.0) | 0.3 | (0.7) |
| Actuarial gains (losses) on pensions ^(a) | Note 9.3 | (641.3) | (5.0) | (646.3) | (510.9) | (8.8) | (519.7) |
| Financial assets at fair value ^(a) | | (55.8) | (22.5) | (78.3) | (12.4) | – | (12.4) |
| Deferred tax ^(a) | Note 7.2 | 54.2 | 1.3 | 55.5 | 56.7 | 2.2 | 58.9 |
| Equity affiliates | Note 5.1 | (0.8) | – | (0.8) | (15.7) | – | (15.7) |
| Items that will not be reclassified to income | | (643.7) | (26.2) | (669.9) | (482.3) | (6.6) | (488.9) |
| Other comprehensive income (loss) for the period net of tax | | (640.9) | (28.1) | (669.0) | (483.3) | (6.3) | (489.6) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | (157.5) | (19.6) | (177.1) | 638.6 | 18.2 | 656.8 |

(a) Controlled companies.

7.1.3 Consolidated statement of changes in equity

| (in € millions) | Number of shares outstanding (thousands) | Share capital | Additional paid-in capital | Retained earnings ^(a) | Cash flow hedge | Cumulative translation adjustment | Treasury shares | Total attributable to shareholders of the parent company | Non-controlling interests | Total equity |
|--|--|---------------|----------------------------|----------------------------------|-----------------|-----------------------------------|-----------------|--|---------------------------|----------------|
| AT 1ST JANUARY 2019 | 212,456 | 639.3 | 4,068.1 | 1,339.0 | (48.7) | (225.1) | (67.3) | 5,705.3 | 224.9 | 5,930.2 |
| Net income | – | – | – | 1,121.9 | – | – | – | 1,121.9 | 24.5 | 1,146.4 |
| Other comprehensive income – Controlled companies | – | – | – | (466.6) | (40.8) | 35.9 | – | (471.5) | (6.3) | (477.8) |
| Other comprehensive income – Equity affiliates | – | – | – | (15.7) | (4.6) | 8.5 | – | (11.8) | – | (11.8) |
| Total comprehensive income for 2019 | – | – | – | 639.6 | (45.4) | 44.4 | – | 638.6 | 18.2 | 656.8 |
| Employee share issues | 213 | 0.7 | 6.2 | – | – | – | – | 6.9 | – | 6.9 |
| Parent company dividend distribution | – | – | – | (463.1) | – | – | – | (463.1) | – | (463.1) |
| Third-party share in dividend distribution of subsidiaries | – | – | – | – | – | – | – | – | (18.3) | (18.3) |
| Share-based payments | – | – | – | 26.3 | – | – | – | 26.3 | – | 26.3 |
| Acquisitions/disposals of treasury shares | 88 | – | – | (40.8) | – | – | 10.8 | (30.0) | – | (30.0) |
| Purchase of Gemalto minority interests | – | – | – | (437.0) | – | – | – | (437.0) | 7.2 | (429.8) |
| Other | – | – | – | 2.2 | – | – | – | 2.2 | 0.9 | 3.1 |
| AT 31 DECEMBER 2019 | 212,757 | 640.0 | 4,074.3 | 1,066.2 | (94.1) | (180.7) | (56.5) | 5,449.2 | 232.9 | 5,682.1 |
| Net income | – | – | – | 483.4 | – | – | – | 483.4 | 8.5 | 491.9 |
| Other comprehensive income – Controlled companies | – | – | – | (642.9) | 93.7 | (79.4) | – | (628.6) | (28.1) | (656.7) |
| Other comprehensive income – Equity affiliates | – | – | – | (0.8) | 11.8 | (23.3) | – | (12.3) | – | (12.3) |
| Total comprehensive income for 2020 | – | – | – | (160.3) | 105.5 | (102.7) | – | (157.5) | (19.6) | (177.1) |
| Employee share issues | 48 | 0.1 | 1.2 | – | – | – | – | 1.3 | – | 1.3 |
| Parent company dividend distribution | – | – | – | (85.1) | – | – | – | (85.1) | – | (85.1) |
| Third-party share in dividend distribution of subsidiaries | – | – | – | – | – | – | – | – | (12.1) | (12.1) |
| Share-based payments | – | – | – | 13.4 | – | – | – | 13.4 | – | 13.4 |
| Acquisitions/disposals of treasury shares | 63 | – | – | (28.0) | – | – | 17.9 | (10.1) | – | (10.1) |
| Gemalto PPA adjustments: minority interests | – | – | – | (29.7) | – | – | – | (29.7) | – | (29.7) |
| Other changes in scope | – | – | – | (20.6) | – | – | – | (20.6) | (2.3) | (22.9) |
| Other | – | – | – | (46.2) | – | 0.2 | – | (46.0) | (3.9) | (49.9) |
| AT 31 DECEMBER 2020 | 212,868 | 640.1 | 4,075.5 | 709.7 | 11.4 | (283.4) | (38.6) | 5,114.9 | 195.0 | 5,309.9 |

(a) This item includes actuarial gains and losses on net pension obligations, recognised directly in equity and not subsequently reclassified to profit and loss (-€2,132.5 million at end 2019, -€2,773.8 million at end 2020).

7.1.4 Consolidated balance sheet

Assets

| (in € millions) | Notes | 31/12/2020 | 31/12/2019 |
|--|-----------|-----------------|-----------------|
| Goodwill, net | Note 4.1 | 6,034.4 | 5,981.5 |
| Other intangible assets, net | Note 4.2 | 2,284.5 | 2,810.4 |
| Property, plant and equipment, net | Note 4.2 | 3,569.9 | 3,830.4 |
| Investments in equity affiliates | Note 5 | 1,283.1 | 1,333.1 |
| Non-consolidated investments | Note 6.4 | 90.7 | 196.3 |
| Other non-current financial assets | Note 6.4 | 138.9 | 174.1 |
| Non-current derivatives – assets | Note 6.6 | 13.0 | 16.8 |
| Deferred tax assets | Note 7.3 | 966.8 | 1,002.1 |
| NON-CURRENT ASSETS | | 14,381.3 | 15,344.7 |
| Inventories, work in progress and set-up costs | Note 10.1 | 3,508.5 | 3,731.3 |
| Contract assets | Note 10.2 | 2,935.2 | 3,088.9 |
| Advances to suppliers | Note 10 | 433.9 | 549.5 |
| Accounts, notes and other current receivables | Note 10.4 | 5,038.3 | 5,239.5 |
| Current derivatives – assets | Note 6.6 | 254.2 | 109.6 |
| Current tax receivable | Note 7.3 | 220.2 | 212.6 |
| Current financial assets | Note 6.2 | 32.3 | 15.9 |
| Cash and cash equivalents | Note 6.2 | 5,003.9 | 2,931.4 |
| CURRENT ASSETS | | 17,426.5 | 15,878.7 |
| TOTAL ASSETS | | 31,807.8 | 31,223.4 |

Equity and liabilities

| (in € millions) | Notes | 31/12/2020 | 31/12/2019 |
|---|-----------|-----------------|-----------------|
| Capital, additional paid-in capital and other reserves | | 5,436.7 | 5,686.4 |
| Cumulative translation adjustments | | (283.2) | (180.7) |
| Treasury shares | | (38.6) | (56.5) |
| Total attributable to shareholders of the parent company | | 5,114.9 | 5,449.2 |
| Non-controlling interests | | 195.0 | 232.9 |
| TOTAL EQUITY | Note 8.1 | 5,309.9 | 5,682.1 |
| Long-term loans and borrowings | Note 6.2 | 5,209.7 | 4,306.4 |
| Non-current derivatives – liabilities | Note 6.6 | 13.5 | 14.5 |
| Pensions and other long-term employee benefits | Note 9.3 | 3,441.4 | 2,945.2 |
| Deferred tax liabilities | Note 7.3 | 657.6 | 783.3 |
| NON-CURRENT LIABILITIES | | 9,322.2 | 8,049.4 |
| Contract liabilities | Note 10.2 | 6,453.5 | 6,414.9 |
| Reserves for contingencies | Note 10.3 | 2,052.2 | 1,960.0 |
| Accounts, notes and other current payables | Note 10.4 | 5,998.0 | 6,813.7 |
| Current derivatives – liabilities | Note 6.6 | 134.0 | 150.5 |
| Current tax payable | Note 7.3 | 149.3 | 184.5 |
| Short-term loans and borrowings | Note 6.2 | 2,388.7 | 1,968.3 |
| CURRENT LIABILITIES | | 17,175.7 | 17,491.9 |
| TOTAL EQUITY AND LIABILITIES | | 31,807.8 | 31,223.4 |

7.1.5 Consolidated statement of cash flows

| (in € millions) | Notes | 2020 | 2019 |
|--|-------------------|----------------|------------------|
| Net income | | 491.9 | 1,146.4 |
| Add (deduct): | | | |
| Income tax expense (gain) | | 90.3 | 301.0 |
| Net interest expenses (income) | | 59.7 | 43.3 |
| Share in net income of equity affiliates | | (44.3) | (142.0) |
| Dividends received from equity affiliates | | 71.6 | 111.0 |
| Depreciation and amortisation of property, plant and equipment and intangible assets | Note 4.2 | 1,178.0 | 1,112.5 |
| Impairment on non-current fixed assets | Note 4.1 | 135.4 | – |
| Provisions for pensions and other employee benefits | Note 9.3 | 183.3 | 154.9 |
| Loss (gain) on disposal of assets and other | Note 3.2 | (42.0) | (218.6) |
| Provisions for restructuring, net | Note 10.3 | 58.9 | 20.1 |
| Other items | | 5.6 | 19.0 |
| Operating cash flows before working capital changes, interest and tax | | 2,188.4 | 2,547.6 |
| Change in working capital and reserves for contingencies | Note 10 | (420.3) | (341.3) |
| Cash contributions to pension plans and other long-term employee benefits, of which: | Note 9.3 | (261.5) | (245.9) |
| • UK deficit payment | | (98.0) | (98.1) |
| • recurring contributions/benefits | | (163.5) | (147.8) |
| Interest paid | | (63.7) | (53.5) |
| Interest received | | 11.3 | 16.9 |
| Income tax paid | | (108.6) | (153.6) |
| NET CASH FLOW FROM OPERATING ACTIVITIES | - I - | 1,345.6 | 1,770.2 |
| Acquisitions of property, plant and equipment and intangible assets | | (395.4) | (503.3) |
| Disposals of property, plant and equipment and intangible assets | | 8.5 | 7.0 |
| Net operating investments | | (386.9) | (496.3) |
| Acquisitions of subsidiaries and affiliates | Note 6.3 | (23.0) | (4,980.1) |
| Related cash and cash equivalent acquired | | – | 271.9 |
| Disposals of subsidiaries and affiliates | Note 6.3 | 21.6 | 364.1 |
| Decrease (increase) in loans and non-current financial assets | | 26.1 | (11.1) |
| Decrease (increase) in current financial assets | | (24.2) | 236.3 |
| Net financial investments | | 0.5 | (4,118.9) |
| NET CASH FLOW USED IN INVESTING ACTIVITIES | - II - | (386.4) | (4,615.2) |
| Parent company dividend distribution | | (85.1) | (463.1) |
| Third party share in dividend distribution of subsidiaries | | (12.1) | (18.3) |
| Exercise of share subscription options and (purchase) sale of treasury shares | | (8.9) | (23.0) |
| Issuance of debt | | 2,279.3 | 1,365.3 |
| Repayment of debt | | (975.9) | (732.6) |
| NET CASH FLOW FROM/USED IN FINANCING ACTIVITIES | - III - | 1,197.3 | 128.3 |
| Effect of exchange rate changes and other | - IV - | (84.0) | 10.6 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | I + II + III + IV | 2,072.5 | (2,706.1) |
| Cash and cash equivalents at beginning of period | | 2,931.4 | 5,637.5 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | | 5,003.9 | 2,931.4 |

The Group's net debt position and the changes from one period to the next are presented in notes 6.2 and 6.3.

7.1.6 Notes to the consolidated financial statements

| | | |
|-----------------|--|------------|
| Note 1. | Accounting standards framework | 207 |
| Note 2. | Segment information | 210 |
| Note 3. | Impact of changes in scope of consolidation | 212 |
| Note 4. | Property, plant and equipment and intangible assets | 213 |
| Note 5. | Investments in equity affiliates | 216 |
| Note 6. | Financing and financial instruments | 218 |
| Note 7. | Income tax | 227 |
| Note 8. | Equity and earnings per share | 231 |
| Note 9. | Employee benefits | 233 |
| Note 10. | Current operating assets and liabilities | 239 |
| Note 11. | Litigation | 242 |
| Note 12. | Subsequent events | 242 |
| Note 13. | Accounting policies | 243 |
| Note 14. | Fees paid to statutory auditors | 248 |
| Note 15. | List of main consolidated companies | 249 |

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

Note 1. Accounting standards framework

Thales's consolidated financial statements for the year ending 31 December 2020 were approved and authorised for issue by its Board of Directors on 3 March 2021. In accordance with French law, the financial statements will be deemed final once they have been adopted by the shareholders of the Group at the Annual General Meeting to be held on 6 May 2021.

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

1.1 Basis of preparation for the 2020 consolidated financial statements

Thales's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) approved by the European Union at 31 December 2020⁽¹⁾.

These accounting policies, described in Note 13, are consistent with those applied by the Group for the year ending 31 December 2019.

Amendments to existing standards, mandatory as from January 1st 2020, in particular amendments to IFRS 3 (Definition of a Business), to IAS 1 and IAS 8 (Definition of materiality in financial statements) and amendment to the conceptual framework, have no impact on the Group's financial statements.

1.2 New standards mandatory after 31 December 2020

On the 27 August 2020, the IASB has published the second phase of the "Interest Rate Benchmark project". This phase II objective is to treat the accounting impacts due to the replacement of the benchmarks.

As a reminder, Thales had chosen to early apply, as from 2019, the amendments to IFRS 9 and IFRS 7 related to the phase 1 of the "interest rates benchmark reform". The adoption of these amendments allows the Group to ignore uncertainties about the future of the benchmark rates when assessing the effectiveness of hedging relationships and/or in assessing the highly probable nature of the risk covered, thereby making it possible to secure existing or future hedging relationships until the removal of these uncertainties.

European Union has adopted amendments linked to the phase 2 in December 2020. Thales has decided not to early apply these

new amendments at 31st December 2020. The early application of amendments linked to the phase 2 would have no impact for Thales in the absence of an actual change in the benchmark indices in the Group contracts at 31st December 2020.

Thales continued to conduct inventory work to ensure the transition to the new benchmarks. This project was set-up to anticipate the impacts associated with the reform and implement the transition process to the new indices. Documented interest rate derivatives hedging debts indexed to a reference rate are presented in Note 6.6.

The other text adopted by the IASB and applicable after 31 December 2020, are minor amendments to existing standards and are not expected to have a significant impact on the Group. They are currently being analysed.

1.3 Translation

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

| (in euros) | 31 December 2020 | | 31 December 2019 | | 31 December 2018 | |
|-------------------|------------------|--------------|------------------|--------------|------------------|--------------|
| | Closing rate | Average rate | Closing rate | Average rate | Closing rate | Average rate |
| Australian dollar | 1.5896 | 1.6567 | 1.5995 | 1.6079 | 1.6220 | 1.5832 |
| Pound sterling | 0.8990 | 0.8894 | 0.8508 | 0.8759 | 0.8945 | 0.8860 |
| U.S. dollar | 1,2271 | 1,1470 | 1,1234 | 1,1195 | 1,1450 | 1,1793 |

(1) Available at: https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002_en.

1.4 Covid-19 impact

The global environment has been profoundly changed by the Covid-19 public health crisis, which has affected all companies, including Thales, since March 2020.

On one hand, this crisis has affected demand across the Group's markets, with a major impact on the civil aeronautics activities reported within the operational segment "Aerospace".

On the other hand, the measures implemented to limit the spread of Covid-19 had an impact on the Group's production, project execution, supply chain and customers' ability to take delivery of products and systems. That impact was particularly significant on the results at June 30th, 2020.

In this context, and while keeping as number one priority the health and safety of its employees, Thales has implemented a global adaptation plan in order to⁽¹⁾ maintain its productive capacities at the service of its customers, (2) limit the financial and industrial impacts of this crisis and (3) strengthen its funding capacity in the event that the crisis persists or worsens.

Items affecting the consolidated financial statements for 2020 are presented below:

Revenue recognition

A significant share of Group revenues is generated by contracts to design and deliver complex products and service contracts. According to IFRS 15, the corresponding revenue is accounted for based on the costs incurred to date.

The sanitary crisis has generated inefficiencies (under-activity, reorganizations, planning delays...) and overcosts (purchase of protective equipment, expenses related to the extension of work from home).

Under IFRS 15, these costs must be excluded from the measurement of progress towards completion, and consequently do not generate revenue. They are accounted for within the income from operations as soon as they are incurred.

Governmental support measures

State support measures (short-time working, incentives to maintain employment, etc.) are recorded as a reduction in the costs concerned, as soon as they are guaranteed.

Goodwill

In the context of this sanitary crisis, goodwill has been the subject of particular attention. The analyses carried out in this context led to the impairment of intangible assets associated with IFE (on-board multimedia) activities – see Note 4.1.

Credit risk

The Group's exposure to credit risk on its operating activities has not led it to significantly reconsider the expected credit losses on customers in the 2020 financial statements.

Other assets

The Group reviewed the other assets: inventories, set up costs, capitalized development costs, deferred tax assets. This analysis did not trigger any significant impairment in 2020.

Pensions and other long-term employee benefits

At the end of December 2020, the corresponding commitments have been updated to take into account changing market conditions. The impacts are presented in Note 9.3.

Liquidity risk

The Group has taken additional measures to strengthen its liquidity by setting up a new syndicated credit line and carrying out bond issues, the characteristics of which are described in Note 6.2.

1.5 Main sources of estimates

The preparation of the Group's consolidated financial statements involves making estimates and assumptions that have an impact on the assessment 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 at 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 could affect the Group's financial situation, profit and loss and/or cash flows, notably with regard to:

Recognition of revenue over time (Note 10)

A very significant part of the Group's revenue and current operating income stems from contracts recognised according to the percentage of completion method. These contracts often span several financial years. In the accounting closing process, the recognition of revenue and operating margin relating to these contracts depends mainly:

- on estimates of revenue and margin at completion, including provisions for technical and commercial risks;
- on costs incurred to date compared to the total costs expected at completion.

Monitoring of costs incurred to date and estimates of figures at completion are based, for each contract, on the Group's internal systems and procedures, with project managers playing a key role. These estimates are reviewed regularly by the Operations and Finance departments, under the supervision of the Group's corporate management, particularly at each period-end reporting.

Litigation (Note 11)

The Group conducts its business in France and abroad in complex, evolving legal and regulatory environments. As a result, it is exposed to technical and commercial disputes.

The Group regularly identifies and reviews all current commercial, civil or criminal litigation and pre-litigation, and recognises any accounting provisions that it considers to be reasonable. Uncertainties concerning litigation in progress are described in Note 11.

Business combinations

Business combinations are accounted for in accordance with the purchase accounting method described in Note 13-b: thus, on the date of the takeover of a company, the acquiree's identifiable assets and liabilities are measured at their fair value. These valuations are performed by independent experts who base their work on assumptions and must estimate the effects of future events, which are uncertain at the acquisition date.

Goodwill (Note 4.1)

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

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 Note 13-k. Actuarial assumptions made by the Group (discount rates, inflation rate, mortality tables, etc.) are reviewed each year with the actuaries.

Deferred tax assets (Note 7)

Deferred tax assets are recognised for tax loss carry-forwards and temporary differences between the book value and the tax value of assets and liabilities. The recoverability of these assets is assessed on the basis of forecasts of future tax results of the tax entities over a period of three to five years, the entity's history of tax losses, past non-recurring items and tax strategies specific to each country.

Note 2. Segment information

2.1 Business segments

The business segments presented by the Group are as follows:

- the **Aerospace** segment combines the “Avionics” and “Space” Global Business Units. They develop on-board systems and services for private sector customers (aircraft manufacturers, airlines, satellite operators, etc.) and for government/defence customers (national governments, space agencies and other semi-public organisations).
- the **Transport** segment (“Ground Transportation Systems” Global Business Unit) develops civil systems and services for ground transportation infrastructure operators.
- the **Defence & Security** segment combines the “Secure Communications and Information Systems”, “Land and Air Systems” and “Defence Mission Systems” Global Business Units. They develop equipment, systems and services for armed forces and for the protection of networks and infrastructure, mainly for a government/defence customer base.
- the **Digital Identity & Security** segment, includes Gemalto (consolidated as from 1st April 2019), which develops digital identity and security solutions for a private and government customer base, and some digital businesses previously included in the Defence & Security segment, in particular in data protection and analytics.

In 2020, the Group’s business is balanced between civilian customers for 53% and military customers for 47% (respectively 55% and 45% in 2019).

2.2 Sales

| 2020 | Aerospace | Transport | Defence & Security | Digital I&S | Other | Thales |
|------------------------------------|----------------|----------------|--------------------|----------------|-------------|-----------------|
| Sales by destination: | | | | | | |
| Europe | 2,805.7 | 965.2 | 4,789.4 | 839.5 | 32.7 | 9,432.5 |
| North America | 528.0 | 65.4 | 497.9 | 856.0 | 5.2 | 1,952.5 |
| Australia and New Zealand | 40.8 | 46.5 | 835.9 | 67.1 | – | 990.3 |
| Total mature markets | 3,374.5 | 1,077.1 | 6,123.2 | 1,762.6 | 37.9 | 12,375.3 |
| Emerging markets ^(a) | 842.5 | 540.8 | 1,961.6 | 1,229.2 | 39.5 | 4,613.6 |
| TOTAL | 4,217.0 | 1,617.9 | 8,084.8 | 2,991.8 | 77.4 | 16,988.9 |
| Revenue recognition method: | | | | | | |
| Over time | 2,653.6 | 1,341.8 | 6,635.4 | 704.0 | 41.8 | 11,376.6 |
| At a point in time | 1,563.4 | 276.1 | 1,449.4 | 2,287.8 | 35.6 | 5,612.3 |
| TOTAL | 4,217.0 | 1,617.9 | 8,084.8 | 2,991.8 | 77.4 | 16,988.9 |

| 2019 | Aerospace | Transport | Defence & Security | Digital I&S | Other | Thales |
|------------------------------------|----------------|----------------|--------------------|----------------|-------------|-----------------|
| Sales by destination: | | | | | | |
| Europe | 3,462.7 | 1,049.5 | 4,521.7 | 735.8 | 28.6 | 9,798.3 |
| North America | 780.5 | 88.6 | 467.3 | 757.7 | 7.4 | 2,101.5 |
| Australia and New Zealand | 53.0 | 40.3 | 812.0 | 52.5 | 0.1 | 957.9 |
| Total mature markets | 4,296.2 | 1,178.4 | 5,801.0 | 1,546.0 | 36.1 | 12,857.7 |
| Emerging markets ^(a) | 1,298.9 | 731.7 | 2,464.5 | 1,005.0 | 43.2 | 5,543.3 |
| TOTAL | 5,595.1 | 1,910.1 | 8,265.5 | 2,551.0 | 79.3 | 18,401.0 |
| Revenue recognition method: | | | | | | |
| Over time | 3,383.9 | 1,632.4 | 6,709.0 | 472.0 | 36.1 | 12,233.4 |
| At a point in time | 2,211.2 | 277.7 | 1,556.5 | 2,079.0 | 43.2 | 6,167.6 |
| TOTAL | 5,595.1 | 1,910.1 | 8,265.5 | 2,551.0 | 79.3 | 18,401.0 |

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

2.3 Commercial activity and EBIT by segment

In order to monitor the operating and financial performance of the entities, the Group's management regularly considers certain key non-GAAP indicators as defined in Note 13-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 expenses related to business combinations (amortisation of acquisition-related assets (PPA) and other expenses directly linked to business combinations).

| 2020 | Aerospace | Transport | Defence & Security | Digital I&S | Other ^(a) | Thales |
|--|------------------|------------------|-------------------------------|------------------------|----------------------------|-----------------|
| Order book – non-Group at 31/12 | 6,590.7 | 3,917.5 | 23,245.3 | 588.8 | 87.3 | 34,429.6 |
| Order intake – non-Group | 3,821.8 | 1,651.9 | 9,922.5 | 3,022.9 | 57.0 | 18,476.1 |
| Sales – non-Group | 4,217.0 | 1,617.9 | 8,084.8 | 2,991.8 | 77.4 | 16,988.9 |
| Sales – intersegment | 94.8 | 4.4 | 286.0 | 25.5 | (410.7) | – |
| Total sales | 4,311.8 | 1,622.3 | 8,370.8 | 3,017.3 | (333.3) | 16,988.9 |
| EBIT | (76.2) | 86.1 | 1,038.9 | 324.3 | (20.9) | 1,352.2 |
| • of which, Naval Group | – | – | – | – | 21.6 | 21.6 |
| • excluding Naval Group | (76.2) | 86.1 | 1,038.9 | 324.3 | (42.5) | 1,330.6 |
| Capital expenditures | 83.5 | 15.9 | 135.8 | 73.1 | 87.1 | 395.4 |
| Dep. and amort. of property, plant and equipment and intangible assets | 151.0 | 31.6 | 147.4 | 121.9 | 288.3 | 740.2 |
| 2019 | Aerospace | Transport | Defence & Security | Digital I&S | Other^(a) | Thales |
| Order book – non-Group at 31/12 | 7,306.3 | 4,076.2 | 21,773.8 | 588.4 | 94.0 | 33,838.7 |
| Order intake – non-Group | 4,828.9 | 1,750.6 | 9,907.1 | 2,572.3 | 82.7 | 19,141.6 |
| Sales – non-Group | 5,595.1 | 1,910.1 | 8,265.5 | 2,551.0 | 79.3 | 18,401.0 |
| Sales – intersegment | 86.2 | 2.5 | 338.1 | 4.7 | (431.5) | – |
| Total sales | 5,681.3 | 1,912.6 | 8,603.6 | 2,555.7 | (352.2) | 18,401.0 |
| EBIT | 520.8 | 56.1 | 1,152.7 | 264.1 | 14.3 | 2,008.0 |
| • of which, Naval Group | – | – | – | – | 64.7 | 64.7 |
| • excluding Naval Group | 520.8 | 56.1 | 1,152.7 | 264.1 | (50.4) | 1,943.3 |
| Capital expenditures | 124.1 | 20.4 | 162.1 | 68.4 | 128.4 | 503.3 |
| Dep. and amort. of property, plant and equipment and intangible assets | 144.5 | 31.0 | 146.0 | 103.8 | 294.6 | 719.9 |

(a) Order intake and sales included in the "Other, elim. and unallocated" column relate to corporate activities (Thales parent company, Thales Global Services, Group R&D centres, facilities management), and to the elimination of transactions between business segments.

Unallocated EBIT includes the Group's share (35%) in the net income of Naval Group, corporate income from operations which is not assigned to 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 business segments proportionally to their respective non-Group sales.

At the end of 2020, the order book stood at €34,429.6 million. Around 70% of this amount is expected to convert into sales within three years.

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

| | 2020 | 2019 |
|--|----------------|----------------|
| Income from operations | 817.6 | 1,283.4 |
| Less, amortisation of acquisition-related assets (PPA) | 456.6 | 527.5 |
| • Intangible assets | 414.8 | 375.3 |
| • Property, plant and equipment | 23.0 | 17.3 |
| • Net inventories and work in progress | – | 74.0 |
| • Deferred revenue | 18.8 | 60.9 |
| Less, expenses directly linked to business combinations | 6.6 | 26.5 |
| • Restructuring costs | 5.0 | 20.7 |
| • Other expenses | 1.6 | 5.8 |
| Share in net income of equity affiliates | 44.3 | 142.0 |
| Less, PPA amortisation related to equity affiliates | 27.1 | 28.6 |
| EBIT | 1,352.2 | 2,008.0 |

Note 3. Impact of changes in scope of consolidation

3.1 Main changes in scope of consolidation

On April 2, 2019, Thales took control of Gemalto, leader in cybersecurity. Gemalto is consolidated in Thales' financial statements since this date.

In accordance with accounting standards, the purchase price allocation was finalised at first trimester 2020, leading to final goodwill of €2,740 million.

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

| | 2020 | 2019 |
|---|--------------|---------------|
| Disposal of investments: | 50.1 | 213.9 |
| GP HSM business | 1.4 | 223.2 |
| Other disposal of investments | 48.7 | (9.3) |
| Acquisition-related fees (consultants, legal counsel, etc.) | (5.4) | (28.3) |
| Disposal of real estate and other tangible and intangible assets | (0.5) | (1.5) |
| Impact of settlements/amendments to pension plans (Note 9) | (2.2) | 34.5 |
| TOTAL | 42.0 | 218.6 |

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's Global Business Units (GBU):

| | 01/01/2020 | Acquisitions | Disposals | Impairment | Exch. Rate and other | 31/12/2020 |
|--|----------------|----------------------|-----------|---------------|----------------------|----------------|
| Avionics | 465.8 | – | – | (98.2) | (1.9) | 365.7 |
| Space | 490.6 | – | – | – | (0.6) | 490.0 |
| <i>Aerospace</i> | 956.4 | – | – | (98.2) | (2.5) | 855.7 |
| Transport | 879.8 | – | – | – | – | 879.8 |
| Secure Communication & Information Systems | 651.3 | – | – | – | 0.7 | 652.0 |
| Land and Air Systems | 309.4 | – | – | – | – | 309.4 |
| Defence Mission Systems | 457.6 | – | – | – | 0.3 | 457.9 |
| <i>Defence and Security</i> | 1,418.3 | – | – | – | 1.0 | 1,419.3 |
| Digital Identity and Security | 2,727.0 | 165.6 ^(a) | – | – | (13.0) | 2,879.6 |
| TOTAL | 5,981.5 | 165.6 | – | (98.2) | (14.5) | 6,034.4 |

(a) Including €169.9 million as the final purchase price allocation of Gemalto, resulting in a goodwill of €2,739.9 million.

| | 01/01/2019 | Acquisitions | Disposals | Impairment ^(c) | Exch. Rate and other | 31/12/2019 |
|--|----------------|------------------------|------------------------|---------------------------|----------------------|----------------|
| Avionics | 463.8 | – | – | – | 2.0 | 465.8 |
| Space | 489.2 | – | – | – | 1.4 | 490.6 |
| <i>Aerospace</i> | 953.0 | – | – | – | 3.4 | 956.4 |
| Transport | 875.3 | 4.5 | – | – | – | 879.8 |
| Secure Communication & Information Systems | 850.6 | 60.0 ^(a) | (142.0) ^(b) | (119.3) | 2.0 | 651.3 |
| Land and Air Systems | 309.3 | – | – | – | 0.1 | 309.4 |
| Defence Mission Systems | 457.0 | – | – | – | 0.6 | 457.6 |
| <i>Defence and Security</i> | 1,616.9 | 60.0 | (142.0) | (119.3) | 2.7 | 1,418.3 |
| Digital Identity and Security | – | 2,605.5 ^(d) | – | 119.3 | 2.2 | 2,727.0 |
| TOTAL | 3,445.2 | 2,670.0 | (142.0) | – | 8.3 | 5,981.5 |

(a) Acquisition of Ercom and Suneris.

(b) Disposal of *General Purpose Hardware Security Module* (GP HSM) business.

(c) Reallocation of goodwill related to Guavus and e-Security businesses, given the organisational change. This reallocation was based on relative fair values at that date.

(d) Including Gemalto acquisition: €2,570 million.

b) Impairment tests

Goodwill as well as cash-generating units (CGUs) are subject to annual impairment tests in accordance with the Group's budgetary timetable. Substantially all other intangible assets and property, plant and equipment are tested at the CGU level. For these tests, the value in use is based on discounted future operating cash flows over a three-year period and a terminal value. In certain specific cases (recent acquisitions, non-typical annual results, etc.), the terminal value is based on forecasts over an appropriate period of time. In the case of DIS, projections were made over a time horizon consistent with the acquisition business plan.

At the end of 2020, cash flows utilized for the tests came from the budget prepared for the following year, established in accordance with Group procedures, and extended over the next two years. These cash flows reflect management's best estimate of the medium-term consequences of the sanitary crisis in this specific case.

In addition to taking into account the consequences of the health crisis, the discount rate was recalculated by including this year a specific risk premium to reflect an additional level of uncertainty related to the Covid-19 context. The discount rate used was 8% for the Group at the end of 2020. The assumptions used for business growth and terminal value are based on a reasonable approach specific to each sector (terminal value generally based on the average income from operations over the three years, growth limited to 2%).

In the case of the Avionics business, revenue projections have been constructed taking into account the analyses of the International Air Transport Association (IATA), which does not expect air traffic to return to pre-crisis levels before the end of 2023 at the earliest. A one-year delay to the end of 2024 of the return of air traffic to pre-crisis levels would not lead to the recognition of an impairment loss for the Avionics CGUs (see below for the specific development of the IFE CGU), and the Avionics business considered as a whole.

On the basis of the values in use, the Group also tested the sensitivity of all other CGUs to changes in key assumptions. Taken individually, an increase by 1 point of the discount rate, a decrease by 1 point of the growth rate or a decrease by 2 points in operating profitability over the standard year would not lead to the recognition of any impairment loss.

At December 31, 2020, the impairment test based on IFE (on-board multimedia, within the Avionics business) CGU business projections led to the recognition of an impairment loss of €135.4 million on some of its assets. Goodwill and acquired intangible assets of this CGU were fully impaired for €98.2 million and €37.3 million respectively. In the specific case of IFE, a one year delay in business forecasts as well as any other negative change in key assumptions could expose the remaining assets of the business, with a residual impact considered non-material within the Group.

4.2 Plant, property and equipment and other intangible assets

a) Change in net assets

| | 01/01/2020 | Acquisitions | Disposal | Depr., amort. | Impairment | Exch. Rate change in scope and other | 31/12/2020 |
|---|----------------|--------------|--------------|------------------|---------------|--------------------------------------|----------------|
| Acquired intangible assets | 2,561.0 | – | – | (414.8) | (37.3) | (52.1) | 2,056.8 |
| Capitalised development costs | 58.6 | 24.9 | – | (28.7) | – | (3.0) | 51.8 |
| Other | 190.8 | 53.0 | (2.4) | (69.9) | – | 4.4 | 175.9 |
| Intangible assets | 2,810.4 | 77.9 | (2.4) | (513.4) | (37.3) | (50.7) | 2,284.5 |
| Right of use from lease contracts | 1,650.9 | 164.3 | – | (244.6) | – | (27.5) | 1,543.1 |
| Acquired tangible assets | 97.7 | – | – | (23.0) | – | 0.1 | 74.8 |
| Property, plant and equipment | 2,081.8 | 317.5 | (6.1) | (397.0) | – | (44.2) | 1,952.0 |
| Tangible assets | 3,830.4 | 481.8 | (6.1) | (664.6) | – | (71.6) | 3,569.9 |
| TOTAL | 6,640.8 | 559.7 | (8.5) | (1,178.0) | (37.3) | (122.3) | 5,854.4 |
| Less, new lease contracts | | (164.3) | | | | | |
| Operating investment^(a) | | 395.4 | | | | | |

| | 01/01/2019 | Acquisitions | Disposal | Depr., amort. | Change in scope. | Exch. Rate and other | 31/12/2019 |
|---|----------------|--------------|--------------|------------------|------------------|----------------------|----------------|
| Acquired intangible assets | 604.9 | – | – | (375.3) | 2,314.5 | 16.9 | 2,561.0 |
| Capitalised development costs | 30.8 | 28.2 | – | (27.4) | 26.5 | 0.5 | 58.6 |
| Other | 133.6 | 67.3 | – | (64.3) | 40.9 | 13.3 | 190.8 |
| Intangible assets | 769.3 | 95.5 | – | (467.0) | 2,381.9 | 30.7 | 2,810.4 |
| Right of use from lease contracts | 1,481.5 | 298.7 | – | (229.3) | 109.5 | (9.5) | 1,650.9 |
| Acquired tangible assets | – | – | – | (17.3) | 115.0 | – | 97.7 |
| Property, plant and equipment | 1,808.9 | 407.8 | (7.0) | (398.9) | 269.7 | 1.3 | 2,081.8 |
| Tangible assets | 3,290.4 | 706.5 | (7.0) | (645.5) | 494.2 | (8.2) | 3,830.4 |
| TOTAL | 4,059.7 | 802.0 | (7.0) | (1,112.5) | 2,876.1 | 22.5 | 6,640.8 |
| Less, new lease contracts | | (298.7) | | | | | |
| Operating investment^(a) | | 503.3 | | | | | |

(a) Presented in the statement of cash-flows.

b) Breakdown by item

| | | | 31/12/2020 | 31/12/2019 |
|---|----------------|----------------------------------|----------------|----------------|
| | Gross | Depr., amort., and impairment | Net | Net |
| Technologies acquired | 2,083.6 | (939.9) | 1,143.7 | 1,465.8 |
| Customer relationships acquired | 1,233.9 | (551.4) | 682.5 | 798.9 |
| Order book acquired | 282.4 | (274.6) | 7.8 | 15.3 |
| Other intangible assets | 385.4 | (162.6) | 222.8 | 281.0 |
| Acquired intangible assets (business combinations) | 3,985.3 | (1,928.5) | 2,056.8 | 2,561.0 |
| Development costs | 947.3 | (895.5) | 51.8 | 58.6 |
| Other intangible assets | 1,075.2 | (899.2) | 176.0 | 190.8 |
| Intangible assets | 6,007.8 | (3,723.2) | 2,284.6 | 2,810.4 |
| Right of use from lease contracts | 2,087.6 | (544.5) | 1,543.1 | 1,650.9 |
| Land | 64.2 | (1.9) | 62.3 | 53.5 |
| Buildings | 2,180.8 | (1,407.0) | 773.8 | 798.7 |
| Technical facilities, industrial equipment and tooling | 3,490.5 | (2,713.6) | 776.9 | 843.3 |
| Other property, plant and equipment | 1,258.0 | (844.2) | 413.8 | 484.0 |
| Property, plant and equipment | 9,081.1 | (5,511.2) | 3,569.9 | 3,830.4 |

Note 5. Investments in equity affiliates**5.1 Change in investment in equity affiliates**

| | 31/12/2020 | 31/12/2019 |
|---|----------------|----------------|
| Investment at opening | 1,333.1 | 1,306.3 |
| Share in net income of equity affiliates | 44.3 | 142.0 |
| Translation adjustment | (23.3) | 8.5 |
| Cash flow hedge | 11.8 | (4.6) |
| Actuarial gains (losses) on pensions | (0.8) | (15.7) |
| Share in comprehensive income of equity affiliates | 32.0 | 130.2 |
| Dividends paid | (71.6) | (111.0) |
| Change in scope and other | (10.4) | 7.6 |
| Investments at closing | 1,283.1 | 1,333.1 |
| <i>Including Naval Group</i> | <i>715.1</i> | <i>746.7</i> |

5.2 Naval group: summary financial information

Thales holds 35% of the capital of Naval Group and participates jointly with the French government in the governance of the company. Naval Group is a group specialized in the naval defense industry. The financial statements of Naval Group, as restated in Thales' financial statements (PPA), are as follows:

| Summary balance sheet (after PPA) based on a 100% interest | 31/12/2020 | 31/12/2019 |
|---|-------------------|-------------------|
| Non-current assets | 2,253.0 | 2,184.4 |
| Current assets | 4,406.1 | 4,551.6 |
| Total assets | 6,659.1 | 6,736.0 |
| Restated equity, attributable to shareholders of the company | 1,208.6 | 1,299.1 |
| Non-controlling interests | 0.5 | 16.6 |
| Non-current liabilities | 558.7 | 609.1 |
| Current liabilities | 4,891.3 | 4,811.2 |
| Total equity and liability | 6,659.1 | 6,736.0 |

| | | |
|-----------------|----------------|----------------|
| Net cash | 1,628.5 | 1,903.3 |
|-----------------|----------------|----------------|

| Consolidation by Thales: | 31/12/2020 | 31/12/2019 |
|---|-------------------|-------------------|
| Thales' share (35%) | 423.1 | 454.7 |
| Goodwill | 292.0 | 292.0 |
| Share in net assets of Naval Group | 715.1 | 746.7 |

| Income statement (after PPA), based on a 100% interest | 2020 | 2019 |
|---|---------------|--------------|
| Sales | 3,323.0 | 3,712.1 |
| Income (loss) from operating activities, after share in net income of equity affiliates | (36.0) | 167.3 |
| Financial income (loss) | (2.4) | (7.1) |
| Tax and other | 21.9 | (58.1) |
| Restated net income | (16.5) | 101.7 |
| • Of which, attributable to shareholders of the company | (11.7) | 107.1 |
| • Of which, attributable to non-controlling interests | (4.8) | (5.4) |

| Consolidation by Thales | 2020 | 2019 |
|--|--------------|-------------|
| Thales' share in net income attributable to shareholders of the company | (4.1) | 37.5 |
| • Of which, PPA amortisation | (25.7) | (27.2) |
| Share in net income, before PPA | 21.6 | 64.7 |
| Dividends received from Naval Group | 16.6 | 15.4 |

5.3 Commitments and related parties

a) Commitments toward equity affiliates

At 31 December 2020, outstanding sureties, endorsements and guarantees granted by Thales S.A. (parent company) in support to its joint ventures amounted to €395.5 million (€390.2 million at 31 December 2019). The Group has no significant off-balance sheet commitments to associates.

The Group's policy is to issue these commitments only in proportion to its equity interest, or to obtain counter-guarantees from the other shareholders in proportion to their interest.

b) Transactions with equity affiliates

The volume of transactions with joint ventures is as follows:

| | 2020 | 2019 |
|--|-------|-------|
| Sales | 364.7 | 490.9 |
| Purchases | 130.5 | 191.6 |
| Loans and current accounts receivables | 29.3 | 32.6 |
| Borrowings and current accounts payables | 2.6 | 7.5 |

Note 6. Financing and financial instruments

6.1 Financial income

a) Net interest income

| | 2020 | 2019 |
|--|---------------|---------------|
| Financial interests related to lease contracts | (27.3) | (27.4) |
| Other interest expense: | (40.0) | (35.5) |
| • from financial gross debt | (30.7) | (24.2) |
| • from interest rate swaps | (9.3) | (11.3) |
| Interest income on cash and cash equivalents | 7.6 | 19.6 |
| TOTAL | (59.7) | (43.3) |

b) Other financial income

| | 2020 | 2019 |
|---|---------------|---------------|
| Foreign exchange gains (losses) | (22.6) | (9.0) |
| Cash flow hedges, ineffective portion | (4.1) | 0.7 |
| Change in fair value of currency derivatives ^(a) | (47.1) | (72.5) |
| Foreign exchange gains (losses) | (73.8) | (80.8) |
| Other | (7.7) | (3.6) |
| TOTAL | (81.5) | (84.4) |

(a) Includes the change in the fair value of swap points (- €37.9 million in 2020, - €64.8 million in 2019), and the time value of foreign exchange options documented as future cash flow hedges (- €6.0 million in 2020 and 2019), as well as changes in the fair value of derivatives not documented as hedges.

6.2 Net cash (net debt)

Group net cash (debt) is as follows:

| | 31/12/2020 | 31/12/2019 |
|---|------------------|------------------|
| Current financial assets | 32.3 | 15.9 |
| Cash and cash equivalents | 5,003.9 | 2,931.4 |
| Cash and other short-term investments (I) | 5,036.2 | 2,947.3 |
| Financial debt | 5,947.9 | 4,533.2 |
| Lease debt | 1,637.5 | 1,724.7 |
| Gross debt^(a) (II) | 7,585.4 | 6,257.9 |
| NET CASH (I – II) | (2,549.2) | (3,310.6) |
| (a) Including: | | |
| - long term financial debt | 5,209.7 | 4,306.4 |
| - short term financial debt | 2,388.7 | 1,968.3 |
| - fair value of interest rate hedging derivatives | (13.0) | (16.8) |

a) Current financial assets

| | 31/12/2020 | 31/12/2019 |
|--|-------------|-------------|
| Current accounts receivable with related parties | 32.2 | 15.5 |
| Accrued interests | 0.1 | 0.4 |
| CURRENT FINANCIAL ASSETS | 32.3 | 15.9 |

b) Cash and cash equivalents

At 31 December 2020, cash recorded under consolidated assets amounted to €5,003.9 million (€2,931.4 million at 31 December 2019) and included:

- €4,095.4 million held by the parent company and available for immediate use (€1,961.5 million in 2019). These amounts include €2,870.9 million (€51.4 million in 2019) in very short-term deposits with tier-one banks or money market funds (UCITS);
- €908.5 million in the credit balances of subsidiaries (€969.9 million in 2019), 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

| | 31/12/2020 | 31/12/2019 |
|---|----------------|----------------|
| Bond issues | 4,486.7 | 3,286.7 |
| Treasury bills | 1,196.4 | 746.0 |
| Term loan | 80.0 | 80.0 |
| Current accounts in credit with related parties | 150.9 | 165.9 |
| Bank overdrafts | 14.3 | 167.7 |
| Debt on investments in subsidiaries | 3.7 | 59.6 |
| Accrued interests and other debts | 15.9 | 27.3 |
| FINANCIAL DEBT | 5,947.9 | 4,533.2 |

The Group carried out three bond issues in 2020. In January 2020, it refinanced in advance the bond issue maturing in April 2020. In May 2020, it issued a €700 million 8-year bond, and in November 2020, a €500 million issue maturing in March 2026, in order to anticipate 2021 bond maturities.

Bonds: key features at the end of December 2020

| Nominal value | Issue date | Maturity | Type of rate | Coupon | Effective rate | |
|---------------|---------------|--------------|----------------------|--------|----------------|---------------|
| | | | | | Before hedging | After hedging |
| € 300 million | March 2013 | March 2021 | fixed ^(a) | 2.25% | 2.40% | 1.04% |
| € 387 million | Sept 2014 | Sept. 2021 | fixed | 2.125% | 0.55% | 0.55% |
| € 500 million | May 2019 | May 2022 | fixed | 0% | 0.02% | 0.02% |
| € 600 million | June 2016 | June 2023 | fixed ^(a) | 0.75% | 0.84% | 0.98% |
| € 500 million | April 2018 | April 2024 | fixed | 0.875% | 0.94% | 1.11% |
| € 500 million | January 2018 | January 2025 | fixed | 0.75% | 0.91% | 0.91% |
| € 500 million | November 2020 | March 2026 | fixed | 0% | 0.08% | 0,08% |
| € 500 million | January 2020 | January 2027 | fixed | 0.25% | 0.33% | 0,33% |
| € 700 million | May 2020 | May 2028 | fixed | 1% | 1,10% | 1,10% |

(a) After reversal, during H1 2018, of the swaps put in place when the bonds were issued.

In addition, in order to strengthen its liquidity in the context of the health crisis, in April 2020, Thales concluded a bank bridge loan of € 2,000 million (reduced to € 800 million after the bond issues in May and November 2020). This bridging loan expires in April 2021 and includes an extension option for an additional 6 months; it does not provide for an early payment clause.

Finally, in December 2020, Thales renewed its €1,500 million syndicated credit line, which expired in December 2021. The new line expires in December 2023, with the possibility of extension until December 2025.

Breakdown of financial debt by maturity

| 31/12/2020 | Total | Maturity | | | | |
|-------------------------------------|----------------|----------|-------|-------|-------|---------|
| | | 2021 | 2022 | 2023 | 2024 | > 2024 |
| Financial debt^(a) | 5,947.9 | 2,158.7 | 503.4 | 598.6 | 499.6 | 2,187.6 |
| Contractual cash flows | 6,063.3 | 2,161.6 | 525.8 | 622.8 | 517.5 | 2,235.6 |

| 31/12/2019 | Total | Maturity | | | | |
|-------------------------------------|----------------|----------|-------|-------|-------|---------|
| | | 2020 | 2021 | 2022 | 2023 | > 2023 |
| Financial debt^(a) | 4,533.2 | 1,740.9 | 697.3 | 501.0 | 598.1 | 995.9 |
| Contractual cash flows | 4,605.3 | 1,742.0 | 716.1 | 515.4 | 614.5 | 1,017.3 |

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

Breakdown of financial debt by currency

| | 31/12/2020 | 31/12/2019 |
|-----------------|----------------|----------------|
| Euro | 5,937.5 | 4,349.8 |
| Canadian Dollar | – | 109.5 |
| US Dollar | 3.8 | 54.9 |
| Others | 6.6 | 19.0 |
| TOTAL | 5,947.9 | 4,533.2 |

Change in financial debt

| | 31/12/2019 | | Other changes | | | 31/12/2020 |
|----------------|------------|---------|----------------|----------------------|--------|------------|
| | Cash flow | Scope | Exchange rates | Other ^(a) | | |
| Financial debt | 4,533.2 | 1,526.5 | – | (53.5) | (58.3) | 5,947.9 |

| | 31/12/2018 | | Other changes | | | 31/12/2019 |
|----------------|------------|-------|----------------|----------------------|--------|------------|
| | Cash flow | Scope | Exchange rates | Other ^(a) | | |
| Financial debt | 2,713.0 | 835.7 | 891.5 | 116.7 | (23.7) | 4,533.2 |

(a) Including issuance costs for new bonds, changes in the value of derivatives hedging bonds and changes in the value of debt on acquisition of subsidiaries.

d) Lease debt

Change in lease debt

| | 01/01/2020 | | Other changes | | | 31/12/2020 |
|----------------|--------------------------|---------|---------------|-------------------------|-------|------------|
| | Cash flow ^(a) | Scope | Exch. rate | New debt ^(b) | | |
| Financial debt | 1,724.7 | (223.0) | – | (30.4) | 166.2 | 1,637.5 |

| | 01/01/2019 | | Other changes | | | 31/12/2019 |
|----------------|--------------------------|---------|---------------|-------------------------|-------|------------|
| | Cash flow ^(a) | Scope | Exch. rate | New debt ^(b) | | |
| Financial debt | 1,507.2 | (203.0) | 115.3 | 6.5 | 298.7 | 1,724.7 |

(a) Share of lease payments corresponding to the repayment of lease debt.

(b) New lease contracts signed in 2020 and impact of the renegotiation of existing leases.

Debt maturity

| 31/12/2020 | Total | Maturity | | | | |
|------------|---------|----------|-------|-------|-------|--------|
| | | 2021 | 2022 | 2023 | 2024 | > 2024 |
| Lease debt | 1,637.5 | 224.9 | 207.7 | 190.6 | 156.2 | 858.1 |

| 31/12/2019 | Total | Maturity | | | | |
|------------|---------|----------|-------|-------|-------|--------|
| | | 2020 | 2021 | 2022 | 2023 | > 2023 |
| Lease debt | 1,724.7 | 227.4 | 210.6 | 185.3 | 163.3 | 938.1 |

6.3 Changes in net cash

| | 2020 | 2019 |
|---|------------------|------------------|
| Net cash (debt) at opening | (3,310.6) | 1,673.3 |
| Net cash flow from operating activities | 1,345.6 | 1,770.2 |
| Less, contributions to reduction of UK pension deficit | 98.0 | 98.1 |
| Net operating investments | (386.9) | (496.3) |
| Free operating cash flow | 1,056.7 | 1,372.0 |
| Acquisitions of subsidiaries and affiliates: | (23.0) | (4,980.1) |
| • of which, Gemalto | – | (4,762.4) |
| Net debt of acquired companies | – | (729.4) |
| Disposal of subsidiaries and affiliates | 21.6 | 364.1 |
| • of which, General Purpose HSM | 3.1 | 361.7 |
| Contributions to reduction of UK pension deficit | (98.0) | (98.1) |
| Changes in loans | 26.1 | (11.1) |
| Dividends paid by the parent company | (85.1) | (463.0) |
| Third-party share in dividend distributions of subsidiaries | (12.1) | (18.4) |
| Treasury shares and subscription options exercised | (8.9) | (23.0) |
| New lease debt | (166.2) | (298.7) |
| Changes in exchange rates and other | 50.3 | (98.2) |
| Total change | 761.4 | (4,983.9) |
| Net cash (debt) at closing | (2 549.2) | (3,310.6) |

6.4 Non-current financial assets

a) Non-consolidated investments

Non-consolidated investments amounted to €90.7m at the end of 2020 compared to €196.3m at the end of 2019, a decrease of €105.6m over the year, of which €77.1m was due to changes in the value of foreign investments. At the end of 2020, this item is composed of individually non material investments.

b) Non-current financial assets

| | 31/12/2020 | 31/12/2019 |
|--|--------------|--------------|
| Loans to related parties | 53.6 | 72.7 |
| Loans to employees in the context of share purchase plan | – | 11.4 |
| Loans and other financial assets at amortised cost | 54.1 | 56.7 |
| Loans and other financial assets at market value | 37.4 | 38.2 |
| Gross value | 145.1 | 179.0 |
| Impairment | (6.2) | (4.9) |
| NET | 138.9 | 174.1 |

6.5 Summary of financial assets and liabilities

At end 2020, the classification of financial assets and liabilities remained identical to the one disclosed at end 2019.

Receivables, payables and refundable grants are financial assets and liabilities as defined by IAS 32 and IFRS 9, and are measured at amortised cost. They are detailed in Note 10.

| | | | | | 31/12/2020 | | 31/12/2019 | |
|--|-------------------|----------------|---|------------------------------|------------------------|------------|------------------------|------------|
| | At amortised cost | Profit or loss | Equity with no further reclassification | Equity with reclassification | Value in balance Sheet | Fair value | Value in balance Sheet | Fair value |
| Non-current financial assets | | | | | | | | |
| Non-consolidated investments | – | – | 90.7 | – | 90.7 | 90.7 | 196.3 | 196.3 |
| Non-current loans and financial assets | 101.5 | 37.4 | – | – | 138.9 | 138.9 | 174.1 | 174.1 |
| Derivatives documented as hedges | – | 13.0 | – | – | 13.0 | 13.0 | 16.8 | 16.8 |
| Current financial assets | | | | | | | | |
| Derivatives documented as hedges | – | – | – | 254.2 | 254.2 | 254.2 | 108.2 | 108.2 |
| Derivatives not documented as hedges | – | – | – | – | – | – | 1.4 | 1.4 |
| Current financial assets | 32.3 | – | – | – | 32.3 | 32.3 | 15.9 | 15.9 |
| Cash and cash equivalents | 2,133.0 | 2,870.9 | – | – | 5,003.9 | 5,003.9 | 2,931.4 | 2,931.4 |
| Non-current financial liabilities | | | | | | | | |
| Long-term debt | 5,196.7 | – | – | 13.0 | 5,209.7 | 5,294.8 | 4,306.4 | 4,369.4 |
| Derivative documented as hedges | – | – | – | 13.5 | 13.5 | 13.5 | 14.5 | 14.5 |
| Current financial liabilities | | | | | | | | |
| Derivatives documented as hedges | – | – | – | 133.8 | 133.8 | 133.8 | 149.3 | 149.3 |
| Derivatives not documented as hedges | – | 0.2 | – | – | 0.2 | 0.2 | 1.2 | 1.2 |
| Short-term debt | 2,388.7 | – | – | – | 2,388.7 | 2,394.5 | 1,968.3 | 1,968.3 |

IFRS 13 categorises the various valuation techniques for each financial asset and liability 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.

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

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 funds 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 coupon 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 assess these financial instruments (models including observable market data). Counterparty default risk and credit risk have no material impact on the fair value of derivatives.

6.6 Financial risk

a) Market risk

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

| | 31/12/2020 | | 31/12/2019 | |
|-----------------------------------|------------|-------------|------------|-------------|
| | Assets | Liabilities | Assets | Liabilities |
| Non-current derivatives | | | | |
| • interest-rate derivatives | 13.0 | 13.5 | 16.8 | 14.5 |
| Current derivatives | | | | |
| • foreign exchange derivatives | 254.2 | 134.0 | 108.2 | 150.5 |
| • interest-rate derivatives | – | – | 1.4 | – |
| Foreign exchange derivatives, net | 120.2 | | (42.3) | |
| Interest-rate derivatives, net | (0.5) | | 3.7 | |

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 2019 and 2020, the amount of derivatives in the portfolio can be analysed as follows:

| Foreign exchange derivatives | 31/12/2020 | | | | 31/12/2019 | | |
|---|---------------|-------|---------|---------|--------------|---------------|---------------|
| | Nominal value | | | | Market value | Nominal value | Market Value |
| | USD | GBP | Autres | Total | | | |
| Negotiations and trade operations hedges | | | | | | | |
| Documented as hedges: | | | | | | | |
| Forward currency sales | 2,743.1 | 995.7 | 2 264.9 | 6,003.7 | 89.1 | 6,360.0 | (41.1) |
| Forward currency purchases | 1,060.9 | 853.8 | 1 670.6 | 3,585.3 | | 3,556.6 | |
| Currency sales (call and put options) | – | – | 33.9 | 33.9 | 5.0 | – | 2.5 |
| Currency purchases (call and put options) | 122.2 | – | 33.9 | 156.1 | | 133.5 | |
| Not documented as hedges: | | | | | | | |
| Currency sales (call and put options) | 15.3 | 1.1 | 33.6 | 50.0 | 0.8 | 94.2 | 0.5 |
| Currency purchases (call and put options) | 39.9 | 2.6 | 166.4 | 208.9 | | 95.9 | |
| Hedges related to cash pooling (documented as hedges) | | | | | | | |
| Currency sales: currency swaps | 590.8 | – | 383.4 | 974.2 | 28.7 | 1,080.4 | 13.0 |
| Currency purchases: currency swaps | 17.7 | 400.4 | 300.7 | 718.8 | | 437.1 | |
| Hedges related to net investments in foreign operations (hedge accounting) | | | | | | | |
| Currency sales: currency swaps | 590.3 | – | – | 590.3 | (3.7) | 655.9 | (16.7) |
| Currency purchases: currency swaps | – | 586.0 | – | 586.0 | | 630.1 | |
| Hedges related to net investments in foreign operations (not documented as hedges) | | | | | | | |
| Currency sales: currency swaps | 10.2 | – | – | 10.2 | 0.3 | 29.2 | (0.5) |
| Currency purchases: currency swaps | – | 10.4 | – | 10.4 | | 28.4 | |
| NET ASSETS (LIABILITIES) | | | | | 120.2 | | (42.3) |

Nominal amounts are translated into euros at the closing rate.

The maturity of the derivatives used to hedge commercial contracts is typically less than three years. Currency swaps are set up to align the maturities of derivatives to the maturities of hedged contracts. Other derivatives characteristics are consistent with the ones of the hedged risk.

The change in 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 euro, pound sterling, canadian dollar or Australian dollar would have had a positive (negative)

impact on equity of approximately €75 million at 31 December 2020 and €91 million at 31 December 2019.

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 euro, pound sterling, canadian dollar or Australian dollar would have no impact on profit or loss at 31 December 2020, as at 31 December 2019.

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 2019 and 2020, the amount of derivatives in the portfolio was as follows:

| | 31/12/2020 | | 31/12/2019 | |
|---|------------------|---------------|------------------|---------------|
| Interest-rate derivatives | Nominal | Market value | Nominal | Market value |
| Fair value hedge (swaps with variable rate payables): | | | | |
| • swaps related to bond maturing in 2023 | 400.0 | 7.9 | 400.0 | 6.7 |
| • swaps related to bond maturing in 2021 | 300.0 | 5.1 | 300.0 | 10.1 |
| | | 13.0 | | 16.8 |
| Cash flow hedge (swaps with fixed rate payables): | | | | |
| • swaps related to bond maturing in 2023 | 400.0 | (10.4) | 400.0 | (10.0) |
| • swaps related to bond maturing in 2021 | 300.0 | (1.0) | 300.0 | (1.9) |
| • pre-hedging swap related to bond maturing in 2024 | — ^(a) | (2.1) | — ^(a) | (2.6) |
| | | (13.5) | | (14.5) |
| Swaps not documented as hedges: | | | | |
| • cross-currency swap with fixed-rate payable, hedging a loan | — | — | 12.2 | 1.4 |
| • swap with fixed-rate payable, hedging a loan | 1.2 | — | 1.2 | — |
| Net assets | | (0.5) | | 3.7 |

(a) €500 million swaps set up prior the bond issue, and reversed on the issue date (April 2018).

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

| 31/12/2020 | < 1 year | | > 1 year | | Total | |
|---|------------------|----------------|------------------|---------------|------------------|----------------|
| | Fixed-rate | Variable-rate | Fixed-rate | Variable-rate | Fixed-rate | Variable-rate |
| Financial debt ^(a) | (1,986.6) | (172.1) | (3,784.3) | (4.9) | (5,770.9) | (177.0) |
| Financial assets, cash and cash equivalents | — | 5,036.2 | — | — | — | 5,036.2 |
| NET EXPOSURE BEFORE IMPACT OF DERIVATIVE INSTRUMENTS | (1 986.6) | 4,864.1 | (3,784.3) | (4.9) | (5,770.9) | 4,859.2 |
| Hedging derivatives | — | — | — | — | — | — |
| NET EXPOSURE AFTER IMPACT OF DERIVATIVE INSTRUMENTS | (1,986.6) | 4,864.1 | (3,784.3) | (4.9) | (5,770.9) | 4,859.2 |

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

| 31/12/2019 | < 1 year | | > 1 year | | Total | |
|---|----------------|----------------|------------------|---------------|------------------|----------------|
| | Fixed-rate | Variable-rate | Fixed-rate | Variable-rate | Fixed-rate | Variable-rate |
| Financial debt ^(a) | (843.5) | (897.4) | (2,785.0) | (7.3) | (3,628.5) | (904.7) |
| Financial assets, cash and cash equivalents | – | 2,947.3 | – | – | – | 2,947.3 |
| NET EXPOSURE BEFORE IMPACT OF DERIVATIVE INSTRUMENTS | (843.5) | 2,049.9 | (2,785.0) | (7.3) | (3,628.5) | 2,042.6 |
| Hedging derivatives | – | – | – | – | – | – |
| NET EXPOSURE AFTER IMPACT OF DERIVATIVE INSTRUMENTS | (843.5) | 2,049.9 | (2,785.0) | (7.3) | (3,628.5) | 2,042.6 |

(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-point rise in interest rates would increase net interest income by €29.9 million in 2020 (€20.9 million in 2019).

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.

Credit risk relating to governmental customers

Governmental customers account for around 60% of Thales's sales. Some of the countries with which Thales works 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 2020, only three customers accounted for annual sales in excess of €500 million: the French government (around €3.1 billion),

the UK government (around €0.8 billion) and the Australian government (around €0.7 billion).

At 31 December 2020, these three countries had first-class or high-quality ratings (France: AA by S&P Global Ratings and Aa2 by Moody's; the United Kingdom: AA by S&P Global Ratings and Aa3 by Moody's; Australia: AAA by S&P Global Ratings and Aaa by Moody's).

Risk of default relating to non-governmental customers

Non-governmental customers (private critical infrastructure operators, aircraft operators, etc.) account for approximately 40% of Thales's sales. These customers may encounter major and/or prolonged financial difficulties that could lead to payment defaults or order cancellations. Such occurrences could have a negative impact on the Group's sales, profitability and financial position.

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

The Group's Finance Department consolidates all the information relating to the Group's exposure to credit risk, notably by identifying and analysing the ageing of overdue accounts and notes receivable that have not been impaired. At 31 December 2020 and 2019, the ageing of these accounts and notes receivable is as follows:

| At 31 December 2020 | Total | Accounts and notes receivables past due: | | |
|---|----------------|--|---------------|--------------------|
| | | Less than 3 months | 3 to 6 months | More than 6 months |
| Overdue receivables not subject to provision | | | | |
| TOTAL | 1,122.0 | 776.9 | 133.7 | 211.4 |

| At 31 December 2019 | Total | Accounts and notes receivables past due: | | |
|---|----------------|--|---------------|--------------------|
| | | Less than 3 months | 3 to 6 months | More than 6 months |
| Overdue receivables not subject to provision | | | | |
| TOTAL | 1,087.2 | 731.8 | 136.7 | 218.7 |

Credit risk related to banking counterparties

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

Thales trades over-the-counter derivatives with tier-one banks under agreements which provide for the offsetting 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 on the balance sheet under assets and liabilities. However, they do fall within the scope of disclosures to be provided under IFRS 7 on offsetting.

| At 31 December 2020 | Gross value (before offset) | Offset amounts on balance sheet | Net presented in balance sheet | Impact of other offsetting agreements | | Net |
|---------------------------|--------------------------------|---------------------------------------|--------------------------------------|--|-------------------------|-------|
| | | | | Offsetting agreements | Financial collateral | |
| Derivatives – Assets | 266.0 | – | 266.0 | (139.0) | – | 127.0 |
| Derivatives – Liabilities | 147.0 | – | 147.0 | (139.0) | – | 8.0 |

| At 31 December 2019 | Gross value (before offset) | Offset amounts on balance sheet | Net presented in balance sheet | Impact of other offsetting agreements | | Net |
|---------------------------|--------------------------------|---------------------------------------|-----------------------------------|--|-------------------------|------|
| | | | | Offsetting agreements | Financial collateral | |
| Derivatives – Assets | 126.4 | – | 126.4 | (99.0) | – | 27.4 |
| Derivatives – Liabilities | 165.0 | – | 165.0 | (99.0) | – | 66.0 |

c) Liquidity risk

The Group's liquidity risk is the risk of not being able to meet its cash needs out of its financial resources. In particular, it relates specifically to Thales's level of exposure to changes in the main market indicators that could lead to an increase in the cost of credit or even to a temporary limitation of access to external sources of financing.

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

- shareholders' equity (Note 8.1);
- financial debt (listed by date of maturity in Note 6.2);
- confirmed bank credit line, undrawn as of December 31, 2020, amounting to €1,500 million and maturing in 2023;

- a €800 million bank bridge loan, unused as of December 31, 2020;
- as well as a commercial paper programme (NeuCP).

The Group consolidates and pools its cash surpluses and needs for its various businesses, allowing it to simplify the cash management of those businesses by managing a consolidated position and accessing the financial markets through Thales parent company, which is rated by S&P Global Ratings (BBB+, stable outlook) and Moody's (A2, negative outlook).

The Group's funding agreements contain no covenants linked to changes in Thales's credit rating. A lower credit rating would result in an increase (capped) in the margins applicable to the confirmed bank credit line mentioned above; symmetrically, a higher rating would lead to a decrease in the applicable margin (with a floor).

Note 7. Income tax

The income tax expense 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

| | 2020 | 2019 |
|--------------|---------------|----------------|
| Current tax | (169.8) | (397.0) |
| Deferred tax | 79.5 | 96.0 |
| TOTAL | (90.3) | (301.0) |

Reconciliation between theoretical and actual tax expense

| | 2020 | 2019 |
|---|----------------|----------------|
| Net income | 491.9 | 1,146.4 |
| Less: income tax | 90.3 | 301.0 |
| Less: share in net income of equity affiliates | (44.3) | (142.0) |
| Net income before tax and share in net income of equity affiliates | 537.9 | 1 305.4 |
| Theoretical average tax rate | 27.0% | 28.1% |
| Theoretical tax benefit (expense) | (145.0) | (366.8) |
| Reconciliation items: | | |
| • Impact of tax credits | 68.7 | 75.8 |
| • Impact of reduced tax rates | 18.3 | |
| • Taxes not taken into account in the theoretical rate | (1.5) | 2.9 |
| • Impact of dividends paid | (1.2) | (8.6) |
| • Impact of tax rates changes on deferred tax | (26.3) | (2.5) |
| • Change in provision for deferred tax assets | (11.1) | (16.3) |
| • Adjustments in respect of prior periods | 2.6 | 7.3 |
| • Other | 5.2 | 7.2 |
| Income tax benefit (expense) recognised in profit and loss | 90.3 | (301.0) |
| Effective tax rate | 16,8% | 23.1% |

The theoretical average tax rate corresponds to the sum of theoretical taxes of consolidated companies, divided by the consolidated net income before tax and share in net income of equity affiliates. The theoretical tax of each consolidated company corresponds to the application of the local tax rate to net income before tax. Accordingly, the theoretical average tax rate reflects the relative contribution of the different countries to the Group's consolidated net income. France, which has a tax rate of 32.02%, represented almost 55% of income before tax in 2020 (60% in 2019 with a tax rate of 34.43%).

The impact of tax credits includes:

- the impact of tax exemption on research tax credits (€184.6 million in 2020, €204.9 million in 2019);
- the tax advantages related to research that are recognised in income tax (notably in the United States, Australia and the Netherlands).

Taxes not taken into account in the theoretical rate mainly include state taxes in the United States, the IRAP in Italy, and taxes on foreign establishments.

The impact of " tax rates changes on deferred tax " corresponds to the effect of the decrease in future tax rates in France on provisions and other temporary differences recognized during the year.

7.2 Deferred tax recognised in equity

| | 2020 | | 2019 | |
|---|----------------|---------------|----------------|-------------|
| | Base | Tax | Base | Tax |
| Fully consolidated entities | | | | |
| Translation of the financial statements of foreign subsidiaries | (81.6) | – | 35.6 | – |
| Cash flow hedges | 135.8 | (41.5) | (64.3) | 24.1 |
| Other items reclassified to income | 54.2 | (41.5) | (28.7) | 24.1 |
| Actuarial gains and losses/pensions – United Kingdom | (491.8) | 16.0 | (290.1) | – |
| Actuarial gains and losses/pensions – Other countries | (154.5) | 39.5 | (229.6) | 58.9 |
| Other items not reclassified to income | (646.3) | 55.5 | (519.7) | 58.9 |
| Treasury shares and share-based payment | | 2.3 | | 3.0 |
| TOTAL DEFERRED TAX RECOGNISED IN EQUITY DURING THE YEAR | | 16.3 | | 86.0 |

7.3 Tax assets and liabilities presented on the balance sheet

| | 01/01/2020 | Income (expense) | Equity | Cash flow | Changes in exch. rates, scope | Other | 31/12/2020 |
|-----------------------------------|--------------|---------------------|-------------|--------------|-------------------------------------|--------------|--------------|
| Current income tax assets | 212.6 | (21.3) | – | 38.3 | (9.4) | – | 220.2 |
| Current income tax liabilities | (184.5) | (148.5) | – | 70.3 | 4.7 | 108.7 | (149.3) |
| Current income tax, net | 28.1 | (169.8) | – | 108.6 | (4.7) | 108.7 | 70.9 |
| Deferred tax assets | 1,002.1 | (26.8) | 16.3 | – | (22.9) | (1.9) | 966.8 |
| Deferred tax liabilities | (783.3) | 106.3 | – | – | 12.9 | 6.5 | (657.6) |
| Deferred tax, net | 218.8 | 79.5 | 16.3 | – | (10.0) | 4.6 | 309.2 |
| TOTAL | | (90.3) | 16.3 | 108.6 | | | |

| | 01/01/2019 | Income (expense) | Equity | Cash flow | Changes in exch. rates, scope | Other | 31/12/2019 |
|-----------------------------------|--------------|---------------------|-------------|--------------|-------------------------------------|--------------|--------------|
| Current income tax assets | 45.8 | (38.4) | – | 162.4 | 42.8 | – | 212.6 |
| Current income tax liabilities | (34.2) | (358.6) | – | (8.8) | (54.5) | 278.9 | (184.5) |
| Current income tax, net | 11.6 | (397.0) | – | 153.6 | (11.7) | 278.9 | 28.1 |
| Deferred tax assets | 891.7 | (41.7) | 86.0 | – | 74.2 | (8.1) | 1,002.1 |
| Deferred tax liabilities | (216.4) | 137.7 | – | – | (704.6) ^(a) | – | (783.3) |
| Deferred tax, net | 675.3 | 96.0 | 86.0 | – | (630.4) | (8.1) | 218.8 |
| TOTAL | | (301.0) | 86.0 | 153.6 | | | |

(a) This amount represents mainly the deferred tax liability related to the intangible assets recognised in the framework of Gemalto's purchase price allocation.

a) Current income tax

Income tax paid is presented net of tax credits utilised. Tax credits allocated to tax payments during the current year or to tax to be paid in the coming year is presented under "Other".

b) Deferred tax

Changes by type

| | 01/01/2020(Expense)/Income for the period | Equity | Changes in exch. rates, scope and other | 31/12/2020 |
|--------------------------------------|--|---------------|--|----------------|
| Temporary differences: | 504.5 | (48.2) | 123.9 | 264.5 |
| • pensions and similar benefits | 581.9 | (18.3) | 163.7 | (15.4) |
| • intangible assets | (693.4) | 146.0 | – | 30.3 |
| • provisions on contract | 264.4 | (27.4) | – | 34.6 |
| • other | 351.6 | (148.5) | (39.8) | 215.0 |
| Tax loss carry-forwards | 484.6 | 138.8 | – | (10.6) |
| Total before depreciation | 989.1 | 90.6 | 123.9 | 253.9 |
| Depreciation | (770.3) | (11.1) | (107.6) | (259.2) |
| Total net deferred tax assets | 218.8 | 79.5 | 16.3 | (5.3) |

| | 01/01/2019 | (Expense)/Income for the period | Equity Changes in exch. rates, scope and other | 31/12/2019 | |
|--------------------------------------|----------------|------------------------------------|--|----------------|----------------|
| Temporary differences: | 852.5 | 76.2 | 133.6 | (557.8) | 504.5 |
| • pensions and similar benefits | 464.9 | (19.1) | 108.6 | 27.5 | 581.9 |
| • intangible assets | (194.2) | 83.4 | – | (582.6) | (693.4) |
| • provisions on contract | 273.7 | 9.3 | – | (18.6) | 264.4 |
| • other | 308.1 | 2.6 | 25.0 | 15.9 | 351.6 |
| Tax loss carry-forwards | 158.1 | 36.1 | – | 290.4 | 484.6 |
| Total before depreciation | 1,010.6 | 112.3 | 133.6 | (267.4) | 989.1 |
| Depreciation | (335.3) | (16.3) | (47.6) | (371.1) | (770.3) |
| Total net deferred tax assets | 675.3 | 96.0 | 86.0 | (638.5) | 218.8 |

Tax loss carry-forwards

Total tax loss carry-forwards represent a potential tax saving of €612.8 million at 31 December 2020 (€484.6 million at 31 December 2019). The corresponding expiry dates are as follows:

| | 31/12/2020 | | 31/12/2019 |
|-------------------------------|--------------|-------------------------------|--------------|
| 2021 | 3.4 | 2020 | 1.2 |
| 2022-2025 | 5.1 | 2021-2024 | 15.3 |
| Beyond 2025 | 59.8 | Beyond 2024 | 50.7 |
| Not time limited | 544.5 | Not time limited | 417.4 |
| Total | 612.8 | Total | 484.6 |
| O/w, depreciated | (568.8) | O/w, depreciated | (433.1) |
| Net deferred tax asset | 44.0 | Net deferred tax asset | 51.5 |

As described in Note 13-j, only deferred tax assets related to tax losses which the Group expects to recover are recognised on 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

At 31 December 2020, the share capital of Thales parent company amounted to €640,097,874 and comprised 213,365,958 shares with a par value of €3, compared with 213,317,506 shares at 31 December 2019. This represents an increase of 48,452 shares resulting from the exercise of share subscription options.

b) Outstanding securities giving access to the share capital

At 31st December 2020, there were no securities that gave access to the share capital of the company with the exception of the purchase options described in Note 9.4.

c) Treasury shares

Thales parent company held 497,596 of its own shares at 31 December 2020. They were accounted for as a deduction from equity for an amount of €38.6 million.

In accordance with the authorisations granted to the Board of Directors by the Annual General Meeting, the Company carried out the following transactions in 2019 and 2020:

| | 2020 | 2019 |
|---|----------------|----------------|
| Treasury shares at 1 January | 560,866 | 648,295 |
| Purchases as part of a liquidity agreement | 1,310,502 | 906,402 |
| Disposals as part of a liquidity agreement | (1,285,002) | (993,676) |
| Transfer to employees as part of the employee share purchase plan | (42,645) | (506,515) |
| Delivery of free shares | (226,125) | (223,640) |
| Market purchases | 180,000 | 730,000 |
| Treasury shares at 31 December | 497,596 | 560,866 |

At 31 December 2020 and 2019, as part of the liquidity agreement managed by Kepler Cheuvreux, the following numbers of shares were held in the liquidity account:

| | 2020 | 2019 |
|---------------------------------|---------|---------|
| Number of shares at 31 December | 200,500 | 175,000 |
| Value (€ million) | 12.7 | 13.5 |

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 the disposal date of related investments. They break down as follows:

| | 2020 | 2019 |
|---|----------------|----------------|
| Translation adjustments at 1 January | (180.7) | (225.1) |
| Changes in value | (102.7) | 44.3 |
| Reclassified to profit and loss | – | 0.1 |
| Gross change | (102.7) | 44.4 |
| Deferred tax | – | – |
| Scope and other | 0.2 | – |
| Translation adjustments at 31 December | (283.2) | (180.7) |

In 2020, the unfavorable change is mainly due to the evolution of the pound sterling.

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.

| | 2020 | 2019 |
|---|---------------|---------------|
| Cash flow hedge at 1 January | (94.1) | (48.7) |
| Changes in value of derivatives | 69.0 | (28.3) |
| Reclassified to operating (income)/expense | 53.1 | (32.9) |
| Reclassified to income tax (benefit)/expense | (16.5) | 15.8 |
| Changes in scope and exchange rates | – | – |
| Cash flow hedge at 31 December^(a) | 11.4 | (94.1) |

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

f) Parent company dividend distribution

On 25th February 2020, when reviewing the 2019 annual financial statements, the Board of Directors decided to propose to shareholders at the Annual Shareholders' Meeting held on May 6, 2020, a dividend distribution of €2.65 per share for the 2019 financial year, corresponding to a payout ratio of 40% of adjusted net income, Group share, per share.

In a spirit of responsibility *vis-à-vis* all Group stakeholders, and in order to preserve its funding capacity should the Covid-19 crisis last, the Board of Directors decided, during its 6 April 2020 meeting, to modify its 2019 dividend proposal, capping it to the interim amount of €0.60 paid in December 2019.

On 3 March 2021, the Board of Directors decided to propose to shareholders, who will be convened to a General Meeting on 6th May 2021, the payment of a dividend of €1.76 per share.

If approved, the ex-dividend date will be 18th May 2021 and the payment date will be 20th May 2021. The dividend will be paid fully in cash and will amount to €1.36 per share, after deducting the interim dividend of €0.40 per share paid in December 2020.

Dividends paid in 2019 and 2020 are described below:

| Year | Approved by | Description | Dividend per share (in euros) | Payment date | Payment method | Total |
|------|---|-----------------------|----------------------------------|--------------|----------------|----------------|
| 2019 | Board of Directors meeting on 30 September 2020 | 2020 Interim dividend | €0.40 | Dec. 2020 | Cash | €85.1m |
| | General Meeting on 6 May 2020 | Balance 2019 | None | N/A | None | None |
| | Total dividends paid in 2020 | | | | | €85.1m |
| 2019 | Board of Directors meeting on 25 September 2019 | 2019 Interim dividend | €0.60 | Dec. 2019 | cash | €127.5m |
| | General Meeting on 15 May 2019 | Balance 2018 | €1.58 | May 2019 | cash | €335.6m |
| | Total dividends paid in 2019 | | | | | €463.1m |
| 2018 | Board of Directors meeting on 27 September 2018 | 2018 Interim dividend | €0.50 | Dec. 2018 | cash | €06.3m |

g) Non-controlling interests

This item principally includes Leonardo's interest in the Thales Alenia Space sub-group (33%), and Siemens's and Philips Medical Systems International's interest in Trixell SAS (49%).

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

The cash of these two companies is unrestricted and is exclusively pooled with Thales's Corporate Treasury Department.

8.2 Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders of the parent company by the *pro rata temporis* weighted average number of shares outstanding during the period, excluding treasury shares.

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

| | | 2020 | 2019 |
|---|----------------|-------------|-------------|
| Numerator (in € millions) | | | |
| Net income attributable to shareholders of the parent company | (A) | 483.4 | 1,121.9 |
| Denominator (in thousands) | | | |
| Average number of shares outstanding | | 212,704 | 212,502 |
| Share subscription and share purchase options ^(a) | | 44 | 123 |
| Free shares and units plans ^(b) | | 140 | 465 |
| Diluted average number of shares outstanding | (C) | 212,888 | 213,090 |
| Net earnings per share (in euros) | (A)/(B) | 2.27 | 5.28 |
| Diluted net earnings per share (in euros) | (A)/(C) | 2.27 | 5.26 |
| Average share price | | €4.58 | €99.48 |

(a) Only option 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 subject to internal performance conditions are only taken into account when the performance targets are achieved.

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 2020, Thales's headcount stood at 80,702 compared to 82,605 at end 2019.

Three-quarters of the headcount comprises employees with grades equivalent to engineer, specialist or manager.

9.2 Personnel expenses

| | 2020 | 2019 |
|--|------------------|------------------|
| Wages and salaries and payroll taxes ^(a) | (7,268.0) | (7,220.1) |
| Defined-benefit pension expense: current service cost (Note 9.3) | (135.9) | (120.5) |
| Share-based payments (Note 9.4) | (15.3) | (47.9) |
| TOTAL | (7,419.2) | (7,388.5) |

(a) These amounts include defined-contribution pension expenses, employee profit-sharing and incentive plans.

9.3 Provisions for pensions and other employee benefits

The Group grants to its employees post-employment benefits (pensions, end-of-career severance, medical coverage, 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 overseeing basic pension schemes (e.g., *Securité Sociale* or the compulsory supplementary schemes ARRCO and AGIRC in France). Beyond these basic pension schemes, Thales also contributes to other defined-contribution plans (e.g., in the Netherlands and the United Kingdom since 2002). These plans do not impose any obligations on the Group other than 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 benefits:

- pensions and end-of-career indemnities (legal or contractual), and other long-term benefits (jubilee awards, etc.), particularly 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 independently. A provision is recognised if the value of the assets is insufficient to cover the obligations.

b) Provisions recognised on the balance sheet

| | 2020 | 2019 |
|--|------------------|------------------|
| Provision at 1 january | (2,945.2) | (2,326.7) |
| Current service cost (income from operations) | (135.9) | (120.5) |
| Amendments and settlements (non-recurring operating income) | (2.3) | 34.5 |
| Interest expense | (34.9) | (49.0) |
| Pension fund management cost | (5.9) | (6.8) |
| Actuarial gains and losses on other long-term benefits | (4.3) | (13.1) |
| Finance costs on pensions and other long-term employee benefits | (45.1) | (68.9) |
| Total expense for the period | (183.3) | (154.9) |
| Actuarial gains and losses (other comprehensive income)^(a) | (646.3) | (519.7) |
| Benefits and contributions | 261.5 | 245.9 |
| • of which, deficit payment in the United Kingdom | 98.0 | 98.1 |
| • of which, other benefits and contributions | 163.5 | 147.8 |
| Translation adjustment | 69.0 | (54.8) |
| Changes in scope of consolidation and other | 2.9 | (135.0) |
| Provision at 31 December | (3,441.4) | (2,945.2) |
| Of which: | | |
| • post-employment benefits | (3,176.1) | (2,690.9) |
| • other long-term benefits | (265.3) | (254.3) |

(a) Mainly due to the decrease of the actuarial rates, especially in United Kingdom.

c) Changes in defined benefit obligations and plans assets

| 2020 | UK | France | Other | Total |
|--|------------------|------------------|----------------|------------------|
| Obligation at 1 January | (4,811.1) | (1,422.5) | (816.0) | (7,049.6) |
| Current service cost | (22.4) | (82.6) | (30.9) | (135.9) |
| Interest cost | (90.4) | (10.6) | (7.8) | (108.8) |
| Plan participant contributions | (8.4) | – | – | (8.4) |
| Amendments/settlements | (3.0) | 3.2 | (2.5) | (2.3) |
| Experience gains (losses) | 10.5 | (46.3) | (8.2) | (44.0) |
| Actuarial gains (losses)/financial assumptions | (623.6) | (96.0) | (18.3) | (737.9) |
| Actuarial gains (losses)/demographic assumptions | (0.2) | (0.1) | (0.3) | (0.6) |
| Actuarial gains (losses) on long-term benefits | – | (1.7) | (2.6) | (4.3) |
| Benefits paid by plan assets | 170.2 | 2.8 | 15.5 | 188.5 |
| Benefits paid by employer | 0.7 | 103.9 | 33.1 | 137.7 |
| Changes in scope, exchange rates and other | 263.2 | 1.5 | 7.4 | 272.1 |
| Obligation at 31 December | (5,114.5) | (1,548.4) | (830.6) | (7,493.5) |
| Plan assets at 1 January | 3,669.3 | 157.4 | 277.7 | 4,104.4 |
| Expected return on plan assets | 69.8 | 1.1 | 3.0 | 73.9 |
| Employer's contribution | 115.9 | 0.4 | 7.5 | 123.8 |
| Plan participant contributions | 8.4 | – | – | 8.4 |
| Amendments/settlements | – | – | – | – |
| Benefits paid by plans assets | (170.2) | (2.8) | (15.5) | (188.5) |
| Experience gains (losses) | 121.5 | (1.1) | 15.8 | 136.2 |
| Changes in scope, exchange rates and other | (202.5) | 0.1 | (3.7) | (206.1) |
| Plan assets at 31 December | 3,612.2 | 155.1 | 284.8 | 4,052.1 |
| PROVISIONS AT 31 DECEMBER | (1,502.3) | (1,393.3) | (545.8) | (3,441.4) |
| 2019 | UK | France | Other | Total |
| Obligation at 1 January | (4,029.7) | (1,183.2) | (602.2) | (5,815.1) |
| Current service cost | (19.6) | (68.0) | (32.8) | (120.4) |
| Interest cost | (115.0) | (18.4) | (13.6) | (147.0) |
| Plan participant contributions | (9.0) | – | (2.1) | (11.1) |
| Amendments/settlements | 12.6 | 21.9 | – | 34.5 |
| Experience gains (losses) | 0.2 | (36.2) | (11.1) | (47.1) |
| Actuarial gains (losses)/financial assumptions | (530.9) | (141.6) | (69.9) | (742.4) |
| Actuarial gains (losses)/demographic assumptions | (0.5) | (4.4) | 2.5 | (2.4) |
| Actuarial gains (losses) on long-term benefits | – | (8.5) | (4.6) | (13.1) |
| Benefits paid by plan assets | 165.1 | 2.8 | 11.0 | 178.9 |
| Benefits paid by employer | 2.6 | 89.2 | 27.0 | 118.8 |
| Changes in scope, exchange rates and other | (286.9) | (76.1) | (120.2) | (483.2) |
| Obligation at 31 December | (4,811.1) | (1,422.5) | (816.0) | (7,049.6) |
| Plan assets at 1 January | 3,164.9 | 147.9 | 175.6 | 3,488.4 |
| Expected return on plan assets | 91.5 | 2.3 | 4.2 | 98.0 |
| Employer's contribution | 115.0 | 2.0 | 10.1 | 127.1 |
| Plan participant contributions | 9.0 | – | 2.1 | 11.1 |
| Amendments/settlements | – | – | – | – |
| Benefits paid by plans assets | (165.1) | (2.8) | (11.0) | (178.9) |
| Experience gains (losses) | 241.1 | 7.6 | 23.5 | 272.2 |
| Changes in scope, exchange rates and other | 212.9 | 0.4 | 73.2 | 286.5 |
| Plan assets at 31 December | 3,669.3 | 157.4 | 277.7 | 4,104.4 |
| PROVISIONS AT 31 DECEMBER | (1,141.8) | (1,265.1) | (538.3) | (2,945.2) |

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:

| 2020 | UK | France | 2019 | UK | France |
|-------------------------------|----------|----------|-------------------------------|----------|----------|
| Inflation rate | 2.94% | 1.00% | Inflation rate | 2.97% | 1.15% |
| Discount rate | 1.34% | 0.35% | Discount rate | 2.00% | 0.73% |
| Average duration of the plans | 17 years | 10 years | Average duration of the plans | 17 years | 10 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.

At 31 December 2020, the sensitivity of the net obligation to a change in the discount rate is as follows:

| | | | | | | |
|--|-------|-------|---------|---------|---------|-----------|
| Sensitivity in basis points | +25 | +50 | +100 | -25 | -50 | -100 |
| Decrease (increase) in provision (in € millions) | 292.8 | 547.7 | 1,015.3 | (278.4) | (583.1) | (1,248.5) |

In the United Kingdom, a 25 basis-point increase in the inflation rate would lead to a €124.7 million increase in the obligation. Conversely, a 25 basis-point decrease in the inflation rate would lead to a €114.8 million decrease in the obligation.

e) Allocation and return on plan assets

Plan assets generated an actual average return of 5.1% in 2020, compared to 10.6% in 2019. At 31 December 2020, the allocation of assets, mainly invested in the United Kingdom, breaks down as follows:

| | 2020 | 2019 |
|-----------------------|-------------|-------------|
| Fixed-rate bonds | 24% | 25% |
| Index-linked bonds | 13% | 13% |
| Equities | 27% | 28% |
| Alternative placement | 36% | 34% |
| 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 re-measured 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 2017, led from 2019, to an annual contribution of £75 million for the main Thales UK Pension scheme (£5 million for other schemes) to reduce the funding shortfall. A new assessment will be carried out based on the situation at the end of 2020.

In support of the contributions made by Thales UK Ltd to the British pension plans, Thales parent company has also guaranteed the future liabilities linked to the funding plans for the subsidiaries concerned. At 31 December 2020, the balance of these guarantees was £900 million.

9.4 Share-based payment

At 31 December 2020, the following options, shares and units were outstanding:

- 43,305 share purchase options with a weighted average exercise price of €26.34;
- 908,889 free shares;
- 467,297 phantom shares, payable in cash at the end of a four-year vesting period.

All of these plans are submitted to internal performance conditions over the three financing years following their grant date. The features of these plans are described in chapter 6.2 of the 2019 Registration Document.

a) Outstanding share subscription option plans

| Date of Board decision | Exercise period | Exercise price | Number of options outstanding at 31/12/2019 | Options exercised in 2020 | Options cancelled in 2020 | Number of options outstanding at 31/12/2020 |
|------------------------|--------------------------|----------------|---|---------------------------|---------------------------|---|
| 15/09/2011 | 15/09/2015 to 14/09/2021 | €26.34 | 54,603 | (9,252) | (2,046) | 43,305 |
| 23/09/2010 | 23/09/2014 to 22/09/2020 | €26.34 | 39,200 | (39,200) | – | – |
| | | | | | | 43,305 |

b) Allotment of free shares

| Date of Board decision | Vesting period | Share price at grant date | Number of free shares at 31/12/2019 | Shares allotted in 2020 | Shares cancelled in 2020 ^(a) | Shares issued in 2020 | Number of free shares at 31/12/2020 |
|------------------------|--------------------------|---------------------------|-------------------------------------|-------------------------|---|-----------------------|-------------------------------------|
| 24/11/2020 | 24/11/2020 to 24/11/2024 | €79.60 | – | 375,235 | – | – | 375,235 |
| 25/09/2019 | 25/09/2019 to 25/09/2023 | €104.50 | 325,545 | – | (82,566) | – | 242,979 |
| 27/09/2018 | 27/09/2018 to 27/09/2022 | €121.75 | 179,790 | – | (44,592) | (195) | 135,003 |
| 28/09/2017 | 28/09/2017 to 28/09/2021 | €94.66 | 208,210 | – | (52,288) | (250) | 155,672 |
| 27/10/2016 | 27/10/2016 to 27/10/2020 | €83.10 | 84,290 142,590 | – – | (1,480) 280 | (82,810) (142,870) | – – |
| | | | | | | | 908,889 |

(a) Of which, respectively for the 2017, 2018 and 2019 plans: 50,068, 43,107 and 78,341 shares cancelled as a result of the failure to achieve the performance targets for financial year 2020.

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

| Date of the allocation decision | Vesting period | Number of phantom shares at 31/12/2019 | Phantom shares issued in 2020 | Phantom shares cancelled in 2020 ^(a) | Phantom shares delivered in 2020 | Number of phantom shares at 31/12/2020 |
|---------------------------------|--------------------------|--|-------------------------------|---|----------------------------------|--|
| 24/11/2020 | 24/11/2020 to 24/11/2024 | – | 224,160 | – | – | 224,160 |
| 25/09/2019 | 25/09/2019 to 25/09/2023 | 211,070 | – | (57,931) | – | 153,139 |
| 27/09/2018 | 27/09/2018 to 27/09/2022 | 61,775 | – | (17,378) | – | 44,397 |
| 28/09/2017 | 28/09/2017 to 28/09/2021 | 62,950 | – | (17,349) | – | 45,601 |
| 27/10/2016 | 27/10/2016 to 27/10/2020 | 37,150 34,170 | – – | (2,900) (4,700) | (34,250) (29,470) | – – |
| | | | | | | 467,297 |

(a) Of which, respectively for the 2017, 2018 and 2019 plans: 14,979, 14,258 and 49,336 phantom shares cancelled as a result of the failure to achieve the performance targets for finance year 2020.

d) Expenses related to share-based payments

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

| Plans | Residual fair value at the end of 2020 | 2020 expense | 2019 expense |
|--|--|---------------|---------------|
| Free shares | 47.1 | (13.4) | (15.5) |
| Share units indexed to the value of the Thales share | – | – | (11.0) |
| Phantom shares and other schemes ^(a) | 21.8 | (1.3) | (5.1) |
| Employee share purchase plan | – | – | (7.6) |
| Social contributions related to the plans | 11.3 | (0.6) | (8.7) |
| TOTAL | 80.2 | (15.3) | (47.9) |
| Of which, offsetting entries: | | | |
| • Shareholders' equity | | 13.4 | 26.3 |
| • Debt | | 1.9 | 21.6 |

(a) In 2020, this line includes the expense relating to the long-term incentive plan (LTIP) of the Chairman and CEO the conditions of which are described in the concerned years Registration our Universal Registration documents.

The 2020 expense includes the impact of the cancellation of certain instruments on the 2017, 2018 and 2019 plans.

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:

| | 2020 | 2019 |
|---|------|------|
| Short-term benefits: | | |
| • Fixed compensation | 6.7 | 6.2 |
| • Variable compensation | 3.3 | 5.2 |
| • Severance payment | 2.4 | – |
| • Employer social security contributions | 4.0 | 3.6 |
| • Board attendance fees | 0.6 | 0.6 |
| Other benefits (including social contributions): | | |
| • Post-employment benefits | 3.8 | 3.0 |
| • Share-based payments | 1.5 | 5.1 |

At 31 December 2020, the share of directors and senior corporate officers in net Group pension obligations (Note 9.3) amounted to €21.1 million.

Note 10. Current operating assets and liabilities

Current operating assets and liabilities include working capital (WCR) components and reserves for contingencies, as defined in Note 13-d. The changes in these items are presented below:

| Evolution over the period | 01/01/19 | Change in WCR and reserves | Scope exch. rate and reclass | 31/12/19 | Change in WCR and reserves | Change in WCR and reserves | 31/12/20 |
|--|------------------|----------------------------|------------------------------|------------------|----------------------------|----------------------------|------------------|
| Inventories, work in progress and set up costs | 3,080.6 | 219.4 | 431.3 | 3,731.3 | (149.4) | (73.4) | 3,508.5 |
| Contract assets | 2,538.4 | 335.2 | 215.3 | 3,088.9 | (97.5) | (56.2) | 2,935.2 |
| Advance to suppliers | 652.3 | (122.5) | 19.7 | 549.5 | (111.3) | (4.3) | 433.9 |
| Accounts, notes and other receivables | 4,671.7 | (13.8) | 581.6 | 5,239.5 | (109.4) | (91.8) | 5,038.3 |
| Current derivatives – assets | 91.6 | 34.8 | (16.8) | 109.6 | 162.0 | (17.4) | 254.2 |
| Contract liabilities | (6,108.2) | (92.3) | (214.4) | (6,414.9) | (139.8) | 101.2 | (6,453.5) |
| Reserves for contingencies | (1,730.8) | (44.1) | (185.1) | (1,960.0) | 104.0 | (196.2) | (2,052.2) |
| Accounts, notes and other payables | (6,148.5) | 4.5 | (669.7) | (6,813.7) | 702.8 | 112.9 | (5,998.0) |
| Current derivatives – liabilities | (273.7) | – | 123.2 | (150.5) | – | 16.5 | (134.0) |
| Net WCR and reserves | (3,226.6) | 321.2 | 285.1 | (2,620.3) | 361.4 | (208.7) | (2,467.6) |
| Restructuring provision | 62 | 20.1 | 18.6 | 100.7 | 58.9 | 2.7 | 162.3 |
| INCREASE (DECREASE) IN WCR AND RESERVES | | 341.3 | | | 420.3 | | |

10.1 Inventories, work in progress, and set-up costs

| | 31/12/2020 | 31/12/2019 |
|--|----------------|----------------|
| Goods | 105.4 | 91.9 |
| Raw materials | 1,018.2 | 1,136.7 |
| Semi-finished and finished goods | 1,876.4 | 1,961.1 |
| Work in progress | 1,079.0 | 1,174.1 |
| Gross value | 4,079.0 | 4,363.8 |
| Depreciation | (745.0) | (809.0) |
| Inventories and work in progress, net | 3,334.0 | 3,554.8 |
| Gross | 757.3 | 744.1 |
| Depreciation | (582.8) | (567.6) |
| Set-up costs, net | 174.5 | 176.5 |
| TOTAL | 3,508.5 | 3,731.3 |

10.2 Contract assets and liabilities

| | 31/12/2020 | 31/12/2019 |
|------------------------------------|------------------|------------------|
| Unbilled receivables, gross | 11,176.6 | 10,804.6 |
| Unbilled receivables, depreciation | (16.9) | (12.5) |
| Advances received from customers | (8,224.5) | (7,703.2) |
| Contract assets | 2,935.2 | 3,088.9 |
| Advances received from customers | (9,929.1) | (8,898.5) |
| Unbilled receivables | 5,331.3 | 4,287.5 |
| Deferred income | (1,855.7) | (1,803.9) |
| Contract liabilities | (6,453.5) | (6,414.9) |

For a given contract, a contract asset (liability) represents the accumulated revenue not yet invoiced, less advances received from customers. This amount increases as and when revenue is recognised, and decreases when invoices are issued to the customers or advance payments are received.

10.3 Reserves for contingencies

| | 01/01/2020 | Utilisation | Additions | Reversal (surplus) | Exch. rates and other | 31/12/2020 |
|--------------------------------|----------------|----------------|--------------|--------------------|-----------------------|----------------|
| Restructuring | 100.7 | (29.0) | 100.5 | (12.6) | 2.7 | 162.3 |
| Technical and other litigation | 212.0 | (51.6) | 42.3 | (16.0) | 187.1 ^(b) | 373.8 |
| Guarantees | 370.4 | (86.1) | 100.0 | (27.8) | (5.0) | 351.5 |
| Losses at completion | 658.2 | (195.1) | 104.7 | (13.8) | (6.6) | 547.4 |
| Provisions on contracts | 397.7 | (65.6) | 92.2 | (42.3) | 10.1 | 392.1 |
| Other ^(a) | 221.0 | (49.7) | 61.8 | (11.5) | 3.5 | 225.1 |
| TOTAL | 1,960.0 | (477.1) | 501.5 | (124.0) | 191.8 | 2,052.2 |

| | 01/01/2019 | Utilisation | Additions | Reversal (surplus) | Exch. rates and other | 31/12/2019 |
|--------------------------------|----------------|----------------|--------------|--------------------|-----------------------|----------------|
| Restructuring | 62.0 | (51.4) | 81.9 | (10.4) | 18.6 | 100.7 |
| Technical and other litigation | 159.4 | (15.8) | 49.2 | (15.7) | 34.9 | 212.0 |
| Guarantees | 357.7 | (95.7) | 99.9 | (11.4) | 19.9 | 370.4 |
| Losses at completion | 577.1 | (150.4) | 188.6 | (39.4) | 82.3 | 658.2 |
| Provisions on contracts | 345.4 | (85.6) | 108.6 | (8.7) | 38.0 | 397.7 |
| Other ^(a) | 229.2 | (36.2) | 59.2 | (22.6) | (8.6) | 221.0 |
| TOTAL | 1,730.8 | (435.1) | 587.4 | (108.2) | 185.1 | 1,960.0 |

(a) This line includes technical provisions of insurance companies, provisions for labour-related risks, vendor warranties, environmental guarantees and other. Reserves for tax risks linked to income tax (€34 million) have been reclassified to income tax liabilities for the year 2019.

(b) Reserves recognized in the context of the finalisation of the Gemalto's purchase price allocation.

The breakdown of restructuring costs is as follows:

| | 2020 | 2019 |
|----------------------------|----------------|----------------|
| Additions for the period | (100.5) | (81.9) |
| Utilisation for the period | 29.0 | 51.4 |
| Reversals for the period | 12.6 | 10.4 |
| Net | (58.9) | (20.1) |
| Expenses for the period | (114.7) | (102.1) |
| Restructuring costs | (173.6) | (122.2) |

10.4 Maturity of current receivables and payables

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

| | | 31/12/2020 | | 31/12/2019 |
|---|----------------|----------------|--------------|----------------|
| | Total | < 1 year | > 1 year | Total |
| Accounts and accrued receivables gross | 3,439.1 | 3,264.1 | 175.0 | 3,625.2 |
| Accounts and accrued receivables depreciation | (153.7) | (106.2) | (47.5) | (121.7) |
| Accounts and accrued receivables, net | 3,285.4 | 3,157.9 | 127.5 | 3,503.5 |
| Tax receivables (excluding income tax) | 1,167.9 | 1,095.4 | 72.5 | 1,194.1 |
| Other receivables, gross | 594.6 | 538.2 | 56.4 | 550.6 |
| Other receivables, depreciation | (9.6) | (9.8) | 0.2 | (8.7) |
| Other receivables, net | 1,752.9 | 1,623.8 | 129.1 | 1,736.0 |
| Account, notes and other receivables | 5,038.3 | 4,781.7 | 256.6 | 5,239.5 |
| Accounts and notes payable | 2,215.1 | 2,213.3 | 1.8 | 2,960.5 |
| Accrued holiday pay and payroll taxes | 1,810.9 | 1,763.3 | 47.6 | 1,854.8 |
| Tax payables (excluding income tax) | 1,211.9 | 1,210.6 | 1.3 | 1,122.6 |
| Other creditors and accrued liabilities | 760.1 | 737.4 | 22.7 | 875.8 |
| Accounts notes and other payables | 5,998.0 | 5,924.6 | 73.4 | 6,813.7 |

The changes in provisions on accounts and notes receivable break down as follows:

| | 31/12/2019 | Additions/ reversal | Exchange rate and scope | 31/12/2020 |
|---|------------|------------------------|-------------------------------|------------|
| Provisions on accounts and notes receivable | (121.7) | (19.4) | (12.6) | (153.7) |

The Group may assign trade receivables, mainly from the French State, and commercial paper. At 31 December 2020, outstanding derecognised receivables amounted to €294.1 million (€715.2 million at 31 December 2019). The variation of outstanding receivables mainly comes from the high level of overdue receivables on the French government at 31 December 2019.

Since these assignments are without recourse in case of debtor default, the receivables in question are subject to "de-recognition" of the asset.

10.5 Commitments linked to commercial contracts

The Group's contractual commitments towards its counterparties (mainly its customers) can be subject to three types of guarantees or warranties:

a) Bank guarantees

- **Bid bonds:** 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 2020, bid bonds issued amounted to €24.5 million (€32.0 million at 31 December 2019).
- **Performance bonds:** 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 2020, performance bonds amounted to €1,926.5 million (€1,976.6 million at 31 December 2019). 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.

- **Advance payment bonds:** 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 2020, advance payment bonds amounted to €2,310.2 million (€2,099.2 million at 31 December 2019).
- **Warranty retention bonds:** 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 many 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 2020, warranty retention bonds amount to €217.1 million (€159.0 million at 31 December 2019).

The maturity dates of these commitments are:

| | < 1 year | 1 to 5 years | > 5 years | 31/12/2020 | 31/12/2019 |
|--------------------------|----------------|----------------|--------------|----------------|----------------|
| Bid bonds | 20.6 | 2.6 | 1.3 | 24.5 | 32.0 |
| Performance bonds | 887.6 | 737.2 | 301.7 | 1,926.5 | 1,976.6 |
| Advance payment bonds | 1,379.0 | 715.6 | 215.6 | 2,310.2 | 2,009.2 |
| Warranty retention bonds | 114.5 | 63.9 | 38.7 | 217.1 | 159.0 |
| Other bank bonds | 152.0 | 94.4 | 85.4 | 331.8 | 275.8 |
| TOTAL | 2,553.7 | 1,613.7 | 642.7 | 4,810.1 | 4,452.6 |

b) Parent company guarantees

Parent company guarantees are issued by Thales parent company and are intended to guarantee the obligations of its subsidiaries mainly to their customers under commercial contracts, but also occasionally to suppliers under long-term service purchase commitments.

They may also be issued to financial institutions, in order to improve the conditions of supports they grant to some subsidiaries.

At December 2020, these guarantees amounted to €14,148.9 million (€15,278.5 million at 31 December 2019).

c) Offsetting commitments

The awarding of major contracts, particularly within the defence sector, may be subject to legal or regulatory offsetting of the execution of local obligations, which can take the form of direct offsetting, semi-direct offsetting or indirect offsetting.

The associated risks are described in section 3.1.3.a.

Note 11. Litigation

At the date of publication, there are no 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 12. Subsequent events

To the best of the group's knowledge, no significant event occurred after the end of the reporting.

Note 13. Accounting policies

a) Presentation of the financial statements

Consolidated profit and loss account

Expenses in the income statement are presented analytically by purpose.

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

- gains and losses on disposals of property, plant and equipment and intangible assets, businesses or investments;
- the impact of changes in scope on consolidated net income before tax (Note 13-b);
- the impact of the amendment, curtailment or settlement of pension plans and other long-term benefits;
- the impairment of non-current assets;
- other operating items resulting from unusual events, with a material impact on the financial statements.

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, advance payments, 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 13-1. 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. Income tax payments are included in this caption, except when directly associated to investing or financing activities;
- 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, 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 discloses the changes in its **net cash**, which is a non-GAAP measure. It includes financial debt, net of cash and cash equivalents and liquid investments. Changes in net cash, presented in Note 6.3, notably reflect **free operating cash flow**, defined as net cash flow from operating activities less net operating investments, plus the deficit payment linked to UK pension plans.

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. This total is then adjusted for entries directly related to business combinations (amortisation of assets recognized in the context of purchase price allocation and other acquisition-related expenses).

Adjusted net income, the calculation of which is presented in the Group's management report. 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 assets valued when determining the purchase price allocation (business combinations);
- other expenses directly related to these business combinations;
- impairment of non-current assets;
- gains and losses on disposal of assets, changes in scope of consolidation and others;
- changes in the fair value of derivative foreign exchange instruments, recognised in "Other financial income and expenses";
- actuarial gains and losses on long-term employee benefits, included in "Finance costs 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 9.3-f: funding obligations in respect of pensions;
- Note 10.5: commercial contract commitments.

Related parties

The Group has identified the following related parties: shareholders of Thales SA (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 6.2.3.3 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 the *Direction Générale de l'Armement*, the French defence procurement agency) in Note 6.6-b;
- transactions with equity affiliates in Note 5.3.

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 subsidiaries jointly controlled by Thales (joint ventures) or in which the Group has significant influence (associates) are accounted for under the equity method.

The main consolidated companies are listed in Note 15.

The full list of affiliates outside of France is available on the Group's website (<https://www.thalesgroup.com/en/global/corporate-responsibility/corporate-social-responsibility>).

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 applies.

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". Positive goodwill related to controlled companies is recognised in balance sheet assets under intangible assets. Positive goodwill related to equity affiliates is recognised under "investments in joint venture/associates".

Goodwill is not amortised but is subject to impairment tests each year. Goodwill impairment is booked as an expense under "impairment" 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

The Group's principles of revenue recognition are the following:

Unbundling of multiple performance obligations within a single contract

Some contracts include the supply to the customer of distinct goods and services (for instance contracts combining building of assets, followed by operation and maintenance). In such situations, the contract must be segmented into several components ("performance obligations"), each component being accounted for separately, with its own revenue recognition method and margin rate.

The contract price is allocated to each performance obligation in proportion to the specific selling price of the underlying goods and services. This allocation should reflect the share of the price to which Thales expects to be entitled in exchange for the supply of these goods or services.

Options notified by the customer for the supply of distinct additional goods or services are generally accounted for separately from the initial contract.

Evaluation of revenue allocated to performance obligations

Variable considerations included in the selling price are taken into account only to the extent that it is highly probable that a significant reversal in the amount of revenue already recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Penalties for late delivery or for the improper execution of a performance obligation are recognised as a deduction from revenue.

If the financing component is deemed significant, the selling price is adjusted to reflect a "cash" selling price for the goods and services provided. A financing component exists when parties have agreed to set up a financing to the advantage of one of them, through contractual terms.

Revenue includes income from claims only when it is highly probable that such claims will be accepted by the customer.

Contractual amendments negotiated with customers are included in the selling price only when they become legally enforceable.

Recognition of revenue over time or at a point in time

Revenue associated with each performance obligation identified within a contract is recognised when the obligation is satisfied, i.e., when the control of the promised goods or services is transferred to the customer.

To demonstrate that the transfer of goods is progressive and recognise revenue over time, the following cumulative criteria are required:

- the goods sold have no alternative use; and
- the Group has an irrevocable right to payment (corresponding to costs incurred, plus a reasonable profit margin) for the work performed to date, in the event of termination for reasons other than Thales' failure to perform as promised.

These criteria are fulfilled by the vast majority of Group contracts that include the design and delivery of complex goods.

Revenue from the sale of goods with an alternative use, and/or for which the Group has no enforceable right to payment in case of termination for convenience by the customer, is recognised when the goods are delivered to the customer. This essentially concerns equipment (mainly in civil avionics) and spare parts.

Revenue from service contracts is generally recognised over time, as the customer simultaneously receives and consumes the benefits of these services provided by Thales.

Percentage of completion method

The percentage of completion method generally used by the Group is expense-based: revenue is recognised based on costs incurred to date in relation to all the costs expected upon completion.

Margin recognition

Expected losses on contracts are fully recognised as soon as they are identified, pursuant to the provisions of IAS 37 on onerous contracts.

Order book

Order book (as disclosed in Note 2.3) corresponds to the amounts of the selling price allocated to the performance obligations not yet unsatisfied (or partially unsatisfied) at the closing date.

d) Operating assets and liabilities

Inventories and work in progress

Inventories and work in progress are carried at their production cost (determined using the FIFO or weighted-average cost method) and written down when their net sale value becomes lower than the production cost. 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 overhead and any other costs that can be directly allocated to contracts.

When material, the cost of debt incurred during the construction period of a qualifying asset is incorporated in the value of this asset. If the funding is specific, the loan interest rate is used, otherwise the Group's financing rate is used.

Set-up costs

These costs cover preparatory work, not directly financed by the customer but necessary for the execution of the contract. They do not participate to the determination of the percentage of completion of the contract. They are capitalised and amortised as and when the revenue is recognised.

Contract assets and liabilities

The cumulated amount of revenue accounted for, less progress payments and accounts receivable (presented on a dedicated line of the balance sheet) is determined on a contract-by-contract basis. If this amount is positive, the balance is recognised under “contract assets” in the balance sheet. If it is negative, the balance is recognised under “contract liabilities”.

Customer receivables

A receivable is an unconditional right to payment by the customer.

Impairment losses are accounted for, based on a prospective assessment of the credit risk on the initiation of the receivable, and its deterioration over time. The changes in impairment are presented in Note 10.4.

The Group is authorised to assign trade receivables, mainly from the French State, and commercial paper. As these assignments, which are without recourse in case of default by the debtor, involve the transfer of substantially all corresponding risks and rewards (Thales holding the dilution risk), they are “derecognised.” Thales’ continued involvement (as this is defined by IFRS 7) in the transferred receivables corresponds to the keeping of the recovery mandate.

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 of capitalization below:

- 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 developed products are relatively generic and can be sold to a large number of potential customers. By contrast, development costs linked to Defence activities are for more specific and restricted markets with a 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, straight-line 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 4.1. 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 accounted for when restructuring programmes have been agreed and approved by a competent body 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 compensation for these costs.

These 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 13-b);
- assets acquired in business combinations, primarily acquired technologies, customer relationships and the order book. 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 13-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 various 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) Leases

Contracts defined as a lease according to IFRS 16 (that is to say contracts which give the lessee a right to control the use of an identified asset for a period of time in exchange for consideration) are accounted for in the balance sheet, with the exception of low value assets and contracts with a duration below 12 months (by simplification, as allowed by the standard). In the Group’s financial statements, lease contracts accounted for in the balance sheet are mainly real estate contracts (offices and production sites) and, in a lesser extent, service vehicles and few IT equipment.

Leases are accrued on the balance sheet at the date when the underlying asset is made available to the lessee. The lease liability is accrued against a right to use the rent asset, and is equal to the committed future lease payments discounted over the duration of the lease, as well as the exercise price of the options when it is reasonably certain that they will be exercised. The right-of-use asset is adjusted, if applicable, by the payments made in advance to the lessor, the initial direct costs incurred net of the incentives received by the lessor, and dismantling costs when an obligation is identified.

In the case of real estate contracts, the initial lease term retained for the lease liability calculation corresponds to the contractual term which is usually non-cancellable, the Group accepting most of the time to renounce to early termination options in order to benefit from favorable economic conditions. For these contracts, renewal options are generally not taken into account as the contractual terms are long and the date of exercise of these options is too far for the Group to be able to judge their exercise reasonably certain.

The Group may reassess this duration in the course of a contract duration in the case where a significant event would occur, such as a reorganization plan or expensive leasehold improvements. In such situations, the Group pays attention to the consistency between the amortisation duration of the leasehold improvements and the term retained for the calculation of the lease liability.

Besides, when the end date of a contract is close, and in the absence of a moving project, the lease term is re-estimated in order to reflect the Group's intention to renew the contract. In such a situation, as for open-end contracts (but cancellable anytime with termination notice by the lessee or the lessor) or for short-term contracts renewable without limitation by tacit agreement, the end date of the contract is estimated taken into account the legal and contractual applicable conditions, but also the particular context of each contract (fluidity of the local real estate market, relations with the lessor, ...) and economic conditions surrounding the lease (appreciation of the economic loss which represents, for the Group, to abandon the improvements or constructions made on the leased asset, ...). This methodology is consistent with the IFRIC's position taken on November 2019.

For other natures of lease, there is usually no early termination or extension options, the lease term retained therefore corresponds to the non-cancellable period.

Future lease payments are discounted using the incremental borrowing rate of the lessee. The latest is calculated taking into account the financing arrangements of the Group, that is to say it is based on both the risk-free rate of the lessee and the margin applicable to Thales SA for financing of maturity corresponding to the duration of the commitment.

The right-of-use asset is presented within the tangible assets (Note 4.2). It is amortised on a straight-line basis over the useful life of the underlying asset. The amortisation charge for the right of use is included in EBIT.

The lease liability is presented in the balance-sheet within the financial debt (Note 6.2). The interest charge is presented in the profit and loss account within the net interest income (Note 6.1).

Within the statement of cash flows:

- the interests paid are included within the net cash flow from operating activities;
- the reimbursement of the debt ("capital" portion of the rent paid) is presented in the financing cash flow on the line "repayment of debt". Thus, it is not included in the cash flow from operating activities;
- new lease liabilities have no effect on the cash flow statement insofar as they are balanced with a right of use recognized in the assets of the balance sheet.

i) Financial assets, financial liabilities and derivatives

Financial assets

IFRS 9 introduces a single approach to classification and measurement of financial assets, based on the characteristics of the financial instruments and on the Group's management intention. Thus:

- financial assets with expected cash-flows that solely correspond to principal and interest payments are measured at amortised costs if managed only to collect these flows;
- in other cases, financial assets are measured at fair value through the income statement, except for equity investments not held for trading and whose changes in value affect optionally the Other Comprehensive Income (OCI).

These principles are reflected as follows on the assets presented in the Group's balance sheet:

- Investments are measured at fair value. Fair value corresponds to the market price for shares quoted on a regulated market. For other shares, 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 either on the income statement or, subject to an irrevocable option, investment by investment, through OCI with no reclassification to the income statement. This latter option has been chosen by the Group for all non-consolidated investments at the end of 2020. Consequently, subsequent changes in fair value and gains (losses) on disposal will be directly accounted for through shareholders' equity, with no impact on the income statement. Only dividends must remain accounted for through the financial result.

- Receivables and financial loans are recognised at amortised cost. They are subject to impairment if an expected loss or an impairment indicator is identified. This impairment, recognised in "other financial income (expense)", may subsequently be reversed through profit and loss if the conditions so justify.
- Deposits that Thales intends to hold until maturity are recognised at amortised cost.
- Other financial assets (including mutual funds and equivalent products) are estimated at fair value through profit and loss.
- "Cash and cash equivalents" include 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 used to hedge commercial contracts, and 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 are recognised in "other financial income (expense)" as they are excluded from the hedging relationship.

The time value of foreign exchange options documented as hedges is considered as a cost of hedging: changes in fair value are accounted for through OCI, with reclassification to the financial result in line with the hedged item.

Concerning foreign exchange derivatives subscribed to hedge financial assets/liabilities, documented as fair value hedges, the swap point is spread over the duration of the financial asset/liability.

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 re-measured 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.

j) Deferred tax assets and liabilities

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

Deferred tax assets are not recognised on the balance sheet if it is likely that the company concerned will not be able to recover them. To assess its ability to recover deferred tax assets, the Group takes into account forecast taxable income of the tax entities concerned, over a three to five-year time-frame, entity's tax loss history, non-recurring past events and tax strategies specific to each country.

k) 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 projected and actual results – 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 reclassified 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 other operating income (loss) in the period in which it is incurred.

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

l) Share-based payment

Free share plans

Thales regularly grants 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 income from operations 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.

Phantom shares indexed to the value of Thales shares

Since those are cash-settled plans, IFRS 2 requires an evaluation of vested services and the liability assumed at fair value. Until the payment of this liability, the debt is re-measured at the closing date and taken to profit and loss. The re-measurement 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 average 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 benefits granted to employees takes into account the cost of the five-year lock-up period.

Note 14. Fees paid to statutory auditors

Total fees paid to Thales's statutory auditors by the parent company and members of their consolidated networks for financial years 2020 and 2019 are shown below.

Other services cover tasks required by law (e.g., interim dividend, capital increase, etc.) and other services compatible with the statutory auditors' role (certification of expenditures, agreed procedures engagements, services of a tax-related nature without material impact, etc.).

| (in € thousands) | Mazars | | Ernst & Young Audit | | Total | |
|----------------------------------|--------------|--------------|---------------------|--------------|---------------|-----------------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Certification of accounts | 5,427 | 5,584 | 5,327 | 6,595 | 10,754 | 12,179^(a) |
| • Issuer | 896 | 965 | 398 | 595 | 1,294 | 1,560 |
| • Subsidiaries | 4,531 | 4,619 | 4,929 | 6,000 | 9,460 | 10,620 |
| Other services | 785 | 720 | 893 | 727 | 1,678 | 1,447 |
| • Issuer | 251 | 286 | 58 | 43 | 171 | 329 |
| • Subsidiaries | 534 | 434 | 835 | 684 | 1,507 | 1,118 |
| TOTAL | 6,212 | 6,304 | 6,220 | 7,322 | 12,432 | 13,626 |

(a) Including, in 2019, the audit of the Gemalto acquisition balance sheet.

Note 15. List of main consolidated companies

(excluding Thales SA, the parent company)

| Company name | Country | % Interest 31/12/2020 | % Interest 31/12/2019 |
|---|----------------|--------------------------|--------------------------|
| 1. Consolidated subsidiaries ^(a) | | | |
| Tampa Microwave, LLC | United States | 51% | 51% |
| Thales Alenia Space France SAS | France | 67% | 67% |
| Thales Alenia Space Italia SpA | Italy | 67% | 67% |
| Thales Australia Ltd | Australia | 100% | 100% |
| Thales Avionics, Inc. | United States | 100% | 100% |
| Thales Avionics Electrical Systems SAS | France | 100% | 100% |
| Thales AVS France SAS | France | 100% | 100% |
| Thales Belgium S.A | Belgium | 100% | 100% |
| Thales Canada Inc. | Canada | 100% | 100% |
| Thales Defense & Security, Inc. | United States | 100% | 100% |
| Thales Deutschland GmbH | Germany | 100% | 100% |
| Thales DIS AIS Deutschland GmbH | Germany | 100% | 100% |
| Thales DIS CPL USA, Inc. | United States | 100% | 100% |
| Thales DIS France SA | France | 100% | 100% |
| Thales DIS Mexico SA de CV | Mexico | 100% | 100% |
| Thales DIS (Singapore) Pte Ltd | Singapore | 100% | 100% |
| Thales DIS Technologies B.V | Netherlands | 100% | 100% |
| Thales DIS UK Ltd | United Kingdom | 100% | 100% |
| Thales DIS USA, Inc. | United States | 100% | 100% |
| Thales DMS France SAS | France | 100% | 100% |
| Thales Espana Grp, S.A.U. | Spain | 100% | 100% |
| Thales Ground Transportation Systems Ltd | United Kingdom | 100% | 100% |
| Thales GTS Uk Ltd | United Kingdom | 100% | 100% |
| Thales LAS France SAS | France | 100% | 100% |
| Thales Nederland B.V. | Netherlands | 99% | 99% |
| Thales Services Numériques SAS | France | 100% | 100% |
| Thales SIX GTS France SAS | France | 100% | 100% |
| Thales Solutions Asia Pte Ltd | Singapore | 100% | 100% |
| Thales UK Ltd | United Kingdom | 100% | 100% |
| Trixell | France | 51% | 51% |
| 2. Joint ventures & associates (equity method) | | | |
| Aviation Communications & Surveillance Systems | United States | 30% | 30% |
| Airtanker Ltd | United Kingdom | 15% | 13% |
| Elettronica SpA | Italy | 33% | 33% |
| Naval Group | France | 35% | 35% |
| Diehl Aerospace GmbH | Germany | 49% | 49% |
| Lynred | France | 50% | 50% |
| Telespazio SpA | Italy | 33% | 33% |

(a) Companies with sales representing more than 0.5% of consolidated sales.

Exemptions for subsidiaries publication:

Gemalto Holding BV (previously Gemalto NV) is exempted from its obligation to publish consolidated financial statements from 2019, as Thales applies the exemption 408 in Netherlands.

German entity Electronic Signalling Services (ESS) GmbH, located at 1 Thalesplatz, 71254 Ditzingen, has requested to be exempted from its obligation to publish statutory financial statements for the year 2020, pursuant to paragraph 3, subparagraph 264, of the German Commercial Code.

7.2 Parent company management report

7.2.1 Parent company management report

7.2.1.1 Activity and results

Operating income amounted to €684 million, compared with €735 million in 2019. Sales totalled €238 million, compared with €253 million in 2019.

Activities are described by sector in the accompanying notes.

Revenues mainly consist of rents and property work re-billed to operating subsidiaries and sales of research, chiefly conducted by the Central Research and Technology Department of Thales Group. The decrease in revenues is primarily due to decreased billing of property work and research in 2020.

Other operating income amounted to €419 million, compared with €454 million in 2019. It includes royalties paid by direct operating subsidiaries, as well as expenses re-billed to those subsidiaries, including for general and specific centralised services provided by the parent company, and capitalised production.

Net loss from operations amounted to -€90 million, compared with a loss of -€114 million in 2019.

Net financial income was €529 million, compared with €546 million in 2019.

Provisions for equity investments and subsidiary risks totalled -€135 million in 2020, compared with -€95 million in 2019. Reversals of provisions for equity investments and subsidiary risks represented €127 million in 2020, compared with €90 million in 2019.

Income from investments amounted to €579 million in 2020, versus €584 million in 2019.

Non-recurring expense amounted to -€9 million, compared with €27 million in 2019. It comprises mainly severance payments to employees.

The company recorded an income tax benefit of €79 million, compared with €43 million in 2019. It represents the net total of (i) the amount to be received from tax group subsidiaries and (ii) the tax expense payable to the State.

In 2020, non-deductible expenses pursuant to Articles 223 *quater* and 39.4 of the French General Tax Code amounted to -€0.3 million.

Net profit for financial year 2020 came to €509 million, up compared to financial year 2019 (€502 million).

7.2.1.2 Balance sheet at 31 December 2020

The balance sheet total at year-end 2020 was €22,019 million, up €1,737 million from €20,282 million at year-end 2019.

The total non-current assets of €15,311 million (€15,430 million in 2019) are mainly composed of financial investments.

The €46 million decrease in equity investments is mainly due to a reduction in capital of Thales Canada, Inc., partially offset by an increase in capital of Thales Digital Factory SAS.

Other financial investments decreased by €50 million.

Current assets rose €1,856 million to €6,708 million at end-December 2020, including cash on hand of €2,134 million. These amounts include €2,872 million in sight and term bank deposits or money market funds.

The balance of Group companies' current accounts represented net debt of €5,313 million at year-end 2020, compared with €5,389 million at year-end 2019.

"Borrowings" amounted to €6,507 million at year-end 2020, versus €4,843 million at year-end 2019. They include bond issues for a total amount of €4,487 million, commercial paper totalling €1,195 million and foreign-currency and euro denominated borrowings from Group subsidiaries and associates.

At year-end 2020, share capital stood at €640.1 million and total equity came to €7,426 million, compared with €7,015 million at year-end 2019.

Customer and supplier payment schedules

Thales pays its suppliers 60 days after 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).

7.2.1.5 Proposed allocation of earnings and dividend policy

The Annual General Meeting, deliberating under the *quorum* and majority conditions required for annual general meetings, noted⁽¹⁾ that distributable earnings include:

| | |
|--|--------------------------|
| The net profit for financial year 2020 | €509,346,558.64 |
| Less allocations to legal reserve | (€14,535.60) |
| Plus retained earnings at 31 December 2020 | €2,014,224,638.07 |
| Plus interim dividend in the amount of €0.40 per share paid on 3 December 2020 and deducted from retained earnings | €85,138,915.60 |
| For a total amount of | €2,608,695,576.71 |

The Annual General Meeting decided⁽¹⁾ to allocate this amount as follows:

| | |
|--|--------------------------|
| Distribution of a dividend of [€1.76] per share on 213,365,958 shares bearing rights as from 1 January 2020 (including the interim dividend of €0.40 per share paid on 3 December 2020 charged to the 2020 dividend) | €375,524,086.08 |
| Retained earnings after dividend | €2,233,171,490.63 |
| TOTAL EQUIVALENT TO DISTRIBUTABLE EARNINGS | €2,608,695,576.71 |

The Annual General Meeting notes that, taking into account the interim dividend of €0.40 per share paid on 3 December 2020 and deducted from retained earnings, the remaining dividend to be paid out is [€1.36] per share.

The ex-dividend date is 18 May 2021 and payment date for the balance of the dividend will be 20 May 2021.

The sums corresponding to the dividends which, in accordance with the provisions of the fourth paragraph of Article L. 225-210 of the French Commercial Code, have not been paid on treasury shares held by the Company, will be reallocated as retained earnings.

For individuals domiciled in France who have not expressly, irrevocably and globally opted to be subject to income tax on a progressive scale, the dividend is subject to a flat tax rate (*prélèvement forfaitaire unique* or PFU) of 30%. For individuals domiciled in France who have exercised such an option, this dividend is subject to income tax on a progressive scale and is eligible for the 40% allowance provided by Article 158.3.2° of the French General Tax Code.

In accordance with the law, the amounts of dividends paid out for the past three financial years are provided below:

| Financial year | Dividend per share | Total amount paid out |
|----------------|----------------------------|------------------------|
| 2017 | €1.75 ^(a) | €371,025,506.25 |
| 2018 | €2.08 ^(a) | €442,018,319.00 |
| 2019 | €0.60^(a) | €127,316,769.00 |

(a) The dividend corresponds to all income distributed for the financial year. The full dividend amount was eligible for the tax relief provided for in Article 158-3 2° of the French General Tax Code.

(1) Subject to approval by the Annual General Meeting of 6 May 2021.

7.2.1.6 Parent company management report cross-reference table

In accordance with Articles L. 225-100, L. 232-1, L. 247-1 and R. 225-102 of the French Commercial Code, the parent company management report includes the following information contained in the 2020 Universal Registration Document:

| Management report French Commercial Code | Section/Note | Pages |
|--|------------------------------|------------------------|
| 1. Thales (parent company) financial statements at 31 December 2020 | Section 7.2 | 286 |
| Table of subsidiaries and equity affiliates | Note 23 | 314 |
| Table of investments made and shareholding disclosures in French companies | Note 23 | 316 |
| Table showing the company's earnings in the last five financial years | Note 24 | 317 |
| Table of outstanding stock purchase and subscription options at 31 December | Note 15 | 305 |
| Change in number and in value of the treasury shares of the Company | Note 14 | 304 |
| Write-back of general expenses following tax adjustment | Note 6 | 297 |
| Events after the reporting period | Note 22 | 313 |
| Information on existing branches (Article L. 232-1, II of the French Commercial Code) | Note 24 | 317 |
| 2. Risk factors, internal control and risk management | Ch.3 | 46 |
| 3. Management report and consolidated financial statements of the Group at 31 December 2020 | Sections 2 & 7 | 33 & 234 |
| Presentation of the activities of the Company, its subsidiaries and controlled companies | Section 2.1 | 18 |
| Description of the main risks and uncertainties facing the Group | Section 3 | 48 |
| Information on the use of financial instruments (supplementing the notes to the financial statements) | Note 6 | 254 |
| Information on the research and development activities | Section 2.2 | 31 |
| 4. Corporate governance | Section 4 | 68 |
| Compensation of other executives | Section 4.5 | 113 |
| Share-based payments | Sections 6.2.2 & 9.4 | 181 & 272 |
| 5. Company and share capital | Section 6 | 176 |
| Breakdown of shareholders and changes performed during the financial year | Section 6.2.1.3 | 180 |
| Employee's stake in share capital | Section 6.2.3.7 | 189 |
| Awards of free shares and performance units made during the financial year | Section 6.2.3.5 | 187 |
| Description of the share repurchase program adopted by the Annual General Meeting of 6 May 2020 | Section 6.2.3.4 | 186 |
| Transactions involving treasury shares during the financial year | Section 6.2.3.4.3.2 | 186 |
| Summary statement of transactions carried out during the financial year by directors, non-voting directors and related persons | Section 4.6 | 114 |
| Regulated agreements (continued existing agreements) | Section 6.3 | 190 |
| Thales share price trend over the past two financial years | Section 6.4.1 | 192 |
| 6. Extra-financial Performance Declaration, including | Sections 1, 3 & 5 | 4, 46 & 116 |
| Business model | Section 1 | 4 |
| Main risks identified | Sections 3 & 5.2 | 46 & 118 |
| Policies and measurements of associated results | Sections 5.3 to 5.7 | 122 & 172 |
| Responsibility of the independent third party | Section 5.8 | 175 |
| Cross-reference table for the non-financial performance statement | Section 8.6 | 302 |
| Other social and environmental information in the management report (Art. L. 225-100-1 2° and 4°, L. 255-102-2, L. 225-102-4 and L. 225-637-1 of the French Commercial Code) | Sections 5.4 & 5.5 | 123 & 138 |
| Duty of Care Plan | Section 5.7.3.2 | 164 |

7.2.2 Parent company financial statements

7.2.2.1 Income statement by type

| (in € millions) | Notes | 2020 | 2019 |
|---|--------|----------------|----------------|
| Re-billing of rent and building work | | 219,0 | 224,9 |
| Research | | 18,8 | 27,6 |
| Sales | | 237,8 | 252,5 |
| Royalties | | 210,2 | 252,5 |
| Re-billing of expenses | | 208,4 | 201,9 |
| Other operating income | | 418,6 | 454,4 |
| Reversals of provisions | | 17,0 | 20,3 |
| Transfer of expenses | | 10,7 | 7,4 |
| TOTAL OPERATING INCOME | | 684,1 | 734,6 |
| Purchases and changes in inventories and work in progress | | (63,5) | (33,2) |
| Other external charges | | (454,2) | (535,1) |
| Taxes other than on income | | (14,3) | (10,8) |
| Personnel expenses | | (212,7) | (232,1) |
| Depreciation and amortisation | | (17,0) | (16,9) |
| Increase in provisions for impairment | | (12,4) | (20,3) |
| Total operating expenses | | (774,1) | (848,4) |
| INCOME (LOSS) FROM OPERATIONS | Note 3 | (90,0) | (113,8) |
| Net interest and finance costs | | (22,5) | (11,6) |
| Income from investments | | 579,0 | 583,8 |
| Other financial income | | 139,0 | 105,8 |
| Other financial expenses | | (166,3) | (132,2) |
| Financial income (expense) | Note 4 | 529,2 | 545,8 |
| PROFIT (LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX | | 439,2 | 432,0 |
| Non-recurring income (expense) | Note 5 | (8,8) | 26,8 |
| PROFIT (LOSS) BEFORE INCOME TAX | | 430,4 | 458,8 |
| Income tax benefit (expense) | Note 6 | 78,9 | 43,1 |
| PROFIT FOR THE YEAR | | 509,3 | 501,9 |

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

7.2.2.2 Balance sheet

Assets

| (in € millions) | Notes | 31/12/2020 | 31/12/2019 |
|--|---------|-----------------|-----------------|
| Intangible assets and property, plant and equipment, net | Note 7 | 79,9 | 95,4 |
| Equity investments | Note 8 | 14 246,6 | 14 292,2 |
| Treasury shares not assigned to plans | Note 14 | 38,3 | 46,2 |
| Other financial investments | Note 9 | 946,1 | 996,4 |
| Total non-current assets | | 15 310,9 | 15 430,2 |
| Inventories and work in progress | | 11,0 | 5,6 |
| Advances to suppliers | Note 16 | 0,1 | 0,4 |
| Trade receivables | Note 16 | 149,3 | 250,7 |
| Other receivables | Note 16 | 301,0 | 288,0 |
| Group company current account payables | Note 10 | 2 151,1 | 2 341,4 |
| Treasury shares allocated to employee share ownership | Note 14 | – | 4,3 |
| Accrued interest | | 0,1 | 0,3 |
| Other investments | Note 11 | – | – |
| Cash and cash equivalents | Note 11 | 4 095,4 | 1 961,5 |
| Total current assets | | 6 708,0 | 4 852,2 |
| TOTAL ASSETS | | 22 018,9 | 20 282,4 |

Shareholders' equity and liabilities

| (in € millions) | Notes | 31/12/2020 | 31/12/2019 |
|---|---------|-----------------|-----------------|
| Share capital | | 640,1 | 640,0 |
| Additional paid-in capital | | 4 075,5 | 4 074,3 |
| Reserves and retained earnings | | 2 215,7 | 1 798,9 |
| Profit for the year | | 509,3 | 501,9 |
| Total shareholders' equity | Note 13 | 7 440,6 | 7 015,1 |
| Reserves for contingencies | Note 17 | 208,5 | 237,4 |
| Borrowings | Note 12 | 6 506,5 | 4 843,2 |
| Group company current account payables | Note 10 | 7 464,0 | 7 729,8 |
| Advances received on contracts in progress | Note 16 | 23,3 | 21,7 |
| Trade payables | Note 16 | 99,9 | 136,6 |
| Other payables | Note 16 | 276,1 | 298,6 |
| Total liabilities | | 14 369,8 | 13 029,9 |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | | 22 018,9 | 20 282,4 |

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

7.2.2.3 Cash flows statement

| (in € millions) | Notes | 2020 | 2019 |
|--|-------------------|----------------|------------------|
| Net income | | 509.3 | 501.9 |
| Add (deduct): | | | |
| Net depreciation, amortisation and impairment charges on intangible assets and property, plant and equipment | Note 7 | 17.0 | 16.9 |
| Provisions for post-employment and other employee benefits | Note 17 | 17.0 | 6.6 |
| Net provisions for impairment of investments and subsidiary risks | Note 4 | 7.5 | 4.7 |
| Other items | | 25.7 | 0.4 |
| Operating cash flow | | 576.5 | 530.5 |
| Change in working capital and provisions for operating contingencies and losses | | 53.6 | (76.6) |
| CASH FLOW FROM OPERATING ACTIVITIES | - I - | 630.1 | 453.9 |
| Payments for acquisitions of intangible assets and property, plant and equipment | | (4.0) | (8.1) |
| Proceeds from disposal of intangible assets and property, plant and equipment | | - | - |
| Net operating investment | | (4.0) | (8.1) |
| Investments in subsidiaries and associates | Note 8 | (35.1) | (5,101.7) |
| Disposals of subsidiaries and affiliates | Note 8 | 110.8 | 0.2 |
| Decrease (increase) in other investments | | (2.1) | 247.7 |
| Decrease (increase) in other financial investments and treasury shares | | 8.7 | (449.2) |
| Decrease (increase) in current account receivables | | 113.4 | (897.4) |
| Net financial investment | | 195.7 | (6,200.4) |
| CASH FLOW USED IN INVESTING ACTIVITIES | - II - | 191.7 | (6,208.5) |
| Dividend distributions | Note 13 | (85.2) | (463.0) |
| Increase in share capital (exercise of subscription options) | | 1.2 | 7.1 |
| Increase in borrowings | | 2,435.8 | 1,892.1 |
| Decrease in borrowings | | (783.6) | (186.1) |
| Increase (decrease) in current account payables | | (214.2) | 1,640.1 |
| CASH FLOW FROM/USED IN FINANCING ACTIVITIES | - III - | 1,354.0 | 2,890.2 |
| TRANSLATION ADJUSTMENT FOR ACCOUNTS DENOMINATED IN A FOREIGN CURRENCY | - IV - | (41.9) | 16.5 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | I + II + III + IV | 2,133.9 | (2,847.9) |
| Cash and cash equivalents at the beginning of the period | | 1,961.5 | 4,809.4 |
| Cash and cash equivalents at the end of the period | | 4,095.4 | 1,961.5 |

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

7.2.2.4 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 2019 | 213,104 | 639.3 | 4,068.2 | 1,808.5 | 453.4 | 6,969.4 |
| Allocation of 2018 earnings | - | - | - | 453.4 | (453.4) | - |
| Dividends | - | - | - | (463.0) | - | (463.0) |
| Capital increase | 213 | 0.7 | 6.1 | - | - | 6.8 |
| 2019 result | - | - | - | - | 501.9 | 501.9 |
| At 31 December 2019 | 213,317 | 640.0 | 4,074.3 | 1,798.9 | 501.9 | 7,015.1 |
| Allocation of 2019 earnings | - | - | - | 501.9 | (501.9) | - |
| Dividends (see Note 13.2) | - | - | - | (85.1) | - | (85.1) |
| Capital increase | 49 | 0.1 | 1.2 | - | - | 1.3 |
| 2020 result | - | - | - | - | 509.3 | 509.3 |
| At 31 December 2020 | 213,366 | 640.1 | 4,075.5 | 2,215.7 | 509.3 | 7,440.6 |

7.2.2.5 Notes to the parent company financial statements

| | | |
|-----------------|--|------------|
| Note 1. | Accounting principles | 258 |
| Note 2. | Change in thales's directly owned investments | 258 |
| Note 3. | Operating profit (loss) | 258 |
| Note 4. | Financial income (expense) | 259 |
| Note 5. | Non-recurring income (expense) | 260 |
| Note 6. | Income tax | 261 |
| Note 7. | Property, plant and equipment and intangible assets | 262 |
| Note 8. | Equity investments | 263 |
| Note 9. | Other financial investments | 264 |
| Note 10. | Group company current account payables | 264 |
| Note 11. | Cash and other investments | 265 |
| Note 12. | Borrowings | 266 |
| Note 13. | Shareholders' equity | 267 |
| Note 14. | Treasury shares | 268 |
| Note 15. | Free share plans and stock options granted to employees | 269 |
| Note 16. | Inventories – receivables and payables | 270 |
| Note 17. | Provisions for contingencies and losses | 272 |
| Note 18. | Legal risks | 273 |
| Note 19. | Off-balance sheet commitments | 274 |
| Note 20. | Market risks | 274 |
| Note 21. | Related parties | 276 |
| Note 22. | Events after the reporting period | 277 |
| Note 23. | Subsidiaries and associates | 278 |
| Note 24. | Information on existing branches (Article L. 232-1, II of the French Commercial Code) | 281 |

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.

Note 1. Accounting principles

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

The Thales 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 (consolidated version as at 1 January 2019). They include the recommendations of 24 July 2020 on taking the consequences of Covid-19 into consideration in the financial statements.

These principles are detailed in each note hereafter.

The global environment in the 2020 financial year was profoundly changed by the Covid-19 pandemic, which (as with all European businesses) disrupted Thales' activity as of March.

On the one hand, this crisis affected demand across the Group's markets, with the greatest impact involving the civil aeronautics business.

On the other hand, the measures implemented to limit the spread of the virus have had a significant impact on production, project implementation, the supply chain, and the ability of customers to take delivery of products and systems. This impact was particularly significant in relation to the financial statements for the first half of 2020.

In light of this situation, and with the primary goal being to protect its employees' health, the Group implemented a global crisis adaptation plan in order to (1) maintain its production capacity for its customers, (2) limit the industrial and financial impact of this crisis, and (3) strengthen its funding capacity in the event that the crisis persisted or worsened.

Note 2. Change in thales's directly owned investments

In 2020

In March 2020, Thales purchased additional shares in Crystal SAS for €7.6 million, increasing its stake from 90.27% to 97.10%.

In May 2020, Gerac SAS was sold to Thales SIX GTS France SAS.

In 2020, Thales paid up the remainder of the capital in Thales Digital Factory SAS for €35.6 million, then subscribed to a new capital increase of €107 million, including €80.2 million in non-paid-up capital.

Lastly, in December 2020, Thales carried out a capital reduction of €104.9 million in Thales Canada Inc.

In 2019

On 2 April 2019, Thales acquired Gemalto, a leader in digital security. Following a mandatory squeeze-out from Euronext, Thales acquired all Gemalto Holding BV shares for €4,762.4 million.

In January 2019, Thales finalised the acquisition of Crystal SAS, which owned Ercom, a company specialising in communication and device security, and Suneris, which delivers solutions for the supervision and control of telecommunications network traffic, for an amount of €100 million representing 90.27% of the shares.

In December 2019, as part of the merger of the businesses of the Thales and Gemalto groups, Thales put all of the shares it held in the capital of Thales SIX GTS France SAS into Thales DIS France SA, taking the percentage of the Thales DIS France SA shares held by Thales to 81.66%, the remainder continuing to be held by Gemalto Holding BV.

Also in December 2019, Thales recapitalised Thales USA Inc for €234 million.

Note 3. Operating profit (loss)

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 revenues of the parent company (€237.8 million in 2020 versus €252.5 million in 2019), mainly generated 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 comprise personnel expenses (employees of the Thales parent company and directors), real estate rents and related services, and other external services (including those provided by Thales Global Services SAS, which incorporates the Group's shared services).

The year 2020 was strongly impacted by the Covid-19 health crisis, triggering a general decline in business activity. For Thales SA, this resulted in a fall in payments received from subsidiaries and in measures implemented to reduce costs and limit the impact on the company's earnings (decreased expenditure on external consulting, shared services, and travel and communication events).

Note 4. Financial income (expense)

4.1 Accounting principles

Financial income (expense) mainly includes:

- interest expenses and finance costs on net debt;
- income and expenses related to Thales's 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).

4.2 Breakdown of financial income (expense)

| | Notes | 2020 | 2019 |
|--|---------|----------------|----------------|
| NET INTEREST AND FINANCE COSTS | | (22.5) | 11.6 |
| Interest and financial income on financial receivables | | 25.1 | 37.8 |
| Interest on Group company current account receivables and loans to subsidiaries and associates | | 8.7 | 18.7 |
| Interest on cash and cash equivalents | | 16.4 | 19.1 |
| Interest and financial expenses | | (38.2) | (38.0) |
| Interest on Group company current account payables and borrowings from subsidiaries and associates | | (2.7) | (8.6) |
| Interest on bonds and other borrowings | | (35.5) | (29.4) |
| Interest on interest rate swaps hedging borrowings | | 2.1 | 1.7 |
| Interest on foreign exchange swaps hedging subsidiary financing | | (11.5) | (13.1) |
| INCOME FROM INVESTMENTS | Note 23 | 579.0 | 583.8 |
| OTHER FINANCIAL INCOME | | 139.0 | 105.8 |
| Reversal of provisions related to associates ^(a) | | 127.3 | 89.8 |
| Reversals of provisions for impairment of treasury shares | | 6.0 | – |
| Foreign exchange gains | | 1.2 | 8.7 |
| Other | | 4.5 | 7.3 |
| OTHER FINANCIAL EXPENSES | | (166.3) | (132.2) |
| Increase in provisions related to associates ^(a) | | (134.7) | (94.5) |
| Increase in provisions for impairment of treasury shares | | (0.3) | (6.0) |
| Increase in provisions for termination payments and other benefits | Note 17 | (22.8) | (28.4) |
| Increase in provisions for impairment, current account | | (1.5) | – |
| Other | | (7.0) | (3.3) |
| FINANCIAL INCOME (EXPENSE) | | 529.2 | 545.8 |

| (a) Provisions related to subsidiaries and associates | 2020 | | 2019 | |
|--|--------------|----------------|-------------|---------------|
| | Reversal | Increase | Reversal | Increase |
| Provisions for impairment of equity investments | 78.9 | (128.8) | 75.1 | (38.6) |
| Thales Digital Factory SAS | – | (84.0) | – | (13.0) |
| Crystal SAS | – | (25.5) | – | – |
| Thales Avionics Electrical Systems SAS | – | (17.8) | 33.0 | – |
| Thales SESO SAS | – | (0.7) | – | (6.1) |
| Sifelec SAS | 73.1 | – | – | – |
| SAS Chatellerault | 2.4 | – | – | (1.0) |
| Avimo Group Ltd | 2.1 | – | 379 | – |
| Thales Global Services SAS | – | – | – | (14.2) |
| Gerac SAS | – | – | 4.2 | – |
| Other | 1.3 | (0.8) | – | (4.3) |
| Provisions for subsidiary risks (see Note 17.2) | 48.4 | (5.9) | 14.7 | (55.9) |
| Thales Global Services SAS | – | (5.3) | – | (9.6) |
| Thales SESO SAS | – | (0.6) | – | – |
| Thales Digital Factory SAS | 46.3 | – | – | (46.3) |
| Thales Security Solutions & Services Company | 2.1 | – | 14.5 | – |
| SAS Immeuble Pour l'Electronique | – | – | 0.2 | – |
| TOTAL | 127.3 | (134.7) | 89.8 | (94.5) |

Note 5. Non-recurring income (expense)

5.1 Accounting principles

Non-recurring income (expense) includes:

- Restructuring costs: these 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 Breakdown of non-recurring income (expense)

| | 2020 | 2019 |
|--|---------------|---------------|
| Restructuring costs | (10.3) | (11.0) |
| Reversal of provisions for impairment ^(a) | 4.6 | 35.9 |
| Other | (3.1) | 1.9 |
| NON-RECURRING INCOME (EXPENSE) | (8.8) | 26.8 |

(a) Essentially including the impact of the crystallised executive pension scheme under the Pacte Act (4.6) in 2020 and (€)21.9 million) in 2019.

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 for by Article 223A of the French General 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 corporate income tax rate for financial year 2020 was 32.02%, versus 34.43% in 2019, including the social contribution on profits. Tax loss carryforwards are attributable up to the limit of 50% of taxable profit in excess of €1 million.

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

6.2 Tax payable

The income tax benefit breaks down as follows:

| | 2020 | 2019 |
|--|-------------|-------------|
| Income tax benefit received from tax group subsidiaries | 134.9 | 232.9 |
| Income tax due to the French State | (62.0) | (198.8) |
| Income tax benefit resulting from tax consolidation | 72.9 | 34.1 |
| Research tax credit | 7.4 | 9.1 |
| Prior period adjustments and other taxes | (1.4) | (0.1) |
| INCOME TAX BENEFIT | 78.9 | 43.1 |

In 2020 as in 2019, 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 General Tax Code amounted to €0.3 million in 2020, compared with €0.2 million in 2019, 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 (€202.5 million at 31 December 2020, compared with €194.3 million at the end of 2019). These mainly reflect provisions for contingencies and losses, in particular provisions for post-employment benefits, which are not deductible for tax purposes.

There were no remaining tax loss carryforwards at 31 December 2020.

The corresponding deferred tax is not recognised.

Note 7. Property, plant and equipment and intangible assets

7.1 Accounting principles

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).

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

7.2 Breakdown by type

| | At 31/12/2020 | | | At 31/12/2019 | | |
|---|---------------|-----------------------------|-------------|---------------|-----------------------------|-------------|
| | Gross value | Cumulative amort. and depr. | Net | Gross value | Cumulative amort. and depr. | Net |
| Intangible assets | 20.8 | (20.1) | 0.7 | 20.8 | (19.8) | 1.0 |
| Buildings | 215.5 | (161.5) | 54.0 | 204.1 | (139.2) | 64.9 |
| Industrial plant, equipment and machinery | 58.1 | (41.6) | 16.5 | 42.1 | (39.3) | 2.8 |
| Other | 17.8 | (9.1) | 8.7 | 44.2 | (17.5) | 26.7 |
| Property, plant and equipment | 291.4 | (212.2) | 79.2 | 290.4 | (196.0) | 94.4 |
| TOTAL | 312.2 | (232.3) | 79.9 | 311.2 | (215.8) | 95.4 |

7.3 Change in net assets

| | Intangible assets | Property, plant and equipment | Total |
|--------------------------------|-------------------|-------------------------------|--------------|
| Net value at 01/01/2019 | 1.5 | 103.3 | 104.8 |
| Acquisitions | – | 8.1 | 8.1 |
| Disposals | – | (0.6) | (0.6) |
| Depreciation and amortisation | (0.5) | (16.4) | (16.9) |
| Net value at 31/12/2019 | 1.0 | 94.4 | 95.4 |
| Acquisitions | – | 4.0 | 4.0 |
| Disposals | – | (2.5) | (2.5) |
| Depreciation and amortisation | (0.3) | (16.7) | (17.0) |
| NET VALUE AT 31/12/2020 | 0.7 | 79.2 | 79.9 |

Note 8. Equity investments

8.1 Accounting principles

Equity investments are recorded at historical cost. Acquisition-related transaction costs are recognised in the income statement. When inventory value falls below book value, an impairment loss is booked for the difference.

The inventory value is determined by means of profitability forecasts, the underlying assets, recent transactions or the market price of any listed securities.

Profitability forecasts are determined on the basis of discounted future operating cash flows over a three-year period and a terminal value. 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. Forecasts for DIS are established based on a horizon consistent with the acquisition business plan.

Cash flows at the end of 2020 were based on the budget year, established in accordance with Group procedures, and extended over the following two years. In particular, these flows reflect management's best estimation of the consequences of the health crisis in the medium term.

In addition to taking into account the consequences of the health crisis, the discount rate was recalculated this year by integrating a specific risk premium to reflect an additional level of uncertainty related to the Covid-19 context. Accordingly, the Group's discount rate was 8% at the end of 2020.

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

With respect to the Avionics business, revenue projections were developed taking into account the analyses of the International Air Transport Association (IATA), which does not foresee that air traffic will be restored to pre-crisis levels before end-2023 at the earliest. Pushing back the estimated recovery of pre-crisis air traffic levels by one year to end-2024 would not lead to impairment losses on the securities of Avionics subsidiaries.

8.2 Change in equity investments

A breakdown of equity investments is presented in Note 23. Changes are shown below:

| | Notes | Gross value | Provisions | Net |
|---|--------|-----------------|------------------|-----------------|
| VALUE AT 01/01/2019 | | 10,449.7 | (1,294.2) | 9,155.5 |
| Acquisitions/capital subscriptions and transactions | | 5,101.7 | – | 5,101.7 |
| Purchase of Crystal SAS shares | | 100.3 | – | 100.3 |
| Purchase of Gemalto Holding BV shares | | 4,762.4 | – | 4,762.4 |
| Purchase of Kineis shares | | 5.0 | – | 5.0 |
| Increase in capital of Thales USA Inc | | 234.0 | – | 234.0 |
| Disposals | | (1.5) | 0.0 | (1.5) |
| Liquidation of Thales Assurances et Gestion des Risques SAS | | (1.5) | – | (1.5) |
| Increase in provisions for impairment | Note 4 | – | (38.6) | (38.6) |
| Reversal of provisions for impairment | Note 4 | – | 75.1 | 75.1 |
| VALUE AT 31/12/2019 | | 15,549.9 | (1,257.7) | 14,292.2 |
| Acquisitions/capital subscriptions and transactions | | 35.1 | – | 35.1 |
| Purchase of Crystal SAS shares | | 7.6 | – | 7.6 |
| ACE Aéro Partenaires fund subscription | | 0.7 | – | 0.7 |
| Increase in capital of Thales Digital Factory SAS | | 26.8 | – | 26.8 |
| Increase in capital of Thales Digital Factory SAS, non-paid-up share | | 80.2 | – | 80.2 |
| Disposals/capital transactions | | (110.8) | 0.0 | (110.8) |
| Disposal of Gerac SAS | | (4.6) | – | (4.6) |
| Disposal of Eurotradia | | (1.0) | – | (1.0) |
| Disposal of Vigéo | | (0.1) | – | (0.1) |
| Disposal of Sofresa | | (0.2) | – | (0.2) |
| Capital reduction of Thales Canada Inc | | (104.9) | – | (104.9) |
| Increase in provisions for impairment | Note 4 | – | (128.8) | (128.8) |
| Reversal of provisions for impairment | Note 4 | – | 78.9 | 78.9 |
| Other | | (3.6) | 3.4 | (0.2) |
| VALUE AT 31/12/2020 | | 15,550.8 | (1,304.2) | 14,246.6 |

Note 9. Other financial investments

9.1 Accounting principles

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 by type

| | Notes | At 31/12/2020 | | | At 31/12/2019 | | |
|---|---------|---------------|--------------|--------------|---------------|--------------|--------------|
| | | Gross value | Impairment | Net value | Gross value | Impairment | Net value |
| Loans to direct subsidiaries and associates | Note 23 | 879.6 | – | 879.6 | 907.3 | – | 907.3 |
| Loans to other Group subsidiaries | | 55.8 | – | 55.8 | 37.9 | – | 37.9 |
| Loans to other Group associates | | – | – | – | 9.7 | – | 9.7 |
| Other financial investments | | 12.4 | (1.7) | 10.7 | 43.2 | (1.7) | 41.5 |
| TOTAL | | 947.8 | (1.7) | 946.1 | 998.1 | (1.7) | 996.4 |

9.3 Breakdown by maturity and by currency

| Breakdown by maturity | At 31/12/2020 | At 31/12/2019 |
|-----------------------|---------------|---------------|
| Less than 1 year | 903.2 | 83.1 |
| From 1 to 5 years | 38.8 | 911.6 |
| More than 5 years | 4.1 | 1.7 |
| TOTAL | 946.1 | 996.4 |

| Breakdown by currency | At 31/12/2020 | At 31/12/2019 |
|-----------------------|---------------|---------------|
| Euro | 406.4 | 437.2 |
| Pound sterling | 489.4 | 526.9 |
| South African rand | 10.7 | 11.1 |
| Thai baht | 29.4 | 10.8 |
| Chinese yuan offshore | 10.2 | 10.4 |
| TOTAL | 946.1 | 996.4 |

Note 10. Group company current account payables

10.1 General framework and accounting principles

The Group company current account amounts presented in the Thales 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 Thales parent company. In return, the Thales parent company meets the cash flow requirements of the subsidiaries. Except in special cases, this system applies to all subsidiaries in which Thales has majority control.

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

10.2 Current account receivables

| | Note | At 31/12/2020 | At 31/12/2019 |
|---|---------|----------------|----------------|
| Amounts due from direct subsidiaries and associates | Note 23 | 1,391.5 | 1,510.3 |
| Amounts due from Thales Alenia Space (France and Italy) | | 326.9 | 330.5 |
| Amounts due from other subsidiaries | | 432.7 | 500.6 |
| TOTAL | | 2,151.1 | 2,341.4 |

10.3 Current account payables

| | Note | At 31/12/2020 | At 31/12/2019 |
|---|---------|----------------|----------------|
| Amounts deposited by direct subsidiaries and associates | Note 23 | 5,215.0 | 5,540.3 |
| Amounts deposited by Thales Alenia Space (France and Italy) | | 436.9 | 299.8 |
| Amounts deposited by Thales Australia Ltd | | 203.6 | 299.9 |
| Amounts deposited by other Group subsidiaries | | 1,608.5 | 1,589.8 |
| TOTAL | | 7,464.0 | 7,729.8 |

Note 11. Cash and other investments

11.1 Accounting principles

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 available for immediate use amounted to €4,095.4 million at 31 December 2020, compared with €1,961.5 million at the end of 2019. These amounts include €2,870.9 million (€51.8 million at the end of 2019) in sight and term bank deposits or money market funds.

11.3 Other investments

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

Note 12. Borrowings

12.1 Accounting principles

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 | At 31/12/2020 | At 31/12/2019 |
|----------------------------------|---------------------------|----------------|----------------|
| Bonds maturing in May 2028 | Fixed rate 1% | 700.0 | – |
| Bonds maturing in January 2027 | Fixed rate 0.25% | 500.0 | – |
| Bonds maturing in March 2026 | 0% | 500.0 | – |
| Bonds maturing in January 2025 | Fixed rate 0.75% | 500.0 | 500.0 |
| Bonds maturing in April 2024 | Fixed rate 0.875% | 500.0 | 500.0 |
| Bonds maturing in June 2023 | Fixed rate 0.75% | 600.0 | 600.0 |
| Bonds maturing in May 2022 | 0% | 500.0 | 500.0 |
| Bonds maturing in September 2021 | Fixed rate 2.125% | 386.7 | 386.7 |
| Bonds maturing in March 2021 | Fixed rate 2.25% | 300.0 | 300.0 |
| Bonds maturing in April 2020 | Variable 3M Euribor +0.2% | – | 500.0 |
| Commercial paper | | 1,195.0 | 746.0 |
| Other borrowings | | 802.2 | 793.3 |
| Accrued interest | | 22.6 | 17.2 |
| GROSS BORROWINGS | | 6,506.5 | 4,843.2 |

The Group launched three bond issues in 2020. In January 2020, it refinanced the bond maturing in April 2020 in advance. In May 2020, it issued an 8-year, €700 million, 1% fixed-rate bond; and in November 2020, it issued a €500 million, 0% fixed-rate bond maturing in March 2026, in particular in order to anticipate 2021 bond maturities.

Moreover, in order to strengthen its liquidity in light of the health crisis, Thales took out a bank bridge loan of €2,000 million in April 2020 (reduced to €800 million following the bond issues of May and November 2020). This bridge loan will mature in April 2021 and includes an additional six-month extension option; it does not include an accelerated repayment clause.

Lastly, in December 2020, Thales renewed its €1,500 million syndicated credit facility, which would have matured in December 2021. The new facility matures in December 2023, and may be extended to December 2025⁽¹⁾.

The Group's financing agreements do not contain any covenants related to changes in Thales's credit rating. A lower rating would result in an increase (capped) in the margins applicable to the aforementioned committed credit facility. A higher rating would lead to a decrease in the applicable margin (with a minimum threshold).

12.3 Breakdown of borrowings by maturity and by currency

| Breakdown by maturity | At 31/12/2020 | At 31/12/2019 | Breakdown by currency | At 31/12/2020 | At 31/12/2019 |
|-----------------------|----------------|----------------|-----------------------|----------------|----------------|
| Less than 1 year | 2,105.8 | 1,421.8 | Euro | 5,873.6 | 4,174.1 |
| From 1 to 5 years | 2,700.7 | 2,921.4 | Singapore dollar | 32.3 | 34.4 |
| More than 5 years | 1,700.0 | 500.0 | Pound sterling | 600.6 | 634.7 |
| TOTAL | 6,506.5 | 4,843.2 | TOTAL | 6,506.5 | 4,843.2 |

(1) The only accelerated repayment clause would apply in the event that the French government ceased to hold its golden share in the Company and, simultaneously, the ratio of consolidated net financial debt to EBITDA (current operating income before amortisation and depreciation) were to exceed 3.

Note 13. Shareholders' equity

13.1 Share capital

Thales's share capital of €640,097,874 is composed of 213,365,958 shares, compared with 213,317,506 shares at 31 December 2019, with a par value of €3 each. This represents an increase of 48,452 shares resulting from the exercise of share subscription options. The breakdown of share capital is set out below:

| | At 31/12/2020 | | | At 31/12/2019 | | |
|---|--------------------|----------------|--------------------|--------------------|----------------|--------------------|
| | Shares | % of capital | % of voting rights | Shares | % of capital | % of voting rights |
| TSA | 54,786,654 | 25.68% | 34.84% | 54,786,654 | 25.68% | 34.87% |
| French State (including 1 golden share) | 2,060 | – | – | 2,060 | – | – |
| Public Sector ^(a) | 54,788,714 | 25.68% | 34.84% | 54,788,714 | 25.68% | 34.87% |
| Dassault Aviation ^(b) | 52,531,431 | 24.62% | 29.79% | 52,531,431 | 24.63% | 29.81% |
| Thales ^(c) | 497,596 | 0.23% | – | 560,866 | 0.26% | – |
| Employees ^(d) | 6,356,208 | 2.98% | 3.66% | 6,183,434 | 2.90% | 3.58% |
| Other shareholders | 99,192,009 | 46.49% | 31.71% | 99,253,061 | 46.53% | 31.74% |
| TOTAL^(e) | 213,365,958 | 100.00% | 100.00% | 213,317,506 | 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 TSA, excluding the State directly. Since 29 January 2018, public institution EPIC Bpifrance has held all TSA capital apart from one preferred share that is held by the French State. EPIC Bpifrance and the French State have also agreed to consult with TSA under the terms and conditions described in AMF Notice No. 218c0137 of 16 January 2018. 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 2020.

(b) As at 31 December 2020, Dassault Aviation held 42,154,349 shares in directly registered form, of which 41,154,349 shares have been held for more than two years, thus granting it double voting rights, and held 10,377,082 shares in bearer form.

(c) Treasury shares represented 200,500 bearer shares held under a liquidity contract and 297,096 directly registered shares.

(d) This item presents the total employee share ownership. For purposes of information, since law No. 2019-486 of 22 May 2019, employee share ownership within the meaning of the French Commercial Code (Art. L. 225-102) excludes shares allocated free of charge under LTI Plans prior to 2016 (in the absence of amendments to the Articles of Association to include them) and, as at 31/12/2020, amounts to 4,651,454 shares and 8,276,889 voting rights, i.e. 2.18% of the share capital and 2.63% of exercisable voting rights.

(e) In 2020, a total of 48,452 new shares bearing rights from 1 January 2020 were created as a result of the exercise of share subscription options.

At 31 December 2020, 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

| | At 01/01/2019 | Allocation of 2019 earnings | Interim dividend 2020 | At 31/12/2020 |
|-------------------|------------------|-----------------------------------|-----------------------------|------------------|
| Legal reserve | 63.9 | 0.1 | – | 64.0 |
| Blocked reserve | 8.3 | – | – | 8.3 |
| Ordinary reserve | 128.9 | – | – | 128.9 |
| Other reserves | 0.3 | – | – | 0.3 |
| Retained earnings | 1,597.5 | 501.8 | (85.1) | 2,014.2 |
| TOTAL | 1,798.9 | 501.9 | (85.1) | 2,215.7 |

Thales paid a dividend of €127.3 million in December 2019 in respect of the 2019 financial year.

Thales paid an interim dividend of €85.1 million in December 2020 in respect of the 2020 financial year.

Note 14. Treasury shares

14.1 Accounting principles

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. As a result:

- Shares allocated to Thales (parent company) 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. Plans not covered by allocated shares are also covered by a provision recorded in liabilities.
- Shares allocated to other Group employees are maintained at cost price, 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

| | 2020 | | | 2019 | | |
|--|-------------------------------------|-----------------------------------|-----------------------|-------------------------------------|-----------------------------------|-----------------------|
| | 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 | 517,381 | 43,485 | 560,866 | 648,295 | | 648,295 |
| Purchases under the liquidity contract | 1,310,502 | – | 1,310,502 | 906,402 | – | 906,402 |
| Disposals for liquidity purposes | (1,285,002) | – | (1,285,002) | (993,676) | – | (993,676) |
| Transfer to employees under the employee share purchase plan | – | (42,645) | (42,645) | – | (506,515) | (506,515) |
| Stock market purchases | 180,000 | – | 180,000 | 180,000 | 550,000 | 730,000 |
| Delivery of free shares | (226,125) | – | (226,125) | (223,640) | – | (223,640) |
| Reclassified shares | 840 | (840) | – | – | – | – |
| Net change | (19,785) | (43,485) | (63,270) | (130,914) | 43,485 | (87,429) |
| At 31 December | 497,596 | – | 497,596 | 517,381 | 43,485 | 560,866 |

Change in the value of treasury shares

| Freely transferable treasury shares | 2020 | 2019 |
|--|-------------|-------------|
| At 1 January | 52.2 | 67.3 |
| Purchases under the liquidity contract | 93.9 | 90.5 |
| Disposals for liquidity purposes | (94.8) | (103.0) |
| Transfer to employees under the employee share purchase plan | – | – |
| Stock market purchases | 12.4 | 18.1 |
| Delivery of free shares | (25.2) | (20.7) |
| Reclassified shares | 0.1 | – |
| At 31 December | 38.6 | 52.2 |
| Impairment | (0.3) | (6.0) |
| Net at 31 December | 38.3 | 46.2 |
| Average share price for December | €7.01 | €89.32 |
| Cost of outstanding plans (Thales SA share) | 2020 | 2019 |
| Provisions for contingencies and losses | (11.1) | (14.5) |

| Treasury shares assigned to plans | 2020 | 2019 |
|-----------------------------------|-------|-------|
| At 1 January | 4.3 | – |
| Delivery of free shares | (4.2) | -52.5 |
| Stock market purchases | – | 56.8 |
| Reclassified free shares | (0.1) | – |
| At 31 December | 0.0 | 4.3 |

Note 15. Free share plans and stock options granted to employees

At 31 December 2020, the following were outstanding:

- 43,305 share subscription options at a weighted average exercise price of €26.34;
- 908,889 free shares subject to performance conditions;
- 467,297 phantom shares subject to performance conditions, granting the right to a cash payment after a four-year vesting period.

15.1 Outstanding share subscription option plans

| Date of Board decision | Exercise period | Exercise price | Number of options outstanding at 31/12/2019 | Options exercised in 2020 | Options cancelled in 2020 | Number of options outstanding at 31/12/2020 |
|------------------------|-------------------------------|----------------|---|---------------------------|---------------------------|---|
| At 15/09/2011 | from 15/09/2015 to 14/09/2021 | €26.34 | 54,603 | (9,252) | (2,046) | 43,305 ^(a) |
| At 23/09/2010 | from 23/09/2014 to 22/09/2020 | €26.34 | 39,200 | (39,200) | – | – |

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

Options granted and exercised in 2020

| | Number of options granted/ shares subscribed or purchased | Exercise price | Date of plan |
|---|--|----------------|---------------|
| 1. Directors | | | |
| Options granted in 2020 | None | | |
| 2. The 10 biggest option awards granted to employees | | | |
| Options granted in 2020 | None | | |
| 3. The ten biggest exercises of options by employees^(a) | | | |
| Options exercised in 2020 | 8,000 | €26.34 | At 23/09/2010 |
| | 7,000 | €26.34 | At 23/09/2010 |
| | 3,000 | €26.34 | At 23/09/2010 |
| | 1,900 | €26.34 | At 23/09/2010 |
| | 1,900 | €26.34 | At 23/09/2010 |
| | 1,538 | €26.34 | At 15/09/2011 |
| | 1,350 | €26.34 | At 23/09/2010 |
| | 1,335 | €26.34 | At 15/09/2011 |
| | 1,200 | €26.34 | At 23/09/2010 |
| | 1,200 | €26.34 | At 23/09/2010 |

(a) All Group companies combined.

15.2 Allotment of free shares

| Date of Board decision | Vesting period | Share price at grant date | Number of free shares at 31/12/2019 | Shares allotted in 2020 | Share cancelled in 2020 | Shares delivered in 2020 | Number of free shares at 31/12/2020 |
|------------------------|-------------------------------|---------------------------|-------------------------------------|-------------------------|-------------------------|--------------------------|-------------------------------------|
| At 24/11/2020 | from 24/11/2020 to 24/11/2024 | €80.52 | – | 375,235 | – | – | 375,235 ^(a) |
| At 25/09/2019 | from 25/09/2019 to 25/09/2023 | €104.50 | 325,545 | – | (82,566) | – | 242,979 ^(a) |
| At 27/09/2018 | from 27/09/2018 to 27/09/2022 | €121.75 | 179,790 | – | (44,592) | (195) | 135,003 ^(a) |
| At 28/09/2017 | from 28/09/2017 to 28/09/2021 | €94.66 | 208,210 | – | (52,288) | (250) | 155,672 ^(a) |
| At 27/10/2016 | from 27/10/2016 to 27/10/2020 | €83.10 | 84,290 142,870 ^(b) | – – | (1,480) – | (82,810) (142,870) | – – |

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

(b) Including an adjustment of 280 shares due to the reinstatement of an employee whose reason for leaving was erroneous.

15.3 Allotment of phantom shares indexed to the value of Thales shares

| Date of allotment decision | Vesting period | Balance of phantom shares at 31/12/2019 | Phantom shares allotted in 2020 | Phantom shares cancelled in 2020 | Phantom shares delivered in 2020 | Balance of phantom shares at 31/12/2020 |
|----------------------------|-------------------------------|---|---------------------------------|----------------------------------|----------------------------------|---|
| At 23/11/2020 | from 24/11/2020 to 24/11/2024 | – | 224,160 | – | – | 224,160 ^(a) |
| At 25/09/2019 | from 27/09/2019 to 27/09/2023 | 211,070 | – | (57,931) | – | 153,139 ^(a) |
| At 27/09/2018 | from 27/09/2018 to 27/09/2022 | 61,775 | – | (17,378) | – | 44,397 ^(a) |
| At 28/09/2017 | from 28/09/2017 to 29/09/2021 | 62,950 | – | (17,349) | – | 45,601 ^(a) |
| At 27/10/2016 | from 27/10/2016 to 27/10/2020 | 37,150 34,170 | – – | (2,900) (4,700) | (34,250) (29,470) | – – |

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

Note 16. Inventories – receivables and payables

16.1 Inventories

At the end of 2019, inventories included work in progress related to Company property transactions and research activities. Changes in inventories between 2019 and 2020 involve mainly protection equipment (masks, sanitiser etc.) purchased in light of Covid-19. This inventory was valued based on an average purchase price.

16.2 Receivables and Payables – Accounting principles

Payables and receivables denominated in foreign currencies are revalued at the closing price.

Thales (parent company) hedges foreign exchange risks related to contracts or normal commercial transactions on behalf of its subsidiaries.

Temporary cash offsets between the amounts received/paid to subsidiaries and Thales's cash receipts/payments to banks with regard to managing foreign exchange derivatives are recorded in the balance sheet under "Translation difference and exchange rate adjustments", using the symmetry principle applicable to hedging transactions.

16.3 Breakdown of receivables and payables

| | Gross | Provisions | At | At |
|--|--------------|--------------|--------------|--------------|
| | | | 31/12/2020 | 31/12/2019 |
| | | | Net | Net |
| Advances to suppliers | 0.1 | – | 0.1 | 0.4 |
| Trade receivables | 153.3 | (4.0) | 149.3 | 250.7 |
| Other receivables | 306.9 | (5.9) | 301.0 | 288.0 |
| Government corporate tax | 114.5 | – | 114.5 | 90.4 |
| Tax and social security receivables | 30.2 | – | 30.2 | 34.2 |
| Other ^(a) | 162.2 | (5.9) | 156.3 | 163.4 |
| TOTAL | 460.3 | (9.9) | 450.4 | 539.1 |
| Advances received on contracts in progress | 23.3 | – | 23.3 | 21.7 |
| Trade payables | 99.9 | – | 99.9 | 136.6 |
| Other payables | 276.1 | – | 276.1 | 298.6 |
| Tax liabilities towards consolidated subsidiaries | 89.4 | – | 89.4 | 108.3 |
| Tax payables, excluding income tax and social security | 78.3 | – | 78.3 | 98.6 |
| Other ^(b) | 108.4 | – | 108.4 | 91.7 |
| TOTAL | 399.3 | – | 399.3 | 456.9 |

(a) Including prepaid expenses (rent-free periods) and various transactions managed by the Group Treasury Department.

(b) Including rent-free periods and various transactions managed by the Group Treasury Department.

16.4 Breakdown of receivables and payables by maturity at 31 December 2020

| | Net | Maturity | | |
|--|--------------|--------------|--------------|-------------|
| | | < 1 year | 1 to 5 years | > 5 years |
| Advances to suppliers | 0.1 | 0.1 | – | 0.0 |
| Trade receivables | 149.3 | 149.3 | – | 0.0 |
| Other receivables | 301.0 | 281.7 | 7.2 | 12.1 |
| TOTAL RECEIVABLES | 450.4 | 431.1 | 7.2 | 12.1 |
| Advances received on contracts in progress | 23.3 | 23.3 | 0.0 | 0.0 |
| Trade payables | 99.9 | 99.9 | 0.0 | 0.0 |
| Other payables | 276.1 | 186.8 | 57.8 | 31.5 |
| TOTAL LIABILITIES | 399.3 | 310.0 | 57.8 | 31.5 |

Note 17. Provisions for contingencies and losses

17.1 Accounting principles

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 benefits mainly involves statutory retirement schemes (social security, supplementary schemes such as ARRCO and AGIRC, etc.) for which the recognised expense is equal to the contributions paid. These are recorded in the year in which they are incurred.

The company grants its employees termination payments and other long-term benefits (long-service awards and an additional week of annual leave during the employee's 35th year of service within the Group). Some senior executives are also eligible for a supplementary pension plan.

In accordance with ANC Recommendation 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 (difference between projected and actual) 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's share in the shareholders' 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 company management and announced before the reporting date, resulting in an obligation to the third parties in question, and for which the company does not expect any consideration for the costs.

17.2 Breakdown of provisions

| | At 31/12/2019 | Increase | Reversal | 31/12/2020 |
|---|---------------|-------------|---------------|--------------|
| Post-employment and other employee benefits (see Note 17.3) | 114.7 | 30.2 | (13.2) | 131.7 |
| Subsidiary risks | 64.9 | 5.9 | (48.4) | 22.4 |
| Restructuring | 0.7 | 0.9 | (0.1) | 1.5 |
| Free shares | 14.5 | 3.6 | (7.0) | 11.1 |
| Other | 42.6 | 4.2 | (5.0) | 41.8 |
| TOTAL | 237.4 | 44.8 | (73.7) | 208.5 |

17.3 Post-employment and other employee benefits

The provisions in the balance sheet can be broken down as follows:

| | 2020 | | |
|--|--------------------------|-------------------------|----------------|
| | Post-employment benefits | Other employee benefits | Total |
| Provisions at 31 December 2019 | (110.8) | (3.9) | (114.7) |
| Net reversal of provisions, of which: | (16.8) | (0.2) | (17.0) |
| Current service cost | (5.3) | (0.2) | (5.5) |
| Financial expense: | (22.7) | (0.1) | (22.8) |
| • Net interest cost | (0.9) | 0.0 | (0.9) |
| • Actuarial gains (losses) | (21.8) | (0.1) | (21.9) |
| Benefits and contributions paid | 4.9 | 0.2 | 5.1 |
| Plan amendment | 4.6 | – | 4.6 |
| Other | 1.7 | (0.1) | 1.6 |
| Provisions at 31 December 2020 | (127.6) | (4.1) | (131.7) |
| Of which: | | | |
| • Commitments | (174.9) | (4.1) | (179.0) |
| • Investments | 47.3 | – | 47.3 |

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

| | 31/12/2020 | 31/12/2019 |
|----------------|------------|------------|
| Discount rate | 0.35% | 0.73% |
| Inflation rate | 1.00% | 1.15% |

Note 18. Legal risks

As at the date of publication of this document, there are no government, judicial or arbitration claims, of which the company is aware, which are pending or threatened, which could have, or which had, in the course of the last 12 months, a material impact on the financial position or the profitability of the company.

Note 19. Off-balance sheet commitments

19.1 Deposits and guarantees

| Commitments given | At 31/12/2020 | At 31/12/2019 |
|---|------------------|------------------|
| Guarantees given by Thales under commercial contracts signed by operating entities | 9,813.7 | 10,453.9 |
| Guarantees given to banks for facilities granted to subsidiaries | 2,824.0 | 3,375.0 |
| Counter-guarantee given to trustees to hedge Thales pension obligations in the United Kingdom | 1,069.4 | 963.7 |
| Other guarantees given to Group subsidiaries | 688.7 | 752.3 |
| Other guarantees given | 441.8 | 485.9 |
| Total^(a) | 14,837.6 | 16,030.8 |
| Of which, related to direct subsidiaries (see Note 23) | 2,862.0 | 3,191.0 |
| Of which, related to other Group subsidiaries | 11,580.1 | 12,449.6 |
| Of which, related to direct and indirect associates | 395.5 | 390.2 |

| Commitments received | At 31/12/2020 | At 31/12/2019 |
|---|------------------|------------------|
| Debt write-offs granted to related companies with clawback provisions | 6.7 | 6.7 |

(a) The decrease in guarantees given from 2019 to 2020 is explained in part by changes in exchange rates (€74.6 million).

19.2 Property leasing commitments

| | At 31/12/2020 | At 31/12/2019 |
|-------------------|---------------|---------------|
| Operating leases | 822.3 | 810.8 |
| Less than 1 year | 108.1 | 102.5 |
| From 1 to 5 years | 378.2 | 356.5 |
| More than 5 years | 336.0 | 351.8 |

Note 20. Market risks

20.1 Accounting principles

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 foreign exchange risks arising on commercial offers entered into by its subsidiaries, which are denominated in currencies other than the main operating currency.

When the hedged item has a sufficient probability of occurrence, the foreign exchange derivatives subscribed by Thales with banking counterparties qualify for hedge accounting. Gains and losses on bank derivatives are then recognised in income at the same rate as the gains and losses realised on the guarantees offered to subsidiaries, in accordance with the principle of symmetry applicable to hedging transactions. Foreign exchange premiums are amortised in the income statement on a straight-line basis over the term of the hedge.

When hedged items do not have a sufficient probability of occurrence, the foreign exchange derivatives are deemed isolated open positions. In this case, the market value of the derivative is recognised in the balance sheet as an offsetting entry in a suspense account, also in the balance sheet. A provision is recorded in the event of negative valuation. This valuation takes into account Thales's guarantee commitments to subsidiaries under these offers.

Thales hedges foreign exchange 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. Gains and losses on bank derivatives are then recognised in income at the same rate as the gains and losses

realised on the guarantees offered to subsidiaries, in accordance with the principle of symmetry applicable to hedging transactions.

Thales hedges the foreign exchange 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.

20.2 Interest rate risk management

At 31 December 2020 and 2019, Thales held the derivative instruments described below, all of which qualify as hedges.

| Interest rate derivatives | At 31/12/2020 | | At 31/12/2019 | |
|--|---------------|--------------|---------------|--------------|
| | Nominal | Market value | Nominal | Market value |
| Fixed-for-floating interest rate swaps | | | | |
| • swaps backing bonds maturing in 2023 | 400.0 | 7.9 | 400.0 | 6.7 |
| • swaps backing bonds maturing in 2021 | 300.0 | 5.1 | 300.0 | 10.1 |
| Floating-for-fixed interest rate swaps | | | | |
| • swaps related to bond maturing in 2023 | 400.0 | (10.4) | 400.0 | (10.0) |
| • swaps related to bond maturing in 2021 | 300.0 | (1.0) | 300.0 | (1.9) |
| • pre-hedging swap related to bond maturing in 2024 ^(a) | – | (2.1) | – | (2.7) |
| • cross-currency swap backing a loan | – | – | 12.2 | 1.4 |
| • swaps backing a loan | 1.2 | – | 1.2 | – |

(a) €500 million swaps set up prior to the issue, returned on the issue date (April 2018).

20.3 Foreign exchange risk management

At 31 December 2020 and 2019, the derivatives subscribed by Thales with bank counterparties were as follows:

| | At 31/12/2020 | | | | | At 31/12/2019 | |
|--|---------------|-------|---------|---------|--------------|---------------|--------------|
| | USD | GBP | Other | Total | Market value | Total | Market value |
| Hedges of commercial offers and transactions: | | | | | | | |
| Forward currency sales | 2,721.5 | 995.7 | 2,260.2 | 5,977.4 | 88.4 | 6,426.0 | (41.1) |
| Forward currency purchases | 1,056.9 | 853.8 | 1,668.0 | 3,578.7 | | 3,473.4 | |
| Currency sales (call and put options) | 15.3 | 1.1 | 67.5 | 83.9 | 5.9 | 18.3 | 3.3 |
| Currency purchases (call and put options) | 162.1 | 2.6 | 200.3 | 365.0 | | 300.3 | |
| Hedges related to cash pooling: | | | | | | | |
| Currency sales: foreign exchange swaps | 1,191.3 | – | 383.4 | 1,574.7 | 25.3 | 1,765.2 | (4.2) |
| Currency purchases: foreign exchange swaps | 16.3 | 996.9 | 300.7 | 1,313.9 | | 1,095.2 | |

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's shareholders

Section 6.2.3.3 of the 2020 Universal Registration Document 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 agreement binding the French State and Thales.

21.3 Agreements with Naval Group

Since December 2011, Thales has held 35% of the share capital of Naval Group, a subsidiary jointly controlled with the French State.

Thales and Naval Group have also signed an industrial and trade cooperation agreement with the objective of optimising the organisation of the naval business activities of both groups in terms of market access, research and development and purchasing.

21.4 Executive compensation ^(a)

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

| | 2020 | 2019 |
|---|------|------|
| Short-term benefits: | | |
| • Fixed compensation | 5.5 | 5.3 |
| • Variable compensation | 2.7 | 3.7 |
| • Severance payments | 2.4 | – |
| • Social security contributions | 3.2 | 3.0 |
| • Attendance fees | 0.6 | 0.6 |
| Other employee benefits ^(b) : | | |
| • Post-employment benefits | 3.8 | 3.0 |
| • Share-based compensation ^(c) (see Note 15) | 1.5 | 5.1 |

(a) The components of compensation presented correspond to costs recognised in the Thales parent company financial statements.

(b) Including social contributions.

(c) Measured in accordance with IFRS 2 – share-based payments.

As at 31 December 2020, executives' share of post-employment commitments (see Note 17.3) amounted to €21.1 million.

Note 22. Events after the reporting period

As at the date of publication of this document, no events that may have an impact on Thales' financial position have occurred since the reporting period.

Note 23. Subsidiaries and associates

(in millions)

Information related to the entity (local currency)

| | | | Prior year revenues excluding tax | Prior year earnings | 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 | | | | | | |
| | GEMALTO HOLDING B.V. | EUR | – | 103.4 | 88.6 | 2,427.2 |
| | THALES HOLDING UK PLC | GBP | – | -1.7 | 726.8 | 402.0 |
| | THALES AVS FRANCE SAS | EUR | 1,271.2 | -33.2 | 213.1 | 190.7 |
| | THALES DMS FRANCE SAS | EUR | 1,723.0 | 254.8 | 122.2 | 358.4 |
| | THALES LAS FRANCE SAS | EUR | 1,735.2 | 78.8 | 199.8 | 495.3 |
| | THALES USA INC | USA | 54.8 | 90.8 | 381.0 | 509.5 |
| | THALES ALENIA SPACE SAS | EUR | – | 36.3 | 918.0 | 526.2 |
| | THALES DIS FRANCE SA – OPERATIONAL DEPT. | EUR | 660.0 | 213.4 | 669.5 | -161.6 |
| | THALES MANAGEMENT & SERVICES DEUTSCHLAND GMBH | EUR | – | -5.5 | 27.1 | 270.0 |
| | THALES INTERNATIONAL SAS | EUR | – | 20.0 | 313.0 | 45.4 |
| | AVIMO GROUP Ltd | SGD | – | 0.4 | 22.1 | 35.3 |
| | THALES NETHERLAND BV | EUR | 408.4 | 45.6 | 29.5 | 260.4 |
| | THALES DIGITAL FACTORY SAS | EUR | 8.5 | -30.0 | 155.6 | -64.8 |
| | THALES UNDERWATER SYST NV PAYS BAS | EUR | – | – | 4.5 | 4.1 |
| | THALES SERVICES NUMERIQUES SAS – CRITICAL INFORMATION SYSTEMS DEPT. | EUR | 461.3 | 11.9 | 1.5 | 213.0 |
| | SIFELEC | EUR | – | – | 38.3 | 4.5 |
| | CRYSTAL SAS | EUR | – | – | 18.4 | 20.3 |
| | THALES AVIONICS ELECTRICAL SYSTEMS S.A.S | EUR | 125.1 | -23.3 | 6.9 | 44.6 |
| | THALES HOLDING NORWAY AS | NOK | – | – | 419.8 | -186.9 |
| | THALES CORPORATE VENTURES SAS | EUR | – | -2.0 | 15.0 | 10.4 |
| | THALES CANADA INC | CAD | 508.0 | 32.8 | 20.8 | -135.0 |
| | THALES BELGIUM S.A. | EUR | 103.4 | 4.2 | 31.9 | -18.9 |
| | THALES EUROPE SAS | EUR | – | -29.2 | 43.2 | -37.9 |
| | THALES SESO SAS | EUR | 8.9 | -3.2 | 0.4 | 10.4 |
| | THALES GLOBAL SERVICES SAS – FRANCE SHARED SERVICES DEPT. | EUR | 604.7 | -4.3 | 0.5 | 14.6 |
| | THALES SUISSE SA – DEFENSE & HOMELAND SECURITY DEPT. | CHF | 42.7 | 8.3 | 40.0 | 1.0 |
| | CMT MEDICAL TECHNOLOGIES LTD | USD | 15.0 | -1.2 | 1.0 | 28.0 |
| | SNC THALES MERIGNAC | EUR | – | 3.4 | 20.0 | – |
| | THALES COMMUNICATIONS Ltd | BRL | – | – | – | – |
| | SAS CHATELLERAULT BRELANDIERE | EUR | – | -1.0 | 2.0 | 3.9 |
| Total subsidiaries | | | | | | |
| 2. Associates | | | | | | |
| | NAVAL GROUP | EUR | 3,323.0 | 61.6 | 563.0 | 76.7 |
| | TELESPAZIO SpA | EUR | 540.3 | 33.1 | 50.0 | 192.3 |
| | ELETTRONICA SpA | EUR | – | 18.7 | – | 84.9 |
| | LYNRED | EUR | 233.4 | 26.1 | 6.0 | 135.2 |
| | UNITED MONOLITHIC SEMICONDUCTORS HOLDING | EUR | – | 2.4 | 33.9 | 10.5 |
| Total associates | | | | | | |
| TOTAL (A) | | | | | | |
| B. Detailed disclosures 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's direct subsidiaries (A) | | | | | | |
| Thales's direct subsidiaries (B) | | | | | | |
| Other Group subsidiaries | | | | | | |

| Contribution of subsidiaries and associates to Thales' financial statements (EUR) | | | | | | | |
|---|-----------------------------|----------------------|--|----------------|----------------|---|--|
| Carrying amount (gross value) | Carrying amount (net value) | % 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 |
| 4,762.4 | 4,762.4 | 100% | 386.7 | 408.7 | 488.2 | – | – |
| 2,571.7 | 1,870.1 | 100% | 489.4 | 31.1 | 396.9 | – | – |
| 1,016.0 | 1,016.0 | 93% | – | – | 472.7 | 210.8 | 134.9 |
| 802.6 | 802.6 | 100% | – | 3.8 | 1,860.6 | 491.2 | 259.7 |
| 754.9 | 754.9 | 100% | – | – | 1,283.8 | 57.2 | 109.0 |
| 710.6 | 710.6 | 100% | – | 184.9 | – | 713.2 | – |
| 683.1 | 683.1 | 67% | – | 10.3 | – | – | – |
| 590.8 | 590.8 | 82% | – | 11.3 | 247.1 | 46.3 | – |
| 545.0 | 545.0 | 100% | – | 31.8 | – | 240.3 | – |
| 398.5 | 398.5 | 100% | – | 120.3 | – | 6.0 | 19.8 |
| 250.7 | 106.4 | 100% | – | – | – | – | – |
| 235.2 | 235.2 | 99% | – | – | 371.1 | 104.4 | – |
| 155.7 | 23.0 | 100% | – | 49.6 | – | – | – |
| 129.2 | 8.5 | 100% | – | – | – | – | – |
| 126.4 | 126.4 | 100% | – | – | 27.5 | 38.8 | 21.5 |
| 113.8 | 113.8 | 100% | – | – | 33.1 | – | – |
| 107.8 | 82.3 | 97% | – | 5.5 | – | – | – |
| 94.6 | 76.8 | 100% | – | 32.6 | 0.3 | – | – |
| 77.2 | 77.2 | 100% | – | – | – | – | – |
| 73.3 | 13.8 | 100% | – | – | 10.1 | – | – |
| 63.7 | 63.7 | 100% | – | 17.8 | 15.1 | 705.3 | – |
| 53.2 | 53.2 | 100% | – | 42.1 | – | 48.0 | – |
| 43.2 | 43.2 | 100% | – | 182.9 | – | – | – |
| 36.4 | – | 100% | – | 8.0 | 0.3 | – | – |
| 33.4 | – | 100% | – | 45.0 | – | – | – |
| 26.4 | 26.4 | 100% | – | 0.2 | 0.5 | – | 4.2 |
| 21.8 | 21.8 | 100% | – | – | – | – | – |
| 20.0 | 20.0 | 100% | – | 84.1 | – | – | – |
| 11.0 | – | 100% | – | – | – | – | – |
| 10.0 | 3.1 | 100% | – | 1.0 | – | – | – |
| 14,518.4 | 13,228.5 | | 876.1 | 1,271.0 | 5,207.3 | 2,661.5 | 549.0 |
| 833.7 | 833.7 | 35% | – | 16.6 | – | – | 16.6 |
| 81.6 | 81.6 | 33% | 3.5 | – | – | – | 7.6 |
| 26.7 | 26.7 | 33% | – | – | – | – | 4.6 |
| 26.4 | 26.4 | 50% | – | – | – | – | – |
| 24.3 | 23.4 | 50% | – | – | – | – | – |
| 992.8 | 991.9 | | 3.5 | 16.6 | – | – | 28.8 |
| 15,511.2 | 14,220.3 | | 879.6 | 1,287.5 | 5,207.3 | 2,661.5 | 577.8 |
| 19.4 | 14.0 | | – | 14.2 | 7.5 | – | 1.0 |
| 0.7 | 0.1 | | – | – | – | – | – |
| 20.1 | 14.1 | | – | 14.2 | 7.5 | – | 1.0 |
| 12.1 | 12.1 | | – | – | – | – | 0.1 |
| 7.4 | – | | – | 89.8 | 0.2 | 200.5 | – |
| 19.5 | 12.1 | | – | 89.8 | 0.2 | 200.5 | 0.1 |
| 39.6 | 26.3 | | – | 104.0 | 7.7 | 200.5 | 1.1 |
| 15,550.8 | 14,246.6 | | 879.6 | 1,391.5 | 5,215.0 | 2,862.0 | 579.0 |
| | | | 876.1 | 1,271.0 | 5,207.3 | 2,661.5 | |
| | | | – | 14.2 | 7.5 | – | |
| | | | 3.5 | 106.4 | 0.2 | 200.5 | |

Investments made and thresholds crossed in French companies in financial years 2019 and 2020

| Percentage owned | At 31/12/2019 | | | | | At 31/12/2020 | | | | |
|--|---------------|-------|-------|-------|--------|---------------|-------|-------|-------|--------|
| | > 5% | > 20% | > 33% | > 50% | > 66% | > 5% | > 20% | > 33% | > 50% | > 66% |
| Investment (€ thousands) | | | | | | | | | | |
| 1. Increases | | | | | | | | | | |
| 193 Centelec SAS | - | - | - | - | - | - | - | - | - | 100% |
| Crystal SAS | - | - | - | - | 90.27% | - | - | - | - | 97.10% |
| Kineis | 8.33% | - | - | - | - | - | - | - | - | - |
| Thales DIS France SA | - | - | - | - | 81.66% | - | - | - | - | - |
| 188 Centelec SAS | - | - | - | - | 100% | - | - | - | - | - |
| Gemalto Holding BV | - | - | - | - | 100% | - | - | - | - | - |
| 2. Decreases | | | | | | | | | | |
| Gerac SAS | - | - | - | - | - | - | - | - | - | 100% |
| SAS Pessac | - | - | - | - | - | - | - | - | - | 100% |
| MIG Sud | - | - | - | - | - | - | - | - | - | 99.90% |
| Eurotradia | - | - | - | - | - | 16.53% | - | - | - | - |
| Sofresa | - | - | - | - | - | 11.02% | - | - | - | - |
| Thales Assurances et Gestion des Risques SAS | - | - | - | - | 100% | - | - | - | - | - |
| Thales SIX GTS France SAS | - | - | - | - | 100% | - | - | - | - | - |

Note 24. Information on existing branches (Article L. 232-1, II of the French Commercial Code)

At 31 December 2020, Thales had a secondary facility registered in France with the trade and companies register and indicated on its Kbis (company registration certificate).

7.2.2.6 Five-year financial summary of the Company

| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|-------------|-------------|-------------|-------------|---------------------|
| 1. Share capital at year-end | | | | | |
| Share capital | 636.6 | 638.0 | 639.3 | 640.0 | 640.1 |
| Number of ordinary shares outstanding | 212,194,766 | 212,658,725 | 213,104,081 | 213,317,506 | 213,365,958 |
| Maximum number of shares to be created in future by exercise of share subscription options | 1,320,693 | 783,204 | 309,738 | 93,803 | 43,305 |
| 2. Operations and results for the year | | | | | |
| Revenues excluding tax | 233.3 | 258.5 | 228.6 | 252.5 | 210.2 |
| Earnings before tax, employee profit-sharing, depreciation, amortisation and provisions | 367.9 | 337.4 | 443.4 | 479.9 | 462.7 |
| Income tax benefit | 78.0 | 9.8 | 61.4 | 43.1 | 78.9 |
| Earnings after tax, employee profit-sharing, depreciation, amortisation and provisions | 431.1 | 383.8 | 453.4 | 501.9 | 509.3 |
| Distributed net profit | 338.3 | 371.0 | 442.0 | 127.3 | 85.1 ^(a) |
| 3. Earnings per share | | | | | |
| Earnings after tax and employee profit-sharing but before amortisation, depreciation and provisions | 2.10 | 1.63 | 2.37 | 2.45 | 2.54 |
| Earnings after tax, employee profit-sharing, depreciation, amortisation and provisions | 2.03 | 1.80 | 2.13 | 2.35 | 2.39 |
| Net dividend per share | 1.60 | 1.75 | 2.08 | 0.60 | 1.76 ^(b) |
| 4. Employees | | | | | |
| Average headcount during the year, of which: | 818 | 812 | 828 | 876 | 873 |
| • Engineers and managers | 727 | 723 | 736 | 790 | 792 |
| • Technicians and supervisors | 91 | 89 | 92 | 86 | 81 |
| Personnel expenses, of which: | 191.5 | 207.7 | 226.4 | 232.1 | 212.7 |
| • Total payroll for the year | 137.8 | 151.2 | 164.5 | 165.0 | 151.5 |
| • Social security and other social welfare benefits paid during the year | 53.7 | 56.5 | 61.9 | 67.1 | 61.2 |

2016: Share capital up from €632,884,212.0 to €636,584,298.0 following a capital increase.

2017: Share capital up from €636,584,298.0 to €637,976,175.0 following a capital increase.

2018: Share capital up from €637,976,175.0 to €639,312,243.0 following a capital increase.

2019: Share capital up from €639,312,243.0 to €639,952,518.0 following a capital increase.

2020: Share capital up from €639,952,518.0 to €640,097,874.0 following a capital increase.

(a) Interim dividend.

(b) Subject to approval by the Annual General Meeting of 6 May 2021.

7.3 Statutory auditors' report

7.3.1 Statutory auditors' report on the consolidated financial statements

This is a translation into English of the statutory auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English-speaking users. This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the information concerning the Group presented in the management report and other documents provided to shareholders. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Annual General Meeting of Thales,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meetings, we have audited the accompanying consolidated financial statements of Thales for the year ended December 31, 2020.

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, 2020 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.

The audit opinion expressed above is consistent with our report to the Audit Committee and Accounts.

Basis for Opinion

• Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the statutory auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

• Independence

We conducted our audit engagement in compliance with independence requirements of the French Commercial Code (*Code de commerce*) and the French Code of Ethics (*Code de déontologie*) for statutory auditors for the period from January 1, 2020 to the date of our report, and specifically we did not provide any prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No 537/2014.

Justification of Assessments – Key Audit Matters

Due to the global crisis related to the Covid-19 pandemic, the financial statements of this period have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of the audits.

It is in this complex and evolving context that, in accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

Annual impairment tests of cash-generating units

Risk identified

As at December 31, 2020, goodwill amounts to M€ 6 034,4 and other tangible and intangible assets amount to M€ 5 854,4.

Goodwill is allocated to cash-generating units (CGU) or groups of CGU corresponding to Thales' Global Business Units.

Management conducts annual impairment tests. Substantially all the other intangible assets and property, plant and equipment are tested at the CGU level.

Both the methodology applied and the assumptions used are detailed in Notes 1.5 and 4.1 b) to the consolidated financial statements, it being specified that, in addition to taking into account the impacts of the sanitary crisis, the discount rate was recalculated by including this year a specific risk premium to reflect an additional level of uncertainty.

For these tests, the value in use of each CGU is determined on the basis of discounted future operating cash flows relied on Management's assumptions, estimates or significant professional judgment. We considered this valuation to be a key audit matter.

Our response

Assisted by valuation experts, our work notably consisted in:

- reconciling the net carrying amount of assets or group of assets tested for each CGU with the consolidated financial statements;
- examining the implementation of these procedures, the valuation methodology of recoverable assets and the arithmetical accuracy of the calculation performed;
- assessing the future operating cash flow in regard to the economic and financial environment of each business line, especially in the complex and evolving context due to the global crisis related to the Covid-19 pandemic and the financial performance of the period;
- examining the consistency of the first-year plan with the Group's budget submitted to the Board of Directors, as well as the consistency between future operating cash flows of the budgeted following years with Management's latest estimates;
- assessing the consistency of the growth rate used to calculate future operating cash flows with existing market analysis and analysts' consensus;
- examining the different parameters used to calculate the weighted average cost of capital applied to future operating cash flows;
- performed sensitivity analysis on the CGUs' recoverable value determined by Management to change the discount rate, the long-term growth rate and the EBIT rate.

Lastly, we also assessed the appropriateness of the information provided in Note 4 to the consolidated financial statements.

Recognition of revenue and contract costs

Risk identified

A significant part of the Group's revenue and current operating income stems from different contracts. Regarding contracts whose transfer of control is gradual, revenue is recognized using the percentage of completion method. Regarding contracts whose transfer of control is carried out at completion, revenue is recognized at the time of such completion.

Your Company determines the revenue and the margin of the contracts in accordance with the terms and conditions described in Notes 1.5 "Main sources of estimation" and 13-c "Revenue" to the consolidated financial statements.

Recognition of revenue and margin relating to those contracts during an accounting closing primarily depends on:

- estimates of the revenue and margin at completion of each contract, and notably on the level of provisions for technical, contractual and commercial risks;
- costs incurred to date in relation to total costs estimated at completion.

Estimates of costs at completion, as well as the achievement of technical milestones for these contracts whose transfer of control is gradual, are based on the Group's information systems and internal procedures, notably involving project managers. These estimates are reviewed regularly by Operations and Financial managements, supervised by the executive management, particularly at each closing date.

We considered the recognition of revenue and contract costs to be a key audit matter, given the impact of these contracts on the consolidated financial statements of the Group and the level of estimates required by Management to determine results at completion.

Our response

Our work notably consisted in:

- evaluating the Group's information systems and procedures to estimate revenue, costs at completion and costs incurred, as well as measuring cost progress;
- reconciling the contract management data with the accounting data entering in the information systems;
- selecting contracts that are significant due to their financial impact and risk profile, and interviewing the account managers, the managements of the Global Business Units, under the supervision of the executive management, on the progress made on these contracts, and their assessment of the risks in order to:
 - assess the reflection of the contractual clauses in the accounts, particularly regarding revenue to be recognized under performance obligations not fulfilled yet;
- evaluate, regarding these contracts, the Group's analyses which enabled it to come to a decision regarding the gradual transfer of control and the transfer of control at completion and, if necessary, the identification of the various performance obligations. In particular, we have familiarized ourselves with the contractual clauses of termination for convenience, legal notes and margin simulations carried out by the Group;
- corroborate the main assumptions of revenue and costs at completion with costs incurred to date, contractual data and exchanges with the customer or its representatives, and the third parties involved in the contract termination. This work includes the experience gained throughout the years on these contracts or similar contracts;
- assess, for each selected contract, the consistency of the revenue and all the other items in the income statement and balance sheet with the contractual and operational provisions.

Litigation

Risk identified

The Group carries out its activities in France and abroad in legal and regulatory environments that are complex and constantly evolving. Therefore, it is exposed to legal, technical and commercial litigation.

The Group's legal department centralizes and handles, with the assistance of its relevant subsidiaries, all civil, commercial and criminal litigation and pre-litigation.

The assessment of these risks and litigation by Management led the Group to recognize liabilities and possible provisions for impairment, when those risks were not included in the contract costs at completion, or to provide information in the notes to the consolidated financial statements on contingent liabilities. Note 11 "Litigation" to the consolidated financial statements describes potential uncertainties relating to significant litigation and their progress.

We considered the inventory and evaluation of litigation and claims to be a key audit matter in view of the significance of the estimates made by Management and the potential materiality of their impact on the Group's income and the shareholders' equity, should these estimates change.

Our response

The procedures relating to commercial contracts litigation are included in our response presented in the previous key audit matter.

With regard to other legal, technical and commercial litigation, our work notably consisted in:

- familiarizing ourselves with ongoing procedures within the Group relating to the inventory, assessment and reflection in the accounts of, commercial civil and criminal litigation and pre-litigation, and assessing their correct application via sampling;
- interviewing the Finance Department, the Legal Department and the Secretary and General Council, as well as the managements of the main consolidated entities on the status of all significant litigation;
- questioning the Group's main lawyers to evaluate the exhaustiveness of the inventory of identified litigation and assess the nature of the related risks and possible liabilities;
- reading the minutes of the meetings of the Audit and Accounts Committee and the Board of Directors in order to assess the completeness of the list of significant litigation.
- assessing the description of the significant risks and litigation identified during the implementation of these procedures and set out in Notes 11 "Litigation" and 10.3 "Provisions for risks and charges" to the consolidated financial statements, and how they are reflected in the financial statements.

Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations of the information relating to the Group given in the Board of Directors' management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the consolidated non-financial statement required by Article L. 225-102-1 of the French Commercial Code (*Code de commerce*) is included in the information relating to the Group given in the management report, it being specified that, in accordance with Article L. 823-10 of this code, we have verified neither the fair presentation nor the consistency with the consolidated financial statements of the information contained therein. This information should be reported on by an independent third party.

Report on Other Legal and Regulatory Requirements

- **Format of presentation of the consolidated financial statements intended to be included in the annual financial report**

In accordance with Article 222-3, III of the AMF General Regulation, the Company's management informed us of its decision to postpone the presentation of the consolidated financial statements in compliance with the European single electronic format as defined in the European Delegated Regulation No 2019/815 of 17 December 2018 to years beginning on or after January 1, 2021. Therefore, this report does not include a conclusion on the compliance with this format of the presentation of the consolidated financial statements intended to be included in the annual financial report mentioned in Article L. 451-1-2, I of the French Monetary and Financial Code (*Code monétaire et financier*).

- **Appointment of the statutory auditors**

We were appointed as statutory auditors of Thales by the Annual General Meeting held on June 25, 1983 for MAZARS and on May 15, 2003 for ERNST & YOUNG Audit.

As at December 31, 2020, MAZARS was in the thirty-eighth year and ERNST & YOUNG Audit in the eighteenth year of total uninterrupted engagement, respectively.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Statutory auditors' Responsibilities for the Audit of the Consolidated Financial Statements

- **Objectives and audit approach**

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management in the consolidated financial statements;
- assesses the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

- **Report to the Audit Committee and Accounts**

We submit to the Audit Committee and Accounts a report which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee and Accounts includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee and Accounts with the declaration provided for in Article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics (*Code de déontologie*) for statutory auditors. Where appropriate, we discuss with the Audit Committee and Accounts the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Courbevoie and Paris-La Défense, March 3, 2021

The Statutory Auditors French original signed by

Mazars
Grégory Derouet
Dominique Muller

Ernst & Young Audit
Jean-François Ginies
Serge Pottiez

7.3.2 Statutory auditors' report on the financial statements

This is a translation into English of the statutory auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English-speaking users. This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to the shareholders. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Annual General Meeting of Thales,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meetings, we have audited the accompanying financial statements of Thales for the year ended December 31, 2020.

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, 2020 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit and Accounts Committee.

Basis for Opinion

• Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the statutory auditors' Responsibilities for the Audit of the Financial Statements section of our report.

• Independence

We conducted our audit engagement in compliance with independence requirements of the French Commercial Code (*Code de commerce*) and the French Code of Ethics (*Code de déontologie*) for statutory auditors for the period from January 1, 2020 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No 537/2014.

Justification of Assessments – Key Audit Matters

Due to the global crisis related to the Covid-19 pandemic, the financial statements of this period have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of the audits.

It is in this complex and evolving context that, in accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

Equity investments

Risk identified

Equity investments, recorded in the balance sheet as at December 31, 2020 for a net amount of M€ 14,246.6 represents a significant balance sheet item. They are recorded at their lower acquisition cost or at their inventory value in use.

As stated in Note 8 "Equity investments" to the financial statements, the inventory value is determined based on profitability forecasts, the underlying assets, recent transactions or the market price of any listed securities, it being specified that, in addition to taking into account the impacts of the sanitary crisis, the discount rate was recalculated by including this year a specific risk premium to reflect an additional level of uncertainty.

Impairment tests are performed annually at the end of the second semester to make them consistent with the internal schedule of the Group's entities for developing strategic plans.

The inventory value estimate of these equity investments requires Management to exercise judgment in selecting the most relevant valuation factor to consider according to the investments concerned. Depending on the situation, this information may correspond to historical information (shareholders' equity) or forecast information (value of future discounted cash flows).

We considered the correct valuation of equity investments to be a key audit matter.

Our response

In order to assess the reasonableness of the equity investment estimate, our work mainly consisted in:

- for valuations based on underlying asset information:
 - comparing the shareholders' equity used against the financial statements of entities which were subject to an audit or analytical procedures.
- for valuations based on forecasts with the involvement of valuation experts in our audit team:
 - assessing the cash flow projections with regard to the economic and financial context of each business, especially in this complex and evolving context due to the global crisis related to the Covid-19 pandemic and the financial performance of the period by examining the consistency of:
 - the first-year plan t with the budget submitted to the Board of Directors;
 - the following years cash flow projections with the recent management's estimates;
 - analyzing the different parameters used to calculate the weighted average cost of capital applied to the flow projections;
 - evaluating the consistency of the growth rate used for the projected cash flows with market analyses and the consensus observed.

Lastly, we also assessed the appropriateness of the information provided in Note 8 to the financial statements.

Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations.

- **Information given in the management report and in the other documents with respect to the financial position and the financial statements provided to the shareholders**

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 other documents with respect to the financial position and the financial statements provided to the shareholders.

We attest the fair presentation and the consistency with the financial statements of the information relating to payment deadlines mentioned in Article D. 441-6 of the French Commercial Code (*Code de commerce*).

- **Report on Corporate Governance**

We attest that the Board of Directors' Report on Corporate Governance sets out the information required by Articles L. 225-37-4, L. 22-10-10 and L. 22-10-9 of the French Commercial Code (*Code de commerce*).

Concerning the information given in accordance with the requirements of Article L. 22-10-9 of the French Commercial Code (*Code de commerce*) relating to remunerations and benefits received by, or allocated to 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 controlled thereby, included in the consolidation scope. Based on these procedures, we attest the accuracy and fair presentation of this information.

With respect to the information relating to items that your Company considered likely to have an impact in the event of a takeover bid or exchange offer, provided pursuant to Article L. 22-10-11 of the French Commercial Code (*Code de commerce*), we have agreed this information to the source documents communicated to us. Based on these procedures, we have no observations to make on this information.

- **Other 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 and holders of the voting rights has been properly disclosed in the management report.

Report on Other Legal and Regulatory Requirements

- **Format of presentation of the financial statements intended to be included in the annual financial report**

In accordance with Article 222-3, III of the AMF General Regulation, the Company's management informed us of its decision to postpone the presentation of the financial statements in compliance with the European single electronic format as defined in the European Delegated Regulation No 2019/815 of 17 December 2018 to years beginning on or after January 1, 2021. Therefore, this report does not include a conclusion on the compliance with this format of the presentation of the financial statements intended to be included in the annual financial report mentioned in Article L. 451-1-2, I of the French Monetary and Financial Code (*Code monétaire et financier*).

- **Appointment of the statutory auditors**

We were appointed as statutory auditors of Thales by the Annual General Meeting held on June 25, 1983 for MAZARS and on May 15, 2003 for ERNST & YOUNG Audit.

As at December 31, 2020, MAZARS was in the thirty-eighth year and ERNST & YOUNG Audit in the eighteenth year of total uninterrupted engagement, respectively.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

Statutory auditors' Responsibilities for the Audit of the Financial Statements

- **Objectives and audit approach**

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management in the financial statements;
- assesses the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;

- evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- **Report to the Audit and Accounts Committee**

We submit to the Audit and Accounts Committee a report which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit and Accounts Committee includes the risks of material misstatement that, in our professional judgment, were of most

significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit and Accounts Committee with the declaration provided for in Article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics (*Code de déontologie*) for statutory auditors. Where appropriate, we discuss with the Audit and Accounts Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Courbevoie and Paris-La Défense, March 3, 2021

The statutory auditors French original signed by

Mazars
Grégory Derouet
Dominique Muller

Ernst & Young Audit
Jean-François Ginies
Serge Pottiez

7.4 Statutory auditors

For the period covered by the historical financial data, the Thales group statutory auditors were as follows:

7.4.1 Principal statutory auditors

Mazars

61, rue Henri Regnault
92400 Courbevoie – France
Represented by Mr Dominique Muller and Mr Gregory Derouet.
Current term approved by the General Meeting of 15 May 2019 and expiring after the Annual General Meeting that will approve the 2025 financial statements.

Ernst & Young Audit

1/2, place des Saisons
92400 Courbevoie – Paris-La Défense 1 – France
Represented by Mr Serge Pottiez and Mr Jean-François Ginies.
Current term approved by the General Meeting of 13 May 2015 and expiring after the Annual General Meeting that will approve the 2020 financial statements.

7.4.2 Additional statutory auditors

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 after the Annual General Meeting that will approve the 2020 financial statements.

7.4.3 Statutory auditors' fees

The amount of fees paid to the statutory auditors of Thales SA (parent company) and members of their networks recognised in profit and loss for 2019 and 2020 are detailed in Note 14 to the Consolidated Financial Statements (page 252).

Appendices

8

| | | |
|------------|--|------------|
| 8.1 | Declaration from the person responsible for the Universal Registration Document | 296 |
| 8.2 | Changes made to the structure of the 2020 Universal Registration Document | 296 |
| 8.3 | Historical financial information incorporated by reference | 296 |
| 8.4 | Cross-reference table of the annual financial report and management report | 297 |
| 8.5 | Cross-reference table for the report on corporate governance | 299 |
| 8.6 | Cross-reference table – Annex 1 and 2 of European Regulation n° 2019/980 | 300 |
| 8.7 | Cross-reference table for the non-financial performance statement | 302 |

8.1 Declaration from the person responsible for the Universal 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 Universal Registration Document is accurate and does not omit any material fact.

I also 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 included in the consolidation, and that the information in this Universal Registration Document taken from the management report and contained in the cross-reference table on pages 297 and 299 gives a fair view of the development and performance of the business and the financial position of the Company and of all the entities 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 relating to the financial position and the financial statements, in addition to the historical financial statements incorporated by reference in this document, as well as a review of this document in its entirety.

Paris, La Défense, 8 April 2021

Patrice Caine

Chairman & Chief Executive Officer

8.2 Changes made to the structure of the 2020 Universal Registration Document

There is no significant change to the structure of the 2020 Universal Registration Document compared to that of 2019.

8.3 Historical financial information incorporated by reference

In compliance with Article 19 of European Regulation No. 2017/1129 of the European Commission, the following information is incorporated by reference in this Universal Registration Document:

- the consolidated financial statements and corresponding audit reports presented on pages 182 to 232 and 264 to 267 of the 2019 Registration Document filed with the AMF on 8 April 2020;
- the financial information, key figures, a review of the Group's principal activities, business performance and financial position presented respectively on pages 6, 15 and 32-40 of the 2019 Registration Document filed with the AMF on 8 April 2020;
- the consolidated financial statements and corresponding audit reports presented on pages 174 to 222 and 254 to 256 of the 2018 Registration Document filed with the AMF on 8 April 2019;
- the financial information, key figures, a review of the Group's principal activities, business performance and financial position presented respectively on pages 6, 16-23, 26-34 of the 2018 Registration Document filed with the AMF on 8 April 2019;

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

8.4 Cross-reference table of the annual financial report and management report

The cross-reference table below may be used to identify the information contained in this Universal Registration Document that forms the basis of the Annual Financial Report, pursuant to Articles L. 451-1-2 of the French Monetary and Financial Code and 222-3 of the AMF General Regulations. It includes information required for the annual management report that must be prepared by the Board of Directors in accordance with Articles L. 225-100 et seq. of the French Commercial Code.

| | 2020 Universal Registration Document section | Page(s) |
|---|--|-------------------------|
| Article L. 225-100-1 of the French Commercial Code: | | |
| Analysis of changes in business | 1, 2.1, 2.2, 2.3 | 4,18, 31, 33 |
| Analysis of results | 2.3 | 33 |
| Analysis of financial position, including debt | 2.3.7 | 41 |
| Key financial and non-financial performance indicators (relating to the specific activity of the Company and the Group) | 1, 2.3, 5.3 | 33, 122 |
| Main risks and uncertainties | 3 | 46 |
| Outline of objectives and policies concerning the coverage of each major transaction category | 3.1.2, 3.3.1, 7.1.6 Note 6 | 51, 61, 222 |
| Exposure to price, credit, liquidity and cash flow risks | 3.1.2, 3.3.1, 3.4, 7.1.6 Note 6 | 51, 61, 63, 222 |
| Information on the use of financial instruments | 3.3.1, 7.1.6 Note 6 | 61, 222 |
| Article L. 22-10-35 of the French Commercial Code: | | |
| Information about financial risks relating to the effects of climate change and measures taken to reduce them | 3.1.8, 5.2, 5.5.2 and 5.5.3 | 57, 119, 142, 152 |
| Main features of internal control and risk management procedures relating to the preparation and processing of accounting and financial information | 3.4 | 63 |
| Article L. 225-102 of the French Commercial Code: | | |
| Employee share ownership on the last day of the financial year (proportion of share capital represented) | 1, 6.2.1.2, 6.2.3.1 and 6.2.3.7, 7.2.2.5, Notes 14 and 15 | 4, 134, 186 193, 261 |
| Article L. 225-102-1 of the French Commercial Code: Non-Financial Performance Statement | See section 8.7 | |
| Art. L. 225-37-1 of the French Commercial Code: Policy on professional equality and equal pay | 5.4.1 and 5.4.2 | 123, 127 |
| Art. L. 225-102-4 of the French Commercial Code: Duty of Care Plan | 5.7.5 | 164 |
| Art. L. 225-102-2 of the French Commercial Code: Information relating to Seveso-listed sites | 5.5.1.3.2 | 140 |
| Article L. 232-1 of the French Commercial Code: | | |
| Situation during financial year 2020 | 2.3 | 33 |
| Predictable developments and future prospects | 2.3.9 | 41 |
| Significant events since year end 2020 | 7.1.6 Note 12, 7.2.2.5, Note 22 | 246, 281 |
| Research and development activities | 2.2 | 31 |
| Existing branches | 7.2.2.5 Note 24 | 285 |
| Article L. 233-6 of the French Commercial Code: | | |
| Acquisition of significant interests companies with their registered office in France | 7.2.2.5 Note 23 | 282 |
| Activities and results of Thales SA parent company | 2.5.1.2, 2.5.1.3, 7.2 | 44, 45, 254 |
| Activities of Thales SA subsidiaries during financial year 2020 | 7.2.2.5 Note 23 | 282 |

| | 2020 Universal Registration Document section | Page(s) |
|--|--|---------------------------|
| Article L. 233-13 of the French Commercial Code: | | |
| Identity of the major shareholders and holders of voting rights at General Meetings, and changes performed during the financial year. | 6.2.1.2, 6.2.3.2 | 184, 187 |
| Company structure and evolution of capital and breaches of thresholds in the Company in 2020 | 6.2.1.2, 6.2.3.3.3 | 184, 188 |
| Article R. 225-102 of the French Commercial Code: | | |
| Table of results for the last 5 financial years | 7.2.2.6 | 285 |
| Article L. 225-211 of the French Commercial Code: | | |
| Acquisition and disposal by the Company of its own shares | 6.2.3.4.3, 7.2.2.5 Note 14 | 190, 272 |
| Articles L. 22-10-57 and L. 22-10-59 of the French Commercial Code: | | |
| Reports on stock options and free shares: | 6.2.2.1 et 2, 6.2.3.5.1 and 4, 7.1.6 Note 9.4, 7.2.2.5 Note 15 | 185, 191, 192 240, 273 |
| Articles L. 233-7 and L. 233-13 of the French Commercial Code: | | |
| Information about the shareholder structure | 6.2 | 183 |
| Article R. 228-90 paragraph 1 of the French Commercial Code: | | |
| Mention of any adjustments for the securities giving access to share capital in the event of share buy-back or financial transactions | N/A | |
| Article D. 441-4 of the French Commercial Code: | | |
| Information about supplier and customer payment terms | 7.2.1.2 | 254 |
| Articles L. 233-29, L. 233-30 and R. 233-19 of the French Commercial Code: | | |
| Alienation of cross-ownership | N/A | |
| Articles L. 511-6 and R. 511-2-1-3 of the French Monetary and Financial Code: | | |
| Amount of loans with maturities of less than three years granted to SMEs | N/A | |
| Articles L. 621-18-2 of the French Monetary and Financial Code and 223-26 of the AMF General Regulations: | | |
| Information on the transactions made by directors and related persons in relation to Company securities | 4.6 | 114 |
| Article 243 bis of the French Tax Code | | |
| Dividends distributed over the last three financial years | 6.4.1.4 | 198 |
| Article 223 quater of the French Tax Code | | |
| Amount of expenses and charges that are not tax deductible and tax due in consequence | 7.2.2.5 Note 6 | 265 |
| Article 464-2 of the French Commercial Code: | | |
| Injunctions and financial penalties for anti-competitive practices | N/A | |
| Law No.°2016/1691 of 9 December 2016 known as the Sapin II law. | | |
| Anti-corruption system | 5.6.1 | 156 |
| Financial statements | | |
| Parent company financial statements | 7.2.2 | 252 |
| Statutory auditors' report on the annual financial statements (including their assessment of the Board's report on corporate governance) | 7.3.2 | 290 |
| Consolidated financial statements | 7.1 | 204 |
| Statutory auditors' report on the consolidated financial statements | 7.3.1 | 286 |
| Statutory auditors' appointment | 7.4 | 293 |
| Statutory auditors' fees | 7.1.6 Note 14 | 252 |

| | 2020 Universal Registration Document section | Page(s) |
|--|--|---------|
| Other information | | |
| Management report on the parent company financial statements | 7.2.1 | 254 |
| Statutory auditors' report on related party agreements | 6.3.4 | 195 |

8.5 Cross-reference table for the report on corporate governance

Upon recommendation of its Governance & Remuneration Committee, the Board of Directors approved, during its meetings of 25 February and 24 March 2020, its report on corporate governance, and asked the Chairman and CEO to report about it to the Shareholders' Meeting of 6 May 2020. Before being presented to the Governance & Remuneration Committee, such report was jointly established by representatives of the Group Secretary, Finance and Human Resources Departments.

For ease of reference, the following cross-reference table may be used to identify the information contained in this Universal Registration Document that forms the basis of such report on corporate governance, established pursuant to Articles L. 22-10-8 to L. 22-10-11, and L. 225-37-4 of the French Commercial Code.

| Type of information | 2020 Universal Registration Document section | Page(s) |
|--|--|---------|
| Compliance with a Corporate Governance Code and application of the "comply or explain" principle | 4.2 | 79 |
| Composition and operating procedures of the Board of Directors | 4.2.1 | 79 |
| Corporate management organisational procedures | 4.2.1 | 79 |
| Balanced gender representation on the Board of Directors | 4.2.1 | 79 |
| Preparation and organisation of meetings of the Board of Directors | 4.2.3 | 85 |
| Restrictions on the powers of the Chief Executive Officer | 4.2.1 and 4.2.6 | 79, 89 |
| Diversity policy of the Board of Directors and its committees | 4.2.5 | 88 |
| Gender diversity on management bodies | 4.2.5 | 88 |
| Specific procedures for shareholder participation in general meetings | 4.2.7 | 89 |
| Factors likely to have an impact in the event of a takeover bid | 4.2.7 | 89 |
| Table summarising the currently valid delegations granted by the General Meeting to the Board of Directors regarding capital increases | 4.2.7 | 89 |
| Agreements entered into by a manager or major shareholder and a subsidiary | 4.2.7 | 89 |
| Procedure for the assessment of current agreements – implemented | 4.2.7 | 89 |
| List of all offices and positions held in all companies by each of the representatives during the financial year | 4.1.1 | 70 |
| Information on remuneration: | | |
| Remuneration and benefits of any kind paid to directors and the Company representative for financial year 2020 | 4.4.1 | 93 |
| Compensation policy for the Company representative | 4.4.3 | 107 |
| Relative proportion of fixed and variable compensation of company representatives | 4.4.1.1. A and 4.4.1.4 Table 3 | 93, 101 |
| Use of the possibility of requesting the return of the variable component | N/A | |
| Commitment of any kind made by the Company for the benefit of its company representatives | 4.4.1.1 | 93 |
| Remuneration paid or allocated to company representatives by a company included in the scope of consolidation in accordance with Article L. 233-16 of the French Commercial Code | N/A | |
| Pay equity ratios | 4.4.1.1 E 1) | 96 |
| Annual evolution of remuneration, Company performance, average remuneration of Company employees, and pay equity ratios | 4.4.1.1 E 1) | 96 |

| Type of information | 2020 Universal Registration Document section | Page(s) |
|--|--|---------|
| Way in which the total compensation complies with the compensation policy adopted, including the way in which it contributes to the long-term performance of the Company and the way in which the performance criteria have been applied | 4.4.1. A and 4.4.1.1.E 2) | 93, 97 |
| Way in which the vote from the last Ordinary General Meeting was taken into account, in accordance with Article L. 225-100-II of the French Commercial Code | 4.4.3.1. B) a) | 108 |
| Deviation from the implementation procedure for the compensation policy or any derogation | 4.4.1.1.B | 95 |
| Application of the provisions of the second paragraph of Article L. 225-45 of the French Commercial Code (suspension of the payment of directors' remuneration in the event of non-compliance with diversity on the Board of Directors) | N/A | |
| Allocation and retention of stock options by company representatives | N/A | |
| Allocation and retention of free shares to company representatives | N/A | |

8.6 Cross-reference table – Annex 1 and 2 of European Regulation n° 2019/980

For ease of reference, the following cross-reference table may be used to identify the main information required by Annexes I and II of Commission Delegated Regulation (EU) 2019/980 of 14 March 2019. The table shows the pages of this Universal Registration Document where information on each of the Regulation's items can be found.

| No. | Heading | Page(s) |
|-----------|--|--|
| 1. | Experts' reports and competent authority approval | 1, 296 |
| 2. | Statutory auditors | 293 |
| 3. | Risk factors | 46-62 |
| 4. | Information about the company | 182 |
| 5. | Business overview | |
| 5.1 | Principal activities | 18-30 |
| 5.2 | Principal markets | 8-9, 13 |
| 5.3 | Important events in the development of business | 18-30 |
| 5.4 | Strategy and objectives | 10-11 |
| 5.5 | Dependence on patents or licences, industrial, commercial or financial contracts, or new manufacturing processes | 31-32 |
| 5.6 | Competitive position | 8-9, 18-30 |
| 5.7 | Investments | 42-43 |
| 6. | Organisational structure | |
| 6.1 | Brief description of the group | 44-45 |
| 6.2 | List of significant subsidiaries | 282-283 |
| 7. | Review of the financial position and results | |
| 7.1 | Financial position | 6, 33-41, 204-209, 258-260 |
| 7.2 | Operating income | 6, 33-41, 204-209 |
| 8. | Capital resources | |
| 8.1 | Information concerning capital resources | 183-193, 204-208, 235-237, 259-260, 271 |
| 8.2 | Source and amount of cash flows | 33, 37, 41, 209, 223, 226, 230-231, 245, 260 |
| 8.3 | Information on the borrowing requirements and funding structure | 64-65, 250-251 |
| 8.4 | Restrictions on the use of capital resources | 61-62, 230-231 |

| No. | Heading | Page(s) |
|------------|---|--|
| 8.5 | Anticipated sources of funds | 33, 37, 203, 223, 226 |
| 9. | Regulatory environment | 59 – 60 |
| 10. | Trend information | 41 |
| 11. | Profit forecasts or estimates | 41 |
| 12. | Administrative, management and supervisory bodies and corporate management | |
| 12.1 | Board of Directors and senior management | 68 – 89 |
| 12.2 | Administrative, management and supervisory bodies and senior management conflicts of interests | 78 |
| 13. | Remuneration and benefits | |
| 13.1 | Remuneration and benefits in kind | 93 -113 |
| 13.2 | Amounts set aside or accrued to provide for pension, retirement or similar benefits | 62, 96, 126, 213, 237-240, 240-242, 251, 276-277 |
| 14. | Board practices | |
| 14.1 | Date of expiration of the current term of office | 81 |
| 14.2 | Service contracts | 112, 195 |
| 14.3 | Information about the Audit Committee and Remuneration Committee | 84-87 |
| 14.4 | Statement regarding compliance with applicable corporate governance regime(s) | 79 |
| 14.5 | Potential material impacts on the corporate governance | 82 |
| 15. | Employees | |
| 15.1 | Number of employees and breakdown of persons employed | 136 |
| 15.2 | Shareholdings and stock options of directors | 100 |
| 15.3 | Arrangements for involving employees in the capital | 126 |
| 16. | Major shareholders | |
| 16.1 | Crossing of thresholds | 182, 188 |
| 16.2 | Existence of different voting rights | 90 |
| 16.3 | Control of Thales | 184, 186-189 |
| 16.4 | Any arrangement known to Thales, the operation of which may result in a change in control | 90, 186-189 |
| 17. | Related-party transactions | 222, 230, 247, 280 |
| 18. | Financial information on assets and liabilities, financial position and profits and losses | |
| 18.1 | Historical financial information | 204-209, 258-206 |
| 18.2 | Interim and other financial information | N/A |
| 18.3 | Auditing of historical annual financial information | 286-292 |
| 18.4 | Pro forma financial information | N/A |
| 18.5 | Dividend policy | 41, 256 |
| 18.6 | Legal and arbitration proceedings | 246, 277 |
| 18.7 | Significant change in the financial position | N/A |
| 19. | Additional information | |
| 19.1 | Share capital | 183 |
| 19.1.1 | Subscribed capital | 183-185 |
| 19.1.2 | Other shares | 185-186 |
| 19.1.3 | Treasury shares | 190-91 |
| 19.1.4 | Securities | N/A |
| 19.1.5 | Vesting conditions | 90, 102, 190 |
| 19.1.6 | Options or agreements | 102-103 |
| 19.1.7 | History of share capital | 183-185 |

| No. | Heading | Page(s) |
|------------|--|------------|
| 19.2 | Memorandum and Articles of Association | 182 |
| 19.2.1 | Corporate purpose | 182 |
| 19.2.2 | Rights and preferences of the shares | 89-90 |
| 19.2.3 | Provisions for change in control | 89-90 |
| 20. | Material contracts | N/A |
| 21. | Documents available | 199 |

8.7 Cross-reference table for the non-financial performance statement

For ease of reference, the following cross-reference table may be used to identify the information relating to the Group's Non-Financial Performance Statement, established pursuant to Articles L. 225-102-1, L. 22-10-36 and R. 225-105 to R 225-105-2 of the French Commercial Code.

| Items for the Non-Financial Performance Statement | 2020 URD section | Page(s) |
|---|---------------------------|-------------------|
| The Groups' Business Model | 1 | 4 |
| Main non-financial risks | 5.2 | 119 |
| Outcomes of the policies applied by the Company including key performance indicators | 5.3 to 5.7 | 122 to 159 |
| Anti-corruption efforts | | |
| Description of risk "compliance with rules of ethical business conduct (especially the fight against corruption and influence peddling)" | 5.2 and 5.6.1 | 119 and 156 |
| Policies applied, due diligence procedures and outcomes | 5.6.1.1 to 5.6.1.3 | 156 to 157 |
| Respect for Human Rights | | |
| Description of risk | 5.2 and 5.7.5 | 119 and 164 |
| Policies, due diligence procedures and outcomes | 5.7.5.2 to 5.7.5.4, 5.6.2 | 164 to 166, 157 |
| Corporate and social consequences | | |
| Description of the risk related to "diversity and inclusion" | 5.2 and 5.4.2 | 119 and 127 |
| Policies, due diligence procedures and outcomes related to diversity and inclusion | 5.4.2 | 127 |
| Description of the risk related to "protecting the health and safety of employees" | 5.2 and 5.4.3 | 119 and 130 |
| Policies, due diligence procedures and outcomes related to protecting the health and safety of employees | 5.4.3 | 130 |
| Description of the risk related to "vigilance regarding suppliers' compliance with corporate responsibility issues" | 5.2 and 5.7.5 | 119 and 164 |
| Policies, due diligence procedures and outcomes related to vigilance regarding suppliers' compliance with corporate responsibility issues | 5.7.5 | 164 |

| Items for the Non-Financial Performance Statement | 2020 URD section | Page(s) |
|---|--|-------------|
| Other mandatory information: | | |
| • Collective bargaining agreements entered into by the company and their impact on the company's economic performance and employee working conditions | 5.4.3 | 130 |
| • Action taken to combat discrimination and promote diversity and measures to support people with disabilities | 5.4.2 | 127 |
| • Combating tax evasion | 5.6.3 | 158 |
| Combating food waste, food insecurity, respect for animal welfare, responsible, fair and sustainable food | This information is not relevant to the Group's activities, which are not involved in industrial food production or consumption cycles | |
| Environmental consequences: | | |
| Description of the risk related to "environmental impacts related to the Group's activities" | 5.2 and 5.5 | 119 and 138 |
| Policies, due diligence procedures and outcomes related to the environmental impacts related to the Group's activities | 5.5.1 to 5.5.3 | 138 to 152 |
| Description of the risk related to the "anticipation of environmental standards in product design" | 5.2 and 5.5.2 | 119 and 142 |
| Policies, due diligence procedures and outcomes related to the anticipation of environmental standards in product design | 5.5.1 to 5.5.3 | 138 to 152 |
| Other mandatory information: | | |
| • Consequences on climate change of the company's activity and use of the goods and services it produces | 5.5.2 | 142 |
| • Circular economy | 5.5.2.1 to 5.5.2.3 | 142 to 146 |
| Certification of the independent third party on the information set out in the NFPS | 5.9 | 175 |

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