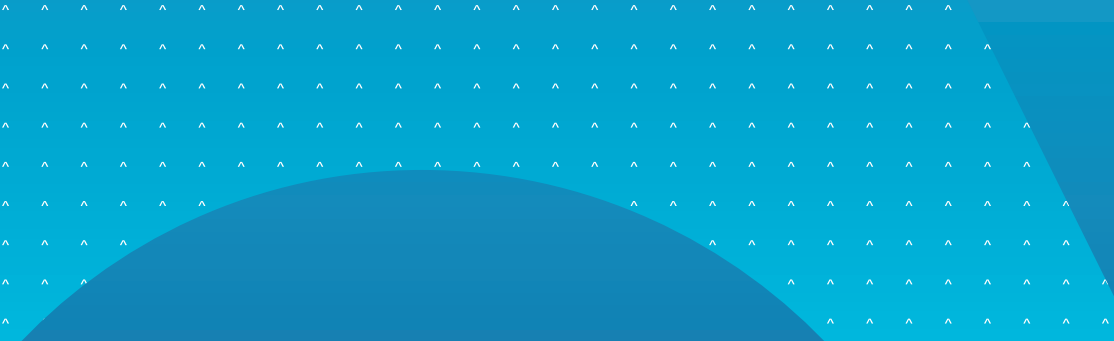


2021 Universal Registration Document

including the Annual Financial Report



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**AUTORITÉ
DES MARCHÉS FINANCIERS**

This Universal Registration Document has been filed on 6 April 2022 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.

The *Document d'enregistrement universel* including the *Rapport Financier Annuel* is a reproduction of the official version of the *Document d'enregistrement universel* including the *Rapport Financier Annuel* which was established in xHTML and filed with the *Autorité des marchés financiers* on April 6, 2022.

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

Chairman's foreword



2021: excellent commercial
performance serving our
clients' critical missions,
stronger ESG commitments

Patrice Caine

Chairman and Chief Executive Officer

"In 2021, Thales performed strongly, achieving the highest ever order intake in its history. In the space domain, Thales Alenia Space reported great success in commercial telecommunications, particularly with the order by SES of its first fully flexible satellite, Space Inspire, and the entry into force of the contract to build SATRIA, designed to reduce the digital divide in Indonesia. The Group was also awarded the construction of 6 second-generation satellites for Galileo, the European navigation system. The demand for our defense solutions remained high, from air defense systems, with the new generation of the SAMP/T program or the operational support of SCCOA, the French air operations command and control system, to the multiple successes of the Rafale, with contracts in Croatia, Egypt, France and Greece, or tactical radio communications, with a new tranche of CONTACT.

These successes with our clients, combined with the remarkable mobilization of our teams, have resulted in cash generation of well over 2 billion euros. Considering this performance in 2021 and the outlook for 2022 and 2023, we have revised our cash generation target upwards: the Group should thus generate nearly 5.5 billion euros of free operating cash flow over the period 2021/2023.

Organic growth returned above 5% and the EBIT margin exceeded 10%, benefiting in particular from the solid increase in the margin of the Digital Identity & Security business, which was more than 4 points higher than in 2018, the year prior to its integration into the Group.

Driven by the strength of the space business and the cost adaptation plan in aeronautics, the aerospace segment recorded an initial recovery in revenues and profitability. Nevertheless, with revenues nearly 20% lower than in 2019 and an operating margin of 4.5%, it remained very much affected by the impact of the health crisis on air transport.

The disposal of the "Ground Transportation Systems" business, which is expected to close at the end of 2022 or the start of 2023, will allow us to strengthen Thales's strategic position across three major long term growing markets: aerospace, defense and security, as well as digital identity and security.

Last October, together with several members of the Executive Committee, I presented the acceleration of our ESG initiatives to investors and financial analysts. This event allowed us to detail the growth opportunities that are opening for Thales thanks to the societal trends towards a safer, greener and more inclusive world. This event also offered a chance for Philippe Knoche, the Chair of the Board of Directors' Governance and Remuneration Committee, Isabelle Simon, our General Secretary, and Clément de Villepin, our Senior Executive Vice President Human Resources, to address the Group's challenges and priorities in terms of governance, compliance, diversity and inclusion. Several chapters of this Universal Registration Document address these topics, which are key to Thales's long-term development.

The Group continues to increase its R&D investments, which will reach 6.5% of sales in the medium-term. Thales's business model, driven by the growing need for security and trust in an increasingly interconnected world, has remarkable potential for sustainable and profitable growth, offering solid future prospects for its employees, customers and shareholders."



The Group's business model

Building a future we can all trust	7
Our businesses	8
Our value creation process	10
Shared value creation with our stakeholders	12
Our contribution to sustainable development goals	13

BUILDING A FUTURE WE CAN ALL TRUST

Thales is a global leader in advanced technologies, investing in digital and “deep tech” innovations – connectivity, big data, artificial intelligence, cybersecurity and quantum technologies – to build a confident future crucial for the development of our societies. The Group provides its customers – businesses, organizations and governments – in the defense, aeronautics, space and digital identity and security domains with solutions, services and products that help them fulfil their critical role, consideration for the individual being the driving force behind all decisions. Thales has 81,000 employees in 68 countries. In 2021, the Group generated sales of €16.2 billion.

OUR BUSINESSES



AEROSPACE

Offer environmentally-responsible, connected and safer flights, and conceive satellites to communicate and observe the planet.

AERONAUTICS

- Avionics
- Electrical systems
- Passenger experience
- Simulation and training

SPACE

- Telecommunications
- Earth observation
- Orbital infrastructures and transport systems
- Exploration

GROWTH DRIVERS

- Progressive recovery of air traffic following the Covid-19 epidemic.
- Despite great uncertainty about the trajectory of the recovery, long-term growth of global air traffic is not in doubt.
- Strong demand for connectivity and increased operational and environmental efficiency.
- A unique offer for space in response to new communication and observation needs.
- The domain of military space systems becomes a priority for many countries.

NO.3 WORLDWIDE
Flight avionics.

NO.2 WORLDWIDE
Civil satellites.



28%
of global sales*

€4,463M
+6.1% vs. 2020

EBIT margin: **4.5%**



DEFENCE & SECURITY

Help states, armed forces and organizations protect themselves and ensure security of citizens and infrastructures.

- Radars and sonars technologies
- Secure communication networks, at the heart of collaborative combat solutions
- Network and infrastructure systems
- Cyberdefence solutions and critical information systems
- Air traffic management

GROWTH DRIVERS

- A new geopolitical context that drives armed forces to reconsider their medium and long-term needs.
- Rapid digitization of the armed forces.
- Growing demand for cybersecurity solutions.
- Increasing importance of digital solutions platforms.

NO.2 WORLDWIDE
Military communications.

N°1 IN EUROPE
Defence electronics.



54%
of global sales*

€8,633M
+5.7% vs. 2020

EBIT margin: **12.9%**



DIGITAL IDENTITY AND SECURITY

Build trust in a connected world.

- Banking and payments services
- Cloud protection and software licenses management
- Identity and biometrics solutions
- User and device authentication solutions on mobile networks
- IoT and data analytics solutions

GROWTH DRIVERS

- Strong market growth (data protection, connected objects, biometrics, etc.).
- Over a trillion connected objects expected in 2035.
- Shift to the cloud: increased authentication and data protection needs.
- An offer that complement other Group businesses.
- Acceleration of digital growth driven by the pandemic and increasing need for connectivity and contactless applications.

NO.1 WORLDWIDE

Data protection.

NO.1 WORLDWIDE

Payment cards and SIM cards.



19%
of global sales*

€2,995M
+2% vs. 2020

EBIT margin: **11.9%**

GROUND TRANSPORTATION*

Oversee and monitor transportation networks efficiently.

- Rail signalling and supervision
- Communication
- Ticketing
- Cybersecurity

GROWTH DRIVERS

- 60% of the world's population will live in cities and urban centers by 2030 (Source: UN-Habitat).
- Strong trend towards increased automation of transport solutions, including the move towards fully autonomous vehicles.
- National post-pandemic recovery plans that are increasingly geared towards green mobility.

NO.2 WORLDWIDE

Rail signalling and supervision.



€1,665M
+2,4% vs. 2020*

EBIT margin: **7.5%**

* Following the August 4, 2021 announcement that Thales was entering into exclusive negotiations with Hitachi Rail to sell its Ground Transportation System Business Unit, the transport segment has been classified under "discontinued operations" as per the IFRS 5 and is not taken into account in this figure.

OUR VALUE CREATION PROCESS

MEGA TRENDS

EXPONENTIAL GROWTH OF DATA PRODUCED



GROWTH AND URBANISATION OF THE WORLD POPULATION



ENERGY TRANSITION AND CLIMATE EMERGENCY



OUR RESOURCES



INTELLECTUAL CAPITAL

€1,027m 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

80,995 employees.
More than **31,000** employee and ex-employees are shareholders.
€7,747m in payroll.
An average of **12 hours** of training per employee per year.
94% full-time contracts.
98% permanent contracts.



ENVIRONMENTAL CAPITAL

Deployment of the **strategy for a low-carbon future** aligned on the 1.5°C climate target of the Paris Agreement for operational greenhouse gas emissions.
Signatory of the principles and recommendations of the **Task Force on Climate-related Financial Disclosures (TCFD)**.
Assessment process of the SBTi certification.



SOCIETAL CAPITAL

A strong ethics policy: certification **ISO 37001** obtained in 2021 (anti-bribery management system).
Purchases accounting for **46%** of revenue.
Renewal of the "Responsible Supplier and Purchase Relations" Label in 2021 (ISO 20400 standard for sustainable procurement).
14 sponsorship actions funded by the Thales Solidarity program across **8 countries**.



FINANCIAL CAPITAL

Low indebtedness: **€795m** at 31 December 2021.
Long-term generation of free operating cash-flow.
Solid investment grade credit profile, S&P rating: BBB; Moody's rating: A2.

* Following the August 4, 2021 announcement that Thales was entering into exclusive negotiations with Hitachi Rail to sell its Ground Transportation System Business Unit, the transport segment has been classified under "discontinued operations" as per the IFRS 5 and is not taken into account in this figure.

OUR CLIENTS

Armed forces

OUR SEGMENTS

DEFENCE & SECURITY

OUR 4 STRATEGIC ASSETS

1

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

2

A global footprint

OUR PURPOSE:
Building a future we can all trust.

OUR VISION
Thales helps build a safer, greener, more inclusive world.

4

A unique portfolio of digital competencies

3

An in-depth knowledge of its markets

DIGITAL IDENTITY & SECURITY

Operators of critical infrastructures

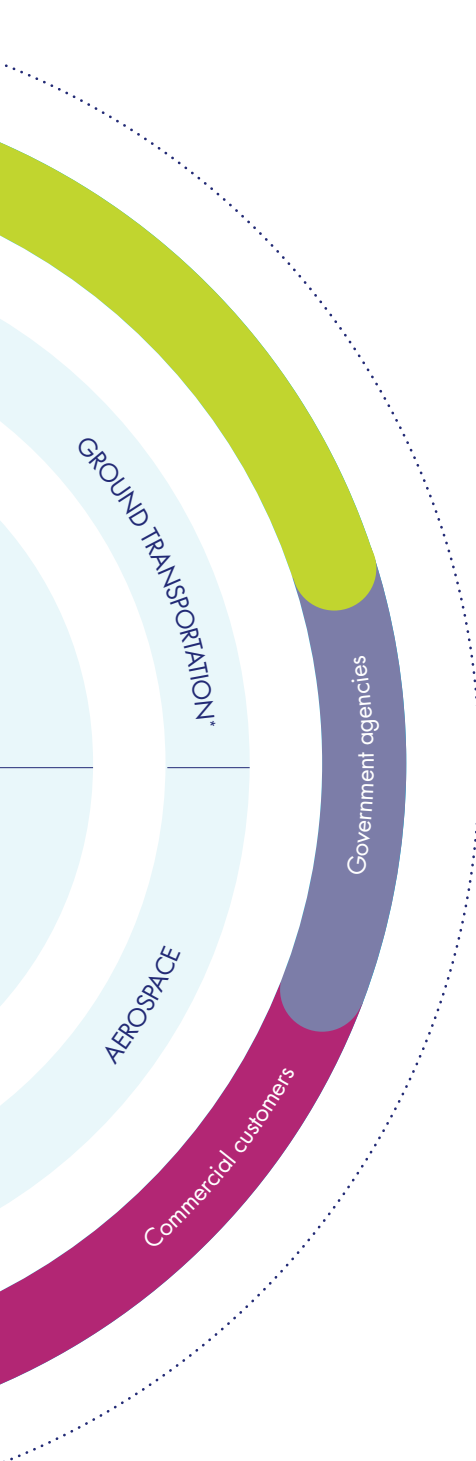
MOBILE CONNECTIVITY AND MULTIPLICATION OF CYBER THREATS



INCREASE IN THE IMPACT OF ARTIFICIAL INTELLIGENCE



GLOBAL COMPETITION FOR TALENT



VALUE CREATED



INTELLECTUAL VALUE

Almost **400 new patent** applications in 2021, of which 25% in key digital technologies.
6.3%* of revenue invested in self-funded R&D.
 Thales ranked **no.1** in Europe for physics research, by the scientific journal Nature.



HUMAN VALUE

10,338 new recruits, of which **33%** were women.
3% absenteeism rate worldwide.
50% women on the Board of Directors.
 Ranked **3rd preferred company** by engineers (Universum France 2021).



ENVIRONMENTAL VALUE

Decrease of **36%** in operational CO₂ emissions, compared to 2018 (scopes 1 & 2 and scope 3 business travel).
32% of electricity from renewable sources, an increase of 5 points compared to 2020.
84% of new product developments incorporate partial or full ecodesign approach (target of 100% by 2023).
70% of non-hazardous waste, an increase of 15 points compared to 2018.



SOCIETAL VALUE

73% of purchases made from European suppliers, of which **37%** from suppliers in France.
€244m* income tax (average tax rate: 17.3%).
Nearly €30m invested in solidarity funds by more than 20,000 employees through Thales savings schemes (no.2 in France).
100% of employees exposed the risk of corruption have been trained against corruption.
More than €1.7m raised through MicroDON's "Rounding up salary" initiative over the last 5 years.



FINANCIAL VALUE

21* large orders with a unit value over €100m.
 Strong increase of global revenue.
€2.5bn of free operating cash-flow in 2021.
 A double-digit EBIT margin.

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. —

HIGHLIGHTS FROM 2021

REVENUE IN 2021
€16,192m*

- Thales's 2021 annual results indicate a sharp rebound, continuing to demonstrate the resilience of our business model and the relevance of the strategic choices – both technological and industrial – that were made.

EMPLOYEES
COMPENSATION PAID IN 2021
€7,747m

- In November 2021, the Group launched its 11th employee shareholding plan. 600,000 shares were offered to employees in 36 countries, with a 20% discount on the purchase price and a matching offer of one free share for every four shares purchased (up to a maximum of 10 free shares). It turned out to be a grand success with more than 21,300 employees choosing to take advantage of the offer.

SUPPLIERS
PURCHASES IN 2021
€8,171m

- With more than 17,000 providers across the globe, Thales contributes to economic growth of every country in which it operates, with a fair share of small, medium-sized, and medium-large businesses. In 2021, Thales bought more than €2 billion of products and services from 4,000 small, medium-sized, and medium-large businesses in France.

GOVERNMENTS
INCOME TAX 2021
€244m*

- As an international group, Thales pays its fair share of taxes and duties in many countries. The Group rigorously applies tax rules and ensures that it complies with local regulations, international treaties, and the directives of international organizations. The effective income tax rate is 17.3%. The rate incorporates changes in tax rules in Italy and the UK that resulted in significant tax rebates. Adjusted for these extraordinary gains, the effective tax would have been 20.6%.

SHAREHOLDERS
DIVIDENDS PAID IN 2021
€417m

- On March 2, 2022, Thales's Board of Directors decided to propose to shareholders, who will convene at the Annual General Meeting on May 11, 2022, a dividend of €2.56 per share for the fiscal year 2021.

SELF-FUNDED R&D
IN 2021
€1,027m*

- The Group's technical activities, from research to engineering, involve more than 30,000 people. Within the limited scope of R&D, an important element in competitiveness, Thales spent €1,027m on self-financed R&D in 2021, or 6.3% of its sales revenues.

* Following the August 4, 2021 announcement that Thales was entering into exclusive negotiations with Hitachi Rail to sell its Ground Transportation System Business Unit, the transport segment has been classified under "discontinued operations" as per the IFRS 5 and is not taken into account in this figure.

OUR CONTRIBUTION TO **SUSTAINABLE DEVELOPMENT GOALS**

1

4 PRIORITY SUSTAINABLE DEVELOPMENT GOALS

SDG	BUSINESS PRIORITIES	DEVELOPMENTS
	<ul style="list-style-type: none"> Increase our R&D investments and our private and public partnerships. Contribute to sustainable and responsible industry. Develop the know-how and innovation capabilities of our partners and members of the civil society. 	<ul style="list-style-type: none"> More than 40% of the Group's employees work in R&D-related roles. In 2021, Thales spent €1,027 million on self-funded R&D. 87% of employees work on an ISO 14001 (environmental management) certified site and 82% work on an ISO 45001 (workplace health and safety management) certified site.
	<ul style="list-style-type: none"> Reduce our environmental footprint and that of our clients. Expediate our actions and set more ambitious objectives for the climate. Participate in the effort to limit the global warming to 1.5°C in line with the objective set by the Paris Agreement. Analyze to better anticipate the impact of global warming on our markets. 	<ul style="list-style-type: none"> Earth observation satellites, conceived by Thales Alenia Space, provide scientists and decision-makers with essential data for monitoring the environment. In 2021, The Group committed to reduce its operational CO₂ emissions by 50% by 2030, and reach net zero by 2040. In 2021, Thales was ranked A-, "Leadership" level, by the CDP (formerly known as Carbon Disclosure Project).
	<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 bias, gender stereotypes and sexism. 	<ul style="list-style-type: none"> In 2021, women accounted for 33% of recruitment worldwide and 27% of the global headcount. 50% of the members of Board of Directors and 20% of members of the Executive committee are women, which places Thales among the leaders of its industry when it comes to women's representation in senior positions. In 2021, Thales extended its gender equality index to a worldwide level, to assess the situation of women when compared to men, in the Group's companies with at least 250 employees. In 2021, women represented 18.9% of positions of responsibility (target of 20% for 2023).
	<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. Ensure that everyone has a legal identity, a key element that allows the full exercise of one's citizenship. 	<ul style="list-style-type: none"> Thales' defense and security activities contribute to the development of institutions. Peace is an indispensable prerequisite to achieve any sustainable development goal. Through 200 identity programs worldwide, Thales helps governments provide their citizens with secure and easy-to-deploy identity proofs, a key element that enables everyone to exercise their civic rights.

2

Business review

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2.1 Operating segments

2.1.1 Aerospace segment

2.1.1.1 Key figures

(in € millions)	2021	2020
Order book at December 31	7,903	6,591
Order intake	5,631	3,822
Sales	4,463	4,217
EBIT ^(a)	202	(76)
Consolidated number of employees	17,113	17,519

(a) Non-GAAP indicator. See definition on page 31.

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 and natively connected systems that Thales designs enables aircraft, helicopters and drones to fly under all circumstances and to provide for all of the parts of the aeronautical ecosystem to interface together, on the ground or in flight.

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

- **Flight avionics:** piloting and control of the aircraft, namely, certified or open-source electronics and information systems and solutions that ensure the secure and optimized flight of aircraft in an increasingly dense, connected and automated sky.
- **Electric systems:** aircraft electrification systems that include electrical generation and conversion and the motors that allows to contribute to reducing the aviation carbon footprint.
- **Passenger experience:** airlines call on Thales to personalize 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 defense programs as well as providing training and instruction.

For all these of these activities, **support and services are offered:** Thales offers equipment and aircraft maintenance services, supports pilot missions and optimizes operations, thanks to cutting-edge digital solutions that allow civil and military operators to optimize operating costs and guarantee increased aircraft availability.

Sales

Aerospace

Defense & Security

Digital ID & Security

28%

54%

19%

Thales also provides power amplification and radiology solutions for the aeronautics, space and defense industries and for the medical sector.

Since the start of the health crisis in the second quarter of 2020, the civil aviation businesses (flight avionics, passenger experience) have been directly affected by the slump in the market by some 40%, an impact felt by all stakeholders in the aeronautic sector (airlines, aircraft manufacturers, systems integrators, etc.). Civil aviation businesses generated approximately €1.2 billion in sales in 2021, €1.3 billion in 2020 and €2.15 billion in 2019. These businesses were, roughly, split equally between OEM and aftermarket.

2.1.1.2.2 Competitive position

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

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

The Group has numerous competitors in the simulation solutions market including North American defense 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 imaging, CPI and L3Harris.

2.1.1.2.3 Significant events in 2021

Globally, in the context of the aerospace segment stimulus packages, in 2021, Thales confirmed its status as a leading player in designing solutions that contribute to more sustainable aeronautics and the design of future technologies allowing the development of new platforms thus reducing the environmental impact of aviation.

In the field of **civil aviation**, 2021 was a year marked by the major milestone of the first test flights of the new FlytX avionics suite on board a Cabri helicopter. This FlytX suite was selected by Flying Whales to equip its future LCA60T airship. At the same time, Thales was also selected to supply flight control computers for the newest Gulfstream business jet aircraft, the Gulfstream G400 and the Gulfstream G800. And lastly, in the flying taxis sector, Airbus has selected Thales and Diehl to supply the electrical flight controls for CityAirbus NextGen, the future flying taxi due to make its maiden flight in 2023.

As regards **military avionics**, Thales has received an order for 350 Scorpion® helmet-mounted sight and display systems and 400 digital multi-function displays for all the Dassault Aviation Rafale aircrafts in service with the French Air and Space Force and the French Navy. Furthermore, NHIndustries advised Thales that it has chosen the new-generation TopOwl Digital Display helmet from Thales for the Special Forces variant of the NH90 program. This version has been developed at the request of the French Defense Procurement Agency (DGA) to meet the requirements of France's special forces. The Ministry for the Armed Forces has also officially launched the Guépard ("Cheetah") joint light helicopter (H1L), with Thales providing the FlytX avionics suite, the TopOwl Digital Display helmet and the multi-constellation receiver TopStar M. This order intake should start entering the backlog in 2022.

In the **unmanned air system** sector, Thales has successfully completed the first flight of a half-scale prototype of its UAS 100 long-range unmanned air system, developed in partnership with Isoire Aviation and Hionos, and with the support of the French Ministry of the Armed Forces via the Defense Innovation Agency (AID). Furthermore, the Austrian Red Cross has also tested the feasibility of automatically delivering blood bags using a drone, using the ScaleFlyt safe flight identification and tracking solutions. And lastly, Thales, Drones-Center and ZenT have carried out a demonstration flight with a drone powered by hydrogen fuel cell technology. The tests were organized to demonstrate the industrial and operational feasibility of this hydrogen drone, which offers enhanced performance characteristics while protecting the environment. For the demonstration flight, the ScaleFlyt Geocaging solution was installed on the drone to ensure regulatory compliance.

In terms of **services to airlines**, Thales has increased its market share by signing a memorandum of understanding with Saudi Aerospace Engineering Industries, aimed at strengthening their cooperation in the field of maintenance activities and repairs of aircraft parts. China Southern has also signed a purchase agreement with Thales for selection of the NXT-800 ADS-B transponder (Automatic Dependent Surveillance-Broadcast) produced by ACSS, a JV between L3Harris Technologies and Thales. Thales and AJW Group have also signed an avionics maintenance services agreement including Repair By The Hour services covering the Airbus fleets of major European airlines. And lastly, Thales and Lufthansa Technik have signed a long-term repair maintenance service agreement to support a major Airbus fleet.

As for **in-flight entertainment**, Thales's AVANT solution has been selected by American Airlines for its Airbus A321XLR and Boeing 787-9 fleets, entering into service in 2023. American Airlines will be the first to fly with Thales's new range of high-performance Optiq displays, 4K high performance extended dynamics screens enhanced with Samsung QLED proprietary technology. Through the Thales and Airfree partnership, Singapore Airlines is the first airline to offer live e-shopping on-board via KrisShop on board its A350 aircraft fleet. And lastly, the FlytLive next generation connectivity offered by Thales is enhanced by the launch of the SES-17 satellite, providing comprehensive cover of the whole of the American continent and the North Atlantic. This capacity means airlines operating on some of the busiest routes in North America are able to offer an unequalled passenger experience.

In **training and simulation**, a key event in 2021 was Thales's entry into exclusive negotiations with RUAG for the acquisition of its Simulation & Training activity (signature of contract in January 2022 and closure of transaction in first half of 2022). On this ground segment, Thales has also signed major shooting training contracts in France with Sinetic, and in Germany with the Ministry of Defense, along with a battalion training contract with the Polish Army. Thales has also introduced the CERBERE live training program, which is revolutionizing training for soldiers in the Army. In military avionics, simulation contracts have been finalized for Mirage 2000s in India, French Air Force air traffic controllers and F4 standardization of Rafale simulation centers. And finally, in the United Kingdom, a 100% performance delivery record over the past three years, even during the Covid-19 pandemic, contributed to the MOD signing a three-year contract extension for Thales to continue supporting the Royal Air Force High G Test and Training facility in Cranwell. In the field of civil helicopters, the first Reality H Level D flight simulator operational in Africa and operated by Caverton (Nigeria) has been certified by the EASA (the European Union Aviation Safety Agency); the Reality H Level D flight simulator for the H145 helicopter operated by Helisim in the United States was certified by the FAA (the Federal Aviation Authority), and began pilot training. In Australia, 2021 was a record year for use of the AW139 simulator operated at the LifeFlight Simulation Center in Brisbane.

In terms of **electrical systems**, Thales continues to support Dassault Aviation in test flights for the new Falcon 6X; these tests have demonstrated the excellent operational capability and performance of the entire Thales electrical generating and conversion channels. As part of the SPHERE Research & Technology program conducted with Airbus Helicopters, Thales was involved in Airbus Helicopters' final demonstrator campaign, fitting it with an e.Drive backup motor, meaning single-engine helicopters will be able to fly over urban areas in the future. In 2021, Thales won its first contract in the field of electric actuators for the new generation satellite, first indicator of the success of its strategy to access the space gearbox market in a modular manner.

In the field of **microwave and imaging sub-systems**, Thales was selected by Bpifrance to develop two medical radiography and tomography machines by means of its carbon nanotube cathode proprietary technology. Thales has also been selected in the space sector to supply electronic tubes for the active antennas used for flexible satellites of for the electric propulsion of the Lightspeed constellation. The French Defense Procurement Agency (DGA) has asked Thales to develop an electromagnetic-end effector for the remote neutralization of autonomous drones or of drone swarms. And lastly, Thales now has the support of France Relance in order to increase its industrial capacity for manufacturing gyrotrons for nuclear fusion reactors.

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 infrastructures. Thales Alenia Space has teamed up with Telespazio to form Space Alliance which proposes a complete range of solutions and services. The Company generated sales of €2.2 billion in 2021 and has 7,929 employees in 10 countries in Europe and one site in the USA. Thales Alenia Space offers solutions to commercial institutional and defense 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 a proposal based on the Spacebus 4000 B 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 on-orbit reconfiguration capabilities, Thales Alenia Space provides operators with concrete answers on a case-by-case basis to support connectivity and 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 theaters 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.

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 the capability of Thales Alenia Space to deliver complex Earth observation missions in various configurations, including radar and optical solutions. In addition to its participation in the European Copernicus program and in the Meteosat Third Generation, 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. As supplier of half the pressurized 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 pressurized modules. The company has capitalized on its expertise in orbital infrastructure and transportation systems to serve future exploration markets including the reusable Space Rider transportation system or the Orion space vessel. Thales Alenia Space also plays a central role in the exciting field of future scientific missions with the ExoMars 2022, Mars Sample Return, Solar Orbiter, Bepi Colombo, Juice and Euclid programs. 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 de-orbiting of space debris.

Space to travel and navigate: at the forefront of satellite navigation in Europe, Thales Alenia Space, the prime contractor for the EGNOS system now in use, supplies the ground segment of the Galileo mission, and will be building 6 satellites for the Galileo Second Generation fleet. KARI, the South Korean space agency, has chosen Thales Alenia Space to supply Safety Of Life services for avionic applications in particular, and the company has deployed several MEOLUT Next stations dedicated to SAR services (Search and Rescue). 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 developed the first two satellites of the Ominospace constellation.

2.1.1.3.2 Competitive position

2021 has confirmed that, more than ever, satellites have a role to play in today's world and in the future, whether to guarantee the sovereignty of States and the defense and security of citizens, or for surveillance and managing the environment, for the purposes of connectivity of people and objects, or for geolocalisation applications.

Satellite manufacturers must meet the requirements 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 remains relevant, and constellations have their role in responding to new services, whether for telecommunications or Earth observation.

Telecommunications market

13 geostationary satellites were ordered for the telecommunications market in 2021 – 7 on the open market (6 being replacement satellites) and 6 government satellites. These volumes seem to point to a market stabilizing at around 12/15 GEO satellites per year, focused specifically on flexibility in order to meet connectivity requirements and roll-out of 5G.

Constellations remain key, and beyond the commercial requirements identified, governments are starting to incorporate these solutions into their thought processes, such as the constellation initiative, which could become the EU's flagship project.

Observation market

We note a **segmentation of the market around 2 families of products:** HP (high resolution under 30 cm, allowing strategic monitoring, i.e., detection and identification) and HREV (high revisit, sub-metric at 50 cm) to meet new uses and state requirements. Export opportunities are reduced and the development of NewSpace and smallsats represents real competition for the leading groups in this field.

Faced with this development, Thales Alenia Space has clearly positioned itself in growing market segments driven by the emergence of new needs (Internet of Things, In-Orbit Services), high revisit, and space surveillance, and has enhanced its offering within the Space Alliance (to add services to its offering). For two years, Thales Alenia Space has been a key player of NewSpace (Ominospace, Kinéis, ARGOS NEO, BlackSky).

Exploration market

The United States has revived plans to explore the Moon and is calling on the expertise of the European space industry. Missions abound, particularly with the Artemis program which aims to land the first woman and the next man on the Moon by 2024, and TAS's expertise is at the heart of all these emblematic programs (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 emerging and other opportunities are being considered.

Navigation market

Thales Alenia Space is the only manufacturer to deploy SBAS navigation systems for export, based on the EGNOS legacy: Korea with KASS and Africa within its cooperation with the ASECNA.

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 startups.

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 who can also be partners on some programs, and Boeing and Lockheed Martin for export contracts.

2.1.1.3.3 Significant events in 2021

Commercial market

In the telecommunications segment, Thales Alenia Space was selected by the operator Telesat in February 2021 to build **Lightspeed, a constellation comprising 298 low earth orbit telecommunications satellites**. The Lightspeed network, the financing of which has not been finalized, will deliver multiple terabits per second across the globe for secure, low-latency, high-performing broadband professional services.

In 2021, Thales Alenia Space moved into a leading position in the geostationary communications satellite market, winning 5 contracts, including 3 on the open market: the **HTS 113BT** satellite for the Indonesian operator TelkomSAT, and the **ASTRA 1P** and **ASTRA 1Q** satellites for the operator SES. The latter two satellites are based, respectively, on the all-electric Spacebus NEO platform, proven in orbit, and Space Inspire, the company's brand new all-digital solution, which is highly flexible and reconfigurable in orbit, in near real time.

Thales Alenia Space and Satelit Nusantara Tiga (SNT) also announced that they had **finalized funding for the development of the Satria broadband communications satellite**, designed to bridge the digital divide in Indonesia. This key step follows the preliminary agreement to start various activities for the satellite, signed in early September 2020.

Institutional market

Thales Alenia Space will be building the **SICRAL 3A and 3B** military telecommunications satellites for the Italian Ministry of Defense, 6 of the 12 new satellites of the **Galileo Second Generation** constellation, and the new part of the Galileo First Generation Ground Mission and Security Segment **in order to continue to expand operational capacities**.

In the exploration segment, Thales Alenia Space has confirmed its position as global leader in orbital structure by signing **the global contract to develop the ESPRIT telecommunications and refueling module** for the upcoming lunar space station, Gateway, and for the development of **the two pressurized elements of Axiom Station, the world's first commercial space station, with Axiom Space**. The company has also signed a contract extension to supply the thermo mechanical systems of the European service modules **ESM 4, 5 and 6 of the Orion spacecraft**, which will take astronauts to the Moon as part of the Artemis program. Thales Alenia Space has also announced the order **for 2 additional pressurized cargo modules for Cygnus**, the refueling spacecraft for the International Space Station.

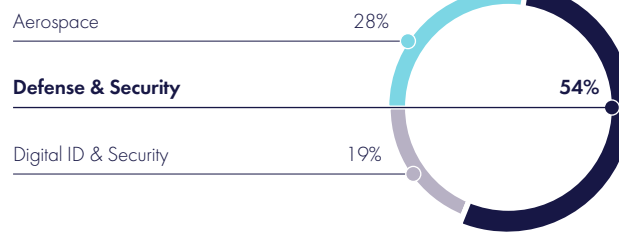
2.1.2 Defense & Security segment

2.1.2.1 Key figures

(in € millions)	2021	2020
Order book at December 31	26,111	23,245
Order intake	11,185	9,922
Sales	8,633	8,085
EBIT ^(a)	1,111	1,039
Consolidated number of employees	31,981	30,451

(a) Non-GAAP indicator. See definition on page 31.

Sales



2.1.2.2 Secure communications and information systems

2.1.2.2.1 General overview

The armed forces, security forces and essential operators rely on Thales for their inter-operable and secure information and telecommunications systems. Positioned at the heart of the Defense & Security continuum, the Group is involved in every aspect 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 G4 networks cryptography, 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.

The Secure Communications and Information Systems businesses are spread over five segments:

- **radio communications products:** For land, air and sea, Thales designs on-board and tactical radio communications systems, 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 inter-operable secure software-defined radio SDR solutions and is the prime contractor for the French Army's CONTACT program;

- **network and infrastructure systems:** Thales designs, supplies, deploys, supports and operates fixed and mobile communications networks for defense and security forces, for international agencies and for organizations 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 defense communications systems through the Descartes program, 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, Thales operates communications systems in theaters of operation in Mali and the Central African Republic, and secure communications infrastructure for major European organizations. Thales also offers satellite communication ground systems in France through the Syracuse program, and also for export;
- **protection systems:** the European leader in the digitized battlefield, Thales develops collaborative combat systems and information command and intelligence systems for armed forces (C4ISR – Command, Control, Communications, Intelligence, Surveillance, Reconnaissance). 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;
- **cyberdefense 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 cyber threat intelligence, the Group helps its customers to better anticipate detect and address cyber threats. Thales operates 6 secure cyber security monitoring centers around the world and protects networks and data, especially sensitive or classified data using high-grade cyber security products.
- **critical information systems:** Thales's expertise in critical information systems makes it a major player in France, helping its customers work towards secured digital transformation. The Group primarily designs native secure information systems through its software development and integration services, including in the context of its clients' secure transformation programs, and by outsourcing these systems, particularly as part of cloud hybridization projects.

2.1.2.2.2 Competitive position

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

In defense applications – radio communications, networks, and command and control – the main competitors are predominantly American: L3Harris Technologies, Raytheon Technologies (which integrated Collins Aerospace in 2020), or General Dynamics. The Israeli companies Elbit Systems and Rafael Advanced Defense Systems or the Turkish company Aselsan are also competitors in the embedded communication control solutions segment. Software solution suppliers, such as the Danish company Systematic, or companies offering information system integration, such as Atos and Sopra Steria, are also competitors. In Europe, the Group's main competitors are Airbus and more specifically in the radio communications sector, BAE Systems, Rohde & Schwarz, Leonardo or the Finnish company Bittium.

In security, Thales's competitors come primarily from the aeronautic and defense segment (Boeing, Northrop Grumman, Honeywell or Airbus), the equipment segment (Siemens and Johnson-Tyco) and the information systems segment (IBM, Atos and Capgemini). These last few companies also compete with Thales in the critical information systems segment.

Finally, in cyber security, Thales competes with companies such as Orange cyberdéfense in the commercial sector, BAE Systems, Ultra Electronics, Airbus and Secunet in the defense sector, and also Atos, Sopra Steria, and Capgemini in the digital services sector.

2.1.2.2.3 Significant events in 2021

In **radio communications products**, the French software-designed radio network CONTACT program aimed at servicing land, air and sea armed forces is on-going. In 2021, 1,850 sets were produced at the Cholet site: 1,200 radio sets for vehicles and 650 mobile radio sets for soldiers. 2021 also marks the launch of stage 2 of the program confirming acceleration of the Cholet production line (tactical radio sets), and the order for avionic radio sets to be produced on the Brive site from 2025 onwards. Stage 2 also means extension of the CONTACT and SYNPA range (for export) with the launch of a new Manpack version. And lastly, following the Army and the Air Force, the Navy will be entering the world of software-designed radios: stage 2 also launches research into the future Naval CONTACT Network, development of which will be at the heart of stage 3 of the program.

Major radio contracts won in 2021 include selecting Thales to supply new radios to the German Army (SEM90R), new high-speed radio links (tactical radio links) for the Swiss Army and mobile radios (Javelin and Spear) and satellite communication stations for the US Army.

In the **networks and infrastructure systems**, Thales began 2021 by being selected by NATO to provide the first militarized and certified defense theater-level deployable cloud solution in less than 24 hours. The term of this contract is 17 years, enabling Thales to penetrate a new market segment. At the end of 2021, Thales was officially notified of having won the MELISSA contract, to deliver satellite communication stations to the French Ministry of the Armed Forces in 2025. Once integrated into the Phenix MRTT1 tanker aircraft, these stations will enable broadband connections anywhere in the world. This avionics segment is part of the Syracuse IV program, the ground segment of which was awarded to Thales in 2020. The contract is the first of its kind in Europe, and further consolidates Thales's leadership in secure, resilient satellite connectivity. Thales was also awarded the MORITO framework contract, an upstream research program (URP) and received the first two orders in December 2021. This program will help define new network technologies and roll out future tactical networks in France. Thales also formed an alliance with Orange to respond to a call for tender which was strategic for France: The Future Radio Network (RRF in the French acronym) tender, aimed at providing actors in the fields of security and emergency with a shared, priority, secure, high-speed communication system benefiting from the best digital technologies and a high level of resilience in crisis situations.

As regards resilient networks, the Descartes ISR and Descartes SCR programs entered their operational roll-out phase, providing the French Ministry of the Armed Forces with controlled, secure, and resilient communications, forming the cornerstone of its digital transformation. The brand-new Digital Defense Agency (AND in the French acronym) has selected the MTBA CA solution (airbase transmission network – air control) to serve all airspace of the French Ministry of Armed Forces, extending the solution to around thirty additional sites, in addition to those sites of the French Air and Space Force; Navy, Army and DIRISI. In terms of services, the contract for CISAF services, for the delivery of military-staff-type information and communications services, ended with the departure of NATO forces from Afghanistan. This was a successful collaboration for 15 years, which earned a high level of customer satisfaction right up to the very last day, when teams working on site were evacuated. At the same time, Thales had signed a contract with the EUSPA (the European Union Agency for the Space Programme), aimed at building a European-wide communications structure to guarantee reliable, continuous access to Europe's precise geo-localization services provided by Galileo.

With regard to **protection systems**, Thales's solutions are aimed at both the defense and security markets. In defense, NATO has selected Thales to supply an operational situation awareness system. The Group has also been notified of an air defense system by Canada. As part of the Scorpion program for the French Army, 260 Griffon vehicles (multi-role armored vehicles) were delivered. And finally, 2021 saw the creation of Athea, a joint venture. Supported by Thales and Atos, Athea is developing the first sovereign solution for big data in Europe, aimed at governments and operators of vital importance. In the security sector, Thales has received its first international order for its Fly to Gate offering, aimed at airports and allowing operators to adapt to the new constraints associated with the Covid-19 pandemic, thanks to a contactless passenger journey.

A strategic partnership has also been signed with the archaeological site of ALULA in Saudi Arabia to ensure protection of the site with the Security Digital Platform. This veritable digital command center 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. The Security Digital Platform was selected by Frost & Sullivan as the most innovative security offering of the year.

In the field of **cyberdefense**, in 2021 Thales signed its first contract for a hybrid 'follow the sun' Security Operation Center (SOC) with the energy producer and supplier Engie. In the context of this contract, Thales is relying on its six SOC around the world for supervision of Engie's critical network on a continuous basis, 24 hours a day, 7 days a week. A new partnership with Wales saw the opening of a digital infrastructure center, the NDEC (National Digital Exploitation Centre), whilst work with the European Space Agency (ESA) for the security of the second-generation Galileo system has continued.

In the field of data protection, and more specifically encryption, the Group delivered a cryptographic key management system for Network Rail in the United Kingdom. In France, the new version of the Mistral VS9.0 encryption system was given the Diffusion Restreinte (Restricted Distribution, DR) level of classification by the ANSSI. In the communications and secure exchanges segment, Thales/Ercom launched the DR Hub, the first platform allowing use of restricted distribution collaborative services.

Another key event in the year was the signature of a strategic partnership with Google Cloud, aimed at developing a secure cloud proposal for companies and administrations in France, which will meet the requirements of the ANSSI 'Trusted Cloud' certification. The partnership provides for the creation of a joint company with Thales as the majority shareholder, for the development and marketing of this new proposal.

The marketing of the advanced AI-based attack detection platform Cybels Analytics, as well as high added value detection services, continued in 2021. Thales continued to develop the Cyber Range training and testing infrastructure, specifically in cooperation with institutional stakeholders in a number of countries.

Critical information systems: In France, Thales continues to be a major partner in digital transformation and Cloud hybridization projects, particularly for the French government and for critical operators. Contracts won in 2021 include the Directorate-General for Public Finance contract relating to consultancy, architecture and application development, for the digital transformation of their departments, for a four-year contract; and also the UNCA contract – Union Nationale des CARPA – bringing together the whole system of protection for the legal profession in France, for the supply of a private, technical Cloud infrastructure over a five year period. Thales also strengthened its support over the year to the French Ministry of Armed Forces with the renovation of the Intradef, against the backdrop of the planned four-year framework agreement. And lastly, in this field, the Group is supporting Airbus Helicopters in connection with advisory missions on agile methods, and continues to coordinate the CNES EOlab project, the Earth observation data valorization laboratory.

2.1.2.3 Land and air systems

2.1.2.3.1 General overview

In the field of defense, Thales provides integrated capability solutions at all levels of the value chain, from supplying sub-systems through to integrating systems, as well as designing mission design systems and prime contractor services.

Thales specializes in **command and control systems for air operations radar systems and integrated air defense systems** in more than 45 countries. As a mission systems integrator, Thales actively contributes to major international military programs 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 program management, real-time and non-real-time software, human-machine interfaces, and service-oriented architecture.

Thales offers a broad range of air defense weapons systems: medium-range (SAMP/T), short-range (Crotale and RAPIDDefender), and very short-range (RAPIDFire air defense cannon and ForceSHIELD or EagleSHIELD for countering drones). The group also supplies Lightweight Multitrole Missiles (LMM) and StarStreak missiles.

Thales owns 50% of ThalesRaytheonSystems, a joint company specializing in Integrated Air and Ballistic Missile Defense (IAMD) and Command and Control (C2) Systems. ThalesRaytheonSystems supplies NATO and its member countries with 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 missile guidance. The Group's civil radars are in service in over 70 countries and the Group equips over 45 countries with commercial radars, i.e., more than 1,300 countries with military radars.

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 sub-surface) or air platforms for defense 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 designs, manufactures and supports **armored military vehicles** including the Hawkei and the Bushmaster. The open architecture systems of vehicles provide highly standardized "plug and play" capability for on-board subsystems and products, increasing vehicle capability and performance whilst reducing size, weight and operator workload, and whole-life system costs. Thales develops, manufactures and also supports close combat warfare systems, and guided and non-guided ammunitions systems. These warfare solutions are designed to transfer modern forces' capabilities by reducing collateral damage, ensuring soldier safety, providing increased mobility, complying with the highest ethical and environmental standards, and being lighter in logistics terms.

In the area of **traffic control and management**, Thales's offerings include everything between conventional navigation assistance equipment to radars and air traffic control centers, 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 optimize flows and protect sensitive infrastructure from malevolent drones. Thales covers the entire unmanned ecosystem and offers solutions to protect the skies and limit threats from hostile civil or military unmanned systems.

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

2.1.2.3.2 Competitive position

In the military sector, Thales is the top European supplier of multi-domain optronics without any 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 internationally 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 clients of Thales's missile electronics and key partners in weapon systems. Israel-based companies Rafael and IAI, and the Russian Almaz-Antey 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 for complex mission systems.

With over 40% of the world's airspace controlled by the ATC TopSky system and 8,000 navigation 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.

2.1.2.3.3 Significant events in 2021

In the field of **airspace protection**, Thales was awarded a contract for the new-generation of long-range surface-to-air missile defense system: SAMP/T NG. The purpose of this contract is to improve the SAMP/T system already in use by the French forces, from 2025, by relying on a new radar system, the Ground Fire 300 (GF 300) using digital technologies making it possible to triple the volume of detection and pursuit of new, much faster, maneuvering stealth threats; a new engagement module (NG program ME) with increased functional missile guidance capacities and a new missile managed by our partner MBDA.

A new STRIDA Post 2025 contract was also awarded to Thales for enhanced operating capabilities of the Permanent Security Posture (PSP) until 2030. The implementation of this project also considers the need to cover a number of major events held in France: the Rugby World Cup (2023) and the Paris Olympic Games (2024).

As part of NATO's ACCS program, ThalesRaytheonSystems reached new milestones: CheckPoint 4 and 5 of the Addendum 3 program were successful, demonstrating the capabilities of the new X86 infrastructure. As part of the In-Service Support (ISS) program, the Factory Acceptance

Test (FAT) for the Released Candidate 8 (RC8) was officially passed by NCIA. The RC8 represents the first milestone of an ACCS IAMD (Integrated Air and Missile Defense) version integrating the Ballistic Missile Defense (BMD) capabilities in addition to the usual capabilities of Air Defense missions.

Thales won the VASSCO contract to support the French Armed Forces Air Command and Control System (SCCOA). This major 10-year contract, awarded by the French Defense Ministry's Aeronautical Maintenance Directorate (DMAé), demonstrates that Thales is a unique contractor, committed to availability of the SCCOA, an essential part of the Permanent Security Posture of French airspace. Over time, VASSCO will provide air forces with an enhanced performance of the components of the SCCOA.

In terms of exports, in connection with the Air 2030 program in Switzerland, the FLORAKO contract was awarded to Thales after a preliminary evaluation phase that began in 2019. All-digital and incorporating the latest Big Data and artificial intelligence technologies, the SkyView 4.0 system will provide the Swiss Air Force with a highly capable solution for airspace surveillance and air command and control.

And finally, the long-term partnership with the British Ministry of Defence is bearing fruit, with renewal of the contract for the AirScape system – a dynamic information system provided to the British forces, for operational information in almost real time – for a further five years, following on from 40 years of ongoing support, assistance and development in this field.

For **surface radar operations**, in the naval sector, the Sea Fire digital radar is qualified and ready for integration on the combat system to be fitted on the new Defense and Intervention Frigates (FDI) built by the Naval Group. The Sea Fire is the latest-generation solid-state modular multifunction radar, with a four-panel AESA (Active Electronically Scanned Array) antenna, simultaneously performing long-range air and surface surveillance, as well as missile guidance, to protect frigates from all types of threats in complex environments. The NS50 radar developed in the Netherlands will be supplied for the 12 new mine countermeasure vessels of the Belgian and Dutch Navies. This will offer comprehensive self-protection capability to the vessels against airborne and surface threats, with missile guidance capability.

In areas of surveillance and air defense, the Norwegian Defense Material Agency (NDMA) has signed an agreement with its Dutch counterpart (the Netherlands Defense Material Organization, DMO) for five Thales Ground Master 200 multi-mission compact radars (GM200 MM/C). The GM200 MM/C provides fire support and weapon location capabilities, making it a major asset for modern armed forces. The contract includes an option for three additional systems.

In terms of C-RAM (Counter-Rocket, Artillery, Mortar) systems, the German armed forces have selected the Ground Alerter 10 (GA10) early alert system for camp protection as well as dismounted operations in convoy protection. The GA10 provides troops with precious seconds to evacuate the targeted zone or take cover, thereby saving lives.

For unmanned detection and ground surveillance systems, Thales has unveiled a new, multi-mission ground radar, the Ground Observer 20 MM (GO20 MM), with simultaneous ground and low-level air surveillance, providing exceptional early detection of UAV, in particular micro-drones. It's the Ground Master 400 Alpha (Gm400a) that has been launched for long-range air surveillance. Thanks to its high mobility, high availability, easy upgrade ability and seamless integration, the GM400 Alpha offers armed forces a valuable tool to gain tactical advantage, early detection of all types of threats, providing precious minutes for decision-making and action.

And lastly, a key event this year was the worldwide deployment of the 100th Ground Master (GM) radar for the protection of national airspace, following a site acceptance test for a Ground Master 400 by the Royal Moroccan Air Force. With its all-digital architecture, the Ground Master family detects current and future air threats, at ranges of up to 500 km.

Within the scope of the **tactical and vehicle systems** business in Australia, production of the Hawkei series continued throughout 2021, and the Australian Defense Force announced that Initial Operating Capability had been reached for the vehicle in June. In Europe, the qualification firing trials for laser-guided rockets were successful.

As for the **optronics operations** in France, the French Army renewed its faith in Thales, extending a long-standing partnership with a new order for 3,000 O-NYX night vision goggles. O-NYX goggles offer higher performance and are lighter and more comfortable to wear than other night vision devices. They are manufactured at the Thales site in Saint-Héand, winner of the center of excellence award for soldier optronics. Thales also launched XTRAIM, a new day/night weapon sight for the armed forces.

In airborne optronics, a significant milestone in the Rafale F4 contract was reached this year, in regards to the F4-1 standard for the TALIOS pod and the IRST system. This milestone highlights the importance of all the developments achieved since 2019, factory integration testing in the last few months and flight tests conducted with Dassault Aviation.

In the **field of lasers** and following the landing of the Perseverance rover at the Jezero Crater on Mars, the Thales laser went to work in the SuperCam, Perseverance's "eyes", and successfully emitted its first laser beams.

As for the **Angénieux civil optronics business**, the brand recognized throughout the world for its precision optical products, has presented its new Optimo Prime range at the international Cannes Film Festival, marking the advent of the set of 12 fixed-focus Full Frame cinema lenses that make up the Platinum set. This precision optics and optronics technology is also used in medical, aerospace and defense applications.

In 2021, for its **air mobility business**, Thales completed its acquisition of MOOG's "navigational aids" business. Through this acquisition, Thales can offer its civil and military customers an even more advanced technology with varying solutions for their specific needs. Thales will thus be able to offer not only ground-based navigation aids, but also a "man-portable" technology, further supporting customer's emergency air operations along with developing their mobility needs.

The Civil Aviation Authority of Bangladesh (CAAB) has renewed their faith in Thales, entrusting the company with a turnkey modernization of their nationwide air traffic management system. The new system will improve capacity and safety thanks to a complete nationwide surveillance coverage using the latest ATC and air surveillance technologies compliant with ICAO standards.

The Hellenic Civil Aviation Authority has awarded a contract to supply ground-based navigation systems to Thales to make landing and approach at airports even safer. This new project between Greece and Thales confirms the relationship of trust that has bound them for over 30 years.

Thales and Aeronav are partnering to implement a new era of safer, more efficient airspace management in Haiti. The two companies will provide a range of communication, navigation, surveillance, meteorological and air traffic management systems to support a smooth transition into a modern era of safe and efficient airspace management in Haiti.

Thales has partnered with Dah Chong Hong-Dragonair Airport GSE Service Ltd. (DAS) to support Hong Kong International Airport's Three-Runway System Expansion Project. The supply of an advanced instrument landing system (ILS) and a 3rd runway, will further improve the capacity and efficiency of aircraft landing while maintaining the highest standard of flight safety.

Thales TopSky – UAS, a cloud-based platform for unmanned air traffic management, is now operational at Rennes airport, carrying on from going live at Lille airport in the same year. This collaborative solution used by drone operators, air navigation services and administrative services, simplifies the flight request process and gives drones access to airspace more quickly.

2.1.2.4 Defense mission systems

2.1.2.4.1 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 is developing these systems for future combat drones 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 having as their purpose electromagnetic-based information gathering sensors. These systems, which are installed on aircraft or naval platforms, incorporate surveillance radars, acoustic subsystems, data measurement and linking equipment. Thales also designs comprehensive systems for drones with intelligence, surveillance, reconnaissance and target acquisition capacities.

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 the field of **underwater warfare**, Thales offers a wide range of solutions including the entire sonar suite for submarines, hull and towed sonars for surface ships, mine countermeasures systems, including naval drones, and acoustic sensors for underwater guidance.

2.1.2.4.2 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 L3Harris.

In intelligence, surveillance and reconnaissance systems, its main competitors are Airbus, Leonardo, Hensoldt, Saab, Indra, Elbit, IAI, L3Harris, 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. Across the Atlantic, Thales competes with Lockheed Martin, Raytheon, Northrop Grumman and L3Harris in the United States.

2.1.2.4.3 Significant events in 2021

Electronic combat systems

Throughout 2021, several countries expressed a marked interest in the Rafale. Several large-scale bids were prepared and submitted. Greece ordered 18 Rafale aircraft (6 new and 12 second-hand) in January, and France simultaneously confirmed the replacement of these 12 Rafale aircraft sold to Greece, with the purchase of twelve new Rafale aircraft. In early May, Egypt signed a contract for the purchase of 30 new Rafale aircraft, confirming that it was satisfied with the first order for 24 aircraft in 2015. In November, Croatia also ordered 12 second-hand Rafale aircraft. And lastly, on December 3, the United Arab Emirates signed a historic agreement for the future purchase of 80 Rafale aircraft. As regards programs, deliveries were completed during the year in accordance with all provisional schedules. At the end of 2021, Egypt took delivery of the 24th and last aircraft in its first order. Qatar also took delivery of the 24th and last aircraft in its first order and 6 Rafale aircraft in its second order. Greece also took delivery of the 6 Rafale aircraft included in the first lot of the second-hand aircraft. India took possession of its 33rd Rafale aircraft out of a total of 36; the last 3 will be delivered in 2022.

In terms of support, the vertically-integrated services contract for the French Air Force's Mirage 2000s was signed at the end of December. After the support for Rafale aircraft in 2019, and support for the Atlantic 2 aircraft in 2020, this is the third vertically-integrated services contract signed with Dassault Aviation on behalf of the Department for Aeronautical Maintenance.

In the context of preparing for the future, phase 1A of the contract was completed. This phase concerns development of a suite of connected sensors for the Future Combat Air System (FCAS). This phase was completed jointly at the European level with industrial partners Indra and FCMS.

Surveillance and intelligence systems

Following delivery of the first two aircraft in 2021, the order for the third ALSR light surveillance and reconnaissance aircraft, now known as the VADOR (Airborne Designation, Observation and Reconnaissance Vector) was announced by the French defense procurement agency (DGA) in March 2021. The ALSR are used by the French Air and Space Force for French military intelligence purposes.

Also in the intelligence sector, three CERES satellites (space signal intelligence capacity) were put into orbit from the Guiana Space Center (GSC). CERES is designed to detect and geo-locate electromagnetic signals from radio communication systems and radars from areas where surface sensors cannot reach. The system will provide detailed information to support the military operations of French forces, thereby improving situation awareness. It will complement France's strategic and tactical defense capabilities, with its first satellite system for the collection of intelligence of electromagnetic origin (ROEM).

April saw completion of an important phase in the Watchkeeper program for the British Army, with delivery of the 54th and final unmanned aerial system.

In surveillance radar, Thales received confirmation from Leonardo for the order of 31 ENR radar for the new NH90 NFH helicopters destined to modernize Germany's Navy helicopter fleet.

Thales also signed the CALIPSO contract, a vertically-integrated services contract for keeping the national Navy's Falcon 50 and Falcon 200 aircraft operational, for a term of nine years. Thales, as a partner of Jet Aviation France, the prime contractor for this contract, will provide assistance on its equipment.

Florence Parly, Minister for the Armed Forces, announced the start of the development phase of the HIL future joint light helicopter (Guépard) program at the end of December 2021. The AirMaster C radar and the defensive aids system are among the technologies selected by Airbus Helicopters and the French defense procurement agency (DGA), to equip future platforms. The order intake will start entering the backlog from 2022 onwards.

Surface naval systems

In 2021, the Dutch Royal Navy warship, the De Zeven Provinciën, proved successful in the Ballistic Missile Defense (BMD) scenario of an At Sea Demo/Formidable Shield 2021 (ASD/FS21) exercise organized by the US Navy. The ship had benefited from a mid-life refit in 2020, which included the addition of Thales systems which were key to this success. In fact, during the FS/ASD exercise, the new SMART-L MM/N radar meant the ship was able to detect and track a ballistic missile in space. Guided by tracking data transmitted in real time by the Dutch ship, the United States Navy USS Paul Ignatius was able to launch an SM-3 missile to eliminate the "threat" far above the Earth's atmosphere. Thales can therefore pride itself on playing a leading role in anti-ballistic missile defense.

Following the major contract signed in 2020 between Damen Schelde Naval Shipbuilding and Thales for the delivery and full integration of Thales's Mission and Combat System for four new F126 multi-mission frigates (formerly MKS 180) for the German Navy, work on the program was fully underway throughout 2021. Contracts were signed with subcontractors such as the German company Rohde & Schwarz. The first frigate will be operational in 2028 and the entire program will be developed over a ten-year period.

Work on Type 31 frigates for the United Kingdom is proceeding according to schedule. 2021 saw successful completion of the Factory Acceptance Test for the first sensor, the Gatekeeper optronics system.

Underwater warfare systems

The Australian government renewed their faith in Thales, with signature of a new contract for the modernization of Collins Class Submarines and their radar suite, thereby enabling extension of the operational life of six Royal Australian Navy Collins Class Submarines. As for the United Kingdom, it has awarded the Group a contract to supply the sonar system for its new nuclear-powered ballistic missile submarine (SNLE in the French acronym) program, Dreadnought. As part of the French program for future nuclear-powered ballistic missile submarines, the SNLE 3Gs, the French defense procurement agency (DGA) signed a framework contract with Thales for delivery of the new-generation sonar system.

The first two demonstrators for the fully integrated unmanned mine countermeasures system program, MMCM, were delivered to the British Royal Navy and the French Navy at the end of 2021. This delivery marks a major 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. Both countries had renewed their faith in Thales by signing, earlier in the year, a joint contract enabling launch of the production of six full MMCM systems, to be delivered between now and 2024 (three for France and three for the United Kingdom, supplementing the first 2 systems already delivered).

The SEANICE consortium, coordinated by Thales, was selected by the European Commission to develop next-generation anti-submarine warfare systems. The consortium, made up of 16 partners representing six countries (Belgium, Spain, France, Italy, Latvia and Portugal), is responsible for preparing European navies to cope with future underwater threats, such as attack submarines, midget submarines, drones, heavy torpedoes, supercavitating torpedoes, and naval mines. This project will therefore study, test, prototype, and develop new technologies, relying in particular on drones and artificial intelligence. It forms part of the EDIDP (European Defence Industrial Development Programme), which aims at enhancing the competitiveness of the EU defense industry.

The strong momentum of the airborne sonar business was confirmed in 2021, with the signature of significant new contracts. The German Ministry of Defense and Leonardo Helicopter have selected Thales to equip the German Navy's new NH90 Sea Tiger helicopters with 16 FLASH Sonics and buoy processing systems. As part of the US Foreign Military Sales program, the US Department of Defense and Lockheed Martin have ordered 15 ALFS airborne sonar systems from Thales; 12 of these are for the Korean Navy and 3 for the Greek Navy. These new contracts bring to over 500 the number of FLASH airborne sonar systems ordered and/or in operation in 16 countries around the world.

The excellent performance of the FLASH sonar systems and also of the CAPTAS-4 variable depth sonars and BlueMaster hull-mounted sonars, have been noted by the US Navy for the second year running. Every year, the United States Sixth Fleet rewards anti-submarine warfare

excellence among NATO units. After the French frigates FS Bretagne and FS Auvergne won the award in 2020, it was French Navy FREMM Frigates FS Languedoc and FS Provence which won the U.S. Navy's Hook'em Award in 2021. Italy will also be acquiring two new FREMM and in 2021, selected Thales to supply the sonar suite.

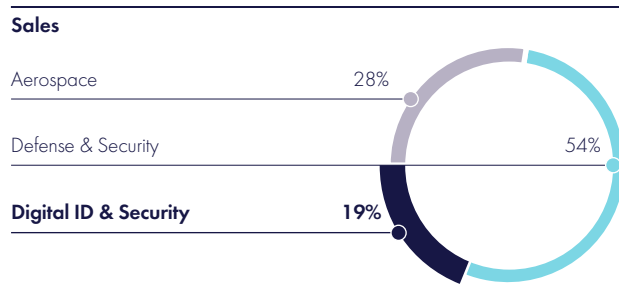
In France, the French Navy is strengthening its anti-submarine warfare capabilities, and has selected Thales to supply its SonoFlash sonobuoy. This new-generation sonobuoy is a strategic asset, supplementing the anti-submarine warfare systems currently deployed by the French Navy, allowing France to have a sovereign solution in high-performance sonobuoys. It could be available in export markets in ally countries, for all modern airborne platform: maritime patrol aircraft and helicopters of course, but also for all types of unmanned platforms.

2.1.3 Digital Identity & Security segment

2.1.3.1 Key figures

(in € millions)	2021	2020
Order book at December 31	613	589
Order intake	2,995	3,023
Sales	2,995	2,992
EBIT ^(a)	358	324
Consolidated number of employees	14,671	14,737

(a) Non-GAAP indicator. See definition on page 31.



2.1.3.2 Digital Identity & Security

2.1.3.2.1 General overview

Over 30,000 organizations already rely on Thales's Digital Identity & Security (DIS) solutions to verify the identities of people and of objects, to authorize access to digital services, to analyze vast quantities of data and to encrypt them.

Our solutions include the issuance of physical and digital identities, various authentication methods (including biometrics), IoT connectivity and data encryption. These technologies help organizations protect the entire life-cycle of the digital service, from registration through to de-registration. Our customers include some of the largest companies in the world, and governments, who rely on us to authenticate billions of identities and to protect thousands of billions of data exchanges every day.

Our global offering consists of several sub-segments:

- data analysis and IoT solutions: connectivity and security for the IoT, and big data analysis;
- Banking and Payment services: payment solutions for electronic and physical transactions, and on-line banking security;
- cloud protection and Software Licenses: access management, data encryption, and software license distribution solutions;
- Identity and Biometrics solutions: national identity programs 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.

2.1.3.2.2 Competitive position

Thales is a leader in the Digital Identity and Security (DIS) market, a €23 billion market at the crossroads of secure identity and cyber security. 77% of our annual sales in 2021 came from offers for markets in which we are the global leader: data protection, secure identity documents, payment cards, SIM cards and eSIM subscription management. We are also one of the three leading players in IoT cellular connectivity, identity verification, eSIM cards and biometrics for the prevention of crime.

In the Digital Identity & Security market, Thales is the world leader. Its main competitors are Idemia, Broadcom, Giesecke & Devrient, and HID. We also have some smaller competitors on a number of niche markets.

Thales has the broadest product portfolio, combining identity management and data protection, protecting each stage of the life cycle of digital services. Our solutions provide security for devices and the cloud, and also for the networks that connect them, whilst our competitors serve only part of the global market. This unique expertise is based on decades of experience, significant investments in R&D and more than 5,000 patents.

2.1.3.2.3 Significant events in 2021

To best serve a growing cloud market, Thales has collaborated with Microsoft, in order to protect its customers' sensitive data in the cloud. The integration of data encryption and encryption key management solutions with Microsoft 365 helps companies and governments meet major data privacy regulations and requirements. Also in the cloud segment, Thales and Google have expanded their partnership in terms of access security and data protection in order to enhance privacy and confidentiality capabilities for Google Workspace.

In Spain, Thales has rolled out automatic border control gates at six Spanish airports, including Valencia and Bilbao, to ease passenger management at borders and to also improve passenger experience. The gates use our facial recognition and automatic document verification technologies. We also delivered a facial recognition pilot project at Madrid airport, to create a smooth passenger experience, from check-in at home through to boarding. These two solutions offer enhanced safety in airports and provide passengers with a smooth experience, relying on contactless technologies, ideal for Covid times. In France, Thales has been selected to provide the latest generation biometrics solution, to ease and secure air, land and sea border crossings. Thales will be delivering several hundred kiosks to prepare for the roll-out in France of an entry and exit registration system (EES) which will record data relating to the entries and exits of nationals from non-Member countries crossing the EU's external borders for short stays in another country.

In the car sector, Thales has collaborated with electric vehicle specialist Gireve to simplify the electric vehicle charging experience. Together, we have created the secure 'Plug & Charge' solution, facilitating access to recharges and billing systems from any compatible charging points. Drivers are therefore able to access a larger number of recharging stations.

Thales has continued to demonstrate its ability to innovate in financial services, with the 20th roll-out of its biometric payment cards with Bank Pocztowy in Poland. Earlier in the year, BNP Paribas made the world's first large-scale launch in France. These cards have a fingerprint sensor for authenticating contactless payments of any amount. In Japan, Thales delivered a contactless payment ring for Evering, thus creating a link between payment technologies and fashion for Japanese consumers.

On the mobile market, we delivered the world's first 5G SA-compatible eSIM for Oppo's latest flagship 5G smartphone. Users can enjoy a trusted and smooth digital experience when selecting connectivity plans from their preferred mobile operators. Thales eSIM also helps operators meet the challenges of digital transformation and logistics processes. To help mobile operators meet their sustainable development objectives, Thales and Veolia have joined forces to create the first eco-designed SIM card made from recycled plastic. Thales has supplied these cards, made from recycled refrigerators, to several operators such as Vodafone and Pepephone, the Spanish virtual operator. Also in terms of sustainable development, Thales helped the Taiwanese bank, DBS Bank, to launch Asia's first bio-sourced card; it also helped Standard Chartered to roll-out the first CarbonNeutral® card for its customers in Malaysia, benefiting from a carbon offset program.

2.1.4 Ground Transportation Systems business (GTS)

2.1.4.1 Key figures

(in € millions)	2021	2020
Order book at December 31	4,335	3,918
Order intake	1,947	1,652
Sales	1,665	1,618
EBIT ^(a)	161	104
Consolidated number of employees	7,830	7,945

(a) Non-GAAP indicator. See definition on page 31. Following the classification of the Transport business as discontinued, certain costs have been reallocated to the operating segment 'Other, Eliminations, Unallocated'. Adjusted for these items, the EBIT margin of the Transport business would have reached 7.5% in 2021.

2.1.4.2 Ground Transportation Systems

2.1.4.2.1 General overview

The Ground Transportation Systems (GTS) business is a global player in rail signaling and train control systems, telecommunications and supervision systems, and mobility and ticketing solutions. Its high-performance capabilities, steeped in the Group know-how in terms of critical information systems and cyber security, big data, the Internet of Things and artificial intelligence, means it is able to cover the needs of urban transport networks (metros, tramways) and main lines (conventional, high-speed, freight lines). All these technologies are key for a more sustainable mobility. Around 8 billion passengers benefit from its technologies every year.

On August 4, 2021, **Thales signed an agreement with a view to selling this business to Hitachi Rail, for an estimated enterprise value of €1.66 billion.** This business achieved a remarkable turnaround over the past 5 years, delivering in 2021 its best financial performance of the past 7 years, in spite of the Covid-19 crisis.

Thanks to the strong technical, geographical and commercial complementarities between Hitachi Rail and GTS, this combination will allow more effective competition with vertically-integrated players, through improvements in purchasing procedures, and engineering and production capacities. In addition, it will offer GTS's employees new professional opportunities. This transaction will also help to better meet market requirements, whilst continuing to provide customers with high added value services, and stimulating investment and innovation in new markets. The sale is expected to be finalized in late 2022 or early 2023.

2.1.4.2.2 Competitive position

In the **signaling sector**, GTS is in direct competition with global integrated players such as Siemens, Alstom-Bombardier and Hitachi Rail, which have gone through external growth operations in the past few years: the acquisition of Invensys by Siemens, of General Electric Signalling and more recently (January 2021) of Bombardier Transport by Alstom, and of Ansaldo Breda and Ansaldo STS by Hitachi Rail, as well as the acquisitions of local companies in specific market segments.

The **communications and supervision market segment** is covered by railway signaling players but also by networks and security specialists such as Nokia, Huawei and Icomera. Benefiting from its traditional businesses, Thales is a recognized supplier for communications on board trains.

Thales is also a recognized supplier in the **ticketing market**, and in the road tolls and parking systems market; this very fragmented market segment, where the Group faces historic competitors such as Cubic, Conduent, Flowbird and Vix, but also newcomers from the IT sector, such as Atos, Capgemini, IBM and T-Systems, offers promising potential, thanks to the digitization of the offers.

2.1.4.2.3 Significant events in 2021

GTS is a strategic partner for operators in **Germany**, and is supporting them in the modernization of their rail infrastructure. Thales has signed a contract worth approximately €130 million to digitize the Deutsche Bahn signaling system in the Stuttgart region. Based on cutting-edge technologies, the project will set the standards for the digitization of railways in Germany and Europe. Full digitization of the German rail network is also making a significant contribution to the decarbonization of the transport sector as a whole, and therefore represents a central lever for achieving the climate protection goals in Germany and Europe.

Network Rail has called on GTS to help achieve its digital ambitions in the United Kingdom, and has selected Thales to develop and implement a new signaling communications system for one of its main lines, the East Coast Main Line. Known as an OKMS (Online Key Management System), this system will be trialled in late 2022 and should go live in 2023. It will then be rolled out across the UK as part of Network Rail's long-term program to transform the UK's rail system.

Infraestruturas de Portugal (IP) has awarded GTS three new contracts for modernization of the signaling systems on the Cascais line and on the West line, and at the Santa Apolónia station in the **Lisbon region, Portugal**. These contracts will help optimize rail capacity and safety on these lines, thanks to incorporation of new technologies in the operations control center in Lisbon.

GTS has won two major contracts for renewal of the high-speed **Madrid-Seville line in Spain**, which went live 30 years ago, these contracts representing a total budget of nearly €98 million. The aim is to enhance line capacity, but also adapt systems to European interoperability standards. Equipment will be modernized to improve line availability and reliability, for greater passenger comfort. This modernization will also facilitate access to the line for other operators when the rail network is opened up.

GTS positions itself as a reliable partner of transport operators and infrastructure managers, particularly **in France** where the Group operates on 3 main sectors:

- a) Grand Paris Express metro system: GTS and I^{ER} have been selected to deliver ticketing systems (500 ticket-office and self-service ticket vending machines plus 1,200 access gates) for automatic lines 15, 16, 17 and 18 of the Grand Paris Express metro system, and will be managing their integration into the Île-de-France ecosystem. Stations will go live in stages from 2024, for the opening of the Olympic Games, up until 2030.
- b) Modernization of the French railway network: as part of the ARGOS project, the Thales-Engie Solutions-Vossloh group is SNCF Réseau's principal partner for future computer-controlled interlockings, and supports it in its change management. In the roll-out phase, the group is in charge of a first production model in Auvergne-Rhône-Alpes, the first stage of which concerns the Lyon-Vienne corridor.
- c) Autonomous trains: GTS is the partner of the SNCF Automated Train Project, with the following projects: TeleConduite on Rail (TC-Rail), Train Autonome Service Voyageurs [Passenger Service Automated Train] in which Thales is the architect/system integrator, and Train Léger Innovant [Innovative Light Train]. These projects rely on Thales's latest innovations in trains' on-board artificial intelligence, and demonstrate its competence in key digital technologies and cyber security.

GTS is also part of the Innovation component of the Rail Transport Recovery Plan (PIA 4) on all 6 priority routes.

GTS technology has been selected for expansion of the **SkyTrain fleet in Vancouver, Canada**. 41 new trains will be fitted with the VOBC component, a key element of Thales's SelTrac™ Communications Based Train Control system (CBTC). The new technology will allow for increased capacity and reliability for passengers, and the transportation of 1.3 million passengers a day.

With its electronic toll collection solution PITZ® (Péage Intelligent Transport Zero) offered to SiVA along Guatemala's vital Palin-Escuintla toll corridor, GTS is revolutionizing electronic toll collection in **Guatemala**. This contract builds on the success of 20 years of PITZ installations in Mexico and it strengthens Thales's leadership in the Latin American electronic toll collection market. The flexible PITZ solution allows integrated, real-time management of multi-form toll payments while improving traffic flow and revenue management along a pivotal 12-kilometer stretch of the country's main highway, critical for the transport of goods. While deployed in Guatemala, the solution will be capable of managing and securing payments for more than 22,000 vehicles per day.

Singapore Land Transport Authority (LTA) has adopted GTS' ultra-modern automatic gates for **Singapore's** Mass Rapid Transit (MRT) lines. Designed with contactless technologies, these upgraded gates will make the public transport system more efficient by giving all passengers a smoother journey. GTS will modernize and standardize 1,350 gates over the next 7 years, including Singapore's oldest North-South & East-West Lines and the upcoming Jurong Region Line for more than 2 million daily passengers.

GTS be enhancing traffic on public transport networks in the metropolitan area of **Jakarta**, thanks to a new payment and ticketing platform. This 8-year contract, signed with Indonesia's transport agency, PT Jakarta Lingko Indonesia, awarded to a consortium led by PT Jatelindo Perkasa Abadi and comprising Thales, Lyko and PT Aino Indonesia, is to deploy, operate and maintain a ticketing platform and a Mobility-as-a-Service (MaaS) solution for Indonesia's capital, Jakarta. This new ticketing platform developed by Thales is expected to allow for two million trips per day.

GTS been appointed by Keolis-Mitsubishi Heavy Industries (MHI), the French Japanese consortium, to maintain the **Dubai** Metro, the world's longest automated metro line. GTS will provide corrective and predictive maintenance, system enhancements and repairs for the red and green metro lines and the Route 2020 extension.

GTS won the **2021 Innovation Award for Franco-Chinese Teams** awarded by the Comité France Chine. This award rewards the joint efforts of both Chinese and French teams made for the project named STARC (Sécurité des Transports Alertes Risques Collisions), the aim of which it to improve safety at level crossings. With this project, Thales demonstrated its capacity to draw on local innovation and to favor global teams' cooperation. By means of the benefits acquired from the Chinese leading AI ecosystem, Thales has applied cutting-edge technologies based on AI and the Cloud to land transport, in France and also in Europe.

2.2 Research and innovation

Critical systems design entails expertise in increasingly sophisticated technologies, in particular, detection, analysis or decision-making technologies. These innovative solutions serve its customers in the aeronautics, space, ground transportation, defense, 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 users with customers and their ecosystems.

2.2.1 Research and development, the key to competitiveness and growth

From research through to engineering, the Group's technical activities involve some 30,000 people. On the restricted scope of R&D, a key factor of competitiveness, Thales spent €1.0 billion on self-financed R&D in 2021, i.e., 6.3% of its sales.

A large proportion of this budget is allocated to upstream research work, carried out at both Thales Research and Technology (TRT) laboratories and also at the Group's Competence Centers, to develop and mature:

- innovations across the technological spectrum, with a particular emphasis on sovereignty technologies which are important for our customers, in the countries where Thales is present;
- new system or product concepts;
- new critical information system engineering tools and methods.

2.2.2 The four key technical areas

Governance of key technology research and development is divided into four segments:

- **hardware technologies:** electronics, electromagnetism, quantum technologies, optronics, acoustics, radio-frequency techniques, expertise in thermal constraints, along with digital support technologies to design businesses, such as simulation and digital twins;
- **software technology:** on-board real-time calculation architectures, Edge-computing, distributed systems, cloud computing, digital platforms, cyber security;
- **information and algorithm sciences:** Artificial Intelligence, automated systems, human factors, quantum algorithms;
- **systems:** focused on functional design and system architectural, this segment provides support in terms of methodology, toolled processes and expertise, synthetic environments.

FOCUS 1**The future of mobility is through SOFTWARE REPUBLIQUE**

Renault has created the Software République incubator with Atos, Orange, Dassault Systèmes, STMicroelectronics, and Thales to invent the future of mobility. Mobility is changing and offering new opportunities, because of a threefold technology revolution: driverless, connected electric vehicles, and new aftermarket services and other added-value services. The founding members of the Software République want to co-innovate to collectively construct a sovereign European ecosystem in this area. Three main areas of cooperation are identified:

- Intelligent systems, to facilitate secure connectivity between the vehicle and its digital and physical environment;
- Simulation and data management systems, to optimize flows for territories and companies;
- An energy ecosystem, to simplify the charging experience.

Artificial intelligence, cyber security, connectivity, on-board electronics and digital twins, all technologies at the very heart of Thales know-how, will contribute to the excellence of these new products and services. Preliminary projects in the secure, connected charging point field, and in on-board vehicle cyber security, are in the definition phase.

In all countries where it is present, Thales endeavors to build partnerships within innovation ecosystems, with academic partners, innovating companies, and manufacturers, to innovate together on usages, business models and technologies.

In 2021, the prestigious journal 'Nature' once again included Thales in the corporate category of institutions as making the biggest impact and contribution to science, and ranked it European player Number 1 and Number 11 worldwide in the field of physical sciences. This international recognition of Thales's research and innovation performance reflects the group's dedication to excellence, and is also the result of close cooperation between Thales teams and the ecosystem of research and innovation around the world (North America, Europe, India, Middle East).

Thales Research & Technology (TRT), the international network of central laboratories, aims to build preferential relationships with academic partners.

The Singapore Center is associated with Nanyang Technological University and the CNRS in one of the rare international joint units with an industrial partnership in place since 2009.

In France, Thales has a number of strategic partnerships with the CNRS, the CEA, the École Polytechnique, Telecom ParisTech and the Sorbonne University, to mention just a few.

The most successful form of collaboration is the joint laboratory, as set up by Thales with the CNRS, with seven joint laboratories; with the CEA-LETI in connection with the III-V-Lab (EIG made up of Nokia, Thales and the CEA-LETI); with the CEA-LIST for artificial vision and the formal methods for the development of critical software, with the Sorbonne University in artificial intelligence, etc.

FOCUS 2**The commercial roll-out of large-scale unmanned operations entails the capacity to manage this traffic – this is UTM (Unmanned Traffic Management)**

UTM has significant growth opportunity, and complements our air traffic managements solutions portfolio, enhancing our position as a world leader. UTM has formed part of Thales's expertise in air navigation for decades, and also relies on huge investments by the group in new technologies, such as the cloud, cyber security, and artificial intelligence, in which it would be impossible to manage, ultimately, the traffic of tens of thousands of unmanned aircraft used for very varied purposes (freight, photography, surveillance of facilities, maintenance, etc.).

Our TopSky UAS solution, a collaborative, low-altitude unmanned air traffic management solution, experienced its first operational (U-space Together contract, DSNA, France) and commercial (Vantis contract, North Dakota, USA) successes in 2021.

In the United Kingdom, Thales has joined forces with several major British universities, through the TRT-UK research center, including strategic partnerships with the University of Southampton and the University of Bristol, along with a long-term relationship with Cranfield University. Thales also has solid relationships in the AI and autonomy segments, in particular, with Digital Catapult and the Alan Turing Institute, also taking advantage of the British government's investments in this field. In the cyber sector, Thales UK has also set up a number of collaborations, including the Centre for Secure Information Technologies (CSIT), based at Queen's University Belfast, and the London Office of Rapid Cyber security Advancement (LORCA).

In Canada, the Group works regularly with research networks and institutions, such as the Institute for Data Valorization (IVADO), the University of Toronto, McGill University, the École Polytechnique of Montreal, and Laval University. With other manufacturers such as Ericsson and Ciena, Thales has set up the ENCQOR consortium, a 5G innovation platform.

FOCUS 3**Thales on the trail of gravitational waves**

As predicted by Einstein 105 years ago, gravitational waves generate ripples in spacetime, and observation of these helps measure violent cosmic events such as the collision of black holes. They contribute to an in-depth knowledge of our universe, specifically of its first 380,000 years, which are inaccessible using traditional observation methods. These ripples are measured using laser light injected into two 3 km-long arms of an interferometer called Virgo, set up near Pisa, Italy. The optical surfaces of this interferometer require extraordinary precision. As part of the European project, Advanced Virgo+, the 3rd generation Virgo, the four optic surfaces of this exceptional detector will be entirely polished by Thales – SESO optics in Aix-en-Provence, in southern France. The precision of this polishing will be at the sub-nanometric level, which means the size of an atom, on surfaces with a diameter of 550 mm.

In high-growth countries, Thales is developing research to complement its engineering facilities. In 2021, the Group set up a research team in India, at its Bangalore site, in the Open Hardware architecture field. This team is already collaborating with IIT-Delhi (the Indraprastha Institute of Information Technology Delhi).

For 7 years now, Thales has been effectively facilitating start-ups. During this period, more than 1,700 start-ups have been referenced by Thales, and nearly 200 Proof of Concept exercises have been completed. Thales

is also involved in the acceleration ecosystem, being a founder member of Starburst, an aerospace start-up accelerator, and the cybersecurity referent for Station F.

Training is also part of the Group's strategic policy in its relationships with the academic world. The Group supports nearly 250 PhD students around the world. These students are working on subjects directly linked to Thales's technical issues, making the group more attractive to young scientists.

2.2.3 A strong intellectual property management policy

Thales supports its R&D business with a strong intellectual property management policy.

The Group filed nearly 400 new patent applications in 2021. The growing number of patent applications in recent years reflects Thales's interest in innovation, and the transformation of the results of research into competitive advantages.

Comprising over 22,000 patents and applications, the portfolio is regularly adapted to the requirements of the operational units, specifically to protect their market shares.

2.3 Report on operations and results

This section looks at the Group's financial performance in 2021. The analysis of its non-financial performance is presented in Chapter 5 of this document (pages 118 to 192).

2.3.1 Key figures (adjusted)

(in € millions, except earnings and dividend per share in €)	2021	2020	Total change	Organic change
Order intake	19,909	16,824	+18%	+18%
Order book at end of period	34,744	30,512	+14%	+12%
Sales	16,192	15,371	+5.3%	+5.3%
EBIT ^(a)	1,649	1,248	+32.1%	+31.9%
As a % of sales	10.2%	8.1%	+2.1 pts	+2.0 pts
Adjusted net income, Group share ^(a)	1,361	937	+45%	
Adjusted net income, Group share, per share ^(a)	6.39	4.40	+45%	
Consolidated net income, Group share	1,089	483	+125%	
Free operating cash flow ^(a)	2,515	1,057	+1,459	
Net cash (debt) at end of period ^(a)	-795	-2,549	+1,754	
Dividend per share ^(b)	2.56	1.76	+0.80	

(a) Non-GAAP financial indicators. See definitions, section 2.3.2, page 31.

(b) Proposed at the Annual General Meeting on May 11, 2022.

In accordance with standard IFRS 5, the financial data for the operating segment "transport" for 2020 and 2021 have been classified under "discontinued operations" following the entry into exclusive negotiations with Hitachi Rail with a view to sell this business.

Order intake for the 2021 financial year totaled **€19,909 million**, up 18% from 2020 (**up 18%** also on an **"organic" basis**, i.e., at constant scope and exchange rates). The Group benefited from a particularly strong commercial momentum in Q4 2021, especially in the Avionics, Space and Digital Identity and Security (DIS) segments. At December 31, 2021, the consolidated **order book** stood at **€34.7 billion**, an all-time record.

Sales reached **€16,192 million**, up 5.3% from 2020 in total change as well as organic change, driven by the Defense & Security and Space businesses.

For 2021, the Group posted **EBIT⁽¹⁾ of €1,649 million** (10.2% of sales), compared to €1,248 million (8.1% of sales) in 2020, up +32% in total change as well as organic change.

At **€1,361 million**, the **adjusted net income, Group share** was up 45%. This change, greater than that of EBIT, was primarily due to the decrease in tax rate in France, changes to the tax regulations in Italy and the United Kingdom, and a greater contribution from the Transport segment compared to 2020 (classified as "discontinued operations" under IFRS 5).

(1) Non-GAAP financial indicators. See definition below.

The **consolidated net income, Group share**, stood at **€1,089 million**, up 125% from 2020. In addition to the increase in adjusted net income, this positive change was caused by the recognition in 2020 of an impairment loss on goodwill and intangible assets in the civil aeronautics business (In-Flight Entertainment) due to the health crisis.

Free operating cash flow⁽¹⁾ amounted to **€2,515 million** compared to €1,057 million in 2020. This includes a contribution of €2,360 million from continuing operations and €156 million from discontinued operations.

2.3.2 Financial Reporting

Accounting principles

Thales consolidated financial statements are prepared in accordance with the IFRS International Financial Reporting Standards as approved by the European Union at December 31, 2021.

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 aggregate, corresponds to income from operations, plus the share in the net income of equity affiliates, 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). In application of the IFRS 5 standard, it does not include the contribution to EBIT from discontinued operations.
- **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 recorded within profit from recurring operations or finance income that are directly related to these business combinations,
 - gains and losses on disposals of assets, changes in scope and other,
 - impairment losses on non-current assets,
 - variation in fair value of derivative foreign exchange instruments (recognized in “other financial income and expenses” in the consolidated financial statements),
 - actuarial gains (losses) on long-term benefits (recognized under “Finance costs on pensions and other long-term employee benefits” in the consolidated financial statements).

• ORGANIC CHANGE IN SALES BY QUARTER

(in € millions)	Sales 2020	Exchange rate effect	Impact of disposals	Sales 2021	Impact of acquisitions	Total change	Organic change
Q1	3,552	-49	0	3,573	0	+0.6%	+2.0%
Q2	3,482	-26	0	4,094	0	+17.6%	+18.5%
H1	7,034	-76	0	7,667	0	+9.0%	+10.2%
Q3	3,578	+26	0	3,555	0	-0.7%	-1.4%
Q4	4,758	+59	0	4,970	+1	+4.4%	+3.1%
Full year	15,371	+10	0	16,192	+1	+5.3%	+5.3%

Main scope effects:

Disposals: none.
Acquisitions: none.

The cash conversion ratio of adjusted net income, Group share to free operating cash flow was 185% (113% in 2020). This exceptional performance was due simultaneously to strong order intake, continued progress of teams on the measures implemented since 2020 under the “Cash” initiative, as well as the positive phasing effects of cash inflow.

In this context, the Board of Directors decided to propose the payment of a **dividend of €2.56** per share, corresponding to a payout ratio of 40% of the adjusted net income, Group share, per share.

In accordance with IFRS 5, this aggregate includes net income from discontinued operations, after deduction of the corresponding adjustment items.

- **free operating cash flow** corresponds to the net cash flow from operations before contributions to reduce the pension deficit in the United Kingdom, and after deducting net operating investments.

To facilitate comparison with adjusted net income, free cash flow from operations is obtained by summing free cash flow from continuing operations and free cash flow from discontinued operations.

Defining EBIT and adjusted net income involves defining other aggregates in the **adjusted income statement**: 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 employee benefits, adjusted income tax, adjusted net income, Group share, per share, calculated as described on pages 32 and 33.

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 January 1, 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 the Group. It is obtained by calculating the difference between the indicator for the previous year discounted at the exchange rates applicable for the current year for entities whose reporting currency is not the euro, less the contribution of entities divested during the current year, and the value of the indicator for the current year, less the contribution of entities acquired during the current year. The calculation of organic change in sales is detailed below.

(1) Non-GAAP financial indicators. See definition below.

Please note that only the consolidated financial statements as of December 31, 2021 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 (borrowings)", free operating cash flow from continuing operations, the definition and calculation of which are specified in note 6.3 "Changes in net cash", and free operating cash flow from discontinued operations, the calculation of which is set out in note 1.4 "Classification of the Transport business as discontinued operations".

Adjusted financial information other than that provided in these notes is subject to the verification procedures applicable to all information included in this press release.

The impact of these adjustment entries on the income statements at December 31, 2021, and at December 31, 2020, is detailed in the tables below. The calculation of free operating cash flow is detailed on page 34.

• **ADJUSTED INCOME STATEMENT, EBIT AND ADJUSTED NET INCOME – 2021**

(in € millions except earnings per share in €)		Adjustments						
	Consolidated income statement 2021	(1)	(2)	(3)	(4)	(5)	(6)	Adjusted income statement 2021
Sales	16,192	–	–	–	–	–	–	16,192
Cost of sales	(12,159)	372	–	–	–	–	–	(11,787)
Research and development expenses	(1,027)	–	–	–	–	–	–	(1,027)
Marketing and selling expenses	(1,226)	–	–	–	–	–	–	(1,226)
General and administrative expenses	(545)	–	–	–	–	–	–	(545)
Restructuring costs	(92)	1	–	–	–	–	–	(91)
Income from operations	1,144	373	–	–	–	–	–	1,517
Share in net income of equity affiliates	104	28	–	–	–	–	–	132
Income from operations incl. share in net income of equity affiliates	1,247							N/A
EBIT	N/A	402	–	–	–	–	–	1,649
Gains and losses on disposals of assets, changes in scope and other	49	–	(49)	–	–	–	–	–
Impairment of non-current assets	–	–	–	–	–	–	–	–
Net financial interest	(57)	–	–	–	–	–	–	(57)
Other financial income and expenses	(53)	–	–	32	–	–	–	(21)
Finance costs on pensions and other long-term employee benefits	(22)	–	–	–	(8)	–	–	(30)
Income tax	(148)	(102)	12	(8)	2	–	–	(244)
<i>Effective income tax rate^(a)</i>	<i>13.9%</i>							<i>17.3%</i>
Net income from continuing operations	1017	300	(37)	23	(6)	–	–	1,297
Net income from discontinued operations	118	–	(1)	(7)	–	19	(11)	117
Net income	1,134	300	(38)	16	(6)	19	(11)	1414
Non-controlling interests	(46)	(8)	–	–	–	–	–	(53)
NET INCOME, GROUP SHARE	1,089	293	(38)	16	(6)	19	(11)	1,361
Average number of shares (thousands)	212,852							212,852
NET EARNINGS, GROUP SHARE, PER SHARE (in €)	5.12							6.39

(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) Gains and losses on disposals of assets, 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.
- (5) Expenses directly associated with the Transport sale process.
- (6) Income directly associated with the Transport sale process (cessation of amortisation of fixed assets).

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

(in € millions except earnings per share in €)

	Consolidated income statement 2020	Adjustments				Adjusted income statement 2020
		(1)	(2)	(3)	(4)	
Sales	15,371	–	–	–	–	15,371
Cost of sales	(11,791)	436	–	–	–	(11,355)
Research and development expenses	(943)	–	–	–	–	(943)
Marketing and selling expenses	(1,211)	1	–	–	–	(1,210)
General and administrative expenses	(527)	–	–	–	–	(527)
Restructuring costs	(165)	5	–	–	–	(160)
Income from operations	734	442	–	–	–	1,176
Share in net income of equity affiliates	45	27	–	–	–	72
Income from operations, including net income of equity affiliates	779					N/A
EBIT	N/A	469	–	–	–	1,248
Gains and losses on disposals of assets, changes in scope and other	44	–	(44)	–	–	–
Impairment of non-current assets	(135)	–	135	–	–	–
Net financial interest	(55)	–	–	–	–	(55)
Other financial income and expenses	(77)	–	–	49	–	(29)
Finance costs on pensions and other long-term employee benefits	(42)	–	–	–	4	(37)
Income tax	(65)	(124)	(27)	(15)	(1)	(232)
<i>Effective income tax rate^(a)</i>	<i>13.7%</i>					<i>22.0%</i>
Net income from continuing operations	450	345	65	33	3	895
Net income from discontinued operations	42	14	2	(1)	–	57
Net income	492	359	66	32	3	953
Non-controlling interests	(9)	(8)	–	–	–	(16)
NET INCOME, GROUP SHARE	483	352	66	32	3	937
Average number of shares (thousands)	212,704					212,704
NET INCOME, 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) Gains and losses on disposals of assets, changes in scope and other.
- (3) Change in fair value of foreign exchange derivatives.
- (4) Actuarial gains and losses on long-term employee benefits.

• CALCULATION OF FREE OPERATING CASH FLOW

(in millions of euros)	2021	2020	Change
Operating cash flow before interest and tax	2,344	2,037	+307
+ Change in working capital and provisions for contingencies	776	(487)	+1,263
+ Payment of pension contributions, excluding contributions related to the reduction of the UK pension deficit	(112)	(154)	+43
+ Net financial interest received (paid)	(58)	(49)	(10)
+ Income tax paid	(145)	(97)	(48)
+ Net operating investments	(446)	(371)	(75)
Free operating cash flow, continuing operations	2,359	879	+1,480
+ free operating cash flow, discontinued operations	156	178	(22)
Free operating cash flow	2,515	1,057	+1,459
+ Net balance of disposals (acquisitions) of subsidiaries and affiliates	(53)	-	(53)
+ Contributions related to the reduction of the UK pension deficit	(99)	(95)	(4)
+ Dividends paid	(417)	(85)	(332)
+ New lease liabilities (IFRS 16)	(137)	(154)	+17
+ Exchange rates and other	(24)	49	(73)
+ Items related to discontinued operations	(32)	(10)	(22)
Change in net cash (debt)	1754	761	+993
Net cash (debt) at start of period	(2,549)	(3,311)	
Change in net cash (debt)	1754	761	
NET CASH (DEBT) AT END OF PERIOD	(795)	(2,549)	

2.3.3 Order intake

Order intake for the **2021** financial year totaled **€19,909 million, up 18%** compared to 2020 (in total change and at constant scope and exchange rates ⁽¹⁾). The ratio of order intake to sales ("book-to-bill") was

1.23 compared to 1.09 in 2020. It even reached as much as 1.28 when excluding the Digital Identity & Security business, for which the order intake is structurally very close to the sales.

(in € millions)	2021	2020	Total change	Organic change
Aerospace	5,631	3,822	+47%	+48%
Defense & Security	11,185	9,922	+13%	+12%
Digital Identity & Security	2,995	3,023	-1%	+1%
TOTAL – OPERATING SEGMENTS	19,810	16,767	+18%	+18%
Other	98	57	+72%	+75%
TOTAL	19,909	16,824	+18%	+18%
Of which mature markets ^(a)	15,527	13,605	+14%	+14%
Of which emerging markets ^(a)	4,381	3,219	+36%	+38%

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

Thales received **21 large orders with a unit value of over €100 million**, representing a total of **€6,491 million**:

- 4 large orders booked in Q1 2021:
 - 2 contracts related to supply the Rafale to Greece and France,
 - development of the new generation of the Franco-Italian medium-range anti-air defense system SAMP/T NG,
 - entry into effect of the contract for construction of the Satria telecommunications satellite, intended to decrease the digital divide in Indonesia;
- 3 large orders booked in Q1 2021:
 - 6 second-generation Galileo satellites,
 - 2 secure telecommunications satellites for the Italian Ministry of Defense (Sicral 3),
 - the modernization and support of 3 tactical control radars in Canada;

(1) Taking into account negligible currency and scope effects.

- 2 large orders booked in Q3 2021:
 - a new tranche for the ground segment and security center for Galileo,
 - a contract to support the French air defense system;
- 12 large orders booked in Q4 2021:
 - an additional contract with the European Space Agency (ESA) in conjunction with the development of the lunar module I-HAB,
 - 2 satellites for SES, of which one new-generation “Space Inspire” flexible satellite,
 - the construction of the telecommunications satellite HTS 113BT for the operator Telkom Indonesia,
 - 2 contracts related to supply of the Rafale to Egypt and France,
 - a contract under the Balzac program for the verticalizing maintenance of the Mirage 2000 fleet in France,
 - the support contract (VASSCO) for the French Aerospace Operations Command and Control System (SCCOA) for a period of 10 years,
 - a new tranche of the CONTACT program for new-generation tactical communications for the French Army,
 - a contract to supply radars for a European country,
 - a complementary segment in the design of a new generation of sensors and systems for a large marine,
 - a contract related to the modernization the British Army’s tanks (Challenger 3 program).

At **€13,418 million** order intake **at a unit value of less than €100 million** was up 13% from 2020, with a significant increase of 46% in orders with a unit value between €50 million and €100 million, particularly in the Defense segment.

Order intake in the **Aerospace** segment totaled **€5,631 million** compared to €3,822 million in 2020 (+48% at a constant scope and exchange rates). This performance was due to new commercial successes of Thales Alenia Space in the fields of earth observation, space exploration, and commercial telecommunications, particularly with the initial commercial success of the new generation of “Space Inspire” digital satellites through the leading global operator, SES. Furthermore, order intake in the Aeronautical segment (avionics and In-Flight Entertainment (IFE)) was up 18% from 2020. At December 31, 2021, the segment’s order book stood at **€7.9 billion**, up 20%.

At **€11,185 million** compared to €9,922 million in 2020, order intakes in the **Defense & Security** segment set a new record (+12% at constant scope and exchange rates). The book-to-bill ratio consequently exceeded 1.30, compared to 1.23 in 2020 and 1.20 in 2019. This increase was due to the booking of 13 contracts of more than €100 million, including two major contracts, the one for a value of nearly €1.5 billion, for the support over 10 years of the Aerospace Operations Command and Control System (SCCOA) in France, and the other linked to the supply of 30 Rafale jets to Egypt. The segment’s order book consequently reached a new record at **€26.1 billion**, or more than 3 years’ worth of sales, strengthening visibility for the years ahead.

At **€2,995 million**, order intakes in the **Digital ID & Security** segment were structurally very close to sales revenues as most of the activities in this segment operate on short cycles. The order book is therefore not significant.

• ORDER INTAKE BY DESTINATION – 2021

(in € millions)	2021	2020	Total change	Organic change	2021 weighting as a %
France	6,455	4,487	+44%	+44%	32%
United Kingdom	955	1,162	-18%	-20%	5%
Rest of Europe	5,300	5,257	+1%	+1%	27%
Subtotal Europe	12,711	10,905	+17%	+16%	64%
United States and Canada	2,230	1,930	+16%	+18%	11%
Australia and New Zealand	586	770	-24%	-27%	3%
Total mature markets	15,527	13,605	+14%	+14%	78%
Asia	1,829	1,497	+22%	+24%	9%
Near and Middle East	856	999	-14%	-13%	4%
Rest of the world	1,696	723	+135%	+137%	9%
Total emerging markets	4,381	3,219	+36%	+38%	22%
TOTAL ALL MARKETS	19,909	16,824	+18%	+18%	100%

Geographically, order intake in emerging markets amounted to €4,381 million, up 38% at constant scope and exchange rates, driven by commercial successes in the Defense and Aerospace segments.

At €15,527 million, order intake in mature markets remained high (+14% at constant scope and exchange rates), driven primarily by 13 large military contracts in 6 countries.

2.3.4 Sales

(in € millions)	2021	2020	Total change	Organic change
Aerospace	4,463	4,217	+5.8%	+6.1%
Defense & Security	8,633	8,085	+6.8%	+5.7%
Digital Identity & Security	2,995	2,992	+0.1%	+2.0%
Total – operating segments	16,091	15,294	+5.2%	+5.1%
Other	101	77	+30.6%	+33.8%
TOTAL	16,192	15,371	+5.3%	+5.3%
Of which mature markets ^(a)	12,150	11,298	+7.5%	+7.1%
Of which emerging markets ^(a)	4,042	4,073	-0.8%	+0.2%

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

Sales: for the 2021 financial year totaled **€16,192 million**, compared to €15,371 million in 2020, up 5.3% in total change and organic change (at constant scope and exchange rates⁽¹⁾), driven particularly by the Space and Defense & Security segments.

Sales in the **Aerospace** segment totaled **€4,463 million**, up 5.8% from 2020 (+6.1% at constant scope and exchange rates). This increase was driven by the momentum in the Aerospace segment, an increase of more than 15% from 2020. The segment remained impacted by a slightly negative growth in avionics businesses, the 2020 basis of comparison reflecting one quarter before the Covid-19 crisis. The aftermarket activities in the civil aeronautics segment experienced an initial recovery and were up by around +7% throughout the year 2021.

Sales in the **Defense & Security** segment totaled **€8,633 million**, up 6.8% from 2020 (+5.7% at constant scope and exchange rates). 8 out

of the segment's 14 product lines posted double digit growth, specifically when including activities in integrated systems for the protection of airspace, submarine systems, cyber-defense solutions, and networks and infrastructure systems. This return to growth confirms the solid momentum of the Group's solutions: at the end of December 2021, this segment had a record backlog of more than €26.1 billion.

At **€2,995 million**, sales for the **Digital ID & Security** segment were up 2.0% at constant scope and exchange rates. This increase continued to reflect the negative impact of the health crisis on passport demand since Q2 2020, despite a rebound from Q3, with organic growth of 5% in the second half of 2021. Furthermore, cybersecurity operations posted growth of more than 10%. Finally, sales of EMV payment cards and SIM cards also experienced positive organic growth of around 2.5%.

• SALES BY DESTINATION – 2021

(in € millions)	2021	2020	Total change	Organic change	2021 weighting as a %
France	4,545	4,168	+9.0%	+9.1%	28%
United Kingdom	940	968	-2.9%	-6.0%	6%
Rest of Europe	3,719	3,331	+11.6%	+11.4%	23%
Subtotal Europe	9,204	8,467	+8.7%	+8.2%	57%
United States and Canada	1,952	1,887	+3.4%	+5.2%	12%
Australia and New Zealand	994	944	+5.3%	+0.6%	6%
Total mature markets	12,150	11,298	+7.5%	+7.1%	75%
Asia	2,057	2,079	-1.1%	-0.1%	13%
Near and Middle East	1,084	1,039	+4.3%	+5.0%	7%
Rest of the world	901	954	-5.6%	-4.4%	5%
Total emerging markets	4,042	4,073	-0.8%	+0.2%	25%
TOTAL ALL MARKETS	16,192	15,371	+5.3%	+5.3%	100%

Geographically, this increase in sales is greater in mature markets (+7.1% organic), despite a constant negative impact from the civil aeronautical business for original equipment in France. The emerging markets remained stable at +0.2% organic growth.

(1) The calculation of the organic change in sales is shown on page 31.

2.3.5 Adjusted results

For 2021, the Group posted EBIT⁽¹⁾ of **€1,649 million**, or 10.2% of sales, compared to €1,248 million (8.1% of sales) in 2020.

EBIT (in € millions)	2021	2020	Total change	Organic change
Aerospace	202	-76	NS	NS
<i>As a % of sales</i>	4.5%	-1.8%	+6.3 pts	+6.2 pts
Defense & Security	1,111	1,039	+7.0%	+8.6%
<i>As a % of sales</i>	12.9%	12.9%	-	-
Digital Identity & Security	358	324	+10.3%	+6.2%
<i>As a % of sales</i>	11.9%	10.8%	+1.1 pts	+1.1 pts
Total – operating segments	1,671	1,287	+29.9%	+29.7%
<i>As a % of sales</i>	10.4%	8.4%	+2.0 pts	+1.9 pts
Other – excluding Naval Group	-91	-60		
Total – excluding Naval Group	1,580	1,227	+28.8%	+28.7%
<i>As a % of sales</i>	9.8%	8.0%	+1.8 pts	+1.8 pts
Naval Group (share at 35%)	69	22		
TOTAL	1,649	1,248	+32.1%	+31.9%
<i>As a % of sales</i>	10.2%	8.1%	+2.1 pts	+2.0 pts

The **Aerospace** segment will return a positive EBIT contribution at **€202 million (4.5%** of sales), compared to a negative EBIT of -€76 million (-1.8% of sales) in 2020. The recovery of the EBIT margin for this segment was due to the positive impact on gross margin of the sharp increase in sales and of the simultaneous significant decrease in costs linked to sudden operational disruptions in 2020, as well as restructuring expenses.

In the **Defense & Security** segment, the EBIT stood at **€1,111 million**, compared to €1,039 million in 2020 (**+8.6%** at constant scope and exchange rates). As in 2020, the margin in this segment was **12.9%**. This solid EBIT margin, which was at the top of the target medium-term range (12 to 13%), despite an increase in R&D expenses of around 50 basis points in 2021, confirmed the resilience of this segment, thanks to continued strong sales momentum, the positive impact of competitiveness initiatives, and the high quality of project execution.

At **€358 million (11.9%** of sales), EBIT in the **Digital ID & Security** segment continued to progress in line with the business plan (towards the target medium-term range of 12.5 to 13.5%). The segment benefited from the improvement in the commercial margin of all of its businesses, from cost synergies in line with expectations, and from the leverage effect on the significant increase in sales in cybersecurity over the year.

Excluding the Naval Group, **unallocated EBIT** amounted to **-€91 million** compared with -€60 million in 2020. The increase in this category reflects

the reallocation of certain costs following the classification of the Transport activity as a discontinued operation.

At **€69 million** in 2021 compared to €22 million in 2020 (characterized by the impact of the health crisis), **Naval Group's** contribution to the group's EBIT exceeded the 2019 contribution (€65 million).

Net financial interest remained stable at **-€57 million** compared to -€55 million in 2020. **Other financial income and expenses⁽¹⁾ (-€21 million** in 2021 compared to -€29 in 2020) benefited from a more favorable exchange rate result. The change in **adjusted financial expenses on pensions and other long-term employee benefits⁽¹⁾ (-€30 million** compared with -€37 million in 2020) was due to the lower discount rate in 2020.

As a result, **adjusted net income, Group share⁽¹⁾ was €1,361 million**, compared to €937 million in 2020, after an adjusted income tax charge⁽¹⁾ of -€244 million compared to -€232 million in 2020. At 17.3% in 2021 compared to 22.0% in 2020, the effective tax rate benefited from the decrease in the tax rate in France and from changes to the tax regulations in Italy and the United Kingdom, which generated an exceptional tax income of €46 million. Corrected for these factors, the effective tax rate was 20.6%.

Adjusted net income, Group share⁽¹⁾ came to €6.39, up **45%** from 2020 (€4.40).

(1) Non-GAAP financial indicator. See definition on page 31, and calculation on pages 32 and 33.

2.3.6 Consolidated results

Income from operations

Income from operations amounted to **€1,144 million**, compared to €734 million in 2020, up 55.7%. This increase can be explained by a rise in sales, improvement in gross margin by 1.6 points, and a rise in indirect costs slightly below the rise in sales. Restructuring costs are also down, from €165 million to €92 million.

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

Income from operating activities after share in net income of equity affiliates, came to **€1,296 million**, compared to **€688 million** in 2020, up 88%. It includes a share in the net income of equity affiliates of €104 million, up 130%, including a contribution from Naval Group up 219% compared to 2020.

Net income, Group share

The **consolidated net income, Group share**, stood at **€1,089 million**, up **125%** from 2020. In addition to the increase in adjusted net income, this positive change was caused by the recognition in 2020 of an impairment loss on goodwill and intangible assets in the civil aeronautics business (In-Flight Entertainment) due to the health crisis.

2.3.7 Financial position at December 31, 2021

Free operating cash flow ⁽¹⁾ amounted to **€2,515 million** compared to €1,057 million in 2020. The cash conversion ratio of adjusted net income, Group share to free operating cash flow was **185%** (113% in 2020). This exceptional performance was due simultaneously to strong order intake, continued progress of teams on the measures implemented since 2020 under the "Cash" initiative, as well as the positive phasing effects of cash inflow.

At December 31, 2021, **net debt** amounted to **€795 million** compared to €2,549 million at December 31, 2020, after taking into account new lease liabilities totaling €137 million (€154 million in 2020) and after the payment of €417 million in dividends (€85 million in 2020).

Shareholders' equity, Groupshare totaled **€6,480 million**, compared to €5,142 million at December 31, 2020, with the gain on net pension obligations from continuing operations (+€626 million) being combined with the consolidated net income, Group share (€1,089 million).

2.3.8 Proposed dividend and share buyback program

The Board of Directors decided to propose to the shareholders, who will convene at the Annual General Meeting on May 11, 2022, payment of a **dividend of €2.56** per share. This level corresponds to a payout ratio of 40% of the adjusted net income, Group share, per share.

If approved, the ex-dividend date will be May 17, 2022, and the payment date will be May 19, 2022. This dividend will be paid fully in cash and will amount to €1.96 per share, after deducting the interim dividend of €0.60 per share paid in December 2021.

Considering the outlook for growth and generation of cash, as well as the Group's rapid debt reduction, the Board of Directors furthermore decided

to implement a **share buyback program** concerning a **maximum of 3.5% of capital** (approximately 7.5 million shares) ⁽²⁾. This program has started on April 4, 2022 and end no later than March 31, 2024. The shares acquired under this program will be canceled. To this end, Thales will sign a share purchase contract with an investment services provider. The Group may at any time suspend or interrupt the implementation of this program, in particular due to market circumstances.

In this context, Dassault Aviation has informed Thales of its intents to stay below the threshold of 30% of voting rights, and that in consequence, it will carry out the necessary conversions from registered to bearer shares.

2.3.9 Outlook

Although the improvement in the public health situation is supporting the gradual recovery of air transport, the global environment at the beginning of 2022 remains highly uncertain in the short term, particularly with regards to supply chain tensions and the level of inflationary pressures on goods.

Moreover, the geopolitical situation has deteriorated significantly following Russia's invasion of Ukraine. The impact of this crisis on 2022 sales to these two countries is estimated at around €100 million. The

other possible impacts, in particular on Thales Alenia Space's supply chain, are currently being assessed.

In this context, Thales will continue to implement all the levers of its Ambition 10 strategic plan, designed to support profitable and sustainable growth.

The Group will also benefit from the visibility provided by its order book of over €34.7 billion, from positive trends in most of its markets, and from the acceleration of its growth initiatives.

(1) Non-GAAP financial indicator. See definition, page 31.

(2) This program is implemented on the basis of the authorization granted by the Annual General Meeting of May 6, 2021. It will continue on the basis of the resolution submitted to the Annual General Meeting of May 11, 2022, subject to its adoption. An outline of the share buyback program features in chapter 6, section 6.2.3.4.3.

Assuming there are no new major disruptions in the global economy, public health and global supply chains, and based on current assessments of the effects of the Ukrainian crisis, particularly the economic sanctions taken against Russia, Thales has set the following targets ⁽¹⁾ for 2022:

- as in 2020 and 2021, a book-to-bill ratio above⁽²⁾;
- sales in the range of €16.6 billion to €17.2 billion ⁽³⁾, corresponding to organic growth between +2% and +6% compared to 2021;

- an EBIT margin between 10.8% and 11.1%, up 60 to 90 basis points from 2021.

Finally, the high level of cash generation in 2021 and the outlook for 2022 and 2023 has led the Group to increase its cash flow generation target for 2019/2023: the cash conversion ratio ⁽⁴⁾ should reach around 115% on a reported basis ⁽⁵⁾. This target corresponds to free operating cash flow generation of around €5.5 billion for the 3-year period 2021/2023.

2.4 Investments

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

In accordance with standard IFRS5, the financial data for the operating segment "Transport" for 2020 and 2021 have been classified under "discontinued operations" following the entry into exclusive negotiations with Hitachi Rail with a view to sell this business. The details below for 2020 and 2021 therefore only concern activities carried out.

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, on page 28.

The vast majority of R&D investment is recorded directly as expenses in the Group's income statement. As described in Note 4.2 of the consolidated financial statements, the Group capitalized €13.8 million in development costs in 2021. As at December 31, 2021, the net value of capitalized development costs as fixed assets totaled only €35.3 million.

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

In recent financial years, to support its strategic Ambition 10 plan, the Group has decided to step up its self-funded R&D expenditure. In 2020, under the global Covid-19 crisis adaptation plan the Group reduced its self-financed R&D expenditure, while keeping it stable as a percentage of sales. In 2021, this expenditure rose faster than sales. It reached 6.3% of sales, up 20 basis points compared to 2020.

(in € millions)	2019	2020	2021
Sales	18,401	15,371	16,192
R&D expenses shown on the IFRS income statement	1,099	943	1,027
Expenses excluded from the adjusted income statement	-1	-	-
R&D expenses shown on the adjusted income statement	1097	943	1,027
<i>As a % of sales</i>	6.0%	6.1%	6.3%

The priority areas for investment remain systematic integration in new products of cross-disciplinary digital technologies (cyber security, Artificial Intelligence and big data analytics, connectivity, the Internet of Things, digital identity and biometrics). New areas for investment

include edge computing and far edge computing, sensors and quantum communications, and new cloud securitization solutions.

Over the next few years, the Group plans to maintain a high level of self-financed R&D expenditure, the weight of which could represent, in the medium term, over 6.5% of sales.

(1) These objectives have been established in accordance with the principles adopted by the Group for the preparation of its historical consolidated financial statements. Although Thales believes that these forecasts are based on reasonable assumptions, actual results may differ materially due to a number of risks and uncertainties, as described in particular in Chapter 3 – "Risk Factors".

(2) These objectives have been established in accordance with the principles adopted by the Group for the preparation of its historical consolidated financial statements. Although Thales believes that its expectations are based on reasonable assumptions, actual results may differ significantly from its expectations due to various risks and uncertainties, as specifically described in the Chapter 3 "Risk Factors"

(3) Based on the scope of consolidation and exchange rates of February 2022.

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

(5) Previous target, set in March 2021: cash conversion ratio of around 95% on a reported basis over the 2019/2023 period.

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)	2019	2020	2021
Sales	18,401	15,371	16,192
Payments for acquisitions of intangible assets and property plant and equipment	503	379	451
Proceeds from disposal of intangible assets and property plant and equipment	-7	-9	-5
Net operating investments	496	371	446
<i>As a % of sales</i>	<i>2.7%</i>	<i>2.4%</i>	<i>2.8%</i>

In 2020, given the impact of the public health crisis, the Group reduced its operating investments by 25% at constant scope. This reduction was achieved across all major categories of investment: technical and

production investments, real estate investments, and investments in information systems. In 2021, the increase in investments concerned in particular, technical and production investments.

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)	2019	2020	2021	Total 2019/2021
Net Investments in subsidiaries and affiliates	4,980	22	55	5,057
Net disposals of subsidiaries and affiliates net	- 364	- 22	-2	-388
Net balance of acquisitions and disposals	4,616	-	53	4,669

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 finalized on 2 April 2019. In October 2019, the Group was able to purchase all shares still outstanding on that date, thereby bringing Thales' percentage of Gemalto shares to 100%.

Meanwhile, in order 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 finalized in early June 2019 for €362 million, led to the recognition of a gain from the disposal of €223 million.

In January 2019, Thales finalized the €100 million acquisition of Ercom, a company specializing 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.

Acquisitions in 2021

The main acquisition completed by Thales in 2021 concerned the MOOG navigation aids business.

The Group continues to actively seek targeted, bolt-on type acquisitions, in particular to complement its geographic presence and its technologies portfolio, with a view to strengthening its positioning in its three major areas of business: aerospace, defense & security and digital identity and security.

In H1 2022, the Group plans to complete the acquisition of RUAG simulation and training business. In 2021, RUAG simulation and training achieved sales of around €90 million, and has a work force of 500. Thanks to this acquisition, Thales will become the European leader on this market. This acquisition will be consolidated within the "aerospace" operational segment.

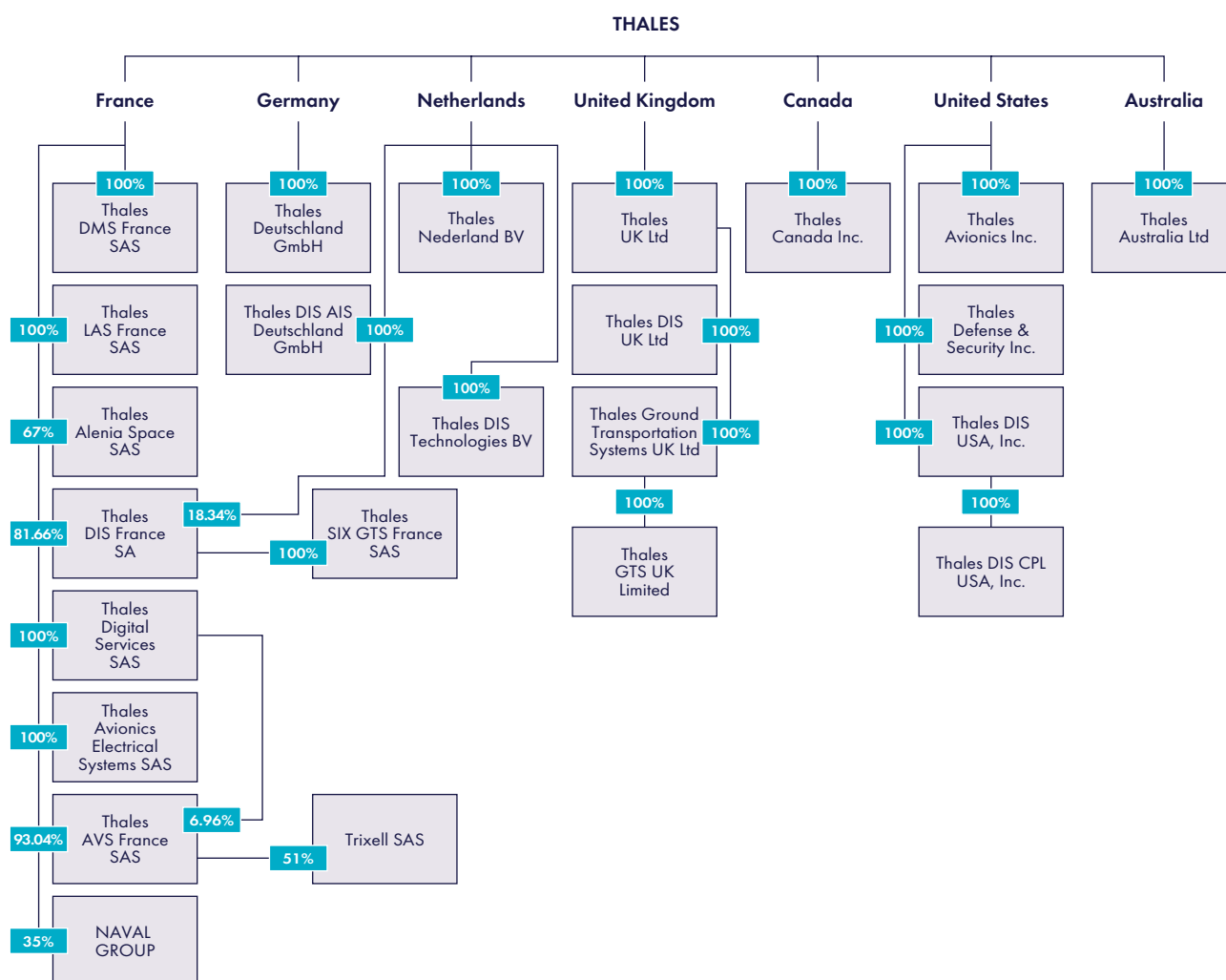
2.5 Organization of the group

2.5.1 Relations between Thales and its subsidiaries

2.5.1.1 Simplified organizational chart at December 31, 2021

This simplified organizational chart shows, in the main countries where the Group is present, companies consolidated by global integration with sales representing over 0.5% of consolidated sales.

Affiliates are not shown in this simplified organizational chart (except for Naval Group).



2.5.1.2 Role of the Thales parent company within the Group

For Group companies, the Thales parent company handles the functions of a holding company:

- holding stocks in the Group's main subsidiaries;
- managing central functions: development of the Group strategy, commercial policy, legal and financial policy, operations control, human resources policy, communication;
- providing specialist assistance to the subsidiaries: contribution of expertise in legal, tax and financial matters, for which subsidiaries pay a fee;
- financing, cash flow and setting up guarantees, where applicable.

In addition to these functions, the Thales parent company carries on its own research business, described on pages 28 et seq.

A list of main consolidated companies is shown below.

2.5.1.3 Financial flows between the Thales parent company and its subsidiaries

The Thales parent company receives the dividends paid by its subsidiaries, as approved by their respective annual general meetings of shareholders, and subject to the statutory and regulatory provisions applicable to them locally.

Apart from dividend payouts and collection of a fee for completion of shared services, the main flows between the Thales parent company and its subsidiaries concern cash pooling.

The subsidiaries' surplus cash is, as a general rule, placed with the parent company as part of cash pooling. In return, the Thales parent company meets the cash flow requirements of the subsidiaries. It acts, on its own behalf and on behalf of the subsidiaries, on the financial markets in order to carry out the investments and borrowing necessary in the context of its cash pooling. Except in special cases, this system applies to all subsidiaries in which Thales has majority control.

2.5.2 Data about the main operational subsidiaries and main industrial sites

2.5.2.1 List of main consolidated companies

A list of main consolidated companies features in Note 15, page 288 of the Group's consolidated financial statements.

2.5.2.2 Main industrial sites

At the end of 2021, seventeen sites employed over 1,000 people:

As at Friday, December 31, 2021	Work force	Property	Surface area in m ²
France			
Bordeaux	2,109	Owned/leased	60,000
Brest	1,510	Leased	56,000
Cannes	1,864	Owned/leased	84,000
Cholet	1,674	Leased	53,000
Gennevilliers	3,500	Leased	90,000
Elancourt	3,498	Leased	104,000
Rungis	1,031	Leased	23,000
Sophia	940	Owned	40,000
Toulouse	4,176	Owned/leased	142,000
Vélizy	4,275	Leased	125,000
United Kingdom			
Crawley	1,968	Leased	26,130
Netherlands			
Hengelo	1,714	Owned	87,000
Australia			
Sydney	1,243	Leased	84,327
Germany			
Stuttgart	1,575	Leased	59,000
Canada			
Toronto	1,071	Leased	20,500
Singapore			
Singapore	1,806	Owned/leased	39,000
Italy			
Rome	1,061	Leased	43,500

3

Risk factors, internal control and risk management

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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 3 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 (3° and 4°) and II and L. 22-10-35 of the French Commercial Code and Regulation (EU) 2017/1129 of June 14, 2017 revising the Prospectus Directive 2003/71 (EC) of November 4, 2003 (the Prospectus Regulation). It has also been prepared in consideration of the Guidelines on risk factors issued under the said Prospectus Regulation issued by the ESMA on October 1, 2019 (ESMA 31-62-1293 FR), with which the AMF has declared to comply as from December 4, 2019 and which it has commented on in the guide for the preparation of Prospectuses of June 17, 2020 (DOC AMF 2020-06) and in the guide for the preparation of universal registration documents of January 5, 2022 (DOC AMF 2021-02)). It was approved by the Board of Directors at its meeting on March 2, 2022. 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 activities, 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 the end of 2021 after the deployment of risk control resources and actions, to be ranked by criticality:

- significant;
- moderate;
- 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 intellectual property • Liquidity, exchange rates, and customer credit • Investment management • Pension commitments 	<ul style="list-style-type: none"> • Dependence on suppliers • Cybersecurity • Compliance • Environment and climate 	<ul style="list-style-type: none"> • Economic, geopolitical and social environment • Competitive positioning of products and services • Contract execution • Attracting, developing, and retaining talent

Furthermore, for each of the risk types described above (operational and strategic risk, legal and regulatory risk, financial risk), the residual risk estimated by the Group to be the most critical at the end of 2021, 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 centralized, covers the same scope.

These risk management and internal control processes contribute to the achievement of the Group's objectives without providing an absolute guarantee, in particular because of the limitations inherent in the uncertainties external to the Group or in the assessment of the cost/benefit ratio of actions leading to the acceptance of a certain level of risk.

This section sets out what Thales considered to be the main risks at end of 2021. 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 2021. 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 2021.

The "Gemalto integration" risk which was included in the 2020 Universal Registration Document has been removed, as the Group considers that the integration phase of Gemalto which was acquired in 2019 has been successfully completed in 2021.

3.1 Operational and strategic risks

3.1.1 Risks related to the economic, geopolitical, and social environment

Residual criticality: significant

Risk identification

A significant portion of Thales' business is with government customers, particularly in the defense 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 or payments, or mean a cut in funding for research and development programs.

A significant proportion of Thales's sales is subject to the risk of political instability in the countries in which the Group operates. The materialization of these risks may affect the Group's business and profitability.

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 in particular: a significant drop in demand in certain countries or market segments, a change in regulatory standards and requirements to be met, hardening of export control rules, ban on trading, ban on delivery, more restrictive currency control, impairment of assets, expropriation or the forced assignment of Thales's interest in a company, a security situation which prevents the Group 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.

In addition, the increasing consideration of Environmental, Social and Governance criteria in investment decisions could restrict the base of financing available to the Group, potentially reducing demand for financial instruments issued by the Group and/or limiting access to the most favorable terms for external financing.

Risk monitoring and management

Thales has based its strategy on a balanced portfolio of defense (53%) and civil (47%) operations.

The overall solidity of the portfolio is also underpinned by a large diversified order base with a unit value of less than €100 million.

The broad geographic spread of the Group's business, particularly through its international operations, ensures further diversification of its customer base.

Thales manufactures and sells products in a very large number of countries and is able to adapt to varied or changing regulatory environments.

Thales has set up teams that specialize in the financial engineering of contracts to identify and analyze the risks and to determine how they can be reduced. Thales can use public or private insurers in this context to cover the risk of contract interruption, or credit risk, or abusive bond calls. It can also make use of financial instruments such as notified or confirmed letters of credit, discounting receivables without recourse or export credit facilities.

In line with its corporate purpose, Thales has placed CSR issues at the center of its strategy. The Group places particular emphasis on the contribution of its solutions to a safer, more environmentally friendly and more inclusive world. In addition, the Group has set itself ambitious CSR commitments. These initiatives are discussed in detail in chapter 5 of this document. To meet investors' expectations on these issues, the Group has organized a dedicated event for them in October 2021.

In coordination with its peers, the Group has also taken a number of actions with various institutional players to remind them that defense activities are essential to geopolitical stability, which is a prerequisite for creating a sustainable world.

The Group's size and global presence give it access to a highly diversified financing base.

Risk identification

Covid-19 pandemic

The global health crisis stemming from the successive waves of spreading of the Covid-19 virus should continue to affect many areas of the global economy in 2022, despite the launch of vaccination campaigns.

- The Group has been and continues to be affected in its activities directly or indirectly related to the civil air transport market: avionics, electrical systems, in-flight entertainment, air traffic control and passport production.

The consequences for demand and investment in this sector will be measured in terms of impact and duration, depending on the evolution of the pandemic on the one hand and the support and recovery plans put in place in various countries on the other.

- More generally, variations in regional or global economic activity, or restrictions on travel and transportation, may affect the Group's order intake and sales, as well as the lead times and margins on its contracts.

Risk monitoring and management

Covid-19 pandemic

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

To minimize the spread of the virus, the Group is applying the directives of the governments in the different countries in which it operates. Work organization is adapted in accordance with health authority recommendations, in particular by implementing work-from-home measures and deploying the associated digital tools.

The Group is constantly monitoring developments of the situation and whenever possible and ensures ng the continuity of its operations and those of its customers and partners, in strict compliance with health regulations. 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 (e.g. Force Majeure clause) of its contracts and agreements to protect its interests, while taking care to perform its obligations in the best interests of all stakeholders.

In the sectors that have been the most affected by a drop in activity, the Group has implemented internal reorganizations and measures to encourage mobility and workload transfers, notably through the social measures in force within the Group.

3.1.2 Risks related to the competitive positioning of products and services

Residual criticality: significant

Risk identification

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, target cost), poorly adapted design or business model, and inaccurate estimates of development costs and of time-to-market may lead to lower than expected sales or profitability, or to inventory write-downs 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.

Digitalization, 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 inflight broadband on passenger aircraft, Thales entered into a strategic agreement with SES from 2016 to 2028 for an annual program 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 (eSIM) that will replace or supplement the Group's offering may not boost growth at the level or pace expected.

Risk monitoring and management

The Global Business Units and Business Lines which are responsible for the product policy and R&D within their scope are organized 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 organizational 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 equipment 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 optimized.

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 capitalizing on its R&D investments, and its acquisitions. In particular, the Group is committed to systematically seeking and exploiting synergies between its traditional activities and those of the DIS Global Business Unit (formerly Gemalto);
- a constantly enriched service offering, thanks in particular to the use of secure digital platforms;
- the Digital Factory, integrated into the Engineering function to facilitate permeability between these disciplines, which also accelerates the digital transformation with its teams based in Paris, Montreal and Singapore;
- partnerships with customers to support their digital transformation.

Finally, the Group regularly analyzes the strategic positioning of its business portfolio as part of the preparation of its strategic plans. These analyses may lead to the acquisition or disposal of businesses.

3.1.3 Risks related to contract execution

Residual criticality: significant

Risk identification

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 (project management of major systems, consortia, joint ventures, public/private partnerships, etc.) may also add constraints and complexity.

While these contracts are generally entered into on the basis of a fixed lumpsum 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 addition, in the event of failure to achieve the required performance or meet the scheduled timetable, customers can 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.

Risk monitoring and management

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 according to a common format for the entire Group measure the technical, contractual, and financial progress of each contract; particular attention is paid to changes in costs on completion, risk management, and the implementation of corrective action plans.

Risk identification

Risk monitoring and management

3.1.3 a) Offsets

Winning major contracts, in particular those in the defense 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), semidirect (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 implemented an offset policy (particularly in India) has led to a significant increase in its offset commitments.

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 organizations to:

- coordinate the direct offsets policies between exporting units and destination countries or regions;
- managing certain semi-direct offset programs; in some countries, the business of the Group's local subsidiary is eligible, under certain conditions, for offset credits.
- to ensure through delegated units that indirect offset commitments are implemented, a task entrusted to a permanent management structure known as (Thales International offsets).

3.1.3 b) Customer satisfaction

Major dissatisfaction, for whatever reason (delivery delays, inadequate quality or performance, poor understanding of the issues involved, lack of proximity, etc.) 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.

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

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 organization 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;

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

Residual criticality: significant

Risk identification

The Group's performance in the short and medium term is highly dependent on its ability:

- to recruit in a timely manner the talent and skills required to conduct and develop its activities specifically in R&D and in the engineering, software and digital sectors;
- to retain them by meeting market expectations, supporting their professional development and enhancing their investment.

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

Risk monitoring and management

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. This is described in section 5.4.1.

In this context, in 2021 Thales:

- strengthened its communication around its corporate purpose and values in order to attract the best talent;
- maintained its commitment to diversity and inclusion through numerous initiatives in the countries where the Group operates;
- measured the commitment and well-being of its employees through a vast survey organized for the first time at Group level;
- deployed its leadership model more broadly as part of the Group's performance program: "Leadership@Thales", as well as the "Smart working" approach, which makes collaborative work more effective and provides better service to the Group's customers.

3.1.5 Risk of dependence on suppliers

Residual importance: moderate

Risk identification

Purchasing spend represents a substantial portion of Thales's business, equaling almost half of its sales, whether in the areas of manufacturing, services, equipment, or subsystems 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 or additional costs: the concentration or imbalance between supply and demand in certain markets (e.g. electronic components, energy, certain raw materials) may create supply tensions for Thales and its subcontractors, likely to affect the Group's performance, which would then be unable to obtain supplies at the expected cost or within the expected time period;
- 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.

Risk monitoring and management

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 buildup 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 process of risk assessment, qualification, and operational performance management of its suppliers; supplier evaluation audits 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.

Faced with the supply tensions in the areas of electronic components and raw materials that emerged in 2021, Thales has adapted its internal organization to:

- give its suppliers insight into future order volumes;
- anticipate purchasing negotiations to secure deliveries and prices for the year 2022;
- diversify its sources of supply.

To address the risk of inflation in purchasing costs, some of the Group's long-term contracts include price revision clauses indexed to various indices.

3.1.6 “Cyber” risks

Residual criticality: moderate

Risk identification

3.1.6 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. Their protection against malfunctions, malicious acts, or human errors is therefore fundamental. The malfunction or failure of these systems may have external causes (viruses or other malware or ransomware, 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 significant increase in the remote working capabilities of employees (network access, videoconferencing tools);
- has triggered a significant increase in the number of cyberattacks.

Risk monitoring and management

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 organization 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 risk analyses, this plan includes the adaptation of the protection measures already in place and introduces new measures to heighten protection against “cyber-sabotage”, “cyber crime”, or “cyber espionage” attacks in order to identify and correct any non-compliance. This includes monitoring system vulnerabilities and simulating intrusions.

The plan also includes the implementation of threat monitoring and supervision resources, known as “Cyber-security Operation Centers”, coordinated at the 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 Information System’s Security Department.

The plan is completed by an element aimed at raising employee awareness of these threats: communication and training initiatives are rolled out to help users maintain the security of their IT systems and to remind them of best practices when using them. On-site and online discussion forums are regularly organized with all employees.

In 2021, a total of 6 information system security audits were performed, 4 of these jointly by the Audit, Risks & Internal Control Department and the Information Systems Security Department. Additionally, 6 information systems security technical tests (or “intrusion tests”) were conducted on key group infrastructures.

Risk identification**Risk monitoring and management****3.1.6 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.

The Group also designs, develops, and supplies systems or products with in-built cyber protection capabilities. It also provides cyber-protection services (e.g., monitoring for cyber attacks on customers' systems, 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.

Cyber protection products are generally subject to qualification under the auspices of third-party organizations, 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 "Cyber-secured in Thales" project 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. Finally, Thales is committed to adapting the cybersecurity of its products and services to new threats, in conjunction with the French Ministry of the Armed Forces and through the signature of "cybersecurity agreements" with major industrial prime contractors.

3.1.7 Environmental risks (environment and climate)**Residual criticality: moderate****Risk identification****Risk monitoring and management****3.1.7 a) Environmental impacts related to the Group's business activities (NFPS)**

The industrial footprint of Thales sites and activities, which remains small, exposes the Group in a limited way to sanctions or damage to its image, particularly if certain activities do not comply with the increasing laws and regulations in this area.

The Group's activities may affect the environment through the emissions they generate. In addition, the use of the products and solutions provided by the Group, throughout their life cycle, contributes to the production of greenhouse gases that have an impact on global warming and the circular economy.

The Group's low-carbon strategy reflects Thales's commitment to combating climate change. Despite the actions already undertaken, as indicated opposite, the Group may not be able to fully achieve some of its stated objectives by the planned deadline.

Risks induced by climate change (natural disasters, supply chain disruptions, economic instability, etc.) could have adverse effects on the Group's performance and the resilience of its business model.

The Group constantly analyzes the environmental impact of its activities, considering regulatory, social, and technical developments and the sensitivity of the environments concerned. It also strives to optimize its locations wherever possible.

The Group has introduced an organization, processes, and tools to control and limit the environmental impacts of the activities of its industrial sites (see section 5.5.2.1).

For several years, the Group has implemented a process to assess and reduce its sites' exposure to natural disasters (see section 5.5.1.3.3) in order to reduce its vulnerability to the physical effects of climate change.

The Group has made quantified and measurable commitments to reduce its impact on the environment. In particular, it is pursuing a strategy to reduce its carbon footprint, with targets for 2023 and 2030 aligned with the Paris Agreement and taking into account the Science Based Target methodology. These objectives were revised in 2021 to accelerate the pace of progress, with the aim of achieving a "Net Zero" level of operational emissions by 2040 (see section 5.5.2.2.1). This low-carbon strategy is supported by detailed action plans in four areas: mobility, operations, purchasing and products.

At the end of 2021, Thales decided to strengthen its governance and organization on Corporate Social Responsibility (CSR) issues and to create an integrated CSR Department headed by a Chief Sustainability Officer reporting to the Group's Corporate Secretary.

Achievement of the Group's stated objectives is measured on a regular basis and is consolidated and published annually (see section 5.5.2.2).

Risk identification

3.1.7 b) Impacts related to changes to regulations (NFPS)

The increasing complexity and rapid evolution of environmental regulations, changes in social expectations, or voluntary sector commitments could, particularly for products and solutions with long development cycles (e.g., aeronautics), disqualify technical solutions developed by the Group or by its subcontractors.

This could result in:

- the need to qualify and implement alternative solutions;
- to make supply chains evolve;
- to upgrade certain industrial facilities;
- significant costs and delays related to these changes.

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

Risk monitoring and management

The Group's analyses of environmental risks are regularly updated on the basis of an active international regulatory monitoring process that considers new issues, the expectations of our customers and voluntary sector commitments. Specific attention is paid to regulatory developments relating to chemical products and substances (e.g. REACH in Europe), the circular economy, and climate change. In 2021, particular attention has been paid to developments in the UK REACH and US REACH like regulations, and to new substances entering the REACH Annex XIV candidate list.

More generally, substances at risk of being banned or restricted for use are identified in order to implement alternative solutions in anticipation of regulatory deadlines (see section 5.5.2.3.3). This approach is fully integrated into the design of new products.

The regulatory differences are factored into the design of the Group's products and solutions.

3.1.8 Risks related to investments

Residual criticality: low

Risk identification

Thales carries out some of its business through companies in which control is shared with, or exercised by, other partners. In 2021, the share in net income of equity-accounted companies accounted for around 8% of the Group EBIT.

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

In absence of exclusive control, 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.

Risk monitoring and management

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 identification

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 licenses 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 licenses 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.

Risk monitoring and management

The Group has a process in place to ensure that 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, specific IT tools;
- employee awareness programs, including, in particular, 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 authorizations and compliance of their implementation with regard to export trade activities. Thales constantly monitors regulatory changes and restrictions applicable to the Group's activities. Thales also has a dynamic solution that enables it to analyze manually or automatically the status of stakeholders involved in the Group's transactions with regard to the lists of sanctions published by the competent authorities.

Risk identification

Risk monitoring and management

3.2.1 b) Compliance with rules of ethical business conduct (particularly anticorruption 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 program, which has been in place for many years, is continually strengthened to adapt to the risks identified by the Group on the basis of a specific mapping of corruption and influence peddling risks, as required by the French "Sapin II" legislation. This program is drawn up by the Ethics & Corporate Responsibility Department DEIRE and implemented by the "Chief Compliance Officers/ Compliance Officers" network, under the supervision of the Integrity and Compliance Committee (see section 3.4.2).

In March 2021, Thales received ISO 37001 certification: 2016 "Anti-Corruption Management System" 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). In 2022, the Group plans to extend the scope of this certification to two major countries in its international organization: the United Kingdom and the Netherlands. In addition, external and internal audits are performed regularly to ensure strict compliance with Group rules and provisions on the prevention of corruption and influence peddling.

In 2021, a dedicated anti-corruption internal control manual has been drawn up and tested within pilot entities in preparation for its general deployment; an anti-corruption internal control questionnaire specifically intended for the Group's 200 or so very small entities (small subsidiaries, representative offices, permanent establishments) has also been established.

The Group's anticorruption and influence peddling policy is described in section 5.6.1.

3.2.1 c) Compliance with competition rules

The Group's business activities are subject to numerous national and international regulations aimed in particular at combating anti-competitive practices, whether concerning suppliers, customers, partners, or the competitors themselves.

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

In order to prevent these risks, the Group regularly reinforces its compliance program, which is based in particular on a team of experts dedicated to the competitive analysis of sensitive agreements and projects, an awareness-raising policy based on guides, directives or procedures, as well as training relevant to the activities and employees most at risk (as resulting from the risk mapping).

In addition, the Group makes all required notifications to the relevant regulatory authorities in Europe and abroad.

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

Thales is exposed to the risk of noncompliance with the regulations concerning the protection of personal data and, more specifically, the European General Data Protection Regulation (GDPR) which came into force on May 25, 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 deployed a compliance program, under the coordination of a Group Data Protection Officer (DPO) supported by a network of correspondents in the various functions and entities, the basis of which is a Group personal data protection policy applicable both when Thales is the data controller and when it is a subcontractor.

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 identification

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

Risk monitoring and management

To monitor and manage intellectual property risks Thales relies on a governance structure comprising a network of *Intellectual Property Managers* (IPM) and IP legal officers who implement the policy decided at Group level and more particularly by the Technical Department.

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 inhouse 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 of the Group, Thales 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 identification

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.

Risk monitoring and management

The Group manages this risk by endeavoring to anticipate its cash needs and ensures that these are hedged 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, detailed with a breakdown by maturity in Note 6.2 to the consolidated financial statements;
- a confirmed bank credit line maturing in December 2026, not used as of December 31, 2021, the details of which are set out in Note 6.6 to the consolidated financial statements, and a commercial paper program (NeuCP).

Risk identification

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 financial statements 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 sales. 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 inflight entertainment and connectivity business, which is 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 defense are particularly likely to be exposed to this "indirect" dollar risk.

Risk monitoring and management

A significant portion of Thales's activity is naturally protected from foreign exchange rate fluctuations since more than 40% of its sales 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 (forwards 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 a in the consolidated financial statements as of December 31, 2021.

Risk identification**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 sales come from government customers. Among the countries with which Thales works, 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 sales come from non-government customers (private operators of critical infrastructure, aircraft manufacturers etc.). These customers may encounter major and/or prolonged financial difficulties that could lead to payment defaults.

Risk monitoring and management

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 as of December 31, 2021.

With regard to its non-governmental customers, Thales regularly reviews their ability to meet their obligations. If necessary, Thales may request bank guarantees or support from their parent company or use credit insurers.

Additional information can be found in Note 6.6 b in the consolidated financial statements as of December 31, 2021.

3.3.2 Pension commitments**Residual criticality: low****Risk identification**

Defined benefit pension plans are in place for certain Group employees, mainly in the United Kingdom, which are financed by the Group, under the provisions of the applicable national legislation. As such, as of December 31, 2021, Thales's pension commitments in the United Kingdom amounted to €4,465 million covered by €3,660 million in investments representing an underlying funding shortfall of €805 million.

Changing market parameters can lead to a substantial change, either up or down, in the amount of the shortfall, as well as the annual costs of defined benefit plans. The main sensitivity factors are as follows:

- the level of the discount rate for liabilities, as a decrease in this rate leads to an increase the underlying shortfall;
- changes in the total return on investments;
- changes in the forecast inflation rate;
- a substantial modification 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.

Risk monitoring and management

Thales has introduced six-monthly reporting on its pension plan commitments and regularly examines the sensitivity of the underlying funding shortfalls to possible market changes. In the United Kingdom the defined benefit pension scheme has been closed to new entrants since 2002. They now benefit instead from a defined contribution scheme. The assets used to cover the defined benefit commitments are managed on the basis of the long-term maturity of the commitments they cover and in accordance with applicable regulations managed by trustees, with the Group being consulted. The Group is also involved in the plan's general risk management policy (in particular the investment policy and interest rate and inflation risks), under conditions that are reviewed at the time of the triennial valuations.

Additional information can be found in Note 9.3 to the consolidated financial statements as of December 31, 2021.

3.4 Risk control environment

3.4.1 Internal environment

In most of its activities, the Group is subject to a control environment imposed by its customers and regulatory authorities (Ministries of Defense, Industry, customer country authorities, civil aviation, etc.) which require demanding certifications and controls.

These specific constraints are in addition to legal obligations and are an integral part of the Group's control environment.

The Thales organization follows the internationally recognized "three lines of defense" model, which provides an effective way to improve risk management and control by clarifying key roles and duties. The management bodies and the General Management are the main stakeholders of these three lines of defense:

The first line of defense is the operational management functions that accommodate and manage risk; see a) below,

The second line of defense consists of functions that monitor risks (including risk assessment, financial control, security, quality, compliance, insurance); see b) below. The internal control system implemented within Thales is based on the COSO 2013 (*Committee of Sponsoring Organizations of the Treadway Commission*) and IFACI international standards; it aims to provide reasonable assurance on the achievement of the Group's objectives through:

- the effectiveness and efficiency of internal processes;
- internal control of accounting and finance:
 - to ensure the reliability of information used internally for steering and control purposes, and of published accounting and financial information,
 - to prevent the risk of fraud;
- legal compliance, which aims to ensure that regulatory obligations are met.

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

a) The main operational players of risk management

As of December 31, 2021, the Thales organization, described below, is based on a two-dimensional matrix structure, Global Business Units (GBUs) and countries.

- Global Business Units are organized into Business Lines (BL) that cover a coherent range of products, solutions and services.

Globally, for the products, solutions and services entrusted to them, the Business Lines are responsible for strategy, product and marketing policy, competitiveness, customer access, contractual commitments, engineering, development, production, integration, quality and services, industrial organization, optimization of resources, and economic performance (contribution to operating income and cash generation).

- Each country manager is responsible for ensuring that all aspects of the Group's policy are properly implemented in the territory for which they are responsible, and for managing relations with local customers and partners.

The Group's main countries of operation (Australia, Canada, France, Germany, Netherlands, United Kingdom and United States) share responsibility for local offers and projects with Global Business Units. The Country Manager is involved in all decisions taken by Global Business Units regarding organization and appointment, or relating to offers, projects and competence centers of any kind in their territory. They are

responsible for the development of human resources and the optimization of industrial resources. They are also responsible for Thales's institutional relations, as well as communications.

The head of each of the six main countries, excluding France, (see list above) reports to a "Non-Executive Chairman", appointed from among the Group's senior managers. This Non-Executive Chairman ensures cohesion between the country and headquarters, and acts as a liaison between the country manager and the Executive Committee of the Group.

In the rest of the world (other European countries, Africa, Latin America, Asia and the Middle East), the country or regional manager reports to the International Development Departments (DGDIs).

The Group defines common processes and internal delegation rules that reflect the sharing of responsibilities, provides entities with the corresponding tools, and organizes shared services.

These delegations are implemented within the legal entities and are coordinated by the countries.

The Group's management bodies include the Global Business Units, the countries and the functional departments and have overall responsibility for the Group's internal control system, relying in particular on internal processes and the work of the Risk Management Committee and the Risk Assessment Committee.

A key principle of the Group's governance is the accountability of the managers of the operating entities, who are responsible for implementing and maintaining the risk management system and the internal control system within their operating entities.

Finally, certain complex or high-risk operations are carried out exclusively by the central departments, which ensure the sharing, consistency and coordination of Group practices. A specific internal control system has been set up to manage the risks associated with these operations. As a result:

- total or partial acquisitions or disposals of businesses are the sole responsibility of the Group's General Management. Global Business Units propose projects at the periodic meetings of the Mergers and Acquisitions Committee, which is composed of the main central departments;
- all real estate transactions are the exclusive responsibility of the Group's Real Estate Department. The latter delegates certain operations, particularly outside France, either to a country organization or to a local company, while ensuring that they are supervised.

b) The main internal control and risk monitoring functions

Operations and performance function

The Operations and Performance Department manages all the operational resources needed to carry out projects, ensure customer satisfaction and quality, and contribute to risk management. It confirms the most sensitive offers according to defined criteria and organizes quarterly reviews of projects deemed critical. It pilots plans to strengthen the skills and certifications of bid and project managers, deploys and improves bid estimation and project management tools, and provides *ad hoc* assistance and support to Global Business Units and countries that request it. In each entity, the Operations Director coordinates the management of all business risks in close cooperation with the Legal & Contracts Director and the Finance Director of their unit.

Within this department, the Quality and Customer Satisfaction function defines the quality policy and objectives, and initiates the customer satisfaction improvement process. It pilots the Chorus 2.0 process management framework, applicable to all Group entities. Its representatives in each operational entity carry out quality assurance activities for offers, projects and products, to ensure that customer requirements are taken into account and met, and to secure the execution of operations.

The Thales reference system, Chorus 2.0, structured by process, defines the rules, practices and methods to be implemented by each Group entity. It also contains all the governance notes governing the organization and operation of the Group. It is accessible to all Group employees via the intranet.

Its modular architecture allows it to be adapted to the context of the activity; it is accompanied, at the level of each country and each entity, by local rules and practices.

Chorus 2.0 provides all Group companies with a common language and a unified set of management processes defining the roles, rules, practices and operating methods to be applied; it also aims to achieve uniform organizational alignment throughout the Group.

Chorus 2.0 structures the Group's internal control system and is naturally part of the guidelines used by the Internal Audit, Risk Management and Internal Control Department.

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

Thales has obtained and maintains certifications in its various activities with respect to applicable standards and regulations, which attest to its ability to manage activities through the mastery and proper application of processes defined to meet its customers' expectations. In terms of Quality, all the Group's activities are certified to ISO 9001, to which a number of standards are added, depending on the activity, such as (non-exhaustive list) AQAP 2110 (NATO quality reference in the defense sector), EN 9100 (European standard describing a quality assurance system for the aeronautics and space sectors) civil airworthiness approvals Part 21 subpart G for production activities, Part 145 for maintenance activities, Part 147 for aeronautical maintenance training and state airworthiness approvals (FRA21Z design approvals, EMAR/FRA21G production approvals, EMAR/FRA145 Maintenance Organization approvals, etc.), ISO 14001 and OHSAS 18001/ISO 45001 (for Environment, Health & Safety at Work aspects), ISO 27001 (for Information Security Management System aspects), ISO 20000 (for Service Management System aspects), ISO 37001: 2016 (for the Anti-Corruption Management System aspects).

Thales is committed to a continuous improvement process: the Group has set up internal and external assessments, based on international standards, which enable the Group to identify and prioritize its potential continuous improvement needs and to monitor the associated action plans.

To develop the maturity of its operations, Thales has built a maturity model called Thales Integrated Maturity Systems (TIMS). It is the benchmark structure deployed by the Group to support maturity management and improve performance.

This maturity model is shared by the entire Group and covers all the processes of the Chorus 2.0 management system.

Maturity assessments are entrusted to qualified assessors recognized within their disciplines, as well as to the quality managers of the operational entities.

Finance function

The Group's Finance Department is represented in each Global Business Unit, in each operating entity, and in each of the main countries by a Finance Director who reports functionally to it. The implementation of internal control over accounting and financial reporting is entrusted to these financial directors, who have local teams within their area of responsibility to ensure that financial information is prepared in compliance with internal control rules.

At the time of the closing of the annual and half-yearly financial statements, the General Managers and their Finance Directors issue a letter of affirmation to the Group's Finance Department, certifying the accuracy and completeness of the financial data submitted for consolidation.

Accounting and financial operations are managed by the Group's Finance Department. Its central organization includes:

- An accounting and consolidation function, which is responsible for the preparation and presentation of the Group's consolidated statements. The teams in charge of consolidation ensure that regulatory and normative changes are taken into account. They use a single consolidation software package, chosen from among the market standards, which enables accounting information from the various Group entities to be fed back to them, while guaranteeing controls on consistency at the source. The transfer of entries to the headquarters is only authorized after validation. Training sessions and expertise on the tool within the Group's consolidation teams ensure that the software is mastered.

The Group's accounting and financial procedures, presented in Chorus 2.0, are applicable to all entities. In particular, they define:

- the accounting rules and principles applicable to the preparation of consolidated financial statements under IFRS,
- the hierarchy and levels of reporting required by the Group, financial cycles, the role of finance in operational processes and the management rules to be applied by Group entities,
- the content and format of periodic reports,
- the respective roles of the central teams and the teams within the entities in the conduct of treasury and financing operations and the procedures to be applied in terms of short-term cash management, the operation of the foreign exchange risk hedging system and the associated reporting rules.

The ICQ internal control questionnaire, completed by the Finance Departments (see the section on Business Risk Assessment and Internal Control Functions below) and the accompanying instructions, constitute a complementary reference framework and contribute both to making financial reporting more reliable and to preventing the risk of fraud.

The financial reporting system is based on these accounting and financial procedures, and the centralized consolidation process is supported by a single tool. The entity Finance Directors are responsible to the Group Finance Department for ensuring compliance with these procedures.

- A management control and budget function, which analyzes the Group's financial data and prepares monthly summaries with comparisons to the budget and to comparable periods in previous years. On this occasion, the financial forecasts for the half-year and the current year are reviewed and commented on in order to steer the activity towards the set objectives.

Monthly results are analyzed to identify budget variances and to update annual forecasts for order intake, sales, earnings and cash flow. This process, which is carried out within the entities, makes it possible to consolidate the vision of the Global Business Units and the Group and to identify, where necessary, the action plans required to achieve the objectives.

Annual budget targets are set in three stages:

- the Global Business Units draw up a strategic plan for a minimum period of four years, adjustable according to their business models, which is submitted for validation to the Group’s General Management,
 - in a second phase, each Global Business Unit, each major country of operation and the International Development Department present a detailed two-year budget plan to the Group’s General Management. This plan is based on commercial assumptions set in advance by the sales departments, in line with the strategic plans of the Global Business Units,
 - finally, the General Management sets the objectives of the Global Business Units, the major countries of operation and the International Development Department, ensuring overall consistency. The first year of the budget plan is then subject to monthly reporting, which serves as a reference for the Group’s management;
- A treasury, financing and financial engineering function, which optimizes the financing of the Group and its contracts and manages the Group’s financial risks (liquidity, foreign exchange, customer credit, pensions, etc.) on a centralized basis. The Group Treasury, Financing, and Financial Engineering Department (DTFI) is responsible for financing subsidiaries, managing the Group’s cash positions in all currencies and offsetting cash surpluses and requirements. DTFI also manages the Group’s foreign exchange position and, in particular, hedges the foreign exchange risk of all entities. Lastly, this department coordinates and supervises the implementation of market guarantees, customer financing and, more generally, instruments designed to secure payments receivable and cover the group against the financial consequences of contract interruption.
 - A tax function, which provides support to the operational entities, particularly with regard to applicable tax controls and in the context of tax audits. This function also monitors tax consolidations carried out within the Group and checks their overall consistency.
 - An insurance function, responsible for implementing the insurance policy and managing insurable risks. This centralized Insurable Risk Management Department also ensures that the policy is implemented by Group companies.

The Group is covered against the financial consequences of accidental damage to property or persons by appropriate insurance policies taken out with leading international insurers and reinsurers.

The insurance policies taken out by the Group to cover these major risks relate to risks such as:

- property damage and consequential business interruption,
- transport of goods,
- assembly and testing,
- aeronautical liability, including aeronautical product liability, and hull insurance,
- space product liability,
- risks of damage to or by ships borne by the subsidiaries in their capacity as integrators of naval products,
- general civil liability,
- environmental liability,

- liability of corporate officers and managers,
- individual Accident – Repatriation Assistance for personnel on assignment,
- cyber.

The Group did not suffer any major losses during the year 2021.

The Group’s policy is to obtain insurance coverage on the market at rates and within limits that it considers reasonable in relation to market conditions. Insurance covering major risks is limited by coverage ceilings; in addition, general exclusions for the entire market (e.g. asbestos risk) apply to Thales.

For property damage and consequential business interruption insurance, the maximum limit of coverage in 2021 is €1.3 billion. This limit takes into consideration the estimated maximum possible loss caused to a specific industrial site.

The levels of liability insurance coverage are based on the measurement of reasonably foreseeable risks to the Group identified in the risk maps carried out in the main activities and at Group level. These levels of coverage are also a function of the coverage capacities available in the insurance market. Insurance coverage for aviation liability commitments is the subject of a specific program.

The insurance industry depends on the financial markets, among other things. Also, there is no guarantee that Thales will be able to maintain current levels of insurance with similar financial conditions in the future.

In order to reduce exposure to insurance market volatility, major risk coverage is structured in two tiers:

- the Group’s retention of claims through captive insurance and reinsurance companies, for property damage and consequential operating losses, cyber, transport, general civil liability, assembly & testing and space risks,
- the transfer to the insurance and reinsurance markets of the payment of catastrophic or high intensity claims.

At the same time, an active policy of prevention and protection of industrial sites aims to reduce the frequency and magnitude of accidental fire or explosion risks as well as to detect other exposures to natural or environmental disasters and the vulnerabilities of critical industrial facilities. In 2021, 59% of the insured values have been audited as “multi-hazard” by the insurers in the context of their visits to the main operational sites. These physical audits were supplemented by video-conferences to monitor prevention plans with 34 smaller sites, representing 3% of insured values.

In application of the Group’s processes, resources have been put in place to ensure that operations are maintained as effectively as possible and to minimize the consequences of an unforeseen event. A crisis management organization and tools make it possible to deal as effectively as possible with the immediate consequences of a catastrophic disaster and to take the necessary emergency measures.

In addition, a policy of prevention of critical supplier sites has been pursued, aimed at reducing the risk of operating losses for Thales due to an accidental incident occurring on their sites.

In addition, the Group continues to implement an insurance policy designed to cover the exposure of its employees in their professional activities. Finally, specific and/or local coverage is taken out to comply with current regulations or to meet the particular requirements of certain activities or projects, such as public-private partnership contracts.

Ethics, Integrity and Corporate Responsibility function

The Ethics, Integrity and Corporate Responsibility Department develops and updates the anti-corruption compliance program, other integrity programs and the Duty of Care compliance program. It prepares and proposes to the General Secretariat the major areas of other ethical, integrity and responsibility policies on which the Group should position itself. It receives internal alerts sent via the Group's alert system and participates in their processing in accordance with the procedure established by the Group. In general, it defines and implements the means to promote and disseminate a culture of ethics, integrity and corporate responsibility within the Group.

Legal and contracts function

The Legal and Contracts Department (LCD) is comprised of three organizations:

- A **"corporate" organization** at the service of the operational entities, drawing on legal experts.
- An **organization of legal experts and "Contract Managers"** deployed within the operational units to provide expertise in the contractual field, from the preparation of the offer to the end of the contract.
- An **organization of "Chief Compliance Officers" and "Compliance Officers"**, deployed throughout the Group, responsible for implementing the program to prevent corruption and influence peddling. It also develops, updates, deploys and implements the other compliance programs relevant to the Group, taking into account the most sensitive regulations applicable to its activities (Trade Compliance, Competition law, Intellectual Property Protection, Personal Data Protection, Environmental law), which are developed and updated by the Compliance Experts of the Legal & Contracts Department. When they are part of the alert monitoring committees (at Group level or at the level of the major countries in particular), the Chief Compliance Officers/Compliance Officers receive internal alerts sent via the Group alert system or the alert system dedicated to the country concerned within the framework of the Group alert procedure, and take part in their processing.

The Human Resources Department (HRD) also has a network of lawyers specialized in labor law who provide support to Group entities. LCD and HRD call on external legal firms if necessary.

With the exception of disputes relating to relations with employees and trade unions, which are handled by the Human Resources Department, disputes and litigation are handled by the Legal and Contracts Department.

Corporate risk assessment and internal control function

The Audit, Risks & Internal Control Department (DARCI) is responsible for developing and updating internal control assessment questionnaires (Yearly Attestation Letter (YAL) and Internal Control Questionnaire (ICQ)), and pilots the annual campaigns for responses to these questionnaires by operational entities.

- YAL questionnaire: the risk scenarios for which local entities are responsible are certified annually by their management in the form of the YAL questionnaire, which is updated each year and completed by the directors of the operating entities and their management team. 153 such questionnaires were completed by the Group's operating entities in 2021. The responses to these questionnaires are analyzed by DARCI and the Risk Advisors network. The sincerity and compliance of these declarations is also verified on a rotating basis by DARCI: in 2021, 18 YAL questionnaires were subject to internal audit.
- ICQ questionnaire: based in particular on the recommendation of the French financial markets authority "Internal Control System: Reference Framework" and in liaison with its statutory auditors, the Group is deploying an internal control questionnaire (ICQ) for its financial

community, focusing on the reliability of financial processes and fraud prevention. The ICQ is made up of internal control objectives linked to the Group's processes and accounting cycles (clients/suppliers/fixtures); it enables the entities to identify their areas for improvement, whether these are due to imperfectly achieved control objectives, incomplete implementation of controls or procedures to be reinforced. In 2021, 174 questionnaires, covering all business units and shared services, were sent out by DARCI and 3 of the previous year's ICQ questionnaires were audited.

The Group has put in place a risk assessment process for all the activities and subsidiaries under its control. Each year, DARCI draws up and updates a chart of the main risks to which Thales is exposed, whether they are operational, strategic, compliance or financial. This mapping is organized by risk factors broken down into independent risk scenarios, measurable in terms of probability of occurrence and financial impact in relation to a common prudential rating scale, and each attributed to a single line of responsibility.

The Group has appointed a Risk Advisor for each of these risk factors, responsible for overseeing the risk management system under the coordination of the Risk Assessment Committee: risk characterization, monitoring of major incidents, and monitoring of the implementation and continuous improvement of the control system.

Twice a year, DARCI also draws up risk maps by Global Business Unit, by Major Country, as well as for certain cross-functional themes, in addition to the risks already identified and managed by operational management. The relevant Operational Departments, the Quality Department and the Insurance Department are involved in this work.

The selection and planning of internal audits conducted by DARCI (see (c) below) are primarily based on these risk analyses.

c) Internal audit

DARCI ensures that risks are controlled and that an adequate level of internal control is maintained by carrying out audit and advisory missions. It can operate throughout the Group (Thales parent company and its controlled subsidiaries) as well as on non-controlled subsidiaries after agreement with the co-shareholders. Its scope of intervention covers all areas and processes (governance, administrative, accounting and financial, functional and operational). DARCI works in particular with the Audit and Accounts Committee, the Risk Management Committee, the Risk Supervision Committees, Group General Management and the statutory auditors.

Since 2006, DARCI has been continuously certified by the French Institute of Audit and Internal Control (IFACI), which ensures that its practices comply with international standards of the profession. In March 2021, a monitoring audit conducted by IFACI confirmed this certification.

DARCI's interventions are governed by an Internal Audit charter updated in June 2016, which defines the basic principles of internal control and the assignments of internal audit, the scope and limits of its responsibilities and the forms of intervention with the entities.

In 2021, 62 audit or advisory assignments, resulting from Group risk analyses and planned according to criteria presented to and validated by the Audit and Accounts Committee, were carried out by the DARCI teams. Due to travel restrictions resulting from the health crisis, some of these audits were conducted remotely. These assignments covered the following topics:

- Operations: bids and projects, product policy, engineering and industry;
- Compliance: anti-corruption, export control, information systems security; personal data protection;
- Governance: organization, shared services, joint ventures, monitoring of acquisition operations;
- Internal control: integrity audits of internal control questionnaires (YAL, ICQ, and "Welcome audit").

In 2021, DARCI's work also focused on strengthening the internal control system, with the development of an anti-corruption Internal Control Manual (ACIM) for the entire Group, and a specific questionnaire, the

Minimum Anticorruption Questionnaire (MAQ), designed to prevent the risks of corruption and fraud within its very small entities (small subsidiaries, representative offices, permanent establishments).

3.4.2 Supervisory, monitoring and control bodies

Board of Directors

The Board of Directors controls the management of the Group, directly or through its committees. Detailed information on the organization Board of Directors' work, its rules of procedure and, more generally, its functioning and that of its committees, is provided in section 4.2.1.

Audit and Accounts Committee

The resources used and actions taken to strengthen internal control and to identify and manage risks are reviewed at meetings of this Committee of the Board of Directors. In 2021, the Audit and Accounts Committee met 5 times.

The Audit, Risks & Internal Control Department (DARCI) presents an annual audit plan to the Audit and Accounts Committee covering the various aspects of the Group's legal and regulatory compliance, internal control assessment and risk identification and management. This presentation is updated halfway through the year.

At the time of the annual closing of the accounts, the Chief Financial and Information Officer reports to the Audit and Accounts Committee on risk exposure and significant off-balance sheet commitments.

Risk Management Committee

This Committee, chaired by the Chairman & Chief Executive Officer, is responsible for defining the level of risk acceptable to the Group, allocating responsibilities for monitoring and controlling these risks, defining the strategy for transferring certain risks to insurance, validating the Group's risk map and, more generally, ensuring the completeness of the risk assessment and management system with a view to controlling risks. It is based on the work of the Risk Assessment Committee. In 2021, this committee was held 2 times.

Risk Assessment Committee

This committee is chaired by the Director of Audit, Risks and Internal Control (DARCI). It is responsible for analyzing losses and changes in threats, updating and prioritizing risk scenarios, ensuring that they are appropriated within the Group, drawing up risk maps and making recommendations to the Risk Management Committee to improve the Group's overall management and control of risks. In 2021, the Risk Assessment Committee met every semester with each of the 7 Global Business Units, and on one other occasion on a specific topic.

Integrity and Compliance Committee

Chaired by the Company Secretary, this Committee is composed of the directors in charge of the Ethics, Integrity and Corporate Responsibility, Legal and Contracts, and Audit, Risks and Internal Control departments. It meets at least once a month and its main task is to oversee the development, deployment, implementation, evaluation and updating of the Group's Integrity and Compliance Program. It is also responsible for assessing the criticality of internal alerts received within the Group and allegations of integrity and compliance violations brought to its attention. In 2021, this committee met 13 times.

Corporate Social Responsibility (CSR) Committee

The purpose of the Corporate Social Responsibility (CSR) Committee is to better manage commitments and actions in favor of responsible and sustainable development and thus strengthen the Group's contribution to society. Led by the Corporate Secretary, the Executive Vice President Human Resources and the Executive Vice President Operations and Performance, the CSR Committee reports directly to the Chairman and CEO of Thales and reports annually on its activities to the Executive Committee, the Thales Board of Directors and its Strategic and CSR Committee.

External audit and control of financial information

Each year, the Finance Department reviews the external audit instructions with the statutory auditors. It describes the various stages of intervention by the external auditors.

The consolidated companies are classified in 3 categories according to their size and the risks they may incur. They are subject to either an in-depth review, a limited review, or a review for statutory purposes.

In addition to their assessment of the financial statements, the statutory auditors also present recommendations to the Group's Management each year, in the context of the closing of the annual financial statements, concerning the improvement of internal control.

4

Governance and compensation

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4.1 Composition of the Board of Directors as of December 31, 2021

4.1.1 Directors

4.1.1.1 Appointed by the General Meeting

PATRICE CAINE

(51 years old)

Chairman and Chief Executive Officer

Chairman of the Strategy & CSR Committee

Date of first appointment
December 23, 2014

Current term expires
2022 Annual General Meeting

Number of shares held:

- 19,266 Thales shares (of which 14,566 are held personally in registered form and 4,700 are held through a holding company); and
- 105 through the Group savings plan.

Born on January 7, 1970, of French nationality. A graduate of the École Polytechnique and the École des Mines de Paris, Patrice Caine is an *ingénieur en chef* in the Corps des Mines. He began his career in 1992 with the pharmaceutical group Fournier before becoming a mergers and acquisitions and corporate strategy advisor at Chaterhouse Bank Limited in London.

From 1995 to 1998, he served simultaneously as head of mission for the Prefect of the Franche-Comté Region and as director of the Industrial Development and Energy Division at the Regional Directorate for Industry, Research, and the Environment (DRIRE).

From 1998 to 2000, he served on the Conseil Général des Mines, where he was responsible for human resources for the Corps des Mines. At that time, he was also responsible for training student engineers in the State technical corps at the École des Mines de Paris. From 2000 to 2002, he was technical advisor responsible for energy policy at the office of the Minister of the Economy, Finance, and Industry.

In 2002, Patrice Caine joined the Strategy Department at the Thales Group. He went on to hold management positions in various units – Aerospace and Naval, Communication, Navigation and Identification, Air Systems, Radio Communication Products, Networks and Infrastructure Systems, and Protection Systems.

In February 2013, Patrice Caine joined the Thales Executive Committee as Executive Vice President for Operations and Performance.

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

He was awarded the National Defense Medal, bronze level. In 2014, he was named a *Chevalier de l'Ordre National du Mérite* [Knight of the National Order of Merit], and in 2017, a *Chevalier de l'Ordre National de la Légion d'Honneur* [Knight of the National Order of the Legion of Honor].

List of offices and other positions in French and foreign companies

Positions held in other companies

In France: Director of Naval Group and of L'Oréal⁽¹⁾, Vice-Chairman of Gifas, Vice-Chairman of France Industrie (Cercle de l'Industrie and Groupe des Fédérations Industrielles), Chairman of the Association Nationale de la Recherche et de la Technologie (ANRT), member of the Conseil National de l'Industrie and its Executive Committee.

Abroad: none.

Other positions held by Mr. Caine over the last five years

In France: Director of the École des Mines de Paris.

Abroad: none.

(1) Listed company.

CHARLES EDELSTENNE

(83 years old)

Director nominated by the Industrial Partner

Member of the Strategy & CSR Committee

Date of first appointment
May 19, 2009

Current term expires
2022 Annual General Meeting

Number of shares held
509 Thales shares

Born on January 9, 1938, Charles Edelstenne is a French national and a certified public accountant.

He spent his career at Dassault Aviation, where he started in 1960 as Director of the Financial Studies Department. He became the Company Secretary in 1975 and then Vice President for economic and financial affairs in 1986.

Between 2000 and 2012, he served as Chairman and Chief Executive Officer of Dassault Aviation.

In January 2013, Charles Edelstenne was named CEO of Groupe Industriel Marcel Dassault GIMD, and then was named Chairman in May 2018.

He served as the Founder, Manager, and Chief Executive Officer of Dassault Systèmes, where he currently serves as Chairman of the Board of Directors.

List of offices and other positions in French and foreign companies

Positions held in other companies

In France: Chairman of Groupe Industriel Marcel Dassault SAS, Chairman of Dassault Systèmes SE, Honorary Chairman of Gifas, member of the Board of Directors and Honorary Chairman of Dassault Aviation SA⁽¹⁾, member of the Board of Directors and Chairman of Dassault Medias SAS, Chairman of Groupe Figaro SAS, member of the Board of Directors, member of the Compensation Committee, and Chairman of the Governance Committee of Carrefour SA⁽¹⁾, CEO of Dassault Wine Estates SASU, Chairman of Rond-Point Immobilier SAS, member of the Board of Directors of Rond-Point Investissement EURL, Manager of Arie, Arie 2, Nili, and Nili 2 (partnerships), Manager of Maison Rouge, a real estate investment company, and member of the Board of Directors of Monceau DUMAS, a unit trust.

Abroad: Chairman of the Board of Directors of SITAM Belgium SA, Director of Dassault Falcon Jet Corporation (USA).

Other positions held by Mr. Edelstenne in other companies over the last five years

In France: member of the Supervisory Board at Groupe Industriel Marcel Dassault SAS, Director of Sogitec Industries SA, and President of Rond-Point Holding SAS.

(1) Listed company.

BERNARD FONTANA

(60 years old)

Director nominated by the Public Sector
(Article 6 of Ordinance No. 2014-948)

Member of the Audit and Accounts Committee

Date of first appointment
January 30, 2018

Current term expires
2025 Annual General Meeting

Number of shares held
Not required to hold Thales shares (Article 6-VI of Ordinance No. 2014-948)

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

He began his career in 1987 as a weapons engineer with the SNPE group (formerly Société Nationale des Poudres et Explosifs), where he held various positions, including director of the fine chemicals business, strategic director for the chemicals business, and then director for North America. In 2001, he became a member of the Executive Committee of the SNPE Group, responsible for the chemical and industrial explosives business.

In 2004, he joined steel group ArcelorMittal as Vice President for human resources for the Flat Products Europe sector. In 2006, he became Executive Vice President of ArcelorMittal, responsible for the automotive sector and then for human resources. In 2010, he took over the management of the stainless steel division, which was listed on the stock exchange under the name Aperam, and of which he then became CEO.

In 2012, he became CEO of Holcim, a leader in the global cement industry, where he directed the merger with Lafarge. In September 2015, Bernard Fontana was appointed CEO of Areva NP. In July 2016, he was named Chairman of the group, renamed Framatome in 2018.

List of offices and other positions in French and foreign companies

Positions held in other companies

In France: Chairman of Framatome. Member of the Governance Committee at GIFEN and CEO of GIFEN Services.

Abroad: none.

Other positions held by Mr. Fontana over the last five years

In France: Executive Vice President of Areva NP.

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

(1) Listed company.

DELPHINE GENY-STEPHANN

(53 years old)

Director nominated by the Public Sector

(Article 6 of Ordinance No. 2014-948)

Date of first appointment

May 6, 2021

Current term expires

2025 Annual General Meeting

Number of shares held

200 Thales shares

Not required to hold Thales shares (Article 6-VI of Ordinance No. 2014-948)

Born on November 19, 1968, a French national. Delphine Gény-Stephann is a graduate of the École Polytechnique, the École des ponts ParisTech, and the Collège des ingénieurs.

She began her career in 1994 at the Treasury Department of the Ministry of the Economy and Finance. From 1999 to 2005, she served as Head of Office at the Agence des participations de l'État. In 2005, Delphine Gény-Stephann joined the High Performance Materials division of the Saint Gobain group as Development Director, later serving as Financial Director of the Ceramic Materials business. In 2013, she was appointed Director of External Venturing for the group, responsible for mergers and acquisitions for the Innovative Materials Sector. In 2014, she was named Director of Planning and Strategy for Compagnie de Saint-Gobain, a member of the Group's General Management Committee, before being named General Manager of the Silicon Carbide and Quartz business in 2017. She is also a member of the Board of Directors of Thales and served as a member of its Audit and Accounts Committee from November 2016 to November 2017.

At that time, she was appointed Secretary of State to the Minister of the Economy and Finance, a position she held until October 2018. She has been a consultant since 2019.

List of offices and other positions in French and foreign companies

Positions held in other companies

In France: member of the Steering Committee at GENE0 Partenaires SAS, member of the Supervisory Board of Holding d'infrastructures des métiers de l'environnement (controlling entity of the Saur group).

Abroad: Non-Executive Director of Eagle Genomics Ltd (UK).

Other positions held by Ms. Gény-Stephann over the last five years

In France: member of the Board of Directors of Saint-Gobain Isover and Saint-Gobain PAMM

Abroad: none

PHILIPPE KNOCHE

(52 years old)

Independent director

Chairman of the Governance and Compensation Committee

Date of first appointment

May 6, 2020

Current term expires

2024 Annual General Meeting

Number of shares held

509 Thales shares

Born on February 14, 1969, Philippe Knoche is a Franco-German national, an engineer of the Corps des Mines, and a graduate of the École Polytechnique.

He began his career in 1995 at the European Commission as a rapporteur in the Anti-Dumping Directorate. In 1998, he joined the Consortium de Réalisation as assistant to the Chairman of the Supervisory Board.

In 2000, he joined the Areva group as Director of Strategy, where he was subsequently appointed Director of the Processing Business Unit in 2004, Director of the Olkiluoto 3 project in 2006, and then Director of the Reactors and Services Business Group in 2010, when he joined the group's Executive Committee.

In July 2011, he was appointed as a member of Areva's Executive Board and as Executive Vice President for nuclear operations. In January 2015, he became CEO and a member of the Board of Directors.

Since July 2017, Philippe Knoche has served as CEO and a member of the Board of Directors of Orano, a company that emerged from the restructuring of the Areva Group and operates across all stages of the nuclear fuel cycle.

He is a regular speaker on energy, climate, and innovation as well as cyber security.

List of offices and other positions in French and foreign companies

Positions held in other companies

In France: CEO and member of the Board of Directors of Orano SA⁽¹⁾, Chairman of Orano Chimie Enrichment, Orano Recyclage, and Orano Démantèlement, Chairman of Orano Mining, permanent member of the Strategic Committee of SET Holding, member of the Board of Directors of the Union des Industries et Métiers de la Métallurgie (UIMM), member of the Board of Directors of GIFEN.

Abroad: President of the World Nuclear Association, member of the Board of Directors of the International Council of Mining and Metals (ICMM).

Other positions held by Mr. Knoche over the last five years

In France: Executive Vice President then Chief Executive Officer, member of the Executive Board then member of the Board of Directors of Areva SA⁽²⁾, Chairman of AREVA NP SA, Chairman of Société Française de l'Énergie Nucléaire.

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

(1) Company with listed debt instruments.

(2) Listed company.

PHILIPPE LÉPINAY

(68 years old)

Director representing employee shareholders

Member of the Strategy & CSR Committee

Date of first appointment

March 8, 2007, effective on the April 1, 2007

Current term expires

2025 Annual General Meeting

Number of shares held

- 1,879 Thales shares;
- 1,684 Thales shares in the Group savings plan.

Born on December 3, 1953, Philippe Lépinay is a French national and holds an engineering degree from the Institut de marketing international, Université Paris VII.

Between 1977 and 1986, he held various sales and marketing positions at the Appalette & Tourtellier Systèmes, Radiall, and SOPEMEA groups.

In 1986, he joined Thales Electron Devices as an export sales engineer; in 2000, he became Director of Development at Thales Engineering & Consulting.

He joined Thales International in 2003. Since 2013, he has served as VP and Director of International Relations at Thales.

List of offices and other positions in French and foreign companies

Positions held in other companies

In France: Delegate for institutional relations at the Fédération française des associations d'actionnaires Salariés et anciens Salariés, Vice President of the Fédération des Associations d'actionnaires Salariés de Thales (FAST), member of the Supervisory Committee of the "Thales Employee Shareholding Fund" (FCPE), member of the Board of Directors of ENSOA (École Nationale des Sous-Officiers d'Active) and member of the Board of Directors of the Franco-Lebanese Chamber of Commerce.

Abroad: none.

Other positions held by Mr. Lépinay over the last five years

In France: President of the FAS, member of the Conseil d'orientation de la participation, de l'intéressement, de l'épargne salariale et de l'actionariat salarié (COPIESAS).

Abroad: none.

ARMELLE DE MADRE

(51 years old)

Independent director

Date of first appointment

June 28, 2017

Current term expires

2023 Annual General Meeting

Number of shares held

500 Thales shares

Born on May 2, 1970, Armelle de Madre is a French and Dutch national and a graduate of Columbia University in New York City and of HEC in Paris.

She began her career in 1993 as a marketing analyst at Renault. In 2001, she became Head of Training for the Head Office, then Head of HR for Renault's logistics activities. In 2006, she was appointed as Director of Human Resources, first in charge of the Flins plant, and then of Renault's Vehicle and Powertrain Engineering division, including the group's Technocentre, one of the largest R&D centers in France with over 16,000 employees.

She joined Schneider Electric in 2010 as Director of Strategy and Social Innovation; then, in 2011, she joined the Arkadin Group, a provider of Unified Communications solutions and subsidiary of NTT, one of the world's leading telecom operators, as Vice President for Human Resources responsible for Europe, the Middle East, and Africa (EMEA). In 2016, she became Vice President for Marketing (EMEA), and then, April 2017, Director of Human Resources for Arkadin. She joined the group's Executive Committee in the same capacity.

In September 2019, Armelle de Madre was appointed Director of Human Resources for Datadog, a New York-based infrastructure, network and application data monitoring and analytics platform.

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

List of offices and other positions in French and foreign companies

Positions held in other companies

In France: none.

Abroad: none.

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

In France: none.

Abroad: none.

EMMANUEL MOULIN

(53 years old)

State Representative (appointed and renewed by decrees of November 2, 2020 and June 1, 2021), Director nominated by the Public Sector (Article 4 of Ordinance No. 2014-948)

Member of the Strategy & CSR Committee

Member of the Governance and Compensation Committee

Date of first appointment
November 2, 2020

Current term expires
2025 Annual General Meeting

Number of shares held The French State directly holds 2,060 Thales shares. Its representative, Emmanuel Moulin, isn't required to hold any (section 5 of Ordinance No. 2014-948) and doesn't have any.

Born on October 22, 1968, Emmanuel Moulin is a French national and a graduate of Sciences-Po and Essec; he holds a master's degree in law from the Université Paris II, and graduated from ENA in 1996.

He then joined the French Treasury, where he served as an assistant in the Transport Office from 1996 to 1998, and then in the Political and Monetary Office from 1998 to 2000.

He was appointed as an alternate member of the Board of Directors of the World Bank in Washington before becoming the Company Secretary of the Paris Club from 2003 to 2005. He continued his career by becoming a senior banker at Citigroup in 2006, responsible for the public sector in France and Belgium.

In 2007, he was appointed Deputy Chief of Staff to Christine Lagarde, then Minister of the Economy, Finance, and Industry, where he was responsible for macroeconomic and financial affairs as well as European and international affairs.

He joined the Office of the President in June 2009 as economic advisor to President Nicolas Sarkozy. After his departure from the Élysée Palace in May 2012, he joined the Eurotunnel Group as Senior Vice President and then Executive Vice President as of January 1, 2014.

In February 2015, he was appointed CEO of the investment bank Mediobanca in Paris.

In May 2017, he became Chief of Staff to the Minister of Economy, Finance, and Recovery.

Since November 2, 2020, Emmanuel Moulin has served as Director General of the Treasury.

List of offices and other positions in French and foreign companies

Positions held in other companies

In France: none.

Abroad: none.

Other positions held by Mr. Moulin over the last five years

In France: none.

Abroad: none.

ANNE RIGAIL

(52 years old)

Director nominated by the Public Sector (Article 6 of Ordinance No. 2014-948)

Date of first appointment
May 6, 2021

Current term expires
2025 Annual General Meeting

Number of shares held
Not required to hold Thales shares (Article 6-VI of Ordinance No. 2014-948).

Born on March 8, 1969, Anne Rigail is a French national and a graduate of the École des Mines de Paris. She joined Air Inter in 1991. In 1996, she was appointed Air France Customer Service Manager for the Paris-Orly office.

In 1999, she became Head of passenger and baggage connections at the Air France hub at Paris-Charles de Gaulle, then Head of customer and baggage products for Ground Operations.

She was named Director of Operations for the Paris-CDG hub in 2005, and then Director of the Paris-Charles de Gaulle hub in 2009.

She joined the Executive Committee in 2013 as Senior Vice President for Flight Service, responsible for Flight Attendants.

In 2017, she was appointed Senior Vice President for Customer Service. In this capacity, she oversees ground and in-flight products and services, including the design of Air France airport lounges, the configuration and modernization of cabins, and the deployment of in-flight connectivity.

On December 12, 2018, Anne Rigail was appointed CEO of Air France.

List of offices and other positions in French and foreign companies

Positions held in other companies

In France: none.

Abroad: none.

Other positions held by Ms. Rigail over the last five years

In France: President of the Fondation Air France since July 2019, member of the Board of Directors of EDF from May to December 2019, member of the Board of Directors of Servair from January 2017 to December 2018, and of its subsidiary ACNA until June 2017.

Abroad: none.

LOÏK SEGALEN

(61 years old)

Director nominated by the Industrial Partner

Member of the Audit and Accounts Committee

Date of first appointment
May 19, 2009

Current term expires
2022 Annual General Meeting

Number of shares held
509 Thales shares

Born on March 27, 1960, Loïk Segalen is a French national and a graduate of the École Centrale de Lyon and ESSEC.

He began his career in 1986 in the Finance Department of Dassault International.

He was named as a Financial advisor to the Vice President for economic and financial affairs at Dassault Aviation in 1990; he then served as a deputy member of the Board of Directors from 1998 to 1999, after which was appointed a full member.

In January 2009, Loïk Segalen was appointed Managing Director for Economic and Financial Affairs at Dassault Aviation.

In September 2011, he appointed Managing Director for Economic and Social Affairs at Dassault Aviation.

In January 2013, he became Deputy CEO of Dassault Aviation.

He is a member of the Management Committee of Dassault Aviation.

He is an *Officier de l'Ordre National du Mérite* [Officer of the National Order of Merit] and a *Chevalier de l'Ordre National de la Légion d'honneur* [Knight of the National Order of the Legion of Honor].

List of offices and other positions in French and foreign companies

Positions held in other companies

In France: Executive Vice President of Dassault Aviation⁽¹⁾, Vice President of Gifas.

Abroad: Director of Dassault Falcon Jet Corporation (USA) and of SITAM Belgium SA.

Other positions held by Mr. Segalen over the last five years

In France: Director of Sogitec Industries.

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

(1) Listed company.

ANNE-CLAIRE TAITTINGER

(72 years old)

Independent director

Chairman of the Audit and Accounts Committee

Date of first appointment
May 15, 2012

Current term expires
2022 Annual General Meeting

Number of shares held
612 Thales shares

Born on November 3, 1949, Anne-Claire Taittinger is a French national and a graduate of the Institut d'études Politiques de Paris. She holds a master's degree in urban sociology, a graduate degree in urban planning, and an MBA from HEC (CPA). She began her career in 1976 in the Caisse des Dépôts et Consignations group as head of urban planning operations at the Société centrale d'équipement du territoire.

In 1979, she joined the Louvre Group as the Company Secretary and then became Chairman and Chief Executive Officer of Compagnie Financière Deville. She successively served as Chairman and Chief Executive Officer of Compagnie Financière Leblanc and of Elm-Leblanc, Vice-Chairman and Chief Executive Officer of the Deville industrial group, Chairman and Chief Executive Officer of Parfums Annick Goutal France USA, and then Chairman and Chief Executive Officer of Baccarat.

She became CEO and then Chairman of Société du Louvre in 1997. In 2002, she was named Chairman of Groupe Taittinger as well as CEO of its subsidiary Groupe du Louvre in the context of a separation of the roles of Chairman and the CEO. She stepped down as a Chief Executive Officer in July 2006, after having managed the sale of the Taittinger group to an investment fund in 2005.

Since September 2006, Anne-Claire Taittinger has been part of the pool investors acquiring Champagne Taittinger.

She became involved in *the Women's Forum for the Economy and Society* in 2004, where she was a co-founder and an investor.

List of offices and other positions in French and foreign companies

Positions held in other companies

In France: President of SAS Le RiffRAY. As of September 2018: Member of the Management Committee of SAS E-Attestation.

Abroad: none.

Other positions held by Ms. Taittinger over the last five years

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

Abroad: none.

(1) Listed company.

ANN TAYLOR

(74 years old)

Independent director

Date of first appointment
May 15, 2012

Current term expires
2022 Annual General Meeting

Number of shares held
500 Thales shares

Born on July 2, 1947, Ann Taylor, a British national, was educated at the University of Bradford, where she earned a B.A. in Political Science and History, and at the University of Sheffield, where she earned an M.A. in Economic History.

In 1974, she was elected as the Member of Parliament for Bolton West, a seat she held until 1983.

Later she served as a Monitor with the Housing Corporation, and was a lecturer with the Hansard Society (a member of Birkbeck College) from 1983 to 1987.

In 1987, Ann Taylor was elected as the Labour Member of Parliament for Dewsbury. She was then appointed by Prime Minister Tony Blair as a *Leader of the House of Commons* in 1997 and 1998, and *Government Chief Whip* from 1998 to 2001. She participated in most government committees.

In May 1997, she became a Queen's (*Privy Council*) and was appointed its Lord President.

In 2001, she was named Chair of the Intelligence and Security Committee under the direct authority of the Prime Minister.

In 2005, she joined the House of Lords (as a Life Peer) where she is a representative to the Parliamentary Assembly of the Council of Europe (Political Committee) and the Western European Union (Defense Committee). She was a member of the NATO Parliamentary Assembly.

In 2007, Ann Taylor was a Minister in the British Government in the House of Lords. She was responsible for defense matters, including Minister for Defense Equipment and Support in 2007 and 2009. Also, she was the Minister for Defense and International Security from 2008 to 2010.

Ann Taylor is currently a member of the House of Lords, where she chairs the "*Constitution Committee*." She is also Chair of Council and Pro-Chancellor of the University of Bradford.

List of offices and other positions in French and foreign companies

Positions held in other companies

In France: none.

Abroad: participates in the advisory board of (advisory board) Thales UK Plc⁽¹⁾, member of the Council of the University of Bradford.

Other positions held by Ms. Taylor over the last five years

In France: none.

Abroad: none.

(1) A Thales Group company.

ÉRIC TRAPPIER

(61 years old)

Director nominated by the Industrial Partner

Member of the Governance and Compensation Committee

Date of first appointment
May 19, 2009

Current term expires
2022 Annual General Meeting

Number of shares held
500 Thales shares

Born on June 1st, 1960, Éric Trappier is a French national and a graduate of the École Sud Telecom (formerly known as the Institut National Telecom).

He began his career in 1984 at the Technical Division of Dassault Aviation (responsible for the development of ATL2 and Mirage 2000 systems).

In 1991, he became responsible for sales in India and Asia, and then the United Arab Emirates in 1996.

He was named Director of the Middle East and Africa region in 2000, Director of Military Exports in 2001, and Senior International Vice President in 2002.

In 2006, Eric Trappier was appointed Executive Vice President of Dassault Aviation.

He was appointed Chairman and Chief Executive Officer of Dassault Aviation in January 2013.

He is an *Officier de l'Ordre National de la Légion d'honneur* [Officer of the National Order of the Legion of Honor] and a *Chevalier de l'Ordre national du Mérite* [Knight of the National Order of Merit].

List of offices and other positions in French and foreign companies

Positions held in other companies

In France: Chairman and Chief Executive Officer of Dassault Aviation⁽¹⁾, President of the UIMM, Honorary Chairman of Gifas, Chairman of Cidef.

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

Other positions held by Mr. Trappier over the last five years

In France: Director of Sogitec Industries (France), First Vice President then President of Gifas.

Abroad: Director and Chairman of Dassault International Inc. (USA), Chairman of the Defense Committee and then Chairman of ASD (Belgium).

(1) Listed company.

MARIE-FRANÇOISE WALBAUM

(71 years old)

Director nominated by the Industry Partner

Date of first appointment
September 17, 2013

Current term expires
2022 Annual General Meeting

Number of shares held
500 Thales shares

Born on March 18, 1950, Marie-Françoise Walbaum is a French national and holds degrees in economics and sociology from the Université Paris X.

She began her career in 1973 at BNP Paribas, where she held various retail banking and credit analysis positions until 1981. From 1981 to 1994, she successively held the positions of Project Leader at the General Inspection Department of BNP, CEO of SICAV, and CEO of the brokerage firm Patrick Dubouzet S.A. In 1994, she became head of listed and unlisted investments with a private equity portfolio at BNP Paribas, a company she will leave in the summer of 2012 after 39 years of service. Since that date, Marie-Françoise Walbaum has been professional board member.

List of offices and other positions in French and foreign companies

Positions 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 of Imerys⁽¹⁾ (and Chairman of the Appointments Committee and of the Compensation Committee), and member of the Supervisory Board of Isatis Capital

Abroad: none.

Other positions held by Ms. Walbaum over the last five years

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

Abroad: none.

(1) Listed company.

4.1.1.2 Employee representatives

ANNE-MARIE HUNOT-SCHMIT

(57 years old)

Member of the Board of Directors representing employees

Member of the Strategy & CSR Committee

Date of first appointment
December 9, 2016

Current term expires
December 8, 2024

Number of shares held

- 200 Thales shares;
- 190 Thales shares in the Group savings plan.

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

Born on October 4, 1964, Anne-Marie Hunot-Schmit is a French national and holds a post-graduate degree in Applied Mathematics from the IAE in Paris. In addition, she is certified as a 'Company Director' by the IFA-Sciences Politiques Paris.

She joined Dassault Electronique in 1987 as a software developer and filed the first patent for a ground-based anti-collision system (GPWS/GCAS) before joining the first *contract management* team on the Mirage 2000-9 programs in 1998.

She joined Thales headquarters in 2007, where she was responsible for ethical standards in international trade before becoming head of price control.

In fall 2016, she was responsible for the financial control of bids and projects for the land transportation business. Since June 2020, she has been responsible for environmental risk assessment within the Group's HSE Department.

List of offices and other positions in French and foreign companies

Positions held in other companies

In France: none.

Abroad: none.

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

In France: none.

Abroad: none.

FRÉDÉRIQUE SAINT

(63 years old)

Member of the Board of Directors representing employees

Member of the Audit and Accounts Committee

Member of the Governance and Compensation Committee

Date of first appointment
December 9, 2016

Current term expires
December 8, 2024

Number of shares held

- 30 Thales shares;
- 48 Thales shares in the Group savings plan.

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

Born on December 19, 1958, Frédérique Saint is a French national and a graduate of the École Centrale de Paris. She joined Aérospatiale Cannes in 1984, which became Alcatel in 1998, and then Thales Alenia Space in 2007.

She has worked in several satellite businesses, first in attitude control and then in mission analysis, on behalf of telecommunications customers in Europe and abroad.

Since 2006, she has been a technical expert in the 'In-Orbit Operations' division.

List of offices and other positions in French and foreign companies

Positions held in other companies

In France: none.

Abroad: none.

Other positions held by Ms. Saint over the last five years

In France: none.

Abroad: none.

To Thales' knowledge:

- There are no family ties between the members of the Board of Directors;
- no member of the Board of Directors has been convicted of fraud in the last five years;
- no member of the Board of Directors has participated as a director in a bankruptcy, receivership, liquidation, or court-ordered receivership during the last five years and no member has been the subject of an official public accusation and/or sanction pronounced by a statutory or regulatory authority;
- no Board Member has been prevented 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;
- there is no potential conflict of interest between the private interests of its members and their duties towards Thales.

4.1.2 Other Participants in the Meetings of the Board of Directors (Without Voting Rights)

The following persons are invited to all meetings of the Board of Directors and attend them without voting rights, alongside the Secretary of the Board of Directors and the members of the Executive Board whom the Chairman invites to attend depending on the agenda:

The State representative for the specific action

Joël Barre, 66 years old, general engineer of the exceptional class of armament, general delegate for the armament.

He was appointed by decree of the Minister of Economy and Finance on April 6, 2018.

Representing the French State on the Board of Directors of Thales, in respect of the specific share according to Decree no. 97-190 of March 4, 1997, instituting a specific share for the benefit of the French State (see page 203 and under Article 10 of the Company's Articles).

The Government Commissioner

Jean-Luc Sourdois, 61 years, General Inspector of the Armed Forces.

Appointed Government Commissioner to Thales and its subsidiaries by order of the Minister of Defense dated July 3, 2019, under the legal and regulatory provisions applying to companies holding contracts relating to war equipment or more generally engaged in the manufacture or trade of these.

The Representative of the Central Social and Economic Committee

Marielle Marichy, 58 years old, appointed by the Central Works Council as its representative on the Thales Board of Directors, under Article L. 2323-65 of the Labor Code.

The statutory auditors

In accordance with the law, shall attend all meetings of the Board of Directors when accounts are being closed or reviewed for at least the part relating to such accounts. In addition, they may, at the invitation of the Chairman, participate in other meetings of the Board when their presence enriches the discussion. In the financial year 2021, the following were concerned:

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

4.2 Corporate Governance

Under the law, the Company decided in 2008 to voluntarily refer to the Corporate Governance Code for listed companies established by Afep-Medef – the current version of which dates from January 2020 and can be referred to the AFEP website at <https://afep.com/wp-content/uploads/2020/01/Code-Afep-Medef-r%C3%A9vision-janvier-2020-002.pdf> or at the Company’s registered office.

“Comply or Explain” principle

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

Heading	AFEP MEDEF	Thales 2/03/2022	Explanation
A. Independent directors (ratios):			
• Board of Directors	1/3 (controlled companies)	31%	<p>To ensure the best possible balance and alignment between the representatives of the Public Sector and the Industrial Partner, the free float shareholders, and the General Management, the shareholders’ agreement concluded between the Public Sector, and the Industrial Partner provides a framework for the composition of the Board of Directors and its Committees.</p> <p>To meet the highest standards of corporate governance, the Board of Directors has adopted a consistent approach that directors appointed by the Annual General Meeting on the proposal of a shareholder (Public Sector or Industrial Partner), a category of shareholders (employees), or trade unions that can’t be considered independent. This automatically results in a deviation from the provisions of the Afep-Medef code relating to the ratios of independent directors on the Board of Directors, the Audit and Accounts Committee along with the Governance and Compensation Committee.</p> <p>The Company emphasizes, however, that the directors nominated by the shareholder’s party to the Shareholders’ Agreement are primarily motivated by the interests of the Company, in accordance with their fiduciary duties. Also, they play a leading role within the Board and its Committees, which benefits all shareholders. In addition, the balance of interests under the agreement and the different nature of the two shareholders (the French State on the one hand and a major industrial player on the other) ensure that all parameters likely to lead to the best decisions for the Company are taken into account. Finally it is recalled that the Audit and Accounts Committee, along with the Governance and Compensation Committee, are chaired by independent directors under the Afep-Medef code.</p>
• Audit and Accounts Committee	2/3	1/3	
• Governance and Compensation Committee	> 50%	1/3	

4.2.1 Composition, Organization and Operation of the Board of Directors

Reminder of the rules of the shareholders’ agreement and composition of the Board of Directors

The Company is a public limited company with a Board of Directors. Under the terms of the shareholders’ agreement between the Public Sector and the Industrial Partner (Dassault Aviation), as published by the AMF, the 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 under the law (Art. L. 225-27-1 and following of the French Commercial Code), the Statutes (Article 10).

Of the 14 seats filled by the meeting, 4 are occupied by “External Personalities” chosen in consultation between the Public Sector and

Dassault Aviation, 1 by the employee shareholder representative, and the other directors are proposed to the General Meeting by the Public Sector (5) and by Dassault Aviation (4).

In addition, the shareholders’ agreement states that the Chairman and Chief Executive Officer shall be chosen based on a joint proposal by the Public Sector and Dassault Aviation (or the Chairman of the Board and the Chief Executive Officer in the event of dissociation approved by the two shareholders.) Also, at least one director representing each party shall sit on all the Board Committees.

• **SUMMARY OF INFORMATION RELATING TO DIRECTORS (PREPARED IN ACCORDANCE WITH APPENDIX III OF THE AFEP-MEDEF CODE REVISED IN JANUARY 2020)**

Directors as of December 31, 2021	Age	Gender	Nationality	Number of Thales shares	Number of mandates held in other listed companies
Appointed by the Annual General Meeting of Shareholders (14)					
On the proposal of the Public Sector (5)					
Patrice Caine, Chairman and Chief Executive Officer	51	M	French	19,371 ^(e)	1
Delphine Gény-Stephann ^{(b) (f)}	53	F	French	200	—
Bernard Fontana ^(b)	60	M	French	—	—
The French State, represented by Mr. Emmanuel Moulinc	53	M	French	2,060 ^(a)	—
Anne Rigail ^{(b) (f)}	52	F	French	—	—
On the proposal of the Industrial Partner (Dassault Aviation) (4)					
Charles Edelstenne	83	M	French	509	3
Loïk Segalen	61	M	French	509	1
Éric Trappier	61	M	French	500	1
Marie-Françoise Walbaum	71	F	French	500	2
Representing employee shareholders (1)					
Philippe Lépinay	68	M	French	3,563	—
External personalities (4)					
Philippe Knoche Independent director ^(d)	52	M	French and German	500	—
Armelle de Madré Independent director ^(d)	51	F	French and Dutch	500	—
Anne-Claire Taittinger Independent director ^(d)	72	F	French	612	—
Ann Taylor Independent director ^(d)	74	F	British	500	—
Appointed by the trade unions (2)					
Anne-Marie Hunot-Schmit	57	F	French	390	—
Frédérique Saint	63	F	French	78	—

(a) The French State holds 2,060 of Thales' shares directly. Its representative, Emmanuel Moulin, isn't required to hold any (section 5 of Ordinance No. 2014-948) and doesn't have any.

(b) Director(s) proposed by the State (section 6 of Ordinance No. 2014-948).














(c) State administrator representative, appointed by decree (section 4 of Ordinance No. 2014-948).

(d) Independence under the AFEP MEDEF Code, confirmed by the Board of Directors on March 3, 2023.

(e) Of which 4,700 shares held through a holding company controlled by the person concerned.

(f) Directors were appointed by the Annual General Meeting of May 6, 2021, to replace Laurence Broseta and Delphine de Sahuguet d'Amarzit.

• SUMMARY OF INFORMATION RELATING TO DIRECTORS (PREPARED IN ACCORDANCE WITH APPENDIX III OF THE AFEP-MEDEF CODE REVISED IN JANUARY 2020) (REST OF THE SUMMARY)

Directors as of December 31, 2021	1st nomination	Current Term		Committees*			Attendance for the Financial year 2021			
		Starts	Ends	S&R	A&C	G&R	Number of meetings taken into account and attendance rate ^(a)			
							Boards	Committees		
Appointed by the Annual General Meeting of Shareholders (14)										
On the proposal of the Public Sector (5)										
Patrice Caine, Chairman and Chief Executive Officer	23/12/2014	5/23/2018	AGM 2022				9	100%	5	100%
Delphine Gény-Stephann ^{(b) (e)}	06/05/2021	06/05/2021	AGM 2025				5	100%	N/A	N/A
Bernard Fontana ^(b)	30/01/2018	06/05/2021	AGM 2025				9	100%	5	100%
The French State, represented by Mr. Emmanuel Moulin ^(c)	30/01/2018	06/05/2021 and decree of 01/06/2021	AGM 2025				9	89%	9	100%
Anne Rigail ^{(b) (e)}	06/05/2021	06/05/2021	AGM 2025				5	80%	N/A	N/A
On the proposal of the Industrial Partner (Dassault Aviation) (4)										
Charles Edelstenne	19/05/2009	5/23/2018	AGM 2022				9	100%	5	100%
Loïk Segalen	19/05/2009	5/23/2018	AGM 2022				9	100%	5	100%
Éric Trappier	19/05/2009	5/23/2018	AGM 2022				9	89%	4	100%
Marie-Françoise Walbaum	17/09/2013	5/23/2018	AGM 2022				9	100%	N/A	N/A
Representing employee shareholders (1)										
Philippe Lépinay	01/04/2007	06/05/2021	AGM 2025				9	100%	5	100%
External personalities (4)										
Philippe Knoche Independent director ^(d)	06/05/2020	06/05/2020	AGM 2024				9	100%	4	100%
Armelle de Madré Independent Director ^(d)	28/06/2017	15/05/2019	AGM 2023				9	89%	N/A	N/A
Anne-Claire Taittinger Independent director ^(d)	15/05/2012	5/23/2018	AGM 2022				9	89%	5	100%
Ann Taylor Independent director ^(d)	15/05/2012	5/23/2018	AGM 2022				9	89%	N/A	N/A
Appointed by the trade unions (2)										
Anne-Marie Hunot-Schmit	09/12/2016	09/12/2020	08/12/2024				9	100%	5	100%
Frédérique Saint	09/12/2016	09/12/2020	08/12/2024				9	100%	9	100%

(a) Attendance is calculated with the total number of meetings at which the director was in office, as the case may be, on the Board or the Committee concerned. The attendance of the two directors who left office during 2021 (Laurence Broseta and Delphine de Sahuguet d'Amarzit) was 100% for the four Board meetings held until the end of their term.

(b) Director(s) proposed by the State (section 6 of Ordinance No. 2014-948).

(c) State administrator representative, appointed by decree (section 4 of Ordinance No. 2014-948).

(d) Independence under the AFEP MEDEF Code, confirmed by the Board of Directors on March 3, 2023.

(e) Directors were appointed by the Annual General Meeting of May 6, 2021, to replace Laurence Broseta and Delphine de Sahuguet d'Amarzit, who attended each of the four Board meetings held in 2021 before to the end of their term, for a 100% attendance rate.

* **Committees:** Strategy and CSR (S&R), Audit and Accounts (A&A) and Governance & Remuneration (G&R).
Statutes:  Member,  President.

• **CHANGES IN THE COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES DURING THE FINANCIAL YEAR 2021 (PREPARED IN ACCORDANCE WITH APPENDIX III OF THE AFEF-MEDEF CODE)**

	Departures	Appointments	Reappointments
Board of Directors	Laurence Broseta Delphine de Sahuguet d'Amarzit	Delphine Gény-Stephann Anne Rigail	Bernard Fontana Emmanuel Moulin (representing the State Administrator) Philippe Lépinay
Strategic and Corporate Social Responsibility Committee	–	–	Emmanuel Moulin Philippe Lépinay
Audit and Accounts Committee	–	–	Bernard Fontana
Governance and Compensation Committee	–	–	Emmanuel Moulin

Under the revised Afep-Medef code and the recommendation of the AMF, the biographical notes appearing in section 4.1.1 detail the list of offices held by members of the Board of Directors in Group companies and/or in listed companies, in France or abroad, and include information about their other activities, areas of expertise or experience.

The 2014 General Assembly set the General term of office for directors at four years.

The average age of the directors is 62 years as of December 31, 2021. At that time, in the absence of a specific provision in the Articles of Association, ordinary law applied to the age of directors:

- the number of directors over the age of 70 may not exceed one third of the directors in accordance with the French Commercial Code (Article L. 225-19 paragraph 2);
- the age limit for the Chairman is 65, under the French Commercial Code (Article L. 225-48).

Governance Procedures: Non-Separation

The Company is a limited company with a Board of Directors and no separation of the functions of Chairman of the Board and Chief Executive Officer.

At the end of each term of office of the executive concerned, the Board considers whether it is appropriate to maintain the unification of these functions or to separate them.

Therefore, when Mr. Patrice Caine was reappointed Chairman and Chief Executive Officer on May 23, 2018, the Board of Directors considered that the lack of separation didn't restrict the active and effective exercise of its control and monitoring mission. The responsibilities of the Board of Directors and the role of each of its Committees with the limits placed on the powers of the Chairman and Chief Executive Officer are clearly established (see in particular the excerpt from the Board's internal rules of procedure and section 4.2.6 below).

The Board confirmed this choice at its meeting of March 2, 2022, in anticipation of the renewal of Mr. Patrice Caine's term of office as Chairman and Chief Executive Officer at the end of the Annual General Meeting of May 11, 2022. He based his decision on the following reasons:

a) The appropriateness of this form of governance to the particularities of the Company's shareholder base

The appointment of a joint candidate by the Public Sector and the Industrial Partner ensures the best possible cohesion in the decisions taken by the governing bodies in the interest of the Company.

b) The appropriateness of this model of governance to the Company's operational needs

It allows the General Management and the Board of Directors to make better decisions, with the benefit of the respective skills of the General Management and the members of the Board of Directors, while facilitating rapid and efficient decision making. The relevance of the uniqueness of roles of the Chairman of the Board of Directors and Chief Executive Officer was particularly evident during the health crisis (see the Universal Registration Document 2020, page 87). In addition, the Board's performance is very satisfactory according to the assessments of all directors, as evidenced by the evaluations of the Board's operations carried out internally or by an external consultant (see page 89 for 2021).

c) The existence of effective management control mechanisms

In fact, the powers of the Chairman and Chief Executive Officer are limited by the obligation to submit many transactions for formal approval by the Board of Directors. The annual budget, strategic plan, acquisitions, disposals of shareholdings or assets over €150 million, strategic alliance along with the technological and industrial cooperation agreements, are submitted systematically to the Board for approval. The Shareholders' Agreement states that a majority must also approve such directors' decisions representing the Industrial Partner. Transactions for an amount greater than €50 million, which completion would imply a change in the Group's strategy, as previously approved by the Board (see p.201), are also submitted to the Board of Directors.

In addition, the representatives of the two reference shareholders individually and collectively represent an effective counterweight to the Chairman and Chief Executive Officer on the Board of Directors.

In addition, more than half of the directors (excluding Patrice Caine) exercise or have exercised general management functions in international groups operating in sectors as diverse as defense, aerospace, digital, energy finance (see their biographies in action 4.1, p. 70 to 78), which guarantees a great wealth of debates and decisions based on the best skills.

Finally, the work of the specialized Committees – including the Audit and Accounts Committee, the Governance and Compensation Committee, of which the Chairman and Chief Executive Officer isn't a member and are chaired by independent directors, provide a free and independent view of issues that are fundamental to the Company.

d) Other considerations

The review of the compensation of the Chairman and Chief Executive Officer is carried out, in Committee and then in Council, without the presence of the concerned person. This review takes place at the same time as the review of the annual accounts

Furthermore, since 2021, the Board of Directors has held at least one meeting per year without the presence of the Chairman and Chief Executive Officer, as required by its internal regulations. This annual meeting is chaired by the Chairman of the Governance and Remuneration Committee, who may propose restricting all or part of the meeting to certain directors. By guaranteeing the participant's freedom of expression, this meeting makes it possible to address various subjects related to current events, the Company and its governance. A session was held on July 2, 2021, bringing together all the directors other than the Chairman and Chief Executive Officer. The following topics were discussed: strategy, role of the Board on CSR issues with the attractiveness and retention of talent.

Finally, the directors have the opportunity to exchange views during Board visits to Group sites, and in particular during the Annual Board meeting to review the strategic plan.

Increasing the women's number on the Board of Directors

The objectives set by law no. 2011-103 of January 27, 2011, relating to the balanced representation of women and men on the Boards of Directors, Supervisory Boards and modified professional equality (minimum 40% of women and men among directors, excluding directors representing employees and employee shareholders), have been reached since November 29, 2016.

As of December 31, 2021, the percentage of women on the Board of Directors was 46% (6 out of 13 directors), excluding the representatives of employees and employee shareholders, and 50% (8 out of 16 directors), including the directors representing employees and employee shareholders.

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 the 2nd of March 2022, its annual review of the situation of its members concerning the definition of and criteria for independent directors as specified by the Afep-Medef code.

Under its rules of procedure, the Board of Directors, based on the report of the Governance and Compensation Committee, examined on March 2, 2022, as every year, the situation of its members concerning the definition and criteria of the independent director, as specified by the Afep-Medef code. Under these conditions, only the "External Personalities," under the terms of the shareholders' agreement, can be declared independent (a maximum of 4 out of 16).

The Governance and Compensation Committee has carefully studied the responses to the detailed questionnaire sent to each of the "External Personalities" in January 2022.

Among these, Mr. Philippe Knoche and Ms. Armelle de Madre were employed in 2021 by a group having business relations with Thales, namely Datadog Inc., of which Ms. Armelle de Madre is Director of Human Resources. Also, Mr. Philippe Knoche is Chief Executive Officer of Orano SA (see biographies on pages 72 and 73).

During its meeting on February 22, 2022, the Committee noted that the total amount of sales generated by the Group Orano and the purchase amount of Datadog's Group represented an amount well below the threshold of 1% of Thales' sales on the one hand and of the respective sales of Datadog and Orano, on the other hand. The Board set this 1% threshold as the materiality threshold for assessing whether or not the business relationship is significant.

On this basis, the Committee considered that nothing was likely to compromise the freedom of judgment of Mr. Philippe Knoche and Ms. Armelle de Madre in the performance of their duties as directors of Thales. Therefore, there was nothing to prevent them from being declared independent directors by the Board.

The two other "External Personalities" directors indicated that they had no business relationship with the Company or its Group. The Committee's opinion is that their questionnaires don't contain any response calling for any restriction on the qualification of independent directors.

Under the Afep-Medef code, the table below shows the independence criteria met by the directors concerned.

		Philippe Knoche	Armelle de Madre	Anne-Claire Taittinger	Ann Taylor
Criterion 1	Employee and corporate officer during the previous 5 years	✓	✓	✓	✓
Criterion 2	Cross-directorships	✓	✓	✓	✓
Criterion 3	Meaningful business relationship	✓	✓	✓	✓
Criterion 4	Family ties	✓	✓	✓	✓
Criterion 5	Statutory Auditor	✓	✓	✓	✓
Criterion 6	Term of office over 12 years	✓	✓	✓	✓
Criterion 7	Status of non-executive corporate officers	✓	✓	✓	✓
Criterion 8	Status of the major shareholder	✓	✓	✓	✓

In conclusion, on the recommendation of the Governance and Compensation Committee, the board decided to declare Armelle de Madre, Anne-Claire Taittinger, Ann Taylor, and Philippe Knoche independent directors.

As of March 2, 2022, the date the 2021 financial statements will be closed, the Board of Directors will have four independent directors, representing 31% of its members (excluding directors representing employees and employee shareholders, as specified by the Afep-Medef code). This proportion is slightly lower than the one-third recommended by the Code for audited companies.

Internal regulations of the Board of Directors and the Committees

The internal rules of the Board of Directors, which were last revised by the Board on March 3, 2021, don't replace the legal and statutory provisions governing the Board of Directors and its Committees nor the Code of Ethics or the Code relating to insider information and trading in securities. For the provisions applicable to directors, all of these rules constitute a true Code of Ethics for directors (see in particular "Prevention of Insider Trading" below).

In addition to the specific provisions of the shareholders' agreement, the internal regulations are based on best practices in terms of corporate governance, particularly those contained in the above-mentioned AFEP MEDEF Code. The Governance and Compensation Committee is responsible for ensuring that it is periodically updated and submitting any revisions it deems necessary to the board.

The rules of procedure are organized into five chapters:

I) Members of the Board of Directors (composition of the Board, independence, availability, primary duty, transparency, confidentiality, remuneration)

The rules of procedure state that:

- the members of the Board of Directors must inform the President of all management or administrative mandates entrusted to them;
- each Executive Director must obtain the opinion of the Board of Directors before accepting a new corporate mandate in a listed company;
- Directors must inform the Board of Directors of any situation involving a conflict of interest, even a potential conflict of interest. In this case, they must abstain from attending the debates and voting on the corresponding deliberation.

Also, they must inform the Chairman of any proposed agreement that directly or indirectly concerns them, which is likely under the French Commercial Code, to require prior authorization by the Board of Directors.

In addition, directors must individually issue a statement regarding the following:

- none of them has been convicted of fraud in the last five years;
- none has participated as an officer of a company that has been subject to bankruptcy, sequestration, liquidation, or receivership in the last five years, and none has been subject to official public censure and/or sanction by a statutory or regulatory authority;
- a court has prevented none from acting as a member of an administrative, management, or supervisory body of an issuer or from intervening in the administration or conduct of the affairs of an issuer in past five years;
- none of them is related to any member of the Board or the Executive Board;
- no potential conflict of interests exists between the positions held at Thales and their private interests or other positions held;
- each director declares that he or she is aware of the Group's anti-bribery policy, including the related policy and Code of Conduct, as reviewed by the Board of Directors and transmitted to all new directors.

II) Powers of the Board of Directors (representation and corporate interest, specific powers, shareholders' agreement)

The annual budget, the strategic plan, the appointment and dismissal of the Chairman and Chief Executive Officer (or the appointment of the Chairman and the Chief Executive Officer in the event of dissociation of these functions) acquisitions and disposals of equity interests or assets over €150 million (in terms of commitments or revenues), as well as strategic alliance and technological and industrial cooperation agreements, are systematically submitted to the Board for approval. Also, It is specified that the shareholders' agreement stipulates that a majority of the directors representing the industrial partner (Dassault Aviation) must approve these decisions.

Also, the Board of Directors is asked to approve transactions worth over €50 million whose implementation would imply a change in the Group's strategy, as previously approved by the Board.

III) Information for the Board of Directors (communication, training)

In particular, it is expected that:

- Council files are sent to participants in a timely manner;
- the representative of the State under the specific action, the government commissioner, the representative of the Central Economic and Social Committee receive all the documents sent to the directors and are called to all Board meetings;
- all new directors receive a folder containing useful documents for taking up their duties. Also, they are given an information session on the Company, its organization, and activities, led by the Group's principal executives. Subsequently, each director may request additional training.

IV) Committees of the Board of Directors (constitution and powers, organization, information, Audit and Accounts Committee, Governance and Compensation Committee, Strategy and Social and Environmental Responsibility Committee)

In addition to the powers of each Committee (see relevant sections below), it is specified that each Committee has the right to request from General Management any additional information it deems necessary to carry out its mission. The Board of Directors may, in exceptional cases, call on outside expertise.

V) Operation of the Board of Directors (meetings, participation and representation, annual evaluation, updating of internal regulations)

This chapter sets out the main procedures for convening, meeting, participating in, and evaluating the Board of Directors. Also, It provides at least one annual meeting of the directors without the Chairman and Chief Executive Officer being present.

This part relating to the operation of the Board of Directors is the subject of the annual Statuary report in section 4.2.2 below.

Prevention of Insider Trading

To take into account any applicable regulations and the recommendations contained in the AMF, Thales has implemented a system of “blackout periods” or no trading periods: In addition to the periods for the annual and half-yearly financial statements (at least 30 calendar days in each case), two periods have been introduced for quarterly information (first and third quarters) of at least 15 days each. In all cases, the period includes the day following the day of publication of the financial press release.

The financial calendar is posted on the Company’s website after the third quarter financial press release for the first half of the following year (including the General Meeting date). This schedule is completed for the whole year when the previous year’s annual results are published. The calendar is updated for the whole year when the previous year’s annual results are published.

The Company has informed the directors of their obligations to refrain from trading in Thales securities (and any related financial instruments) during the blackout periods relating to the annual, half-yearly financial statements and quarterly information (as defined by the Company). Also, they have to refrain from trading when they have access to privileged information (within the meaning of the regulations in force).

In addition, the directors have been informed of their reporting obligations to the “*Autorité des marchés financiers*” and the Company in respect of the transactions referred to in Article L. 621-18-2 of the French Monetary and Financial Code. Besides, they are obliged to inform the Company of the list of persons closely related to them and inform those persons of their obligations.

Directors may if they wish consult the Company Secretary or the Group General Counsel before dealing in any shares.

Obligation to Hold a Minimum Number of Shares

Under Article 10.3 of the Statutes, each director must hold at least 500 shares unless exempted by law. Also, the Chairman & Chief Executive Officer is subject to an obligation to retain shares that they hold as part of their long term compensation (see section 4.4.2.1 B).

Transactions’ summary Mentioned in Article L. 621-18-2 of the French Monetary and Financial Code Done in 2021

The summary statement (under Article 223-26 of the AMF General Regulation) of the transactions referred to in Article L. 621-18-2 of the Monetary and Financial Code carried out in 2021 by the persons required to report is provided in section 4.6.

4.2.2 Report on the Board of Directors’ Activities during the Financial Year 2021

Number of meetings and Attendance Rate

The Board of Directors met nine times in 2021. The average attendance of directors was 96%. Individual attendance rates are specified in section 4.2.1 above.

The statutory auditors are invited to attend meetings to review the interim and annual financial statements. Also, 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 their presence is likely to enrich the discussions.

Main Topics Covered

In addition to the recurring matters falling within the competence of the Board of Directors (annual budget and updated forecasts, closing of the consolidated and corporate annual accounts and review of the consolidated half-year accounts, determination of the remunerations package for the Chairman and for the Chief Executive Officer and setting the quantitative and qualitative criteria for their variable compensation, approval of the annual meeting documents and a notice to attend the Annual General Meeting, prior authorization, where applicable, of regulated commitments or agreements, the annual assessment of the

functioning of the Board and its Committees, various delegations of authority to the Chairman and Chief Executive Officer and reports on their use, annual review of the independence of Directors, etc.), the Board dealt with the following matters, on the basis of a Committee’s report, if any:

- monitoring the main strategic challenges of the Group’s various business areas and its market positioning;
- the objectives of gender diversity in the Group’s governing bodies;
- following up monitoring the cost of sales synergies of the Digital ID and Security Business (DIS) formed following the acquisition of Gemalto;
- the proposed disposal of the Transport business;
- the implementation of the annual LTI (Long Term Incentive) plan with performance conditions, applicable to Group employees;
- an update on Human Resources (human capital, renewal dynamics, and feedback from the Group-wide engagement survey launched in Q2);
- strengthening the Group’s program on the prevention of corruption and influence peddling;
- preparation for the ESG Investor Day on October 5, 2021;
- the financing of the pension plan in the United Kingdom.

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 optimized; the documents are then sent out in paper form to directors who request this.

Additional training

In accordance with the Board's rules of procedure, directors may ask to receive additional training.

Organization and Operation of Board Committees

The Board of Directors has three Committees: an Audit and Accounts Committee, a Governance and Compensation Committee and a Strategic and Corporate Social Responsibility Committee.

Audit and Accounts Committee

As of December 31, 2021, 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 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 fulfillment 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 authorized 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 company's financial statements 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.

It consults the statutory auditors on the following:

- 1) their general program 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 comments mentioned above 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 regarding 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 program 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 2021, the members of the Committee were:

- Anne-Claire Taittinger, Chairman and independent director;
- Bernard Fontana;
- Frédérique Saint, director representing employees;
- Loïk Segalen.

The composition of the Audit and Accounts Committee is consistent with the provisions of the French Commercial Code: the Committee members are all directors and at least one director, the Chairman, in addition to being qualified as an independent director, has the requisite financial, accounting and statutory audit expertise (see the biography of Mrs Anne-Claire Taittinger on page 75).

However, the Committee is not composed of two thirds independent directors, as recommended by the Afeep-Medef code, but only one-third (note that M^{me} Frédérique Saint, the director representing employees wasn't 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 (see page 80 for an explanation of this point).

The Committee met five times in 2021, with an attendance rate of 100%.

The statutory auditors, who are 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 well as the Group Financial Control Director and, occasionally, depending on the agenda, other representatives of the Finance Department and the Group's Legal and Contracts Director.

In 2021, besides to the annual financial statements, the Committee also reviewed:

- the interim financial statements;
- the execution of complicated contracts and their accounting implications;
- the follow-up of the main disputes;
- the external audit plan and statutory auditors' fees;
- the organization of internal control, updates to the risk mapping, and assessment of the implementation of the annual audit plan;
- the audit plan for 2022;
- the change in cyber-risk;
- the strengthening of the Group's anti-corruption and anti-influence peddling program;
- the preparation of the next three-year assessment of the Group's pension commitments in the United Kingdom and the corresponding financing plan;
- the preparations for the Group's first statement on the environmental taxonomy regulation in 2022;
- the follow-up of the implementation of the regular assessment procedure for ongoing agreements in respect of 2020;
- the Board's report for 2020 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 Compensation Committee

In compliance with Article 17 of the Board's rules of procedure, the Governance and Compensation Committee has the task of examining:

- the compensation policy for the Company's senior executives;
- the compensation of the Chairman and Chief Executive Officer and any commitment concerning him, the compensation of the directors and, if applicable, that of other Company representatives;
- the proposed "LTI" plans (*long-term incentive*) 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 2021, the members of the Committee were:

- Philippe Knoche, Chairman, independent director;
- Emmanuel Moulin;
- Frédérique Saint, director representing employees; and
- Eric Trappier.

The Committee met four times in 2021, with an attendance rate of 100%.

The ratio of independent directors recommended by the Afep-Medef code (at least half) isn't 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 (see page 80 for an explanation of this point).

The Senior Executive Vice President, Human Resources, and the Company Secretary are invited to all Committee meetings, and the Chairman and Chief Executive Officer 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 2021 included:

- the total remuneration of the Chairman and Chief Executive Officer (*ex-post* 2020 and compensation policy for 2021, plus the desirable amendments to the remuneration policies in response to the Covid-19 crisis);
- the independence of the directors;
- the Group's long-term incentive (LTI) policy and the preparation of a free share allocation plan with performance conditions and according to the level of responsibility of the beneficiaries;
- the terms for the annual assessment of the performance of the Board of Directors, carried out this year with the help of an external consultant, and the report presented to the Board;
- 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 are recorded in the minutes, which may be more detailed.

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, 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 analyze 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 analyze major acquisitions and asset disposal plans (over €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;
- to examine the Group's Extra-Financial Performance Statement to make recommendations to the Board.

As at 31 December 2021, 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.

No conditions are set for the independence of directors, either by law or by the Afep-Medef code, for this type of committee.

The Strategic and Corporate Social Responsibility Committee met five times in 2021, with a 100% attendance rate, in particular to review the 2021 budget, the new gender-balance targets for the Group's management bodies and the report on "Corporate Responsibility and extra-financial performance" for the financial year 2020, including the Group's Extra-Financial Performance Statement and planned acquisitions or disposals.

In 2021, 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 produced for each meeting and distributed to all directors at the following Board meeting, with supporting documentation as applicable. Meetings are recorded in minutes, which may be more detailed.

As of 2022, Anne Rigail and Marie-Françoise Walbaum will participate in meetings of this Committee for agenda items dealing with social and environmental responsibility.

4.2.4 Assessment of the Board's performance

Each year, the Board assesses its performance either utilizing a formal self-assessment or an external assessment. In either case, the assessment is followed by a discussion with the Governance and Compensation Committee and then the Board.

At the end of 2021, an assessment was carried out with the help of an external consultant, based on an online questionnaire and discussion guide drawn up in conjunction with the Chairman of the Governance and Remuneration Committee.

This assessment highlighted:

- a positive dynamic between the Board and Corporate Management;
- appropriate risk management by the Board and the Audit and Accounts Committee;
- skills and experience among the directors in the Group's main areas of activity and in the conduct of Corporate Management duties, and a good understanding of governance and strategy by the latter;
- the Board's trust in the Chairman and Chief Executive Officer and his management team;
- the quality of the information and presentations sent to directors;
- effective and open leadership of discussions by the Chairman and Chief Executive Officer;
- high-quality interventions and interactions in Board meetings, which are then accurately reported in the minutes;

- effective Committees; the contribution made by the work of the Audit and Accounts Committee and the Governance and Compensation Committee, in particular, was highlighted; and finally
- a shared culture between members of the Board.

The recommendations approved by the Board following the assessment focused on the following topics, in particular:

- given the increasing prominence of CSR topics and challenges, the Board decided to include two additional directors, Anne Rigail and Marie-Françoise Walbaum, to examine CSR-related issues in the framework of the Strategic and Corporate Social Responsibility Committee;
- it would also be advisable, when terms of office are renewed next, to strengthen the Board's skills in the areas of digital technology and CSR, as well as improving understanding of non-OECD countries. This recommendation should be implemented according to the rules laid down in the shareholders' agreement concerning the composition of the Board and its Committees;
- finally, the Board would like the Governance and Remuneration Committee to be kept updated on a regular basis of the procedures for identifying and developing executives who might become members of the Executive Committee.

4.2.5 Diversity Policy of the Board of Directors and Gender Balance in Governing Bodies

Diversity Policy of the Board of Directors and its Committees (Information Referred to in Article L. 22-10-10, paragraph 2 of the French Commercial Code and in paragraph 6.2 of the Afep-Medef code)

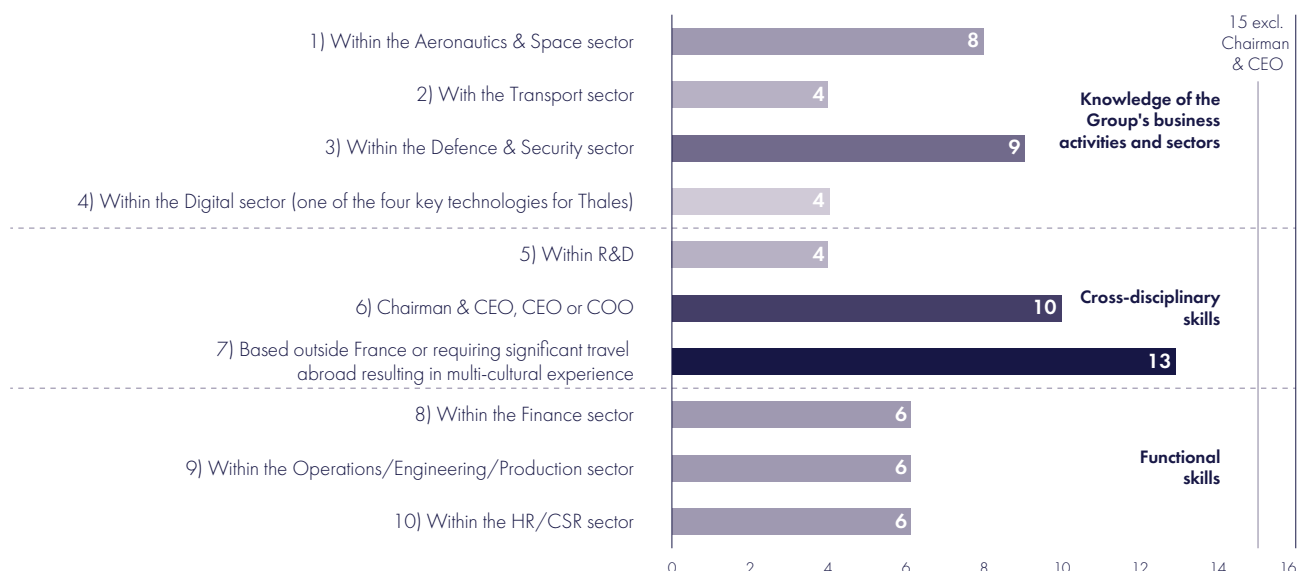
The directors assessed the achievement of the Board’s diversity targets initially set at its meeting on 5 March 2018 and confirmed at the meetings held on 25 February 2019 and 25 February 2020, and 3 March 2021, as well as their potential development for 2022.

Diversity target wording	Findings from 2021	Possible reassessment of the target for 2022
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, defense, space transport and digital technology) as well as in key cross-disciplinary areas such as finance, industry and human resources. Refer to the Director’s skill matrix.	Target unchanged. The Board took note of certain desirable skills during the assessment conducted in 2021.
A balanced representation of men and women on the Board and its Committees	This target was considered met, given that 54% of Board members were men and 46% were women (excluding the directors representing employees and employee shareholders), 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 02/03/2022)**



Gender balance on management bodies (information referred to in Article L. 22-10-10, paragraph 2 of the French Commercial Code and in paragraph 1.7 and 7 of the Afep-Medef code)

At the end of 2021, the Group's Executive Committee within the Corporate Management structure comprised three women and 12 men. Women thus represent 20% of the Committee's membership, compared with 14.3% at the end of 2019, when it comprised of two women and 12 men.

At its meeting on March 30, 2022 upon the recommendation of its Strategy & Social and Environmental Responsibility Committee and in accordance with the recommendations of the Afep-Medef code specified by the High Committee for Corporate Governance (HCGE) the Board of Directors decided on medium-term gender diversity targets for the Group's management bodies:

- pursuing the two gender diversity objectives set by the Board on February 9, 2021 for the period 2021/2023, i.e. 75% of Management Committees (GBUs, Business Lines, Major Countries, DGDI, Group Executive Committee) to include at least 3 women, by 2023, and a target of 20% of women in positions of responsibility (pay grades) 10 to 12⁽¹⁾, by 2023, corresponding to the Ambition 10, 10-year strategic plan. The General Management has decided to include this last quantifiable criterion in the annual variable pay-scheme for all of the Group's entitled executives (more than 47,000 employees);

- acceleration of the trajectory over the 2024/2026 period, with new targets over the period: 75% of Management Committees with at least 4 women by 2026⁽²⁾ and 22.5% of women achieving pay grades of 10 to 12 by 2026.

At the end of 2021, the Group was in line with these objectives, with women representing 18.9% of employees in positions of highest responsibility (vs compared with 14.7% at the end of 2016 and 18% at the end of 2020) out of a population representing 13% of the total workforce. 71% of the Group's management committees included at least three women (vs. 27% at end-2016 and 68% at the end of 2020).

Thales has implemented a range of Group-level initiatives to help achieve these targets, including the publication of a global gender equality Index, an international mentoring program and active coordination of local gender-balance networks. Numerous steps have also been taken at the local level, including highlighting female engineers, awareness-raising and communications campaigns on stereotypes and unconscious bias, as well as initiatives to combat workplace sexism, etc...

These commitments and achievements are published in the Group's 2021 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 on 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 falling outside the Group strategy, must be automatically submitted for Board approval. These restrictions were confirmed without amendment by the Board of Directors when the Chairman and Chief Executive Officer was reappointed on 23 May 2018. In principle, they will be renewed without amendment by the Board of Directors meeting convened to renew the Chief Executive Officer term of office following the Annual General Meeting on 11 May 2022.

4.2.7 Succession plan

The development of a succession plan for the Chief Executive Officer takes into account the Company's specific governance requirements, insofar as the Shareholders' Agreement between the Public Sector and the Industrial Partner provides that the Chief Executive Officer is selected based on their joint proposal.

Once they have established their joint position, they will inform the Chairman of the Board of Directors and the Chairman of the Governance and Compensation Committee before the Board of Directors meeting convened to decide on such proposal, and the Board of Directors will then decide on the proposal in accordance with its governance rules.

4.2.8 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 at least six months in advance.

(1) The Group's internal classification has 12 pay grades, with #12 being the highest. The number of employees exceeding the 10 to 12 pay grades provided for in section L. 20-10-10 2° of the Commercial Code (10%), has been retained for the sake of homogeneity and consistency.

(2) As of December 31, 2021, 42% of Management Committees were composed of at least 4 women.

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 electronically.

Any shareholder who has already voted remotely 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. Undivided co-owners of shares are represented at the 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 most diligent co-owner.

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.

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 authorized 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 cease for any share that has been converted to a bearer share or transferred (except as a result of intestate or testamentary succession, the division of community property between spouses, or an *inter vivos* gift to a spouse or relative in the line of succession, as well as in the event of a transfer following a merger or demerger of a shareholder company).

Double voting rights may be canceled 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 Chief Executive Officer is chosen based on a joint proposal by the parties;
2. in the absence of termination on expiry of the contract on 31 December 2021, the agreement was tacitly renewed for another period of five years expiring on 31 December 2026. 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 authorizations valid at 31 December 2021 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 (11th resolution): 53 million shares, €3 billion debt securities • Without pre-emptive subscription rights and with the possibility of a priority period (12th resolution): 20 million shares, €2 billion debt securities • Without pre-emptive subscription rights by private placement (13th resolution) 20 million shares, €2 billion debt securities • Possibility of green shoe over-allocation (14th resolution): Max 15% of the issues made specific to each resolution/type of transaction above <p>Duration 26 months, until July 5, 2022</p>	No use	<p>Overall ceilings (16th resolution):</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 debt securities for resolutions 12, 13 and 14; • €3 billion debt securities for resolutions 11, 12, 13 and 14;
<p>Issuance of new shares in consideration for contributions of securities of third parties</p> <p>Limit of 21.3 million shares (15th resolution)</p> <p>Duration 26 months, until July 5, 2022</p>	No use	
<p>Issuance of new shares reserved for PEG members</p> <p>Ceiling 2 million shares (17th resolution)</p> <p>Minimum discount: 30% for 5-year PEE and 40% if the shares are held for 10 years</p> <p>Duration 26 months, until July 5, 2022</p>	No use	Note: employee shareholding transactions are now carried out on the basis of existing shares, previously purchased by the Company as part of a share buyback program.

Agreements Between an Executive or Significant shareholder and a Subsidiary

During the financial year 2021, no agreement was entered into, either directly or through an intermediary, between a corporate officer or shareholder holding more than 10% of the Company's share capital and another company in which Thales directly or indirectly holds more than half of the share capital, except for of routine agreements entered into under normal terms and conditions.

Procedure for the Regular Evaluation of Agreements Relating to Current Operations and Concluded Under Normal Conditions

At its meeting of February 25, 2020, the Board of Directors approved, on the recommendation of its Governance and Compensation Committee and its Audit and Accounts Committee, the procedure for the regular assessment of agreements relating to current transactions entered into under normal conditions.

This is part of an internal charter, the purpose of which is also to set out the methodology and procedure implemented to identify, qualify and process agreements entered into by Thales SA to which the provisions of Article L. 225-38 of the French Commercial Code are applicable (regulated agreements). This charter isn't made public.

The procedure provides that, at the end of each calendar year, the main departments concerned (in particular, the Corporate Secretary's Office and the Group Finance Department) review the information provided by the departments concerned when such agreements are entered into, modified, renewed or terminated, to analyze the normal nature of their terms and conditions along with the relevance of the criteria used to establish them.

Under Article L. 22-10-12, paragraph 2 of the French Commercial Code, persons directly or indirectly involved in any of the agreements concerned do not participate in this assessment.

Furthermore, the procedure provides that, when preparing the annual financial statements, the General Management reports on the work mentioned above to the Audit and Accounts Committee, which reports to the Board.

Following this review, the Board of Directors may, on the recommendation of its Audit and Accounts Committee, determine the course of action to be taken with respect to agreements that no longer meet the aforementioned criteria, or revise said criteria or, more generally, the procedure itself, in order to take into account any changes in legislation or regulations and/or changes in market practices.

In addition, should this review lead to the conclusion that the prior authorization of the Board of Directors has been omitted for a given agreement, it will be proposed to the Board of Directors to ratify it before it is presented to the Annual General Meeting for approval *after the fact*, in accordance with the applicable texts, or to amend or even terminate it.

At its meeting on March 2, 2022, the Board of Directors reviewed the report of the Audit and Accounts Committee on the performance for the financial year 2021 of the procedure for the regular assessment of agreements relating to current transactions and entered into under normal conditions.

The review identified more than 20 agreements for the financial year 2021 for Defense and Industry projects, R&D partnerships, project financing, purchases of consumables or fitting-out work, professional dues, and export credit insurance.

This review led to the conclusion that the aforementioned agreements remain current and concluded under normal conditions, and that the criteria used by Thales SA to determine the agreements qualifying as such do not require any particular modification.

The Board also considered that an agreement relating to the creation by Thales SA, in January 2022, of an economic interest grouping requires, in view of the interpretation adopted by the Board of Auditors, to be reclassified as a regulated agreement and presented to the General Meeting of May 11, 2022 for approval.

4.3 General Management and Executive Committee

Executive Committee as of December 31, 2021



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
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

4.4 Compensation of company representatives

4.4.1 Information on the 2021 compensation of company representatives

This section 4.4.1 presents the compensation paid or awarded during the financial year 2021 to all corporate officers and, more generally, the information required by the Article L. 22-10-9 I of the French Commercial Code. They are the subject of the 12th resolution presented to the Annual General Meeting of May 11, 2022. If this resolution is rejected, payment of the compensation awarded to the directors in respect of the 2022 financial year will be suspended and the Board of Directors will submit to a new Annual General Meeting a draft resolution presenting a revised compensation policy, according to the conditions set out in Article L. 22-10-34 I of the French Commercial Code.

Subsection 4.4.1.1 sets out the fixed, variable and exceptional components of the total compensation and benefits of any kind paid to the Chairman and Chief Executive Officer in the financial year 2021 or granted in respect of that year. They are the subject of the 11th resolution presented at this same Annual General Meeting. Payment of the Chairman and Chief Executive Officer's 2021 annual variable compensation and the payment of the performance units vested by him under the 2018 LTI Plan are subject to the approval of this resolution.

4.4.1.1 Compensation 2021 of the Chairman and Chief Executive Officer

A. Fixed and variable annual compensation

Mr. Patrice Caine's annual fixed and variable compensation for 2021 was set under the compensation policy for the Chairman and Chief Executive Officer of Thales approved by the Shareholders' Meeting of May 6, 2021 (10th resolution).

It is composed of:

- A fixed compensation of €800,000 (gross amount);
- A variable annual compensation target of €800,000 if the objectives are met, capped at a maximum of €1,200,000 (150% of the target) if these objectives are exceeded.

The criteria for determining annual variable compensation are 75% financial and 25% non-financial. To compensate for outperformance on the financial criteria, the payment relating to these criteria may exceed the target up to 166.66%, which isn't the case for the non-financial part, capped at 100%. Therefore, the annual variable compensation is capped at 150% of the target.

The possibility of requesting the return of the variable compensation is not provided for in the 2021 compensation policy for the Chairman and Chief Executive Officer.

(i) Financial criteria of the 2021 annual variable compensation

For the financial part, the criteria were EBIT (35%), order intake (20%), and *free operating cash flow* (20%). The table below shows the scales of achievement for these three financial criteria.

• FINANCIAL CRITERIA OF THE 2021 ANNUAL VARIABLE COMPENSATION

Criteria	Weighting	Thresholds	Payment in % of target
EBIT	35%	If results ≤ 90% of the budgeted target	0%
		If results = 100% of the budgeted target	35%
		If results ≥ 110% of the budgeted target	58.33%
Order intake	20%	If results ≤ 90% of the budgeted target	0%
		If results = 100% of the budgeted target	20%
		If results ≥ 110% of the budgeted target	33.33%
Free operating cash flow	20%	If results ≤ budgeted target - 2% of budgeted sales	0%
		If results = 100% of the budgeted target	20%
		If results ≥ budgeted target +2% of budgeted sales	33.33%
TOTAL FINANCIAL CRITERIA	75%		

The definition and calculation of these criteria are set out in section 2.3.

Criterion	Weight	Achievement (in € millions)	Level of achievement
EBIT	35%	1,810	138.0%
Order intake	20%	21,856	166.7%
Free operating cash flow	20%	2,515	166.7%
Financial portion of annual variable compensation (as % of target)	75%		153.3%

At its meeting on March 2, 2022, the Board of Directors reviewed the results obtained for the financial criteria. As the budget has not been updated following the classification of the Transport operating segment as a discontinued operation, the performance assessment has been made on a basis that includes this segment.

EBIT on this basis was €1,810 million (€1,649 million from continuing operations + €161 million from discontinued operations), representing a significant outperformance against budget, driven in particular by strong growth at Thales Alenia Space and good control of overhead costs. Also, the Board noted that the Transport business had achieved a margin above 7%, up sharply on previous years and in line with the medium-term objective set for this activity, and that, despite the impact of the Covid-19 crisis on the biometrics business and chip shortages, DIS recorded an EBIT margin of almost 12%, once again improving strongly. These increases trigger a 138.0% payment on this criterion.

In addition, the Board welcomed the Group's commercial outperformance against budget in 2021, particularly in Space, Transport, and defense systems. The signing of 13 contracts worth more than €100 million, including two worth more than €500 million, enabled the Defense & Security sector to achieve an all-time high in order intake. At €21,856 million (€19,909 million from continuing operations + €1,947 million from discontinued operations), order intake is more than 10% above budget, triggering a payment at the ceiling (166.66%) on this criterion.

Finally, the Board noted the very good *free operating cash flow* level, at €2,515 million, driven by the strong momentum of order intake and the team mobilization around the plan to improve cash flow generation. This level is clearly above the budget target and triggers a ceiling payment (166.66%) on this criterion.

In total, considering the weighting of the three financial criteria, the Board noted that the financial portion of the annual variable remuneration amounted to €919,835, or 153.3% of the target. This level reflects the Group's outstanding financial performance in 2021.

(ii) Non-financial criteria for annual variable compensation 2021

In accordance with the compensation policy mentioned above for the Chairman and Chief Operating Officer of Thales, his performance in 2021 has been evaluated based on the following four non-financial criteria:

Criterion	Weight	Achievement	Elements of assessment
1. Impact of the Covid-19 crisis: continued implementation of structural adaptation measures in activities exposed to civil aeronautics, with a view to preserving skills for future recovery	5%	90%	<p>The Board noted the success of the plan to adapt the Avionics business to the context of the Covid-19 crisis, through an overall adaptation of staffing in the business concerned (from 10,500 to 8,685 between the end of 2019 and the end of November 2021), which was achieved through the implementation of a Group mobility plan and an active employment management agreement. These operations have made it possible to preserve skills within the Group and, as a result, to minimize job cuts (310 transfers and 170 engineers reassigned to a new shared skills center).</p> <p>The Board also noted that the review of the strategic direction of the Avionics <i>Business Lines</i> particularly affected by the crisis was continuing.</p>
2. Cross-functional actions and strategy: further capture of synergies with Gemalto	5%	100%	<p>The Board noted the full achievement of the cost synergy objectives following the acquisition of Gemalto, and the good progress of revenue synergies between DIS and the rest of the Group.</p> <p>It also highlighted the signing of the agreement to sell the Ground Transportation Systems business to Hitachi, a major step in the management of the Group's business portfolio.</p>
3. Preparing for the future: detailed review of short/medium term R&D investment plans, promotion of apprenticeship and youth recruitment	5%	100%	<p>The Board noted the work done on the short/medium-term dynamics in R&D investments, and the success of Thales' participation in the Aeronautics recovery plan launched by the French authorities and the high level of proposals made to the European Defense Fund.</p> <p>It also noted that the Group maintained its commitment to youth employment, with 1,600 apprentices and 1,900 trainees hired, as well as the limited decline in the conversion rate compared to the situation before the Covid-19 crisis.</p>
4. CSR criteria accounting for 10%, broken down into four themes, which were assessed in particular in the light of the progress towards the quantified objectives presented in chapter 5 of the 2020 Universal Registration Document:			
4.1. Diversity and inclusion: increase the representation of women in the Group's management bodies	2.5%	100%	<p>The Board has taken note of the good progress made by the Group in terms of the gender mix of its management bodies in 2021 by analyzing its progress against the objectives set by the Group for 2023:</p> <ul style="list-style-type: none"> on the criterion of the percentage of women at levels of responsibility 10 to 12, for which the 2023 target is 20% (compared with 16.5% at the end of 2018), the annual milestone set for 2021 was 18.66% and the target reached at the end of 2021 is 18.92%; on the criterion of the number of Management Committees with at least three women, for which the 2023 target is 75% (compared with 49% at the end of 2018), 71% was achieved by the end of 2021. <p>The Board also noted the establishment of an internal gender equality Index on a global basis.</p>
4.2. Occupational health and safety: strengthen the occupational safety culture to ensure a lasting reduction in the frequency of work-related accidents	2.5%	100%	<p>The Board noted with satisfaction the significant reduction in the lost time injury frequency rate (If1), making it possible to achieve by the end of 2021 the target set for 2023, i.e. a 30% reduction in this rate compared to 2018, while noting that this performance had undoubtedly benefited from a very high level of remote working in the context of the Covid-19 crisis.</p> <p>Also, the Board welcomed the smooth functioning of the health crisis unit, as well as the actions taken to strengthen the HSE policy in 2021, in particular the introduction of new proactive prevention indicators and monthly management dashboards.</p>

Criterion	Weight	Achievement	Elements of assessment
4.3. Deployment of the Low Carbon Strategy: reducing operational emissions by acting on operations (production and property management activities) and employee mobility.	2.5%	100%	<p>The Board noted the Group's strong performance in 2021 in reducing operational greenhouse gas emissions, noting a 36% decrease compared to 2018, exceeding the target set for 2023. However, it noted that this achievement included a 63% decrease in business travel-related emissions, partly due to travel restrictions caused by the Covid-19 crisis.</p> <p>It welcomed the success of the ESG Investor Day held on October 5, 2021, during which the medium- and long-term objectives were strengthened and completed, with the Group setting a "net zero" target for its operational emissions by 2040.</p> <p>Also, it noted the positive assessments by non-financial rating agencies of the Group's environmental policy, in particular the measures taken to ensure the implementation of all related actions, as well as the "A-" rating awarded in 2021 by the Carbon Disclosure Project (CDP).</p>
4.4. Continue to strengthen Compliance programs	2.5%	100%	<p>First, the Board noted that in 2021 the Group has obtained the "ISO 37001: Anti-bribery management system", certification and the successful deployment of the new anti-corruption training campaign. It mentioned that 100% of the 6,771 employees concerned were trained during the year.</p> <p>It also noted the measures taken to strengthen the Group's four compliance programs (anti-corruption, competition law, personal data processing, export control), and in particular:</p> <ul style="list-style-type: none"> strengthening internal controls and anti-corruption accounting controls, in line with the recommendations of the French anti-corruption Agency (AFA), implementing digital platforms or dedicated tools for collecting alerts, approving gifts and invitations, or screening stakeholders in export operations, updating numerous instructions, and deploying dedicated training in the various compliance areas.

At its meeting on March 2, 2022, the Board of Directors reviewed the above criteria, taking into account the weighting of these four non-financial criteria, and therefore decided, on the recommendation of its Governance and Compensations committee, to set the achievement level of these criteria at 98%, i.e. €196,000.

This review led the Board to decide, on the recommendation of the Governance and Compensations Committee, that the annual variable compensation to be paid in 2022 to Mr. Patrice Caine for financial year 2021 should amount to €1,115,835, representing 139.5% of the target annual variable compensation.

B. Long-term compensation

LTIP Plan 2018

At its meeting on March 2, 2022, the Board of Directors noted that the Chairman and Chief Executive Officer satisfied the continued presence

requirement included in the long-term compensation plan granted on March 5, 2018. At its March 3, 2021 meeting, it had previously noted the achievement levels of this plan. Subject to the approval of its 11th resolution by the Annual General Meeting of May 11, 2022, the Chairman and Chief Executive Officer will therefore receive 2,277 performance units valued at the closing stock market price on March 3, 2022, i.e., an amount of €243,184. Half of this amount will be paid in Thales shares at the closing price on the day of the said Meeting, and the balance in cash.

LTIP Plan 2019

On March 2, 2022, the Board of Directors also noted the achievement level of the performance conditions relating to the long-term incentive plan allocated on September 25, 2019 (LTIP 2019). It noted that the Annual General Meeting of May 6, 2021 had approved the plan adjustments following the Covid-19 crisis. The revised targets are described on page 104 of the 2020 Universal Registration Document.

Criterion	Weight	Realized	Level of achievement
Cumulative free operating cash flow 2019/2021	40%	€4.94 billion	100%
Average order intake for 2019/2021	40%	€19.82 billion	100%
Total Shareholder Return compared to a panel of European companies ^(a) Measurement based on performance at 12/31/2021 compared to that of 12/31/2018.	10%	-21.0%	0%
Total Shareholder Return compared to the Euro Stoxx Index Measurement based on performance as of 12/31/2021 compared to 12/31/2018	10%	-21.0%	0%
Total level achieved (in % of the maximum number of units)			80%

(a) The panel includes: Airbus, Atos, BAE Systems, Capgemini, Dassault Aviation, Leonardo, Rolls-Royce and Safran.

With respect to the *free operating cash flow*, the Board noted that the year 2021 ended the 3-year period with results significantly above what was targeted. Indeed, after a very strong 2019, the mobilization of the teams from the start of the Covid-19 crisis enabled the Group to outperform

the budget target in 2020. As the *free operating cash flow* reached an unprecedented level in 2021, the achievement over the period exceeded the ceiling and therefore triggered a 100% payment on this criteria.

With regard to the order intake criterion, the Board noted that the excellent commercial performance in 2019 and 2021 had more than offset the year 2020, which was marked by the impact of the Covid-19 crisis on civil aeronautics and delayed orders in the other segments. This outperformance over three years also triggered a 100% payment on this criterion.

Finally, the Board noted that the stock market performance of the Thales share, dividend reinvested, was -21% over the period 2019/2021. This change reflects the derating of the Group's share, which had higher valuation multiples in 2018. This level is below the median of the panel of European companies considered, as well as the Euro Stoxx, as the market's valuation level has increased significantly over the period. This last criterion did not trigger any payment.

The 2019 LTIP will therefore result in the payment, in 2023, of 5,760 performance units to Mr. Patrice Caine, subject to compliance with the continued presence requirement and approval by the 2023 Annual General Meeting.

The updated terms of this LTI 2020 Plan are as follows.

Criteria LTIP 2020	Current structure	New structure
Cumulative free operating cash flow over the period 2020/2022	960 minimum units ^(a) 2,880 maximum units Floor: €3.3 billion Ceiling €3.6 billion	Number of units unchanged Floor: €3.2 billion Ceiling €3.5 billion
Average order intake over the period 2020/2022	960 minimum units ^(a) 2,880 maximum units Floor: €18.2 billion Ceiling €19.1 billion	Number of units unchanged Floor: €17.6 million Ceiling €18.5 billion
Total Shareholder Return compared to a panel of European companies ^(b) Measurement carried out on performance as of 12/31/2022 compared to 12/31/2019	450 minimum units ^(a) 720 maximum units Floor: unchanged Ceiling: unchanged	Unchanged
Total Shareholder Return compared to the Euro Stoxx Index Measurement carried out on performance as of 12/31/2022 compared to 12/31/2019	450 minimum units ^(a) 720 maximum units Floor: unchanged Ceiling: unchanged	Unchanged

(a) No unit below the floor.

(b) The panel includes: Airbus, Atos, BAE Systems, Capgemini, Dassault Aviation, Leonardo, Rolls-Royce and Safran.

C. Other Commitments

The Chairman and Chief Executive Officer benefits from a supplementary defined contribution pension scheme, subject to Article 82 of the French General Tax Code, under the following conditions:

- the payment of an annual contribution by the Company to an external insurer (the "Insurer Contribution"), representing 32% of the fixed base compensation actually received between December 1st of the previous year and the 30th of November of the year concerned. For 2021, this contribution amounts to €256,000;
- payment by the Company to the person concerned of an amount to compensate for the negative impact of this change on the latter's net compensation after contributions and income tax. For 2021, this amount is €256,000;
- this new plan is not conditional on presence in the company at the time of retirement, and its benefit is conditional on the achievement of the performance condition: the contribution is paid only if the average rate of achievement of the annual EBIT objectives set by the Board for the Chairman and Chief Executive Officer over the last three financial years is greater than or equal to 80%. This condition has been met and has therefore triggered a contribution in 2021.

Adjustment of the parameters of the LTI 2020 Plan following the classification of the Transportation operating segment as a discontinued operation

The signing of the agreement to sell the worldwide Ground Transportation Systems business to Hitachi represents a significant change in the Group's consolidation scope. Pursuant to the exceptional circumstances clause in the compensation policy for the Chairman and Chief Executive Officer (section 4.4.3.1.B.f of the 2020 Universal Registration Document, p.113), the Board of Directors decided at its meeting of March 2, 2022, on the recommendation of its Governance and Compensation Committee, to adjust the floors and ceilings of the 2020 LTI Plan, to take into account the fact that this business would no longer be included in the budget in 2022. This adjustment, proportional to the impact of this divestment, results in a €600 million reduction in the floor and ceiling value of the "average order intake over 2020/2022" criterion, and a €100 million reduction in the floor and ceiling value for the "cumulative operating free cash flow 2020/2022" criterion.

- this performance condition changes as from 2022, in accordance with the approval by the Annual General Meeting of May 6, 2021 of its 10th resolution (§ 4.4.3.1.B page 112 of the 2020 Universal Registration Document), as follows:

- if annual variable compensation < 50% of target: no contribution is paid,
- if annual variable compensation between 50 and 80% of target = between 0 and 100% of contribution (linear),
- if annual variable compensation ≥ 80% of target = 100% of contribution.

The rights under the plan described above are in addition to those vested under the former progressive and conditional deferred compensation plan, vested in his capacity as an employee and corporate officer of the Company, which were crystallized as of December 31, 2019 (page 96 of the 2020 Universal Registration Document).

Benefits and rights upon the termination of office of Mr. Patrice Caine, Company representative

Severance pay

In accordance with the Afep-Medef code to which the Company has declared its adherence, an indemnity may be paid to Mr. Patrice Caine in the event that his term of office is terminated, except in the case of resignation, serious misconduct or gross negligence.

The amount of this severance pay is set at 12 months of his reference salary (fixed and variable remuneration paid during the last 12 months of activity, excluding long-term incentive plans). The Chairman and Chief Executive Officer resigned at the time of his appointment and no longer has an employment contract with the Company.

The payment of this compensation is subject to the achievement of a performance criterion over the last three financial years: the average rate of achievement of the annual EBIT objectives set by the Board for the Company representative must be greater than or equal to 80%.

Private unemployment insurance

In addition, it was decided to take out private unemployment insurance with the same performance criteria as the severance pay. It provides a compensation for a period of one year and for an amount limited to the sum of the amounts corresponding to 70% of the Social Security A and B tranches of the net taxable income and 50% of the C tranche of this same income. As of December 31, 2021, this private unemployment insurance would have represented an annual compensation equal to approximately €205,680, or 25.7% of the fixed compensation of the Chairman and Chief Executive Officer.

Benefits of any kind

In addition to this private unemployment insurance, Mr. Patrice Caine receives benefits in kind detailed in the table below summarizing the elements of his 2021 compensation.

D. Other information required under Article L. 22-10-9 I of the French Commercial Code

1) Pay equity ratios

Pay equity ratios measure changes in compensation disparities between the Company representative and employees. To increase their relevance, they have been calculated on the scope of the Group's French companies and not on that of the listed parent company alone. The latter was not selected because its workforce was not considered representative⁽¹⁾.

Consequently, these ratios were calculated as follows:

- in the numerator, the compensation paid to the Company representative (fixed, annual variable, benefits in kind) or allocated to him (LTIP⁽²⁾);
- in the denominator, compensation paid (fixed, variable annual, benefits in kind) or allocated (LTIP⁽³⁾), based on a full-time equivalent, to active employees continuously present from January 1st to December 31, 2021, in the workforce of Group companies having their registered office in France (Thales SA and companies under its exclusive control within the meaning of Article L. 233-16 II of the French Commercial Code). The staff of French and foreign branches of these companies is included in the calculation if they have more than 50 employees. Expatriates are excluded from the calculation base. For 2019, this compensation is calculated excluding Gemalto as the acquisition occurred during the year.

• TABLE OF RATIOS UNDER ARTICLE L. 22-10-9 I. 6° AND 7° OF THE FRENCH COMMERCIAL CODE

	2017	2018	2019	2020	2021
Compensation paid to the Company representative (in €)	1,549,349 ⁽²⁾	1,780,393 ⁽²⁾	1,918,536 ⁽²⁾	2,013,177	1,701,718
<i>Change in the compensation of the Company representative (in %)</i>		+15%	+8%	+5%	-15%
Average compensation paid to employees (in €)	64,527	66,225	66,104	67,222	66,728
<i>Change in average employee compensation (in %)</i>		+3%	0%	+2%	-1%
Ratio compared to average employee compensation	24	27	29	30	26
<i>Change in the ratio compared to the previous year (in %)</i>		+12%	+8%	+4%	-15%
Ratio compared to median employee compensation	27	30	32	33	28
<i>Change in the ratio compared to the previous year (in %)</i>		+12%	+8%	+4%	-15%
Company performance: EBIT (in M€)	1,543	1,685	2,008	1,352	1,810
<i>Change compared to the previous year (in %)</i>		+9%	+19%	-33%	+34%

The increase in the ratio in 2017 and 2019 reflects changes in the Company representative's compensation policy: revision of fixed and variable compensation, introduction of a long-term incentive (LTI). The 5% increase in the compensation of the Chairman and Chief Executive Officer in 2020 is explained by the payment in 2020 of the annual variable compensation for the financial year 2019, which is higher than in 2018 due to the outperformance on financial criteria.

The decrease in the ratios observed in 2021 is mainly due to the variable compensation paid in 2021 in respect of 2020 (amount impacted downwards by the Covid-19 crisis), which represents a greater weight for the Chairman and Chief Executive Officer than for eligible employees. In addition, unlike the Company's performance indicator (EBIT), the impact of the Covid-19 crisis is visible on the compensation "paid" in 2021, as shown in the table above.

2) Contribution of the Chairman and CEO's 2021 compensation to long-term performance

In reviewing the 2021 variable compensation, the Board noted that its design offered balanced and straightforward incentives for both the achievement of the most critical dimensions of the annual budget (profitability, growth, cash generation) through the portion of annual variable compensation based on financial criteria and the achievement of value creation objectives over a longer time horizon (growth, cash generation, stock market performance), through the long-term compensation.

(1) By way of illustration, the 2021 ratio for the parent company amounts to 11 if it is calculated in relation to the average of employees and to 17 if it is calculated in relation to the median. These ratios are lower than those of the France scope given the nature of the parent company's workforce (mainly executives).
 (2) The long-term remuneration of the Company representative has been determined at fair value determined in accordance with IFRS. The valuations of the 2017 to 2019 plans have been corrected, since the 2020 Universal Registration Document, following the review by an actuary. The average ratios published in 2019 were 26, 28 and 33 in 2017, 2018 and 2019, respectively.
 (3) Long-term employee compensation has been measured at fair value under IFRS 2 under the same accounting standards.

In 2020, the Board noted that the compensation policy played its role in the Covid-19 crisis. It impacted the Chairman and Chief Executive Officer with a significant decrease in his annual variable compensation (47% decrease between 2019 and 2020). Also, it helped him and his management team focus on the key levers of value creation in the post-crisis period, particularly cash generation and order intake. In 2021, this policy made it possible to reward the Group's remarkable sales growth and cash generation performance.

In addition, on an annual basis, variable annual compensation includes non-financial criteria to promote the successful achievement of annual or multi-annual strategic objectives and to take into account the social and environmental issues that are central to the Group's long-term performance.

The fixed, variable, and exceptional elements of the total compensation and benefits of any kind paid in 2021 or granted under the same financial year to the Chairman and Chief Executive Officer, which will be submitted to a vote by the Shareholders' Meeting of May 11, 2022, according to Article L. 22-10-34, II of the French Commercial Code (11th resolution), are set out above and supplemented by the tables below, which have been prepared according to the Afep-Medef code. The compensation components are summarized in the table below.

• **TABLE SUMMARIZING THE 2021 COMPENSATION ELEMENTS FOR MR. PATRICE CAINE, PRESIDENT AND CHIEF EXECUTIVE OFFICER**

Elements of compensation	Policy approved by the Annual General Assembly on May 6, 2021	Paid for the financial year 2021	Granted for the financial year 2021 (in amount or accounting value)
Fixed annual compensation	The policy provides an annual fixed compensation of €800,000.	€800,000	
Annual variable compensation	<p>The policy provides a target annual variable compensation equal to €800,000.</p> <p>The criteria for setting are as follows:</p> <ul style="list-style-type: none"> Up to 75% financial (see description above). The targets were set by the Board as part of the budget process but not made public for reasons of confidentiality; Non-financial for the balance, i.e. 25% of the variable compensation (see description above). <p>In the event of outperformance on financial targets, variable compensation may reach a maximum of €1,200,000, i.e., 150% of the annual fixed compensation.</p>		€1,115,835 ^(a)
Total annual compensation			1,915,835 of which 58.2% are annual variable compensation and 41.8% in annual fixed compensation
Multi-year variable compensation	None	—	—
Long-term compensation	2021 unit plan (LTIP 2021) – The number of units definitively acquired will depend on performance condition achievement levels, calculated over three financial years, related to order intake, free operating cash flow, and Thales' stock market performance. Also, the acquisition is subject to a presence condition for four years (i.e., until March 2, 2025, inclusive), except in the event of death, disability, or retirement. Half the payment is made in kind with Thales shares and half is made in cash. The detailed conditions of this long-term compensation are set out on page 110 of the 2020 Universal Registration Document.	—	€443,111 ^(b)
Long-term compensation	2018 Unit Plan (LTIP 2018) – Number of performance units granted: 2,277 The value of validated and acquired units equals the closing share price on March 3, 2022, i.e., €106.80. The payment of the validated and acquired units' value will be made half in cash and half in kind with Thales shares, subject to approval by the Annual General Meeting of May 11, 2022 (11th resolution).	€243,184 (amount definitively allocated)	—

(a) The payment of Mr. Caine's 2021 annual variable compensation is subject to the approval of the 11th resolution of the Annual General Meeting of May 11, 2022.

(b) IFRS value at grant date of the performance units under the LTI 2021 plan to the Chairman and Chief Executive Officer.

Elements of compensation	Policy approved by the Annual General Assembly on May 6, 2021	Paid for the financial year 2021	Granted for the financial year 2021 (in amount or accounting value)
Exceptional compensation	None	—	—
Non-compete clause	None	—	—
Indemnity related to taking office	None	—	—
Defined contribution pension system	<p>The Thales Company representative benefits from a defined contribution pension plan, the amount of which represents 32% of the fixed base salary actually paid from December 2020 to November 2021.</p> <p>The 2021 contribution is conditional on achieving performance conditions over the last three financial years. This compensation was approved by the Annual General Meeting of May 6, 2021 (8th resolution).</p> <p>Check more details in section 4.4.1.1.C.</p>	(b)	2021 contribution to the plan, paid by Thales to the insurer, on behalf of the Company representative: €256,000
Severance pay	<p>An indemnity may be paid to Mr. Patrice Caine in the event of the termination of his corporate office, except in the event of resignation, serious misconduct or gross negligence and subject to the achievement of the same performance conditions as for the defined contribution pension plan.</p> <p>The amount of the indemnity is set at 12 months of his reference salary (fixed and variable compensation paid during the last 12 months of activity, excluding long-term compensation).</p> <p>Check more details in section 4.4.1.1.C.</p>	—	—
Compensation for serving as a director	By decision of the Board of Directors on March 3, 2021, Mr. Patrice Caine does not receive any remuneration for his directorship, which the Company retains.	—	—
Benefits in kind	<p>Mr. Patrice Caine is entitled to:</p> <ul style="list-style-type: none"> • the services of a chauffeur-driven car for his business travel; • external legal and tax assistance; • a private unemployment insurance, the benefit of which is subject to the achievement of the same performance conditions as those stipulated for the termination indemnity. Check more details in section 4.4.1.1 C. <p>Additionally, he is covered by the French employee benefit plan, an annual medical check-up similar to the one provided to Thales senior executives, and a directors and officers liability insurance, including criminal liability^(a).</p>	<p>€3,987</p> <p>€15,225</p> <p>€8,639</p>	

(a) The company's pension and health insurance benefits expenses for the financial year 2021 amount to €2,663. Liability insurance is a collective insurance, and the cost cannot be individualized.

(b) A sum of €256,000 was paid to compensate for social security charges and income tax that became due following the company's contribution to the new supplementary pension plan in 2021.

4.4.1.2 2021 compensation of other corporate officers

A. Principles of director compensation

The total amount of remuneration distributed among the directors (and any non-voting directors) for services rendered to the Board, including remuneration owed to Committee members for their participation in these Committees, is set at €600,000 per year and has been unchanged since 2008. The Board decided that the directors would receive:

- for services to the Board, a fixed remuneration of €14,000 per year (*pro rata temporis* in the event of an appointment or of a resignation during the year), adjusted down if necessary to respect the total envelope, and a variable remuneration based on attendance at meetings of €2,500 per meeting;
- for services rendered to the Committees, remuneration (exclusively variable) based on attendance of €1,250 per meeting. The chairmanship of each Committee is remunerated by an additional €2,000 per year (prorated based on the number of sessions 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. Directors' remuneration for the 2021 financial year

For 2021, the fixed portion of this remuneration amounts to €10,750. The directors' remuneration amounts to a total (gross amount before any deductions and withholdings) of €599,250 (€563,750 for 2020). This amount includes remuneration not collected by the Chairman and Chief Executive Officer in his capacity as Director and Chairman of the Strategic and CSR Committee, which the Company retains. This compensation was paid in full in January 2022. As recommended by the Afep-Medef code, of the total of €557,750 actually paid, the variable portion represented a large proportion of the total and amounts to €396,500 (approximately 71% of the total).

For information purposes, the gross amount (before any withholding or deduction) paid during the year 2021 (after possible retention by the Company) and constituting the compensation due for the year 2020 amounted to €527,750.

The table in appendix n° 3 relating to directors' compensation was made according to the Afep-Medef code, giving compensation details for each director (cf 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 Mr. Patrice Caine, Company representative
Severance pay	
Only in case of forced departure	Yes
Performance conditions over 2 years	Performance conditions over the last three financial years
Maximum amount: two years of compensation (fixed + variable)	12 months of reference salary (fixed and variable compensation paid during the last 12 months of activity, excluding long-term compensation)
Defined contribution pension scheme	
Performance conditions	Performance conditions over the last three financial years

4.4.1.4 Summary tables established according the Afep-Medef code

• TABLE 1: SUMMARY OF COMPENSATION, OPTIONS AND SHARES GRANTED TO THE COMPANY REPRESENTATIVE

(in thousands of euros)	2021	2020 ^(a)
Patrice Caine, Chairman and Chief Executive Officer		
Compensation attributed for the financial year (detailed in Table 2)	1,943.7	1,262.7
Valuation of options granted during the financial year	–	–
Valuation of performance shares granted during the financial year	–	–
Valuation of performance shares granted during the financial year	443,1 ^(c)	377,9 ^(b)
TOTAL	2,386.8	1,640.6

(a) IFRS value at grant date of performance units under the Chairman and Chief Executive Officer's LTI 2021 Plan. It is specified that subject to approval by the General Meeting of May 11, 2022, the 2,277 performance units under the 2018 LTI Plan, for which the continued presence requirement has been met, will also be paid out, corresponding to an amount of 243,184 euros.

(b) IFRS value at the grant date of performance units under the Chairman and Chief Executive Officer's LTI 2020 Plan.

(c) Compared to the 2020 Universal Registration Document, these figures are presented including the amount of benefits in kind.

TABLE 2: SUMMARY OF THE COMPENSATION OF THE COMPANY REPRESENTATIVE

(in thousands of euros)	2021		2020	
	Due in respect of the financial year	Paid during the financial year	Due in respect of the financial year	Paid during the financial year
Patrice Caine, Chairman and Chief Executive Officer				
Fixed compensation	800,0	800,0	784,0	784,0
Variable compensation ^(a)	1,115.8	446,0	446,0	849,3
Exceptional compensation	—	—	—	—
Compensation for serving as a director ^(b)	—	—	—	—
Benefits in kind ^(c)	27,9	27,9	32,7	32,7
TOTAL PATRICE CAINE	1,943.7	1,273.9	1,262.7	1,666.0

(a) Cf. Paragraph 4.4.1.1 on the assessment of the 2021 variable compensation.

(b) Doesn't receive any compensation for his position as Director or for his membership of the Strategy and CSR Committee. This compensation is retained by the Company (decision of the Board of Directors on March 3, 2021). The amount calculated and not paid to Mr. Patrice Caine for 2021 following these decisions amounts to €41,500.

(c) The Company representative benefits from the services of a chauffeur-driven car, external legal and tax assistance, and private unemployment insurance.

TABLE 3: REMUNERATION RECEIVED BY NON-EXECUTIVE DIRECTORS

(gross amounts before any withholding tax and/or deductions)

Beneficiary (gross amounts in euros)	Attributed for the financial year 2021	Variable share/total (%)	Granted in respect of financial year 2020 and paid in 2021	Paid during the financial year 2020 ^(a)	Notes
L. Broseta (until 6-05-21)	11,629	73%	26,775	28,602	(c)
Ch. Edelstenne	39,500	73%	34,000	37,400	
Y. d'Escatha (until 6-05-20)	—	—	18,437	39,400	(c)
B. Fontana	33,575	73%	32,087	34,977	
D. Gény-Stephann (until 6-05-21)	16,632	64%	—	—	(c)
Ph. Knoche (until 6-05-20)	40,250	73%	20,063	—	(c)
Ph. Lépinay	39,500	73%	34,000	39,900	(b)
A. de Madre	30,750	65%	31,500	28,650	
A. Rigail (until 6-05-21)	14,507	59%	—	—	(c)
D de Sahuguet d'Amarzit (until 6-05-21)	11,629	73%	24,650	26,477	(c)
L. Segalen	39,500	73%	37,750	41,150	
A.-C. Taittinger	39,000	72%	39,750	43,150	
A. Taylor	30,750	65%	31,500	21,150	
E. Trappier	35,750	70%	36,500	39,900	
M.-F. Walbaum	33,250	68%	31,500	33,650	
Inter CFE-CGC (A.-M. Hunot-Schmit)	39,500	73%	34,000	36,150	
FGMM-CFDT (F. Sainct)	44,500	76%	42,750	47,400	
Treasury Accountant – Decree No. 2014-948 (L. Broseta + D. Gény-Stephann + B. Fontana + E. Moulin + A. Rigail + D. de Sahuguet d'Amarzit)	57,528		52,488	59,544	
TOTAL GROSS COMPENSATION PAID	557,750	71%	527,750	557,500	(d)

(a) Since the Board of Directors decided on February 27, 2017, directors' compensation has been paid annually. Therefore, the payments made in 2020 correspond to the sum of the fixed and variable shares of the directors' compensation for the financial year 2019. Those made in 2021 correspond to the sum of the fixed and variable shares for the financial year 2020.

(b) Mr. Philippe Lépinay has informed the Company that he will pay €3,000 in 2021 to the Association du Personnel Actionnaire de Thales (APAT).

(c) Amounts determined *pro rata temporis*.

(d) These amounts don't include compensation not received by the Company representative (and retained by the Company) in respect of his directorship. By including this last amount, the gross amount of directors' fees allocated for the 2020 and 2021 financial years is €563,760 and €599,250 respectively, which remains below the annual budget (€600,000) authorized by the Annual General Meeting.

• **TABLE 4: SHARE SUBSCRIPTION/PURCHASE OPTIONS GRANTED DURING THE FINANCIAL YEAR TO THE COMPANY REPRESENTATIVE BY THE ISSUER OR BY ANY GROUP COMPANY**

None Since 2012, the Company no longer grants share/purchase subscription options.

• **TABLE 5: SHARE SUBSCRIPTION/PURCHASE OPTIONS EXERCISED BY THE COMPANY REPRESENTATIVE DURING THE FINANCIAL YEAR**

None.

• **TABLE 6: PERFORMANCE SHARES GRANTED DURING THE FINANCIAL YEAR TO THE COMPANY REPRESENTATIVE BY THE ISSUER OR BY ANY GROUP COMPANY**

No performance shares were attributed to Mr. Patrice Caine in the financial year 2021.

Under the 2021 remuneration policy approved by the Annual General Meeting of May 6, 2021, in its 10th resolution, he was awarded long-term remuneration in the form of performance units. The main conditions are listed below.

Director's name	Plan date	Maximum number of performance units	Acquisition conditions
Patrice Caine	3/3/2021	10,720.00	Units acquired after an acquisition period of 4 years and subject to performance conditions as of 3/03/2021.

• **LONG-TERM COMPENSATION CRITERIA AND WEIGHTINGS (LTIP 2021)**

Criteria LTI 2021	Weighting	Targets	Thresholds	Payment in % of the target's total
Free cash flow Cumulative operational over the period 2021/2023	40% (2,680 units at target and 4,288 units at ceiling)	Floor: 90% x (budget 2021 + budget 2022 + budget 2023)	If results < floor	0%
		Target: budget 2021 + budget 2022 + budget 2023	If results = floor	20% (1,340 units)
			If results = target	40% (2,680 units)
		Ceiling 120% x (budget 2021 + budget 2022 + budget 2023)	If results ≥ period's ceiling	64% (4,288 units)
			Linear variation between the floor and target, the target and ceiling	
Average order intake over the period 2021/2023	40% (2,680 units at target and 4,288 units at ceiling)	Floor: 95% x (budget 2021 + budget 2022 + budget 2023)/3	If results < floor	0%
		Target: (budget 2021 + budget 2022 + budget 2023)/3	If results = floor	20% (1,340 units)
			If results = target	40% (2,680 units)
		Ceiling 110% x (budget 2021 + budget 2022 + budget 2023)/3	If results ≥ period's ceiling	64% (4,288 units)
			Linear variation between the floor and target, the target and ceiling	
Total Shareholder Return compared to a panel of European companies. (a) Measurement carried out on performance as of 12/31/2023 compared to 12/31/2020	10% (670 units at target and 1,072 units at ceiling)	Floor: panel's median	If TSR < panel's median	0%
		Ceiling: highest quintile of the panel	If TSR = panel's median	10% (670 units)
			If TSR is in the highest quintile of the panel	16% (1,072 units)
			Linear variation between the median and the entry point of the highest quintile	
Total Shareholder Return compared to the Euro Stoxx Index. Measurement carried out on performance as of 12/31/2023 compared to 12/31/2020	10% (670 units at target and 1,072 units at ceiling)	Floor: Median of the Euro Stoxx Index	If TSR < median's index	0%
		Ceiling: Highest quintile of the index	If TSR = median's index	10% (670 units)
			If TSR is in the highest quintile of the index	16% (1,072 units)
			Linear variation between the median and the entry point of the highest quintile	

(a) The panel includes: Airbus, Atos, BAE Systems, Capgemini, Dassault Aviation, Leonardo, Rolls-Royce and Safran.

Note: The "Total Shareholder Return" measures the performance of the Thales share, with dividend reinvested for the period in question.

- **TABLE 7: PERFORMANCE SHARES OR UNITS THAT BECAME AVAILABLE TO THE COMPANY REPRESENTATIVE DURING THE FINANCIAL YEAR**

As indicated in Tables 1 and 6, Mr. Patrice Caine's compensation as a Company representative does not include performance shares.

On May 7, 2021, following the approval of the 8th resolution of the Shareholders' Meeting of May 6, 2021, the Chairman and Chief Executive Officer received 3,840 performance units valued at the closing share price on February 25, 2021, i.e., an amount of €304,280. Half of this amount was made in kind with Thales shares at the closing share price on the day of the said Meeting, and the balance was paid in cash.

- **TABLE 8: PAST AWARDS OF SHARE SUBSCRIPTION AND/OR PURCHASE OPTIONS TO THE COMPANY REPRESENTATIVE**

None. Mr. Patrice Caine has not received any share subscription and/or purchase options during his term of office.

- **TABLE 9: PAST AWARDS OF PERFORMANCE UNITS TO THE COMPANY REPRESENTATIVE**

Company representative's name	Award year	Number of units allocated	Acquisition conditions
Patrice Caine	2017	3,840	Units acquired after an acquisition period of 4 years and subject to performance conditions over the period 2017/2019. The achievement of the performance level is presented in the 2019 Universal Registration Document, p. 93.
Patrice Caine	2018	2,277	Units acquired after an acquisition period of 4 years and subject to performance conditions over the period 2018/2020. The achievement of the performance level is presented in the 2020 Universal Registration Document, p. 95.
Patrice Caine	2019	5,760	Units acquired after an acquisition period of 4 years and subject to performance conditions over the period 2019/2021. The details of the other conditions are shown in the 2018 Universal Registration Document, p.97. The number of units and specific parameters of the 2019 LTIP have been adjusted following the approval of the Annual General Meeting's 6 th resolution of May 6, 2021 (cf. f§ 4.4.2 of the 2020 Universal Registration Document, p.104). Achievement of the performance level is presented above in section 4.4.1.1 B.
Patrice Caine	2020	7,200 (maximum)	Units acquired after an acquisition period of 4 years and subject to performance conditions over the period 2020/2022. The number of units and specific parameters of the 2020 LTIP have been adjusted following the approval of the Annual General Meeting's 7 th resolution of May 6, 2021 (cf. f§ 4.4.2 of the 2020 Universal Registration Document, p.104). Details of the other conditions can be found in the 2020 Universal Registration Document, p. 105/106. Finally, the floors and ceilings were further adjusted by the Board on March 2, 2022, following the classification of the Transport operating segment as a discontinued operation (see section 4.4.1.1 B above).
Patrice Caine	2021	10,720 (maximum)	Units acquired after an acquisition period of 4 years and subject to performance conditions over the period 2021/2023. Details of the other conditions can be found in the 2020 Universal Registration Document, p. 110

• **TABLE 10: SUMMARY TABLE OF THE COMPANY REPRESENTATIVE’S MULTI-YEAR VARIABLE COMPENSATION**

None.

• **TABLE 11**

Company representative	Patrice Caine
Start date of current term ^(a)	May 23, 2018
Term end date	2022 Annual General Meeting
Employment contract	No
Supplementary pension plan	Yes ^(c)
Indemnities or benefits due or likely to be due as a result of termination or change of duties	Yes ^(b) ^(c)
Indemnity relating to a non-competition clause	No

(a) Patrice Caine was initially appointed Chairman and Chief Executive Officer on December 23, 2014.

(b) Check more details in section 4.4.1.1 C above.

(c) The decision was taken in 2015 and renewed in 2018.

4.4.2 Compensation policy for Company representatives for the 2022 financial year

In accordance with Article L. 22-10-8 of the French Commercial Code, this section 4.4.2 presents the compensation policy applicable to corporate officers.

Sections 4.4.2.1 and 4.4.2.2 set out the remuneration policies applicable to the Chairman and Chief Executive Officer and for Directors, respectively, from the financial year 2022, which will be submitted for approval to the Annual General Meeting of May 11, 2022 (13th and 14th resolutions). If the 13th resolution is approved:

- in accordance with Article L. 22-10-8 of the French Commercial Code, the compensation policy in section 4.4.2.1 will apply to the Chairman and Chief Executive Officer as from the financial year 2022, subject to possible revision at a subsequent Annual General Meeting deliberating on the same subject;
- in accordance with the compensation policy, the elements of the total compensation and benefits of any kind for the Chairman and Chief Executive Officer paid during the 2022 financial year or granted for the same financial year will be submitted to a vote of the shareholders at the General Meeting called to approve the financial statements for the 2022 financial year, pursuant to Articles L. 22-10-9 and L. 22-10-34 I. and II. of the French Commercial Code, which moreover stipulate that the payment of variable and exceptional items is subject to the approval of the General Meeting.

If the 14th resolution is approved, under Article L. 22-10-8 of the French Commercial Code, the compensation policy presented in section 4.4.2.2 will apply to the directors from the 2022 financial year, subject to possible revision at a subsequent Annual General Meeting ruling on the same subject.

Process to establish the compensation policy for Company representatives

The Governance and Compensation Committee steers this process in accordance with the internal regulations of the Board of Directors.

To design the compensation policy for the Chairman and Chief Executive Officer, the Governance and Compensation Committee takes into consideration several parameters: salary policy for Group executives and employees, analyses prepared by an outside consultant, practices of comparable companies, strategic priorities, shareholders’ point of view, recommendations of proxy-voting firms, stakeholder comments, changes in the Afep-Medef code, etc. Also, it considers the rate of achievement of financial and non-financial objectives in past years and the budget for the coming year. Through its Chairman, the Committee obtains all relevant information from the Human Resources Department, particularly concerning changes in salary practices within the Group, or from the other departments involved in establishing the policy (the Finance Department and the General Secretary).

The Governance and Compensation Committee issues recommendations to the Board of Directors. After examination, the Board submits its decision to the vote of the Annual General Meeting. Changes are only effective after the approval by the Annual General Meeting.

An independent director chairs the Governance and Compensation Committee to limit conflicts of interest. He can also call on an external consultant. Finally, the Chairman and Chief Executive Officer never participates in deliberations or votes in the Board of Directors on his own compensation.

When it deems it necessary, and in particular to take into account changes in the Afep-Medef code, the Governance and Compensation Committee studies whether it is appropriate to change the compensation policy for directors.

4.4.2.1 Compensation policy for the Chairman and Chief Executive Officer for the 2022 financial year

The Governance and Compensation Committee met on February 1 and 22, 2022, to recommend that the Board of Directors set the compensation policy for the Chairman and Chief Executive Officer for the 2022 financial year in accordance with the framework approved by the Annual General Meeting of May 6, 2021, as described below.

A. General framework

The Annual General Meeting of May 6, 2021 approved a compensation structure for the Chairman and Chief Executive Officer comprising the following elements:

- annual fixed compensation;
- an annual variable remuneration whose target is equal to 100% of the fixed compensation, based on a combination of financial and non-financial criteria. The weight of the financial criteria is dominant;
- long-term incentive plan (LTIP) linked to the value of the Thales share, in the form of performance shares or units; it is specified that the variable compensation of the Company representative systematically includes one or more criteria linked to social and environmental responsibility in its annual or long-term component;
- a severance pay⁽¹⁾;
- a private unemployment insurance⁽¹⁾;
- a defined contribution pension plan⁽¹⁾;
- Legal and tax assistance;
- same health insurance coverage as for senior executives;
- liability insurance for Company representatives;
- coverage of professional expenses according to Thales rules;
- the benefit of an annual health check-up, identical to that of senior executives;
- the services of a chauffeur-driven car.

The Company adheres to the principles set out in the Afep-Medef code (section 25.1), according to which, in particular:

- The compensation of the Company representative must be competitive, tailored to the company's strategy and context. Also, it must promote its performance and competitiveness over the medium and long term and make it possible to attract, retain and motivate a high-performance executive;
- The following principles are considered when setting such remuneration: comprehensiveness, the balance between the elements of compensation, consistency with the company's other executives

and employees, the intelligibility of the rules (simple, stable, and transparent), and balance against the company's corporate interest, market practices, the executive's performance, and the views of other stakeholders.

The compensation of Executive Committee members and most of the Group's senior managers is composed of a fixed part, an annual variable part, and a Long-Term Incentive Plan (LTIP). The respective proportion of each component is established by taking into account the level of responsibility of each position, and the compensation studies carried out in the various national markets where Thales operates.

Thus, for the Chairman and Chief Executive Officer, these components are proportionate and balance out as follows:

- the fixed part is established considering the level of responsibilities and on benchmark compensation studies for comparable profiles;
- the target annual variable compensation is equal to 100% of the fixed compensation; the maximum cap for this annual variable compensation is 150% of fixed compensation;
- the value at grant date of the target long-term compensation may not exceed 100% of fixed compensation.

Long-term compensation is based on the achievement of demanding performance criteria 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).

Also, the Chairman and Chief Executive Officer is required to retain the Thales shares delivered to him at the end of each LTIP, up to 50% of the net gain after tax resulting from the LTIP, until he has built up a portfolio of shares equivalent to one year's fixed salary. He must keep these shares for his entire term of office as Chairman and CEO.

The Chairman and Chief Executive Officer benefits as well from a defined contribution pension plan described in section 4.4.1.1.

Lastly, severance payments to the Chairman and Chief Executive Officer may only be made in the event of forced departure, subject to the achievement of performance conditions over three financial years. They are capped at 12 months of reference salary (fixed and variable compensation paid during the last 12 months of activity, excluding LTIP). This amount is lower than the recommendations of 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 4.4.2.2.B.f).

(1) Other compensation subject to performance conditions.

B. Implementation of the Compensation Policy for the Chairman and Chief Executive Officer for the Financial Year 2022

a) Overall compensation structure

At its meeting of March 2, 2022, the Board of Directors, on the basis of the recommendations of the Governance and Remuneration Committee and in accordance with the general framework described in A above, decided to make changes to the remuneration policy for its Chairman and Chief Executive Officer in 2022, with a view to the renewal of his term of office. The reasons for this and the terms and conditions are set out in the sections below:

Summary of changes proposed to the Annual General Meeting of May 11, 2022 (compared to the policy approved on May 6, 2021)	
Fixed annual compensation	Revision of the amount from 800,000 to 850,000 euros
Annual variable compensation	Unchanged: target of 100% of annual fixed compensation, 150% maximum if targets are exceeded.
Long-term compensation (LTI 2022 Plan)	<p>Size the 2022 LTI Plan using the full envelope of the compensation policy approved in 2021 (target long-term compensation allocation value capped at 100% of fixed compensation).</p> <p>Inclusion of a CSR/Climate criterion accounting for 10%, taken from criteria other than <i>Total Shareholder Return</i>.</p> <p>Replacement of the order intake criterion by organic sales growth.</p> <p>Changes in the reference panels used for the two criteria <i>Total Shareholder Return</i> criteria: members of the Stoxx Europe total market Aerospace & Defense Sector Index instead of a panel of eight comparable European companies, and the CAC 40 Index instead of the Eurostoxx Index.</p>
Supplementary defined contribution pension	Application to annual contributions of the new performance condition approved by the General Meeting of May 6, 2021.

In its decision, the Board of Directors considered that the remuneration policy for the Chairman and Chief Executive Officer had been adopted by the General Meeting of May 6, 2021 (10th resolution) with an approval rate of 97.78%.

Therefore, the Board of Directors decided to:

- increase the annual fixed remuneration from €800,000 to €850,000; this moderate increase (+6% approximately) in the context of the renewal of the mandate of the Chairman and Chief Executive Officer is in line with the cumulative increases awarded to employees under the French salary review since 2019;
- maintain the weight of the annual target variable compensation unchanged (100% of the annual fixed compensation), i.e., €850,000, and the maximum (150% of the annual fixed compensation), i.e., €1,275,000, in the event of exceeding the objectives.

Concerning the LTI 2022 Plan, the Board has decided to use the full envelope of the remuneration policy approved by the General Meeting of May 6, 2021, basing this decision on the following reasons:

- the opportunity to update the parameters of Mr. Caine's remuneration in the context of the renewal of his mandate at the end of the Annual General Meeting on 11 May 2022;

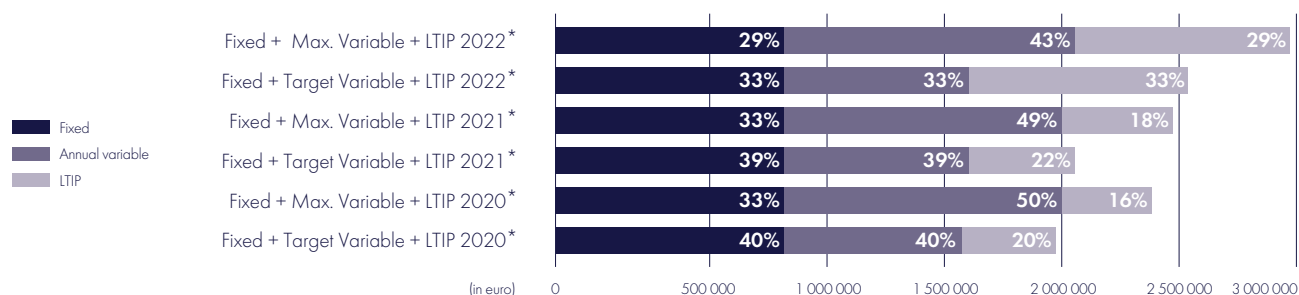
- the desire to increase the long-term character of the compensation structure of the Chairman and Chief Executive Officer by rebalancing it. This development is a recurring request from Thales' institutional shareholders.

For this plan, the Board therefore decided to grant a target number of 8,800 performance units (14,080 maximum) valued at €849,879 under IFRS standards at grant date (Board meeting of March 2, 2022); each unit will have the value of a Thales share at the closing price on March 2, 2026. The exact amount of this compensation will depend on the fulfillment of performance and employment conditions, as well as on the Thales share price on the unit acquisition date.

In accordance with its previous practice, the Board doesn't apply any deferral period to the payment of the remuneration of the Chairman and Chief Executive Officer, other than that provided for in section L. 22-10-34 of the French Commercial Code, under which the Chairman and Chief Executive Officer's variable annual remuneration for 2021 will be paid after approval by the shareholders at the 20202 General Meeting.

Finally, the compensation policy doesn't provide the possibility of asking the Chairman and Chief Executive Officer to return his annual variable compensation or performance units acquired as part of his LTIP plan.

In summary, the fixed, annual variable and long-term shares of compensation are allocated as follows.



* LTI valued at their IFRS fair value on grant date.

Rationale for the policy and its criteria

For annual and long-term variable compensation, the Board has set thresholds and performance criteria that contribute to the objectives of the compensation policy. In fact, the financial criteria (EBIT, order intake, organic sales growth, free operating cash flow) are key indicators of the Group's performance and competitiveness. The climate criterion used in the LTI (reduction of operational emissions) corresponds to the indicator on which the Group has the most significant number of levers for action, the evaluation methodologies are the most mature, and the Group has set long-term objectives. In addition, these criteria are consistent with those used in the compensation policy for other Group executives and employees. The thresholds have been positioned to reinforce the incentives to exceed budgetary targets. Regarding long-term compensation, the purpose is to stimulate the Group's development over the long term and accelerate the CSR roadmap. Lastly, the Board wished to pay attention to the clarity and stability of the calculation rules.

The Board noted that this total compensation policy provides clear and balanced incentives simultaneously to achieve the most critical dimensions of the annual budget (profitability, growth, cash generation), through variable yearly compensation, and to meet value creation targets over a longer horizon (growth, cash generation, stock market performance, environmental performance), through a long-term compensation. In addition, the Board considered it essential to complement this financial approach with the inclusion, on an annual basis, of non-financial criteria to promote annual or multi-year strategic objectives and reinforce the consideration of social and environmental issues that are central to the Group's long-term development.

Also, the Board emphasized that this remuneration policy contributes to the Group's business development strategy. Incentives for developing new business (variable remuneration linked to order intake or organic revenue growth) are balanced by incentives to achieve profitability (EBIT and free operating cash flow), both for the current year (annual variable compensation) and in the medium term (LTI computed over three years).

Finally, the balance between annual and long-term variable components ensures that the compensation policy contributes to the Group's sustainability by minimizing the incentive to achieve annual objectives at the expense of medium-term development.

Also, the Board noted that the fixed annual remuneration and other elements of remuneration (defined contribution pension plan, severance pay, private unemployment insurance, benefits in kind) contribute to the competitiveness of the remuneration policy, which is designed to attract, retain and motivate a high-performing executive. These three objectives serve both the Group's corporate interest and its long-term development.

b) Criteria for determining the 2022 annual variable compensation

As in 2021, the criteria for determining annual variable compensation are 75% financial and 25% non-financial. To reward the outperformance on financial criteria, the payment relating to these criteria may exceed the target up to 125% of the annual fixed compensation, which isn't the case for the non-financial part, which remains capped at 25%. Therefore, the annual variable compensation is capped at 150% of the target.

(i) Financial criteria for 2022

The Board of Directors decided to maintain the same financial criteria and weightings as those used to determine the 2021 variable compensation, namely:

- EBIT for 35%;
- Order intake for 20%;
- *free operating cash flow* for 20%.

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.

The trigger ranges for each of the financial criteria are unchanged from 2021 and are detailed below:

Financial criteria for annual variable compensation	Weighting	Thresholds	Payment in % of target
EBIT	35%	If results ≤ 90% of the budgeted target	0%
		If results = 100% of the budgeted target	35.00%
		If results ≥ 110% of the budgeted target	58.33%
Order intake	20%	If results ≤ 90% of the budgeted target	0%
		If results = 100% of the budgeted target	20.00%
		If results ≥ 110% of the budgeted target	33.33%
Free operating cash flow	20%	If results ≤ of the budgeted target – 2% of sales targeted	0%
		If results = 100% of the budgeted target	20.00%
		If results ≥ budgeted target + 2% of sales targeted	33.33%
TOTAL FINANCIAL CRITERIA	75%		

The definition and calculation of these criteria are set out in section 2.3 of the 2021 Universal Registration Document.

As in previous years, the targets for each financial criteria correspond to those in the Group's annual budget approved by the Board of Directors. For confidentiality reasons, the exact objectives underlying these financial criteria can not be disclosed.

The quantified levels of achievement for each financial criterion will be detailed retrospectively in the 2022 Universal Registration Document.

(ii) Non-financial criteria for 2022

For 2022, the Board decided, as for 2021, to retain four non-financial criteria, including one related to Social and Environmental Responsibility accounting for 10% of the target variable compensation, and three individual criteria accounting for 5% each:

- Strategy (5%): implement the disposal of the Transport business and the resulting adjustments to the Group's structure. Also, pursue growth initiatives in the Group's core business;
- cross-functional operational actions and crisis management (5%): address supply chain tensions and continue to implement the recovery plan for the civil aviation sector;
- Talent and human resources (5%): implement the overall recruitment plan with particular attention to attracting, developing and retaining key expertise while expanding the engineering competency centers;
- a CSR criterion (10%) broken down according to the four pillars of the strategy in this area. As in 2021, they will be assessed particularly in the light of the progress towards the quantified objectives presented in Chapter 5 of the 2021 Universal Registration Document:
 - Diversity and Inclusion: increase the representation of women in the Group's management teams,
 - Deploy the Low Carbon Policy to reduce emissions in line with the Group's commitments for 2023 and 2030, and submit these commitments to SBTi,
 - Health and safety in the workplace: strengthen the safety culture in the workplace to ensure a lasting reduction in the frequency of work-related accidents,
 - continue to enhance compliance programs.

c) Long-Term Incentive Plan (LTIP) 2022

The LTIP is designed to reward the Chairman & Chief Executive Officer based on 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 based on those applicable to the LTIP plans of Executive Committee members and other senior Group executives who are beneficiaries (see section 6.2.3.5.1), without said conditions being identical. In this regard, notably, only the Chairman and Chief Executive Officer's LTIP plan includes an external financial criterion linked to Thales's stock market performance, which is justified by his corporate office.

For the 2 internal performance criteria, the Board of Directors decided to maintain a three-year measure based on average (for organic sales growth – which is intended to replace order intake, see below) or cumulative (for the *free operating cash flow*) achievement of the annual budget targets.

The LTIP consists of performance units indexed to the Thales share price. The units will be paid 50% in Thales shares and 50% in cash.

In the context of the renewal of the Chairman and CEO's term of office, the Board has decided to size the LTI 2022 Plan using the entire envelope set out in the current policy, i.e. a target value at grant capped at 100% of the fixed compensation (see Universal Registration Document 2020, p. 108). This decision resulted in the granting to the Chairman and Chief Executive Officer of a target number of 8,800 performance units (14,080 maximum) valued at €849,879 under IFRS standards at the date of the grant, a higher valuation than that of the LTI 2021 Plan (€443,111), which used only 55% of the said envelope. This decision conveys the Board's desire, in line with the expectations of many investors, to increase the weight of long-term elements in the compensation structure.

These units are subject to a four-year vesting period starting on March 2, 2022. The number of performance units definitively vested in 2026 will depend on the level of achievement of performance conditions measured over three financial years (2022/2024).

Pursuant to Article L. 22-10-34-II of the French Commercial Code, payments relating to performance units will be submitted to the vote of the shareholders' Annual General Meeting under the conditions provided for by the law.

(i) LTIP 2022 performance criteria

For this LTI 2022 Plan, 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.

- The Board decided to replace order intake with organic sales growth for the internal growth criterion. Unlike order intake, this indicator, which is not included in the criteria for annual variable compensation, provides incentives to seek growth in all the Group's businesses. In fact, the Digital Identity & Security (DIS) GBU, formed in 2019 following the acquisition of Gemalto, has no levers for outperformance on its order intake, which is aligned structurally with sales. In addition, the order intake criterion is better suited to annual incentives, as visibility on order intake on a three-year horizon is low.
- The Board decided to maintain unchanged the criterion linked to competitiveness objectives, which remains based on free operating cash flow.
- In addition, for the first time, it decided to include a CSR criterion linked to the Group's climate performance. The Board considered that the growing importance of climate issues and the Group's increasing maturity in this area naturally leads to connecting the long-term remuneration of the Chairman and Chief Executive Officer with Group performance in this respect. This decision is also in response to the expectations expressed by shareholders, notably at the ESG Investor Day on October 5, 2021, during which the Group's Climate upgraded objectives were made public (refer to section 5.5.2.2).

Therefore, The Board has chosen the operational CO₂ emissions reduction target (Scope 1, Scope 2, and Scope 3 "Business travel"). For 2024, the target objective has been set at -36.83% compared to 2018. It is fully in line with the new carbon trajectory set (i.e., -35% by 2023 and -50% by 2030). Moreover, It is worth noting that the measurement of operational CO₂ emissions, disclosed in section 5.5.2.2, is reviewed by an Independent Third Party in the framework of the Non-Financial Performance Statement, therefore, guaranteeing the quality of this measurement. The Board will adjust the weighting and indicators in this area in line with the evolution of the Group's CSR strategy and objectives.

The Board decided that this Climate objective should count for 10% of the total allocation. This share is taken in equal parts from each of the other two internal criteria, thus preserving the weight of the external criteria based on Total Shareholder Return.

- Finally, concerning the external criterion of stock market performance (Total Shareholder Return), the reference panels were updated: the panel of comparable companies has been expanded to cover the majority of European companies operating in the Group's main business sectors. The market indicator has been refocused on France. Thus, half of the stock market performance will be compared to that of the Stoxx Europe total market Aerospace & Defense Index members, which includes more than 20 companies, instead of a panel of 8 comparable European companies previously. The other half will be based on the CAC 40 rather than the Euro Stoxx Index.

The LTI 2022 performance is therefore assessed over this three-year period as follows:

- 35% based on a business growth target, measured by the organic revenue compound annual growth rate (CAGR) for the period 2022/2024;

- 35% based on a competitiveness objective, measured in terms of cumulative operating free cash flow over the period 2022/2024;
- 10% based on the achievement of the 2024 operational CO₂ emissions reduction target, measured against the level of emissions observed in 2018 and at constant scope;
- 20% based on Thales's stock market performance measured by the Total Shareholder Return (including the reinvested dividend). The

calculation is made on the performance as of December 31, 2024, compared to that of December 31, 2021, evaluated:

- half (10%), compared to the Stoxx Europe total market Aerospace & Defense index members as of December 31, 2024,
- the other half (10%) in relation to the CAC 40 Index members as of December 31, 2024.

(ii) Thresholds and objectives attached to the LTIP 2022 performance criteria

The thresholds and objectives, set in a demanding and motivating manner by the Board, are as follows:

Criteria LTI 2022	Weighting	Targets	Thresholds	Payment in % of the target's total
Cumulative free operating cash flow over the period 2022/2024	35%	Floor: 90% x (budget 22 + budget 23 + budget 24) Target: budget 22 + budget 23 + budget 24 Ceiling: 120% x (budget 22 + budget 23 + budget 24)	If results < floor	0%
			If results = floor	17.5% (1,540 units)
			If results = target	35% (3,080 units)
			If results ≥ period's ceiling	56% (4,928 units)
Linear variation between floor and target, between target and ceiling				
Organic sales growth 2022/2024 (Compound annual growth rate, CAGR)	35%	Floor: 90% x CAGR (budget 22 + budget 23 + budget 24) Target: CAGR (budget 22 + budget 23 + budget 24) Ceiling: 120% x CAGR (budget 22 + budget 23 + budget 24)	If results < floor	0%
			If results = floor	17.5% (1,540 units)
			If results = target	35% (3,080 units)
			If results ≥ period's ceiling	56% (4,928 units)
Linear variation between floor and target, between target and ceiling				
Reduction of operational greenhouse gas emissions (CO ₂ e) ^(a) Absolute value 2024 compared to 2018 (at constant scope)	10%	Floor: -35% Target: -36.83% Ceiling -38.75%	If results < floor	0%
			If results = floor	5% (440 units)
			If results = target	10% (880 units)
			If results ≥ period's ceiling	16% (1,408 units)
Linear variation between floor and target, between target and ceiling				
Total Shareholder Return compared to the Stoxx Europe total market Aerospace & Defense Index - Measured on the performance as of 31.12. 2024 compared with 31.12.2021	10%	Floor: median of the Stoxx Europe total market Aerospace & Defense Index Ceiling: Highest quintile of the index	If TSR < median's index	0%
			If TSR = median's index	10% (880 units)
			If TSR is in the highest quintile of the index	16% (1,408 units)
			Linear variation between median and entry point of the highest quintile	
Total Shareholder Return compared to the CAC 40 Index Measured on the performance as of 31.12. 2024 compared with 31.12.2021	10%	Floor: median of CAC 40 Ceiling: highest quintile of the index	If TSR < panel's median	0%
			If TSR = panel's median	10% (880 units)
			If TSR is in the highest quintile of the panel	16% (1,408 units)
			Linear variation between median and entry point of the highest quintile	

(a) Scope 1, Scope 2 and Scope 3 "business travel".

For the free operating cash flow and organic sales growth criteria, the targets will correspond to the cumulative amounts (for free operating cash flow) or the compound annual growth rates (for organic sales growth) set out in the Group's annual budgets approved by the Board of Directors in 2022, 2023 and 2024 for the corresponding financial years.

After the end of the 2024 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 2022 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 2 March 2026.

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.

d) Defined contribution pension plan for the Chairman and Chief Executive Officer

Following the decision of the Annual General Meeting of May 6, 2020, the Chairman and Chief Executive Officer benefits from a defined contribution pension plan provided by an external insurer and financed by the Company, which allows an annuity or lump sum payment.

For a given year, the Company contributes 32% of the fixed base compensation actually received by the Company representative between December 1 of the previous year and November 30 of the year in question. In addition, the Company pays the concerned party an equivalent amount to offset the impact of the salary and income tax expenses due by the premium paid by the Company.

Following the approval by the General Meeting of May 6, 2021, of its 10th resolution (§ 4.4.3.1.B page 112 of the 2020 Universal Registration Document), this defined contribution scheme is subject to the following performance conditions:

- the applicable system until 31 December 2019 made the liquidation of the annuity conditional on the following performance condition: the average rate of achievement of the annual operating profitability targets (EBIT) assessed on the date of termination of the company's mandate, shall be equal to or greater than 80% over the last three financial years. Following the termination of this plan, this condition will continue to apply to the crystallized annuity at 12/31/2019;
- from 2022, the contribution is determined based on the performance recorded for the year N-1:
 - if annual variable compensation < 50% of target: no contribution is paid,
 - if annual variable compensation between 50 and 80% of target = between 0 and 100% of contribution (linear),
 - if annual variable compensation ≥ 80% of target = 100% of contribution.

e) Other Elements of the Compensation of the Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer benefits from two other compensation components described in section 4.4.1.1:

- severance pay;
- private unemployment insurance.

Also, he benefits from the following other compensation items that are unchanged compared to 2021:

- legal and tax advice;
- private healthcare benefits identical to those offered to senior executives;
- company representatives' civil liability insurance;
- reimbursement of business expenses in accordance with Thales rules;
- an annual health check-up, like other Thales senior executives;
- the services of a chauffeur-driven car.

The Chairman and Chief Executive Officer doesn't receive any compensation for his position as a director of Thales. He has no service contract with Thales SA or one of the companies controlled by it, 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 in case of an exceptional event.

In the event of (i) 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 compensation policy by the Board of Directors for presentation to the Annual 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 annual or long-term variable compensation (LTIP) of the Company representative. This will ensure that the results of the application of the said criteria reflect both the performance of the Company representative and that of the Group. Following the same logic, the Board of Directors may adjust the trigger levels, objectives and targets in the event of changes in accounting standards.

These adjustments will be determined by the Board of Directors on the recommendation of its Governance and Compensation Committee and disclosed on the Company's website.

It should be noted that this option is different from that 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.

4.4.2.2 Compensation policy for directors for financial year 2022

During its meeting on March 2, 2022, the Board of Directors renewed the unchanged directors' remuneration policy approved by the Annual General Meeting on May 6, 2021 (11th resolution).

(1) Unchanged from the 2021 compensation policy

a) Annual compensation

The total amount of compensation distributed among the directors (and non-voting director, if any) for services to the Board, including that due to the directors who are members of the Committees in respect of their participation in them, is set at €600,000 per year.

Directors receive:

- for services to the Board, a fixed remuneration of €14,000 per year (*prorata temporis* in the event of an appointment or of a 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). Starting in 2022, this rule also applies to the directors who are not members of the Strategy & CSR Committee and have been designated by the Board to participate in the meetings of this Committee for the CSR topic(s) on the agenda.

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 Officers

The total compensation paid in 2021 to Executive Committee members, excluding the Chairman and Chief Executive Officer, represents a total of €12,215k. It includes a variable component of 30.9% for 2020. As

for the Chairman and Chief Executive Officer, the variable portion is indexed to financial and non-financial performance criteria.

• DETAILS OF THE SALARIES PAID TO THE EXECUTIVE COMMITTEE (EXCLUDING THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER) IN 2020 AND 2021

(in thousands of euros)	2021	2020
	Paid during the financial year	Paid during the financial year
Executive Committee (excluding the Chairman and CEO)		
Fixed compensation	5,922	5,754
Variable compensation	3,778	3,883
Defined contribution pension	1,610	1,926
Severance payment	847	1,400
Benefits in kind	58	42
Total before employer social contributions	12,215	13,005
Employer social contributions	3,873	3,713
TOTAL EXPENSE	16,087	16,717

Starting in 2020, members of the Executive Committee benefit from a defined contribution pension whose contribution paid by Thales to the insurer is considered a benefit in kind.

Additionally, at the end of December 2021, 175,180 performance shares and 23,587 phantoms shares were granted to members of the Executive Committee other than the Chairman & Chief Executive Officer. The breakdown by grant date, detailed characteristics, as well as any options exercised, are provided in sections 6.2.2.2 and 6.2.3.5 (pages 199 and 206). 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 2021

In accordance with Article 223-26 of the General Regulations of the French financial markets authority (AMF).

To the Company's knowledge the following declarations have been sent to the AMF by persons required to file a declaration ⁽¹⁾, for publication on its website (<http://www.amf-france.org>):

Senior executive's name	Financial instrument	Nature of the transaction	Total transaction amount (in euros)	Unit price (in euros)
Patrice Caine	Share	Payment in kind ^(a)	152,088.30	86.6600
Pascal Bouchiat	Share	Free share acquisition ^(b)	—	—
Marc Darmon	Share	Free share acquisition ^(b)	—	—
Hervé Derrey	Share	Free share acquisition ^(b)	—	—
	Share	Disposal	119,726.60	90.0200
Philippe Duhamel	Share	Free share acquisition ^(b)	—	—
Person related to Philippe Duhamel	Share	Free share acquisition ^(b)	—	—
Jean-Loïc Galle	Share	Free share acquisition ^(b)	—	—
Philippe Keryer	Share	Free share acquisition ^(b)	—	—
Isabelle Simon	Share	Free share acquisition ^(b)	—	—
Pascale Sourisse	Share	Free share acquisition	—	—

(a) Payment made partly in kind with Thales shares of the value of units granted under the LTIP and subject to performance conditions.

(b) Acquisition price: 84,24 €.

(1) These are the persons required to report in accordance with Article L. 621-18-2 a), b) and c) of the French Monetary and Financial Code. The persons referred to in Article L. 621-18-2 b) of the French Monetary and Financial Code include the members of the Executive Committee.

5

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5.1 A corporate responsibility policy to support sustainable economic growth

For more than twenty 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 Purpose, newly adopted in 2020: "Building a future we can all trust".

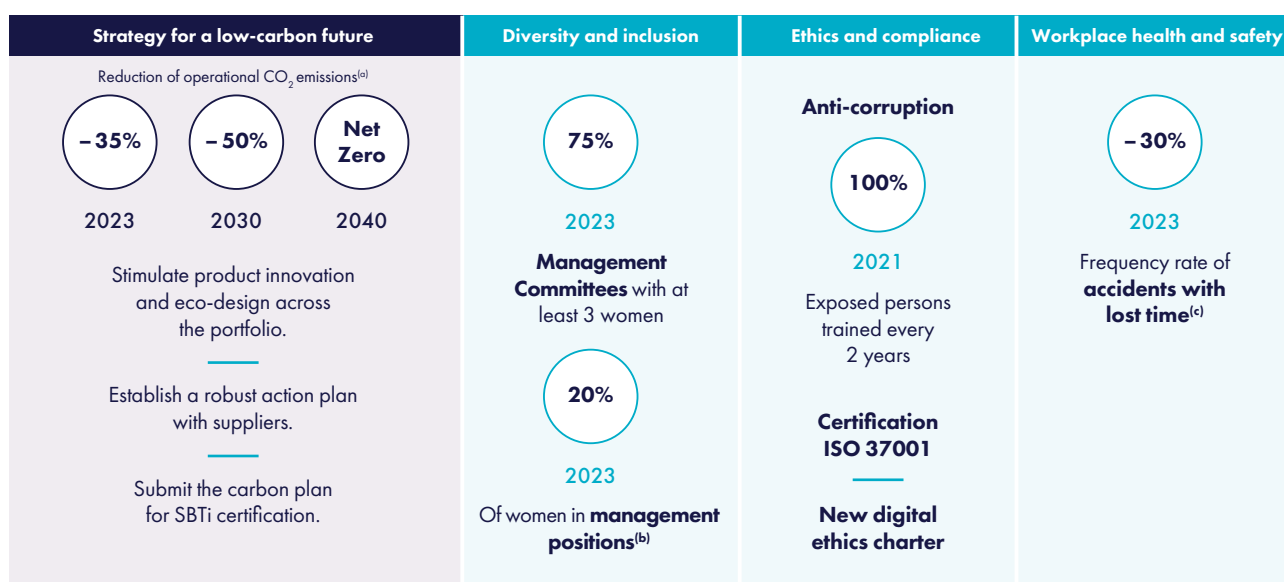
The implementation of a long-term corporate responsibility policy, a key to Thales's economic performance, is one of the fundamental expectations of its customers and employees. Through this approach, the Group is also addressing the demands of its investors and the financial markets for a company that is increasingly efficient, innovative, and mindful of its responsibilities, while at the same time aligning with current societal trends toward building a more transparent and trustworthy relationship between companies and all their stakeholders.

In 2021, Thales reconfirmed its commitment to the United Nations Global Compact, to which it has been a signatory since 2003. The Group therefore implements the ten principles relating to human rights, labor

law, environmental protection, and anti-corruption that make up the policy through agreements and procedures. This initiative has allowed Thales, since 2012, to achieve Global Compact Advanced level, the highest status of distinction of the United Nations Global Compact, which aims to create a high standard of CSR performance and encourage transparency. This year, Thales is celebrating 10 years of commitment to the highest standards of this globally recognized initiative.

In 2021, Thales organized an investor event entirely dedicated to ESG issues. During the meeting, Patrice Caine, surrounded by a large number of Executive Committee members, highlighted the acceleration of Thales's CSR initiatives and emphasized the growth opportunities offered by sustainable development. In particular, Thales has made new commitments to accelerate its response to the challenges posed by climate change. This event enabled the financial community to better appreciate the Group's ambition to contribute to a safer, more environmentally friendly and more inclusive future and to see the acceleration of Thales's CSR roadmap.

• THALES' MAIN CSR COMMITMENTS



(a) Scope 1 + Scope 2 + Scope 3 business travel.

(b) Top 13% of employees. Percentage of female employees: 27%.

(c) Compared to 2018 rate.

In 2021, these objectives now account for 10% of the variable compensation of all eligible employees (60% of the workforce).

These commitments in terms of social, environmental, and governance policies have been evaluated and valued by the main non-financial rating agencies. In 2021, the non-financial rating agencies MSCI, Vigeo-Eiris, and Ethifinance (Gaia rating) gave Thales an A rating and an index of 57/100 and 83/100 respectively for its corporate responsibility policy. These assessments place the Group among the best-performing players in terms of CSR in its industry.

In addition, Thales, which has been responding to the CDP (Carbon Disclosure Project) "Climate Change" questionnaire since 2010, has received a grade of A- in 2021. This "leadership" level recognizes companies that have adopted best practices in the fight against climate change. This rating reflects the Group's commitment and efforts in implementing its Low-Carbon Strategy with ambitious targets for scopes 1, 2, and 3 and strong governance. Thales also participates in the Ambition4climate initiative led by Afep (Association Française des Entreprises Privées) as well as in the work conducted by this professional organization and the Shift Project on the analysis of "climate" risk and the way to take it into account in the evaluation of companies and in corporate strategy.

This year, the relevance of these CSR commitments has also been recognized by our banking partners, since the bank credit line in place since 2020, whose conditions included climate objectives, was amended in 2021 (extension of its duration and improvement of its financial conditions) to take into account the reinforcement of the Group's Low-Carbon Strategy (see 5.5.2.2.1).

Finally, in March 2021, Thales obtained ISO 37001:2016 "Anti-corruption management systems" certification, issued by AFNOR for a scope including Thales SA and the companies it controls in France, as well as certain international subsidiaries of Thales International SAS ⁽¹⁾. In 2022, the Group plans to continue this process with a view to extending the scope of this certification to two major countries in its international organization (the United Kingdom and the Netherlands).

Strengthened CSR governance and organization

In order to better meet its future CSR challenges, at the end of 2021, the Group decided to set up an integrated CSR department, under the responsibility of a Chief Sustainability Officer directly reporting to the Group Secretary & General Counsel.

This new department covers all CSR areas and is organized into three areas: two areas of expertise for Environment (including climate) and Health/Safety, on the one hand, and social and societal issues (including Diversity and Inclusion and Thales Solidarity), on the other; the third area is responsible for dealing with all cross-functional issues: indicators, reporting, benchmarking, communication with stakeholders, regulatory and societal watch, etc.

In addition, the Group is developing its internal CSR governance to ensure that these issues are addressed at the highest level:

- a) A Strategic CSR Committee has been created at the Executive Committee level, in which the Chairman & Chief Executive Officer, the Group Secretary & General Counsel, and several members of the Executive Committee will participate;
- b) A network of CSR correspondents has been created within the Group: in each of the Global Business Units and Major Countries, this role is assigned to the Strategy and Marketing Directors; CSR correspondents will also be designated by the heads of the major cross-functional areas within their Management Committee.

It is important to note that despite the Covid-19 pandemic, Thales reaffirmed all its priorities and confirmed and even increased its CSR objectives.

All of Thales's main commitments in terms of corporate responsibility are presented in the Group's integrated report. This report, published yearly

since 2016, aims to provide all stakeholders - employees, customers, suppliers, business partners, local communities, public authorities, NGOs, etc. - with details about how the organization 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.

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 ⁽²⁾ and the assistance of an external consulting firm.

In 2021, this working group met again to assess the impact of the 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. workplace health and safety;
3. environmental impacts related to the Group's business activities ⁽³⁾;
4. impacts of regulatory changes ⁽³⁾;
5. compliance with rules of ethical business conduct (especially the fight against corruption and influence peddling) ⁽³⁾;
6. vigilance regarding suppliers' compliance with corporate responsibility issues.

(1) The three regional companies concerned are Thales EURAM, Thales AMEWA, and Thales NSEA in their respective areas of Europe and Latin America, the Middle East and Africa, and Asia.

(2) Representatives from the Finance, Health, Safety & Environment, Human Resources, Purchasing, Audit, Risks & Internal Control, Strategy & Marketing, Ethics & Corporate Responsibility, and Communications Departments, plus the Corporate Secretary and corporate management.

(3) These three risks are included in Chapter 3, Risk factors.

Risk identification

1. Diversity and inclusion

In a more globalized 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 in its teams could affect the Group's ability to properly account for major technological changes and respond to changes in customer expectations, and thus have a negative effect on its competitiveness and profitability.

2. Workplace health and safety

Certain activities for which Thales is responsible, conducted on its sites or on external sites, may expose its employees, subcontractors or other parties (industrial partners, customers, visitors) to various physical risks, for example electrical, chemical, or radiation. The risks are greater for activities that are unusual in terms of their frequency (exceptional activity, specific maintenance) or of working conditions (night work, large number of people working on a site at the same time, cramped premises, land, naval, or railway construction sites).

Wherever the Group operates, numerous and diverse regulations relating to the working environment and industrial safety apply to all its activities. Particularly risky activities are subject to additional provisions.

This regulatory environment aims to protect the health, safety, and quality of life at work of the employees for which the Group is responsible and to ensure a safe and healthy working environment.

As a result, the lack of control of these provisions and/or the quantitative, qualitative, or temporal insufficiency of the measures implemented could expose the Group to financial or administrative sanctions, impair its operational performance, incur its liability and/or damage its reputation, appeal, and value.

In addition, the Group's activities may be significantly affected by a national, regional, or even a global crisis of a biological (pandemic) or physical (volcanic eruption, earthquake, tsunami, hurricane, etc.) nature.

Safeguarding the health of its employees and persons acting under the responsibility of the Group may incur significant additional costs, to which may be added efforts to maintain the continuity of its activities in safe and healthy conditions.

As a result, the Group's ability to meet its commitments could be directly or indirectly affected (lack of provision of equipment, inability to access sites, etc.).

Customers' needs could likewise be sharply, significantly, and permanently diminished, leading to a collapse in activity over time.

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 monthly scorecard (see Chapter 5.4.2).

In an effort to promote team diversity and employee inclusion while ensuring 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 described in Chapter 5.4.2.

Thales has set up a dedicated organization combining the dimensions of sites, Global activities/Product Lines and legal entities, in order to prevent occupational health and safety risks at work on the Group's facilities as well as on external sites.

Cross-functional and multidisciplinary steering committees, created to eliminate or reduce these risks, meet several times a year (see Chapter 5.4.3).

This organization and these committees are in charge of:

- regular assessments and monitoring of the risks to which employees and the various stakeholders may be exposed;
- specific analyses of the risks linked to the substances and products handled;
- implementing concrete actions to prevent health and safety risks in the workplace and, in conjunction with the Human Resources Department, to improve quality of life and well-being at work (see Chapter 5.4.3);
- anticipating major crisis situations that may occur on a national, regional, or global scale.

Specific measures were implemented from the very beginning of the health crisis. They have continued or have been adapted to the context of the year 2021 and mainly concern:

- The implementation of a Group Central Crisis Unit (CCU) in charge of managing the Covid-19 pandemic, in close collaboration with the Executive Committee and in coordination with the 55 local crisis units. In practice, these units are responsible for making decisions, establishing rules and recommendations, implementing them, monitoring the situation, optimizing the provision of the necessary protection resources, circulating information, and communicating about the health crisis.
- Controlling risks related to changes in work methods that can lead to psychosocial risks. Particular attention is paid to the quality of life at work in the hybrid mode of telecommuting and being present on site, depending on national constraints.

Risk identification**Risk monitoring and management****3. Environmental impacts related to the Group's business activities**

The industrial footprint of Thales sites and operations, which remains small, exposes the Group to only limited risk of sanctions or damage to its image, particularly if certain operations do not comply with the increasing number of laws and regulations in this area.

Emissions generated by the Group's activities are likely to affect the environment. In addition, the use of the products and solutions provided by the Group, throughout their life cycle, contributes to the production of greenhouse gases that have an impact on global warming and the circular economy.

The low-carbon strategy implemented by the Group reflects Thales's commitment to the fight against climate change. Despite the actions already undertaken, as indicated opposite, the Group may not be able to fully achieve some of its stated objectives by the planned deadline.

Risks arising from climate change (natural disasters, supply chain disruptions, economic instability, etc.) could have negative effects on the Group's performance and the resilience of its business model.

The Group constantly analyzes the environmental impact of its activities, taking into account regulatory, societal, and technical developments and the sensitivity of the environments concerned. It also strives to optimize its locations, wherever possible.

The Group has deployed an organizational structure, processes, and tools designed to ensure control of the activities of its industrial sites and to limit their environmental impact (see section 5.5.2.3).

For several years, the Group has been implementing a process to assess and reduce the exposure of its sites to natural disasters (see section 5.5.1.3.3) in order to reduce its vulnerability to the physical effects of climate change.

The Group has made quantified and measurable commitments to reduce its impact on the environment. In particular, it is pursuing a strategy to reduce its carbon footprint, with targets for 2023 and 2030 in line with the Paris Agreement and taking into account the Science-Based Target methodology. These objectives were revised in 2021 to accelerate the process, with the aim of achieving a "Net Zero" level of operational emissions by 2040 (see section 5.5.2.3). This low-carbon strategy is supported by detailed action plans covering four areas: transportation, operations, purchasing, and products.

At the end of 2021, Thales decided to strengthen its governance and organization on Corporate Social Responsibility (CSR) issues and to create an integrated CSR Department led by a Chief Sustainability Officer reporting to the Group's Secretary & General Counsel.

The achievement of the Group's stated objectives is measured on a regular basis and is the subject of annual consolidation and publication (see 5.5.2.2).

4. Impacts of regulatory changes

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 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 expectations and voluntary segment-specific national or international commitments relating to the circular economy or carbon-footprint reduction, in particular for products with a long life cycle (e.g., aerospace), could lead to technical impossibilities or significant additional costs.

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, the circular economy, climate change, etc.), based on active international regulatory oversight and exchanges of information within national and international bodies.

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;
- 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 5.5.2.1.2).

Risk identification

Risk monitoring and management

5. Compliance with rules of ethical business conduct (especially the fight against corruption and influence peddling)

Thales's business encompasses almost 70 countries.

Failure to comply with applicable laws and regulations relating to ethical business conduct, and 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 Program, which has been in place for many years, is constantly being updated to incorporate recent legislative and regulatory changes.

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 will continue this process in 2022 with a view to extending the scope of this certification to the United Kingdom and the Netherlands.

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 with laws relating to social, environmental, and ethical responsibility, 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 5.7.6) pursuant to law No. 2017-399 of March 27, 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 8.7.

5.3 Non-financial performance scorecard

Topic/risk	Policies	Key performance indicator	2020 results	2021 results
1. Diversity and inclusion	<p>Thales's commitment: Bring out the best in everyone <i>"At Thales, I work in teams that are open to diversity and that value our differences and backgrounds."</i></p> <p>Cross-functional initiative taken by the Executive Committee as part of the Group's Ambition 10 strategic vision. 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 organization 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	18%	18.92%
		2023 target: 20% % of Management Committees with at least three female members 2023 target: 75%	68%	71%
2. Workplace health and safety	<p>Thales's commitment: Be attentive to everyone <i>"At Thales, my manager trusts me: they empower me and monitor 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	3.30%	3.03%
		Frequency rate of accidents at work	1.66	1.47
		2023 target: 1.55		
		Severity rate of accidents at work	0.056	0.03
3. Environmental impacts of the Group's activities	<p>Thales's commitment: HSE policy <i>"Thales is committed to safeguarding the environment by limiting impacts (energy, climate, natural resources, etc.) and preventing pollution risks."</i></p>	Reduction of operational emissions ^(a) Absolute value compared with 2018	-35%	-36%
		2023 target: -35%		
		Reduction of other emissions ^(a) Absolute value compared with 2018	-29%	-33%
		Recycling rate of non-hazardous waste	60%	70%
		% of employees working at ISO 14001 certified sites	84%	87%

Topic/risk	Policies	Key performance indicator	2020 results	2021 results
4. Impacts of regulatory changes	Thales's commitment: HSE policy <i>"Thales is committed to designing, purchasing, producing, and providing solutions, products, and services that meet health, safety, and environmental requirements."</i>	New developments incorporating eco-design	44%	84%
		Percentage of <i>Product Line Architects</i> and <i>Product Line Managers</i> trained in or made aware of eco-design	33%	64%
5. Compliance with rules of ethical business conduct (especially the fight against corruption and influence peddling)	Thales's commitment: Zero tolerance of 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	149	153
		Anti-corruption training ^(c)	1,350	6,774
		Multi-year objective: training of 100% of the populations concerned		100%
		Alerts received via the Group's whistleblowing system, including alerts relating to allegations of corruption ^(d)	25 –	44 1
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 co-operation 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, labor standards, and environmental protection.	Percentage of new suppliers committed to the principles of Thales's new Integrity & Corporate Responsibility Charter: 2023 target: 100%	91%	97%
		Percentage of suppliers assessed among those considered as "at risk" according to the Duty of Care mapping. 2023 target: 100%	24%	59%

(a) Operational emissions: Internal operations (Scope 1, 2, and 3 – business travel).

(b) Other emissions: Scope 3 purchases of goods and services and use of products and services sold.

(c) In 2021, 2,143 employees took the "general e-learning" course, 1,039 employees attended the virtual class and 3,592 employees took the "thematic e-learning" courses.

(d) The alert concerning allegations of corruption was closed without further action, as the internal investigation confirmed that there was no evidence of corruption.

5.4 Human resources geared towards group performance

In the face of the social, health, and economic challenges with which they have been confronted, employees demonstrated their ability to adapt, their flexibility, and their strong commitment in 2021, in order to enable the Group to respond to customer expectations, to support the transformation of organizations, and to rethink working methods while guaranteeing a safe and flexible environment. This dynamic has resulted in:

- new initiatives to give new life to the “Ambition Boost” program. This performance program for the achievement of the Group’s strategic ambitions involves the HR department strengthening the appeal of Thales on the one hand, and developing the expertise and behavioral skills of employees on the other;
- the rollout of “smart working” throughout the Group. This approach meets the threefold objective of accelerating the Group’s competitiveness and collective performance, offering flexibility in terms of when, where, and how we work, and lastly, improving well-being at work and the balance between professional and personal life for our employees;

- accelerating the CSR strategy and action plans. The Group has set itself new, more ambitious objectives to contribute to a safer, more environmentally friendly, and more inclusive world.

Benchmarks in numbers:

At the end of 2021, Thales had 80,995 employees working in 7 Global Business Units (GBUs) corresponding to the Group’s 5 main areas of activity: Defense & Security, Digital Identity & Security, Aerospace, Space, and Ground Transport.

Present 70 countries, 47% of the workforce is located in France, 28% in Europe (excluding France), 7% in Asia and 7% in North America.

These employees are divided into 3 main zones: France, the major countries where the Group⁽¹⁾ operates and the other countries where it operates.

	France	Major countries of operation	Other countries of operation
Number of employees as of 12/31/2021 ⁽²⁾	38,145	22,153	20,697

In 2021, 10,310 new employees joined Thales and 8,133 employees left the Group. The 2021 turnover rate is 5.26%⁽³⁾.

Turnover Age range	Group		France		Major countries of operation		Other countries of operation	
	Women	Men	Women	Men	Women	Men	Women	Men
< 30	13.22%	12.87%	4.56%	8.12%	16.25%	13.02%	20.93%	20.84%
30-40	8.22%	8.21%	2.98%	4.49%	12.98%	11.22%	10.26%	10.97%
40-50	3.76%	3.59%	1.32%	1.41%	8.17%	7.06%	4.18%	4.63%
> 50	1.49%	1.87%	0.52%	0.51%	3.19%	3.60%	1.83%	2.18%
GRAND TOTAL	5.61%	5.14%	1.80%	2.51%	8.61%	6.95%	9.03%	8.30%

5.4.1 Strengthening the Group’s appeal

Given its geography and business, the Group is facing several challenges:

- attracting candidates with rare and sought-after skills in a highly competitive job market;
- recruiting more women to strengthen the gender equality within the teams;
- helping young people discover technical and scientific fields and the opportunities they can offer;
- developing and rewarding the Group’s talents to retain them and support them in their professional development in order to ensure a good match between resources and the Group’s needs.

5.4.1.1 Sparking interest in technical and scientific careers

In an ever-changing economic and technological environment, Thales is committed to recruiting the best talent. The Group has been committed to the younger generation for many years and promotes technological careers to young people, especially to young girls. Convinced that teams with equal gender representation are an undeniable asset for performance, the Group pays particular attention to the recruitment of women at all levels of the organization.

(1) Germany, Australia, Canada, Netherlands, United Kingdom, and United States.

(2) The number of employees indicated are the active employees as mentioned in the methodological note

(3) Rate calculated in accordance with the Global Reporting Initiative (GRI) 401-1 standard

The Thales Employer brand

The employer brand highlights the Group's commitments in terms of Corporate Social Responsibility: promotion of diversity, commitment to the inclusion of all, concern for individual and collective well-being, etc. The Thales employer brand is regularly highlighted on the website, on its various social media channels, and also at various events in which the Group participates. As the internet is now the primary source of information and employment, the Group has pursued its development strategy on social networks to improve its appeal. At the end of 2021, more than 896,000 people were following news about the Group on LinkedIn (vs. 721,000 in 2020 and 550,000 in 2019). The new Thales careers site provides greater visibility of the Group's activities and improves the experience of candidates during their job search. In 2021, 25% of applications received will come from social media, and 48% from job boards.

In 2021, Thales continued to digitize its various operations (forums, testimonials, etc.) both externally and internally.

These various initiatives have contributed to the Group's reputation and its position in the various French and international rankings as the preferred company of employees and young graduates.

As an example ⁽¹⁾:

- Thales is ranked 4th in the LinkedIn "Top Companies 2021" ranking of companies offering the best career opportunities in France;
- Thales is ranked 7th in the Universum ranking of young graduates and experienced engineers in France;
- Thales is well ranked as a top employer in Singapore (50th out of 200), Spain (29th out of 100), and the Netherlands (47th out of 130).
- **Thales Canada recognized as "Top Employer" in 2021**

For the third year in a row, Thales Canada has been recognized by the Greater Toronto 2021 ranking as an employer of choice. Thales Canada has been rewarded for its initiatives in integrating new employees in the context of the global pandemic and reconciling work arrangements with the necessary work-life balance.

Inspiring careers

Partnerships with educational institutions

In 2021, 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 program, 29 mentors were paired with students in 2021 (compared with 27 in 2020).

A longtime partner of the association "Elles Bougent", whose objective is to attract young women to engineering careers, Thales today has 420 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 middle and high school students on site so they can find out more about the engineering professions at an industrial group like Thales.

Julie Grollier, a Thales employee, received the 2021 Irène Joliot-Curie award in the "Woman Scientist of the Year" category

On this occasion, Ms. Grollier stressed the importance of this award for her and the promotion of diversity in scientific careers: *"It is a prestigious award; I did not expect to receive it and I am very honored. First of all, it is a recognition for the work of our CNRS-Thales joint unit team and it is also a mark of confidence from the jury because it is the prize for the woman scientist of the year, so it is about representing women in science. This is a very important issue for me and I am proud to be able to do this."*

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 2021, campus managers were particularly active, participating in 200 face-to-face and virtual events with schools and universities (vs. 70 events in 2020) and 110 recruitment forums (vs. 20 forums in 2020).

A 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 by signing 2,256 work-study contracts and 97 internship agreements in France in 2021.

Encouraging the hiring of women

Thales has continued its efforts in the area of hiring women. In 2021, for all contract types combined, women accounted for 33% of Group new hires (i.e., 3,360 women out of 10,138 new hires ⁽²⁾). This rate, up by two points compared to the previous year, is nevertheless constrained by the under-representation of women in higher education in engineering and computer science, which varies between 15 and 25% depending on the country.

	France	Major countries	Other countries
Rate of hiring of women in 2021	32.4%	23.6%	42%

(1) Results obtained in 2021

(2) The number of new hires in the Group only takes into account employees who have declared their gender. The total number of employees recruited was 10,338.

5.4.1.2 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 organization 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 commitment.

The Group's employment policy has always been characterized 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.

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 and future trends, and put forward a collective professional development action plan.

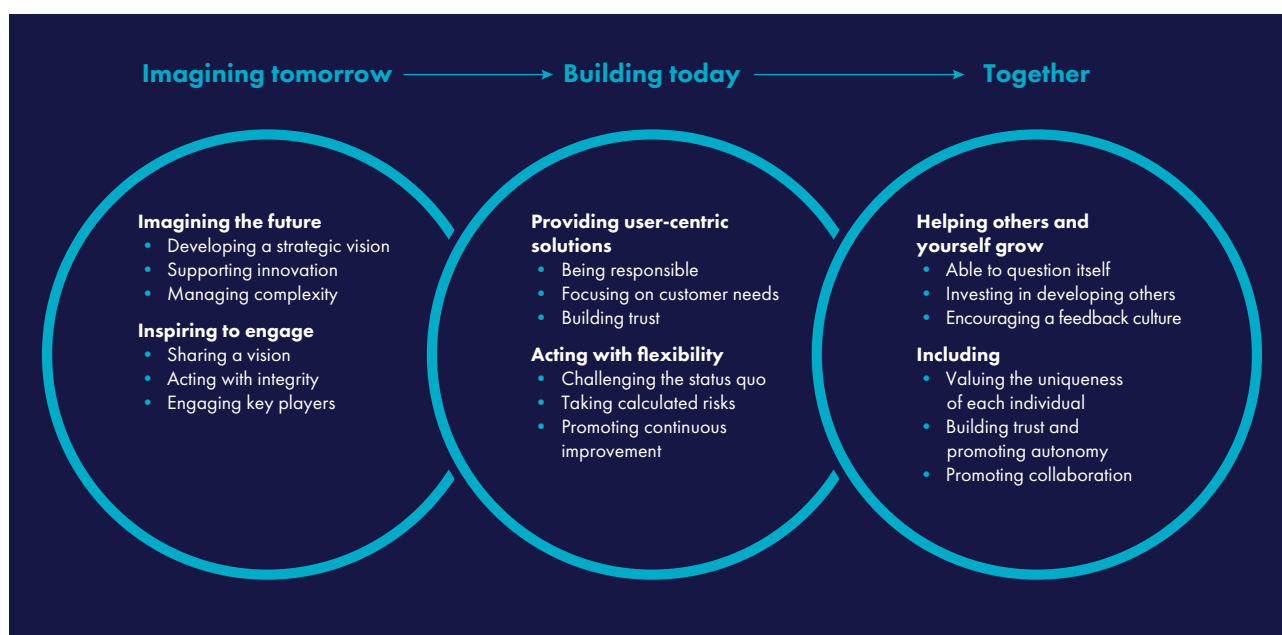
Skills management plays an essential role in ensuring the Group's development in an environment where some activities have been affected by the Covid-19 crisis in a lasting way while other activities are experiencing significant growth.

To this end, the Group has developed a "skills management" approach for 6 job families (R&D, Industry, Customer Service, Quality, Purchasing, Bid & Project Management) centered 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.

In 2021, the duties and environments of these 6 professional families have been reviewed to take into account the changes in these professions within Thales. Most of the core training courses in these professional families have been digitized to improve their distribution within the Group.

Evolution of the leadership model

In 2021, the new "Leadership@Thales" leadership model was adopted by all the Group's countries and organizations. The skills expected in this new model are built around three aspects: "Imagine tomorrow", "Build today" and "Together". These three aspects are broken down into six essential skills for Thales's collective performance. A number of training and communication tools have been implemented to disseminate the Leadership@Thales model at all levels of the organization.



Professional support for employees

Each year, the Group's employees have regular "check-in" meetings with their managers to discuss their professional objectives and progress in achieving them, feedback from their professional environment, training needs, and workload. Introduced in 2020, the "Check-Ins" have replaced the Annual Activity Discussions (AAD) and Professional Development Discussions (PDD). In 2021, 75% of the Group's employees will have been able to establish their annual objectives with their manager using the dedicated tool.

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.

In 2021, the Talent&Culture France, Thales Learning Hub, and Digital Academy teams have been brought together under the new LearningAndCulture@Thales banner to meet three objectives:

- supporting the deployment of the Group's strategy, and in particular the Group's growth and transformation projects;

- taking into account employees' individual aspirations in terms of professional development, mobility, and the acquisition of new skills;
- defining and deploying a shared culture within the Group, ensuring that it is understood and adhered to by employees, particularly in the areas of diversity and inclusion, leadership, digital transformation, and employee engagement.

In this context, LearningAndCulture@Thales contributes to the training and professional development of employees in the various countries where the Group operates, by offering them the opportunity to learn continuously, in different ways, with a shared foundation of Thales's culture.

In the major countries where it operates⁽¹⁾, the Group has twelve corporate university campuses called "Thales Learning Hubs", which have special facilities for organizing seminars, training sessions, and workshops.

In 2021, the health crisis has had a significant impact on the rollout of face-to-face training, leading to an even more regular use of distance learning and the digitization of the training offered.

The training courses that have been rolled out have been mainly on programs related to:

- the transformation of the business lines, especially for the Sales, Marketing, Technology and Information System, and Software Engineering teams;
- training in the prevention of corruption and influence peddling;
- selective "Global Leadership" programs for directors;
- the implementation of Actions in the Workplace (AWP);
- support for the LearningAndCulture@Thales teams in taking their activity online, thereby helping internal training instructors to improve the way they lead virtual classes.

uLearn

In 2021, the Group launched "uLearn", a digital training platform led by LearningAndCulture@Thales. This training platform, which is available to all employees, makes it easier to identify training courses that are useful for everyone's professional development and skills development. In this way, uLearn supports a new learning culture by offering a renewed "learning experience" with different learning methods combined together, with a strong emphasis on innovation.

Key figures on training for the year 2021:

The Group's employees received an average of 12 hours of training in 2021. Overall a total of 982,707 hours of training were provided by the Group in 2021.

The acceleration in digital training offerings notably resulted in:

- more than 275,000 hours of digital training being provided, an increase of more than 60% compared to 2020. The UdeMy learning platform, which offers external digital training, has been used by more than 11,000 employees for over 101,000 hours;
- 135,694 hours of training being completed in virtual classrooms, an increase of 54% compared to 2020.

An attractive mobility and expatriation policy

The closure of certain borders, the tightening of immigration procedures, and the difficulties encountered in traveling have all contributed to limiting mobility and the number of trips abroad.

At the end of 2021, the Group had 675 internationally mobile employees, including 88 employees in the global "Digital Identity and Security" (DIS) business.

Out of 587 Thales employees (excluding DIS):

- 473 were on long-term assignments (Long-Term Assignment, Thales Global Mobility, Commuters) or Short-Term Assignments;
- 65 were in the Career Plus program, which is designed to meet the operational needs and desires of employees of all backgrounds who want to gain temporary international experience;
- 49 V.I.E. (Volontariat International en Entreprise), young people from the European Economic Area, aged between 18 and 28 years old, benefited from a 6 to 24-month volunteering assignment abroad.

These 587 employees from 23 different countries were assigned to 61 destination countries. Most of them come from Europe (69.5% from France) but also from the Asia-Pacific region (Australia, Singapore, etc.), North America and certain emerging countries (such as Brazil).

Europe remains the leading destination zone (39.9%), closely followed by the Middle East (mainly the United Arab Emirates, Saudi Arabia, and Qatar) and the Asia-Pacific zone (mainly Singapore and Australia).

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.

• Remuneration:

Compensation is a key component of the Group's employment policy, aimed at encouraging performance, recognizing 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.

In order to involve all employees in the Group's CSR policy more closely, it has been decided that from 2021 onwards, for employees eligible for variable compensation, 10% of this variable compensation will be dedicated to 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 addition, the proportion of compensation linked to economic objectives has been increased to 50% (from 40% previously).

In 2021, compensation rose by over 1.8% in France, notably including both individual pay rises and the collective pay rises negotiated with trade unions, without the health crisis calling these increases into question.

Group payroll, including profit-sharing and incentive schemes, totaled €7,745.5 million in 2021 (compared with €7,419 million in 2020).

(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.

• Profit-sharing and incentive programs

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.

(in € millions)	2018	2019	2020	2021
Amount distributed as profit-sharing	46.2	36.4	80.3	60.8
• of which share of Thales, parent company	1.37	1.09	2.4	1.7
Amount distributed as part of incentive programs	51.4	42.6	27.2	11.6
• of which share of Thales, parent company	1.4	1.2	0.8	0.3

In France, all employees benefit from a major employee savings scheme organized around:

- a Group savings plan (PEG) with assets totaling approximately €404 million as of December 31, 2021, 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 €328 million on behalf of 37,362 unit holders;
- a Collective Company Retirement savings plan (PERECO) set up in 2021 following negotiations with the unions. This scheme, which has replaced the collective retirement savings plan PERCO, allows employees to build up savings for their retirement. In this framework, employees will receive a matching contribution from the company according to their seniority. As of December 31, 2021, the assets under management as part of the PERECO plan amounted to €588 million on behalf of 44,580 unit holders.

The sums invested in the FCPE solidarity funds represent 27% of the total funds invested by employees in these two schemes.

• Thales employee shareholding offer

The Group rolled out its 11th Thales share purchase offer to its employees in November 2021. Accordingly, 600,000 shares were offered to employees in 36 countries, with a 20% discount on the purchase price and a matching contribution of one share offered for every 4 shares

purchased (up to a maximum of 10 shares offered). This offer was a real success as it was largely oversubscribed by 21,339 employees.

Taking into account all types of shareholding (FCPE, direct shareholding, and shares from bonus share plans), employees (or former employees) held 3.23% of the capital of Thales as of December 31, 2021.

• Free allocation of shares and phantom shares

On July 1, 2021, the Board of Directors approved the implementation of a plan to grant free shares, all subject to certain performance conditions, to 850 French senior executives.

A *phantom share* plan (monetary equivalent of one Thales share), with all shares subject to performance conditions, has also been set up for 373 non-French senior executives. These two plans will benefit a total of 1,223 employees in 31 countries of the Group.

Medium-term (3 years) and short-term (2 years) loyalty programs have also been set up for 1,767 Group technicians, engineers, and managers.

• Health and welfare insurance

Since 2006, the employees of the Thales in France have been covered by a single, compulsory group contract for additional social protection, in response to the desire to develop comprehensive and uniform social protection for all employees, regardless of the entity to which they belong. Employees also benefit from a supplementary medical expense reimbursement plan covering certain excess professional fees.

5.4.2 Promote diversity and an inclusive culture

In a constantly changing international and multicultural environment, diversity and inclusion are key to enabling everyone to contribute their best to the Group's performance. Thales promotes work environments that are respectful of differences, as well as stimulating and conducive to creativity, collaboration, and employee well-being.

Governance

To reflect its commitment to becoming a more diverse and inclusive company at all levels of the organization, 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 fulfillment;

- 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 the GBU regional and country level, by adapting it to local characteristics;
- *ad hoc* Diversity & Inclusion Steering Committees at GBU regional and country level.

This governance structure also draws on the existing Human Resources (LearningAndCulture, Recruitment) and Communication networks to pass on the actions taken within the Group.

In 2021, Thales continued the actions initiated the previous year by focusing its efforts on promoting women to positions of responsibility, combating casual sexism, and the inclusion of LGBT+ people.

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 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 2016, Thales's Chairman & Chief Executive Officer made ambitious long-term commitments regarding the recruitment of women, women's access to high-level positions, and the presence of women on management committees.

In this context, Thales has set targets for 2021 and 2023 for women's access to positions of responsibility, namely to raise:

- the proportion of women in senior management (grades LR10 to 12) to 20%;
- the proportion of Management Committees ⁽¹⁾ including at least three women to 75%.

These targets were shared at the ESG Investor Day (see 5.1), which was entirely dedicated to the Group's environmental, social, and governance issues.

At its meeting on March 30, 2022, the Board of Directors decided to set new targets for the period 2024-2026, reflecting an acceleration in the trajectory, namely 22.5% of women in LR 10 to 12 by the end of 2026 and 75% of Management Committees comprising at least 4 women by 2026. As of December 31, 2021, 42 % of the Management Committees were composed of at least four women ⁽²⁾.

	2016	2017	2018	2019	2020	2021
Proportion of women in senior management (grades LR10 to 12)	14.9%	15.5%	16.5%	17.2%	18.0%	18.9%
Proportion of Management Committees including at least 3 women	27%	34%	49%	50%	68%	71%

As of December 31, 2021, women represented 26.8% of the total workforce (compared with 26.3% in 2020).

Country/Zone	% of women in the workforce
France	25.8%
Major countries of operation	23.5%
Other countries of operation	32.0%

A strong commitment at Group level

• The creation of a Global Equality Index

In 2021, Thales introduced a Global Equality Index to assess the comparative situation of men and women in Group companies with more than 250 employees. This index aims to measure any gaps in pay and career development that disadvantage women compared to men, based on 5 indicators and a total score of 100 points. This tool allows companies to implement gender equality action plans.

As of March 1, 2022, 19 Group companies in France had published their Gender Equality Index for the year 2021. Four companies received an overall score of 91 points or more, including Thales Services Numériques (94/100) and Thales SA (91/100). The companies Thales Alenia Space France and Thales Global Services SAS each received a score of 89/100. Thales AVS France obtained a score of 84/100 and Thales SIX GTS France, Thales DMS France and Thales LAS France obtained a score of 79/100. For these last three companies, the drop in score compared to 2020 is essentially due to the fact that the proportion of women receiving raises in 2021 was higher than the proportion of men. This gap, in favor of women, has resulted in a drop in points under the index indicator dedicated to increases.

• The definition of variable compensation in line with the Group's gender diversity objectives

All employees receiving variable compensation are now interested in the Group's CSR objectives and more specifically in the objective of increasing to 20% the proportion of women in the highest positions by 2023. This goal is applied annually and represents, for each employee concerned, a quarter of the variable compensation amount dedicated to CSR goals.

• Mentorship

Mentoring is a powerful tool for promoting women. The 4th promotion of the International mentoring program for women was launched on June 8, 2021, at the Group level, involving 80 partners from around the world from all departments and Global Business Units to promote career development for women. This program consists of meetings between mentors and mentees every four to six weeks as well as group gatherings.

This mentoring program was introduced for the first time in 2021 via the platform "MentorcliQ", which links mentors and mentees.

Other local mentoring initiatives have also been developed in Australia and Singapore and in the Space, Defense Mission Systems, and Land and Air Systems Global Business Units.

In North America, the platform "MentorcliQ" offers five mentorship programs involving more than 400 employees in cycles of approximately six months each. One of them, the Women@Thales program, is specifically dedicated to career development for women.

(1) This includes the Management Committees of GBU (Global Business Units), Business Lines, the major countries where the Group operates, and the DGDI (covering the other countries where the Group operates), a total of 45 Committees.

(2) As of December 31, 2021, 42% of the Management Committees were composed of at least four women.

- **WiTh network animation**

With more than 3,500 members, both men and women, “WiTh” (We in Thales) is an international network of solidarity and support for gender equality at Thales that contributes to women’s career development.

In 2021, this network organized an annual convention involving several hundred Group employees. This convention was an opportunity to highlight men and women committed to the issue of diversity. It also allowed employees to discover initiatives at different companies and to participate in online workshops on topics related to the promotion, to parenting, or even to the impact of the health crisis on diversity.

Rollout at all levels of the organization

- **Recognition of women engineers in the UK**

In the context of the partnership between Thales UK and the association WES, which showcases women in engineering jobs, two Thales employees were among the 100 finalists for the Women in Engineering 2021 competition.

- **The DMS Awards for Diversity and Inclusion**

Each year, the Group’s Defense Mission Systems (DMS) Global Business Unit organizes the Awards for Diversity and Inclusion in its 6 main countries ⁽¹⁾. The aim of these awards is to put the spotlight on employees or teams for remarkable initiatives in Diversity and Inclusion. In 2021, a French employee was rewarded for the management of her team during the Covid-19 period and the connection that she managed to maintain between employees during lockdown, as well as her active involvement in promoting technical jobs to young women and the development of her team’s skills.

- **Fighting against everyday sexism in France**

Since 2019, Thales has led several initiatives to fight against sexism in France:

- participation of the Group in the inter-company initiative #StOpE, which involves 17 signatory companies. In 2021, more than 8,000 Thales employees participated in the discussion launched as part of this initiative. In addition, an online awareness course, already available in French, was translated and made available in English for all Group employees by member companies of the initiative;
- nomination of about a hundred sexual harassment and sexist conduct points of contact representing management and the Social and Economic Committees.

- **The recognition of a workplace adapted to gender equality**

In 2021, Thales Australia received a certificate of compliance from the government authorities responsible for gender equality in the workplace, attesting to the quality of the system put in place within this entity.

In India, Thales was ranked among the 100 best companies for women for the third year in a row.



- **Supporting female victims of domestic violence in Australia**

In the context of a significant increase in violence against women during the Covid-19 pandemic, Thales Australia has been particularly active in supporting women. Notably, a help service was made available to female employees affected to support them in their actions (psychological, legal, and financial assistance).

5.4.2.2 Policies implemented to increase employee commitment to greater diversity

Offering a work environment that is caring and respectful of people’s differences, allowing each person to give their best, is at the heart of the Group’s diversity and inclusion policy.

Inclusion of employees with disabilities

The policy in place for many years with regard to employing people with disabilities allows the Group to move forward each year with integrating people with disabilities.

This is the case in France thanks to “Mission Insertion”, a body dedicated to the issue of employing people with disabilities, which aims to welcome people with disabilities, to promote the employment of people with disabilities and to help employees concerned to integrate professionally into the company.

In 2020, Thales maintained an employment rate of more than 6%, despite new calculation methods ⁽²⁾ that no longer take into account the use of subcontractors at adapted companies, sheltered employment centers, or independent disabled workers. Only direct employment of workers with disabilities is now taken into account.

	2017	2018	2019	2020 ⁽³⁾
Employment rate of people with disabilities in France	6.52%	6.71%	6.92%	6.36%

In France, the social partners entered into a new three-year collective agreement for 2021-2023 involving all Thales entities, which supports people with disabilities. This agreement, which was signed unanimously by the workforce representatives, was authorized at the end of December 2020 by the French administrative authorities. In particular, it provides for:

- a comprehensive system for recruiting people with disabilities;
- specific arrangements for caregivers;
- measures to support employees to maintain their employment and develop their career.

(1) France, Netherlands, Germany, UK, Australia, and Canada.

(2) New terms methods resulting from Act no. 2018-771 of September 5, 2018, on the freedom to choose one’s professional future.

(3) Data available for 2020, reported during the 2021 financial year

Ongoing support for people with disabilities during the Covid-19 crisis

The robustness of the Group's processes in terms of employing and integrating people with disabilities has enabled the continuation of projects rolled out in France, in particular by "Mission Insertion", during the health crisis linked to the Covid-19 epidemic. In addition, employees with disabilities received special attention during this period: return to work on site after approval by an occupational physician, reminders from managers to employees concerned of the details of the relevant network (occupational physician, disability points of contact, social workers), use of face shields for managers when interacting with employees with hearing impairments, support of parents with disabled children in dealing with closure of specialized organizations, etc.

During 2021, despite the health crisis, Thales integrated 87 people with disabilities in France, including 33 interns and 14 young people on work-study contracts.

As part of its partnership with the Université Paris-Est Créteil (UPEC), Thales contributed to the creation of the UPEC Partnership Foundation, which since June 2021 has been offering a chair in "DISABILITY, AUTONOMY, EMPLOYMENT, AND HEALTH AT WORK" Thales has been participating in this ambitious program to promote access to training for people with disabilities and to prevent their professional exclusion.

In 2020, Thales initiated a cycle of digital training for its disability points of contact, also in partnership with UPEC. In 2021, the 14 contacts for the first group became certified. A second group was launched in November 2021 and a third is planned for 2022.

There are also 4 digital training modules available for all employees in French and English.

Thales has also continued steps to become certified according to the AFNORX 50-783 "Organismes Handi-accueillants" (disability-friendly organizations) standard for all its sites in France. At the end of 2021, 41 of the 46 sites that committed to the process are now compliant with this standard.

Participation in the "HUGO" program, whose goal is to ensure the training and recruitment of young people with disabilities on work-study contracts in the software sector, has been continued, as well as partnership with universities under the "Aspie-Friendly" program to support autistic students in gaining employment.

In 2021, partnerships with stakeholders in the sheltered sector represented a volume of purchases from and subcontracting to Entreprises Adaptées (EA) and to sheltered employment centers (ESAT) of €4 million.

During the European Disability Employment Week, DuoDay and the International Day of Persons with Disabilities, various events organized all over the world were an opportunity for everyone, whether disabled or not, to become informed and to talk about the situation of people with

disabilities. During DuoDay, more than 100 employees each welcomed a disabled person and were able to talk about their job and disabilities.

Inclusion of LGBT+ people

Firmly resolved to fight against any form of discrimination, Thales is committed to including lesbian, gay, bisexual, and transgender people as well as all other people of minority gender and sexual orientation.

Since 2019, Thales has been a signatory to the Autre Cercle LGBT+ Commitment charter, an association aiming to promote diversity and prevent discrimination against LGBT+ (lesbian, gay, bi, trans, and intersex) people in the work environment. Through this commitment, Thales aims to ensure an inclusive environment for lesbian, gay, bisexual, and transgender people, where the diversity and originality of each person are respected and accepted.

The Group has developed and published an online training course relating to the inclusion of LGBT+ people in several languages. The sexual harassment and sexist conduct points of contact appointed in the GBUs are also in charge of ensuring equal rights and treatment among all employees, whatever their orientation or sexual or gender identity.

In 2021, Thales developed two new policies in the UK in partnership with the Stonewall association: "Gender identity" and "Gender transition at work" to improve the support of transgender people in the company.

Cultural diversity

Present in almost 70 countries, Thales is genuinely multicultural. This diversity is a source of richness and is part of the Group's strength, enabling understanding of the ecosystems in which it operates. Several initiatives are implemented every year to create an inclusive environment where dialogue and interaction between employees from different cultures are sources of innovation.

2021 marks the end of the first Reconciliation Action Plan (RAP) in Australia, a coordinated national strategy aiming to build relationships and improve opportunities for Aboriginal and Torres Strait Islander peoples, communities, and companies. A summary of this first plan at Thales includes numerous training courses as well as a graduate program, scholarships, and internships for Aboriginal pupils. In Australia, a dedicated program also supports young Aboriginal people.

Thales's South African teams have made a point of celebrating their cultural richness by organizing the Heritage Festival with employees, which celebrates the traditions and customs of the country's different ethnic and cultural groups.

Intergenerational diversity

The Group strives to maintain a wide and balanced representation of age groups in its workforce, convinced of the benefit of synergy of experience and intergenerational dialogue.

Breakdown of workforce by age groups	% of employees
Less than 30 years old	12.3%
30-39 years old	24.9
40-49 years old	28.1
50 years and older	35.7

In France, Thales pursues a proactive policy with respect to the so-called senior categories, with the aim of preventing any form of discrimination related to age, but also to support their professional development in a context of rapid transformation of organizations and changes to the corporate culture. Through the Group's collective agreements, they benefit from solutions enabling them to continue their career.

Thales also drives an active integration policy with respect to the younger categories and offers them various initiatives, such as "shadow Comex" (shadow executive committees) implemented within the GBU LAS, which allow young employees with different and complementary skills to actively participate in strategic decisions by issuing recommendations to the Management Committee.

Inclusion through networks

Thales encourages and supports the creation of networks in favor of diversity and professional inclusion.

The network "WiTh" (We In Thales), which has more than 3,500 members, works to promote diversity (see above).

The association YES (Young Employee Society) is open to all new employees, regardless of age. The aim of the association is to facilitate the integration of newcomers to the company, to facilitate dialogue between different departments and different entities, and to participate in the Group's development.

The aim of the diversity network "Cognitive Mind" is to promote all forms of cognitive diversity (Asperger's, gifted, DYS and hypersensitivity) within the Group and to raise awareness about their distinctive features, promoting mutual understanding between employees so that they learn to work and live together better.

There are various initiatives in countries relating to the inclusion of LGBT+ people: in particular, the association AGA Thales participates in the fight against discrimination. A task force supports inclusion of LGBTQ+ people in Australia with the support of the association Pride in Diversity. In Great Britain, employees participated in the development of new support policies on gender transition.

5.4.3 Providing a safe, high-quality work environment

For many years, Thales has been committed to providing a safe and healthy work environment for all its employees, where everyone has the trust and support of the managerial teams but also the resources enabling them to do their jobs and maintain a healthy balance between their professional and personal lives.

Firmly committed to a voluntary and responsible approach in terms of prevention and protection of the health and safety of the Group's employees, the Human Resources and Health, Safety & Environment departments, supported by the Occupational Health Service, continued their engagement throughout 2021 to help employees during the global health crisis related to the Covid-19 pandemic, whether by supporting employees in difficulty or adapting work structures.

Pursuing a dynamic and constructive social dialogue

• Examples of adapted dialogue

For a long time, Thales has pushed for collaboration with social partners on all subjects of common interest. In 2021, this collaboration led to social dialogue aiming particularly to mitigate the consequences of the crisis for employees and the organization of activities.

Thales promotes social dialogue at all levels of the organization. Since its inception in 1993, the European Works Council today consists of 39 members from 11 European countries⁽¹⁾. It met eight times in 2021 (two plenary meetings, three extraordinary meetings, and three executive committee meetings) to discuss the Group's economic and financial outlook, news from the GBU, the impact of the health crisis, and the planned disposal of the Group's Transport segment.

The agreement concerning the European Works Council also provides for the organization of discussion and information meetings at the level of each Global Business Unit to enable members of the council belonging to each GBU to discuss its transnational strategic and social outlook. During the Executive Committee meetings, the actions of these committees were highlighted.

In France, representation of the staff is structured around the central Social and Economic Committees and site committees as well as a network of local representatives. Sites comprising more than 50 employees also have a Health, Safety, and Work Conditions Commission. The structure of these bodies is the result of collective bargaining.

• A base of harmonized social measures resulting from dialogue with the social partners

Over the years, Thales and its social partners have entered into collective agreements applicable to all of the Group's employees in France. The measures resulting from these agreements form the basis of social measures relating to health and working conditions, employee benefits, professional equality, disability, retirement, and pension schemes, and evolve regularly to harmonize and consolidate the social benefits offered to employees.

In November 2021, the Group's social partners in France concluded an agreement on business trips, on the one hand enabling the applicable rules to be harmonized within the Group in France, and on the other hand enabling the ecological and social impact of these trips to be taken into account in the context of the Group's environmental policy.

The dynamic social dialogue in France also notably resulted in the signing of the following Group collective agreements in 2021:

- agreement relating to procedures for social control of the prevention and occupational health service of the Thales Group signed on June 4, 2021;
- agreement transforming PERCO into a collective pension fund (PERECO) signed on May 25, 2021.

Internationally, the Group entities respect the conventions of the ILO relating to the right to organize and collective bargaining⁽²⁾; at the end of 2021, 76% of Group employees worldwide were covered by collective agreements.

• A social dialogue to accompany the Group's transformations

With the health crisis linked to the Covid-19 global epidemic having significantly impacted on air transport and its related activities, the social partners entered into an agreement in January 2021 aiming to adopt specific measures to encourage the recovery and sustainability of the activities impacted by the crisis and to preserve the skills necessary in anticipation of recovery of these activities.

(1) France, United Kingdom, Germany, Italy, Netherlands, Spain, Belgium, Austria, Portugal, Norway, Switzerland

(2) Conventions no. 87 on the freedom of association and protection of the right to organize and no. 98 on the right to organize and collective bargaining.

More than 30 company and site collective agreements were signed in the Group's various French entities in 2021.

The staff representative bodies, at the Group level or locally, are regularly informed and/or consulted on Group restructuring plans according to the methods provided by the regulations and agreements applicable in the relevant country. For example, in France, during 2021, the SECs of the entities affected by the planned rationalization of certain Thales sites in Ile de France (France) were informed and then consulted, with the operational departments making sure beforehand that the staff representatives had enough time to render their opinions.

- **Monitoring employees' commitment**

In June 2021, a survey launched for the first time on a Group scale enabled the quality of working conditions and the commitment of employees in 14 thematic to be measured.

At the Group level, 61% of employees invited to participate in the survey responded. A particularly high response rate was recorded in certain countries, such as Thailand (99%), Bulgaria (92%), Japan (90%), India (88%), Brazil (87%), and Canada (80%).

Out of the 14 sections of the survey, 11 got a favorable response rate greater than 70%, particularly the following categories: Well-being, collaboration, and listening and taking ideas into consideration.

The results of the commitment survey were shared locally with the managers, the HR department, the Executive Committee, and the Group Board of Directors, and plans of action have already been implemented at local and Group level.

5.4.3.1 High-quality working conditions

In 2021, convinced that the well-being of employees is a key factor for sustainable performance and for attracting and retaining talent, the Group continued its commitments and efforts to improve the quality of working conditions.

At the end of 2021, 98% of employees had an open-ended contract and 94% of employees were employed full time, with part-time work contracts generally reflecting an employee's personal choice.

Actions taken for a better work-life balance

The Group continued awareness sessions relating to the right to log off through a training course open to all Group employees on the platform uLearn. In the training program "The manager, a key player in quality of working life", managers are made aware of their leading role in the quality of working life and trained on proper implementation of employees' right to log off.

In France, a "Master Mail" global action aiming to encourage employees to regulate their use of digital tools was initiated in 2019 at a test site in France. After an analysis phase and then a support phase for teams, the conclusions of this action were communicated to employees in June 2021.

In 2021, Thales undertook to promote parenting and work-life balance. For example, in France, 444 children of employees attended daycare in 2021 (compared to 444 in 2020, 426 in 2019, and 381 in 2018). In France, the Group also offers an emergency childcare solution if usual childcare arrangements are unavailable.

The move to Smart Working also contributes to a work structure that reconciles operational efficiency with better personal organization that respects a healthy work-life balance.

Fighting against harassment

In 2021, the Group provided the managerial teams and the HR teams in France with a guide that defines the procedure for processing alerts to situations that may indicate harassment or violence at work. This guide aims to provide the best possible support to employees who might be forced to take such a step, from receiving the alert to issuing the results of an investigation report, if need be.

Thales provides the Group's employees worldwide with an alert platform that allows them to report cases of harassment or discrimination in particular. This digital platform is accessible 24/7 and guarantees total anonymity to the author of a report who so wishes. Once declared as admissible, the alerts received are processed by the Alert Follow-up Committee.

Depending on their preference and the circumstances, the originator of the alert can also choose to make a report to their line manager or HR contact person.

Protection of personal data

At the end of 2021, the Group installed a new tool that enables a register of both data processing and data breaches to be kept, as well as requests for right of access to be managed. The members of Thales' data protection network are in charge of supplying and updating this tool and benefited from a dedicated introductory training course in September 2021.

As part of the implementation or development of new tools for managing human resources, audits have also been carried out with the departments in charge of data protection within the Group to ensure proper compliance with the provisions concerning protection of personal data.

Support for employees during the health crisis

Throughout 2021, the Central Crisis Unit, composed of the Security, Human Resources, HSE, Procurement, Operations, and Communication departments in particular, continued to meet regularly to monitor the development of the Covid-19 pandemic. The structure of this crisis unit is described in paragraph 5.4.3.2.3.

As part of this process, the health measures applicable in different countries adapted to changes in the local obligations as and when necessary. The Central Crisis Unit also supported sites in the organization of their activities conducted while working from home and on site, as well as in managing travel and professional events.

During 2021, Thales participated actively in the vaccination campaign led by the health authorities, particularly in France. In April 2021, it set up a structure allowing eligible and willing employees to be vaccinated gradually, while respecting confidentiality and applying the government directives and existing protocols, particularly regarding the prioritization of targeted populations. When vaccination was extended to people over the age of 18, Thales immediately took part in the pilot operation for which the French Government had selected 20 companies, supplying them with 30,000 doses of the Moderna vaccine. All employees of the Group in France had the opportunity to be vaccinated at their place of work or nearby, depending on the doses available. The Group remains committed and continues to offer vaccination to those employees who want it.

In France, psychological support via a telephone platform is also still available to employees who need it.

5.4.3.2 Prevention of occupational hygiene, health, and safety risks

5.4.3.2.1 Policy and governance

• Policy and risk analysis

In May 2021, the Group renewed its commitment to prevent risks and protect its employees through one of the 3 fundamental themes of its Hygiene, Health, Safety, and Environment (HSE) policy, which have been part of the Group's ethical principles for more than 20 years.

This voluntary responsible action is coordinated by the Group's HSE department. It works at operational level within countries and GBUs by implementing specific measures relating to safety culture and the strengthening of management skills linked to the prevention of occupational health and safety risks. In 2019, the Group's Executive Committee adopted a renewed version of the HSE vision setting thus goals for 2023.

The Group policy is based on 2 pillars regarding health and safety:

- to ensure the health, safety, and well-being at work of the company's women and men, as well as staff working at its sites and at external worksites under its responsibility;
- to design, purchase, manufacture, and supply solutions, products, and services that meet health, safety, and environmental protection standards.

Performance management is implemented regularly through the monitoring of dedicated indicators.

• PERFORMANCE RELATING TO SAFETY AT WORK (NFPS)

	2023 target	2018	2020	2021	Change 2018/2021
Accidents at work					
Frequency rate of accidents at work with recurring downtime (Tf1 of Thales employees)	1.55	2.22	1.66	1.47	-33.8%
Change in severity rate of accidents at work		0.053	0.056	0.03	-43.4%
ISO 45001 certification					
Percentage of employees working at an OHSAS ISO 18001/ISO 45001 certified site		83%	77.1%	81.93%	+3pts

Note: 2018 frequency rate of accidents at work and severity rate recalculated to include Gemalto. Percentage of employees working at certified sites excluding Gemalto in 2018.

At the end of 2020, the Executive Committee wished to reinforce the collective dimension of performance recognition. In this context, it was decided that, as of 2021, CSR targets corresponding to the Group's commitments would account for 10% of variable compensation for eligible employees, with safety performance counting for 2.5% (see 5.4.1.2). 2021 was a positive year that resulted in all the targets being exceeded.

In 2019, the Group devised a "HSE culture" roadmap, which was entered into for a period of 4 years (see 5.4.3.2). The first 3 years of implementation of this initiative enabled a significant improvement in the Group's performance through:

- strengthening leadership support and the acceptance by all employees of the importance of HSE issues ("HSE Masterclass") to be rolled out in all management committees of the organizations in all countries;
- supporting teams in implementing best practices on the ground ("HSE 4 US").

Aspects relating to the quality of working life, to well-being, and to psychosocial risks are closely coordinated with the Group's HR department, and with the prevention and occupational health services (see 5.4.3.1).

Each of the operating entities undergoes an annual self-assessment of occupational health and safety risks with the coordination of the Group Risk Assessment Committee. This ensures the implementation of HSE management best practices at Thales sites and external worksites. It can, if necessary, lead to an annual improvement plan developed with country or Group experts.

• A dedicated HSE structure

Eager to continually improve its performance in terms of health, safety, and environmental protection and to prevent industrial risks, the Group has set up a global governance structure based on the network of expert HSE managers:

- a dedicated network of "HSE sites/operations" coordinators at the level of countries, entities, and external worksites, depending on geographical presence;
- a dedicated network of "HSE products and services" coordinators at the level of GBU (Global Business Units) and product lines, enriched by representatives in cross-functional departments (product policies, engineering, industry, purchasing, services, bids and projects, etc.).

The cross-functional and international HSE Steering Committees drive the implementation of the HSE policy and ensure expertise and momentum by enabling the rollout of prevention standards. They determine the annual action plans and capitalize on feedback to improve the HSE culture. Operational management relies on these networks coordinated into dedicated job families, determines recruitment and training needs, and anticipates future HSE challenges.

The other operational and cross-functional departments (human resources, occupational medicine, industry, engineering, purchases, etc.) are linked to these lines of work to ensure policy consistency in terms of prevention of occupational hygiene, health and safety, and environmental risks.

The members of the extended international HSE network meet at a conference once a year. In 2021, this 2-day event was held in hybrid form with face-to-face conferences broadcast live followed by recordings being made available for all Group employees. The main topics covered were:

- the HSE vision, the Group's performance and health situation;
- the Strategy for a Low-Carbon Future;
- development of the safety culture;
- environmental issues, particularly the European green taxonomy, international regulations on controlled substances, eco-design, and industry;
- Corporate Social Responsibility (CSR).

The dashboard to monitor the Group's performance indicators has been produced and circulated monthly since June 2021 by the Operations and Performance department.

The network of HSE experts has played a central role in the management of the health crisis, supported by the international HSE Steering Committee. The latter undertook to ensure consistent implementation of health recommendations on sites while taking into account specific national circumstances, in perfect coordination with other roles and country crisis units. This network of experts remained mobilized to support employees and ensure their health and safety.

Monitoring of cases of infection and of the smooth implementation of health regulations was maintained.

5.4.3.2.2 Maintaining skills and raising awareness of risks

• Training

Knowledge of operational risks and the associated mitigation measures is essential for enabling managers and employees to maintain not only the right level of vigilance, but also their awareness of risks, control measures, and best practices to adopt.

Thales' Human Resources and HSE departments implement and maintain training courses on occupational health and safety at Group level.

Specific needs are identified at sites or on external worksites and complement the programs established at Group level. Risk training plans scheduled at the end of 2020 were adapted according to the changing context and needs. Particular attention was placed on awareness of specific risks linked to working from home as well as to psychosocial risks (best practices for safety and quality of life for working from home, right to log off, hygiene practices, etc.).

Maintaining skills relating to health and safety in the Group, with the support of dedicated training modules, is ensured by internal trainers, HSE managers, or specialized external bodies. Online training modules are made available to everyone via the Thales Learning Hub. Furthermore, employees have access to specific content accessible directly on the intranet via a page dedicated to Covid-19 and working from home, which is continually updated.

All these training courses (except units dedicated to the health crisis) relate to:

- general training courses on workplace safety (welcome and on-the-job training, fires, first responders, etc.);
- specific training courses on risks faced (electrical, chemical, radiation, ergonomic, psychosocial risks, etc.);

- training courses on tools (risk analyses, regulatory monitoring, standards, audit and inspection techniques);
- training courses on management and safety best practices.

Excluding specific " Covid " awareness-raising and remote training modules, in 2021 more than 90,000 hours of face-to-face training on safety were provided in the Group. This included training courses dedicated to safety at employees' place of work, but also development of skills for HSE experts, or the HSE Masterclass for top management.

To improve support for managers and employees on HSE issues, the Group strengthened its specific training program for HSE coordinators in 2020, aiming to develop their operational leadership skills, with particular attention to support for local managers. In addition, training sessions on "HSE culture", which define the leadership model, were developed for site/country/Global Business Unit management committees. These were rolled out to certain units in France, Australia, and Germany. Thanks to these experiences, an "HSE Masterclass" was developed with an expert consultant in HSE culture. This training, delayed by the health crisis in 2020, was part of the priority managerial targets resumed in 2021.

In 2021, 3 Group Global Business Units and 3 countries (UK, Germany, and Singapore) implemented these workshops at their Management Committee level. As a result of these workshops, it was systematically decided to adapt the principles of management change in HSE for the organization in question. Related to this managerial change, a specific complementary training course for local HSE teams was organized to support the approach. The Group's aim is to have completed the training of all GBU (Global Business Units)/country Management Committees by June 2022.

• Raising awareness – Communication

Regular awareness and communication programs, devised and implemented locally, also enable the level of ownership and awareness of risks to be maintained among all employees. The Group publishes a quarterly HSE newsletter and organizes a Group awareness-raising campaign each year on a dedicated topic.

The last four campaigns addressed: best practices relating to the risk of falling (2015), material handling risks (2016), road risks (2017), and good managerial approaches for incorporating hygiene, health, safety, and the environment into everyday practices (2019). In October 2020, the Group launched a global "HSE 4 US" campaign dealing with the 4 basic rules regarding health, safety, and the environment. Each employee was invited to organize an exercise within their team enabling ownership of these rules to be taken up and responsible behavior to be adopted. This approach that was taken in the HSE culture program continued in 2021 by highlighting the culture of information feedback concerning near-accidents and dangerous situations.

Finally, a dedicated HSE portal is accessible to everyone on the Group intranet, enabling them to view video media of a 2 day conference (HSE webdays) dedicated to HSE issues in the Group.

5.4.3.2.3 Risk management and operational control

• Health crisis linked to Covid-19

Thales activated its crisis management procedure in January 2020. The Group supported its sites in managing the health crisis by developing initial health and safety measures, new work structures (rotation of teams and then working from home), and providing personal protective equipment (masks, gowns, etc.) and travel guidelines.

The dedicated Group Central Crisis Unit (CCU) was set up on February 26, 2020. This central crisis unit formed the link between all entity and country crisis units to coordinate actions and define the health and safety policy. This unit grouped together all departments directly impacted by the crisis: Health, Safety, and Environment, Medical Advisers, Human Resources, Security, Communication, Information Systems, Operations, Procurement, and Logistics.

Since 2020, this network has participated in the development of health standards and instructions on continuing business and has ensured regular monitoring of the situation in order to adapt accordingly. In 2021, it remained active and also helped to roll out the vaccination everywhere the national regulations allowed it.

For example, in France, the independent occupational health service participated in the national vaccination campaign, enabling interested occupational physicians to vaccinate employees and subcontractors of the Thales sites. An equivalent step was taken in Germany. In Mexico, Thales participated in the setting up of a vaccine center with companies from the area where the Cuernava site is located. Several thousand Thales employees were thus able to be vaccinated thanks to dedicated medical teams.

• **Management on the ground**

Thales has integrated the management of risks related to workplace safety into its Group management system, available to all employees at all entities worldwide.

The HSE process enforces the implementation of a safety management system on all sites to ensure that risks from operational activities are avoided, managed, and limited, while complying with the general principles of prevention. Since 2020, risk analyses, necessary adaptations, and rules that take into account health aspects due to the pandemic have been incorporated and are regularly updated in accordance with any developments.

Integrated into the various processes that govern the Group's activities, it defines best practices and methodological guidelines, and specifies the rules that must be followed at all levels of the organization. It also sets out the risk management and accident alert procedures.

Risk analyses are performed at all Group sites and regularly updated depending on activities, scientific and technical developments, and new challenges. These analyses allow the operational departments, with the support of HSE experts, to:

- verify compliance of the activities carried out and products used or put on the market, and ensure continued compliance of equipment;
- ensure that employees are not exposed to certain risks, or else reduce and manage them;
- monitor the availability of collective and individual protective equipment for residual risks that cannot be avoided;
- ensure that activities are not likely to harm people and/or the environment through technological accidents;
- analyze and anticipate the impact of new regulations;
- ensure continued compliance with instructions and procedures by employees and external partners, including through the organization of emergency scenario drills;
- integrate hygiene, health, and safety aspects into management on the ground.

Risk assessments and analyses of legal requirements and compliance obligations are based on active regulatory monitoring and are formally documented at all Group sites, as well as at external worksites.

In addition, implementation of the *lean* culture incorporates HSE aspects into operational practices: coordination of teams, site visits, and improvements. At the same time, Group HSE experts support the application of HSE standards on sites and external worksites, and also support operational teams to ensure consistency and monitoring on the ground, based on the ISO 45001 management standard. For example, on December 31, 2021, 81.93% of the Group's global staff were working at a site or in an organization that was certified according to this management standard. Certifications grouped by country are largely implemented within Thales, meaning that there are now 132 certified sites compared to 128 in 2020.

Occupational health and safety performance (NFPS)

Percentage of employees working at an ISO 45001 certified site in 2021: **81,93%**

• **CHANGE IN NUMBER OF EMPLOYEES WORKING AT AN ISO 45001 CERTIFIED SITE***



* 2018: Without Gemalto, 2020 and 2021: with Gemalto.

• **Monitoring of performance and continuous improvement**

Certified sites carry out internal audits enabling continuous sharing of best practices and improvement to the HSE management systems. In 2021, this oversight was maintained despite the crisis, and self-assessments were conducted to verify proper implementation of health regulations. The surveillance audits by external bodies, continued in 2021, guarantee external oversight.

The Group strengthened its internal tools by setting up a system to assess HSE maturity, implemented in all entities since 2017. This reinforces the HSE culture and the involvement of managers and employees to support improvement in the Group's performance and that of its partners. HSE maturity self-assessments are implemented on all industrial sites and are reinforced by internal assessments that rely on a team of 21 qualified senior auditors.

In 2021, as a result of the pandemic and difficulties in organizing international travel, 4 internal assessments for HSE maturity were carried out. The self-assessments continued and were consolidated to follow up the development of the HSE culture program.

In addition, the health and safety performance for Group employees, monitored at the Executive Committee level by the Operations and Performance department, was significantly influenced by:

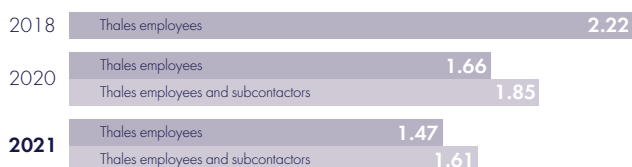
- the health crisis and lockdowns;
- the adaptation of modes of working with a large number of employees working from home for a large part of the year;
- modes of operation being disrupted at times and a gradual return to normal rhythms.

The Group mourns the death of one of its employees in 2021, who fell ill at work.

Occupational health and safety performance (NFPS)

Global frequency rate of accidents at work:
1.47 in 2021
(1.61 including subcontractors)

CHANGE IN FREQUENCY RATE (ACCIDENTS AT WORK WITH DOWNTIME)⁽¹⁾



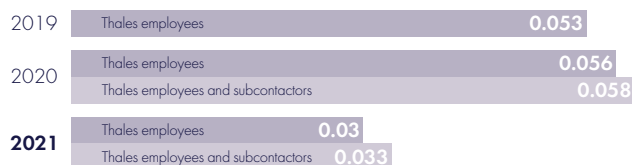
The rates noted in each country are relatively varied and depend on the activities carried out there. Including Gemalto, the consolidated rate at the end of 2018 was 2.22. In 2021, the context continued to be influenced by the pandemic; however, the frequency rate of accidents at work improved with a result of 1.47, or 33.8% below the 2018 rate. For 2022, the Group target is a consolidated rate of 1.55 with a target of 1.2 by the end of 2023. This value of 1.55 was initially the Group's target for the end of 2023. Significant prevention work is carried out by the teams on the ground and the focus continues to be on actions that enable the impact of the most serious accidents to be reduced. In contrast to other years, when the causes of accidents were either industrial or behavioral, in 2021 it appears that the 2 principal sources of accidents were behavioral (25%) or technical (50%), without a specific link to the pandemic.

The frequency rate has also been consolidated since 2019 by including subcontractors who work permanently on Group sites and external worksites. For Thales, this involves being able to check that safety practices are correctly implemented during operations. This consolidation impacted the Group frequency rate, which reached 1.61 in 2021.

Occupational health and safety performance (NFPS)

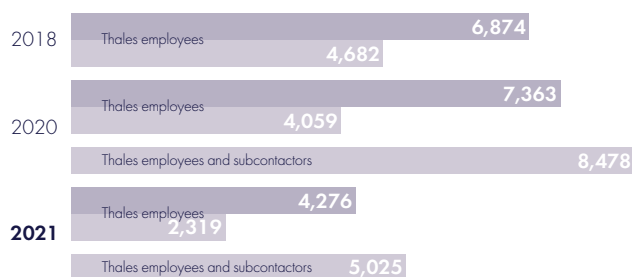
Global severity rate of accidents at work: **0.030** in 2021
(0.033 with subcontractors)

CHANGE IN SEVERITY RATE*



* 2018 severity rate with Gemalto. The rate without Gemalto amounted to 0.048 in 2018.

CHANGE IN NUMBER OF LOST DAYS*



■ Number of days lost to accidents at work.
■ Number of days lost to accidents during commuting times.

* Number of days lost in 2018 with Gemalto.

The severity rate of accidents at work was 0.053 in 2018 for the whole Group after consolidation following integration of the ex-Gemalto DIS employees.

In 2021, the severity rate of accidents at work was 0.030 (0.033 with inclusion of grade 1 subcontractors), or an improvement of 43.4% compared to 2018. This improvement is linked in part to the global decrease in the number of accidents at work, but it also demonstrates the improvement in risk management within the Group and the progress in terms of safety culture.

72% of Group sites did not have any lost days due to accidents at work in 2021 and show frequency and severity rates of 0.

(1) The data presented includes Gemalto.

5.4.4 Other social indicators

Breakdown of worldwide workforce

The breakdown of Group employees was stable in 2021.

With more than 60,800 active employees, or 76% of the workforce, Europe continues to be the main employment zone.

Workforce as of December 31 ^(a)		2020	2021
France ^(b)		38,644	38,145
Major countries where the Group operates			
	United Kingdom	6,471	6,478
	Germany	3,738	4,004
	United States	3,995	3,722
	Australia	3,573	3,570
	Netherlands	2,176	2,368
	Canada	2,036	2,011
Other countries where the Group operates			
	Italy	2,827	2,950
	Singapore	1,881	1,785
	India	1,418	1,555
	China-Hong Kong	1,433	1,342
	Spain	1,294	1,313
	Mexico	1,176	1,264
	Poland	1,275	1,233
	Brazil	1,034	1,223
	Belgium	895	977
	Romania	699	835
	Middle East (excluding Saudi Arabia)	728	636
	Thailand	699	511
	Portugal	445	489
	Switzerland	445	448
	Austria	351	391
	Czech Republic	311	320
	Saudi Arabia	343	313
	Egypt	310	308
	Turkey	299	302
	Finland	346	285
	Norway	269	267
	Denmark	220	214
	South Africa	191	185
	Israel	192	181
	Philippines	181	181
	Colombia	147	131
	Japan	128	122
	Taiwan	122	115
	Russia	116	112
	Sweden	115	108
	Others ^(c)	559	601
WORLD		80,569	80,995

(a) The workforce mentioned is the active workforce as described in the Note on Methodology.

(b) On December 31, 2021, the total workforce registered in France was 42,701.

(c) Other countries with fewer than one hundred employees and permanent facilities: Morocco, Malaysia, South Korea, Chile, Argentina, Indonesia, Greece, New Zealand, Algeria, Panama, Dominican Republic, Senegal, Hungary, Vietnam, Cote d'Ivoire, Latvia, Azerbaijan, Turkmenistan, Ukraine, Uzbekistan, Bulgaria, Croatia, Peru, Venezuela, Ethiopia, Kazakhstan, Ireland, Bolivia.

Additional social indicators

Social indicators as of December 31, 2021	Group	France	Major countries where the Group operates	Other countries where the Group operates
GLOBAL WORKFORCE^(a)	80,995	38,145	22,153	20,697
Female/male workforce (Scope covered: 99.8%)				
Women ^(b)	21,637 (26.8%)	9,857 (25.8%)	5,180 (23.5%)	6,600 (32%)
Men	59,235	28,284	16,901	14,050
Workforce by type of contract (%) (Scope covered: 99.8%)				
Permanent contracts	98%	99%	97%	96%
Full-time contracts	94%	92%	94%	98%
Workforce by age group (%) (Scope covered: 99.8%)				
< 30	12.3%	11.8%	10.5%	14.9%
30-39	24.9%	21.9%	21.7%	33.9
40-50	28.1%	29.5%	25.0%	29%
> 50	34.7%	36.8%	42.8%	22.1%
Departures (Scope covered: 100%)				
Number of departures	8,133	2,669	2,721	2,743
Layoffs (%) ^(c)	16.5%	10.9%	19.7%	18.8%
Recruitments (Scope covered: 100%)				
Total number of recruitments	10,338	3,916	2,828	3,394
% of women ^(d)	33.0%	32.4%	23.6%	42.0%
Turnover (%) (Scope covered: 100%)	5.3	2.3	7.7	9.0
Training (Scope covered: 94.4%)				
Average number of training hours per employee	12	12	13	11
Collective agreement (Scope covered: 93.6%)				
Employees covered by a collective agreement (%)	76%	100%	45%	60%
Health and safety indicators				
Absenteeism rate (%)	3.0%	3.0%	4.1%	1.8%
Severity rate of accidents at work	0.03			
Frequency rate of accidents at work	1.47			
Disability				
Employment rate of people with disabilities ^(e)	N/A	6.36%	N/A	N/A

(a) The employees mentioned are active employees as defined in the Note on Methodology.

(b) Percentage calculated on the basis of the number of employees recruited who have stated their gender.

(c) Percentage including departures from contractual termination.

(d) Percentage calculated on the basis of the number of employees recruited who have stated their gender.

(e) Rate determined on 12/31/2020 and declared under the DOETH 2021.

5.5 A committed approach to meet environmental challenges

5.5.1 General policy on the environment and the fight against climate change

5.5.1.1 Long-standing commitments renewed and strengthened

In line with its purpose (“Building a future we can all trust”), its strategy of social and environmental responsibility, and its commitment to the United Nations Global Compact, in 2021 Thales reinforced the commitment it made more than 20 years ago to the health and safety of its employees and the Group’s environmental performance. As part of the Code of Ethics, this ambitious voluntary commitment to continued improvement aims at reducing the environmental impact and risks from activities around the world and products on the market at all levels of the organization. The environmental risks identified in the NFPS correspond to environmental impacts connected with the Group’s activities and changes in regulations. They are described in Chapter 5.2.

To ensure compliance with applicable regulations and to anticipate standards, this policy has three key areas of focus:

- to ensure the health, safety, and well-being at work of women and men of the company, as well as for staff working at its sites and at external worksites under its responsibility;
- preserving the environment by limiting the impact of its activities (particularly energy, climate, transport, natural resources, biodiversity), while preventing pollution risks and reinforcing resilience to climate change;
- designing, purchasing, manufacturing, and supplying eco-design solutions, products, and services that meet the highest requirements in terms of health, safety, and environmental protection.

By involving its employees, partners, and suppliers in this policy, Thales aims to:

- communicate and promote a culture of health, safety, and environmental protection to its employees and stakeholders while preventing and managing the associated impacts and risks;
- cultivate a spirit of responsible innovation sustained by its employees’ commitment to face current and future challenges, in particular those linked to climate change;
- participate in collective efforts undertaken through national and international programs and use its technologies to understand and preserve the environment;
- assess, monitor, and subscribe to a process of continuous improvement, particularly through internal and external audits that the company carries out or has carried out.

To turn its commitments into action, Thales has had environmental and sustainability performance targets since 2007. In 2021, Thales raised the level of its ambition and its targets and confirmed its 2019 commitment to the climate by accelerating its Strategy for a Low-Carbon Future. The upward revision of its short-term (2023) and medium-term (2030) targets for operational reduction in emissions are centered around a new long-term target of reaching net zero by 2040. The reinforcement of the policy of reducing greenhouse gas emissions according to these ambitious targets, involving the whole value chain, reflects the Group’s commitment to preserve the environment. This policy can be viewed on Thales’s website and is set out in Chapter 5.5.2.2.1.

The Group is also continuing to work on optimizing the management of its waste and managing the gradual replacement of hazardous substances in its products in advance, which could prevent the obsolescence of these products.

Performance related to environmental impact in connection with the Group's activities and the anticipation of environmental standards in product design (NFPS):

	2018	2020	2021	Change 2018/2021	2023 target	2030 target	2040 target	2018/2021 trend
Environmental management								
Percentage of employees working at an ISO 14001 certified site	89%	84%	87%	-2pts				↘
Natural resources								
Recycling rate of non-hazardous waste ^(a)	55%	60%	79%	+24pts	75%			↗
Eco-design								
New developments incorporating eco-design	N/A	44%	84%	+84pts	100% ^(b)			↗
Percentage of Product Line Architects, Product Line Managers, Product Design Authorities, and Design Authorities trained in or made aware of eco-design	N/A	33%	64%	+64pts	100%			↗
Climate (thousands of t of CO ₂)								
Reduction of operational emissions ^(c)	344	225	221	-36%	- 35%	- 50%	Net Zero	↘
Reduction of other emissions ^{(c) (d)}	13,969	9,308	9,312	-33%	- 7%	- 15%		↘

Detailed figures can be found in the table in Chapter 5.5.5 "Environmental Indicators".

- (a) Excluding special waste. Special waste refers to waste products that are produced outside of the Group's normal activities, for example during construction.
- (b) 2022 target.
- (c) Expressed as an absolute value compared to 2018.
- (d) After integrating improvements in modeling; see 5.5.2.2.4.

5.5.1.2 A shared dynamic

5.5.1.2.1 Global organization

Aiming to consistently improve its environmental performance and prevent risks, the Group has set up an organization that addresses these challenges: a Group Health, Safety & Environment Department. The department is responsible for defining strategy, policy, processes, methods, and associated standards and for supervising and monitoring their implementation across the Group, as well as coordinating a dedicated global HSE network. This organization is described in paragraph 5.4.3.2.2.

5.5.1.2.2 Awareness-raising, training, and commitment of employees

The members of the extended international HSE network meet at a conference once a year. In 2021, this two-day event was held as a web conference for the second year in a row and involved employees from all departments around the world. Four major topics were discussed, including environmental challenges and the Strategy for a Low-Carbon Future (see Chapter 5.5.2.2.1). The content is accessible online and contributes to making the Group employees aware of these complex problems.

Online training modules are available to introduce Group employees to the basic aspects of environmental risk control, with general topics such as "eco-responsibility" or specific issues such as managing chemicals, labeling hazardous materials, or issues related to climate change.

In 2021, several information sessions on the Group's Strategy for a Low-Carbon Future were organized, followed by a recording made available

to all employees via the Group's intranet site. These sessions made it possible to raise awareness among several thousand people. Continuing the momentum begun in 2019, particular attention was paid to raising awareness and training managerial teams on rolling out the HSE 2023 vision, and to climate issues and rolling out the low-carbon future policy for management committees.

In addition, nearly 1 100 employees completed specific eco-design awareness sessions at the end of 2021. To support environmental knowledge within the Group, other dedicated training courses are offered to various professional groups: environment, procurement, design, sales, etc.

The Group HSE Department also takes part in the various gatherings organized by other business lines (supplier conferences, product seminars, operations 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' global teams are also committed to protecting the environment through voluntary local actions. 2021 saw a week dedicated to Sustainable Development, during which 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 for responsible energy management, such as unplugging nonessential electronic equipment outside office hours. The results of these actions were then shared to encourage best practices and support worthwhile initiatives. The Group also organized a series of conferences on the fight against global warming with the participation of Laurent Bopp, an oceanographer and climatologist, director of research at CNRS (French National Center of Scientific Research) and an expert with the IPCC. These proceedings are available online to all employees.

Finally, it should be noted that several groups of “eco-conscious” employees have been set up throughout the Group, particularly in France. These employees make a positive impact in their daily work and activities in the workplace on various subjects such as energy saving and waste management. The HSE teams work in concert with these groups to develop synergies.

5.5.1.2.3 Stakeholder relations

Thales is committed to communicating transparently with administrative authorities, its employees, customers, partners, suppliers, and subcontractors, as well as with civil society, in order to share its environmental challenges. Procedures are also in place to receive, deal with, and transmit alerts and requests swiftly. It is also possible to send questions to the Group’s HSE Department using a dedicated email address.

To meet the expectations of its stakeholders (customers, civil society, investors, rating agencies, employees, etc.), Thales communicates its environmental policy, makes its environmental data available on its website, and responds to 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.

In addition, the Group’s HSE teams participate in the work of the International Aerospace Environmental Group (IAEG) and the Groupement des Industries Françaises Aéronautiques et Spatiales (GIFAS). Thales’s Vice President of Health, Safety, and Environment chairs the IAEG Strategic Planning Committee and the GIFAS Environment and Sustainable Development Commission.

Beyond its contribution to these organizations, Thales maintains direct relationships regarding environmental issues with numerous customers in its various business segments, particularly in the fields of Aeronautics, Space Defense, Cyber security, and the Internet of Things (IoT). These relationships 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.

Thales’ social commitment strategy aims to coordinate the Group’s solidarity actions around priorities defined within the framework of the Thales Solidarity program, which gives priority to actions that enhance innovation and technology to serve three areas of expertise (see chapter 5.7.7.2), including environmental protection. The various projects related to the environment aim to improve the prevention and resilience of people with regard to critical environmental risks and to encourage the creation of local solutions. In France, the “connected educational beehive” project allows beehives to be equipped with connected equipment in order to collect analysis data on the hives and to remotely monitor the behavior of the bees. The two main objectives are to fuel participative research and to strengthen outreach to young people.

5.5.1.3 A moderate and controlled environmental footprint for Thales’ activities

5.5.1.3.1 Prevention and continuous improvement process

Thales has integrated the control of environmental impacts and risks into its Group management framework, which is available to all employees.

The dedicated process requires the implementation of an environmental management system at all sites to ensure the control and limitation of the environmental risks and impacts of operational activities (buildings, industrial tools, equipment, worksites), the supply chain (purchasing, supplier audits) and products delivered (product policy, design, offers, projects, and services).

Integrated into the various processes that govern the Group’s activities, it defines best practices and methodological guidelines, and specifies the rules that must be followed at all levels of the organization. It also sets out the risk management and accident alert procedures. The environmental management system procedures were reviewed in 2021.



The decrease observed between 2018 and 2020 is linked to the integration of Gemalto.

By the end of 2021, 146 sites were certified, compared to 144 in 2020. 87% of the Group’s employees work at a site that is certified according to the ISO 14001 standard, which includes, among other things, the management of the environmental impact of products. Each year, audits are carried out by teams of internal auditors (audit policy, maturity assessment) or external auditors in the context of ISO 14001 certification or risk prevention by insurers.

In addition, in order to provide support to the sites, the eHSE risk management software suite deployed throughout the Group has been adapted to changes in the ISO 14001 standard. This allows the system to take into account the requirements of the interested parties, the risks and opportunities linked to the environmental analysis, and the effectiveness of the actions and the associated resources.

It also enables all Group entities to report, record in a standardized manner, and manage action plans related to environmental incidents and accidents through a single tool.

These environmental risk management processes, particularly those related to climate change, are described in paragraph 3.1.7.

5.5.1.3.2 Controlling industrial risks

Only 6 of the Group sites present a significant industrial risk: 4 are classified as Seveso in Europe (1 “upper tier” and 3 “lower tier”) and 2 sites are classified as “high industrial risk” in Australia.

Safety management systems (including a major accident prevention policy, an internal operations plan, a hazard study and associated risk management scenarios, etc.) are implemented and inspected regularly by the national HSE coordinators and by the supervisory authorities, in accordance with applicable regulations. A review of the regulatory status and situation of the Group’s 4 Seveso sites in Europe was conducted in 2020 following the Lubrizol accident; they are still being monitored.

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 those classified as Seveso. Risks arising from unforeseen situations (pollution, fire, etc.) are managed locally with the expertise of the relevant Group departments, if necessary. These are subject to specific accident prevention and management procedures and complaint handling. The implementation of an accident reporting tool makes it possible to precisely identify the nature of accidents, to analyze them, to take the necessary management and prevention measures, and to capitalize in order to share feedback.

In 2021, only 11 incidents occurred throughout the Group, with no significant impact on health or the environment.

5.5.1.3.3 Environmental risks and adaptation to climate change

The Group's risk map includes an environmental component. This deals with environmental risk factors related to the Group's activities, the constant evolution of environmental standards in the countries in which it operates, and risk factors resulting from climate change.

The analysis of environmental risks that could affect human health, the environment, and the Group (reputational and financial impact, ability to continue certain activities, etc.) is reviewed periodically with the help of AXA Insurance risk prevention specialists. It was reviewed in 2021, taking into account the changes in the activities carried out, scientific and technical developments, and new challenges; it also includes the potential opportunities associated with these changes.

This analysis aims to:

- ensure that the Group's employees, people working on its permanent sites or its construction sites, and more generally the populations in the vicinity, are not exposed to any risks to their health or to the environment;
- ensure that the Group's activities do not harm the environment;
- ensure compliance of the activities carried out and the products sold;
- anticipate new regulations and analyze their long-term impact on the Group's commitments and on the design of new products and services;
- assess the impact of climate change on the Group's activities.

The entire risk management system is assessed annually at the level of each legal entity under the coordination of a Risk Assessment Committee and results in:

- an improvement plan integrating the experts' recommendations, translated into action plans at all levels of the company;
- a summary of the significance of the impact on the Group, drawn up in consultation with the International HSE Steering Committee.

The potential impacts of climate issues and risks have been integrated into the Group's strategic thinking, the implementation of which remains aligned with compliance with the provisions of the Paris Agreement, in particular through:

- the identification of risks but also of market opportunities, benefits, and associated financial issues;
- the implementation of the responsible procurement policy;
- the launch of an assessment of the resilience of business models to climate risks with the support of Carbone 4.

The Group's approach to adapting to climate change aims to reduce its vulnerability to the effects of climate change, such as natural disasters (storms, floods, etc.), earthquake hazards, fires, and the depletion of natural resources.

To this end, as part of a preventive approach, the Group's Insurance Department has drawn up and is piloting a plan to visit sites with a view to reducing the probability of claims occurring or limiting the consequences of incidents. In 2021, 75 sites were visited. In addition, and in order to comply with travel restrictions, conference calls on the subject of risk prevention were organized at more than 30 Group sites. It should be noted that 212 of the 260 sites covered by the risk prevention visits were visited.

In addition to risks related to the Group's activities and to natural disasters (earthquakes, etc.), risks related to adaptation to climate change are specifically analyzed and reassessed in order to reduce the Group's exposure and vulnerability:

- forest fires (e.g., in the USA and Australia);
- water stress;
- floods;
- storms, high winds;
- consequences of deforestation and disruption of wildlife habitats;
- etc.

In 2021, the Group was not subject to any claims related to climate phenomena or natural disasters.

At the same time, and with the support of Axa's specialist partners, Thales is pursuing its active risk prevention engineering policy. In particular, risks likely to generate a major loss affecting people or the environment and/or significantly affecting the value chain (fire, machine breakdown, etc.) are monitored.

Thales conducted an in-depth survey of the vulnerability of its sites to water-related risks based on three key points, led by AXA's environmental engineering experts:

- the risk of too much or too little water: sharing of the resource (use or storage versus renewal of groundwater and surface water), depletion of the resource, annual and inter-annual variations, risks of river or coastal flooding;
- the risk of unsuitability of the water for its intended use: wastewater management, accumulation of nitrogen and phosphorus leading to the proliferation of algae;
- regulatory and reputational risk: consumption of non-potable water, sanitation management.

In view of the Group's activities and compared to other risks, the water-related risk is considered low, both in terms of vulnerability and severity. However, due to climate change, projections for 2040 show a significant increase in areas experiencing water stress, prompting continued efforts to further reduce water consumption.

In addition to day-to-day operations, environmental risk management is applied with the same rigor to the Group's operations (disposal or acquisition of companies) in order to limit the guarantees granted or the risks related to the resumption of operations at the sites acquired as part of these operations, regardless of their nature, amount, or duration.

The compilation of all the evaluation tables 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, their quantification, and the sensitivity of the receiving environments – make it possible to consolidate the following materiality table:

• MATERIALITY OF ENVIRONMENTAL IMPACTS

Materiality of impacts	Industrial activities	Tertiary activities	Comments
Gas emissions	Low	Low	The Group's industrial activities do not require intensive energy consumption, which is why they generate only very small quantities of greenhouse gases (scopes 1 and 2).
Air emissions (other than GHG)	Negligible	None	With the exception of about ten sites, the Group's industrial activities do not emit atmospheric pollutants
Soil pollution	Moderate	Negligible	The Group's industrial activities cause little pollution, with only a few sites having to deal with pollution of a long-term nature.
Energy consumption	Low	Negligible	The Group is not energy intensive (see 5.5.2.2.3).
Production of non-hazardous waste	Low	Negligible	Low production of non-hazardous waste, most of which is recycled (see 5.5.2.3.1).
Production of hazardous waste	Low	Negligible	Due to its industrial activities, the production of hazardous waste is limited and represents only 17% of the total production of waste treated in appropriate channels.
Water consumption	Low	Negligible	The Group has low water consumption. No operations in water-stressed areas and numerous action plans have been implemented for over 20 years. These plans are complemented and optimized by the implementation of recycling loops wherever possible. This impact is therefore not significant.
Emissions into water	Negligible	None	Industrial sites collect and treat their wastewater before it is discharged. Only 31 of the 188 sites in the Group's scope of consolidation for environmental reporting are concerned.

5.5.1.3.4 Legal disputes and environmental alerts

Thales has not been involved in any environmental litigation that has resulted in compensation. In addition, in 2021, no site was the subject of an environmental request or complaint (within the meaning of the international standard ISO 14001) from the authorities or third parties. As of December 31, 2021, provisions for environmental risks amounted to €5.35 million at Group level.

5.5.2 Reducing environmental impact throughout the value chain

5.5.2.1 A dynamic of innovation to reduce the Group's environmental footprint

Thales is committed to developing environmentally responsible products and systems that meet various needs:

- compliance with and anticipation of environmental regulations, making it possible to manage obsolescence and control the associated industrial risk;
- creating customer value and differentiators in the market through innovation;
- reducing environmental impact and meeting the Group's commitments.

The three approaches implemented in this process are:

- consideration of the environment throughout the product's life cycle;
- the development of features to improve customers' environmental performance;
- the development of products that strengthen the control and understanding of environmental issues.

This approach is associated with the Group's key processes, including the product policy, Engineering, Manufacturing, and Procurement. The Group is also developing methods and tools to help designers and product architects make eco-responsible choices, capitalize on environmental information, and ensure that the solutions chosen comply with regulatory requirements.

The use of product lifecycle analyses (LCAs) and environmental impact analyses over several years has allowed us to highlight the need to substitute hazardous substances and to define the phases of the life cycle that have the greatest impact in terms of CO₂ emissions. For most of the Group's products and solutions, the use phase has the highest carbon footprint. This is mainly due to potentially very long product lifespan of 20 years or more and high usage rates. The analyses also show that actions to reduce CO₂ emissions generally lead to a reduction in other environmental impacts, thus identifying the real levers for action. In 2021, Thales performed simplified lifecycle analyses on ten products under development. In addition, Thales has initiated additional LCAs on products with specific life expectancies, such as satellites at the request of ESA, and has worked on guidelines adapted to these products for conducting LCAs.

For products carried on mobile platforms, the nature (aeronautical, naval, railway, etc.) and the profile (lifespan, percentage of time on the move, etc.) of this mobility are the predominant parameters in terms of environmental impact because of the mass of these products that must be moved and, to a lesser extent, their energy consumption. For fixed-location products, energy consumption is the most important parameter. Reducing impact therefore depends both on the Group's ability to reduce their intensity through product design and on its customers' ability to reduce the energy intensity of the platforms on which these products are mounted.

For a limited number of products with a short life cycle in the use phase, and concerning consumer applications, in particular bank cards or SIM cards and associated peripherals, the implementation of LCAs adapted to the relevant environmental indicators for these products shows that the production phase generates the most significant impact. This phase of the lifecycle is therefore the priority for efforts to reduce environmental impact (see 5.5.3).

Finally, the Group contributes to the reduction of its customers' carbon emissions. Indeed, several products and systems developed by Thales make it possible, in a very significant way, to avoid some of the emissions of the customers who use them. In the aeronautical field, examples include traffic management systems, trajectory optimization systems, flight assistance systems, and simulators that limit the amount of real flight training (see 5.5.2.2.5).

Awareness of environmental issues and their consideration in the development of new products must accompany the development of the eco-design approach:

the training of "Product Line Architects", "Product Line Managers", "Design Authorities", and "Product Design Authorities" reached 64% in 2021. Since 2019, training tools and sessions have been implemented in the Group's various entities and have reached around 1,100 employees by the end of 2021 despite the crisis. Their objective is to allow product policy and engineering staff to integrate these issues into product road maps and into the upstream stages of development, translating them into technical requirements that guarantee their implementation throughout the development process.

In 2021, Thales launched an internal "Greengineer challenge" in the form of a call for projects for innovative technical solutions to reduce the environmental footprint of products and develop new solutions for the Group's customers. 23 projects were presented at the end of six weeks of work, involving 180 employees. Two winners were chosen in December from seven shortlisted and were rewarded with support for verifying the technical feasibility and commercial potential of their project.

5.5.2.1.1 Developing eco-design

In order to be part of a sustainable approach, taking environmental issues into account in product development must be accompanied by value creation for Thales and its customers: improved operational conditions, reduced total cost of ownership, and optimized end-of-life management. This dimension is notably addressed through the product policy and the eco-design approach implemented, which aims to reconcile the proposed value and the reduction of environmental impact.

The work carried out in recent years to characterize the main Thales products has led to the identification of two priority areas for improvement:

- the use of sustainable resources in the design and manufacture of products, particularly with regard to hazardous substances, quantities of materials, the use of recycled raw materials, and their recyclability;
- the reduction of energy consumption and CO₂ emissions for products in the use phase.

A Group-wide Steering Committee oversees the consistency of the approach, the sharing of information and best practices, and the construction of sustainable performance indicators, which are monitored quarterly by the Director of Operations and Performance, a member of the Group Executive Committee. This committee, coordinated by the HSE Department, brings together the product HSE coordinators of all the Global Businesses and includes product policy and engineering representatives.

The choice of physical structures, the search for new technologies, and the design of new equipment all involve limiting the use of materials in order to reduce size and mass and facilitate dismantling, as well as replacing the most toxic substances for health and the environment. These requirements are relayed to suppliers of equipment and components that Thales assembles on its sites. Manufacturing processes are also subject to optimization measures to limit material losses, debris, and waste quantities. Thus, relying on the standard dimensions of panels and profiles helps to reduce the volume of "scraps".

In addition, since 2017, Thales has been using the additive manufacturing process ("3D printing") to manufacture parts in the space field. Studies are underway to broaden the scope of use of this technique, particularly in the aeronautical field. This technology, combined with the use of topological optimization tools, limits material consumption for a given need. It also makes it easier to repair parts and allows for an optimized approach to service offerings. For certain specific activities such as bank cards and SIM cards, Thales is developing manufacturing processes that allow the use of recycled plastic for card bodies.

The table in chapter 5.5.3 includes some examples of products for which reductions in environmental impact have been achieved along the lines described above.

All of the actions described above have resulted in 84% of new developments incorporating eco-design.

Thales also pays particular attention to the availability of critical resources such as rare metals, and responds to requests from its stakeholders: strategic customers, surveys conducted by European and French authorities, etc. Finally, Thales has reduced the use of materials such as wood, cardboard, and plastic by streamlining, limiting, and reusing packaging either for supplies at Thales sites or for the transfer of equipment from one site to another.

5.5.2.1.2 Obsolescence and substitution of hazardous materials

The increasing number of environmental regulations, as well as their evolution, lead to the limitation or even prohibition of certain substances. This leads to a growing risk that a piece of equipment or a system can no longer be manufactured or maintained throughout its life cycle. This is why Thales has rolled out a proactive approach based on anticipating risks and implementing the necessary actions to control them. The Group pays particular attention to technologies involving substances on the European REACh Regulation Candidate List, but also from other regulations such as the RoHS and WEEE directives, the POP regulation in Europe and international conventions on this subject.

This approach is based on centralized regulatory oversight of a constantly expanding scope, the summaries of which are distributed in the form of alerts based on the priority and criticality of the issues. It includes the collection of data relating to the substances directly concerned by the regulations and which are present in the components and sub-assemblies used in the products and solutions developed by the Group. All this data is centralized in a database accessible to all Group entities, as well as in PLM (Product Lifecycle Management) and ERP (Enterprise Resource Planning) tools. An analysis tool developed in-house makes it possible to cross-reference all the information to ensure regulatory compliance and conduct the impact analyses essential for anticipating the risks of obsolescence and environmentally responsible management.

Aware of the stakes, Thales is setting up alternative plans to control the risks of obsolescence, or solutions aimed at eliminating these substances when possible (with associated redesign of its products). Carried out internally or with industrial partners, the aim of substitution studies is to evaluate the performance of alternative industrial processes and to ensure that the products manufactured in this way comply with technical requirements. The redesign of products and their interfaces as well as the resizing of industrial tools may be necessary and will be implemented over several years.

In the case of chromates, Thales began researching alternative processes for more than 30 industrial processes used for its applications by its subcontractors in 2013. The Group has committed more than €7 million to this effort and to the implementation of alternative processes in equipment and systems. By the end of 2021, between 60% and 100% of substitutions have already been made, in line with the target dates. For the rare processes where there is no approved technical solution to date, or where the industrial implementation of alternative solutions has not yet been fully completed, Thales has ensured that it and its supply chains are protected:

- by the REACh authorization dossiers, the final decisions of which were voted on by the European Commission in 2020;
- compliance with the conditions of use related to these authorizations;
- the continuation of its research into alternative solutions in order to arrive at qualified solutions that are technologically feasible.

Therefore, compliance with the timetable in line with the dates set by the European Commission (2024 and 2026) is ensured for the industrial processes concerned by the substitution of chromates.

Similarly, the Group assesses exposure to potential risks related to other substances such as lead, PFAS (perfluoroalkylated and polyfluoroalkylated substances), bisphenol A and cadmium, and carries out studies to find alternative solutions whenever necessary. Dedicated action plans for lead substitution have been initiated to anticipate as much as possible a potential ban on its use in Europe.

5.5.2.2 Meeting the challenge of climate change

5.5.2.2.1 Acceleration of the Strategy for a Low-Carbon Future

In line with its commitments affirmed as early as 2015 (“Business Proposals for COP21”), and regularly reaffirmed since then (“French Business Climate Pledge” in 2017 and 2019), in perfect alignment with the commitments made in 2019, and ahead of COP26 held in Glasgow in November 2021, the Group announced the acceleration of its strategy for a Low-Carbon Future. This proactive acceleration strategy, whose objectives will be submitted to SBTi⁽¹⁾ in 2022, has the following purpose:

1) Upward revision of operational CO₂ emission reduction targets

In order to strengthen its contribution to the fight against global warming, and even though the Group reached the targets set for 2023 in 2021, the Group is committed to reducing its greenhouse gas (GHG) emissions in line with the 1.5°C trajectory of the Paris Agreement and has set the following targets:

- **-50% in 2030** (including Scope 1, Scope 2, and Scope 3 – business travel, with reference to 2018 and still in absolute terms) with an intermediate point of **-35% in 2023**;
- achieve Net Zero by **2040**.

The achievement of these objectives is based on a precise action plan:

- an even more ambitious reduction in energy consumption (real estate footprint optimization and energy efficiency programs in all countries, upgrading of industrial equipment, and rollout of solar panels);
- a massive development of the green energy supply, based on an action plan to be rolled out in each country;
- the elimination of high-emission refrigerant gases still used in clean rooms;
- a significant reduction in internal business travel as a result of communication tools, and the switch to electric or hybrid vehicles for all new Group company vehicles from 2022.

The carbon trajectory corresponding to these medium-term objectives has led Thales to set a “Net Zero” objective for 2040, the roadmap for which is currently being established and the terms of which will be submitted to SBTi in 2022.

2) Reduction of other emissions and those of the Group’s customers

The objective of reducing other GHG emissions from its activities (scope 3 purchases and products sold on the market, excluding business travel) by 7% in 2023 and 15% in 2030 in absolute terms with respect to the 2018 reference year, is aligned with a 2°C trajectory based on scientific evidence.

These objectives are currently under review.

To achieve this objective, Thales relies on two levers of action:

1. In line with its commitment to its entire value chain, the Group is strengthening dialogue with its suppliers to support them in their own low-carbon commitments through the following actions:
 - the analysis and validation of the 150 highest-emission suppliers’ action plans in 2023;
 - the ambition to bring these suppliers in line with a target of reducing their emissions by 50% by 2030;

(1) Science Based Target (SBTi) is an initiative of international experts that makes it possible to assess, on a scientific basis, whether the changes in greenhouse gas emissions of an economic actor are compatible with the objective of limiting the average global temperature increase to 2°C or 1.5°C.

- strengthening the inclusion of CSR criteria, including carbon footprint, in the supplier selection process starting in 2022.
2. Eco-design for product innovation. In order to offer innovative and eco-responsible functions and services that reduce the carbon footprint of its customers, the Group has set the following objectives:
- to have 100% of its new products and services eco-designed by 2023;
 - to have trained all the target populations ⁽¹⁾ by 2022 and to have promoted the use of internal tools dedicated to eco-design such as CLOE ⁽²⁾, PETER ⁽³⁾ and 4E ⁽⁴⁾.

Thales therefore confirms its commitment to:

- contribute significantly to the ambitious objectives of decarbonizing aviation;
- support the energy transition of the armed forces;
- promote a responsible space ecosystem and sustainable space travel;
- optimize the energy efficiency of the digital world through the development of digital solutions that are “energy efficient by design”.

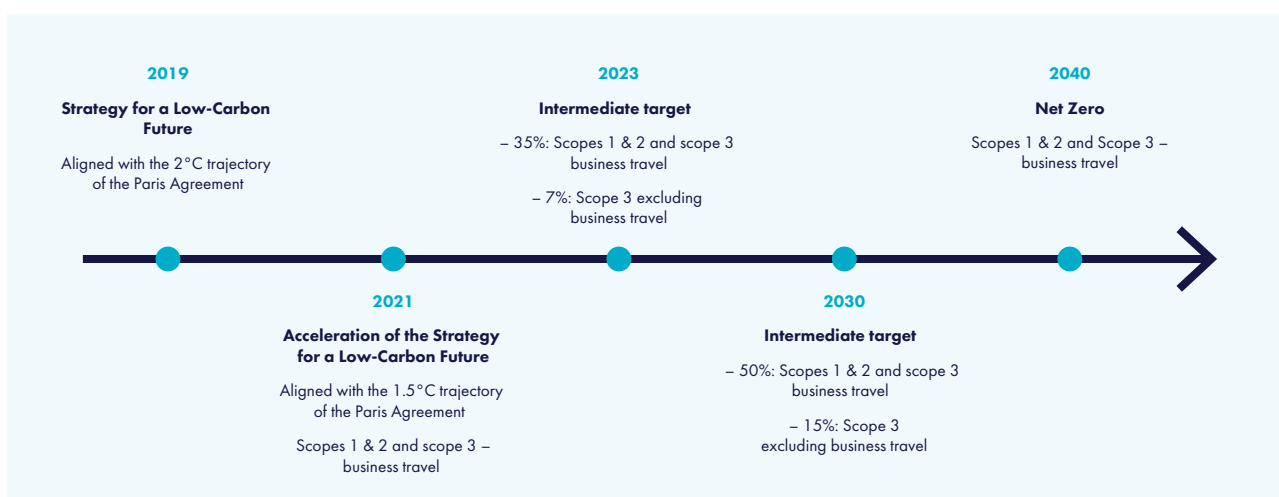
3) **The contribution to a better understanding of climate phenomena through the development of dedicated space systems**

In 2021, the solutions developed by Thales in the space sector to observe and understand climate and aeronautical phenomena provide major benefits in terms of reducing the environmental impact for its customers.

• **REDUCTION TARGETS FOR OPERATIONAL AND OTHER EMISSIONS**

	OPERATIONAL EMISSION	KEY ACTIONS
SCOPES 1 & 2 and business travel	<p>REDUCTION TARGETS</p> <p>– 35% by 2023 – 50% by 2030 Net Zero by 2040</p> <p>In absolute value compared to the reference year 2018</p>	<p>Ambitious reduction of energy consumption</p> <p>Supply of green energy</p> <p>The elimination of high emission refrigerant gases</p> <p>Reduction of internal business travel</p>
SCOPE 3 excluding business travel	<p>OTHER EMISSIONS</p> <p>– 7% by 2023 – 15% by 2030</p> <p>In absolute value compared to the reference year 2018</p>	<p>Action plans with the most polluting suppliers</p> <p>Improved eco-design approach</p>

• **TIMELINE OF THE LOW-CARBON FUTURE STRATEGY REDUCTION TARGETS**



(1) 100% of Line Managers (PLM), Line Architects (PLA), Design Authorities (DA) and Design Authorities (PDA) Products by end of 2022.
 (2) Check List for Orienting Ecodesign: a tool to guide upstream the most relevant ecodesign choices, taking into account environmental aspects and customers’ operational expectations.
 (3) Product Evaluation Tool for Ecodesign and Reporting: a simplified tool for estimating the CO₂ emissions of Thale’s complex systems over their life cycle.
 (4) Ecodesign Enriched Engineering Environment: an ongoing project to enable systems engineers to optimize their eco-design decisions from the earliest stages of development.

The strategy for a Low-Carbon Future is also based on the recommendations of 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” of the principles and recommendations. A look-up table of TCFD-related items is provided in Chapter 5.10. In this way, the Group is in line with the 4 pillars of the TCFD recommendations:

- publication of information on the management of climate risk and opportunity issues;
- publication of climate-related risks and opportunities;
- description of the methodology for identifying, assessing, and managing climate-related risks;
- publication of the indicators and targets used to assess and manage climate-related risks and opportunities.

Syndicated bank loan related to the Group’s climate objectives (climate-linked Revolving Credit Facility)

The bank loan agreement signed by Thales with 17 international banks in 2020 and amended in 2021 incorporates the Group’s operational and other emissions reduction targets (Scopes 1, 2, and 3). This means that its interest rate will be adjusted up or down each year (bonus or penalty) depending on whether or not these objectives are met.

The strengthening of the Group’s low-carbon ambitions for operational emissions as well as their alignment with a 1.5°C trajectory and the announcement of the next submission to SBTi were very well received by the Group’s banks and contributed to the optimization of its financing conditions.

In order to further increase the concrete impact of this financial operation, potential bonuses and penalties may be donated to environmental projects supported by Thales Solidarity, the Group’s endowment fund.

5.5.2.2 Governance of the strategy for a Low-Carbon Future

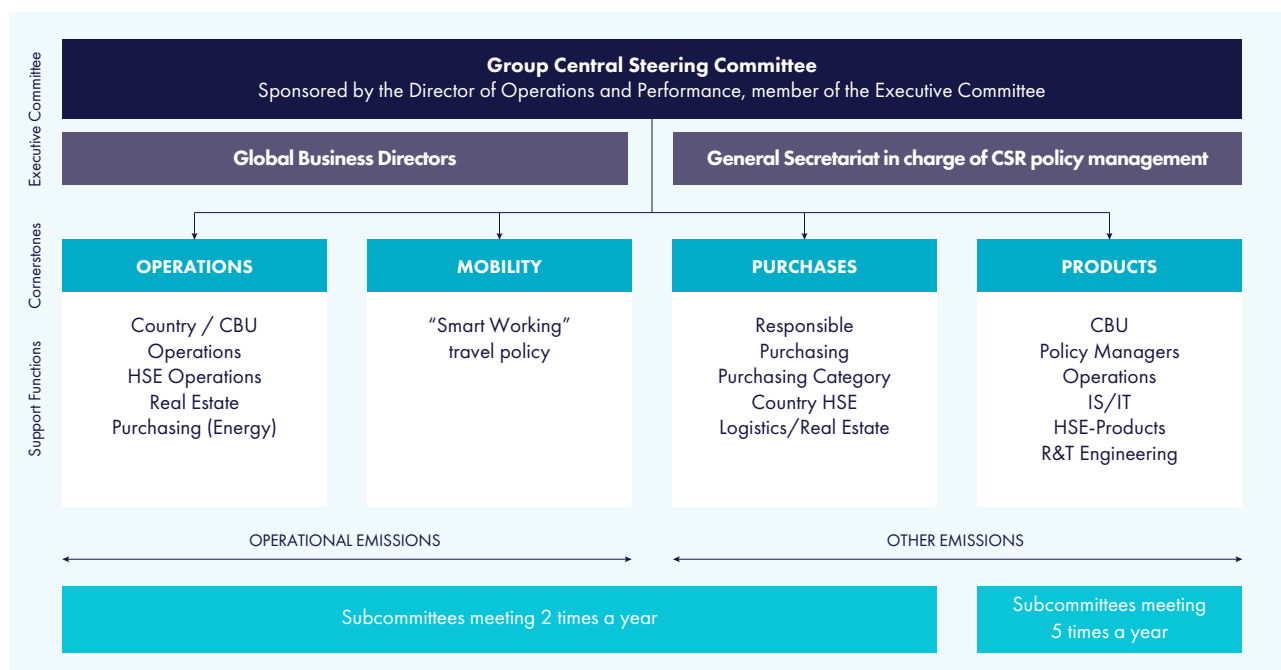
All of the company’s employees are involved in the strategy for a Low-Carbon Future and are responsible for driving and implementing it within the organization on a daily basis.

Its implementation is based on dedicated governance at several levels within the Group, supported by:

The Group Central Steering Committee

- It is sponsored by the Director of Operations and Performance, a member of the Executive Committee.
- It brings together:
 - two Global Business Unit directors and the Company Secretary in charge of steering the Group’s CSR policy,
 - the managers of each of the 4 pillars (operations, procurement, mobility, and products) as well as other key Group functions such as the HSE Department, the Financial Affairs Department, the Strategy and Marketing Department, and the Communications Department.
- It monitors, coordinates, identifies and manages risks as well as opportunities with regard to achieving the objectives set for 2023, 2030, and 2040.

GOVERNANCE OF THE STRATEGY FOR A LOW-CARBON FUTURE



The respective steering committees for each of the four pillars: Operations, Products, Procurement, and Mobility

- They meet twice a year and report to the Group’s Central Steering Committee.
- They are supported by multidisciplinary working groups that meet regularly to adapt the roadmaps and implement the action plans.

In addition to these strategic governance bodies specific to the Low-Carbon Future strategy, there is the Group’s CSR governance and organization (see 5.1). Further, progress on the implementation of the strategy for a Low-Carbon Future is presented once a year to the Strategy and CSR Committee of the Board of Directors.

Numerous awareness-raising and training meetings have been held for over 2 years to support the implementation of the Low-Carbon Future strategy (with several thousand people involved). This is the case, for example, for the actions developed at each of the Group’s sites during the Sustainable Development week in October 2021. The videos dedicated to this subject and filmed during the two-day HSE Web Days event in 2021 were made available to employees on the Group’s intranet.

All of the Group’s operating units and the teams in charge of product policy or engineering have started local working groups to support the rollout of the actions required to implement the low-carbon plan, including the necessary prior awareness raising.

In 2020, the Executive Committee wanted to strengthen the collective element in the recognition of CSR performance. In this context, it has been decided that, starting in 2021, 10% of variable compensation for almost all employees eligible (70% of the Group’s employees) will be based on CSR objectives corresponding to the Group’s commitments. The Low-Carbon Future strategy accounts for a quarter of this measure (see 5.5.2.2.1).

The Group accelerated its goals and dedicated a half-day to dialogue with investors on ESG issues last October, the full content of which is available on the Group’s website; this event was notably an opportunity to present in detail the progress and acceleration of the Group’s strategy for a Low-Carbon Future.

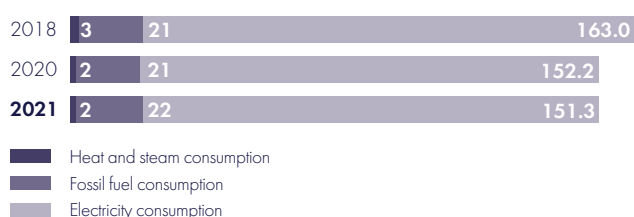
5.5.2.2.3 Reducing the carbon footprint of operational emissions

The Group’s operational emissions refer to emissions related to the consumption of energy and substances (scopes 1 & 2) as well as emissions related to employee mobility (scope 3, “business travel”).

In 2021, Thales has accelerated its goals and has set short- and medium-term targets for reducing operational GHG emissions by -35% before 2023 (compared with -20% previously) and -50% before 2030 (compared with -40% previously). These targets are aligned with a science-based 1.5°C trajectory (using Science-Based Target methodologies) and continue to be expressed in absolute terms with reference to 2018. The trajectory corresponding to these short- and medium-term objectives has led Thales to announce a new long-term objective of Net Zero by 2040 for its operational GHG emissions.

Performance relative to the environmental impacts of the Group’s activities NFPS								
(in ktCO ₂)		2018	2020	2021	Change 2018/2021	2023 target	2030 Target	2040 Target
Climate								
Scope 1&2	Energy and substance-related emissions	251	196	187	-26%	-35%	-50%	Net Zero
	Of which total energy-related emissions	226	160	157	-30%			
Scope 1	Substance and energy-related emissions	78	86	81	4%			
	Of which substance-related emissions	25	36	28	12%			
Scope 2	Energy-related emissions	173	110	105	-39.0%			
	Of which market-based electricity emissions	128	98	92	-29%			
	Electricity-related emissions expressed in “Location based” terms	170	158	148	-13%			

- **Reducing energy consumption and related emissions**

Evolution of energy consumption (in toe)


For several years, Thales has been implementing actions to reduce its energy consumption in order to reduce the greenhouse gas emissions associated with its activities.

This action plan to reduce energy consumption is based on:

- reducing the energy consumption of buildings;
- replacing the equipment that consumes the most energy;
- implementing heat recovery processes;
- optimizing airflow in clean rooms;
- installing solar panels on the sites.

As a result of the rollout of these reduction plans, the Group's total energy consumption has been reduced by 7% between 2018 and 2021, with an increase of 0.5% between 2020 and 2021 due to the resumption of operations following the Covid-19 pandemic.

As of the end of 2021, 23% of the Group's employees worked at ISO 50001 "Energy Management Systems" certified sites. In addition, 23 sites employing 18% of the Group's workforce have obtained environmental performance certification for buildings (HQE, BREEAM, etc.).

To achieve this energy efficiency, 52 audits were conducted by a competent third party and 6 more are planned for 2022. Audits carried out on the Group's most energy-intensive sites have led to consumption reduction programs. In addition, 63% of the sites (113 out of 181) have finalized, ongoing, or planned actions to reduce their energy consumption. For example, actions have been taken to change equipment (at Géménos and Valence in France and Cheadle Heath in the United Kingdom) or to reduce the carbon footprint of buildings by moving to more recently built sites that incorporate more energy-efficient standards. In 2021, 47 sites (in Australia, Singapore, France, Germany, etc.) have started, continued, or completed their installation of Light Emitting Diodes (LEDs) on all or part of their sites.

The Group's energy footprint has also been reduced by less use of fossil fuels (gas, fuel oil, coal), of which the ratio of consumption to sales continued to decrease in 2021, reaching a 16% reduction compared to 2018.

- **Reducing electricity-related emissions with electricity from renewable sources**

(in MWh)	2018	2020	2021	Change 2020/2021
Total share of electricity from renewable sources (%)	25%	27%	32%	+5 pts
Of which electricity bound by a specific contract (%)	N/A	80%	73%	-7 pts
Renewable electricity bound by origin guarantees	N/A	20%	22%	+2 pts
Renewable electricity bound by PPA (Power Purchase Agreement)	N/A	1.1%	1.1%	-
Renewable electricity related to self-consumption	N/A	0.03%	0.23%	+0.2 pts

For several years, the Group has also been committed to a strategy of purchasing green energy, a strategy that was reaffirmed and intensified in 2022. The share of renewable electricity increased by 5 points compared to 2020 to reach 32% in 2021.

54 sites (including 100% of the sites in the United Kingdom and the Netherlands, Thales Alenia Space in Italy, and Thales DIS in France) have a specific contract for the supply of green electricity or are purchasing Renewable Energy Certificates meeting the eligibility criteria ⁽¹⁾ in 2021.

The electricity generated through self-production and therefore self-consumed on site has increased more than sevenfold in 2021 compared to 2020, reaching 1562 MWh. Four sites (Toulouse, Cannes, New l'Aquila, and Tres Cantos) have had solar panels since 2020 and other sites (such as Fleury, Charleroi, and Turin) launched projects for installation in 2021.

- **Reducing substance-related emissions (Kyoto Protocol)**

In addition to energy, products with a high global warming potential, used mainly in refrigeration systems, are subject to detailed action plans.

Many sites have continued to replace high-emitting refrigerants with equipment containing less emissive refrigerants, and have implemented action plans to limit leaks and, in some cases, to replace the least efficient equipment. As a result, in 2021, SF₆, one of the main greenhouse gases contained in air conditioning systems, accounts for only 1% of CO₂ emissions from substances.

Substance-related CO₂ emissions (Kyoto + R22) increased by 12% between 2018 and 2021 but decreased by 22% between 2020 and 2021. This variation is essentially due to better control of leaks on aging equipment or during maintenance operations.

(1) Electricity from renewable sources subject to a specific contract: bound or unbound guarantee of origin, PPA, or self-consumption.

• **Reducing the emissions footprint of employee mobility**

The Group is implementing a wide-ranging action plan to reduce emissions from employee travel. The underlying principles are currently being integrated into the Group’s Mobility policy. Each country is responsible for implementing this policy on a “comply or explain” basis, with any deviations from the basic principles having to be justified, for example due to the energy mix.

Business travel

For several years, the Group has implemented a business travel policy aimed at minimizing the carbon footprint associated with employee travel. It is based on two axes:

- the promotion of environmentally responsible modes of transportation (train and energy-efficient vehicles) for business trips that cannot be avoided. In addition, the short-term vehicle rental offer has been revised to include electric or hybrid vehicles in the fleet offered to employees. At the same time, discussions are underway between the Procurement Department and the Group’s main air transport suppliers in order to give preference to travel on new aircraft which consume between 20 and 25% less fuel;
- the widespread rollout of communication tools (remote presence rooms, videoconferencing, applications on PCs and smartphones, etc.) makes it possible to avoid business trips while maintaining the spontaneity and confidentiality of discussions. This is in addition to the “Smart working” initiative launched in 2019 (see 5.4.).

In 2021, emissions from business travel are assessed at 34 ktCO₂, up 18% from 2020 but down -64% compared to 2018. The increase is also explained by very limited in 2020 due to the pandemic.

Company car policy

The Group’s company car policy is applied in every country in which the Group operates, taking into account legal and fiscal provisions, local practices, and the relevance of the national energy mix.

The European countries of the Group account for more than 85% of the company car fleet, with a split of 70% company vehicles and 30% service vehicles.

The Group’s partners have been asked to update their catalog of vehicles according to each use, with the goal of considerably reducing the associated carbon footprint, in line with the Group’s reduction objectives. To this end:

- diesel engines have been prohibited for employees traveling less than 15,000 km per year;
- other engines whose CO₂ emissions per km are based on the NEDC ⁽¹⁾ standard (with an equivalent to the WLTP ⁽²⁾ standard), which will be revised according to the evolution of the available technologies, are favored. For this reason, the financial package allocated for a company car is all the more substantial as the vehicle’s carbon emissions decrease.

For several years, there has been a significant increase in new orders for hybrid (19%), PHEV ⁽³⁾ (24%), and electric (9%) engines for company vehicles. In 2021, these vehicle orders therefore account for more than half of the Group’s total orders for company vehicles, and this trend is also observed for service vehicles.

To support this dynamic, the Group has invested heavily in the installation of recharging stations at its sites, with the introduction of a roaming recharging service (available to company vehicles and the private vehicles of employees or visitors).

In France, the Group relies on the company Ze-Watt for charging stations at 114 sites, with a total of 49,287 recharges at the end of 2021.

	2020	2021
Charging points	138	229
Energy consumed	135,088 kWh	292,459 kWh
Number of recharges	11,158	21,943
Distance traveled	900,587 km	1,949,725 km
New registered users	179	410

Despite the health crisis and the increase in home-office working, the indicators show a significant increase, in all indicators between 2020 and 2021 which almost doubled. This trend is expected to continue as the fleet is renewed.

Commuting to work

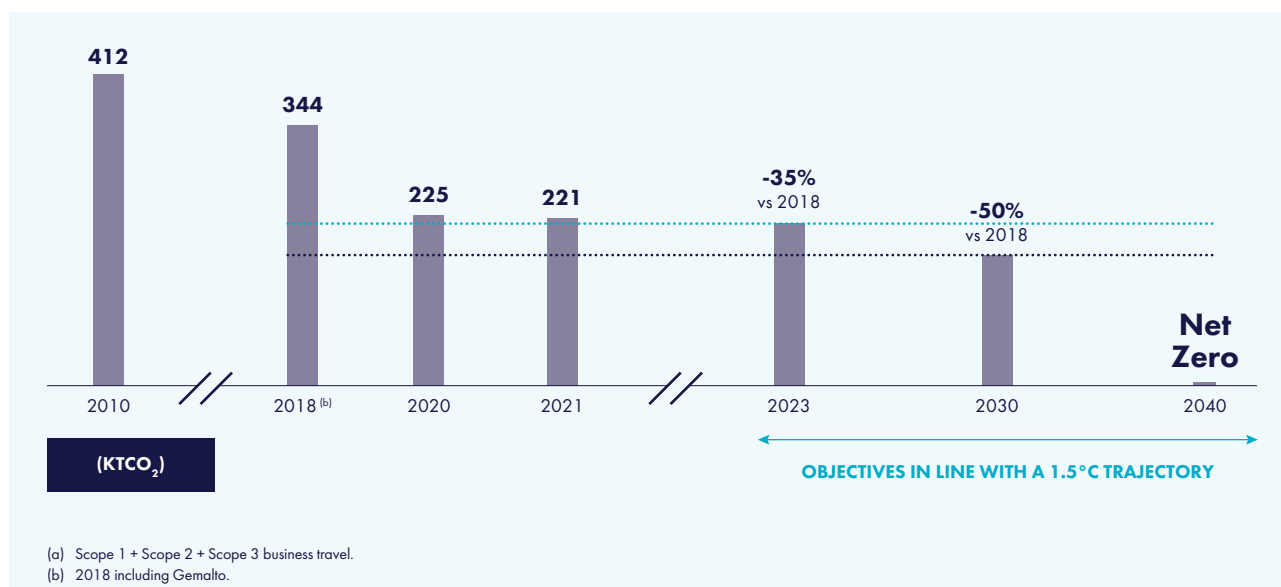
For several years now, the Group has been engaged in a wide-ranging study of commuting to and from work to encourage the decarbonization of these journeys. Each site has the autonomy to undertake the most appropriate initiatives depending on the geographical location of the site and the proximity of public transport, while taking into account the safety of employees (for example, the existence of bicycle paths in the vicinity of the sites).

At the same time, in 2021, the Group launched a survey on commuting habits among all its employees, which is considered satisfactory and representative with a 31.4% participation rate, with the following results:

- several modes of transportation may be combined in the same journey. For all or part of the commute to and from work, the car remains by far the dominant mode of transport (74%), while the use of public transport (bus, tramway, metro, train, ferry) is significant (30%). Modes of green transportation considered “green” (walking, simple or electric bicycle, electric scooter, Segway or similar) account for about 10% of the means used;
- 20,000 comments were collected and analyzed through two open-ended questions with the aim of setting up action plans at each site to reduce the carbon footprint of commuting;
- the results of this survey show that the annual carbon footprint for all means of transportation combined is 93 tCO₂ for 569 million kilometers traveled, or an average of 1.15 T of CO₂ per year per employee. France and the 6 major countries (Germany, Netherlands, Great Britain, United States, Canada, and Australia) have a footprint of 70 tCO₂, according to the number of employees in these countries.

(1) NEDC: “New European Driving Cycle”.
 (2) WLTP: “Worldwide harmonized Light vehicle Test Procedure”.
 (3) PHEV: “Plug-in Hybrid Electric Vehicle”; rechargeable hybrid.

• **REDUCTION OF OPERATIONAL CO₂ EMISSIONS^(a)**



5.5.2.2.4 Reducing the carbon footprint of other emissions

The Group’s other 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 committed to reducing these emissions by 7% by 2023 and 15% by 2030, in absolute terms compared to 2018, and is currently considering the revision of this target.

(in ktCO ₂)	2018	2020	2021	Change 2018/2021	2023 target	2030 target
Climate						
Other emissions	13,969	9,308	9,312	-33%	-7%	-15%
Of which emissions related to purchases of goods and services (scope 3) ^(a)	3,169	2,608	3,112	-2%		
Including emissions related to the use of products and services sold (scope 3) ^{(a) (b)}	10,800	6,700	6,200	-43%		

(a) After integration of the DIS Global Business.
 (b) After integration of modeling improvements in 2021.

• **Reducing emissions from the purchase of goods and services**

As part of its policy for a Low-Carbon Future, the Group is committed to reducing emissions related to its purchases of goods and services (scope 3).

These emissions account for 3,112 ktCO₂ in 2021, a 2% decrease compared to 2018 and a 19% increase compared to 2020 (2,608 ktCO₂), related to the resumption of activity in 2021 post-Covid after the exceptional Covid-19 pandemic situation in 2020. These calculations are made using emission factors associated with each of the Group’s procurement categories, as well as the «spent-based» methodology validated by the scientific community (SBTi) in agreement with the external third party (Carbone 4).

The sum of these emissions has been recalculated in 2021 to include the purchases of goods and services corresponding to the DIS Global Business. The figures for 2018, 2019, 2020, and 2021 therefore reflect the full scope of the Group.

In order to encourage Thales suppliers to move toward a low-carbon future, an action plan has been implemented in 2021 to reduce emissions from the Group’s supply chain (see 5.7.5.1.4).

In addition, as part of a dedicated working group within the International Aerospace Environmental Group (IAEG), Thales has taken part in the drafting of a sector-specific methodological guide for calculating emissions linked to the purchase of goods and services as well as capital goods. This guide is also being implemented by Thales through Gifas.

• **Reducing emissions from products and services sold**

In 2021, Thales continued to refine its modeling of CO₂ emissions resulting from the use phases of products and services sold (chapter 5.5.2.1). The Group is convinced of the importance of setting targets and implementing action plans to reduce emissions from the use phase which, for most of the Group’s products, constitute the majority of emissions in the life cycle.

In order to improve the representativeness of the calculations, platform models have been added and the associated emissions factors have been updated on the basis of publicly available data. In order to maintain comparability of data, the calculations relating to the phases of use of products and services sold have been updated for previous years.

At the same time, the Global Businesses have continued to work on their roadmaps, identifying priority products and the work to be undertaken to meet the objectives defined for 2023 and 2030. Concrete examples of achievements and work in progress are given in Chapter 5.5.3.

CO₂ emissions related to the use phase of products brought to the market in 2020 are estimated to be 6.2 million tCO₂eq., down 7% compared to 2021 and 43% compared to 2018 (10.8 million tCO₂eq., updated according to the methodology based on refined science and retroactively integrating the scope of the DIS Global Business for its hardware equipment).

This sharp decline compared to the 2018 reference year reflects the drop in activity for aircraft manufacturers, largely the result of the continuing impact of the Covid-19 pandemic. It is also explained, to a lesser extent, by variations in activity in other sectors and by improvements to products and solutions brought to market.

5.5.2.2.5 Solutions for the fight against climate change

• Innovative solutions for sustainable mobility

The solutions provided by Thales to air and land transport operators aim to optimize operational efficiency for its customers while limiting environmental impact (optimizing flight times, securing trajectories, reducing fossil fuel consumption, contributing to reducing the emission of pollutants including carbon, sulfur, and nitrogen oxides). Thales is developing complex systems based on Artificial Intelligence (AI), and has applied its expertise to the development of an AI that is eco-responsible, consumes less energy, and is based on learning and the use of knowledge or the use of only useful data. These developments concern air and rail traffic management systems, as well as flight management and train control systems. Thales provides navigation satellites whose precise positioning information is used for the benefit of all transport sectors, and is also a major partner in the Galileo and Egnos programs.

In the areas of flight management and air traffic management, Thales has been developing features for more than 30 years that improve performance while reducing impact (noise, fuel consumption, and emissions) during all phases of flight. Recent achievements include:

- an air traffic management system with the ability to update trajectories every minute based on the actual position of aircraft, combined with atmospheric monitoring that integrates wind and weather phenomena;
- a flight management system that constantly monitors, adapts, and refines the aircraft's trajectory for an optimized, safer flight (avoiding dangerous weather events) and lower fuel consumption.

Thales participates in the European SESAR program, which coordinates research and development activities in the field of air traffic management. In particular, in 2020, Thales contributed to equipping commercial aircraft with new-generation flight management systems on more than 50,000 flights with recorded environmental performance.

In a context of increasing urbanization, where 75% of the population is expected to live in cities by 2050, creating the conditions for sustainable travel is one of the most effective ways to help reduce CO₂ emissions. As a result, traffic management and driver assistance systems can safely increase the number of vehicles circulating on rail and urban networks in real time, while optimizing energy consumption and reducing traffic jams. The digital architecture of the new signaling system developed by Thales for metros, Seltrac™ G8, enables the continuous updating of software functions without disrupting traffic, as well as the integration of

technologies such as self-driving trains and metros. In addition, Thales is developing payment options that promote interoperability between different means of transport, making public transport more attractive and helping to reduce CO₂ emissions.

Thales signaling systems are becoming more decentralized and digitized with the development of individualized object controllers (points, signals) capable of directly controlling the actuators (part of the switch system). This reduces the need for cables and the installation of safety relays, and the corresponding power consumption (3 watts per old generation relay removed). In addition, a decentralized architecture requires fewer buildings, thereby reducing their environmental footprint.

Another important aspect is the contribution made by navigation satellites to the fluidity and management of traffic. It plays an obvious role in more intelligent and therefore more ecological travel. Navigation activities represent about one third of the activity of the Observation, Exploration, and Navigation product line of Thales Alenia Space.

Thales is a founding member of Movin'On LAB, a "Think and Do Tank" that brings together key players in the mobility ecosystem. Thales offers its expertise in the fields of digital technology, artificial intelligence, and cybersecurity to promote sustainable mobility, including autonomous vehicles, multimodal transport, and UAV management in urban areas.

• Smart City

Data analysis makes cities run more efficiently. Thales' solutions allow for the collection of information such as water and energy consumption, subscriptions to various public or private services, and transportation usage, giving city administrators the opportunity to improve the quality of life of residents and reduce the city's environmental footprint. Thanks to its data analysis solutions, Thales enables urban space stakeholders to:

- efficiently exploit the data reservoirs of a connected city – to better understand and anticipate the needs of residents and offer them secure, operationally optimized services that simplify their lives;
- inform users about traffic by providing motorists and train users with data on traffic conditions in near real time;
- better manage day-to-day operations and facilitate the coordination of the various actors, particularly in the event of a crisis. These solutions are also improving the environmental efficiency of cities: water and energy consumption, optimized use of transportation, etc.

In 2021, Thales contributed with other manufacturers to the creation of the 'Software République', a new open eco-system for innovation, in order to build and enrich a sustainable mobility offer, while ensuring European autonomy in this field. The main areas of cooperation that have been identified are:

- intelligent systems to provide secure connectivity between the vehicle and its digital and physical environment;
- simulation and data management systems to optimize flows in territories and for companies;
- the energy eco-system to simplify vehicle recharging operations.

Another example is the development of simulators in the civil and military fields. Beyond a clean eco-design approach, they also reduce the number of flight hours required for pilot training and thus avoid the corresponding emissions from real flights. The increased use of Artificial Intelligence will make the simulations increasingly realistic, with further avoidance of CO₂ emissions. For example, Helisim, a joint venture between Thales, Airbus Helicopters and Défense Conseil International specializing in helicopter flight simulator training, estimates that it has prevented the release of 8,800 metric tons of CO₂ into the atmosphere and continues to prevent the release of over 18 grams of CO₂ every second.

5.5.2.2.6 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 environmental monitoring for over 40 years. These activities, mainly carried out within the Observation, Exploration and Navigation product line, represent approximately 25% of Thales Alenia Space's total activity.

Some of these observation tools are also used for monitoring and prevention. They contribute to improved management of fisheries, agricultural and forestry resources and are supported by monitoring systems on ships and aircraft. The elements identified and monitored, which allow for the necessary actions to be taken to protect the environment, include:

- pollution and pollution movement tracking;
- forest fires;
- beach erosion;
- deforestation;
- illegal exploitation of mines or natural resources;
- improving the safety of maritime transport.

Geostationary meteorological satellites, optical measurement instruments, ERS and COSMO SKYMED radar satellites, altimetry satellites and radar instruments for oceanography, as well as atmospheric and radar instruments for ice observation contribute to these observations. Today, Thales Alenia Space is in charge of the S1 radar (A, B, C and D), S3 oceanography (A, B, C and D) and S6 Jason CS sentinels.

In addition, all European geostationary meteorological satellites were built by Thales Alenia Space, which is currently working on the 3rd generation for the European Space Agency (ESA) and EUMETSAT.

In 2020, Thales Alenia Space was selected by ESA for 5 of the 6 missions of the new phase of Copernicus, the European Commission and ESA's flagship Earth observation satellite program. Thales will be the prime contractor for CHIME (hyperspectral imagery for agriculture, food security, soil condition, biodiversity, etc.), CIMR (passive microwave imagery to measure ocean surface temperature and numerous maritime parameters) and Rose-L (L-band radar mission to monitor soil moisture and polar ice thickness). The Group will also be responsible for the payload of the CO2M mission (monitoring CO₂ emissions) and the altimeter of the CRISTAL mission (topography of polar ice and snow).

The images collected by these different means of observation provide valuable information to the scientific community, as well as to organizations and authorities responding to natural disasters. This data also allows the creation of numerical models to help understand and model climate phenomena.

5.5.2.3 Reducing the other environmental impacts of the Group's activities

5.5.2.3.1 Reduce, reuse and recycle waste

Thales' responsible waste management commitments are aimed at reducing the quantity of waste produced, limiting the amount of waste sent to landfill and optimizing recycling for non-hazardous waste.

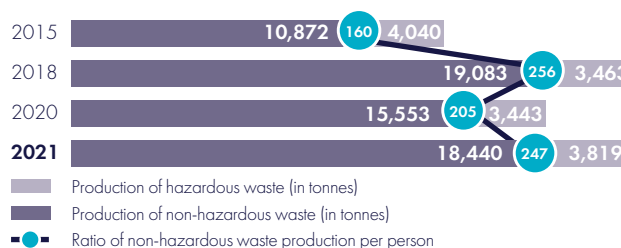
Performance relative to the environmental impacts of the Group's activities NFPS					
	2018	2020	2021	Change 2018/2021	2023 target
Natural resources					
Recycling rate of nonhazardous waste (excluding exceptional waste) ^(a)	55%	60%	70%	+15 pts	75%

(a) Exceptional waste refers to waste produced outside the Group's normal activities, for example during construction.

The actions carried out in 2021 will lead to a valuation rate of all waste (excluding exceptional waste) of 88%, and more specifically to a recycling rate of non-hazardous waste (excluding exceptional waste) of 70% in 2021.

In addition, the recovery of the Group's activity and the sanitary measures linked to Covid-19 (e.g. the use of disposable protection and paper for frequent cleaning of spaces) have led to an increase in the production of non-hazardous waste per person in 2021 of 22% compared to 2020 (excluding exceptional waste)⁽¹⁾, with an increase in total waste production of 17% in 2021.

Finally, the rate of landfilling of non-hazardous waste decreased between 2018 and 2021 from 21.3% to 12% (excluding exceptional waste).



(1) Special waste refers to waste produced outside the Group's normal activities, for example during construction work.

For more responsible consumption, Thales applies the 3R rule: Reduce, Reuse and Recycle. Various associated measures make it possible to reduce the production of waste and to improve its processing: the selective sorting of waste, the search for recycling channels or optimal treatment channels as well as changes in behavior (printing policy, reuse of cardboard and other packaging). Paper and packaging quantities decreased by 13% in 2021 compared to 2018.

Some Group sites reuse packaging either for supplies to their Thales sites or for the transfer of equipment from one site to another.

The recovery of activity in 2021 has led to an increase in hazardous waste (excluding exceptional waste) of 11% compared to 2020 but 10% compared to 2018. This hazardous waste is also subject to specific processing. Dedicated collection and storage areas are in place to facilitate their management before disposal.

For example, at the Vélizy site in France, the collection of electronic waste was organized with the AFM-Téléthon to give a second life to inoperative equipment while supporting medical research.

Finally, for the majority of Thales sites, the management of company dining facilities is entrusted to catering companies, and the Group therefore has no direct impact on food waste. Nevertheless, as with all its partners, Thales is working with these companies to implement responsible solutions for processing and encouraging the reduction of food waste. As a result, between 2018 and 2021, the amount of catering waste in the Group's total non-hazardous waste production decreased by 36%.

This trend was driven by employee awareness-raising initiatives conducted by Group service providers and the development of

anti-waste programs such as the Waste Watch program conducted at the Cholet site in partnership with the Group's service provider, Sodexo.

5.5.2.3.2 Conserving water

Water is a fundamental resource that must be conserved. For more than 20 years, Thales has been engaged in a large-scale program to reduce its water consumption, including, in addition to the elimination of leaks, the implementation of centralized management for the control of networks, the replacement of equipment that consumes large amounts of water, the optimization of industrial processes and the recycling of water for reuse in industrial processes. This has led to a significant and stable reduction in the Group's water requirements over the past 15 years, thereby reducing the pressure on this scarce resource in a sustainable manner.

Risks related to water management have not been identified as being significant at Group level (see 5.5.1.3.3). Nevertheless, despite the low level of consumption resulting from optimized multi-annual management plans (favoring recycling loops), and the absence of operations in water-stressed areas, water resource management remains a subject of attention for the Group, which remains committed to not increasing its consumption.

In addition, since 2019, Thales has been responding to the CDP's (*Carbon Disclosure Project*) "Water Security" questionnaire, which assesses the consideration of current and future water management risks, both in terms of strategy and use, and has achieved a grade of B-, which is the industry average.

	2018	2020	2021	2018/2021	Target
Water					
Water consumption (thousands of m ³)	1,771	1,661	1,615	- 9%	No increase in consumption

In 2021, overall water consumption was 1,615,392 m³, down 9% from 2018. This reduction confirms the collective effort of all sites, including the Mulwala site (Australia) which, because of its industrial activities and processes, accounts for 35% of the Group's water consumption.

Employee awareness, optimization and dissemination of best practices contribute to these results.

5.5.2.3.3 Limiting industrial emissions**Industrial wastewater emissions**

Thales's activities generate little industrial water waste: a little over 600,000 m³ in 2021. 98% of this waste is emitted by 8 sites, 62% of which is emitted by the Mulwala site (Australia) alone. Across the Group, these emissions have decreased by 2% compared to 2018, resulting from optimization measures, constant modernization of facilities or recycling and reuse of this water.

Industrial air emissions

Thales' activities do not generally give rise to atmospheric emissions, except for those from a few specific industrial sites or those linked to the operation of the sites (in particular, heating).

On the few sites in question, industrial air emissions are channeled and treated when necessary (filters, scrubbers, etc.) and regularly monitored. These are mainly solvents.

The quantities used are limited: 500 tons in 2021. Only 8 of the 117 sites concerned (out of 188) account for 85% of all solvent purchases. The Mulwala site alone accounts for 73% of these purchases and 70% of the atmospheric emissions caused by the manufacture of propellants requiring a large quantity of solvents.

Note that between 2020 and 2021, solvent purchases related to the prevention and control of Covid-19 decreased by 49%, bringing the share of solvent purchases related to sanitary measures to 4%. As a result, between 2020 and 2021, industrial air emissions associated with solvents decreased by 12%.

Although some sites have eliminated or replaced solvents with detergents, the Group's air emissions increased by 34% between 2018 and 2021 due to a new manufacturing process associated with the increase in production capacity at the Mulwala site being commissioned in 2019 and gradually ramped up.

Fight against noise and odour pollution

Thales's activities generate very little noise and odour pollution, but actions are taken to limit these factors. The few facilities that most commonly emit noise are refrigeration facilities, for which precautions are taken to limit their noise impact. Sound levels are periodically checked. The few sites affected by noise due to their activities are equipped with acoustic attenuation devices or have made adjustments to the time slots when noisy activities take place. In addition, the increasing use of computer simulation systems helps to reduce noise, for example in pyrotechnical tests.

Only 1 of the Group's sites reports generating odour pollution. These are odours resulting from evaporation basins, the use of solvents and paints. Appropriate measures have been implemented to reduce this pollution: cleaning, installation of paddle wheels to increase dissolved oxygen levels, reduction in use, installation of suction and discharge treatment equipment, use of specific protective equipment for operators.

5.5.2.3.3.1 Land use and prevention of pollution

For over 20 years, the Group has pursued a policy of anticipating and responsibly managing its pollution risks. Few sites are subject to significant contamination, most of which originates from old industrial practices, some of which are external to Thales (the result of historical acquisitions). Any new situation identified as presenting a risk of pollution or proven pollution is dealt with through a rigorous investigation process overseen by external expert companies and is subject to responsible management and monitoring.

When the technology is available, suitable treatments are implemented. The aim is to reduce the impact on the environment as much as possible by giving priority to in situ treatment rather than transferring the pollution for treatment on another site.

Some industrial sites are subject to periodic water table monitoring. The cases in question are regularly monitored by the Group's HSE Department in coordination with the Legal Department dedicated to real estate and environmental issues, and in close coordination with the relevant supervisory authorities (Regional Environment Directorates, Regional health authorities, local authorities, etc.).

In addition, the Group considers environmental factors when choosing its sites: climate and geological risks, impact of its activities on the human and natural environment, and land use. The goal is to ensure maximum compatibility between the activities and their environment. Therefore, certain activities such as pyrotechnics are subject to specific site requirements due to the risks they generate, requiring large safety zones around them as well as appropriate geology. These areas represent nearly 79% of the Group's total surface area (two sites in Australia and one site in France). However, these areas are being developed and are the subject of measures for biodiversity or are being transformed into pastureland or even agricultural areas.

The remainder of the Group's surface area is divided between industrial zones (51%) and business parks (41%).

5.5.2.3.4 Preserving biodiversity

The protection of ecosystems and associated ecosystem services (climate regulation, supply of raw materials, cultural enrichment, food, natural habitats, etc.) essential to the development of human communities is taken into account in Thales's strategy to reduce its environmental footprint. The preservation of biodiversity is a proactive commitment that is part of the Group's Health, Safety and Environment policy (see 5.5.1.1).

In 2006, an inventory of sites located near or within protected natural areas was drawn up to measure and monitor the impact of the Group's activities on biodiversity. This work has made it possible to consolidate a map of biodiversity-related risks for sites located in vulnerable areas and to assess that the Group's impact on biodiversity is low (see 5.5.1.3.3). In addition, Thales encourages its employees to take steps to protect and enhance species and their habitats. Threats to biodiversity vary from one site to another, making its protection a local issue that is illustrated by the diversity of actions carried out on the Group's sites. For example, on certain sites, inventories of the fauna and flora are carried out, vegetation projects are carried out and employee awareness-raising activities are organized. In order to optimize the measurement and monitoring of actions to preserve biodiversity, these are shared, monitored and consolidated annually. In order to go even further, a detailed and targeted questionnaire will be rolled out in 2022.

The results of the monitoring show significant integration of the protection of biodiversity, including for sites not located in vulnerable areas. This involvement is reflected in the implementation of measures such as the installation of beehives and insect hotels to promote the development of pollinating species, the creation of shared gardens and vegetable plots to raise awareness and encourage employee involvement, and the planting of formerly concrete areas with native plant species to combat invasive plants and support the development of local flora. Some of these projects are carried out in partnership with local environmental protection authorities or organizations (Office National des Forêts, communities of municipalities, student associations, etc.), demonstrating Thales' collaborative approach in its commitment to the preservation of biodiversity.

At the Thales DMS site in Brest, employees have been taking action since 2015 with the planting of fruit trees. This project continued with the replacement of phytosanitary products used as weed killers by a method of late mowing of most of the grassy areas of the site.

In 2021, 1000 m² of flowered meadows divided into two sectors have been created to preserve local plant species and microfauna (insects and pollinators), and an eco-pasture area has been set up. This project will reduce the carbon footprint of the site by abandoning carbon-based maintenance methods, maintaining a diverse flora, and promoting hardy animal species.

Because of their location in a protected area, some sites such as Mulwala and Benalla (Australia) have put in place a habitat management plan. This management plan aims first to identify threatened species by carrying out environmental inventories, and then to fight against the spread of invasive species by planting exclusively native species.

In France, the Thales Pont-Audemer site has signed a Real Environmental Obligation (REO) contract as part of the "Renaturons-nous" ("Let's Renaturalize") program, which contributes to the conservation of species and the revegetation of the Saint Ulfrant industrial zone, a reservoir of reptiles and amphibians referenced by the local Permanent Center for Environmental Initiatives (CPIE). In Toulouse, the continuation of projects carried out with the various associations of the Social and Economic Committee (CSE) has enabled the planting of a "micro-forest", fallow land, and recently to experiment with vegetation as insulation for the site's infrastructure. Since the site was established in Bordeaux, it has been subject to a biodiversity management plan that allows the return of endemic wetland species. In close partnership with the Bordeaux Metropole community of municipalities, this project is monitored by the Regional Environment, Development and Housing Directorates.

Finally, for all its new projects, the Group carries out biodiversity impact studies and applies the "Avoid, Reduce, Compensate (ARC)" doctrine, such as the in-depth studies conducted in 2021 for the proposed new site in Cholet.

In order to involve as many of its employees as possible and to act on a scale that goes beyond the immediate vicinity of its sites, Thales supports public interest actors through its "Thales Solidarity" social commitment program (see 5.7.6.1) and, in particular, through the collection of Rounding-up of Salaries (see 5.7.6.3). Since 2021, this scheme has made it possible to support the "Coeur de Forêt" association, whose aim is to respond to the dual challenge of preserving biodiversity and sustainable economic development through the implementation of reforestation projects.

Through these actions, Thales demonstrates its willingness to integrate biodiversity into its decision-making processes in order to contribute to environmental protection.

5.5.3 Overview of eco-friendly products and services

Field/Sector	Innovation	Products, service or solution	Environmental impact	Key figures
Eco-designed products				
Aeronautical	Optimization of the system architecture	Multi Application Critical Controller (MACC) Replacement of 5 modules with 1 to cover the needs of the auxiliary systems	Reduction of consumption of materials and CO ₂ emissions in the use phase	60% reduction in CO ₂ emissions
	Optimization of the system architecture	New design for A320 rudder control system – in the process of certification Reduction from 7 to 4 computers	30% weight reduction (~25kg) and CO ₂ emission reduction in use phase	CO ₂ emissions reduced by 30%.
	Design optimization and preventative maintenance	New RSMG digital radar for air traffic management	Reduction of resource and energy consumption, reduction of maintenance operations	10% reduction in CO ₂ emissions Mass reduced by 30%. Energy consumption reduced by 10%.
Spatial	Optimization of the product architecture	Low noise amplifier	Reduction of material consumption and CO ₂ emissions in the launch phase	50% reduction in CO ₂ emissions
Digital	New connection between the module and the antennas of Thales bank cards with dual interface using two wires that 'fly' like the wings of a bird	Technology that reduces the need for raw materials, as well as the use of chemical processes that also limit CO ₂ emissions in the manufacturing phase	Reduction of CO ₂ emissions and use of natural resources	1 billion cards produced by the end of 2021 1,000 t of CO ₂ emissions avoided Raw material consumption avoided: 53 t of copper 164 kg of gold 36 kg of palladium
	Use of recycled or bio-sourced plastic for SIM cards and bank cards	New manufacturing processes allowing the use of recycled plastic for the manufacture of ECO SIM products: Recycled PET avoiding their disposal in the oceans, recycled polystyrene from electronic products	Reduced use of natural resources, recyclability, circular economy Reduced waste volumes and associated potential pollution	7 million SIM cards and 2 million bank cards made from recycled plastic in 2021

Field/Sector	Innovation	Products, service or solution	Environmental impact	Key figures
Defense	Redesign with drastic reduction of size, weight and power	New products such as XTRAIM and SOPHIE ULTIMA that combine the functions of several products currently on the market into a single product	Reduction of raw material consumption and CO ₂ emissions, improvement of the operational use phase	Reduction of raw material resource consumption and of the CO ₂ emissions and operational use phase
	Hybridization of energy to power on-board systems on military vehicles and shelters	DYON Automation of the switch between a vehicle's alternator and lithium batteries, supplemented by solar panels	Reduction of fossil energy consumption, of the need to move this energy, of the logistic footprint and of CO ₂ emissions while providing operational benefits (autonomy, lack of noise and heat signature, security of transport, etc.).	
	Power supply with renewable energy	Charging the batteries of the GO12 radar with solar panels Charging of the cameras' batteries with solar panels	Energy hybridization, reduction of CO ₂ emissions Avoiding connecting to the grid in hard-to-reach areas or using a generator	

Field/Sector	Innovation	Products, service or solution	Environmental impact	Key figures
Functions for the climate				
Aeronautical	Fully connected and scalable flight management system for the future	PureFlyt allows continuous control, adaptation and refinement of the aircraft's trajectory for an optimized flight	Reduced fuel consumption and associated CO ₂ emissions, increase	Reduction of up to 10% of CO ₂ emissions from commercial aviation by 2023 through the combination of ATFM and PureFlyt systems
	Mastery of trajectory prediction algorithms combined with the use of eco-responsible AI	Air Traffic Flow Management (ATFM)		
	Aid system for the sequencing of aircraft departures and arrivals, facilitating the flow of traffic.	MAESTRO sequencer: traffic flow management system (arrivals and departures) for airports and airspace.	Reduction of CO ₂ emissions from aircraft during take-off and landing phases	36 airports equipped with the sequencer system
Ground transportation	Ticketing system for interoperable transportation	TRANSCITY , a modular and scalable ticketing solution integrating the constraints of cybersecurity and personal data protection	Improving the appeal of public transport networks, helping to reduce CO ₂ emissions	50 million transactions per day managed by TRANSCITY
	Monitoring and control system of the equipment in the stations	Monitoring and control of the equipment, on-site, to optimize the operating mode in real time, according to the need	Improved energy efficiency and therefore reduced CO ₂ emissions while ensuring punctuality and safety: 15% reduction in the consumption of traction energy.	Control centers for over 100 metro lines in 31 countries
	Optimization of the train driving strategy based on data from on-board equipment	GREENSPEED Driver Advisory System Defines the best driving strategy from either static tables or by working with dynamic data from a Greenspeed Train Management System, which improves performance	Improved energy efficiency and therefore reduced CO ₂ emissions while ensuring punctuality and safety: 15% reduction in the consumption of traction energy.	Over 4,000 GREENSPEED users
	Optimization of metro driving, with or without driver	The Green CBTC feature of the SELTRAC CBTC solution implements automatic driving that reduces energy consumption and promotes braking power regeneration	Better energy efficiency and therefore reduction of CO ₂ emissions while ensuring sufficient frequency (comparable benefit to the Greenspeed solution mentioned above): 15% reduction in the consumption of traction energy.	SELTRAC CBTC on over 100 metro lines in 40 cities
	Data-driven software solution running 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	Efficiency improvement of more than 30% Capacity improvement of more than 30% The two effects leading to a reduction in CO ₂ emissions	72,000 km of railway tracks equipped and 52,000 trains per day in 16 countries managed with ARAMIS

Field/Sector	Innovation	Products, service or solution	Environmental impact	Key figures
Products for monitoring and understanding climate phenomena				
Spatial	Spectrometer that will work in near-infrared and short-wave infrared for the measurement of anthropogenic CO ₂ emissions	CO2M instrument, a future mission of the Copernicus flagship program, from 2026, it will be the only imager for CO ₂ , with a range of about 200 km.	<p>Measurement of CO₂ emissions and distinction between natural CO₂ and man-made CO₂</p> <p>Evaluating the effectiveness of state policies</p> <p>Climate policy guidance</p> <p>Monitoring the achievement of national goals</p>	<p>Measurement of emissions with enhanced accuracy over the 4 km² area</p> <p>1st contract instalment: €72 million</p>
	Satellite carrying a synthetic aperture radar (SAR) instrument in L-band	Rose-L , environmental monitoring satellite in the Copernicus framework	<p>Reduction of the time between the occurrence of a natural or man-made disaster and the first image taken after this disaster</p> <p>Land monitoring and emergency management</p>	1st contract instalment: €40 million
	Satellite with Ka-band radar interferometer (wide area interferometry)	SWOT , an oceanographic satellite dedicated to measuring the level of surface waters and rivers, and to determining oceanographic dynamics with a high degree of precision	<p>Understanding the effects of coastal circulation on marine life, ecosystems, water quality and energy transfer</p> <p>Improved modeling of ocean/atmosphere coupling</p> <p>Monitoring of water storage changes in wetlands, lakes, and reservoirs</p>	Integration of the payload into the satellite in progress, for a launch planned for the end of 2022

5.5.4 Implementation of Regulation 2020/852 of the European Parliament on the establishment of a European Green Taxonomy

This section is published pursuant to Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to promote sustainable investment (hereinafter, the “**Green Taxonomy Regulation**”), and the two Delegated Regulations of the Commission made for its implementation (Delegated Regulation (EU) No. 2021/2178 of 6 July 2021 and Delegated Acts (EU) 2021/2139 of 4 June 2021 published on 9 December 2021, hereinafter referred to together as the “**Delegated Acts**”).

These require Thales to publish, on the basis of its financial statements for the year ending 31 December 2021, the sales, operating expenses and capital expenditures relating to the Group’s activities that qualify for the first two environmental objectives of the green taxonomy, i.e., climate change mitigation and adaptation.

As described above, approximately 20% of Thales’ business involves products and services which could provide major benefits in the fight against global warming, including:

- air traffic control (ATM) and avionics solutions that optimize aircraft trajectory and reduce the fuel consumed by air transport by up to 10%;
- flight simulators, which meet training needs with an extremely small carbon footprint;
- earth observation satellites, whose data are essential for understanding phenomena related to global warming;
- satellite navigation solutions, in particular within the framework of the European Galileo project, which are essential building blocks for optimizing travel, whether by sea, air or land.

These activities illustrate the technological potential of Thales’ contribution to the fight against global warming. But to date, the Green Taxonomy Regulation completed by the Delegated Acts does not cover the defense, aeronautics, space and IT security sectors. As a result, the vast majority of Thales’s activities are not currently covered by this regulation.

5.5.4.1 Methods used by Thales for the application of the green taxonomy

The scope of consolidation is identical to that used in the consolidated financial statements. It therefore does not include the Transport activity, classified as a “discontinued operation” following an agreement signed by Thales to sell this operation.

With respect to the calculation of the aggregates required by the Green Taxonomy Regulations for determining eligibility:

- the sales recorded are the consolidated sales as of 12/31/2021 in accordance with IFRS. Thales has applied a materiality threshold of 1% of the Group’s consolidated sales to assess the eligibility of product or service lines;
- operating expenses only include research and development costs as reported in the consolidated income statement. It was decided to limit the scope of operating expenses to those research and development costs not financed by the client due to the insignificance of the other amounts that could be considered;
- investment expenses include the acquisition of tangible and intangible assets as well as the acquisition of leasehold rights of use for eligible projects.

With regard to the source of the data reported, the values of sales, operating expenses and tangible and intangible assets come mainly from the companies’ information systems. Operating expenses and tangible and intangible assets have been calculated in real terms without being restated in order to avoid double counting by type of financial data:

- regarding sales, these are revenues derived from separate activities;
- regarding operating expenses, these are expenses associated with eligible activities (in the sense of sales);
- the acquisitions of tangible and intangible assets are as follows:
 - either operating investments related to eligible activities (in the sense of sales),
 - or the acquisition of usage rights for leases related to eligible activities.

5.5.4.2 Results of the application of the green taxonomy for Thales

As regards sales and operating expenses, as the defense, aeronautics, space and IT security activities are not covered in the current regulations (annexes to the Delegated Acts published on December 31, 2021), the Group has only been able to assess its exposure to one activity listed in the annexes: Data processing, hosting and related activities (see section 8.1⁽¹⁾).

With respect to investment expenses, the Group has assessed its exposure to the following activities:

- renovation of existing buildings (see section 7.2⁽¹⁾);
- installation, maintenance and repair of energy efficiency equipment (see section 7.3⁽¹⁾);
- installation, maintenance and repair of instruments and devices for measuring, regulating and controlling the energy performance of buildings (see section 7.5⁽¹⁾);
- acquisition and ownership of buildings (see section 7.7⁽¹⁾).

Given the materiality threshold of 1% of the Group’s consolidated sales, Thales evaluates its sales eligible for the taxonomy regulation in force as of December 31, 2021, to be 0% of its 2021 consolidated sales (€16,192 million, see section 7.1.1).

The Group estimates its 2021 operating expenses eligible for the taxonomy regulations in force as of December 31, 2021 to be 0% of its 2021 operating expenses as specified in the previous section (i.e., €1,027 million, see section 7.1.1).

The Group estimates its 2021 investment expenses eligible for the taxonomy regulations in force as of December 31, 2021 to be 19.7% of its 2021 investment expenses (i.e., €588 million, see Note 4 of the notes to the financial statements section 7.1.6). These investment expenses are mainly related to the acquisition and ownership of buildings.

Throughout 2022, the Group will continue its analysis of the interpretation and evolution of the Green Taxonomy Regulation and the regulations governing its application, in particular the new delegated regulations governing aerospace activities (air traffic management and space observation, in particular).

(1) Annex to Commission Delegated Regulation EU 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation.

5.5.5 Environmental indicators

The table below shows some of the elements that allow us to evaluate the evolution of Thales's environmental performance on a consistent basis. In 2021, the scope included 32 countries and 188 sites. This scope accounts for 94% of sales and 95% of the Group's workforce. The reference year for the 2019 to 2023/2030 targets is 2018. This

chapter has been subject to a fairness review by Mazars. The majority of the indicators listed in the table below received a moderate assurance rating and are listed in the detailed opinion in Chapter 5.8. "Report of the independent third party".

	KPI	Units	2018	2020	2021	Change 2018/2021
Waste	Recycling rate of non-hazardous waste^(a)	%	55%	60%	70%	+15 pts
	<i>Including exceptional waste</i>	%	56%	41%	84%	+28 pts
	Recycling rate of hazardous waste	%	38%	37%	29%	-9 pts
	Total waste production ^(a)	tons	22,548	18,996	22,259	-1%
	<i>Per € million of sales</i>	kg/€ million	1.31	1.19	1.08	-18%
	Ratio of non-hazardous waste ^(a)	%	85%	82%	83%	-2 pts
	Non-hazardous waste per person ^(a)	kg/pers.	256	205	247	-4%
Water	Water consumption	thousands of m ³	1,771	1,661	1,615	-9%
	<i>Per € million of sales</i>	m ³ /€ million	103	104	78	-24%
	Industrial wastewater emissions	thousands of m ³	629	601	620	-2%
Energy	Total energy consumption	thousands of toe	187.0	175	175	-7%
	<i>Per € million of sales</i>	toe/M€	10.92	10.94	8.48	-23%
	Electricity consumption	thousands of toe	163%	152%	151	-8%
	<i>Per € million of sales</i>	toe/M€	9.5	9.5	7.3	-24%
	Share of electricity from renewable sources	%	25%	27%	32%	+7 pts
	Consumption of fossil fuels	thousands of toe	21%	21%	22.0	+1.2%
	<i>Per € million of sales</i>	toe/M€	1.24	1.30	1.04	-16%
Air	Operational CO₂ emissions	thousands of tons of CO₂	344	225	221	-36%
	Energy-related CO ₂ emissions	thousands of tons of CO ₂	226	160	157	-30%
	<i>Per € million of sales</i>	kg of CO ₂ /M€	13.1	10.0	7.6	-42%
	Substance-related CO ₂ emissions (Kyoto + R22)	thousands of tons of CO ₂	25	36	28	12%
	<i>Of which related to SF₆</i>	thousands of tons of CO ₂	1.3	0.2	0.3	-74%
	Air emissions (solvents)	tons	373	567	501	+34%
	CO ₂ emissions from business travel	thousands of tons of CO ₂	93	29	34	-64%
	<i>Per € million of sales</i>	kg of CO ₂ /M€	5.4	1.8	1.6	-70%
	Other CO₂ emissions^(b)	thousands of tons of CO₂	13,969	9,308	9,312	-33%
	CO ₂ emissions related to the purchase of goods and services	thousands of tons of CO ₂	3,169	2,608	3,112	-2%
	CO ₂ emissions related to the use phase of products put on the market	thousands of tons of CO ₂	10,800	6,700	6,200	-43%
	Scopes 1, 2 and 3 according to the GHG Protocol	thousands of tons of CO ₂	14,313	9,533	9,533	-33.4%
	Scope 1	thousands of tons of CO ₂	78	86	81	+4%
	Scope 2	thousands of tons of CO ₂	173	110	105	-39%
	Scope 3	thousands of tons of CO ₂	14,062	9,337	9,346	-34%
TOTAL SCOPE 1, 2 AND 3 BY	CO ₂ /M€ CATEGORY	0.834	0.596	0.461	-45%	
Certifications	ISO 14001 certified sites		–	144	146	–
	Percentage of employees working at ISO 14001 certified sites	%	89%^(c)	84%	87%	-2 pts

(a) Excluding exceptional waste. Exceptional waste is waste that is produced outside of the Group's normal activities, for example during construction.

(b) The 2018, 2019 and 2020 emissions have been recalculated to include the DIS Global Business for emissions related to the purchase of goods and services.

(c) 2018 percentage excluding DIS Global Business.

5.6 A corporate responsibility policy based on a strong ethical commitment

5.6.1 Prevention of corruption and influence peddling

Corruption and influence peddling represent a major risk for multinational companies, particularly those involved in exports, exposing companies, as well as their employees and managers, to civil and criminal penalties and potentially to serious reputational damage.

Since the end of the 1990s, in order to protect itself against these risks, Thales has put a policy in place to prevent the risks of corruption, which is continuously being improved. This is regularly evaluated and the procedures have been readjusted to take into account legislative and regulatory changes, in particular the implementation of the French law on the transparency, the fight against corruption and the modernization of economic life, known as the Sapin II law, in June 2017.

This policy is based on an anti-corruption compliance program, the various components of which are integrated into the operational systems and supported by a dedicated organizational structure.

In March 2021, Thales received ISO 37001: 2016 certification "Anti-bribery management systems". Certification was issued by AFNOR with the scope covering Thales SA and the companies it controls in France, as well as some international subsidiaries of Thales International SAS (Thales EURAM Thales AMEWA and Thales NSEA).

In 2022, the Group plans to continue this process with a view to extending the scope of this certification to 2 major countries of its international organization (the United Kingdom and the Netherlands).

5.6.1.1 The anti-corruption compliance program

The Group's anti-corruption compliance program is based on:

- a **commitment at the highest level of the Group to zero tolerance of corruption and influence peddling**:
 - the Executive Committee of the Group, the Audit and Accounts Committee and the Board of Directors reviewed in 2021 the numerous updates to the anti-corruption compliance program (Code of Ethics, Code of Conduct, Responsible Lobbying charter and various instructions taking into account the latest recommendations of the French Anti-corruption Agency (FAA) of January 2021, which is applicable to all subsidiaries and companies controlled by the Group, in France and abroad,
 - in addition, in April 2021, the Chairman & Chief Executive Officer launched a new anti-corruption training campaign for Group employees potentially exposed to the risk of corruption and influence peddling,
 - finally, the "Tone from the Top" managerial commitment campaign launched in September 2020, in which the Chairman & Chief Executive Officer sent a letter to the members of the Executive Committee reiterating his personal commitment to upholding the Group's rules on integrity and compliance, and asked them in turn to reaffirm the same commitment and communicate it to their direct employees, will be renewed in 2022;
- a **dedicated risk mapping for corruption and influence peddling**, established in accordance with the Group's general risk mapping methodology. The methodology for risk mapping of corruption and influence peddling was reviewed in November 2020; this risk mapping will be updated in 2022;

- a **Code of Conduct – Prevention of corruption and influence peddling**, which was updated in April 2021 to take into account the new risk mapping of corruption and influence peddling. In line with the commitments made in the Code of Ethics, the purpose of the Code of Conduct is not only to explain the challenges of preventing corruption and influence peddling in a clear and simple manner, and to recall and illustrate the various types of behavior that must be avoided as they are likely to amount to corruption or influence peddling, but also to propose responses and recommend solutions to be implemented in certain high-risk situations that may be encountered by Group employees;
- a **system for assessing the integrity of third parties** (mainly customers, suppliers, subcontractors and partners), in order to draw up risk profiles for each category of third party and preventive measures proportionate to the risks identified, which all Thales Group entities must observe when considering entering into or continuing a business relationship with a third party, in order to avoid being involved, directly or indirectly, in acts of corruption or influence peddling;
- a **strengthened system for monitoring and evaluating compliance measures** that meets the requirements of the Sapin II law and the latest FAA recommendations:
 - this system comprises internal controls, including accounting controls designed to ensure the regularity, fairness and accuracy of financial and accounting information, and to help prevent and detect the risk of corruption, influence peddling and fraud;
 - following the creation of a new corruption and influence peddling risk mapping in November 2020 and the publication of the new FAA recommendations in January 2021, the internal control and audit system was reinforced in 2021 and now includes 3 levels of control:
 - 1st level controls (or preventive controls carried out at the time of decision making or implementation of the operation), aimed at ensuring that the tasks required for an operational or support process have been carried out in accordance with the procedures laid down by the Group,
 - 2nd level controls (or detection controls carried out after the fact, on all or part of the decisions made and/or operations carried out), aimed at ensuring that the 1st level controls are properly carried out, at a predefined frequency or at random,
 - 3rd level controls, aimed at ensuring that the control system complies with the requirements set by the Group and is efficient; these controls are conducted at random and are based on internal audits conducted by the Audit, Risks & Internal Control Department (DARCI) or external audits;

The internal control and audit system also relies on specific tools to prevent and detect the risk of corruption and influence peddling:

- the "**anti-corruption Internal Control Manual (MCIA)**", which identifies, describes and allocates 150 controls to the relevant actors, in order to mitigate the risks identified in the mapping of corruption and influence peddling risks,

- the self-assessment questionnaires (“YAL” and “ICQ”) have been complemented to by a new questionnaire (the **“Minimum anti-corruption Questionnaire”**), designed for Very Small Enterprises (“VSEs”), allowing each entity manager, for the VSEs he/she is responsible for, to ensure the implementation of the Group’s Integrity and Compliance program;
- **a training program reviewed in 2021** to offer a training program adapted for Group employees who are potentially exposed to the risk of corruption and influence peddling (low, moderate or high exposure).

The Group has set itself the objective of i) training all potentially exposed employees in the 6 months after they join the Group or after their internal transfer, and ii) repeating the training of exposed employees at least every 2 years.

The training program for the prevention of corruption and influence peddling is based on 3 training materials:

- an online anti-corruption training module (general e-learning) to be followed by employees in roles exposed to these risks (low, moderate and high exposure);
- a face-to-face training module, currently delivered in a virtual classroom, to be attended by employees in the most exposed roles (high exposure); and
- thematic training modules (thematic e-learning) that must be completed by employees who were trained more than 2 years ago.

In 2021, the objective of training in the prevention of corruption was one of the objectives used to determine the amount of variable compensation for all employees eligible to receive it, i.e., 60% of the Group’s workforce.

In 2021, 6,774 employees were trained, through the various training materials mentioned above: 2,143 employees took the “general e-learning” course, 1,039 employees attended the virtual classroom and 3,592 employees took the “thematic e-learning” course, i.e., a participation rate of 100% of the targeted employees.

- **a Group alert system: Thales has set up a Group-wide whistleblowing system open to employees, external and casual employees and third parties** (such as a member of staff of a client of the Group or supplier).

This system makes it possible to communicate all alerts falling within the scope of the Sapin II law and the law on the duty of vigilance, as well as those relating to the reporting of situations or behaviors that would contravene the Code of Ethics (harassment, sexist behavior, infringement of the freedom of association or trade union rights, etc.) and/or the Code of Conduct – Prevention of Corruption and Influence Peddling. In order to reinforce the confidential nature of the identity of the person submitting an alert and to ensure the traceability and follow-up of alerts in a secure environment, Thales set up a new platform in 2021 dedicated to the collection and processing of alerts (Thales Alert Line).

In 2021, the Group alert system received 44 professional alerts (compared with 25 in 2020 and 34 in 2019). Of these 44 alerts received, 27 were considered valid, including: 10 alerts related to allegations of harassment, discrimination or violence in the workplace; 6 alerts related to suspected fraud; 4 alerts related to potential conflicts of interest; 2 alerts related to health and safety issues; 1 alert related to allegations of Human Rights violations; 1 alert related to allegations of anti-competitive practices; 2 alerts related to behavior perceived to be inappropriate or not in compliance with the Code of Ethics; 1 alert related to allegations of corruption.

The alert concerning allegations of corruption was closed without further action, as the internal investigation confirmed that there was no evidence of corruption.

Performance in relation to the risk of non-compliance with the rules concerning business ethics (in particular, the fight against corruption and influence peddling) (NFPS):

- Number of operational entities that assessed risks of corruption in 2021: **153**
- Training courses on the prevention of corruption (general e-learning, virtual class, thematic e-learning) in 2021: **6,774**
- Alerts received through the Group’s alert system in 2021: **44**
- of which alert concerning allegations of corruption: **1**

All measures implemented as part of the anti-corruption compliance program are monitored regularly. External and internal audits are regularly carried out to verify strict compliance with Group laws and regulations.

Finally, it should be noted that in March 2020, the Integrity and Compliance Committee set up an Anti-Corruption Management System (ACMS) covering the entire anti-corruption compliance system.

This Anti-Corruption Management System:

- defines the objectives of the anti-corruption compliance program;
- reiterates the associated policies and instructions;
- specifies the monitoring and performance indicators for the anti-corruption compliance program, as well as the associated controls.

At least once a year, the Committee carries out a management and non-compliance management review to steer the Group’s Anti-Corruption Management System and measure its effectiveness: it reviews, in particular, changes in the Group’s external and internal circumstances and those of its stakeholders, managerial commitment, an assessment of the risks of corruption and influence peddling, the achievement of the Anti-Corruption Management System’s objectives using monitoring and performance indicators, the management of instances of non-compliance, the measurement of the effectiveness of the Anti-Corruption Management System, and whether the human and material resources available to support the Group’s actions in preventing and detecting corruption and influence peddling are adequate.

This system is accompanied by Thales’s active participation in various anti-corruption initiatives. Thales is very active in national (MEDEF⁽¹⁾, GIFAS⁽²⁾, etc.) and international (ICC⁽³⁾, IFBEC⁽⁴⁾, ASD⁽⁵⁾, etc.) professional bodies dealing with business ethics, as well as in the working groups of intergovernmental organizations (OECD, United Nations, etc.).

5.6.1.2 Clear operational mechanisms

The cornerstones of this anti-corruption compliance program are integrated into the various operational processes of the Thales reference system (Chorus 2.0). In addition, the processes regulating the management of bids and projects allow for the implementation of action plans to reduce commercial risks, with particular attention paid to the prevention of corruption and influence peddling.

(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.

(5) AeroSpace and Defence Industries Association of Europe.

5.6.1.3 A dedicated organizational structure

The Group's Integrity and Compliance Program (including the Group's anti-corruption compliance program) includes a dedicated organizational structure.

The Integrity and Compliance Committee, chaired by the Group Secretary and General Counsel is composed of the directors in charge of the Ethics, Integrity and Corporate Responsibility Department, the Legal and Contracts Department, and the Audit, Risks and from Internal Control Department respectively. It oversees the development, rollout and implementation, evaluation and updating of the Group Integrity and Compliance Program.

The Integrity and Compliance Committee meets monthly 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 Risk Management Committee and the Board of Directors and/or its related 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. With the exception of the HR Chief Compliance Officer (appointed by the Senior Executive Vice President Human Resources, in agreement with the Group Secretary and General Counsel, and who reports to both of them), the Chief Compliance Officers are appointed within the Legal and Contracts Department, and as such have a dual reporting relationship with the Group SVP, Legal and Contracts and with their respective Directors.

5.6.2 Actions to protect Human Rights and fundamental freedoms

Since 2003, Thales has been a signatory of the United Nations Global Compact and adheres to the ten principles relating to Human Rights, labor law and environmental law, which are based on the Universal Declaration of Human Rights and the International Labor Organization's Declaration on Fundamental Principles and Rights at work. In 2021, Thales achieved the Global Compact Advanced level of the United Nations Global Compact Differentiation Programme for the 10th consecutive year, achieved by meeting 21 specific criteria, which is the highest reporting and performance standard for responsible development; it should be noted that this *Advanced* level requires an external assessment. Among the 15,268 member companies of the Global Compact, only 663 obtained the *Global Compact Advanced* level in 2021, including 115 French companies (in France, there are 1,632 members of the Global Compact including 1,532 companies).

In September 2020, Thales was a signatory of the "Statement on Renewed Global Cooperation" by CEOs, initiated by the United Nations Global Compact at the opening of the 75th UN General Assembly. In signing this, Thales has committed to:

- demonstrating ethical leadership and good governance through values-based strategies, policies, operations and relationships when engaging with all stakeholders;
- investing in addressing systemic inequities and injustices through inclusive, participatory and representative decision making at all levels of the company;
- working with the United Nations, governments and civil society to strengthen access to justice, ensure accountability and transparency, provide legal security, promote equality and respect Human Rights.

In 2021, the Group participated in the "*Uniting Business LIVE*" summit for the second year in a row, which brought together business, government and civil society leaders committed to the UN mission virtually for three days prior to the General Assembly.

With regard to compliance with international trade regulations (including the export control process, restrictive measures and economic sanctions relating to the export and re-export of war materials and associated services as well as commercial equipment and dual-use goods/technologies), Thales has set up a global organizational structure and is constantly strengthening its internal measures and procedures (see paragraph 3.2.1.a)). This strong commitment aims to protect the

national security of democratic states and to help combat, in particular, the proliferation of weapons of mass destruction; with this in mind, Thales and the European aerospace and defense industry supported the United Nations Arms Trade Treaty, which came into force at the end of 2014.

Since 2004, Thales has ceased all activities in the field of cluster munitions, choosing to respond proactively to the expectations of NGOs involved in Human Rights issues, but also to anticipate the principles and definitions of the Oslo Convention on the prohibition of cluster munitions. Similarly, Thales does not design, produce or sell controversial weapons such as anti-personnel mines or nuclear weapons.

In line with its public commitment in 2019, Thales will stop selling and producing weapons that use white phosphorus by June 2022. This decision is a proactive response to the expectations of some of its stakeholders, including NGOs and investment funds.

Noting that the digital transformation is accompanied by an increased need for ethical commitment as the power of new technologies such as artificial intelligence or biometrics continues to grow, in 2021 Thales published its "Digital Ethics Charter". It sets out the Group's commitments to the responsible use and development of these technologies that have great potential for our societies. Thales believes that the systems and products it designs must always allow for dialog with people, be resilient and secure, and take into account the preservation of the environment. In this way, this "Digital Ethics charter" contributes to the achievement of Thales' stated ambition: "Building a future we can all trust".

Thales also remains very involved in discussions on the impact of its activities on Human Rights. As a result, since 2019 Thales has been a member of the association *Entreprises pour les droits de l'Homme* (Business for Human Rights), a forum for discussion, work and proposals from international companies to better integrate Human Rights into corporate policies and practices by implementing due diligence procedures. As part of this association, Thales has participated in several working groups involving various stakeholders.

Finally, in November 2021, Thales participated in the "Business and Human Rights" Forum for the fourth consecutive year. It is the world's largest annual gathering on business and Human Rights, with more than 2,000 participants from governments, businesses, community and civil society organizations, law firms, investors, UN agencies, national Human Rights institutions, labor organizations, academia, and the media.

5.6.3 A responsible tax policy

Thales’s tax policy is a global policy applicable to all of the Group’s countries and incorporates the Group’s ethical rules, including the fight against tax evasion.

As an international group, Thales pays substantial taxes and duties in many countries. The Group rigorously applies tax rules and is committed to complying with local regulations, international treaties and the directives of international organizations.

The Group’s taxation is directly linked to the business strategy and activities. The Group only operates abroad for the purpose of developing

its business or meeting operational requirements. In addition, Thales complies with the principles set out by the OECD on transfer pricing.

The Group Tax Director is responsible for the tax function and reports directly to the Chief Financial and Information Officer, who is a member of the Group Executive Committee.

Tax risk is fully integrated into the risk analysis role of the Audit, Risks and Internal Control Department and is one of the internal control assessment items of the Yearly Attestation Letter.

5.7 An organization that is proactive towards its stakeholders

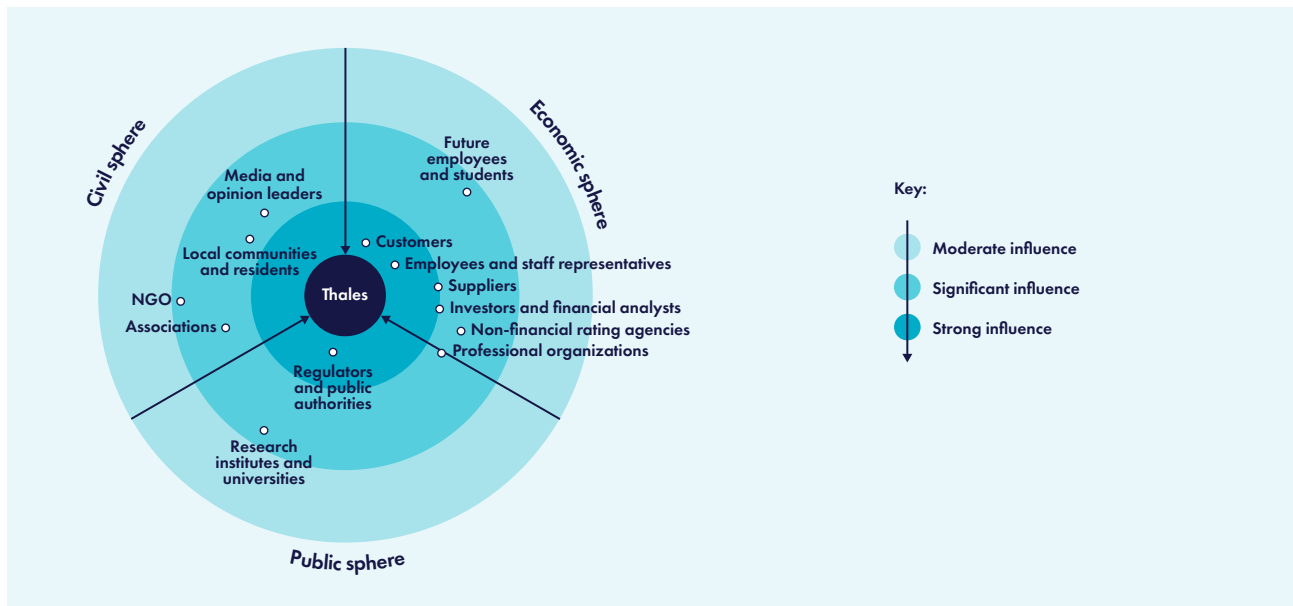
5.7.1 Stakeholder mapping

Convinced that decision-making is enriched by sharing different points of view, the Group encourages active engagement with all its stakeholders.

In 2021, as part of updating its materiality matrix – see below – Thales carried out an analysis of its stakeholders with the help of an external partner. This involved identifying the key players in the economic,

administrative and political spheres, as well as those in civil society likely to be impacted by the Group’s activities or to impact the activities.

For each category of stakeholder, Thales develops a policy of appropriate, structured dialog, depending on their expectations and issues, thereby implementing its purpose: “Building a future we can all trust”.



5.7.2 Creating the materiality matrix

In 2021, Thales completely updated its materiality matrix, the aim of which is to identify and classify Thales's environmental, social and governance issues according to:

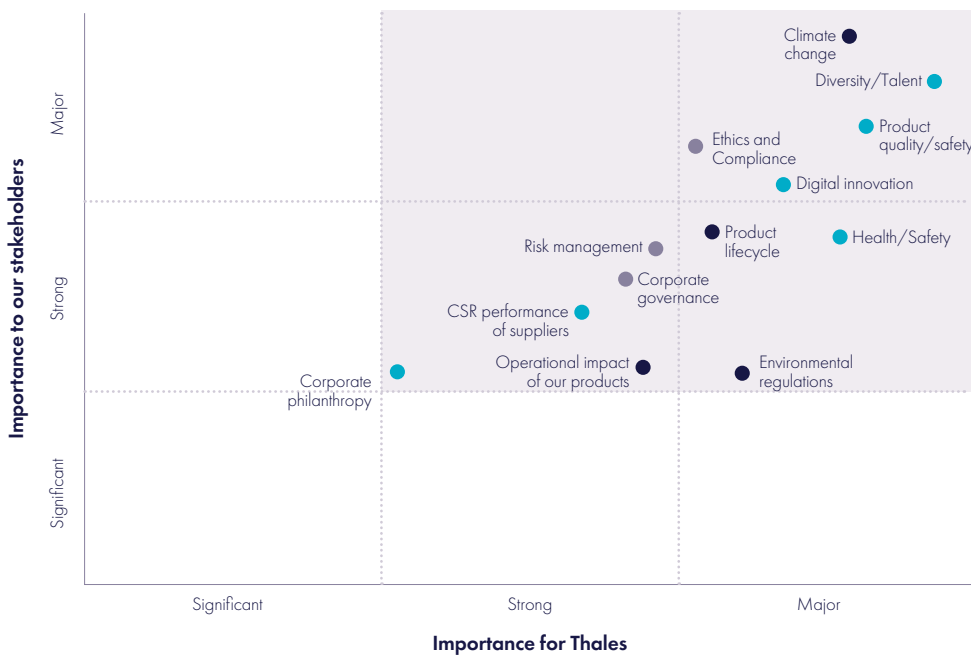
- the expectations of stakeholders;
- their impact on the Group's activity.

This procedure was carried out in several stages with the help of a specialist external partner, who was responsible for the methodology applied to this exercise:

- first, through analysis of sector studies and creating benchmarks, the Group identified more than fifty key issues encountered by companies in sectors where it operates, in the environmental, social and governance sectors;
- then, through its partner, the Group formed panels of stakeholders who were interviewed about these issues to classify them by order

of importance for the stakeholders (vertical axis of the matrix). In total, close to 90 people were consulted, representing the Group's key stakeholders: customers, employees, members of the Board of Directors, investors and financial actors, suppliers and partners, employee and civil society representatives;

- Thales also evaluated the importance of these issues for its activity and their impact on the company's performance (horizontal axis of the matrix);
- finally, the results of these efforts were formalized internally by a task force involving the Group's main departments (Human Resources, Investor Relations, HSE, Purchasing, and Ethics, Integrity and Corporate Responsibility departments) and then presented to the Executive Committee and Board of Directors.



● Environmental issues

Thales's ability to respond and adapt to the challenges of climate change, to manage the life cycle of its products, to control their impact on the environment and to respond to more stringent environmental legislation.

● Social and Societal Issues

Thales's ability to successfully control the safety and quality of its products, to develop digital innovations that benefit society, to implement a rigorous HSE policy, to rely on responsible suppliers and to develop a coherent corporate sponsorship policy.

● Governance issues

Thales's ability to ensure the implementation of a rigorous ethics, compliance and integrity policy; to manage its risks responsibly; and to ensure that its governance is in line with current standards and requirements.

This materiality matrix, which differs in its approach to the risks selected for the Group's Non-Financial Performance Statement, reinforces the relevance and effectiveness of the Group's CSR policy by ensuring that it best meets the expectations of its key stakeholders.

5.7.3 Relationships of trust with customers

Customer trust is at the heart of Thales's commitment and is one of its core values. The very nature of Thales's activities requires a long-term relationship and commitment. Thales must be a strategic partner for its customers, understanding their issues, strategic objectives and operational needs. Its policy of having a local presence, based on proximity, listening and supporting customers in the long term, enables it to be a major industrial player in its main countries of operation and to develop its presence in countries that are growing rapidly.

5.7.3.1 A structure designed to serve customer relations

The structure of Thales is designed to develop as close a relationship as possible with the environment and activity of its customers:

- a global set-up ensuring 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 across the Group's different organizations and activities;

- product lines building a strategy and product offer, systems and services tailored to the needs and strategic development of markets and customers;
 - a marketing structure that synthesizes Thales's offer and the needs of markets and customers;
 - project and support teams prepared to respond to contractual requirements and operational needs, working in close collaboration with customers and partners;
 - a Quality and Customer Satisfaction structure supporting the teams and safeguarding customers' interests.
- a centralized digital platform collecting customer data and feedback;
 - indicators and analyses for different market sectors, types of customers, product lines...
 - action plans organized by account managers to respond to the specific issues of each customers;
 - cross-functional analyses to detect weak signals and highlight assets and differentiators, as well as customers' recurring expectations, to drive performance plans;
 - dedicated visits organized with customers to share the results of this assessment, implement actions and monitor developments.

5.7.3.2 Regular measurement of customer satisfaction and trust

For Thales, evaluating the satisfaction and trust of its customers is a key indicator of its operational performance as well as a constant source of progress.

To do so, Thales has a global system for monitoring and controlling the quality of customer relations based on:

- a strategy of satisfaction surveys carried out every 18 months to 2 years;
- a network of independent consultants distributed across about a hundred countries to meet with customers and assess the relationship;

The global scale of this system is appreciated by customers, who clearly perceive Thales's desire to invest in relationships of trust and cooperation and eagerness to respond better to their main challenges now and in the future.

After the temporary suspension of satisfaction surveys in 2020 during the first waves of the Covid-19 pandemic, the surveys were resumed in 2021. The topics under review were addressed by specific questions concerning Thales's performance in supporting customers during the pandemic. Thales considers it essential to be identified as a trusted partner at the core of its customers' resilience in facing exceptional new situations that might occur in the future.

5.7.4 Safety of products and services in the aviation and rail travel sectors

Whether in the defense, air travel, rail travel, space or digital identity and security solutions sector, the Group pays constant attention to the quality and safety of the products and solutions offered to its customers.

Thales thereby ensures that it designs and implements safe and reliable solutions that contribute to protecting people, goods and the environment throughout their life cycle, from their creation to their withdrawal.

For this purpose, in its operations Thales has set up structures dedicated to the quality and safety of products, independent of engineering services responsible for the design, manufacture and maintenance of its products and services. Their main task is to ensure the preservation of stringent requirements for quality and safety all along the value chain.

In the area of air traffic management, Thales offers more ecological, more efficient and safer solutions by designing, manufacturing and maintaining air traffic management systems, monitoring equipment and navigational aids.

To carry out these activities, Thales has demonstrated its capabilities and validated its procedures to obtain the essential certifications issued by the competent civil and military authorities on the basis of the following regulations: Design (EU Part21 Subpart O, FRA21 O and Z), Manufacturing (EU Part21 Subpart G, FRA21), Maintenance (EU, US, China Part145), Database (EU Part DAT). These certifications are monitored internally by the quality department and externally by the competent administrative and regulatory authorities.

5.7.4.1 Aviation safety: an approach involving the whole value chain

Thales contributes to aviation safety in two areas, namely avionics and air traffic management.

In the avionics sector, Thales is responsible for designing, manufacturing and maintaining flight systems that are crucial for aviation safety. Thales also provides services that contribute to flight safety to civil and military air operators.

The products designed by Thales are certified either in the context of certification according to the type of aircraft (which is the responsibility of the aircraft manufacturer) or by the country authority, either directly by EASA ⁽¹⁾ or the French Defense Procurement Agency (DGA) ⁽²⁾ when general equipment certification is required.

Air traffic management products designed by Thales meet the requirements set by civil and military air navigation service providers as well as the European interoperability regulations ((CE) 2018/1139).

During the certification process, products and solutions developed by Thales have to meet the certification regulations set for the aircraft that apply to its onboard systems and equipment. These regulations have also recently started to govern protection against cybersecurity threats where that impacts safety.

(1) EASA: European Union Aviation Safety Agency.

(2) DGA: French Defense Procurement Agency).

To ensure compliance of electronic and logistical materials to EASA requirements, a Design Assurance Level (DAL) is applied according to their level of critical importance. There are five DAL levels, DAL A being the most stringent. The process of safety analysis and allocation of the DAL is done at the system level according to the principles of the L ED79/ARP4754 and ED135/ARP4761 standards. The implementation of these DALs at the level of each device is specified by the ED80/DO254 standards for electronic materials and ED12/DO178 for logistics.

For air traffic management, demonstration of compliance is also based on the safety analyses that are carried out in accordance with methods recognized internationally by air navigation services (Safety Assessment Methodology of Eurocontrol or MIL-STD-882E of the United States Department of Defense).

As a major player in aeronautics and air traffic management, Thales, along with other aeronautical manufacturers, is also involved in regulatory activities carried out by the civil and military aviation authorities (EASA in Europe, FAA ⁽¹⁾ in the United States, DGAC ⁽²⁾ and DGA in France) but also in standardization activities within organizations such as EUROCAE ⁽³⁾, RTCA ⁽⁴⁾ or SAE ⁽⁵⁾.

In addition, in order to develop a culture of safety at all levels and to make air safety the top priority of all employees, the Group's aeronautical entities have implemented a global safety management system (SMS). Thales's managing team for the Avionics segment is personally committed to implementing and upholding this safety policy.

Finally, in its desire to create an environment of trust encouraging each person to take responsibility for safety issues, the Group guarantees that it will protect against disciplinary measures any person who freely and immediately reports any violation of the rules and procedures related to safety that Thales would have committed involuntarily. An email address is available to all internal and external employees for this purpose, allowing them to report any event likely to have an impact on flight safety.

This culture of safety extends to the entire aeronautical industrial chain; as proof, the signing of a safety charter with Airbus promises the development of a proactive and transparent culture of communication in the area of safety and a "*Fair and Just culture*" that encourages employees to report any concerns on this subject immediately.

In terms of organization, special monitoring of activities linked to air safety is provided jointly by the certification department within the technical department and the quality department. In addition, a Safety Review Board, presided over by the Avionics segment Managing Director, periodically reviews the key indicators for product safety and decides on improvements.

Key figures (boxed-in)

More than a million Thales devices are in service in the global fleet of civil and military aircraft, and about 100,000 devices are supplied and mounted on aircraft annually.

Approximately 3,000 air traffic control positions, 10,000 NavAids and 3,000 surveillance equipment deployed in 180 countries.

Worldwide, two out of three aircraft take off and land using Thales equipment.

About a hundred incidents linked to product safety are analyzed and handled annually by Thales.

In 2021, EASA issued 2 Airworthiness Directives concerning Thales products. In accordance with the requirements of the regulator, these were modified as a result on all relative platforms within the stipulated deadlines.

5.7.4.2 Rail safety: a stringent approach based on a structured organization

Thales's rail businesses (main lines and urban transport) involve a rigorous and proven quality approach throughout their design and implementation.

All generic and customized products for each project, as well as Thales's services in this sector, meet the European (CENELEC⁽⁶⁾) or American (AREMA) standards criteria for safety, quality assurance, certification, operational readiness and design.

In terms of structure, Thales has set up a Global Safety Council presided over by the Technical Safety director of the Ground Transportation Systems segment. It meets twice a year and carries out three main tasks:

- specification and follow-up of the implementation of instructions that define the structure of the Technical Safety department within the Ground Transportation Systems segment. This ensures that the policies specified and goals set in this area are implemented well;
- in conjunction with engineering, implementation of a common model for maturity levels of technical safety to fulfill and maintain the desired safety requirements for operations;
- specification and implementation of crisis management principles and procedures to be adopted in the event of technical, product or operational safety incidents. All incidents are managed through a secure and dedicated incident management server that contains all the relevant information required to enable active follow-up in real time.

(1) FAA: Federal Aviation Authority (United States).

(2) DGAC: French Civil Aviation Authority.

(3) EUROCAE: European Organization for Civil Aviation Equipment.

(4) RTCA: Radio Technical Commission for Aeronautics.

(5) SAE: Society of Automotive Engineers.

(6) CENELEC: European Electrotechnical Committee for Standardization.

This committee involves some twenty Safety Authorities distributed around the world, bringing together the Group rail transport safety experts to ensure ongoing sharing of knowledge, to review investigations and conclusions of any incidents, to discuss the experience gained and to implement corrective measures, to improve the development of a safety culture in units and, finally, to establish common methods aiming to boost safety.

The *Safety Authorities* work with independent accredited experts and national certification bodies to confirm compliance of Thales's products and solutions before their commercial service begins.

The Group's safety approach aims to support operations and engineering in establishing a safety management system that integrates a safety culture in which all employees are encouraged to contribute to maintaining and developing safety while guaranteeing confidentiality.

Finally, along with other major players in the sector, Thales participates in several technical task forces of CENELEC ⁽¹⁾, the European organization that engages in the development of European standards.

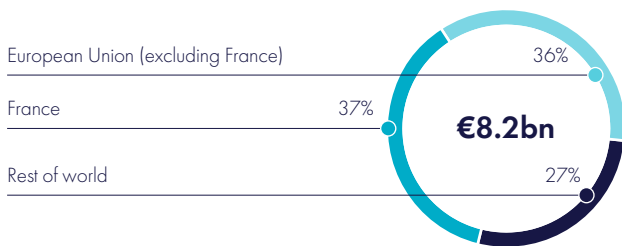
5.7.5 Incorporating CSR challenges into the supply chain

Thales designs and manufactures integrated solutions using equipment, sub-systems and full systems that are, for the most part, developed with the help of external partners. Purchases account for about 50% of the Group's sales with more than 80% originating from France, Europe and North America, reflecting the Group's industrial footprint.

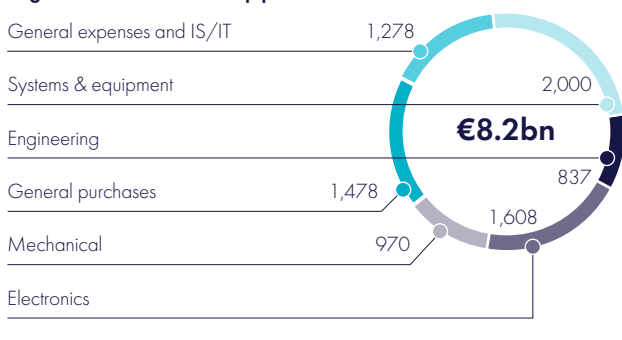
The quality and reliability of the supply chain therefore contribute actively to Thales's added value and to its customers' satisfaction.

• SALES 2021

Geographic breakdown of 2021 Group purchases



Segment mix of 2021 Group purchases



5.7.5.1 Commitments to Sustainable Procurement

The Sustainable Procurement policy, which has been based on six commitments since 2020, gives Thales a long-term competitive advantage at the global level, focused on value creation, innovation, commercial partnerships and operational excellence.

These six commitments to Sustainable Procurement are:

- compliance of suppliers with applicable legislation and regulations;
- establishing high-quality relationships based on mutual loyalty;
- sharing expertise to drive innovation;
- involving suppliers alongside Thales in the fight against climate change;
- specific support for local SMEs with opportunities for international development;
- greater reliance on players in the social outreach economy.

5.7.5.1.1 Being a responsible company

Thales believes that developing a relationship of trust with its suppliers and subcontractors is an essential component for the success of its sustainable development.

Thales expects them to comply fully with applicable laws and regulations in the countries where they are registered and where they carry out their operations or provide their services, but also to extend these same requirements to their own suppliers and subcontractors.

To achieve this expectation, Thales requires its suppliers and subcontractors all around the world to adhere to its corporate responsibility approach by signing an Integrity and Corporate Responsibility Charter, in which they pledge to abide by the principles of Thales's Code of Ethics and those of the United Nations Global Compact and the OECD.

This charter forms the basis for best practices applicable to the essential principles of corporate responsibility: it involves respecting applicable laws and regulations regarding Human Rights, working conditions, anti-corruption and prevention of conflicts of interest, protection of information, the environment, health and safety, compliance with commercial laws and practices (including those relating to export control), ethics...

(1) CENELEC: European Electrotechnical Committee for Standardization.

To evaluate the ability and the willingness of its suppliers and subcontractors to abide by these commitments, Thales has strengthened the management of its supply chain risks by introducing dedicated processes concerning the fight against corruption and influence peddling on the one hand, and other matters of corporate responsibility on the other hand. Depending on the results obtained from these processes, Thales may decide to carry out corrective measures or audits. Details of these processes are described in Chapter 5.7.5.4.2.

The refusal of a supplier or subcontractor to comply with these processes may call into question the business relationship built with Thales or even be a criterion for non-selection. The regular evaluation procedure dedicated to corporate responsibility thus contributes to the Duty of Care that Thales exercises with respect to its suppliers and subcontractors.

This Duty of Care targets Human Rights, the health and safety of people and abuse of the environment, and focuses on suppliers considered as potential risks according to certain criteria, including the purchasing category, the country in which the supplier or subcontractor operates and the level of commitment of Thales to this supplier.

Sustainable Procurement indicators (NFPS)	2020	2021	2023 target
Percentage of new suppliers committed to the principles of Thales's new Integrity & Corporate Responsibility Charter	91%	97%	100%
Percentage of suppliers assessed among those considered "at risk" according to the Duty of Care mapping	24%	59%	100%

5.7.5.1.2 Quality relationships

Thales establishes relationships of mutual cooperation with its partners based on mutual loyalty, which under the procurement process involves respecting:

- transparency concerning the rules of selection used;
- fair treatment of the companies during the tendering process;
- the development of balanced relationships based on trust and respect;
- a commitment to apply the terms negotiated;
- a guarantee of neutrality and independence in the relationships between Thales and its suppliers.

Thales develops balanced relationships of trust with its suppliers, acknowledging and complying with their respective rights and obligations. These relationships are based specifically on the Responsible Supplier Relations and Procurement charter⁽¹⁾ which Thales signed in 2010. For this purpose, the Group has also appointed an internal mediator for suppliers with the aim of avoiding or resolving as quickly as possible any conflicts that could arise with them; the Thales mediator's actions are also in line with the initiatives carried out by the mediator of the French Aerospace Industries Association (GIFAS).

In 2021, Thales had its certification under the Responsible Supplier Relations and Procurement charter renewed for three years. This certification is consistent with the international standard ISO EN 20400, which aims to combine corporate social responsibility (CSR) and responsible procurement.

Thales also offered its suppliers a new reciprocal factoring device to receive payment of their invoices in a predictable way. This device enables our suppliers to optimize their working capital requirement, to obtain a better forecast of their cash flow, and to access funding at an attractive price on the basis of Thales's credit risk. This device is promoted by the Minister of the Economy and the corporate mediation department as good practice to reduce payment delays and secure net cash from microbusinesses and SMEs.

Finally, under the global cybersecurity program, Thales has carried out actions to raise awareness among its suppliers of issues linked to this risk and best practices to put in place, by means of an online video and a summary document distributed to more than 17,000 suppliers.

5.7.5.1.3 Encouraging innovation

Procurement has a key role to play in Thales's innovation process by providing its expertise concerning the supplier ecosystem. Understanding technological roadmaps must therefore be at the heart of the relationship and interactions between Thales and its suppliers.

Thales therefore regularly organizes reviews to share information on these topics with its strategic suppliers.

The Group has also adjusted its procurement process to facilitate access for *start-ups* and the Purchasing and Technical departments regularly organize discussions about innovative young companies with which Thales has a relationship. In this context, more than 160 PoCs (*Proof of Concept*) involving these start-ups have already been achieved to date.

Thales also forms partnerships with incubators and accelerators to help high-potential start-ups grow (*Starburst Aerospace, AI@Centech...*). At the end of 2021, more than 1,800 innovative start-ups and SMEs were registered on the sharing database SUSHI "StartUp Sharing Hub for Innovation".

In 2021, Thales signed the France Industrie manifesto, which promotes the development of industrial start-ups, to facilitate operational cooperation between large groups and start-ups in the pre-industrial phase. Simultaneously, the program AI@Centech is continuing and also supports the development of start-ups that use artificial intelligence. And in March 2021, the event "*Thales start-ups journey*" took place at the Thales Research and Technology (TRT) site, promoting meetings and initiatives between Thales and start-ups.

5.7.5.1.4 Meeting the challenge of climate change

Climate change is a major issue which Thales wishes to address consistently through its activities and services, in particular as part of its strategy for a "Low-Carbon Future".

Faced with this challenge, the Procurement Department has a key role and Thales has committed to reducing emissions linked to goods and services that it purchases from its suppliers.

In 2021, a "Low Carbon" questionnaire was sent to more than a hundred of the Group's major suppliers in the purchasing categories identified as emitting the largest volume of greenhouse gases. This questionnaire enables the maturity of suppliers to be measured by communicating their own carbon footprint and their strategy to reduce it. The feedback from the suppliers consulted shows a growing commitment to the issue. More than 50% of suppliers who responded to the questionnaire declare that they have adopted the Paris Agreement or that they have a strategy to reduce their emissions.

(1) The charter was established by the corporate mediation department of the French Ministry of the Economy, Finance and Recovery and the *Conseil National des Achats* (CNA) in France.

A more detailed analysis of the actions plans of the Group's suppliers reflect the current main reduction measures: improvement in energy efficiency of their sites, use of renewable energy sources, carbon compensation actions, replacement of rental vehicle and transport service fleets, sorting and recycling of waste.

Following the ESG Investor Day of October 5, 2021, Thales decided to reinforce its strategy for a Low-Carbon Future and to develop action plans to reduce greenhouse gas emissions with 150 of its major suppliers. In 2022, it also intends to increase the scope of CSR in bidding processes, in particular to better take into account the suppliers' ability to offer solutions that are eco-designed or have a reduced carbon footprint.

Thales is aiming to commit its suppliers to a goal of 50% emissions reduction by 2030.

5.7.5.1.5 Thinking globally and acting locally

Given the growing complexity of its customers' environments and their global presence, Thales is developing a global understanding of their issues, strategic objectives and operational needs; to meet their expectations, the Group is implementing global strategies, particularly in Purchasing.

Nevertheless, Thales is aware that, in certain regions, it is often a major employer or customer and therefore pays particular attention to the public and private players in the ecosystems in which it operates.

In this context, the Purchasing Department is rolling out specific support measures for SMEs at several levels, regional, national and international, so that they can benefit from Thales's sales force and its knowledge of the markets and local environments in order to develop.

These actions reflect Thales's regional policy and its commitment to the SME Pact association, of which the Group has been a member since 2010. In France, the signing of the SME Action Agreement with the French Ministry of the Armed Forces in 2019 is one example of this. The primary aims of this Agreement aims are to improve SMEs' information about the BITD (industrial and technological defense base BITD), to develop experimentation, to continue partnerships developed during upstream study programs, to support them in exporting and, finally, to promote start-ups. In 2021, Thales intensified the dialog with the DGA, particularly concerning critical situations of certain suppliers, in order to carry out concerted actions, shorten delays in payment and improve certain contractual conditions.

In the aeronautical sector, Thales has also supported a certain number of SMEs through actions carried out by GIFAS (French Aerospace Industries Association) or by the investment fund "ACE AéroPartenaires", whose goal is to develop industrial champions, particularly through consolidation approaches for players in the sector.

In 2021, Thales acquired products and services for more than €2 billion from more than 4,000 SMEs and ETIs in France, or nearly 70% of the total of its national purchases.

5.7.5.1.6 Moving forward together

Specialized disabled work centers (EAs) and rehabilitation centers for persons with disabilities (ESATs) are key players at the core of the social outreach economy. For many years, Thales has maintained relations with these players, notably for industrial subcontracting work and for general purchases.

Through its Sustainable Procurement commitments, Thales wishes to make greater use of companies and institutions that employ people with disabilities by expanding its relationships to other purchasing segments and categories. This ambition is supported by the Group Agreement in favor of people with disabilities and results in regular dialog with the Human Resources Department.

In 2021, in cooperation with the GESAT network⁽¹⁾, an evaluation of industrial services of the mechanical, engineering and electronics purchasing segments was prepared with the aim of promoting use of EAs and ESATs in these sectors. Following this evaluation, the procurement teams concerned were able to launch discussions with EAs and ESATs with the skills and means to address Thales's needs.

The support of the GESAT network in this expansion of our inquiries with EAs and ESATs will continue in 2022 within the scope of the partnership agreement renewed and reinforced between the GESAT network and Thales.

For 2021, the amount of Thales' commitments to EAs and ESATs was nearly €3.8 million.

FOCUS

Particular attention on minerals from conflict zones

Although Thales is not subject to section 1502 of the US Dodd-Frank Act, since it is not listed on the financial market of the United States, the Group exercises a Duty of Care regarding minerals from conflict zones (*Conflict Minerals*) to fulfill the expectations of its clients. In addition, it has incorporated into its approach the obligations under the European Regulation (EU) 2017/821, which took effect on January 1, 2021. Thales submits these queries to its supply chain to ensure that the origin of the metals covered by these regulations can be verified as far as possible. The Group requires its suppliers to commit to adhering to its "Integrity and Corporate Responsibility Charter", which involves compliance with the applicable laws and regulations concerning the procurement of conflict minerals such as T3G (tungsten, tin, tantalum, gold).

The Group also regularly carries out surveys among any suppliers concerned to collect information relating to the origin of the T3G present in their products.

At the request of customers, the Group's entities fill in and share the "Conflict Minerals Reporting Template" form.

(1) The GESAT network is a player in the social outreach economy and has been creating connections between EAs and ESATs and their future private or public clients for 40 years.

5.7.6 Vigilance plan

Law No. 2017-399 of March 27, 2017 relative to the duty of care of parent and of out sourcing companies, requires the establishment and effective implementation of a vigilance plan. The plan includes “reasonable vigilance measures to identify risks and prevent serious violations of Human Rights and fundamental freedoms, the health and safety of individuals and the environment, resulting from the activities of the Company and those of the companies it directly or indirectly controls, as well as from the activities of subcontractors or suppliers with whom it has an established business relationship, when these activities are related to that relationship”.

Article L. 225-104-1 paragraph 4 of the French Commercial Code requires that the vigilance measures imposed are consolidated in this vigilance plan, including:

1. A risk map to identify, analyze and rank risks (see section 5.7.6.2);
2. Procedures to regularly assess, in accordance with the risk map, the situation of subsidiaries, subcontractors or suppliers with whom the company maintains an established commercial relationship (see section 5.7.6.3);
3. Appropriate actions to mitigate risks or prevent serious violations (see section 5.7.6.4);
4. An alert mechanism for collecting reports of existing or actual risks (see section 5.7.6.5);
5. A system for monitoring the measures implemented and assessing their effectiveness (see section 5.7.6.6).

5.7.6.1 Governance of the vigilance plan

The Group’s vigilance plan is defined by the Ethics, Integrity and Corporate Responsibility Department within the Group Secretary & General Counsel’s office, which coordinates implementation with the involvement of the Human Resources Department, the Hygiene, Health, Safety and Environment department, the Purchasing Department, the Audit, Risks and Internal Control department, the Legal and Contracts department and the Investor Relations Department.

5.7.6.2 Mapping of risks under the Duty of Care

5.7.6.2.1 Risk identification

Identification of the risks related to the Duty of Care involves risks likely to cause severe violations of:

- Human Rights (child labor, forced labor or illegal employment, wages below the statutory minimums, sexual harassment and/or violence at the workplace, non-respect of International Labor Organization rules of the maximum number of working hours and/or rest, non-respect of equal treatment at work, non-respect of employees’ privacy);
- the health and safety of people (lack of prevention and follow-up of serious accidents at work, lack of an emergency policy in the event of accidents at work, lack of policy and follow-up regarding health and safety at the workplace);
- the environment (significant pollution due to industrial activities, including greenhouse gas emissions, non-respect of regulations regarding hazardous materials).

This risk survey is the result of deliberations within the internal multidisciplinary task force driven by the Ethics, Integrity and Corporate Responsibility Department.

This survey is also based on the work carried out within trade and industry associations of which Thales is a member (GIFAS, EDH, Medef, etc.) and involves various external stakeholders (governments, NGOs, labor unions, etc.) that complement the Group’s deliberations and analyses with their experience.

5.7.6.2.2 Hierarchy of risks

The ranking of risks related to the Duty of Care is reviewed during the work carried out to create the materiality matrix (see Chapter 5.7.2) and draft Thales’s Non-Financial Performance Statement (see Chapter 5.2).

At the level of suppliers and subcontractors, the analysis and ranking of 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 that Thales undertakes to purchase from that supplier or subcontractor.

Thales manages a large portfolio of suppliers approved for the purchasing segments, which are themselves broken down into purchasing categories, the latter then being subdivided into Technical Purchasing Codes (CTAs).

Each approved supplier gets involved in one or more CTAs depending on its area of activities; the CTA is the smallest unit of purchasing segmentation and therefore the most accurate to describe the type of purchase in question.

Each CTA is subject to a review by the Purchasing Department, the DEIRE (Ethics, Integrity and Corporate Responsibility Department), the DARCI (Audit, Risks and Internal Control Department) and the Hygiene, Health, Safety and Environment Department in order to identify the CTAs whose activities are most exposed to risks (e.g. activities that cause pollution or are dangerous to health and the environment, construction work, etc.). Following the development of the Group’s purchasing segmentation in 2021 and to cover all the activities identified, the risk assessment enabled 19 CTAs concerning the following purchases to be identified as being at risk:

- machining, smelting, sheet metal working;
- manufacture of mechanical sub-assemblies;
- adhesives, solvents, paint, acids, alcohols, resins, oils...;
- surface treatments;
- printed circuit boards;
- components;
- installation and civil engineering works;
- munitions.

The countries where the suppliers and subcontractors operate and the amount of Thales’s commitments to these suppliers and subcontractors are also taken into account to assess their level of risk related to the Duty of Care.

With this in mind, the use of three external benchmarks, the *Environmental Performance Index* (EPI), the *International Trade Union Confederation* (ITUC), and the *Global Slavery Index*, has led to 25 “at risk” countries in which Thales is present being identified.

A high level of risk is attributed to suppliers and subcontractors who are in both a high-risk country and a high-risk CTA.

A moderate level of risk is attributed to suppliers and subcontractors who are in either a high-risk country or a high-risk CTA.

On this basis, a set of prevention measures has been defined in proportion to the level of risk associated with each case.

The lists of CTAs and countries at risk may be revised depending on the Group’s changing needs and updates to the external benchmarks used by Thales.

5.7.6.3 Procedures for regular assessment regarding risk mapping

5.7.6.3.1 Procedures for regular assessment of the situation of subsidiaries

Each year, all Group subsidiaries and entities are assessed through an internal control questionnaire, the Yearly Attestation Letter (YAL), sent by the Audit, Risks and Internal Control Department (DARCI) to the Group's operational entities (153 questionnaires sent during the 2021 campaign). Details of this procedure are given in paragraph 3.4.1.

Since the introduction of Act no. 2017-399 of March 27, 2017 on to the Corporate Duty of Care, control points from the YAL have been completed to cover the issues raised by this law:

- 2 control points concerning the protection of Human Rights and prevention of discrimination at work;
- 5 control points concerning employee health and safety aspects and protection of the environment, both on the Group's premises and at work sites.

5.7.6.3.2 Procedures for regular assessment of the situation of suppliers or subcontractors with which an established commercial relationship is maintained

The procedures for regular assessment of the situation of suppliers and subcontractors under the Duty of Care, along with the procedures for assessing their integrity, are part of the compliance policy of the Group's Purchasing sector.

All suppliers and subcontractors of Thales are obliged to sign the Partners' and Suppliers' Integrity and Corporate Responsibility Charter at the qualification phase before entering into any relationship. This charter, the terms of which were revised in 2019, particularly on the basis of the Code of Conduct of the *International Forum on Business Ethical Conduct* (IFBEC), includes specific commitments expected of Thales's suppliers and subcontractors concerning Human Rights (particularly child labor, forced labor or illegal employment, wages below the legal minimums, sexual harassment and/or workplace violence, non-respect of the rules of the International Labor Organization...), environmental protection (significant pollution due to industrial activities, non-respect of regulations on hazardous substances...) and the health and safety of people (lack of prevention and monitoring of serious accidents at work, lack of emergency policy in case of accidents at work, lack of policy and monitoring of health and safety at the workplace...).

The number of new suppliers who signed this charter is measured by an indicator described in Chapter 5.7.5.1.1.

In addition, since the entry into force of Act no. 2017-399 of March 27, 2017 on the Corporate Duty of Care, when a supplier or subcontractor signs a purchase agreement or accepts an order from Thales, it undertakes to respect the specific contractual clauses linked to "Integrity and Corporate Responsibility" and to "Compliance with provisions concerning the environment and prevention of safety risks", including provisions targeting the areas subject to the Duty of Care.

This general provision, which concerns all suppliers, is supplemented by additional prevention measures for suppliers and subcontractors identified as being at risk according to the three criteria described in the preceding Chapter 5.7.6.2.

• Additional assessment measures:

Specific tools enable Thales to extract from its supplier database suppliers considered to be high risk and moderate risk according to the criteria defined above.

Thales can then call on the support of a third-party specialist in supplier risk management to subject its at risk suppliers to a detailed assessment process that takes place in three phases.

• Phase 1:

Registration of at risk suppliers at risk on a dedicated platform at Thales, either in batches or individually.

Allocation of an *Inherent Risk Index* score (IR score) to each supplier depending on the country where it operates according to the ratings of four external benchmarks:

- World Bank – Worldwide Governance Indicators (WGI),
- The United Nations Human Development Index (HDI),
- Transparency International Corruption Perceptions Index (CPI),
- US State Department Human Trafficking report.

• Phase 2:

Information from the supplier through a self-assessment questionnaire (SAQ), which results in an SAQ score out of 100, 100 being the best score.

The supplier must answer all the questions and provide supporting documents to give details of the answers that it provides during this assessment phase. These documents are obligatory and their accuracy is verified by the third-party organization in charge of the assessment process.

Checking by the third-party organization for consistency of the supplier's answers with the supporting documents submitted results in the allocation of a revised score, "DV score" (*Desk Verification*).

• Description of the detailed self-assessment questionnaire (SAQ):

This questionnaire, composed of about a hundred items, was prepared in conjunction with the *International Aerospace Environmental Group* (IAEG) and the French Aerospace Industries Association (GIFAS). Its purpose is to assess the policies and actions implemented by the supplier concerning Human Rights, protection of fundamental freedoms, the health and safety of people as well as the environment.

The structure of this questionnaire and the associated rating system for each answer contribute to the assessment of the supplier's maturity in each of the areas and enables the identification of weak points to be analyzed that could potentially become risk factors.

Implementation of this assessment process for suppliers requires extensive work on the part of Thales's experts and its partners. To facilitate this process, Thales carries out an important educational campaign for its suppliers and subcontractors.

A user guide for the procedure developed by Thales has been written and made available to the Group's buyers. Awareness-raising sessions are organized regularly to explain the assessment process and address the questions of buyers from all purchasing segments and geographic areas. Support is provided by the Group's Purchasing Department to advise buyers and facilitate execution of the process.

5.7.6.4 Appropriate actions to mitigate risks or prevent serious violations

5.7.6.4.1 Appropriate actions to mitigate risks or prevent serious violations adapted for subsidiaries

All the Group's subsidiaries and entities are required to implement the Group's process reference system, Chorus 2.0. This is a unified set of management processes that defines the way in which Thales works: its rules, practices and modes of operation. It covers all the Group's operational activities, including Human Resources, Health, Safety and the Environment.

The internal processes and associated policies implemented by Thales in the areas subject to the Duty of Care are particularly based on the eight fundamental conventions of the ILO (International Labor Organization):

- Convention no. 87 on freedom of association and protection of the right to organize and Convention no. 98 on the right to organize and collective bargaining;
- Convention no. 29 on forced labor and Convention no. 105 on the abolition of forced labor;
- Convention no. 138 on minimum age and Convention no. 182 on the worst forms of child labor;
- Convention no. 100 on equality of remuneration and Convention no. 111 on discrimination.

The Group's social policy is based on a social dialog (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 at its own sites and at external work sites. The Group has set a goal of anticipating and preventing these risks, including psychosocial risks, and ensuring conditions of hygiene, health, safety and a high quality of life at work (see Chapter 5.4.3.5). In addition, almost 82% of employees work at ISO 45001 certified sites (Safety Management System). Likewise, 87% of employees work at ISO 14001 certified sites (Environmental Management System). Finally, at all its sites, Thales carries out health-safety-environment maturity audits, the results of which are reviewed annually through the *Yearly Attestation Letter* (see section 3.4.1).

In terms of the environment, the Group has also set ambitious performance targets since 2007. These targets were reiterated by the Group's Executive Committee in 2021 and made public at the ESG Investor Day which occurred on October 5, 2021. Thales now intends to reduce its greenhouse gas emissions by 50% by 2030 (including Scope 1, Scope 2 and Scope 3 – business trips – compared to 2018 and always in terms of absolute value) and to reach net zero by 2040 (see Chapter 5.5.2.2).

Finally, Thales's Code of Ethics, available on the Group's website and intranet, is systematically communicated to and signed by new employees to make them aware, from their arrival, of the ethical principles that govern the company, including, in particular, those linked to the strict compliance with Human Rights, rules aiming to guarantee the health and safety of employees, as well as the Group's environmental commitments.

5.7.6.4.2 Appropriate actions to mitigate risks or prevent serious violations for suppliers and subcontractors

At the end of the detailed assessment process for suppliers and subcontractors described in Chapter 5.7.6.3.2 above, measures to mitigate and prevent risks are implemented depending on the DV (*Desk Verification*) score obtained by the supplier according to the information

of the SAQ and its verification. These prevention measures are applied according to the following scale, defined on three levels, the best score being 100:

- if the DV score is greater than 50: the risk is low, there are no additional measures and the supplier will be re-assessed in three years, except in the event of an alert;
- if the DV score is between 30 and 50: the risk is moderate, so a corrective action plan is proposed by the third-party organization at Thales's request;
- if the DV score is less than or equal to 30: the risk is high, so an audit at the supplier's site may be carried out by the third-party organization at Thales's request.

If the supplier or subcontractor does not take appropriate steps to carry out the corrective measures required or if it refuses to take part in the process, Thales may decide, depending on the case, either not to select it during the bidding process, or not to continue the commercial relationship.

In 2021, for this reason, Thales terminated the commercial relationship with more than approved thirty suppliers or subcontractors.

FOCUS

Service provision in work and security environments, Copernic.

Concerning provision of services at work environments at all its sites in France, maintenance of equipment of buildings and provision of services to the occupants, Thales has set up a global contract which entrusts all its services to a single partner.

The 17 globalized services involve 70 Thales sites in France for a real estate footprint of million m² and 45,000 occupants, or about 60% of Thales's global real estate. They are carried out by almost 1,300 staff.

This mode of operation enables a centralized and global management, which reduces the number of contacts thanks to a single governance source and enables a pattern of co-construction of service performance between Thales and its supplier. The same model is also applied to all security services at Thales sites in France.

This choice offers better management of the risks to which the staff could be exposed, in particular concerning cleaning services and multi-technical maintenance services, by monitoring the terms of remuneration of these employees and their involvement in site prevention plans.

In terms of the environment, this approach secures waste treatment by using recognized national service providers that offer complete traceability of their treatment and recycling.

The global contract of services at work environments includes an incentive to employ people from the adapted and protected work sector, thus enabling the integration of more than fifteen people with disabilities into the on-site teams each year.

This approach was able to demonstrate all its efficiency and resilience during the Covid-19 health crisis. It enabled the rapid implementation of health protocols for both the employees and the service providers and the reopening of production sites under the best possible conditions.

The contract is complemented by an energy performance contract that has enabled the tertiary energy consumption to be reduced by 20% since its implementation in 2019.

5.7.6.5 Mechanism for alerts and collection of reports relating to the existence or creation of risks

In 2019, Thales reviewed its professional alert system to extend its scope of application to internal or external reports under Act no. 2016/1691 of December 9, 2016, on transparency, the fight against corruption and economic modernization as well as Act no. 2017-399 of March 27, 2017, on the Corporate Duty of Care.

In 2021, the Group alert system received 44 professional alerts (compared to 25 alerts in 2020) of which 27 were considered valid. Of the 27 alerts, 3 fell under Act no. 2017-399 of March 27, 2017 on the Corporate Duty of Care and principally concerned health and safety issues at the workplace.

5.7.6.6 System for monitoring the measures implemented and assessment of their effectiveness

The vigilance plan measures are monitored particularly through reporting and indicators described in chapter 5.3, especially: frequency and severity rates of accidents at work, percentage of employees working at OHSAS 18001 or ISO 45001 and 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 alerts received via the Group's alert system in 2020 (25 in 2020 compared to 34 in 2019).

In addition, at the end of 2021, Thales set up a new CSR Department under the responsibility of a Chief Sustainability Officer reporting to the Group's Secretary & General Counsel office (see chapter 5.1). This department complements the CSR Committee implemented in October 2020, whose role is to ensure better control of commitments and actions in favor of responsible and sustainable development and to reinforce the Group's social contribution.

5.7.7 Thales's commitments to civil society

Launched at the end of 2019, the Thales Solidarity program continued its roll-out in 2021 by supporting partner associations in some dozen countries, thanks to its dedicated charitable fund, the commitment of its employees and the local involvement of the Group's entities.

5.7.7.1 Roll-out of the Thales Solidarity program

Continuing the actions taken by the Thales Foundation from 2014 to 2019, Thales's social commitment strategy aims to coordinate the Group's outreach initiatives concerning areas of focus and common criteria and to increase its social impact by mobilizing internal resources and networks to achieve common goals. This development is aimed at continuing the actions of the Thales Foundation after 5 years of significant achievements.

This strategy is organized under the banner of the Thales Solidarity program and supports a social mission aligned with the Group's purpose: because trust is essential to the development of companies, innovation must be open to the greatest number of people. Thales undertakes to benefit civil society through its expertise and talents to enable each person to be a player today for the decisive transformations of tomorrow.

In this context, the outreach initiatives supported across the Group fall under 3 commitment priorities by putting technology and innovation at the service of education and professional integration, digital citizenship, and environmental protection.

These themes reflect Thales's CSR strategy: "Building a future we can all trust, for a safer world that is more respectful of the environment and more inclusive". The Thales Solidarity program enables the Group's CSR commitments to be extended for the benefit of the public interest and civil society.

A commitment rolled out across the Group

The Thales Solidarity Charitable Fund is one of the pillars of the program and a tool for financing and supporting projects and outreach initiatives. It guarantees the soundness of projects and proper use of funds.

Thales's entities – sites, countries, Global Business Units – support and implement local outreach actions or in their fields to reinforce the social impact in the communities where the Group is present. These actions must progressively be aligned with the 3 commitment priorities and the program's common criteria, and are validated in accordance with the Group's Patronage and Sponsoring policy.

The Thales Solidarity program is based on a network of 17 delegates responsible for its implementation and promotion in the Global Business Units and Countries, as well as a community of local ambassadors at the Group sites.

A commitment platform, set up with the social outreach company, MicroDON, aims to facilitate employee outreach initiatives throughout the year: on this site, they can propose projects, sign up for volunteer missions that are regularly put online or join the "Arrondi sur salaire" operation in France.

5.7.7.2 Projects supported by the Thales Solidarity Charitable Fund

The goal of the Thales Solidarity fund is to contribute to creating responsible, accessible and useful innovations for all, with those who are preparing the critical social transformations of the future. To do this, the Fund aims to open up and share the Group's capacity for innovation, expertise and talents to act on the 3 public interest topics defined in the Group's program: education and professional integration, digital citizenship and protection of the environment.

In 2021, the Charitable Fund selected 14 projects in 8 countries, half of which were in France.

Projects sponsored by employees

The annual call for projects by the Thales Solidarity Fund aims to support and promote the commitment of employees by financially supporting public interest initiatives in which they are involved and that fall within one of the Fund's key areas of focus.

During 2021, 21 projects (selected during the 2020 and 2021 calls for projects) were rolled out by partner associations. Despite some delays in implementing actions and constraints linked to the pandemic around the world, the associations and project sponsors were able to demonstrate innovation and adaptation, and the number of beneficiaries expected was achieved.

The 11 projects selected in 2020 affected 1,700 beneficiaries, of which 2/3 of the young people were able to develop digital skills, learn about responsible use of technology or access digital tools for their academic success. Seven of these projects were completed, and four others will conclude their operations in 2022. A total of some twenty employees participated in these projects.

Ten new winning projects were launched mid-year and targeted 1,500 children and adults during 2021-22 in France, Brazil, Mexico, United States, United Kingdom, Turkey and Vietnam. For example:

- two projects to introduce young people to digital manufacturing in Belfast with Farsset Labs and in Occitania with Planète Sciences will raise awareness of opportunities in the technology sector among nearly 150 young people, helping them to overcome stereotypes that may hold them back in their choice of career path;
- in Brazil, the disruptive training model of the Laboratoria association is working towards a more inclusive digital economy: 50 low-income women will be supported to develop their technical and professional skills and facilitate their integration into the tech industry;
- to promote distance learning for vulnerable populations in Turkey, the Yuva association designed a digital literacy manual and trained 24 social educators in 8 provinces who will pass on these skills to 120 other teachers and more widely to students;
- deployed by the Association Eco-citoyens de la Vallée de l'Huveaune in France, two connected educational beehives will feed participatory research by collecting data, and to raise awareness of 350 students about the role and protection of pollinators through an interactive platform accessible to teachers.

Pilot programs

The Endowment Fund also supports programs with a greater social impact to experiment with solutions and provide long-term support to public interest actors in scaling up their actions or achieving systemic change. Co-constructed with innovative and recognized actors in each field, these programs contribute to improving the understanding of societal needs in each area.

In 2021, 3 partnerships were monitored and extended in France and 2 new ones were launched at the end of the year. The aim of these programs is to promote the development of digital and technological skills and practices in order to enable the target audiences to participate and better orient themselves in tomorrow's world.

In the area of science and technology education, the Fund continued its long-standing collaboration on the *Savanturiers-École de la Recherche* program, which allows primary and secondary school students to conduct a research project in collaboration with a scientific expert. Since 2015, Thales has been supporting and helping to spread this learning program, which has already involved more than 4,000 students and teachers and around 100 Thales volunteers. For the 2021-22 school year, an educational program, designed by a multi-disciplinary team of young Thales engineers, aims to introduce nearly 500 middle and high school students to scientific issues and methods, and to encourage them to discover the technology sector. It deals with different aspects of the digital science and science and technology curriculum around the question "How do I pilot my robot on Mars from Earth?".

The Thales Solidarity Fund also promotes **digital inclusion** by supporting the Défi Insertion project run by the We Tech Care association since 2020. It aims to empower employees to acquire the minimum digital skills necessary for their social and professional integration, by offering them tools and training; but also by raising awareness and helping professionals working in integration structures to better integrate digital opportunities for their beneficiaries. In 2021, the pilot program trained 416 people, including 270 counselors from economic integration structures in 3 regions (Occitania, Hauts de France and Grand-Est). The renewal of the partnership will make it possible to enhance the system by offering new tools and a hybrid training program that will foster the autonomy of 500 employees in the field of social integration by 2022 through 50 structures throughout France.

Through its partnership with the Latitudes association, the Thales Solidarity Fund wishes to encourage the **responsible use of technology** to serve the public interest. Convinced that technological innovation has a role to play in addressing social and environmental issues, Latitudes develops awareness and engagement programs for students and professionals, and offers public interest actors digital support and innovative technology to increase their impact. The Fund's support makes it possible to strengthen the system and the rollout of this support through a web platform, the management of an active community of structures and volunteers and access to resources. Since 2020, more than 700 structures have registered on the platform. The goal is to increase the number of support services provided from 200 to 350 by the end of 2022.

To promote informed **digital citizenship** among young people, the Fund has selected the Born Social program, operated by The Cube Fund. It aims to make active and responsible the use of social media, by supporting young people in building a campaign to raise awareness of fake news and in discovering different careers in the digital sector. The program includes 10 hours of classroom workshops with 3 objectives: to open the debate on the challenges posed by information on social networks through digital art and the intervention of Thales experts on their professions; to imagine solutions to avoid fake news; and to raise awareness among other young people about fact checking. The workshops are scheduled to be rolled out in 2022 throughout the Ile-de-France region, targeting 300 young people aged 9 to 15 from the QPV (Quartiers Prioritaires de la Politique de la Ville) and 10 teachers.

Finally, the Fund collaborated with a team from the learningandculture@Thales department to design the Thales Digital Women Fellowship program, in partnership with the Polaris association in Senegal. This pilot project aims to support young women from disadvantaged areas in achieving **socio-professional integration through the acquisition of professional digital skills** and to make them ambassadors in the digital acculturation of the younger members of their community. Launched at the end of 2021, the 7-month pilot will be conducted in Dakar and will offer 50 selected candidates a 4-stage training program covering professions that meet the demand of the local market and that is based on Thales' educational expertise in the development of digital skills.

5.7.7.3 Employee engagement facilitated by a digital platform

Thales employees have the opportunity to get involved in serving the public interest through the Thales Solidarity Fund's call for projects, volunteer missions and activities, and through the "Salary Rounding" program in France. Since 2020, this commitment has been made easier by an online platform where the various opportunities to get involved are presented and updated regularly. At the end of 2021, 7,600 employees were registered on the platform, more than 80 volunteer activities had been published and more than 300 employees had applied for an assignment through this platform (mainly in France).

In 2021, three main forms of volunteer engagement emerged.

- **Collective commitment to responsible tech that serves the public interest.** In France, more than 80 employees took part in projects or workshops, often in groups, using technology to serve the public interest:
 - the "Tech for Good" course organized by the Latitudes association raises awareness of the social and environmental challenges of technology and suggests courses of action;
 - the Digital Collage workshops are a fun and collaborative way to understand and learn about the environmental challenges of digital technology;
 - a solidarity Hackathon engaged volunteer employees in the challenge set by the We Tech Care association.
- **Mentoring of underprivileged young people, job seekers, women undergoing retraining.** In France, around one hundred employees have decided to take on projects involving tutoring and STEM education, and helping students and the unemployed find jobs. In Brazil, 45 employees taught administrative and technical courses throughout the year to young students as part of the Formare project. In the UK, nearly 100 employees are involved in promoting STEM studies to primary and secondary school students and about thirty in the US have participated in a STEM-focused educational program.
- **Local solidarity on Giving Tuesday:** celebrated at Group level for the first time, this worldwide movement dedicated to generosity and solidarity brought together employees from **more than 60 sites**

in 16 countries to take part in solidarity activities: collections of food, hygiene products, toys, clothing, books, glasses, etc., for the benefit of underprivileged people, but also meetings with solidarity associations. On this occasion, 1,070 employees took part in an online quiz to test their knowledge about global generosity and the Thales Solidarity program.

On-going involvement in associations through salary rounding

Launched in May 2016, the payroll-giving program, designed by the social and solidarity enterprise MicroDON, allows each Thales employee in France to support an outreach project, by donating pennies from their salary each month, with an option to make an additional donation of up to 10 euros. 100% of the donations are donated to the associations after being matched by the Group up to the amount of the employees' donations, up to a maximum of 180,000 euros.

At the end of 2021, this innovative solidarity tool had 4,760 micro-donors within the Group's French companies and resulted in 369,700 euros being donated to 8 associations in accordance with employees' choices. The total amount collected over the past 5 years now stands at more than 1,720,000 euros, half of which was contributed by the Group.

In late 2021, a new beneficiary organization was added to this scheme: "Solidarités Nouvelles face au Chômage" is developing an individualized support approach, carried out by more than 2,300 volunteers, to offer human support and find concrete solutions for a return to work for nearly 4,000 people every year. donations will be earmarked starting in 2022.

Thanks to these funds, the supported associations have continued their work in the face of the consequences of the pandemic, with notable results:

- *Planète Urgence:* 25,400 students were provided with school kits in about 100 schools in Benin, Cameroon, Togo and Madagascar;
- For a Child's Smile: 718 young Cambodian students, 43% of whom are girls, benefited from remedial education at the Phnom Penh school, thanks in particular to the implementation of online teaching;
- Libraries Without Borders: 354 children and 300 Afghan exiles and refugees in France received bags of books or benefited from access to a library to familiarize themselves with the French language;
- the Le Cartable Fantastique association: 1000 teachers and assistants in France were trained in the use of digital tools to promote the inclusion of children with dyspraxia children in school;
- *Télécoms Sans Frontières:* 13,000 vulnerable people and 37 NGOs in 7 countries have benefited from emergency technologies to communicate in a disaster or humanitarian crisis, such as in Germany, Haiti, or Mexico;
- Cœur de Forêt: 3,845 trees will be produced in a nursery and planted in the endemic forests of the northeastern region of Madagascar, contributing to the restoration of forest cover but also to the preservation of biodiversity.

5.7.7.4 Engaging with local communities internationally

The Group's companies have adapted their support to certain local projects and facilitated the involvement of employee volunteers in solidarity initiatives. Several initiatives reinforce Thales's contribution to science, technology, engineering and mathematics (STEM) education and professional integration.

In North America, Thales continued to support the Technovation Challenge, an international competition for girls aged 10 to 18, designed to develop their entrepreneurial skills in the field of technology, with the participation of around 30 Thales employees as mentors or jury members. In support of local communities, toy collections for the Toys for Tots program were organized at Thales sites in Irvine, Melbourne and at the Arlington headquarters. Thales employees in Ottawa raised over \$17,000 in donations for the Legion National Foundation, the Ottawa Food Bank and the Movember campaign, while the Thales office in Toronto organized a holiday food drive. Finally, the various Thales sites in Quebec joined forces to support the Centraide/United Way 2021 fundraising campaign and raised \$28,418.

Thales in the United Kingdom continued its work to raise awareness of scientific careers among teenagers: despite lockdowns and remote working, 42 teenagers from across the UK were able to take part in a Virtual Work Experience program to gain a better understanding of career opportunities at Thales; as part of National Apprenticeship Week, a LinkedIn Live event was "broadcast" to raise awareness of apprenticeships among young people, recording nearly 46,000 views worldwide. In collaboration with partners such as the Small Piece Trust and Primary Engineers, the Thales STEM program has reached more than 10,000 primary and secondary students. These STEM events fuel their interest in science but also benefit teachers, guidance counselors and parents. The Green Power initiative was launched in Glasgow, in partnership with the Navy, RAF and Rolls Royce. School children from very disadvantaged areas had the opportunity to learn practical skills and work alongside engineers to build a vehicle powered by green energy.

Thales UK has strengthened its commitment to encouraging employees to volunteer with the introduction of a new program that includes a work-time volunteering scheme, the use of the Group's engagement platform to showcase all volunteering opportunities online and the involvement of a dedicated community engagement team. Finally, several solidarity initiatives were conducted, allowing for example 50 employees to dedicate an afternoon in support of two food banks and a therapeutic farm, providing an opportunity to strengthen team spirit.

Finally, the campaign for the British Heart Foundation, chosen as charity of the year, allowed employees to raise £303,900.

In Brazil, Thales, in partnership with the Fundação Iochpe, has deployed "Formare", a vocational training program for young people from disadvantaged backgrounds, based on voluntary work. As a result, throughout Greater São Paulo, 49 employees provided 900 hours of administrative and technical training to 9 young people.

Financial support to Fundação Weiss Scarpa contributes to the integration of 300 teenagers from the Curitiba area through professional training.

In Brazil and four other Latin American countries, financial and other donations and the organization of a dozen collections by employees have helped support more than twenty associations, mainly those promoting education for young people and social integration.

In Colombia, Thales is committed to "Programate", a professional training program in programming for young people from disadvantaged backgrounds. As part of this partnership, Thales hosted 60 students for courses on its premises and provided 8 employee mentors.

Thales in India contributed to the French solidarity initiative in response to the Covid-19 pandemic, initiated by the French Embassy and the IFCCI, which consisted of transporting generator-based medical oxygen production units, containers of liquefied oxygen and specialized medical equipment to India. Thales India has also financially supported The Shelter Progetto, an organization that provides underprivileged children with a home, school education, health care support and extracurricular activities like digital literacy and coding among others. On Giving Tuesday, all Thales sites organized collections of essential products (clothing, blankets, shoes, school supplies, etc.) for people who are the most disadvantaged.

In partnership with Indonesia Mengajar, **Thales in Indonesia** committed to improving the quality of education during the Covid-19 pandemic by funding the deployment of 20 "young teachers" in three remote areas of eastern Indonesia, and by providing 7 employees with distance learning. In Singapore, solidarity initiatives have also been organized by Thales to encourage employees to participate together in efforts for supporting the elderly and environmental protection.

5.7.7.5 Social contribution through the teaching and research chairs

Creation of a chair on responsible digital identity

In 2019 Thales joined forces with Télécom ParisTech to create an international research chair dedicated to responsible digital identity based on three lines of research: the study of weak signals around digital identity with a multidisciplinary approach in social and technical sciences, the study of uses and misappropriations by users from diverse cultural, social and demographic backgrounds, and lastly the analysis of acceptability in a user-centric approach.

By participating in this chair, Thales's objective is to contribute to the public discussion as well as to inform its thinking and strategy on these subjects, and thus to contribute to a global and forward-thinking approach beyond the purely technological aspects.

After having carried out initial academic work on the Alicem pilot media controversy, the chair now wishes to broaden the scope of the foresight and contribute to a multi-sectoral perspective.

Major Strategic Issues Chair

Developed under the banner of the Saint Cyr Foundation, in partnership with the University of Paris Sorbonne and the Saint Cyr Military School, the main objective of the Major Contemporary Strategic Issues (GESCI) Chair is to raise awareness among students of these educational institutions of current and future geopolitical changes and their consequences on European and French strategic positions. The role of the chair is to facilitate the invitation of French and international experts through the organization of conferences and symposiums. Since the beginning of 2021, these symposiums have been made available live and recorded on social media, thus reaching a very large audience.

Chair of Defense Economics (ECODEF)

Hosted by the IHEDN Endowment Fund and led by a scientific council composed of renowned economists and experts from the French defense procurement agency (DGA) and SGA (French General Secretariat for Administration), the ECODEF Chair aims to study the economic impact of the defense sector through the production of scientific works and the organization of conferences on this subject. The chair has contributed to the Ministry of Armed Forces (MINARM)'s considerations in the recovery plan and the Military Programming law following the health crisis.

Defense and Aerospace Chair

As part of the Fondation Bordeaux Université, the Defense and Aerospace Chair, in which Sciences Po Bordeaux and the University of Bordeaux are working together, is responsible for disseminating research and training on strategic, operational, economic and industrial issues related to defense and aerospace. It develops innovative training programs (creation of introductory, ongoing, and specialized training programs), research (work on conflict between powers and on the defense space), and the dissemination of knowledge (books, conferences, etc.). Its approach is global and integrates the study of conflict situations, national, European and allied security strategies, operational positions and commitments, breakthrough military technologies and the social impact of defense.

5.7.7.6 Other Group social actions

For many years, Thales has contributed to the appeal of the regions in which it operates. The Group's territorial policy is based on its in-depth knowledge of these regions, but also on the quality of the partnerships it maintains with economic and social actors, representatives of institutions and local community services.

This policy, outlined in a Group agreement designed to promote professional development and employment through anticipatory initiatives ⁽¹⁾, is based on three priorities:

- maintenance and development of skills;
- integration of young people, education and training;
- co-development of the industrial base and open innovation.

It is organized around a central territorial Commission and local commissions and applies in the nine employment areas where the

Group operates in France. The Group Anticipation Officer leads and coordinates the "Thales Territoriality" community; local territorial actions are led by a pair of representatives from the HR department and the operational departments.

The brochure "Territoriality – Guide" published in 2018 for all Thales employees and managers provides a concise and practical description of the approach and the actions implemented.

Thales also has a dedicated local economic development company in France, Gérés Consultants, which contributes, together with the Consultant, to the implementation of the Group agreement. In this context, Gérés Consultants leads the network of 10 Thales Ingénieurs Pour l'École (IPE) (Engineers for Schools), supports employees in their business start-up or takeover projects (74 new projects in 2021) and promotes the professional integration of young people through specific actions.

Gérés Consultants also supports the development of skills and the performance of SMEs through the "Pass'Compétences" inter-company solidarity and cooperation scheme, which provides volunteer experts from large companies for 12 to 24 month structuring projects. 47 employee placements have been carried out since 2012, including a new Pass'Compétences in 2021.

In 2021, after having carried out a territorial study for the Thales DIS site in Pont-Audemer, Gérés Consultants drew up a map of the skills present at this industrial site in order to have an objective, qualified, and quantified representation of the skills present. This was in order to examine possible avenues for future re-industrialization. The study was conducted cooperatively with site personnel.

In addition, at the request of the OPCO 2i, the UIMM, the GIFAS and the State ⁽²⁾, Gérés Consultants have been selected in 2021 to conduct a study to draw up an inventory of relations between large companies and SMEs in the Aeronautic and Space sector on the theme of temporary provision of rare skills as part of the Study of the Development of Jobs and Skills. This study will be completed in the spring of 2022.

Finally, Gérés Consultants puts its expertise at the disposal of large companies and local authorities to support SMEs that are creating sustainable industrial jobs in areas affected by industrial site closures. The revitalization projects carried out by Gérés Consultants since 2009 have led to the creation of nearly 6,600 jobs in France (including more than 610 in 2021), in more than 1,100 SMEs.

(1) Group agreement to promote professional development and employment through anticipatory measures renewed for the third time on April 24, 2019.

(2) Industry training operator.

5.8 Methodology notes

5.8.1 Social data

Social reporting method

The social section of the Universal Registration Document is a key source of information on social data, social policies implemented, practices and actions that are part of the Group's social responsibility, and their impact. It reflects its international dimension. The information in this document presents the situation of the Group as of December 31, 2021.

Organization and methodology

In 2021, feedback was provided via the WorkDay digital platform. Country Human Resources Managers were asked to verify that the data in the local payroll systems or in their local WorkDay tool is accurate and up to date beforehand. The information in this Universal Registration Document was then extracted centrally. As some companies are not part of the WorkDay tool, a quantitative and qualitative questionnaire including all the indicators presented in this document is sent to the Human Resources Directors/HR Correspondents of the companies or countries concerned, as applicable.

The country Human Resources Directors of all Group entities are also questioned on the basis of a qualitative and quantitative questionnaire containing indicators which, if they are in line with current legislation, are also based on indicators proposed by the Global Reporting Initiative⁽¹⁾ or negotiated with the social partners, particularly at European level.

All the data was sent to the Group's Human Resources Department for consolidation, where it was checked for consistency and the relevant section of the Universal Registration Document was prepared.

Scope

The definition of the companies taken into consideration for the preparation of the Universal Registration Document has not been changed this year and is consistent with the IFRS 10 and 11 financial consolidation standards. The managed workforce reported as of December 31, 2021 therefore includes the workforce of only those companies controlled by Thales pursuant to the provisions of Article L233-3 of the French Commercial Code, as well as companies that meet these criteria but are below the financial consolidation thresholds.

For greater transparency, the social data contained in the Universal Registration Document should be assessed in relation to the scope of the workforce covered by the responses. For each figure, the scope table for the verification of figures mentions the percentage of staff covered.

Details

- The number of active employees managed in the Universal Registration Document includes all employees in each country, regardless of the nature of their contract (fixed-term or open-ended, full-time or part-time). They do not take into account apprenticeship and vocational training contracts (although the number of contracts concluded in this regard is indicated in the recruitment section), employees on unpaid leave, employees on sick leave (of more than

three months), employees on parental leave and employees on notice not working as of December 31 of the year in question.

Since the financial year 2019, employees on maternity leave as well as employees whose last day of work was December 31 of the year in question have been included in the active workforce.

The total number of new hires includes work-study contracts signed in 2021, but does not include any conversions of fixed-term contracts or apprenticeship contracts to open-ended contracts during the year. It does not include the conclusion of internship agreements, International Business Volunteer (VIE) and CIFRE (Conventions Industrielles de Formation par la Recherche) and the transition from active to inactive employee status and vice versa.

The total number of employees leaving the company includes resignations, all dismissals (economic and personal), contractual terminations, retirements, deaths and other types of termination, as well as the end of fixed-term contracts.

The turnover rate corresponds to the number of resignations divided by the average number of employees active on December 31 of year N-1 and the average number of employees active on December 31 of year N, in accordance with the Global Reporting Initiative (GRI) 401-1 standard.

The number of non-French employees and expatriates in the French teams takes into account non-French employees working in France with a French contract or on an international assignment in France.

For the calculation of the percentage of CODIRs with at least 3 women, the Executive Committee of the Group, the CODIRs of Global Businesses, the major countries/regions (North America, United Kingdom, Australia, Germany, Netherlands) and the International Development Departments (DGDIs), as well as the CODIRs of the BLs are taken into account.

The percentage of women in senior management positions is a measure of the percentage of women in positions of responsibility level from 10 to 12, divided by the total number of employees in positions of that level.

The average number of hours of training per employee is the total number of hours of training divided by the number of Thales employees employed as of December 31 of the year in question.

Data on absenteeism and the frequency and severity of workplace accidents have been calculated on the basis of the number of days theoretically worked in each country, and on the basis of the active workforce as well as inactive paid employees (unpaid employees on long-term sick leave are therefore not included in the calculation of this indicator). These figures are based on a comparison of the data entered in the Human Resources Department and the Health, Safety and Environment Department's reporting tools.

The overall absenteeism rate is the percentage of days lost due to any type of disability, whether work-related or not, compared to the number of days theoretically worked in each country. Authorized absences such as annual leave, study leave, maternity/paternity leave or family leave are excluded. Absences for which the employee is no longer paid by Thales are also excluded.

The frequency rate is the number of accidents with lost time during the year, multiplied by 1,000,000 and compared to the number of hours theoretically worked during the year.

(1) The Global Reporting Initiative (GRI) is a non-profit organization that develops a common framework for sustainability reporting. Created in 1997, the GRI published the first version of its guidelines in 1999. Compliance with this document by companies is completely voluntary.

The severity rate is the number of days lost due to occupational accidents multiplied by 1,000 and compared to the number of hours theoretically worked during the year.

The employment rate of disabled workers is the total number of beneficiary units as declared in the Mandatory Declaration of Employment of Disabled Workers (Déclaration Obligatoire d'Emploi des Travailleurs Handicapés) in France.

5.8.2 Environmental data

Scope of environmental reporting

The scope of environmental reporting is separated from the scope of the companies included in the financial consolidation as of December 31, 2021, after cumulative application of the eligibility criteria set out below.

Eligibility and operational control (criterion 1)

In the first stage, only companies meeting the following two criteria are selected:

- Thales's shareholding is equal to or greater than 50% of the capital of this company;
- Thales has operational control of this company.

Activity/workforce (criterion 2)

The second step consists of selecting the eligible sites and establishments of the companies selected in the previous step. The following are selected:

- "establishment/site" engaged in an *Operating Model 4* activity, regardless of the number of employees;
- "establishment/site" engaged in an *Operating Model 3* activity with more than 50 employees;
- "establishment/site" engaged in an *Operating Model 2* activity with more than 100 employees.

The section "Definition of HSE Management System levels" details the Operating Model levels (classification according to the nature of the activity of an establishment or site: industrial, semi-industrial or tertiary activity).

Changes in scope

Changes during the year in the scope of consolidation (in the financial sense) and significant changes in the activities or headcount of Group sites, including the additional criterion of contribution to the entire financial year 2021, are handled as follows ⁽¹⁾:

- companies acquired in 2020 that meet the criteria of control (criterion 1) and activity/employee numbers (criterion 2) are included in the scope of environmental reporting. The same applies to new operations created in 2020;
- for the transfer of activities from one site to another with full environmental reporting for the year 2021, the information is combined:
 - with that of the originating site for the period from January 1, 2021 to the day before the transfer date,
 - with that of the receiving site for the period from the transfer date to December 31, 2021;
- absorption of intra-Group companies, sites or activities: the data of the absorbed entity is combined with that of the absorbing structure for the period from January 1, 2021 to the date of absorption.

Reporting procedure

An instruction contained in the Group's reference system sets out the rules for each stage of data entry, validation and consolidation. It also defines the role of each stakeholder and promotes data recording (traceability, archiving, etc.).

Indicators

In view of regulatory changes, expectations and the Group's environmental strategy, the indicators are periodically reviewed, both in terms of their relevance and calculation methodology. The reference framework for indicators applicable within the Group takes into account feedback from previous years and anticipated changes in environmental issues. The detailed description of the indicators is available in the reporting tool and is formalized in the "Methodological guide for reporting environmental data". A note on the methodology for calculating the carbon footprint has also been written in the "Methodological guide for calculating CO₂ emissions".

The indicators are consolidated in line with the GRI ⁽²⁾ recommendations and a cross-reference table is available in 5.10.3.

Reporting tool

Thales has developed a reporting and management tool accessible to everyone in the environmental reporting sphere. This tool consolidates data at the level of each entity, country or geographical area as well as at the Group level. In addition, its configuration makes it possible to ensure that the information is consistent and, if it is not, to point out inconsistencies according to the specific characteristics of each country (units of measurement, conversion factor, etc.).

Performance analysis

To facilitate the analysis of results, the Group's environmental reporting integrates the following principles:

- monitoring of a relevant ratio to assess changes in the scope of consolidation (disposals and acquisitions). For example, water consumption is tracked in gross value (in cubic meters) but is also expressed in relation to the number of employees.
- recalculation of the reference value when emission factors are modified during the reporting period, with the exception of "electricity" emission factors, which are changed each year without impacting the data for previous years, in order to take into account changes in the mix of energy production in the countries/regions where the sites operate and the contracts for the purchase of electricity signed by the Group.

(1) The land transport sites and activities of the GTS GBU continue to be included in the scope of the 2021 environmental reporting.

(2) The Global Reporting Initiative (GRI) is a non-profit organization that develops a common framework for sustainability reporting. Compliance with this document by companies is completely voluntary.

5.9 Report of the independent third party organization on the consolidated declaration of non-financial performance included in the management report

Year ended December 31, 2021

To shareholders,

In our capacity as an independent third party, member of the Mazars network, Statutory Auditor of the Thales Group, accredited by COFRAC Inspection under number 3-1058 (scope of accreditation available on website www.cofrac.fr), we hereby report to you on the consolidated statement of non-financial performance for the financial year ended December 31, 2020 (hereinafter referred to as the "Statement"), which is presented in the management report, in accordance with the legal and regulatory requirements set out in Articles L. 225-102-1, R. 225-105, and R. 225-105-1 of the French Commercial Code.

Conclusion

Based on the procedures we performed, as described in the section "Nature and scope of our work", and on the information we obtained nothing has come to our attention that causes us to believe that the Non-Financial Performance Statement is not in compliance with the applicable regulations and that the information, taken as a whole, is presented fairly in accordance with the Standards.

Preparation of the non-financial performance statement

The absence of a generally accepted and commonly used framework or of established practices on which to base the evaluation and measurement of information allows for the use of different, but acceptable, measurement techniques that may affect comparability across entities and over time.

Accordingly, the Information should be read and understood with reference to the Reporting Criteria, the significant elements of which are presented in the Statement.

Limitations inherent in the preparation of information

The Information may be subject to uncertainty inherent with the state of scientific or economic knowledge and due to the quality of the external data used. Certain information are sensitive to the methodological choices, assumptions and/or estimates made in preparing it and presented in the Statement.

Responsibility of the Company

It is the responsibility of the Board of Directors:

- to select or establish appropriate criteria for preparing the information;
- prepare a Statement in accordance with legal and regulatory requirements, including a presentation of the business model, a description of the main non-financial risks, a presentation of the policies applied with regard to these risks and the results of these policies, including key performance indicators, and also the information required by Article 8 of Regulation (EU) 2020/852 (green taxonomy);
- and to implement the internal control procedures it deems necessary to ensure that the Information is free from material misstatement, whether due to fraud or error.

The Statement has been prepared by applying the entity's frame of Reference as described above.

Responsibility of the independent third party

It is our responsibility, based on our work, to provide a reasoned opinion expressing limited assurance on:

- the compliance of the Statement with the provisions of Article R. 225-105 of the French Commercial Code;
- the fairness of the historical information (recorded or extrapolated) provided pursuant to Article R. 225-105, paragraphs 3 of I and II of the French Commercial Code, namely the results of policies, including key performance indicators, and actions, relating to the main risks.

As it is our responsibility to formulate an independent conclusion on the Information as prepared by management, we are not authorized to be involved in the preparation of the said Information as this could compromise our independence.

It is not our responsibility to express an opinion on:

- the entity's compliance with other applicable legal and regulatory requirements (in particular with regard to the information required by Article 8 of Regulation (EU) 2020/852 (green taxonomy), the vigilance plan and the fight against corruption and tax evasion);
- the truthfulness of the information provided for in Article 8 of Regulation (EU) 2020/852 (green taxonomy);
- the compliance of products and services with the applicable regulations.

Regulatory provisions and applicable professional standards

We conducted our work described below in accordance with the provisions of Articles A. 2251 et seq. of the French Commercial Code, the professional standards of the Compagnie Nationale des Commissaires aux Comptes (CNCC) applicable to this type of work, and the (reviewed) international standard ISAE 3000.

Independence and quality control

Our independence is defined by the provisions of Article L. 822-11 of the French Commercial Code and the industry's code of Statutory Auditor ethics. In addition, we have implemented a quality control system that includes documented policies and procedures to ensure compliance with the applicable legal and regulations, ethical rules and the professional standards of the Compagnie Nationale des Commissaires aux Comptes (CNCC) relating to this activity.

Means and resources

Our work involved the skills of 13 people and took place between October 2021 March 2021 over a total working period of 15 weeks.

To assist us in our work, we called upon our specialists in sustainable development and social responsibility. We conducted about ten interviews with the persons responsible for the preparation of the Declaration, representing in particular the CSR Department newly created in January 2022, the Ethics and Integrity Department, the Legal and Human Resources Department, the Health, Safety and Environment Department, the Audit, Risks and Internal Control Department and the Purchasing Department.

Nature and scope of work

We planned and performed our work taking into account the risks of significant information misstatement.

In our opinion, the procedures we have carried out in the exercise of our professional judgment enable us to provide a moderate level of assurance:

- we have reviewed the activities of all the entities included in the scope of the consolidated financial statements and as well as the description of the main risks;
- we assessed the appropriateness of the Standards with respect to their relevance, completeness, reliability, neutrality and understandability, taking into account, where appropriate, industry best;
- we have verified that the Declaration covers each category of information provided for in III of Article L. 225-102-1 with regard to social and environmental issues, as well as respect for Human Rights and the fight against corruption and tax evasion;
- we have verified that the Statement presents the information required by section II of Article R. 225-105 where relevant to the main risks and includes, where appropriate, an explanation of the reasons for the absence of the information required by the 2nd paragraph of section III of Article L. 225-102-1;
- we have verified that the Statement presents the business model and a description of the main risks related to the activity of all the entities included in the scope of the Group' consolidation, including, where relevant and proportionate, the risks created by its business relationships, products or services, as well as the policies, actions and results, including key performance indicators related to the main;
- we consulted documentation and conducted interviews to:
 - a) assess the process for selecting and validating the main risks and the consistency of the results, including the key performance indicators selected, with the main risks and policies presented, and
 - b) corroborate the qualitative information (actions and results) that we considered most important presented in Appendix 1. For the risks of "Compliance with rules concerning business ethics", "Vigilance over suppliers' compliance with corporate responsibility issues" and "Impacts related to changes in regulations", our work was carried out at the level of the consolidating entity; for the other risks, work was carried out at the level of the consolidating entity and in selected entities;
- we have verified that the Statement covers the consolidated scope, i.e. all the entities included in the scope of consolidation in accordance with Article L. 233-16 the limits specified in the Statement;
- we have examined the internal control and risk management procedures implemented by the entity and have assessed the collection process aimed at ensuring the completeness and accuracy of the information;
- for the key performance indicators and other quantitative results that we considered most important as presented in the Appendix 1, we implemented:
 - a) analytical procedures consisting of verifying that the data collected has been properly consolidated and that changes in the data are consistent;
 - b) detailed audit testing or other means of selection, consisting of verifying the correct application of the definitions and procedures and on reconciling the data with supporting documents. This work was carried out with a selection of contributing entities and covered between 21% and 100% of the consolidated data selected for these tests.
- we assessed the overall consistency of the Statement in light of our knowledge of all the entities ⁽¹⁾.

The procedures performed for a moderate assurance engagement are less extensive than those required for a reasonable assurance engagement performed in accordance with the professional doctrine of the Compagnie Nationale des Commissaires aux Comptes; a higher level of assurance would have required more extensive audit work.

Executed at Paris-La Défense, March 3, 2021

Independent third party

Mazars SAS

Edwige Rey

CSR & Sustainable Development Partner

(1) **Social information:** legal entities within the scope of Thales legacy France; legal entities within the scope of Thales legacy Spain.

Environmental data: Thales LAS France (La Ferté); Montgomeryville (DIS); Thales Land Mulwala (Australia); SGF Gennevilliers; Thales Alenia Space (Turin); TRT Palaiseau; Thales AVS France MIS Thonon; Singapore (DIS); Thales Nederlands B.V (Hengelo) – Waste indicators only.

Corporate data: Contributing departments at Group level.

Appendix 1: The most important information

Qualitative information (actions and results) on the main risks

- Diversity and Inclusion.
- Workplace health and safety.
- Environmental impacts related to the Group's activities.
- Anticipation of environmental standards in product design.
- Compliance with rules of ethical business conduct (particularly anticorruption and influence peddling).
- Vigilance concerning supplier compliance with corporate responsibility issues.

Quantitative indicators including key performance indicators

Employment indicators

- Total workforce.
- Percentage of women recruited.
- Percentage of women in top positions.
- Percentage of Management Committees with at least 3 women.
- Absenteeism rate.
- Share of layoffs in total number of employees leaving.
- Average number of training hours per employee in the Group.

HSE indicators

- Assessment of the operational maturity of industrial sites.
- Frequency rate of work-related accidents with lost time (Thales employees).
- Severity rate of accidents at work (Thales employees).
- Percentage of employees working at an OHSAS 18001/ISO 45001/14001 certified site.
- Reduction of operational GHG emissions (scopes 1, 2 and 3 – business travel).
- Reduction of other GHG emissions (scope 3 – purchases of goods and services and use of products and services sold).
- Recycling rate of non-hazardous waste.
- Percentage of employees working at an ISO 14001 certified site.
- Percentage of *Product Line Architects, Product Line Managers, Product Design Authorities, and Design Authorities trained in or made aware of eco-design.*

Company indicators

- Operational entities that have conducted a corruption risk assessment.
- Percentage of employees trained in the fight against corruption.
- Alerts received via the Group's alert system.
- Percentage of new suppliers committed to the principles of Thales's new Integrity & Corporate Responsibility Charter.
- Percentage of suppliers assessed among those considered as "at risk" according to the Duty of Care mapping.

5.10 Cross-reference table TCFD, SASB, GRI

5.10.1 Cross-reference table of TCFD recommendations

TCFD cornerstone	TCFD recommendation	Corresponding section of the Universal Registration Document
Governance	Board of Directors oversight:	
	a) Describe the control that the Board of Directors exercises over climate-related risks and opportunities	5.5.2.2.2 Governance of the strategy for a Low-Carbon Future
Strategy	Identify the risks and opportunities:	
	a) Please describe the short, medium and long-term climate-related risks and opportunities	5.5.1.3.3 Environmental risks and adaptation to climate change
	Impact on investment strategy:	
	b) Describe the impact of climate-related risks and opportunities on the investment strategy	5.5.1.3.3 Environmental risks and adaptation to climate change
	Resilience of the investment strategy: Please provide details of the resilience of the investment strategy, considering different climate scenarios, including a 2°C or lower scenario	5.5.1.3.3 Environmental risks and adaptation to climate change
Risk management	Evaluating the risks:	
	a) Please describe your risk management processes for identifying, assessing and managing climate-related risks	5.5.1.3.1 Prevention and continuous improvement process 5.5.2.2.6 Monitoring and understanding the effects of climate change
	Managing risks:	
	b) Please describe the processes for managing climate-related risks	5.5.2.2.2 Governance of the strategy for a Low-Carbon Future
	Integrating risks:	
c) Please describe how climate-related risks are integrated into risk management processes.	5.5.2.2.2 Governance of the strategy for a Low-Carbon Future	
Indicators/Objectives	Use of indicators:	
	a) Please provide information on the indicators used to assess climate-related risks and opportunities in the investment strategy and risk management process.	5.5.5 Environmental indicators
	Measuring GHG emissions:	
	b) Please provide information on greenhouse gas (GHG) emissions and related risks under scopes 1 and 2, and where applicable, scope 3.	5.5.5 Environmental indicators
	Setting targets:	
c) Please provide information on the targets set for managing climate-related risks and opportunities, and the results that have been achieved in pursuing these targets.	5.5.2.2.3 Reducing the carbon footprint of operational emissions 5.5.2.2.4 Reducing other emissions 5.5.5 Environmental indicators	

5.10.2 SASB cross-reference table

Topic	Indicator	2021 data	Units	SASB ref.
Energy management	Total energy consumption	7325.5	GJ	RT-AE-130a.1
	Share of renewable electricity	32	% (electricity)	RT-AE-130a.2
	Share of energy from the grid	86.3	%	RT-AE-130a.3
Management of hazardous waste	Share of hazardous waste recycled	29	%	RT-AE-150a.1
	Number and total quantity of reportable spills	0		RT-AE-150a.2
	of which quantity recovered	0		
Data security	Number of data breaches	Not reported		RT-AE-230a.1
	of which involving confidential information			
	Description of the approach to identifying and responding to data security risks in the company's (1) operations and (2) products	See paragraph 3.1.6		RT-AE-230a.2
Product security	Number of recalls issued	Not reported		RT-AE-250a.1
	of which total number of units recalled			
	Number of counterfeit parts detected	Not reported		RT-AE-250a.2
	of which percentage avoided			
	Number of airworthiness notices received	2		RT-AE-250a.3
	total units affected	Several hundred		
Fuel economy and emissions in use phase	Revenue from products/services that contribute to the reduction of CO ₂ emissions	20%		RT-AE-410a.1
	Description of the strategy to reduce fuel consumption and greenhouse gas (GHG) emissions from products.	See paragraph 5.5.2		RT-AE-410a.2
Supply of materials	Description of risk management for the use of critical materials	See paragraph 5.7.6 See paragraph 5.5.2.1.1		RT-AE-440a.1
Business ethics	Total financial losses as a result of legal proceedings associated with incidents of corruption and/or illicit international trafficking	Not reported		RT-AE-510a.1
	Defense revenues from countries classified as "E" or "F" on the Transparency International Corruption Perceptions Index (Defense 2020)	Band "E": 1.6% Band "F": 4.4%	In % of total sales 2021	RT-AE-510a.2
	Discussion of business ethics risk management processes across the value chain	See paragraph 5.6.1		RT-AE-510a.3

5.10.3 GRI cross reference table

GRI INDEX

• GRI 102: GENERAL INFORMATION

Code	Description	Location
102-1	Name of the organization.	Cover page.
102-2	A description of the organization's activities.	2.1 "Operating segments"
102-3	The geographical location of the organization's headquarters.	6.1 "General information about the Company"
102-4	The number of countries in which the organization is present and the names of the countries where it has significant operations.	5.4.4 "Other employment indicators" 2.5 "Organization of the Group"
102-5	The nature of the capital and the legal form.	6.1 "General information about the Company"
102-6	Markets served, including: geographic locations where products and services are offered; industry sectors; types of customers and beneficiaries.	Group profile 2.1 "Operating segments"
102-7	Total number of employees; number of business locations; net sales; total capitalization broken down into debt and equity.	5.4.4 "Other employment indicators" 2.5.2 "Data on main subsidiaries" Note 2. "Segment information" Note 10. "Current operating assets and liabilities"
102-8	Total number of employees by employment contract, by gender, by region, by job type.	5.4.4 "Other employment indicators"
102-9	A description of the organization's supply chain.	Business model 5.2 "Risks taken into account for the context of the NFPS"
102-10	Significant changes in the organization's size, structure, ownership or supply chain.	Group profile
102-11	Application of the principle of precaution or the preventive approach.	5.2 "Risks taken into account in the context of the NFPS" 5.5 "An approach to meet environmental challenges"
102-12	A list of externally developed charters, principles or other initiatives to which the organization adheres or which it endorses.	TCFD, Global Compact, United Nations Sustainable Development Goals, OECD Guidelines for Multinationals,...
102-13	A list of key memberships in associations, as well as national and international advocacy organizations.	Thales is a member of numerous national and regional professional associations. At the international level, these include: the United Nations Global Compact, the International Chamber of Commerce, the IFBEC (International Forum of Business Ethical Standards) and Business at OECD.
102-14	A statement from the most senior decision maker in the organization regarding the importance of sustainability to the organization.	Integrated Report 2021-2022
102-16	A description of the organization's values, principles, standards and rules of conduct.	5.6 "A corporate responsibility policy based on a strong ethical commitment to the Group Code of Ethics" (see website)
102-18	The governance structure of the organization.	4.1 "Composition of the Board of Directors"
102-40	A list of stakeholder groups involved with the organization.	5.7.1 "Stakeholder mapping"
102-41	The percentage of total employees covered by collective bargaining agreements.	5.4.4 "Additional employment indicators"
102-42	The basis for identifying and selecting the stakeholders to be involved.	5.7.1 "Stakeholder mapping" 5.7.2 "Establishing the materiality matrix"
102-43	The organization's approach to stakeholder engagement.	5.7.1 "Stakeholder mapping" 5.7.2 "Establishing the materiality matrix"
102-44	The major issues and concerns that were raised during the course of stakeholder engagement.	5.7.2 "Establishing the materiality matrix"
102-45	A list of all entities included in the consolidated financial statements of the organization.	2.3.4 "Sales"

Code	Description	Location
102-46	An explanation of the process for defining the content of the report and the scope of the issue.	Chapter 3: "Risk factors, internal control and risk management" 5.1 "A corporate responsibility policy to support sustainable economic growth" 5.2 "Risks taken into account within the context of the NFPS"
6.1	The organization should include an explanation of how the materiality principle is applied to identify relevant issues.	5.7.2 "Establishing the materiality matrix"
102-47	A list of relevant issues identified during the process of defining the content of the report.	5.7.2 "Establishing the materiality matrix"
102-48	The effect of any restatements of information provided in previous reports and the reasons for these restatements.	No changes to the measurement methods, the nature of the company's activities or the reporting period used.
102-49	Significant changes from previous reporting periods in the list of relevant issues and the scope of issues.	No significant change
102-50	The reporting period for the information provided.	January 1, 2021 to December 31, 2021
102-51	The date of the most recent previous report.	The last report was filed with the French financial markets authority (AMF) on April 12, 2021.
102-52	Reporting cycle.	Annual cycle.
102-53	The designated point of contact for questions about the report or its contents.	ir@thalesgroup.com
102-56	A description of the organization's current policy and practice with respect to external verification of the report	See chapter 5.9

- **GRI 302: ENERGY**

Code	Description	Location
302-1	Energy consumption within the organization	5.5.2.2.3 "Reducing the carbon footprint of operational emissions"
302-2	Energy consumption outside the organization	5.5.2.2.3 "Reducing the carbon footprint of operational emissions"
302-3	Energy intensity	5.5.2.2.3 "Reducing the carbon footprint of operational emissions" 5.5.5 "Environmental indicators"
302-4	Reduction of energy consumption	5.5.2.2.3 "Reducing the carbon footprint of operational emissions"
302-5	Reduction of energy requirements, products and services	5.5.2.2.4 "Reducing the carbon footprint of other emissions" 5.5.3 "Overview of eco-friendly products and services"

- **GRI 303: WATER**

Code	Description	Location
303-1	Interaction with water as a shared resource	5.5.2.3.2 "Conserving water"
303-2	Management of impacts related to wastewater disposal	5.5.1.3.1 "Prevention and continuous improvement process"
303-4	Water disposal	5.5.2.3.2 "Conserving water"
303-5	Water consumption	5.5.2.3.2 "Conserving water"

- **GRI 304: BIODIVERSITY:**

Code	Description	Location
304-2	Significant impacts of activities, products and services on biodiversity	5.5.2.3.4 "Preserve biodiversity" 5.5.2.2.3 "Reduce the carbon footprint of operational emissions"
304-3	Protected or restored habitats	5.5.2.3.4 "Preserve biodiversity"

- GRI 305: EMISSIONS**

Code	Description	Location
305-1	Direct GHG emissions (Scope 1)	5.5.2.2.3 "Reducing the carbon footprint of operational emissions"
305-2	Indirect energy-related GHG emissions (Scope 2)	5.5.2.2.3 "Reducing the carbon footprint of operational emissions"
305-3	Other indirect GHG emissions (Scope 3)	5.5.2.2.4 "Reducing the carbon footprint of other emissions"
305-4	GHG emissions by intensity	5.5.5 "Environmental indicators"
305-5	Reduction of GHG emissions	5.5.5 "Environmental indicators"

- GRI 306: WASTE**

Code	Description	Location
305-1	Waste production and significant impacts related to waste	5.5.2.3.1 "Reduce, reuse and recycle waste"
305-2	Management of significant impacts related to waste	5.5.2.3.1 "Reduce, reuse and recycle waste"
305-3	Waste generated	5.5.2.3.1 "Reduce, reuse and recycle waste"
305-4	Waste not disposed of	5.5.2.3.1 "Reduce, reuse and recycle waste"
305-5	Waste disposed of	5.5.2.3.1 "Reduce, reuse and recycle waste"

- GRI 401: EMPLOYMENT**

Code	Description	Location
401-1	The total number of employees and the rate of recruitment of new employees during the reporting period, by age group, gender and region.	5.4.4 "Other employment indicators" Additional employment indicators
	The total number of employees and the rate of employee turnover during the reporting period, by age group, gender and region.	5.4 "Human resources for group performance"
401-2	Standard benefits provided to the organization's full-time employees, but not to temporary or part-time employees, by major business locations.	5.4.3 "Providing a safe, high-quality work environment" A basis of harmonized social measures originating from dialogue with social

- GRI 402: EMPLOYEE/MANAGEMENT RELATIONSHIP**

Code	Description	Location
402-1	The minimum number of weeks' notice generally provided to employees and their representatives prior to the implementation of significant operational changes that may significantly affect them.	5.4.3 "Providing a safe, high-quality work environment" Social dialogue to support Group transformations

- GRI 404: TRAINING AND EDUCATION**

Code	Description	Location
404-1	The average number of hours of training that the organization's employees attended during the reporting period, by: gender; occupational category.	5.4.4 "Other employment indicators" Additional employment indicators
404-2	Type and scope of programs implemented and assistance provided to upgrade employee skills.	5.4.1.2. "Develop and reward the Group's talent" Training sessions
404-3	The percentage of the total number of employees by gender and professional category who received a performance and career development review during the reporting period.	5.4.1.2. "Develop and reward the Group's talent" Professional support for employees

- **GRI 405: DIVERSITY AND EQUAL OPPORTUNITIES**

Code	Description	Location
405-1	The percentage of individuals on the organization's governance bodies in each of the following diversity categories: gender; age group: under 30, 30-50, and over 50; and other diversity indicators (such as minorities or vulnerable groups), if applicable.	5.4.4 "Other employment indicators" Additional employment indicators

6

Company and share capital

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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 privatization of August 6, 1986, as the French State owns more than 20% of the share capital.

Registered office

Tour Carpe Diem – Place des Corolles – Esplanade Nord – 92400 Courbevoie – France. Phone: + 33 (0)1 57 77 80 00.

Registration

No. 552 059 024 in the Nanterre Trade and Companies Register; APE Code: 7010 Z.

Legal Entity Identifier LEI: 529900FNDVTQJOVVPZ19.

Term

Initially incorporated on February 11, 1918 for 99 years, the Company's term was extended by the Annual General Meeting of May 24, 2013. The expiration date is now May 23, 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, licenses, 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 related to the above objects;
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 January 1st to December 31.

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 4.2.8.

6.2 Share capital and shareholders

6.2.1 Information on the distribution of capital issued

As of December 31, 2021, the share capital is equal to **€640,233,927** divided into **213,411,309 shares** with a nominal value of €3.

Under the applicable regulations, the Company publishes on its website (www.thalesgroup.com) each month the information about the total number of voting rights (theoretical and exercisable) and the number of shares making up the share capital. It forwards this information to a press agency.

The applicable laws govern changes in share capital and shareholders' rights.

Shares in the Company may be held in either registered or bearer form at the shareholder's discretion. The share register is maintained by Société Générale (Securities and Exchange Department – 32 rue du Champ de Tir – BP 81 236 – 44312 Nantes Cedex – France).

The share capital is fully paid up. It includes a golden share resulting from the conversion of an ordinary share belonging to the French State, decided by Decree No. 97-190 of March 4, 1997, under the privatization law of August 6, 1986 (see page 203).

6.2.1.1 Changes in the share capital over the last five financial years

Date	Type of transaction	Acquisition, issue, and merger premiums (euros)	Number of shares created	Nominal amount of capital changes (euros)	Amount of capital (euros)	Cumulative number of shares comprising the capital
12/31/2016		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		
12/31/2017		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		
12/31/2018		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		
12/31/2019		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		
12/31/2020		4,075,469,331			640,097,874	213,365,958
Financial year 2021	Exercise of stock subscription options	1,058,492	45,351	136,053		
31/12/2021		4,076,527,823			640,233,927	213,411,309

6.2.1.2 Changes in the distribution of capital and voting rights over the last three financial years

As of December 31, 2021, the total number of exercisable voting rights amounted to 315,339,867. 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 4.2.8).

As previously mentioned, the number of shares and voting rights (theoretical and exercisable) is published monthly on the Company's website (www.thalesgroup.com, "Investors/Regulatory information").

	Situation as of 31/12/21			Situation as of 31/12/20			Situation as of 31/12/19		
	Shares	% of capital	% of voting rights	Shares	% of capital	% of voting rights	Shares	% of capital	% of voting rights
T.S.A.	54,786,654	25.67%	34.75%	54,786,654	25.68%	34.84%	54,786,654	25.68%	34.87%
French State (including 1 golden share)	2,060	–	–	2,060	–	–	2,060	–	–
Public Sector ^(a)	54,788,714	25.67%	34.75%	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	24.62%	29.79%	52,531,431	24.63%	29.81%
Thales	493,175	0.23%	–	497,596	0.23%	–	560,866	0.26%	–
Employees ^(c)	6,899,087	3.23%	3.99%	6,356,208	2.98%	3.66%	6,183,434	2.90%	3.58%
Other shareholders	98,698,902	46.25%	31.47%	99,192,009	46.49%	31.71%	99,253,061	46.53%	31.74%
TOTAL	213,411,309	100%	100%	213,365,958	100%	100%	213,317,506	100%	100%

(a) Under the terms of the Shareholders' Agreement with Dassault Aviation (the "Industrial Partner"), the "Public Sector" is represented by TSA, excluding the French State directly. Since January 29, 2018, the public institution EPIC Bpifrance has held all TSA capital, apart from one preferred share 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 January 16, 2018. All Thales shares held directly and indirectly by the French State have been indirectly registered for more than two years and thus have a double voting right as of December 31, 2021.

(b) Dassault Aviation holds 42,154,349 directly registered shares, of which 41,404,349 have been held for more than two years and therefore have double voting rights as of December 31, 2021, and also holds 10,377,082 bearer shares.

(c) This line shows total employee share ownership. For information purposes, under law No. 2019-486 of May 22, 2019, employee share ownership under the French Commercial Code (Article L. 225-102) excludes shares granted free of charge under the LTI Plans before 2016 (in the absence of an amendment to the bylaws to include such shares.) Also, as of 12/31/2021, it amounts to 5,257,265 shares and 9,301,119 voting rights, i.e., 2.46% of the capital and 3.23% of the exercisable voting rights, respectively.

6.2.1.3 Main transactions that changed the distribution of capital over the last five years

During the year 2017, the number of treasury shares was reduced by 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 in connection with stock option grants;
- 462,167 shares were sold to employees under the 2017 employee shareholding plan.

As of Sunday, December 31, 2017, treasury shares thus represented 568,739 shares or 0.27% of the capital.

During the year 2018, the number of treasury shares increased as a result of 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 in connection with stock option grants;
- 37,118 shares were sold to employees as part of the 2017 employee shareholding operation balance.

As of Monday, December 31, 2018, treasury shares thus represented 648,295 shares or 0.30% of the capital.

During the year 2019, the number of treasury shares increased as a result of 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 under the 2019 employee shareholding plan.

As of Tuesday, December 31, 2019, treasury shares thus represented 560,866 shares or 0.26% of the capital.

During the year 2020, the number of treasury shares increased as a result of 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 under the 2019 employee shareholding plan.

As of December 31, 2020, the company held 497,596 treasury shares, representing 0.23% of the capital.

During the year 2021, the number of treasury shares was reduced by the following transactions:

- 790,000 shares were acquired on the market;
- 1,413,610 shares were acquired under a liquidity contract;
- 1,494,365 shares were sold under a liquidity contract;

- 150,130 shares were transferred as free shares;
- 563,536 shares were sold to employees under the 2021 employee shareholding plan.

As of December 31, 2021, treasury shares thus represented 493,175 shares or 0.23% of the capital.

6.2.2 Potential capital

6.2.2.1 Maximum potential capital as of December 31, 2021

As of December 31, 2021 there were no outstanding securities giving immediate or future access to the share capital. The maximum potential capital on December 31, 2021 is therefore equal to the outstanding share capital of 213,411,309 shares.

6.2.2.2 Outstanding securities giving access to share capital (bonds, warrants, and options)

Share purchase and subscription options (stock options)

As of December 31, 2021, all share purchase and subscription option plans have expired.

Thales decided to stop granting options in 2012.

• SHARE SUBSCRIPTION OPTIONS

Date of Board decision	09/15/2011
Discount at allotment	None
Performance conditions	Yes
Exercise period	from 09/15/2015 to 09/14/2021
Exercise price	€26.34
NUMBER OF OPTIONS OUTSTANDING AS OF 12/31/2021, NET OF CANCELLATIONS^(a) AND EXERCISES	–
Of which options exercisable at 12/31/2021	–
Of which outstanding options held as at 12/31/2021 by:	
• Chairman and Chief Executive Officer Patrice Caine^(b)	
• Other members of the Executive Committee	
NUMBER OF BENEFICIARIES OF OUTSTANDING OPTIONS	–
Of which members of the Executive Committee (excluding the Chairman and Chief Executive Officer) as of 12/31/2021	–
Total grant to top ten beneficiaries (at the plan's date)	124,000

(a) Primarily due to the termination of the employment contract between the beneficiary and the Group after the grant date or the cancellation because of the partial or complete failure to achieve the performance conditions.

(b) Grant prior to his appointment as Chief Executive Officer.

Terms and conditions for exercising stock options

Thales share subscription options were granted for ten years at an exercise price not discounted from the market price.

Share subscription options could be exercised in full.

The options granted on September 15, 2011 were contingent upon achieving internal performance conditions over the three financial years

following their grant date. The three criteria used were EBIT, *free operating cash flow*, and order intake, with these criteria accounting for 60%, 25%, and 15%, respectively of the achievement of these conditions.

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 THE PLAN THAT EXPIRED IN SEPTEMBER 2021**

Option plans subject to performance conditions	Validation of the 1 st third of the share allotment		Validation of the 2 nd third of the share allotment		Validation of the 3 rd third of the share allotment	
	Reference year	% performance conditions achieved	Reference year	% performance conditions achieved	Reference year	% performance conditions achieved
09/15/2011	2012	100%	2013	100%	2014	42.71%

• **OPTIONS GRANTED AND EXERCISED IN 2021**

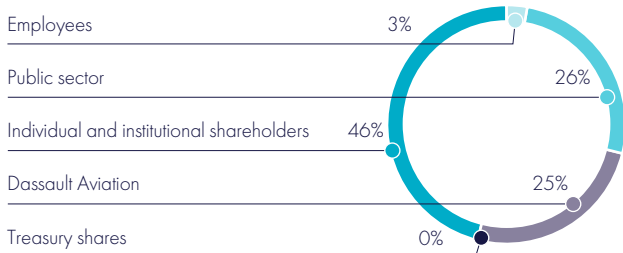
	Number of options granted/shares subscribed or purchased	Price of exercise	Date of maturity	Plan's date
1. Directors				
Options allotted in 2021	None			
Of which Patrice Caine	None			
2. Ten largest option awards granted to employees				
Options allotted in 2021	None			
3. Eight largest exercises of options by employees^(a)				
Options exercised in 2021	2,500	26.34	-	09/15/2011
	1,214	26.34	-	09/15/2011
	1,335	26.34	-	09/15/2011
	1,093	26.34	-	09/15/2011
	1,093	26.34	-	09/15/2011
	900	26.34	-	09/15/2011
	470	26.34	-	09/15/2011
	450	26.34	-	09/15/2011

(a) All Group companies combined, eight due to the reduced number of options remaining to be exercised in 2021.

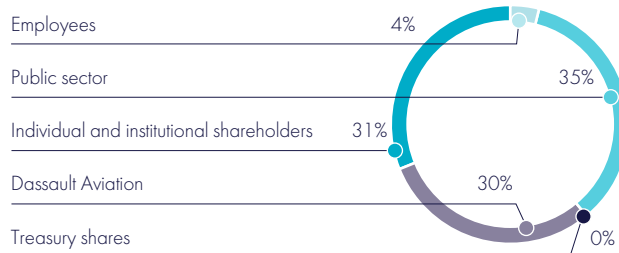
6.2.3 Shareholders

6.2.3.1 Breakdown at December 31, 2021

Breakdown of share capital



Distribution 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 as of December 31, 2021 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 owns 2,060 shares, including one “golden share”, which gives it the main rights 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 stock market, is a public limited company that holds 24.62% of the share capital of Thales, i.e. 52,531,431 Thales shares as of December 31, 2021.

Dassault Aviation is controlled by Groupe Industriel Marcel Dassault (GIMD), which, at December 31, 2021, held 62.24% of the share capital and 76.85% 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

Through the signature of an “endorsement agreement” concluded with the French State in the presence of Alcatel-Lucent, in 2009, Dassault Aviation assumed the rights and obligations of Alcatel-Lucent, subject to certain adaptations, by endorsing the agreements concluded on December 28, 2006 – namely the shareholders’ agreement and the agreement on the protection of national strategic interests in Thales ⁽¹⁾.

6.2.3.3.1 Shareholders’ agreement between the “Public Sector” and the “Industrial Partner”

The shareholders’ agreement governing the relationship between the Public Sector and the Industrial Partner within Thales was concluded on December 28, 2006 by TSA and Alcatel-Lucent and came into force on the date of completion of the Alcatel-Lucent Participations contribution, i.e., January 5, 2007.

This pact was signed in the application of the cooperation agreement concluded on December 1, 2006, between Thales, Alcatel-Lucent, and TSA, which replaced the previous cooperation agreement concluded on November 18, 1999, between Alcatel, Thales, and GIMD ⁽²⁾. This agreement essentially adopted the provisions of the shareholder agreement entered into on April 14, 1998, which it replaced ⁽³⁾.

On May 19, 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 concerning Thales under Article L. 233-10 of the French Commercial Code, TSA having a majority within the concert, sets out the following provisions ⁽⁴⁾:

Members of the executive bodies of Thales

The Thales Board of Directors, composed of 16 members, must, as of December 31, 2021, respect the following distribution:

- 5 members nominated by the Public Sector;
- 4 members nominated by Dassault Aviation;
- 2 employee representatives;
- 1 employee shareholder representative;
- 4 external individuals selected jointly by the Public Sector and Dassault Aviation.

The number of directors appointed upon nomination by Dassault Aviation may not be higher than the number of directors appointed upon nomination by the Public Sector. The number of directors for each shall be at least equal to the greater of the following two numbers: (i) the number of directors other than employee representatives and outside persons, multiplied by the percentage of Thales shares held by Dassault Aviation, in relation to the sum of the holdings of the Public Sector and Dassault Aviation, 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 Chief Executive Officer is chosen on the basis of a joint nomination by the parties.

Furthermore, the parties have agreed that in the event of a change of Chairman and Chief Executive Officer in accordance with the terms of the shareholders’ agreement, they do not intend to propose as a candidate any employee, manager, or senior executive belonging to the Dassault group or having recently left this group.

Finally, it is specified that at least one director representing each of the parties must sit on each of the committees of the Thales Board of Directors.

Decisions to be submitted to the Thales Board of Directors

The parties undertake to submit for mandatory approval by the majority of the Directors representing Dassault Aviation decisions of the Thales Board of Directors relating, in particular, to the appointment and dismissal of the Chairman and Chief Executive Officer, the adoption of the annual budget and the multi-year strategic plan, and significant acquisitions and disposals of shareholdings or assets in excess of €150 million, as well as strategic alliance agreements on technological and industrial cooperation.

However, Dassault Aviation has expressly undertaken to forgo the exercise of the veto right under the agreement over some of Thales’ strategic operations; this decision concerns a series of potential acquisitions or disposals. In return, the Public Sector has waived its right to terminate the agreement in the event of a persistent disagreement regarding a strategic operation likely to harm its strategic interests ⁽⁵⁾.

Should Dassault Aviation exercise its veto right with respect to the appointment of the Chairman and Chief Executive Officer after a consultation period of three months, either of the parties may terminate the agreement.

(1) See Decision No. 207C0013 of January 2, 2007, published in the *Bulletin des annonces légales obligatoires* of January 5, 2007.

(2) Published in the *Journal Officiel de la République Française* of December 12, 2006 (see the *Journal Officiel* website: www.journal-officiel.gouv.fr) in accordance with the provisions of Article 1 (1) of Decree 93-1041 of September 3, 1993 and in application of the aforementioned law 86-912 of August 6, 1986.

(3) This agreement is presented in the appendix to the report of Thales’ Board of Directors to the Extraordinary Annual General Meeting of January 5, 2007, registered by the AMF on December 19, 2006 under number E.06-194 (www.thalesgroup.com).

(4) With respect to the plan to separate the functions of Chief Executive Officer and Chairman, an amendment to the Thales shareholders’ agreement was concluded between the Public Sector and Dassault Aviation on April 7, 2015, aimed at modifying the shareholders’ agreement such that the Thales Board of Directors has 18 members, including 6 nominated by the Public Sector, 5 by the Industrial Partner (Dassault Aviation), 2 employee representatives, 1 employee shareholder representative, and 4 outside individuals. As the plan to separate the functions of Chief Executive Officer and Chairman did not succeed, the Shareholders’ Agreement was reinstated in its initial version of May 19, 2009, by means of amendment 2, signed on May 13, 2015, and the provisions of the Agreement therefore remain unchanged. For more details on these amendments, refer to D&I 215C0404 of April 7, 2015 and D&I 215C0643 of May 15, 2015, published on the AMF’s website.

(5) Acquisitions or disposals identified by the French State as having potentially significant importance with regard to its strategic defense interests and having the objective of strengthening the industrial and technological defense 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 December 31, 2021, the agreement was tacitly renewed for another period of five years, expiring on December 31, 2026. 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, 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 irrevocably and definitively grants the Public Sector a promise to sell all of the shares held by Dassault Aviation if it is determined that Dassault Aviation's shareholding in Thales has remained above 10% of Thales' capital within six months of the Public Sector's request to reduce its stake.

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 commitment expired on December 31, 2014⁽²⁾.

6.2.3.3.2 Agreement on the protection of strategic national interests

In addition, on May 19, 2009, Dassault Aviation endorsed the "agreement on the protection of national strategic interests in Thales," concluded on December 28, 2006, between 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 nominated 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 endeavors 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 deems it necessary,
 - ask Dassault Aviation either to suspend the exercise of any voting rights it holds in excess of 10%, or
 - 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 deems it necessary,
- ask Dassault Aviation either to suspend the exercise of any voting rights it holds in excess of 10%, or
- 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 May 19, 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 May 20, 2009 the threshold of 50% of the capital of Thales.

On May 20, 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 208C2115 of November 27, 2008 and published in the *Bulletin officiel des annonces légales* (BALO) of December 1st 2008.

It is available on the BALO website <https://www.journal-officiel.gouv.fr/balo/index.php>.

- Dassault Aviation declared⁽³⁾ that on July 9, 2012, it had individually exceeded the threshold of 25% of the voting rights and that, on that date, it individually held 52,531,431 Thales shares, representing 86,531,431 voting rights, i.e., 25.96% of the capital and 29.33% of the voting rights.

This threshold was crossed due to the allocation of double voting rights to Dassault Aviation on a portion of its shareholding.

- Dassault Aviation declared⁽⁴⁾ that on January 13, 2016, it "dropped below the threshold of 25% of the Company's capital and that it individually held 52,531,431 Thales shares, representing 87,185,780 voting rights, i.e., 24.90% of the Company's capital and 28.59% of its voting rights".

Also, Dassault Aviation revealed that it crossed this threshold due to increasing the total number of Thales shares and voting rights. On this occasion, the concert party formed by TSA (Public Sector) and Dassault Aviation had not exceeded any thresholds.

(1) TSA and Sofvision, within the meaning of AMF Decision No. 208C2115. TSA absorbed Sofvision in the second half of 2012.

(2) See AMF Decision No. 208C2115, dated November 27, 2008, published in the Bulletin officiel des annonces légales (BALO) of December 1, 2008 and available on the AMF website. "The Public Sector will undertake to retain, after the agreement has reached its normal expiry date, a shareholding in Thales, giving it at least 10% of the voting rights until the earliest of the following three dates: (i) December 31, 2014, (ii) three years from the termination of the agreement, (iii) the date on which Dassault Aviation ceases to hold at least 15% of the share capital of Thales."

(3) See AMF Decision No. 212C0909 of July 12, 2012, available on the AMF website.

(4) See AMF Decision No. 216C0199 of Wednesday, January 20, 2016, available on the AMF website.

- On January 15, 2018, the State and EPIC Bpifrance entered into an allocation agreement under which the State decided to allocate EPIC Bpifrance with 109,999,999 TSA shares, representing 99.99% of this company's capital (the State retaining one TSA share), it being recalled 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 exceeding in concert 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 January 16, 2018.

Following the completion of the allocation on January 29, 2018, EPIC Bpifrance declared ⁽¹⁾ that it had, in concert with the French State, indirectly exceeded the thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 1/3, and 50% of the share capital and voting rights of Thales, through the intermediary of TSA, which acts in concert with Dassault Aviation. On this occasion, EPIC Bpifrance indirectly crossed, on January 29, 2018, via the intermediary of TSA, the thresholds of 5%, 10%, 15%, 20%, and 25% of the capital and voting rights and 1/3 of the voting rights of the Company. 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 December 28, 2006, the French State (the Ministry of Defense 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 March 4, 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 receiving the said notification. Failure by the French State to communicate its decision during said time signifies 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 Defense, 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."

As of December 31, 2021, 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 defense 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 August 6, 1986 on the terms and conditions of privatization.

6.2.3.4 Treasury Shares

As of December 31, 2021, Thales held 493,175 of its own shares (0.23% of the share capital), i.e., the balance of the shares acquired and sold on the stock market or otherwise, under the authorizations granted to the Board of Directors by the Annual General Meeting, as described below.

Treasury shares are not subject to any restrictions and are freely transferable.

6.2.3.4.1 Authorization to trade in the Company's shares

In its delegation of authority to the Chairman and Chief Executive Officer for transactions in treasury shares, on March 24, 2020, the Board of Directors set the maximum buyback price at €140, subject to the adoption of the share buyback resolution by the Annual General Meeting of May 6, 2020. On March 3, 2021, the Board of Directors decided to maintain this maximum buyback price at €140 from May 7, 2021, subject to adopting the share buyback resolution by the Annual General Meeting of May 6, 2021.

The transactions carried out in 2021 show a net sale of 4,421 treasury shares, the details of which are as follows:

- transactions related to the delivery of shares to employees (net purchase of 76,334 shares):

(1) See AMF Decision No. 218C0345 of February 6, 2018, available on the AMF website.

(2) Under Article 3 of Decree No. 97-190 of March 4, 1997.

- shares delivered to beneficiaries of free shares (-150,130),
- shares sold to employees under the 2021 employee shareholding plan (-563,536),
- shares purchased directly on the market to meet commitments to deliver free shares (790,000);
- liquidity contract, net sales for the period: 80,755 shares.

6.2.3.4.2 Authority to cancel Company shares

The authorization granted to the Board of Directors by the Annual General Meeting of May 17, 2005, for a period of twenty-four months, to cancel, on one or more occasions, the shares held by the Company, up to a limit of 10% of the share capital, as part of an authorization to buy back its own shares, was renewed by the Annual General Meetings of May 16, 2007, May 15, 2009, May 18, 2011, May 24, 2013, May 13, 2015, May 17, 2017, May 15, 2019, and May 6, 2021, but has never been used.

6.2.3.4.3 Share buyback program

6.2.3.4.3.1 Description of the buyback program approved by the Annual General Meeting of May 6, 2021

- Maximum proportion of capital subject to repurchase: 10% of the share capital, on the buyback date.
- Maximum theoretical number of shares that may be repurchased (indicative, given the number of shares making up the share capital as at 31 December 2021): 21,341,130.
- Maximum theoretical amount of the program: €2,987,758,200 ⁽¹⁾.
- Maximum unit purchase price: €140.

The objectives of the share buyback program which was approved by Annual General Meeting of May 6, 2021 are as follows:

- 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 the accepted market practice established by the AMF decision no. 2018-01 of July 2, 2018;

- to cancel shares in accordance with an Annual General Meeting resolution in force;
- and more generally, with a view to carrying out any operation in accordance with the regulations in force.

Duration of the program: 18 months from the Annual General Meeting of May 6, 2021, i.e. no later than 4 November 2022.

Thales has repurchased and may repurchase shares based on the authorization granted by the Shareholders' Meeting of May 6, 2021, in particular in the context of the two significant contracts described below:

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.

Share buyback mandate

Considering the outlook for growth and cash generation, as well as the Group's rapid net debt reduction, the Board of Directors decided on March 2, 2022 to implement a share buyback program concerning a maximum of 3.5% of the capital (approximately 7.5 million shares) ⁽²⁾. This program has started on April 4, 2022 and end no later than March 31, 2024. The shares acquired under this program will be canceled. To this end, Thales will sign a share purchase contract with an investment services provider. The Group may suspend or interrupt the implementation of this program, particularly due to market circumstances.

In this context, Dassault Aviation has informed Thales of its intent to stay below the threshold of 30% of voting rights, and that, in consequence, it will carry out the necessary conversions from registered to bearer shares.

6.2.3.4.3.2 Trading in Company shares during the 2021 financial year

In 2021, Thales traded in Company shares as part of its share buyback program, established in accordance with the AMF General Regulations (Article 241-1 et seq.).

These transactions were carried out within the framework of the share buyback program approved by the Annual General Meeting of May 06, 2020 for transactions carried out between January 1, 2021 and May 6, 2021, and in accordance with the authorization given by the Annual General Meeting of May 6, 2021 for transactions carried out between May 6, 2021 and December 31, 2021.

As of January 1, 2021, Thales held 497,596 treasury shares, or 0.23% of the capital, and 493,175 shares as of December 31, 2021.

The balance of the transactions carried out in 2021 represents a net disposal of 4,421 shares, with the following breakdown by objective:

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	76,334
a)	Regulation of the market price by a liquidity contract drawn up in accordance with the AFEI Code of Conduct	(80,755)

(1) As communicated to the market on March 3, 2022, and taking into account the 493,715 treasury shares, Thales could acquire 20,847,415 of its own shares, for a maximum amount of 2,918,638,100 euro.

(2) This program is implemented on the basis of the authorization granted by the Annual General Meeting of May 6, 2021. It will continue based on of the resolution submitted to the Annual General Meeting of May 11, 2022, subject to its adoption.

Breakdown of treasury shares by objective at December 31, 2021

The total number of shares held at this date is 493,175, representing 0.23% of Thales' share capital. The breakdown by objective was as follows:

a) Disposal or allotment of shares to Group employees and directors as stipulated by law, particularly when share purchase options are exercised or existing free shares are allotted	373,430
b) Regulation of the market price by a liquidity contract drawn up in accordance with the AFEI Code of Conduct	119,745

Market value of the portfolio at December 31, 2021

€36,889,490 at the closing price at December 31, 2021, i.e., €74.80.

	Aggregate gross amounts from January 1, 2021 to December 31, 2021	
	Purchases	Sales
Number of shares	2,203,610	2,208,031
Average transaction price (in euro), including possible discounts and free shares	81.07	77.05
Amounts (in euro)	178,639,985	170,127,539

Thales did not make use of derivatives (futures sales) as part of this buyback program.

As of Friday, December 31, 2021, the company held 493,175 treasury shares, representing 0.23% of the capital.

6.2.3.4.3.3 Description of the buyback program proposed to the Annual General Meeting of May 11, 2022

- Maximum portion of capital subject to repurchase: 10% of the share capital, on the buyback date.
- Maximum theoretical number of shares that may be repurchased (indicative, given the number of shares making up the share capital as at 31 December 2021): 21,341,130.
- Maximum theoretical amount of the program: 2,987,758,200 euro.
- Maximum unit purchase price: 140 euro.

The objectives of the share buyback program proposed to the Annual General Meeting of May 11, 2022 are as follows:

- 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 the accepted market practice established by the AMF decision no. 2018-01 of July 2, 2018;
- to cancel shares in accordance with an Annual General Meeting resolution in force;
- and more generally, with a view to carrying out any operation in accordance with the regulations in force.

Duration of the program: eighteen months from the Annual General Meeting of Wednesday, May 11, 2022, i.e. no later than 10 November 2023.

Subject to the approval by the Annual General Meeting of the above proposed share buyback program, the Company intends to continue in particular the two significant contracts mentioned in section 6.2.3.4.3.1 above, namely the liquidity contract and the share buyback mandate.

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. These various plans are described below.

6.2.3.5.1 Allotment of free shares

Allotments of free shares and/or performance shares

In 2021, with the approval of the Annual General Meeting, the Board of Directors set up a thirteenth free share allotment plan.

The Chairman and Chief Executive Officer (the only corporate officer) is not eligible for this plan.

The 1st July 2021 allotment is characterized as follows:

Performance shares

- the allotted shares are all subject to the fulfillment of internal performance conditions during the three financial years following the grant date. The three criteria used are EBIT, *free operating cash flow* and order intake, with these criteria accounting for 60%, 15%, and 25%, respectively, of the achievement of these conditions;
- 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.

Date of Board decision	07/01/2021	11/24/2020	09/25/2019	09/27/2018	09/28/2017
	Performance shares	Performance shares	Performance shares	Performance shares	Performance shares
Number of beneficiaries at grant date	850	957	917	738	764
Share price at grant date (euro)	€86.04	€79.60	€104.50	€121.75	€94.66
Number of shares allotted	303,360	375,235	325,865	181,515	212,540
Number of free shares as of 12/31/20	–	375,235	239,693	132,510	153,028
Cancellation of allotments in the financial year 2021 ^(a)	1,410	3,185	7,736	3,653	2,218
Adjustment	–	–	–	–	–
Early allotments during the 2021 financial year ^(b)	–	–	121	294	–
Number of shares delivered on expiry of the plan	–	N/A	N/A	N/A	150,810
Balance of free shares, net of cancellations and early allotments as of 12/31/2021	301,950	372,050	231,836	128,563	–
Number of beneficiaries remaining as of 12/31/2021	844	947	877	695	–
Vesting period	from 07/01/2021 to 07/01/2024	from 11/24/2020 to 11/24/2024	from 09/25/2019 to 09/25/2023	from 09/27/2018 to 09/27/2022	from 09/28/2017 to 09/28/2021

(a) Including correction for share cancellations in 2020.

(b) Due to the death of beneficiaries.

Allotment of shares in financial year 2021

Ten largest share awards to employees during the financial year	Number of shares awarded	Share price on the date of award	Plan's date
Shares subject to performance conditions	48,700	€86.70	07/01/2021

During the financial year 2021, the allotment of shares subject to performance conditions to employees of the Company or its subsidiaries (excluding Thales executive officers) was between 160 and 6,500 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 2021, except for that granted for the sole Company representative (page 105).

6.2.3.5.3 Allotment of phantom shares or phantom shares subject to performance conditions indexed to the Thales share price

In July 2021, a *phantom share* plan based on the Thales share price was implemented for certain international employees. This plan is equivalent to the performance-based free share plans offered to employees in France.

Through this plan, 373 people received 103,880 *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 2021

Plans of options, shares, units, and phantom shares subject to performance conditions	Validation of 1 st third of share allotment		Validation of 2 nd third of share allotment		Validation of 3 rd third of share allotment	
	Reference year	% performance conditions achieved	Reference year	% performance conditions achieved	Reference year	% performance conditions achieved
09/27/2018	2019	100%	2020	26.56%	2021	100%
09/25/2019	2020	26.56%	2021	100%	2022	–
11/25/2020	2021	100%	2022	–	2023	–
July 1, 2021	2022	–	2023	–	2024	–

6.2.3.6 Shares Owned by the Public

The Company is entitled to obtain information at any time, under the conditions provided for by law, on the identity and *quantum* of the shareholding of holders of bearer securities representing, immediately or in the future, a fraction of its share capital (the “Identifiable Bearer Security” or “IBS” Procedure).

Based on the results of the “ICC” surveys carried out at the end of the year with Euroclear France and the information on employee shareholding available to the Company, the breakdown of shares held by the public can be estimated as follows:

(in thousands of shares)	31/12/2021	12/31/2020
French institutional investors	26,795	26,143
Non-resident institutions	58,012	60,604
Others, (brokerage firms, etc.)	5,492	5,168
Employee share ownership	6,899	6,356
Individual shareholders and associations ^(a)	7,579	6,635
Not identified	821	642
Subtotal (all holders)	105,598	105,548
TOTAL NUMBER OF SHARES	213,411	213,366

(a) Mainly French residents.

	% of total capital		% of free-floating capital (excluding treasury shares)	
	31/12/2021	12/31/2020	31/12/2021	12/31/2020
French institutional investors	12.6	12.3	25.4	24.8
Non-resident institutions	27.2	28.4	54.9	57.4
Others, (brokerage firms, etc.)	2.6	2.4	5.2	4.9
Employee share ownership	3.2	3.0	6.5	6.0
Individual shareholders and associations	3.6	3.1	7.2	6.3
Not identified	0.4	0.3	0.8	0.6
ALL HOLDERS	49.6	49.5	100.0	100.0

• **GEOGRAPHIC BREAKDOWN OF INSTITUTIONAL INVESTORS**

31/12/2021	Number of shares held (in thousands)	% of Total capital	% of free-floating capital	Number of investors
France	26,795	12.6	25.4	103
Continental Europe (excluding France)	7,391	3.5	7.0	148
North America	32,119	15.0	30.4	135
United Kingdom & Ireland	16,628	7.8	15.7	61
Rest of world	1,872	0.9	1.8	57
TOTAL	84,807	39.8	80.3	504

6.2.3.7 Employee Shareholdings as of 31 December 2021

As of December 31, 2021, employees and former employees of the Group held 6,899,087 Thales shares, representing 3.23% of the capital (and 3.99% of the voting rights) ^(d).

Holding by country	In number of shares	% of employee share ownership	% 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))	3,948,326	57.25%	1.85%	2.36%
Shares held through the Group savings scheme PEG – Netherlands (1 dedicated fund ^(b))	482,709	7%	0.23%	0.28%
Shares held through a trust – SIP ^(c) – United Kingdom	226,706	3.29%	0.11%	0.07%
Directly held shares – United States	70,152	1.02%	0.03%	0.02%
Shares held directly – France and world	189,763	2.75%	0.09%	0.11%
Shares held directly through allotments of free shares (Article L. 225-197-1 of the French Commercial Code) – France and world	1,981,431 ^(e)	28.72%	0.93%	1.15%
Total number of shares held by current or former employees ^(d)	6,899,087	100%	3.23%	3.99%
TOTAL SHARE CAPITAL	213,411,309	–	–	–

(a) "Actions Thales" and "World Classic" funds.

(b) "Netherlands Classic" funds.

(c) FCPE equivalents.

(d) This line shows total employee share ownership. For information purposes, under law No. 2019-486 of May 22, 2019, employee share ownership under the French Commercial Code (Article L. 225-102) excludes shares granted free of charge under the LTI Plans before 2016 (in the absence of an amendment to the bylaws to include such shares.) Also, as of 31/12/201, it amounts to 5,257,265 shares and 9,301,119 voting rights, i.e., 2.46% of the capital and 3.23% of the exercisable voting rights, respectively.

(e) This number of shares includes the 2014 and 2015 unit plans delivered in 2018 and 2019.

6.3 Related-party agreements

6.3.1 Commitments and agreements authorized after year-end

On January 27, 2022, Thales SA entered into a new agreement concerning the creation of an economic interest grouping without capital, called "Software République", with several partner companies, including Dassault Systèmes SE (a company which shares a common director with Thales SA, Mr. Charles Edelstenne), and which is in the interest of Thales SA to promote the launch of innovative projects in the field of connected mobility.

This agreement was not previously authorized by the Board of Directors under Article L. 225-38 of the French Commercial Code. As part of the implementation of the procedure for the regular review of agreements relating to current transactions entered into under normal conditions, the Board of Directors decided, at its meeting of March 2, 2022, to ratify this agreement for the creation of a grouping under AMF recommendation 2012-05, and to submit it for approval to the Annual General Meeting of May 11, 2022, according to Article L. 225-42 of the French Commercial Code.

6.3.2 Commitments and agreements authorized in 2021

No new related-party commitments or agreements were authorized by the Board of Directors in the 2021 financial year.

6.3.3 Agreements authorized during previous financial years

The agreements authorized by the Board of Directors and approved by the Annual General Meeting in previous financial years that continued to be performed in 2021 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 March 6, 2008

FSTA: commitments to be undertaken by the parent company authorized 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 et Deed of Indemnity and Security*) as per the terms submitted to it;
- has delegated to the Chairman, who may further delegate all powers necessary for the fulfillment of these guarantees, for the signature of any deeds or documents, and in general to do what is necessary for carrying out this operation.

For the period from 10/27/2020 to 10/27/2021, Thales invoiced Air Tanker the amount of £329,127.08, or €381,525.84, under the letters of credit in force.

6.3.4 Statutory auditors' report on related-party agreements

At the Annual General Meeting of Thales,

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 preceding financial year, 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 mission. 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 the preceding financial year

We have not been informed of any 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.

Agreements not previously authorized that have been agreed or concluded since the closing date

Articles L. 225-42 and L. 823-12 of the French Commercial Code, we inform you that the following agreement has not been subject to prior authorization by your Board of Directors.

It is our responsibility to inform you of the circumstances under which the prior approval procedure was not followed.

- **With the company Dassault Systèmes SE,**

Person concerned

Mr. Charles Edelstenne, Chairman of the Board of Directors of Dassault Systèmes SE and member of the Board of Directors of your company.

Nature, purpose, and conditions

Creation of an economic interest grouping

On January 27, 2022, your company participated in the creation of an economic interest grouping without capital, called "Software République", with several partner companies, including Dassault Systèmes SE.

This agreement was not previously authorized by your Board of Directors, as the creation of an economic interest grouping was considered upon preliminary analysis as a routine agreement. In the context of the implementation of the procedure for the regular review of agreements relating to current transactions and concluded under normal conditions, it was finally decided to reclassify this agreement as a related-party agreement.

Reasons for the company's interest in the agreement

Your Board of Directors has provided the following motivation for this agreement: to encourage the launching of innovative projects in the field of connected mobility.

At its meeting of March 2, 2022, your Board of Directors decided to authorize this agreement after the fact.

Agreements previously approved by the Annual General Meeting

Agreements approved in previous years whose implementation continued during the year ended December

In accordance with Article L. 225-30 of the French Commercial Code, we have been informed of the following agreement approved by the Annual General Meeting in the previous financial years and continued during the financial year 2021.

- **With Thales UK, a wholly-owned subsidiary of your Company**

Guarantees granted in 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.).

On March 6, 2008, the Board of Directors authorized the issuance of the three required guarantees ("*Resources and Materials parent company Guarantee*", "*OpcO Primary Subcontracts parent company Guarantee*", and "*Deed of Indemnity and Security*") in the terms presented thereto.

From October 27, 2020 to October 27, 2021, your company invoiced £329,127.08 (or €381,525.84) to the Air Tanker consortium for the letters of credit in force.

Paris-La Défense, March 3, 2022

The statutory auditors

Mazars

Grégory Derouet
Dominique Muller

Ernst & Young Audit

Vincent Gauthier
Jean-François Ginies

6.4 Stock market information and financial communication

6.4.1 Thales shares

6.4.1.1 Listing market

Thales shares are listed on the Euronext Paris (compartment A), a regulated market. They are eligible for the Deferred Settlement Service (DSS).

ISIN Code: FR0000121329

Reuters: TCFP.PA

Bloomberg: HO FP

6.4.1.2 Index listing

As of December 31, 2021, Thales shares are included in the following main Indices:

- Euronext Paris Indices: CAC 40, SBF 120, SBF 250, CAC Large 60, and CAC All-Shares;
- International Indices: DJ Euro Stoxx, FTSEurofirst 300.

6.4.1.3 Share price and trading volumes on Euronext Paris

6.4.1.3.1 Monthly data from January 2020 to December 2021

	Number of meetings	Number of shares traded	Capital traded (€m)	Average average trading volume	Weighted average price (€)	Lowest price (€)	Lowest price (€)	Closing price (€)
2021								
January	20	7,322,169	552.3	366,108	75.42	80.10	76.28	74.18
February	20	5,724,340	444.9	286,217	77.72	80.80	79.24	78.44
March	23	8,200,432	676.6	356,541	82.51	85.74	84.72	84.72
Q1 2021	63	21,246,941	1,673.8	337,253	78.78	85.74	76.28	84.72
April	20	5,520,325	474.8	276,016	86.02	89.36	87.04	84.78
May	21	5,045,595	425.8	240,266	84.39	88.48	85.90	83.86
June	22	5,254,193	450.0	238,827	85.64	87.44	86.02	86.04
Q2 2021	63	15,820,113	1,350.6	251,113	85.37	89.36	85.90	86.04
July	22	6,472,543	571.6	294,207	88.31	92.40	83.56	88.50
August	22	4,530,501	392.4	205,932	86.62	89.86	83.76	85.94
September	22	6,536,282	543.8	297,104	83.20	87.42	79.06	84.16
Q3 2021	66	17,539,326	1,507.8	265,747	85.97	92.40	79.06	84.16
October	21	6,843,718	565.3	325,891	82.60	85.84	79.42	79.66
November	22	8,070,912	635.3	366,860	78.71	84.30	71.86	72.48
December	23	8,759,940	642.6	380,867	73.35	75.80	70.54	74.80
Q4 2021	66	23,674,570	1,843.1	358,706	77.85	85.84	70.54	74.80
FY 2021	258	78,280,950	6,375.4	303,415	81.44	92.40	70.54	74.80

	Number of meetings	Number of shares traded	Capital traded (€m)	Average average trading volume	Weighted average price (€)	Lowest price (€)	Lowest price (€)	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	90.80
March	22	13,604,805	1,026.6	618,400	75.46	94.70	52.50	76.38
Q1 2020	64	30,375,781	2,636.9	474,622	86.81	99.96	52.50	76.38
April	20	6,576,113	471.4	328,806	71.69	77.92	67.40	69.14
May	20	8,080,720	533.0	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	1,706.3	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	65.50
September	22	7,880,132	513.8	358,188	65.20	69.30	60.96	64.16
Q3 2020	66	23,941,103	1,618.4	362,744	67.60	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	55.70	77.06
December	22	6,721,410	517.6	305,519	77.01	81.88	70.86	74.90
Q4 2020	65	27,442,284	1,942.5	422,189	70.78	83.14	55.02	74.90
FY 2020	257	105,980,388	7,904.1	412,375	74.58	99.96	52.50	74.90

6.4.1.3.2 Annual data for 2020 and 2021

• PRICE AND PERFORMANCE TRENDS

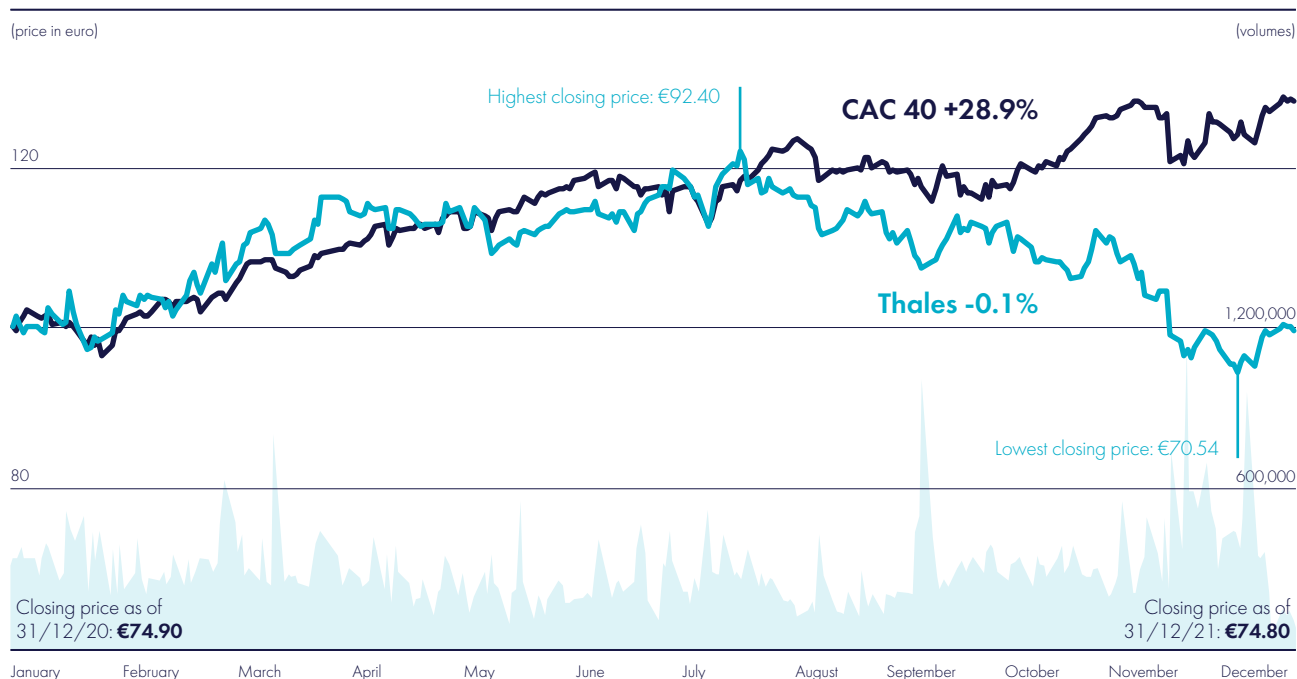
	2021	2020
Closing price (€)	74.80	74.90
Session high (€)	92.40	99.96
Session low (€)	70.54	52.50
Weighted average price (€)	81.44	74.58
Dividend paid for the previous year (€)	1.76	0.60
Total return for the year (TSR) ^(a) (in %)	+2.3%	- 18.6%
Change in Thales share price over the period (in %)	-0.1%	- 19.4%
Change in the CAC 40 over the period (in %)	+28.9%	- 8.1%

(a) Total Shareholder Return: differential between annual closing prices, plus the dividend paid during the year (for the previous financial year), relative to the initial price.

	2021	2020
Average number of shares traded per session (thousands)	303.4	412.4
Total number of shares traded during the period (millions)	78.3	106.0
Total capital traded during the period (€m)	6,375.4	7,904.1
Monthly average number of shares traded (thousands)	6,523	8,832
Average monthly capital traded (€m)	531.3	658.7
Total number of shares comprising the capital (period-en, in millions)	213.4	213.4

6.4.1.3.3 Graph and comments on the share price and trading volume trends from January 1st 2021 to December 31, 2021

- SHARE PRICE AND VOLUME TRENDS FROM JANUARY 1, 2021 TO DECEMBER 31, 2021**



Comments on share price in 2020 and 2021

- Despite the health crisis, the market recorded a solid performance in **2021**, with the CAC 40 up 28.9%, driven by “growth” stocks. Thales shares were almost stable (-0.1% for the year).
- 2020** was a year marked by the public health crisis and the sudden collapse of all markets in March. The stock lost 19.4%, while its benchmark Index, the CAC40, lost 8.1%.

Comments on traded volume in 2020 and 2021

- 2021** was a down year in terms of securities traded, with 78 million securities traded over 12 months (a 26% decrease). There were occasional peak trading days, including mid-September 2021 when the AUKUS strategic partnership was announced and in December 2021 when concerns about the efficacy of vaccines against the Omicron variant reemerged.
- 2020** was an up year in terms of shares traded, with over 105 million shares traded over 12 months (a 16% increase). Daily trading volumes were also up, at 412,375 shares per day. Trading volumes saw occasional peaks: as usual, on announcement of annual and half-yearly results, as well as during the month of March, at the beginning of the health crisis in Europe.

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.

The Annual General Meeting of May 6, 2021 approved the distribution of a dividend of €1.76 per share.

Per-unit dividend information is provided below, it being specified that dividends paid for 2018, 2019, and 2020 may be eligible for an allowance under the conditions provided for by the French General Tax Code (Article 158-3 2):

- DIVIDENDS PAID FOR THE PAST FOUR YEARS**

(€)	2021 ^(a)	2020	2019	2018
Dividend	2.56	1.76	0.60	2.08

(a) Subject to the approval of the Annual General Meeting on May 11, 2022.

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, as well as 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* periodicals, "Investor Days" (*Capital Markets Day*) or visits to operational sites to present the Group's activities and strategy in greater detail.

Thales also regularly exchanges information on its corporate social responsibility policy with the Socially Responsible Investor SRI community. These reports cover corporate social and environmental governance and international trade issues, especially regarding anti-corruption measures and control over the export of defense equipment and technologies as well as dual-use goods and technologies.

The first *Capital Market Day* dedicated to ESG (Environmental, Social, and Governance criteria) was held on October 5, 2021.

Finally, Thales also maintains an ongoing dialog with international financial analysts and institutional investors in order to provide them with information about the Group's business activities and strategy.

6.4.2.2 Provisional financial reporting calendar for 2022

28 April	Q1 2022 financial information
11 May	Annual General Meeting of Shareholders
22 July	H1 2022 consolidated results
26 October	Q3 2022 financial information

6.4.2.3 Contacts

Investor Relations Department

Carpe Diem Tower
31, place des Corolles – CS 20001
92098 Paris-La Défense – France
Phone: + 33 (0)1 57 77 89 02
e-mail: ir@thalesgroup.com

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 under 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/fr/investor/information-reglementee>).

6.4.3 Other market securities

As of December 31, 2021, seven of the Group's bonds are listed. Their amounts and main characteristics are shown in Note 6.2 of the consolidated financial statements, page 237.

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 electro-acoustics and radar technology, established.

1968

Birth of Thomson-CSF with the merger of CSF and the electronics business of Thomson-Brandt.

1982

Thomson-CSF nationalized.

1983

Sale of civil telecommunications business to Compagnie Générale d'Électricité (now Alcatel-Lucent).

1987

Sale of the medical imaging activities (CGR) to General Electric and establishment of SGS-Thomson by merging the semiconductor business with that of the Italian company SGS.

1989

Acquisition of the defense electronics business of the Philips group.

1997

Sale of the stake in SGS-Thomson (now STMicroelectronics).

1998

Thomson-CSF privatized; Alcatel and Groupe Industriel Marcel Dassault GIMD contribute assets and become shareholders. Creation of Alcatel Space, owned by Thomson-CSF (49%) and Alcatel (51%) and combining the space business of Alcatel, Aerospatiale, and Thomson-CSF.

1999

Acquisition of 100% of the capital of Sextant Avionique, a joint venture between Thomson-CSF and Aerospatiale (now Airbus Group) in avionics.

2000

Takeover of Racal electronics in the United Kingdom. Thomson-CSF is renamed Thales.

2001

Thales sells its stake in Alcatel Space.

2007

Acquisition of Alcatel-Lucent's Transport & Security, Space activities and sale to DCNS (now Naval Group) of the surface naval activities in France. At the same time, a 25% stake in DCNS (now Naval Group) was acquired from the French government.

2009

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

2011

Increase in the capital of DCNS (becomes Naval Group) up to 35%.

2014

Launch of the "Ambition 10" strategy.

2019

Gemalto acquisition completed on April 2, 2019.

2021

Announcement of the sale of the Transport business to Hitachi.

7

Financial statements

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7.1 Consolidated financial statements

7.1.1 Consolidated profit and loss account

(in € millions)	Notes	2021	2020 ^(a)
Sales	Note 2	16,192.0	15,371.0
Cost of sales		(12,158.9)	(11,791.2)
Research and development expenses		(1,026.9)	(942.9)
Marketing and selling expenses		(1,225.9)	(1,210.9)
General and administrative expenses		(545.0)	(526.7)
Restructuring costs	Note 10.3	(91.8)	(165.1)
Income from operations	Note 2	1,143.5	734.2
Disposal of assets, changes in scope of consolidation and other	Note 3.2	48.7	44.4
Impairment on non-current fixed assets	Note 4.1	—	(135.4)
Income of operating activities before share in net income of equity affiliates		1,192.2	643.2
Share in net income of equity affiliates	Note 5.1	103.6	45.0
Income of operating activities after share in net income of equity affiliates		1,295.8	688.2
Financial interests on gross debt		(54.1)	(62.3)
Financial interests on cash and cash equivalents		(2.5)	7.1
Interest expense, net	Note 6.1	(56.6)	(55.2)
Other financial expenses	Note 6.1	(52.8)	(77.4)
Finance costs on pensions and other employee benefits	Note 9.3	(21.9)	(41.5)
Income tax	Note 7.1	(147.7)	(64.5)
Net income relating to continued operations		1,016.8	449.6
Net income relating to discontinued operations	Note 1.4	117.6	42.3
NET INCOME		1,134.4	491.9
Shareholders of the parent company		1,088.8	483.4
Of which: net income relating to continued operations, Group share		971.1	440.6
Of which: net income relating to discontinued operations, Group share		117.7	42.8
Non-controlling interests		45.6	8.5
Basic earnings per share (in euros)	Note 8.2	5.12	2.27
Diluted earnings per share (in euros)	Note 8.2	5.11	2.27

(a) The comparative figures for 2020 have been recalculated due to the classification of the Transport operating segment as "discontinued operations" (Note 1.4).

Segment information (including EBIT calculation) is detailed in Note 2.3.

7.1.2 Consolidated statement of comprehensive income

(in € millions)		2021			2020 ^(a)		
		Group share	Non-controlling interests	Total	Group share	Non-controlling interests	Total
NET INCOME		1,088.8	45.6	1,134.4	483.4	8.5	491.9
Translation adjustments	Note 8.1	54.0	1.3	55.3	(96.9)	(2.5)	(99.4)
Cash flow hedge	Note 8.1	(101.8)	(4.6)	(106.4)	81.7	0.6	82.3
Equity affiliates	Note 5.1	11.9	—	11.9	(10.3)	—	(10.3)
Discontinued operations		(13.9)	—	(13.9)	28.3	—	28.3
Items that may be reclassified to income		(49.8)	(3.3)	(53.1)	2.8	(1.9)	0.9
Actuarial gains (losses) on pensions	Note 9.3	625.5	3.2	628.7	(567.5)	(5.0)	(572.5)
Financial assets at fair value		42.9	18.4	61.3	(55.8)	(22.5)	(78.3)
Deferred tax	Note 7.2	0.6	(0.7)	(0.1)	52.5	1.3	53.8
Equity affiliates	Note 5.1	11.5	—	11.5	(0.8)	—	(0.8)
Discontinued operations		62.2	—	62.2	(72.1)	—	(72.1)
Items that will not be reclassified to income		742.7	20.9	763.6	(643.7)	(26.2)	(669.9)
Other comprehensive income (loss) for the period net of tax		692.9	17.6	710.5	(640.9)	(28.1)	(669.0)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		1,781.7	63.2	1,844.9	(157.5)	(19.6)	(177.1)

(a) The comparative figures for 2020 have been recalculated due to the classification of the Transport operating segment as "discontinued operations" (Note 1.4).

7.1.3 Consolidated statement of changes in equity

(in € millions)	Number of shares outstanding (thousands)	Share capital	Additional paid-in capital	Retained earnings	Cash flow hedge	Cumulative translation adjustment	Treasury shares	Group share	Non-controlling interests	Total equity
AT 1ST JANUARY 2020 AS PUBLISHED	212,757	640.0	4,074.3	1,066.2	(94.1)	(180.7)	(56.5)	5,449.2	232.9	5,682.1
IAS 19 impact linked to IFRIC-1C decision (note 1.1)	–	–	–	27.5	–	–	–	27.5	1.5	29.0
AT 1ST JANUARY 2020 RESTATED	212,757	640.0	4,074.3	1,093.7	(94.1)	(180.7)	(56.5)	5,476.7	234.4	5,711.1
Net income	–	–	–	483.4	–	–	–	483.4	8.5	491.9
OCI – Controlled companies	–	–	–	(570.8)	81.7	(96.9)	–	(586.0)	(28.1)	(614.1)
OCI – Equity affiliates	–	–	–	(0.8)	11.6	(21.9)	–	(11.1)	–	(11.1)
OCI – Discontinued operations	–	–	–	(72.1)	12.2	16.1	–	(43.8)	–	(43.8)
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 paid by subsidiaries	–	–	–	–	–	–	–	–	(12.1)	(12.1)
Share-based payments	–	–	–	13.4	–	–	–	13.4	–	13.4
Acquisitions/disposals of treasury shares	63	–	–	(28.0)	–	–	179	(10.1)	–	(10.1)
Changes in scope	–	–	–	(50.3)	–	–	–	(50.3)	(2.3)	(52.6)
Other	–	–	–	(46.2)	–	0.2	–	(46.0)	(3.9)	(49.9)
AT 31 DECEMBER 2020	212,868	640.1	4,075.5	737.2	11.4	(283.2)	(38.6)	5,142.4	196.5	5,338.9
Net income	–	–	–	1,088.8	–	–	–	1,088.8	45.6	1,134.4
OCI – Controlled companies	–	–	–	669.0	(101.8)	54.0	–	621.2	17.6	638.8
OCI – Equity affiliates	–	–	–	11.5	(5.9)	17.8	–	23.4	–	23.4
OCI – Discontinued operations	–	–	–	62.2	(8.4)	(5.5)	–	48.3	–	48.3
Total comprehensive income for 2021	–	–	–	1,831.5	(116.1)	66.3	–	1,781.7	63.2	1,844.9
Employee share issues	45	0.1	1.1	–	–	–	–	1.2	–	1.2
Parent company dividend distribution	–	–	–	(417.0)	–	–	–	(417.0)	–	(417.0)
Third-party share in dividend paid by subsidiaries	–	–	–	–	–	–	–	–	(13.5)	(13.5)
Share-based payments	–	–	–	25.0	–	–	–	25.0	–	25.0
Acquisitions/disposals of treasury shares	5	–	–	(28.7)	–	–	0.9	(27.8)	–	(27.8)
Other	–	–	–	(25.4)	–	–	–	(25.4)	(1.8)	(27.2)
AT 31 DECEMBER 2021	212,918	640.2	4,076.6	2,122.6	(104.7)	(216.9)	(37.7)	6,480.1	244.4	6,724.5

Retained earnings include actuarial gains and losses on pension obligations amounting to -€2,773.8 million at end 2020 and -€2,066.8 million at end 2021.

7.1.4 Consolidated balance sheet

Assets

(in € millions)	Notes	31/12/21	31/12/20 ^(a)
Goodwill	Note 4.1	5,202.9	6,034.4
Other intangible assets, net	Note 4.2	1,951.0	2,284.5
Property, plant and equipment, net	Note 4.2	3,399.0	3,569.9
Investments in equity affiliates	Note 5	1,341.6	1,283.1
Non-consolidated investments	Note 6.4	138.3	90.7
Other non-current financial assets	Note 6.4	151.2	138.9
Non-current derivatives – assets	Note 6.6	4.0	13.0
Deferred tax assets	Note 7.3	949.2	958.8
NON-CURRENT ASSETS		13,137.2	14,373.3
Inventories and work in progress	Note 10.1	3,336.0	3,508.5
Contract assets	Note 10.2	2,477.6	2,935.2
Advances to suppliers	Note 10	411.0	433.9
Accounts, notes and other current receivables	Note 10.4	5,442.9	5,038.3
Current derivatives – assets	Note 6.6	99.7	254.2
Current tax receivable	Note 7.3	214.5	220.2
Current financial assets	Note 6.2	4.3	32.3
Cash and cash equivalents	Note 6.2	5,049.4	5,003.9
Assets held for sale	Note 1.4	2,668.2	–
CURRENT ASSETS		19,703.6	17,426.5
TOTAL ASSETS		32,840.8	31,799.8

(a) Restated to take into account IFRIC-IC agenda decision relating to IAS 19.

Equity and liabilities

(in € millions)	Notes	31/12/21	31/12/20 ^(a)
Capital, additional paid-in capital and other reserves		6,734.7	5,464.2
Cumulative translation adjustment		(216.9)	(283.2)
Treasury shares		(37.7)	(38.6)
Total attributable to shareholders of the parent company		6,480.1	5,142.4
Non-controlling interests		244.4	196.5
TOTAL EQUITY	Note 8.1	6,724.5	5,338.9
Long-term loans and borrowings	Note 6.2	4,602.4	5,209.7
Non-current derivatives – liabilities	Note 6.6	7.3	13.5
Pensions and other long-term employee benefits	Note 9.3	2,447.3	3,404.4
Deferred tax liabilities	Note 7.3	491.4	657.6
NON-CURRENT LIABILITIES		7,548.4	9,285.2
Contract liabilities	Note 10.2	7,068.5	6,453.5
Reserves for contingencies	Note 10.3	1,771.8	2,052.2
Accounts, notes and other current payables	Note 10.4	6,066.6	5,998.0
Current derivatives – liabilities	Note 6.6	234.1	134.0
Current tax receivable	Note 7.3	140.7	149.3
Short-term loans and borrowings	Note 6.2	1,319.0	2,388.7
Liabilities held for sale	Note 1.4	1,967.2	–
CURRENT LIABILITIES		18,567.9	17,175.7
TOTAL EQUITY AND LIABILITIES		32,840.8	31,799.8

(a) Restated to take into account IFRIC-IC agenda decision relating to IAS 19.

7.1.5 Consolidated statement of cash flows

(in € millions)	Notes	2021	2020 ^(a)
Net income		1,134.4	491.9
Deduct, net income related to discontinued operations		(117.6)	(42.3)
Net income related to continued operations		1,016.8	449.6
Add (deduct):			
Income tax expense (gain)		147.7	64.5
Net interest expenses		56.6	55.2
Share in net income of equity affiliates	Note 5.1	(103.6)	(45.0)
Dividends received from equity affiliates	Note 5.1	45.1	64.1
Depreciation and amortisation of PPE and intangible assets	Note 4.2	1,062.6	1,126.2
Impairment on non-current fixed assets	Note 4.1	–	135.4
Provisions for pensions and other employee benefits	Note 9.3	150.6	164.9
Loss (gain) on disposal of assets, change in scope of consolidation and other	Note 3.2	(48.7)	(44.4)
Provisions for restructuring, net	Note 10.3	(54.1)	58.7
Other items		70.8	7.5
Operating cash flows before working capital changes, interest and tax		2,343.8	2,036.7
Change in working capital and reserves for contingencies	Note 10	776.1	(486.6)
Cash contributions to pension plans and other long-term employee benefits, o.w.:	Note 9.3	(210.3)	(249.0)
• UK deficit payment		(98.7)	(94.6)
• Recurring contributions/benefits		(111.6)	(154.4)
Interest paid		(64.8)	(59.4)
Interest received		6.7	10.8
Income tax received		(144.8)	(97.1)
NET CASH FLOW FROM OPERATING ACTIVITIES RELATING TO CONTINUED ACTIVITIES	- I -	2,706.7	1,155.4
Acquisitions of property, plant and equipment and intangible assets	Note 4.2	(450.8)	(379.4)
Disposals of property, plant and equipment and intangible assets	Note 4.2	4.9	8.5
Net operating investments		(445.9)	(370.9)
Acquisitions of subsidiaries and affiliates	Note 6.3	(54.7)	(22.0)
Disposals of subsidiaries and affiliates	Note 6.3	2.2	21.6
Decrease (increase) in loans and non-current financial assets		(14.2)	23.5
Decrease (increase) in current financial assets		19.2	(24.6)
Net financial investments		(47.5)	(1.5)
NET CASH FLOW USED IN INVESTING ACTIVITIES RELATING TO CONTINUED OPERATIONS	- II -	(493.4)	(372.4)
Parent company dividend distribution	Note 8.1	(417.0)	(85.1)
Third party share in dividend distribution of subsidiaries		(13.5)	(12.1)
Purchase of treasury shares and exercise of share subscription options		(26.7)	(8.9)
Issuance of debt		51.1	2,279.3
Repayment of debt		(1,763.0)	(856.8)
NET CASH FLOW FROM FINANCING ACTIVITIES RELATING TO CONTINUED OPERATIONS	- III -	(2,169.1)	1,316.4
Effect of exchange rate changes and other relating to continued operations	- IV -	41.8	(42.3)
CHANGE IN CASH AND CASH EQUIVALENTS RELATING TO CONTINUED OPERATIONS	I+II+III+IV	86.0	2,057.1
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		5,003.9	2,931.4
Change in cash and cash equivalents relating to continued operations		86.0	2,057.1
Change in cash and cash equivalents relating to discontinued operations	Note 1.4	126.5	15.4
CASH AND CASH EQUIVALENTS AT END OF PERIOD		5,216.4	5,003.9
Contribution from discontinued operations at closing		167.0	
CASH AND CASH EQUIVALENTS RELATING TO CONTINUED OPERATIONS AT CLOSING		5,049.4	

(a) The comparative figures for 2020 have been recalculated due to the classification of the Transport operating segment as “discontinued operations” (Note 1.4).

The Group’s net debt position and variation are presented in Notes 6.2 and 6.3.

7.1.6 Notes to the consolidated financial statements

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

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Note 1. Accounting standards framework

Thales's consolidated financial statements for the year ending 31 December 2021 were approved and authorised for issue by its Board of Directors on 2 March 2022. 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 11 May 2022.

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 2021 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 2021 ⁽¹⁾.

These accounting policies, as described in Note 13, are similar to those applied by the Group for the year ending 31 December 2020.

The clarification provided by the IFRIC in April 2021 regarding the accounting for costs of configuring or customising the supplier's application in a Software as a Service agreement should have no significant impact on the consolidated financial statements. The analysis will be finalized by June 30, 2022.

Defined-benefit plans

In May 2021, the IFRS Interpretation Committee (IFRS IC) published a decision relating to the allocation of the costs of services associated with a defined benefit plan with the following characteristics:

- the definitive acquisition of the benefits is conditioned to the presence in the company at the time of retirement;
- the amount of benefits depends on seniority within the company; and
- this amount is capped at a specific number of consecutive years of service.

The application of IAS 19 as recommended by IFRS IC leads to the distribution of the projected rights, not over the duration of the presence of the employees in the company, but over the last years of acquisition of the rights, taking into account vesting levels when appropriate. In the consolidated financial statements, the impact of this decision must be considered as a change in accounting method.

For Thales Group, this interpretation leads to a reduction of the obligation relating to retirement benefits in France by €37.0 million (i.e. €29.0 million after tax) as of January 1, 2020. In accordance with the principles relating to changes in accounting method, the balance sheet as of January 1, 2020 has been amended accordingly.

Reform of benchmark interest rates

As a reminder, the second phase of the benchmark interest rate reform project (IFRS 9 and IFRS 7 amendments on financial instruments) is mandatory from 2021. The objective of this phase 2 is to treat the accounting impacts of the effective replacement of benchmarks. The application of phase 2 has no impact for the Group in the absence of any effective change in the benchmarks in the Group's contracts at 31 December 2021.

1.2 New standards mandatory after 31 December 2021

The texts adopted by the IASB and applicable after 31 December 2021 are not expected to have a significant impact on the Group. This is particularly true of the amendments to IAS 37 "Provisions, Contingent

Liabilities and Contingent Assets", as the Group's management rules are in line with the definition of the costs to be used to determine whether a contract is onerous..

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 2021		31 December 2020		31 December 2019	
	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
Australian dollar	1.5615	1.5783	1.5896	1.6567	1.5995	1.6079
Pound sterling	0.8403	0.8584	0.8990	0.8894	0.8508	0.8759
U.S. dollar	1.1326	1.1816	1.2271	1.1470	1.1234	1.1195

(1) Available at: https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002_en.

1.4 Classification of Transportation business as “discontinued operations”

On August 3, 2021, Thales entered into exclusive negotiations with Hitachi Rail in order to sell the global Transport business segment for an enterprise value of €1.66 billion.

The employee representatives of Thales and Hitachi Rail have been informed and consulted on this project in accordance with the legislation of the countries concerned.

The Sale and Purchase Agreement has been signed on 10 February 2022, in accordance with the time schedule initially agreed.

The transaction, subject to the usual regulatory and antitrust approvals, should take place in at the end of 2022 or at the beginning of 2023.

In accordance with IFRS 5 standard “Non-current assets held for sale and discontinued operations”, the Group has reclassified the financial statements of this business segment under “discontinued operations”.

The impact on the Group’s financial statements are as follows:

- Assets and liabilities held for sale are reported on dedicated lines in the balance sheet at the end of 2021, without reclassification of comparative information at the end of 2020. In accordance with IFRS 5, intra-group transactions remain eliminated;
- The 2021 net income of the Transport business is reported on a single line of the income statement under “Net income relating to discontinued operations”. The comparative figures for year 2020 have been restated in accordance with IFRS 5;
- In the consolidated statement of cash flows, net cash flows from operating, investing and financing activities correspond to cash flows relating to continued operations. The change in cash from the Transport business is reported on a separate line. The comparative figures for year 2020 have also been restated in accordance with IFRS 5.

Restatement of the 2020 consolidated profit and loss account and 2020 statement of cash-flows:

2020 (in € millions)	Before IFRS 5	IFRS 5 impact	After IFRS 5
Sales	16,988.9	(1,617.9)	15,371.0
Income from operations	817.6	(83.4)	734.2
Disposal of assets, changes in scope of consolidation and other	42.0	2.4	44.4
Impairment on non-current fixed assets	(135.4)	—	(135.4)
Share in net income of equity affiliates	44.3	0.7	45.0
Income of operating activities after share in net income of equity affiliates	768.5	(80.3)	688.2
Financial result	(186.3)	12.2	(174.1)
Income tax	(90.3)	25.8	(64.5)
Net income relating to continued operations	491.9	(42.3)	449.6
Net income relating to discontinued operations	—	42.3	42.3
Net income	491.9	—	491.9

2020 (in € millions)	Before IFRS 5	IFRS 5 impact	After IFRS 5
Net cash flow from operating activities	1,345.6	(190.2)	1,155.4
Net cash flow used in investing activities	(386.4)	14.0	(372.4)
Net cash flow from financing activities	1,197.3	119.1	1,316.4
Exchange rates and other	(84.0)	41.7	(42.3)
Change in cash and cash equivalents	2,072.5	(15.4)	2,057.1

Financial information relating to discontinued operations:

Profit and loss account	2021	2020
Sales	1,665.2	1,617.9
Income from operations	153.8	83.4
Disposal of assets, changes in scope of consolidation and other	(8.6)	(2.4)
Share in net income of equity affiliates	6.8	(0.7)
Financial result	5.3	(12.2)
Income tax	(39.6)	(25.8)
Net income	117.7	42.3

Sales correspond to the contribution of the Transport business to consolidated sales. Intra-group flows are not significant.

Income from operations excludes the Group's Corporate costs which will no longer be re-invoiced to the Transport business after the transaction (€17.7 million in 2020, €18.5 million in 2021). Net income relating to continued operations is reduced accordingly.

In accordance with IFRS 5 standard, the Group has stopped recognizing the depreciation and amortisation of the PPE and intangible assets of the

Transport business as from August 3, 2021, the date on which the criteria for classification as group to be sold have been met. The resulting impact in depreciation and amortisation amounts to €15.0 million before tax. This profit is excluded from the business segment's EBIT, and included under the line "**Disposal of assets, changes in scope of consolidation and other**".

In addition, this line mainly includes costs directly associated with the transaction (advisory fees, employee retention plans implemented as part of the transaction, carve-out costs, etc.).

Cash flow statement	2021	2020
Net cash flow from operating activities	171.9	190.2
Net cash flow used in investing activities	(19.8)	(14.0)
Net cash flow from financing activities	(23.4)	(119.1)
Exchange rates and other	(2.2)	(41.7)
Change in cash and cash equivalents	126.5	15.4

	2021	2020
Net cash flow from operating activities	171.9	190.2
Less: UK deficit payment	3.5	3.4
CAPEX	(19.6)	(16.0)
Operating free cash flow	155.8	177.6

Assets	31/12/21	Liabilities	31/12/21
Goodwill	879.8	Long-term loans and borrowings	59.8
PPE and intangible assets	165.7	Pensions	292.4
Other non-current assets	47.2	Other non-current liabilities	15.8
Deferred tax assets	49.5	Working capital – liabilities	1,561.2
Working capital – assets	1,359.3	Short-term loans and borrowings	38.1
Cash and cash equivalents	166.7		
Assets held for sale	2,668.2	Liabilities held for sale	1,967.3
Net cash	68.8		

As of December 31, 2021, the cumulative amount recognized in other comprehensive income that may be reclassified to income and relating to discontinued operations is:

- €-11.4 million for the translation adjustment;
- €-0.3 million for cash flow hedge.

Accumulated actuarial gains and losses relating to pension obligations amounted to €219.7 million.

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.

Risks induced by climate change

The judgments and estimates used by the Group to prepare the financial statements take into account the current assessment of risks induced by climate change, whether physical, regulatory, or related to customer expectations and sector commitments (see § 3.1.7).

Based on the analyses conducted as part of the Group's internal work on climate change, the Group has not identified any significant climate-related risk whose financial consequences would be likely to lead to a loss of value of its assets.

The Group is implementing action plans aimed at reducing operational CO₂ emissions, accelerating innovations and generalizing eco-design. Their impact on cash flow has been integrated into the business plans of the CGUs concerned. The Group's strategy for a low-carbon future is set out in detail in the extra-financial performance declaration (DPEF) included in the Universal Registration Document (see § 8.7).

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 **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, 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.

The Transportation business segment has been considered as a discontinued operation as from the date of the signature of the put option agreement with Hitachi Rail. Consequently, financial data of this segment are excluded from segment information.

2.2 Sales

2021	Aerospace	Defence & Security	Digital I&S	Other	Thales
Sales by destination:					
Europe	2,977.2	5,282.5	903.9	40.9	9,204.5
North America	576.4	488.7	874.5	12.0	1,951.6
Australia and New Zealand	42.5	897.0	54.3	–	993.8
Total mature markets	3,596.1	6,668.2	1,832.7	52.9	12,149.9
Emerging markets ^(a)	867.0	1,965.1	1,161.8	48.2	4,042.1
TOTAL	4,463.1	8,633.3	2,994.5	101.1	16,192.0
Revenue recognition method:					
Over time	2,981.6	7,170.9	615.5	62.4	10,830.4
At a point in time	1,481.5	1,462.4	2,379.0	38.7	5,361.6
TOTAL	4,463.1	8,633.3	2,994.5	101.1	16,192.0

2020 restated ^(b)	Aerospace	Defence & Security	Digital I&S	Other	Thales
Sales by destination:					
Europe	2,805.7	4,789.4	839.5	32.7	8,467.3
North America	528.0	497.9	856.0	5.2	1,887.1
Australia and New Zealand	40.8	835.9	67.1	–	943.8
Total mature markets	3,374.5	6,123.2	1,762.6	37.9	11,298.2
Emerging markets ^(a)	842.5	1,961.6	1,229.2	39.5	4,072.8
TOTAL	4,217.0	8,084.8	2,991.8	77.4	15,371.0
Revenue recognition method:					
Over time	2,653.6	6,635.4	704.0	41.8	10,034.8
At a point in time	1,563.4	1,449.4	2,287.8	35.6	5,336.2
TOTAL	4,217.0	8,084.8	2,991.8	77.4	15,371.0

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

(b) 2020 comparative data have been restated due to the classification of the Transportation business segment under “Discontinued operations” (note 1.4).

In 2021, the Group’s business is balanced between civilian customers for 49% and military customers for 51% (same as 2020).

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).

2021	Aerospace	Defence & Security	Digital I&S	Other	Thales
Order book – non-Group at 31/12	7,903.4	26,110.8	613.3	116.9	34,744.4
Order intake – non-Group	5,630.8	11,185.0	2,994.5	98.3	19,908.6
Sales – non-Group	4,463.1	8,633.3	2,994.5	101.1	16,192.0
Sales – intersegment	91.5	328.0	39.8	(459.3)	–
Total Sales	4,554.6	8,961.3	3,034.3	(358.2)	16,192.0
EBIT	202.1	1,111.5	357.5	(22.2)	1,648.9
• Of which, Naval Group	–	–	–	68.8	68.8
• Excluding Naval Group	202.1	1,111.5	357.5	(91.0)	1,580.1
Capital expenditures	89.7	163.9	97.4	99.8	450.8
Depreciation and amortisation, excluding PPA	128.0	170.6	120.6	279.8	699.0

2020 restated ^(a)	Aerospace	Defence & Security	Digital I&S	Other	Thales
Order book – non-Group at 31/12	6,590.7	23,245.3	588.8	87.2	30,512.0
Order intake – non-Group	3,821.8	9,922.5	3,022.9	57.0	16,824.2
Sales – non-Group	4,217.0	8,084.8	2,991.8	77.4	15,371.0
Sales – intersegment	94.8	286.0	25.5	(406.3)	–
Total Sales	4,311.8	8,370.8	3,017.3	(328.9)	15,371.0
EBIT	(76.2)	1,038.9	324.3	(38.7)	1,248.3
• Of which, Naval Group	–	–	–	21.6	21.6
• Excluding Naval Group	(76.2)	1,038.9	324.3	(60.3)	1,226.7
Capital expenditures	83.5	135.8	73.1	87.0	379.4
Depreciation and amortisation, excluding PPA	151.0	147.4	121.9	289.3	709.6

2020 comparative data have been restated due to the classification of the Transportation business segment under "Discontinued operations" (note 1.4).

Order book, order intake and sales included in the "Other" 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) are reallocated to business segments proportionally to their respective non-Group sales.

At the end of 2021, the order book stood at €34,744.4 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:

	2021	2020 ^(a)
Income from operations	1,143.5	734.2
Less, amortisation of acquisition-related assets (PPA):	372.1	435.4
• Intangible assets	340.6	393.6
• Property, plant and equipment	23.0	23.0
• Deferred revenues	8.6	18.8
Less, expenses directly linked to business combinations:	1.3	6.6
• Restructuring costs	0.7	5.0
• Other expenses	0.6	1.6
Share in net income of equity from affiliates	103.6	45.0
Less, PPA amortisation related to equity affiliates entities	28.4	27.1
EBIT	1,648.9	1,248.3

(a) 2020 comparative data have been restated due to the classification of the Transportation business segment under "Discontinued operations" (Note 1.4)

Note 3. Impact of changes in scope of consolidation

3.1 Main changes in scope of consolidation

At the beginning of December 2021, Thales acquired the Moog ground-based navigation aids business for an amount of 45 million US dollars. The activity has been consolidated in the Group's accounts since December 1, 2021.

Mid-November 2021, Thales announced entering into exclusive negotiations on the acquisition of RUAG International's Simulation & Training business. This transaction – which remains subject to the information and consultation process with employee representative bodies, to the authorization of the regulatory authorities and to the usual closing conditions – aims in particular to strengthen the Group's industrial presence in the Land Simulation & Training market.

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

	2021	2020
Disposal of investments	6.4	50.1
Acquisition-related fees (consultants, legal counsel...)	(9.1)	(5.4)
Disposal of real estate and other tangible and intangible assets	(2.2)	0.1
Impact of settlements/amendments to pensions plans (note 9)	4.4	(0.4)
Litigation ^(a)	49.2	–
TOTAL	48.7	44.4

(a) Compensation received as a result of a settlement agreement relating to a former dispute.

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):

	01/01/21	Acquisitions	Reclas-sification	Asset held for sale	Exchange rate & other	31/12/21
Avionics	365.7	—	—	—	0.2	365.9
Space	490.0	—	—	—	1.8	491.8
Transport	879.8	—	—	(879.8)	—	—
Secured Communications and Information Systems	652.0	—	62.4	—	7.0	721.4
Land and Air Systems	309.4	30.6	—	—	1.4	341.4
Defence Mission Systems	457.9	—	—	—	0.8	458.7
Digital Identity & Security	2,879.6	0	(62.4)	—	6.5	2,823.7
TOTAL	6,034.4	30.6	—	(879.8)	17.7	5,202.9

	01/01/20	Acquisitions	Disposals	Impairment	Exchange rate & other	31/12/20
Avionics	465.8	—	—	(98.2)	(1.9)	365.7
Space	490.6	—	—	—	(0.6)	490.0
Transport	879.8	—	—	—	—	879.8
Secured Communications and 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
Digital Identity & Security	2,727.0	165.6	—	—	(13.0)	2,879.6
TOTAL	5,981.5	165.6	—	(98.2)	(14.5)	6,034.4

"Acquisitions" column includes €169.9 million relating to the final purchase price allocation of Gemalto, leading to a definitive goodwill of €2,739.9 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. At the end of 2021, cash flows utilized for the tests came from the budget prepared for the following two years, established in accordance with Group procedures, and extended over the next year. These cash flows reflect management's best estimate of the medium-term consequences of the sanitary crisis in this specific case.

At the end of 2021, impairment tests were performed using a discount rate assumption of 8% (same as at the end of 2020) for all CGUs, the specific risks of the CGUs being taken into account in the projections. 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 2024.

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.

As a reminder, at December 31, 2020, goodwill and acquired intangible assets of the CGU IFE (on-board multimedia) had been fully impaired for €98.2 million and €37.3 million respectively.

4.2 Plant, property and equipment and other intangible assets

a) Change in net assets

	01/01/21	Acquisitions	Disposal	Depr. and amort.	Asset held for sale	Change in scope and exch. rate	31/12/21
Acquired Intangible assets	2,056.8	–	–	(340.6)	–	40.1	1,756.3
Capitalised development costs	51.8	13.8	–	(19.8)	(12.0)	1.5	35.3
Other	175.9	55.8	(0.1)	(74.5)	(3.5)	5.8	159.4
Intangible assets	2,284.5	69.6	(0.1)	(434.9)	(15.5)	47.4	1,951.0
Right-of-use from lease contracts	1,543.1	137.2	–	(205.5)	(71.7)	14.4	1,417.5
Acquired tangible assets	74.8	–	–	(23.0)	–	–	51.8
Property, plant and equipment	1,952.0	381.2	(4.8)	(399.2)	(39.8)	40.3	1,929.7
Tangible assets	3,569.9	518.4	(4.8)	(627.7)	(111.5)	54.7	3,399.0
TOTAL	5,854.4	588.0	(4.9)	(1,062.6)	(127.0)	102.1	5,350.0
Less, new lease contracts		(137.2)					
Operating investments^(a)		450.8					

	01/01/20	Acquisitions	Disposal	Depr. and amort.	Impairment	Change in scope and exch. rate	31/12/20
Acquired Intangible assets	2,561.0	–	–	(393.6)	(37.3)	(73.3)	2,056.8
Capitalised development costs	58.6	18.2	–	(28.7)	–	3.7	51.8
Other	190.8	51.2	(2.4)	(68.5)	–	4.8	175.9
Intangible assets	2,810.4	69.4	(2.4)	(490.8)	(37.3)	(64.8)	2,284.5
Right-of-use from lease contracts	1,650.9	154.4	–	(226.3)	–	(35.9)	1,543.1
Acquired tangible assets	97.7	–	–	(23.0)	–	0.1	74.8
Property, plant and equipment	2,081.8	310.0	(6.1)	(386.1)	–	(47.6)	1,952.0
Tangible assets	3,830.4	464.4	(6.1)	(635.4)	–	(83.4)	3,569.9
TOTAL	6,640.8	533.8	(8.5)	(1,126.2)	(37.3)	(148.2)	5,854.4
Less, new lease contracts		(154.4)					
Operating investments^(a)		379.4					

(a) Presented in the statement of cash-flows.

b) Breakdown by item

			31/12/21	31/12/20
	Gross	Depreciation	Net	Net
Technologies acquired	1,927.0	(994.5)	932.5	1,143.7
Customer relationships acquired	960.7	(351.0)	609.7	682.5
Order book acquired	109.7	(103.8)	5.9	7.8
Other intangible assets	395.5	(187.3)	208.2	222.8
Acquired intangible assets (business combinations)	3,392.9	(1,636.6)	1,756.3	2,056.8
Development costs	972.7	(937.4)	35.3	51.8
Other intangible assets	1,097.7	(938.3)	159.4	175.9
Intangible assets	5,463.3	(3,512.3)	1,951.0	2,284.5
Right of use from lease contracts	2,054.4	(636.9)	1,417.5	1,543.1
Land	57.6	(1.1)	56.5	62.3
Buildings	2,233.3	(1,489.2)	744.1	773.8
Technical facilities, industrial equipment and tooling	3,578.1	(2,787.6)	790.5	776.9
Other property, plant and equipment	1,203.1	(812.7)	390.4	413.8
Property, plant and equipment	9,126.5	(5,727.5)	3,399.0	3,569.9

Note 5. Investments in equity affiliates

5.1 Change in investment in equity affiliates

	31/12/21	31/12/20
Investment at opening	1,283.1	1,333.1
Less: investments from discontinued activities	(37.3)	(44.7)
Share in net income of equity affiliates	103.6	45.0
Translation adjustment	17.8	(21.9)
Cash flow hedge	(5.9)	11.6
Actuarial gains (losses) on pensions	11.5	(0.8)
Share in comprehensive income of equity affiliates	127.0	33.9
Dividends paid	(45.1)	(64.1)
Change in scope and other	13.9	(12.4)
Reclassification of discontinued activities ^(a)	—	37.3
Investments at closing	1,341.6	1,283.1
<i>Including Naval Group</i>	<i>763.9</i>	<i>715.1</i>

(a) IFRS 5 accounting principles requiring not to restate balance sheet at 31.12.20.

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:

Balance sheet (100% interest)	31/12/21	31/12/20
Non-current assets	1,937.4	2,253.0
Current assets	4,438.6	4,406.1
Total assets	6,376.0	6,659.1
Restated equity, attributable to shareholders	1,348.2	1,208.7
Non-controlling interests	0.5	0.5
Non-current liabilities	433.3	558.7
Current liabilities	4,594.0	4,891.2
Total equity and liability	6,376.0	6,659.1
Net cash	1,760.1	1,628.5

Thales share	31/12/21	31/12/20
Thales' share (35%)	471.9	423.1
Goodwill	292.0	292.0
Share in net assets	763.9	715.1

Income statement (100% interest)	2021	2020
Sales	4,052.9	3,320.3
Income (loss) from operating activities, after share in net income of equity affiliates	186.7	(25.8)
Financial income (loss)	(5.1)	(2.2)
Tax	(47.3)	24.0
Discontinued activities	(14.8)	(12.6)
Restated net income	119.5	(16.5)
<ul style="list-style-type: none"> • Of which, attributable to shareholders of the company • Of which, attributable to non-controlling interests 	119.6 (0.1)	(11.7) (4.8)

Thales share	2021	2020
Thales' share in net income attributable to shareholders of the company	41.8	(4.1)
<ul style="list-style-type: none"> • Of which, PPA amortisation 	(27.0)	(25.7)
Share in net income, before PPA	68.8	21.6
Dividends received from Naval Group	—	16.6

5.3 Commitments and related parties

a) Commitments toward equity affiliates

At 31 December 2021, outstanding sureties, endorsements and guarantees granted by Thales S.A. (parent company) in support to its joint ventures amounted to €246.8 million (€395.5 million at 31 December 2020). 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 equity affiliates is as follows:

	2021	2020
Sales	376.2	345.1
Purchases	166.4	130.5
Loans and current accounts receivables	44.0	54.9
Borrowings and current accounts payables	6.3	2.6

Note 6. Financing and financial instruments

6.1 Financial income

a) Net interest income

	2021	2020
Financial interests related to lease contracts	(22.6)	(25.2)
Other interest expense:	(31.5)	(37.1)
• from financial gross debt	(25.5)	(27.8)
• from interest rate swaps	(6.0)	(9.3)
Interest income on cash and cash equivalents	(2.5)	7.1
TOTAL	(56.6)	(55.2)

b) Other financial income

	2021	2020
Foreign exchange gains (losses)	(6.9)	(21.3)
Cash flow hedges, ineffective portion	(1.0)	(2.2)
Change in fair value of derivatives ^(a)	(31.5)	(48.7)
Other	(13.4)	(5.2)
TOTAL	(52.8)	(77.4)

(a) This amount mainly includes the change in the fair value of swap points (- €30.9 million in 2021, - €39.6 million in 2020).

6.2 Net cash (net debt)

Group net cash (debt) is as follows:

	31/12/21	31/12/20
Current financial assets	4.3	32.3
Cash and cash equivalents	5,049.4	5,003.9
Cash and other short-term investments^(a)	5,053.7	5,036.2
Financial debt	4,402.0	5,947.9
Lease debt	1,515.5	1,637.5
Gross debt^{(b)*}	5,917.5	7,585.4
Net cash relating to discontinued operations^{(c)**}	68.8	—
NET CASH (A-B+C)	(795.0)	(2,549.2)
* Including:		
Long term financial debt	4,602.4	5,209.7
Short term financial debt	1,319.0	2,388.7
Fair value of interest rate hedging derivatives	(4.0)	(13.0)

** At the end of 2020, net cash relating to discontinued operations is not reclassified, IFRS 5 requiring not to restate prior year balance sheet.

a) Current financial assets

	31/12/21	31/12/20
Current accounts receivable with related parties	4.2	32.2
Accrued interests	0.1	0.1
CURRENT FINANCIAL ASSETS	4.3	32.3

b) Cash and cash equivalents

At 31 December 2021, cash recorded under consolidated assets amounted to €5,049.4 million (€5,003.9 million at 31 December 2020) and included:

- €4,271.4 million held by the parent company and available for immediate use (€4,095.4 million in 2020). These amounts include €3,406.0 million (€2,870.9 million in 2020) in very short-term deposits with tier-one banks or money market funds (UCITS);
- €778.0 million in the credit balances of subsidiaries (€908.5 million in 2020), 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) Financial debt

	31/12/21	31/12/20
Bond issues	3,800.0	4,486.7
Treasury bills	531.5	1,196.4
Term loan	—	80.0
Current accounts in credit with related parties	45.6	150.9
Bank overdrafts	12.9	14.3
Accrued interests and other debts	12.0	19.6
FINANCIAL DEBT	4,402.0	5,947.9

In addition, the €800 million bank bridge loan, undrawn at December 31, 2020, matured in April 2021.

At 31 December 2021 the Group has a €1,500 million syndicated credit line which expires in December 2026, with the possibility of extension until December 2028. This credit line does not include an early repayment clause.

Bonds issues at 31 December 2021

Nominal value	Issue date	Maturity	Type of rate	Coupon	Effective rate	
					Before hedging	After hedging
500 M€	May 2019	May 2022	fixed	0.00%	0.02%	0.02%
600 M€	June 2016	June 2023	fixed	0.75%	0.84%	0.98%
500 M€	April 2018	April 2024	fixed	0.88%	0.94%	1.11%
500 M€	Jan. 2018	Jan. 2025	fixed	0.75%	0.91%	0.91%
500 M€	Nov. 2020	March 2026	fixed	0.00%	0.08%	0.08%
500 M€	Jan. 2020	Jan. 2027	fixed	0.25%	0.33%	0.33%
700 M€	May 2020	May 2028	fixed	1.00%	1.10%	1.10%

Financial debt by maturity

31/12/21	Total	Maturity				
		2022	2023	2024	2025	>2025
Financial debt ^(a)	4,402.0	1,111.4	600.2	499.7	498.3	1,692.4
Contractual cash flows	4,488.7	1,111.0	623.9	517.3	512.6	1,723.9

31/12/20	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

(a) discounted.

Financial debt by currency

	31/12/21	31/12/20
Euro	4,393.0	5,937.5
US Dollar	2.0	3.8
Others	7.0	6.6
TOTAL	4,402.0	5,947.9

Change in financial debt

	01/01/21	Cash flow	Other changes			31/12/21
			Scope	Exchange rates	Other	
Financial debt	5,947.9	(1,508.9)	(4.6)	(9.8)	(22.6)	4,402.0

	01/01/20	Cash flow	Other changes			31/12/20
			Scope	Exchange rates	Other	
Financial debt	4,533.2	1,617.4	(108.4)	(35.4)	(58.9)	5,947.9

The “cash flow” column includes the repayment of the bonds maturing in March and September 2021, as well as a portion of treasury bills.

The “other” column includes issuance costs for new bonds, changes in the value of derivatives used to hedge bonds and changes in the value of debt on acquisition of subsidiaries.

d) Lease debt

Change in lease debt

	01/01/21	Cash flow ^(a)	Other changes			31/12/21
			Scope	Exchange rates and other	New debt ^(b)	
Lease debt	1,637.5	(203.0)	(75.5)	19.3	137.2	1,515.5

	01/01/20	Cash flow ^(a)	Other changes			31/12/20
			Scope	Exchange rates and other	New debt ^(b)	
Lease debt	1,724.7	(194.9)	(21.3)	(25.4)	154.4	1,637.5

(a) Share of lease payments corresponding to the repayment of lease debt.

(b) New lease contracts signed during the year and impact of the renegotiation of existing leases.

Debt maturity

31/12/21	Total	Maturity				
		2022	2023	2024	2025	>2025
Lease debt	1,515.5	207.7	197.0	178.7	154.5	777.6

31/12/20	Total	Maturity				
		2021	2022	2023	2024	>2024
Lease debt	1,637.5	224.9	207.7	190.6	156.2	858.1

6.3 Changes in net debt

	2021	2020
Net debt at opening	(2,549.2)	(3,310.6)
Net cash flow from operating activities	2,706.7	1,155.4
Less, contributions to reduction of UK pension deficit	98.7	94.6
Net operating investments	(445.9)	(370.9)
Free operating cash flow relating to continued operations	2,359.5	879.1
Acquisitions of subsidiaries and affiliates	(54.7)	(22.0)
Disposals of subsidiaries and affiliates	2.2	21.6
Contributions to reduction of UK pension deficit	(98.7)	(94.6)
Changes in loans	(14.2)	23.5
Dividends paid by the parent company	(417.0)	(85.1)
Third-party share in dividend distributions of subsidiaries	(13.5)	(12.1)
Treasury shares and subscription options exercised	(26.7)	(8.9)
New lease debts	(137.2)	(154.4)
Changes in exchange rates and other	30.8	46.6
Change in net cash (debt) relating to continued operations	1,630.5	593.7
Change in net cash (debt) relating to discontinued operations	123.7	167.7
Net debt at closing	(795.0)	(2,549.2)

6.4 Non-current financial assets

a) Non-consolidated investments

Non-consolidated investments amounted to €138.3 million at the end of 2021 compared to €90.7 million at the end of 2020, an increase of €47.6 million over the year, of which €54.6 million was due to changes in the value of foreign investments. At the end of 2021, this item is composed of individually non material investments.

b) Non-current financial assets

	31/12/21	31/12/20
Loans to related parties	50.3	53.6
Loans to employees in the context of share purchase plan	10.7	–
Loans and other financial assets at amortised cost	61.9	54.1
Loans and other financial assets at market value	46.5	37.4
Gross value	169.4	145.1
Impairment	(18.2)	(6.2)
Net	151.2	138.9

6.5 Summary of financial assets and liabilities

At end 2021, the classification of financial assets and liabilities remained identical to the one disclosed at end 2020.

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.

			Fair value through:		31/12/21		31/12/20	
	At amortised cost	Profit or loss	Equity	Equity with P&L reclass.	Accounting value	Fair value	Accounting value	Fair value
Non-current financial assets:								
Non-consolidated investments	—	—	138.3	—	138.3	138.3	90.7	90.7
Non-current loans and financial assets	113.1	38.1	—	—	151.2	151.2	138.9	138.9
Derivatives documented as hedges	—	4.0	—	—	4.0	4.0	13.0	13.0
Current financial assets:								
Derivatives documented as hedges	—	—	—	99.7	99.7	99.7	254.2	254.2
Derivatives not documented as hedges	—	—	—	—	—	—	—	—
Current financial assets	4.3	—	—	—	4.3	4.3	32.3	32.3
Cash and cash equivalents	1,643.4	3,406.0	—	—	5,049.4	5,049.4	5,003.9	5,003.9
Non-current financial liabilities:								
Long-term debt	4,598.3	—	—	4.1	4,602.4	4,638.9	5,209.7	5,294.8
Derivative documented as hedges	—	—	—	7.3	7.3	7.3	13.5	13.5
Current financial liabilities:								
Derivatives documented as hedges	—	—	—	227.7	227.7	227.7	133.8	133.8
Derivatives not documented as hedges	—	6.4	—	—	6.4	6.4	0.2	0.2
Short-term debt	1,319.0	—	—	—	1,319.0	1,319.8	2,388.7	2,394.5

IFRS 13 requires a hierarchy of valuation techniques for each financial asset and liability. The categories are defined as follows:

- 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.

	31/12/21		31/12/20	
	Assets	Liabilities	Assets	Liabilities
Non-current derivatives:				
• Interest-rate derivatives	4.0	7.3	13.0	13.5
Current derivatives:				
• Foreign exchange derivatives	99.7	234.1	254.2	134.0
• Interest-rate derivatives	–	–	–	–
Foreign exchange derivatives, net	(134.4)		120.2	
Interest-rate derivatives, net	(3.3)		(0.5)	

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 2021 and 2020, the amount of derivatives in the portfolio can be analysed as follows:

	31/12/21					31/12/20	
	Nominal value				Market value	Nominal value	Market value
	USD	GBP	Other	Total			
Negotiations and trade operations hedges							
Documented as hedges							
Forward currency sales	3,191.7	1,032.4	1,848.2	6,072.3	(98.3)	6,003.7	89.1
Forward currency purchases	1,103.5	945.3	1,846.7	3,895.5		3,585.3	
Currency sales (call and put options)	–	–	–	–	–	33.9	5.0
Currency purchases (call and put options)	44.2	–	–	44.2		156.1	
Not documented as hedges							
Currency sales (call and put options)	23.6	10.1	4.6	38.3	0.4	50.0	0.8
Currency purchases (call and put options)	11.9	–	24.6	36.5		208.9	
Hedges related to cash pooling (documented as hedges)							
Currency sales: currency swaps	554.0	–	246.0	800.0	1.1	974.2	28.7
Currency purchases: currency swaps	84.0	434.4	435.0	953.4		718.8	
Hedges related to net investments in foreign operations (hedge accounting)							
Currency sales: currency swaps	635.7	–	–	635.7	(31.0)	590.3	(3.7)
Currency purchases: currency swaps	–	622.7	–	622.7		586.0	
Hedges related to net investments in foreign operations (not documented as hedges)							
Currency sales: currency swaps	166.3	–	–	166.3	(6.5)	10.2	0.3
Currency purchases: currency swaps	–	131.1	–	131.1		10.4	
NET ASSETS (LIABILITIES)					(134.3)		120.2

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 €100 million at 31 December 2021 and €75 million at 31 December 2020.

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 2021, as at 31 December 2020.

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:

	31/12/21		31/12/20	
	Nominal	Market value	Nominal	Market value
Fair value hedge (swaps with variable rate payables):				
• swaps related to bond maturing in 2023	400,0	4.0	400.0	7.9
• swaps related to bond maturing in 2021	–	–	300.0	5.1
		4.0		13.0
Cash flow hedge (swaps with fixed rate payables):				
• swaps related to bond maturing in 2023	400,0	(5.7)	400.0	(10.4)
• swaps related to bond maturing in 2021	–	–	300.0	(1.0)
• pre-hedging swap related to bond maturing in 2024 ^(a)		(1.6)	–	(2.1)
		(7.3)		(13.5)
Swaps not documented as hedges:				
• swap with fixed-rate payable, hedging a loan	0.9		1.2	–
NET ASSETS		(3.3)		(0.5)

(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.

31/12/21	< 1 year		> 1 year		Total	
	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate
Financial debt	(1,047.6)	(63.8)	(3,286.3)	(4.3)	(4,333.9)	(68.1)
Financial assets, cash and cash equivalents	–	5,053.7	–	–	–	5,053.7
NET EXPOSURE BEFORE IMPACT OF DERIVATIVE INSTRUMENTS	(1,047.6)	4,989.9	(3,286.3)	(4.3)	(4,333.9)	4,985.6
Hedging derivatives	–	–	–	–	–	–
NET EXPOSURE AFTER IMPACT OF DERIVATIVE INSTRUMENTS	(1,047.6)	4,989.9	(3,286.3)	(4.3)	(4,333.9)	4,985.6

31/12/20	< 1 year		> 1 year		Total	
	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate
Financial debt	(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

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 €40.2 million in 2021 (€29.9 million in 2020).

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.

In 2021, only three customers accounted for annual sales in excess of €500 million: the French government (around €3.5 billion), the Australian

government (around €0.8 billion), and the UK government (around €0.6 billion).

At 31 December 2021, these three countries had first-class or high-quality ratings (France: AA by S&P Global Ratings and Aa2 by Moody's; Australia: AAA by S&P Global Ratings and Aaa by Moody's; the United Kingdom: AA by S&P Global Ratings and Aa3 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 2021 and 2020, the ageing of these accounts and notes receivable is as follows:

31/12/21	Total	Receivables past due:		
		Less than 3 months	3 to 6 months	More than 6 months
Overdue receivables not subject to provision				
TOTAL	928.3	661.2	97.7	169.4

31/12/20	Total	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

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.

31/12/21	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	103.7	–	103.7	(97.0)	–	6.7
Derivatives – Liabilities	241.4	–	241.4	(97.0)	–	144.4

31/12/20	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

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, 2021, amounting to €1,500 million and maturing in 2026;

- as well as a commercial paper program (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, tax consolidation in USA, and *Organschaft* rules in Germany.

7.1 Income tax expense

	2021	2020
Current tax	(304.2)	(157.2)
Deferred tax	156.4	92.7
TOTAL	(147.8)	(64.5)

Reconciliation between theoretical and actual tax expense

	2021	2020
Net income	1,134.4	491.9
Less: net income of discontinued activities	(117.6)	(42.3)
Less: share in net income of equity affiliates	(103.6)	(45.0)
Less: income tax	147.7	64.5
Net income before tax and share in net income of equity affiliates	1,060.9	469.1
Theoretical average tax rate	26.6%	27.2%
Theoretical tax benefit (expense)	(282.2)	(127.7)
Reconciliation items:		
• Impact of tax credits	70.0	65.7
• Effect of the change of law in Italy	44.0	—
• Impact of reduced tax rates	13.1	18.3
• Taxes not taken into account in the theoretical rate	(10.1)	(0.8)
• Impact of dividends paid	(8.2)	(1.2)
• Impact of tax rates changes on deferred tax	(9.2)	(23.8)
• Change in provision for deferred tax assets	12.4	(2.0)
• Adjustments in respect of prior periods	1.2	(1.4)
• Other	21.2	8.4
Income tax benefit (expense) recognised in profit and loss	(147.8)	(64.5)
Effective tax rate	13.9%	13.7%

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 28.41%, represented almost 65% of income before tax in 2021 (55% in 2020 with a tax rate of 32.02%).

The impact of tax credits includes:

- the impact of tax exemption on research tax credits (186.9€ million in 2021, €176.8 million in 2020);

- the tax advantages related to research that are recognised in income tax (notably in the United States, Australia and the Netherlands).

The line "effect of the change of law in Italy" corresponds to a tax measure voted in Italy allowing the revaluation of certain assets in order to amortise them for tax purposes in return for a flat tax of 3%.

"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

Fully consolidated entities	2021		2020	
	Base	Tax	Base	Tax
Translation of the financial statements of foreign subsidiaries	55.3	—	(99.4)	—
Cash flow hedges	(140.8)	34.4	120.4	(38.1)
Other items reclassified to income	(85.5)	34.4	21.0	(38.1)
Actuarial gains and losses/pensions – United Kingdom	539.3	19.8	(420.3)	16.0
Actuarial gains and losses/pensions – Other countries	89.4	(19.9)	(152.2)	37.8
Other items not reclassified to income	628.7	(0.1)	(572.5)	53.8
Treasury shares and share-based payment	—	1.4	—	2.3
TOTAL DEFERRED TAX RECOGNISED IN EQUITY DURING THE YEAR		35.7		18.0

7.3 Tax assets and liabilities presented on the balance sheet

	01/01/21	Income (expense)	Equity	Cash flow	Scope & exch. rates	Other	31/12/21
Current income tax assets	220.2	(40.9)	–	64.1	(28.9)	–	214.5
Current income tax liabilities	(149.3)	(263.3)	–	80.7	55.1	136.1	(140.7)
Current income tax, net	70.9	(304.2)	–	144.8	26.2	136.1	73.8
Deferred tax assets	958.8	(16.1)	35.7	–	(29.2)	–	949.2
Deferred tax liabilities	(657.6)	172.5	–	–	(6.3)	–	(491.4)
Deferred tax, net	301.2	156.4	35.7	–	(35.5)	–	457.8
TOTAL		(147.8)	35.7	144.8			

	01/01/20	Income (expense)	Equity	Cash flow	Scope & exch. rates	Other	31/12/20
Current income tax assets	212.6	(21.3)	–	38.3	(9.4)	–	220.2
Current income tax liabilities	(184.5)	(135.9)	–	58.8	5.3	107.0	(149.3)
Current income tax, net	28.1	(157.2)	–	97.1	(4.1)	107.0	70.9
Deferred tax assets	994.1	(11.8)	18.0	–	(21.8)	(19.7)	958.8
Deferred tax liabilities	(783.3)	104.5	–	–	12.9	8.3	(657.6)
Deferred tax, net	210.8	92.7	18.0	–	(8.9)	(11.4)	301.2
TOTAL		(64.5)	18.0	97.1			

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

	01/01/21	(Expense)/ Income for the period	Equity	Scope & exch. rates	31/12/21
Temporary differences:	836.6	89.1	(91.0)	41.9	876.6
• pensions and similar benefits	703.8	(139.4)	(125.4)	113.0	552.0
• intangible assets	(517.1)	130.9		2.3	(383.9)
• provisions on contract	271.8	(5.7)		(46.8)	219.3
• other	378.1	103.3	34.4	(26.6)	489.2
Tax loss carry-forwards	612.8	54.9		(27.6)	640.1
Total before depreciation	1,449.4	144.0	(91.0)	14.3	1,516.7
Depreciation	(1,148.2)	12.4	126.7	(49.8)	(1,058.9)
Total net deferred tax assets	301.2	156.4	35.7	(35.5)	457.8

	01/01/20	(Expense)/ Income for the period	Equity	Scope & exch. rates	31/12/20
Temporary differences:	496.4	(46.1)	110.0	276.3	836.6
• pensions and similar benefits	573.8	(16.9)	146.4	0.5	703.8
• intangible assets	(693.4)	138.7		37.6	(517.1)
• provisions on contract	264.4	(27.2)		34.6	271.8
• other	351.6	(140.7)	(36.4)	203.6	378.1
Tax loss carry-forwards	484.6	140.8		(12.6)	612.8
Total before depreciation	981.0	94.7	110.0	263.7	1,449.4
Depreciation	(770.3)	(2.0)	(92.0)	(283.9)	(1,148.2)
Total net deferred tax assets	210.7	92.7	18.0	(20.2)	301.2

Tax loss carry-forwards

Total tax loss carry-forwards represent a potential tax saving of €640.1 million at 31 December 2021 (€612.8 million at 31 December 2020). The corresponding expiry dates are as follows:

	31/12/21		31/12/20
2022	5.9	2021	3.4
2023/2026	4.0	2022/2025	5.1
Beyond 2026	37.8	Beyond 2025	59.8
Not time limited	592.4	Not time limited	544.5
Total	640.1	Total	612.8
O/w, depreciated	(605.0)	O/w, depreciated	(568.8)
Net deferred tax asset	35.1	Net deferred tax asset	44.0

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 2021, the share capital of Thales parent company amounted to €640,233,937 and comprised 213,411,309 shares with a par value of €3, compared with 213,365,958 shares at 31 December 2020. This represents an increase of 45,351 shares resulting from the exercise of share subscription options.

b) Outstanding securities giving access to the share capital

At 31st December 2021, 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 493,175 of its own shares at 31 December 2021. They were accounted for as a deduction from equity for an amount of €(37.7) 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 2020 and 2021:

	2021	2020
Treasury shares at opening	497,596	560,866
Purchases as part of a liquidity agreement	1,413,610	1,310,502
Disposals as part of a liquidity agreement	(1,494,365)	(1,285,002)
Transfer to employees as part of the employee share purchase plan	(563,536)	(42,645)
Delivery of free shares	(150,130)	(226,125)
Market purchases	790,000	180,000
Treasury shares at closing	493,175	497,596

At 31 December 2021 and 2020, as part of the liquidity agreement managed by Kepler Cheuvreux, the following numbers of shares were held in the liquidity account:

	2021	2020
Number of shares at 31 December	119,745	200,500
Value (€ million)	8,7	13

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:

	2021	2020
Translation adjustments at 1 January	(283.2)	(180.7)
Changes in value	66.3	(102.7)
Reclassified to profit and loss	—	—
Gross change	66.3	(102.7)
Deferred tax	—	—
Scope and other	—	0.2
Translation adjustments at 31 December	(216.9)	(283.2)

e) Reserves for cash flow hedge

The Group uses derivatives to hedge against changes in the value of future cash flows. 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.

	2021	2020
Cash flow hedge at 1 January	11.4	(94.1)
Changes in value of derivatives	(79.9)	69.0
Reclassified to operating (income)/expense	(50.0)	53.1
Reclassified to income tax (benefit)/expense	13.8	(16.5)
Changes in scope and exchange rates	–	(0.1)
Cash flow hedge at 31 December	(104.7)	11.4

A negative balance at closing means that the exchange rates and interest rates of the derivative documented as hedges are generally less favorable than the rates prevailing at the closing date.

f) Parent company dividend distribution

The per share dividend amounted to €0.60 in 2019 and €1.76 in 2020.

On 2 March 2022, the Board of Directors decided to propose to shareholders, who will be convened to a General Meeting on 11 May 2022, the payment of a dividend of €2.56 per share for the year 2021.

If approved, the ex-dividend date will be 17 May 2022 and the payment date will be 19 May 2022. The dividend will be paid fully in cash and will amount to €1.96 per share, after deducting the interim dividend of €0.60 per share paid in December 2021.

Dividends paid in 2020 and 2021 are described below:

Year	Approved by	Description	Dividend per share (in euro)	Payment date	Payment method	Total (€ million)
2021	Board of Directors on 30 September 2021	2021 interim dividend	€0.60	Dec. 2021	cash	127.4
	General Meeting on 6 May 2021	Balance for 2020	€1.36	May 2021	cash	289.6
	Total dividends paid in 2021					417.0
2020	Board of Directors on 30 September 2020	2020 interim dividend	€0.40	Dec. 2020	cash	85.1
	General Meeting on 6 May 2020	Balance for 2019	–		none	
	Total dividends paid in 2020					85.1
2019	Board of Directors on 25 September 2019	2019 interim dividend	€0.60	Dec. 2019	cash	127.3

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.

		2021	2020
Numerator (in € million):			
Net income, Group share	(A)	1,088.8	483.4
<i>Of which: net income relating to continued operations, Group share</i>		971.1	440.6
Denominator (in thousands):			
Average number of shares outstanding	(B)	212,852	212,704
Share subscription and share purchase options ^(a)		15	44
Free shares and units plans ^(b)		218	140
Diluted average number of shares outstanding	(C)	213,085	212,888
Net earnings per share (in euros)	(A)/(B)	5.12	2.27
<i>Of which: basic earnings relating to continued operations, per share</i>		4.6	2.07
Diluted net earnings per share (in euros)	(A)/(C)	5.11	2.27
<i>Of which: diluted earnings relating to continued operations, per share</i>		4.6	2.07
Average share price		€81.44	€74.58

- (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 2021, Thales's headcount stood at 81,098 – including Transportation business – compared to 80,702 at end 2020. Three-quarters of the headcount comprises employees with grades equivalent to engineer, specialist or manager.

9.2 Personnel expenses (including Transportation business)

	2021	2020
Wages and salaries and payroll taxes ^(a)	(7,708.1)	(7,403.9)
Share-based payments (Note 9.4)	(39.4)	(15.3)
TOTAL	(7,747.5)	(7,419.2)

- (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.

b) Provisions recognised on the balance sheet

	2021	2020
Provision at opening	(3,404.4)	(2,945.2)
Impact of IAS 19 interpretation (Note 1.1)	—	37.0
Provision at opening corrected	(3,404.4)	(2,908.2)
Less: provision at opening relating to discontinued activities	345.6	269.5
Current service cost (income from operations)	(133.0)	(123.0)
Amendments and settlements (non recurring operating income)	4.3	(0.4)
Net interest cost	(24.5)	(31.7)
Pension fund management cost	(5.7)	(5.4)
Actuarial gains and losses on other long-term employee benefits	8.3	(4.4)
Finance costs on pensions and other long-term employee benefits	(21.9)	(41.5)
Total expense for the period	(150.6)	(164.9)
Actuarial gains and losses (other comprehensive income)^(a)	628.7	(572.5)
Benefits and contributions	210.3	249.0
• Of which, deficit payment in the United Kingdom	98.7	94.6
• Of which, other benefits and contributions	111.6	154.4
Translation adjustment	(84.5)	62.4
Changes in scope of consolidation and other	7.6	5.9
Reclassification relating to discontinued activities^(b)	—	(345.6)
Provision at closing	(2,447.3)	(3,404.4)
Of which:		
• post-employment benefits	(2,206.3)	(3,139.1)
• other long-term benefits	(241.0)	(265.3)

(a) Mainly due to the change in actuarial rates, especially in United Kingdom.

(b) IFRS 5 accounting principles requiring not to restate balance sheet at 31.12.20.

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.

c) Changes in defined benefit obligations and plans assets

2021	UK	France	Other	Total
Obligation at 1 January	(5,114.5)	(1,511.4)	(831.6)	(7,457.5)
Less: obligation relating to discontinued activities	529.3	279	246.2	803.4
Current service cost	(24.6)	(89.6)	(18.8)	(133.0)
Interest cost	(62.4)	(5.0)	(3.2)	(70.6)
Plan participant contributions	(7.6)	—	(1.3)	(8.9)
Amendments/settlements	—	(0.7)	5.0	4.3
Experience gains (losses)	67.3	(9.6)	6.3	64.0
Actuarial gains (losses)/financial assumptions	174.4	71.9	5.6	251.9
Actuarial gains (losses)/mortality assumptions	120.1	0.1	6.1	126.3
Actuarial gains (losses) on long-term benefits	—	4.3	4.0	8.3
Benefits paid by plan assets	161.9	2.9	17.5	182.3
Benefits paid by employer	0.7	110.0	22.4	133.1
Changes in scope, exchange rates and other	(309.9)	5.1	(10.4)	(315.2)
Obligation at 31 December	(4,465.3)	(1,394.1)	(552.2)	(6,411.6)
Plan assets at 1 January	3,612.2	155.1	285.8	4,053.1
Less: plan assets relating to discontinued activities	(359.6)	(1.6)	(96.6)	(457.8)
Expected return on plan assets	44.5	0.5	1.1	46.1
Employer's contribution	114.8	(42.7)	5.1	77.2
Plan participant contributions	7.6	—	1.3	8.9
Amendments/settlements	—	—	—	—
Benefits paid by plans assets	(161.9)	(2.9)	(17.5)	(182.3)
Experience gains (losses)	177.5	0.6	8.4	186.5
Changes in scope, exchange rates and other	225.0	0.2	7.4	232.6
Plan assets at 31 December	3,660.1	109.2	195.0	3,964.3
PROVISIONS AT 31 DECEMBER	(805.2)	(1,284.9)	(357.2)	(2,447.3)

2020	UK	France	Other	Total
Obligation at 1 January	(4,811.1)	(1,422.5)	(816.0)	(7,049.6)
Interprétation IAS 19 (Note 1.1)	–	37.0	–	37.0
Current service cost	(21.0)	(81.1)	(20.9)	(123.0)
Interest cost	(81.6)	(10.2)	(5.6)	(97.4)
Plan participant contributions	(8.0)	–	–	(8.0)
Amendments/settlements	(3.0)	3.2	(0.6)	(0.4)
Experience gains (losses)	3.2	(45.8)	(11.9)	(54.5)
Actuarial gains (losses)/financial assumptions	(527.8)	(94.3)	(7.6)	(629.7)
Actuarial gains (losses)/demographic assumptions	(0.2)	(0.1)	(0.9)	(1.2)
Actuarial gains (losses) on long-term benefits	–	(1.7)	(2.7)	(4.4)
Benefits paid by plan assets	156.9	2.8	11.4	171.1
Benefits paid by employer	0.7	102.5	26.3	129.5
Changes in scope, exchange rates and other	177.4	(1.2)	(3.1)	173.1
Obligation at 31 December	(5,114.5)	(1,511.4)	(831.6)	(7,457.5)
Plan assets at 1 January	3,669.3	157.4	277.7	4,104.4
Expected return on plan assets	63.0	0.9	1.8	65.7
Employer's contribution	111.8	0.4	7.3	119.5
Plan participant contributions	8.0	–	–	8.0
Amendments/settlements	–	–	–	–
Benefits paid by plans assets	(156.9)	(2.8)	(11.4)	(171.1)
Experience gains (losses)	104.5	(0.8)	9.2	112.9
Changes in scope, exchange rates and other	(187.5)	–	1.2	(186.3)
Plan assets at 31 December	3,612.2	155.1	285.8	4,053.1
PROVISIONS AT 31 DECEMBER	(1,502.3)	(1,356.3)	(545.8)	(3,404.4)

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:

2021	UK	France	2020	UK	France
Inflation rate	3.42%	1.50%	Inflation rate	2.94%	1.00%
Discount rate	1.82%	0.91%	Discount rate	1.34%	0.35%
Average duration of the plans (years)	17	12	Average duration of the plans (years)	17	10

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 2021, 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)	271.3	492.3	898.9	(209.8)	(471.8)	(1,044.1)

In the United Kingdom, a 25 basis-point increase in the inflation rate would lead to a €132.6 million increase in the obligation. Conversely, a 25 basis-point decrease in the inflation rate would lead to a €99.8 million decrease in the obligation.

e) Allocation and return on plan assets

Plan assets generated an actual average return of 5.8% in 2021, compared to 5.1% in 2020. At 31 December 2021, the allocation of assets, mainly invested in the United Kingdom, breaks down as follows:

	2021	2020
Fixed-rate bonds	22%	24%
Index-linked bonds	17%	13%
Equities	28%	27%
Alternative placement	33%	36%
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 is currently being 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 2021, the balance of these guarantees was £900 million.

9.4 Share-based payment

At 31 December 2021, the following options, shares and units were outstanding:

- 1,034,399 free shares;

- 500,619 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 2021 Registration Document.

a) Outstanding share subscription option plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31/12/20*	Options exercised in 2021	Options cancelled in 2021	Number of options outstanding at 31/12/21
15/09/2011	15/09/2015 to 14/09/2021	26.34 €	45,351	(45,351)	—	—

* after adjustment.

b) Allotment of free shares

Date of Board decision	Vesting period	Share price at grant date	Number of free shares at 31/12/20*	Shares allotted in 2021	Shares cancelled in 2021	Shares issued in 2021	Number of free shares at 31/12/21
01/07/2021	01/07/2021 to 01/07/2025	86.04 €	—	303,360	(1,410)	—	301,950
24/11/2020	24/11/2020 to 24/11/2024	79.60 €	375,235	—	(3,185)	—	372,050
25/09/2019	25/09/2019 to 25/09/2023	104.50 €	239,693	—	(7,736)	(121)	231,836
27/09/2018	27/09/2018 to 27/09/2022	121.75 €	132,510	—	(3,653)	(294)	128,563
28/09/2017	28/09/2017 to 28/09/2021	94.66 €	153,028	—	(2,218)	(150,810)	—
							1,034,399

* after adjustment.

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

Date of Board decision	Vesting period	Number of phantom shares at 31/12/20*	Phantom shares issued in 2021	Phantom shares cancelled in 2021	Phantom shares delivered in 2021	Number of phantom shares at 31/12/21
01/07/2021	01/07/2021 to 01/07/2025	—	103,880	(2,920)	—	100,960
24/11/2020	24/11/2020 to 24/11/2024	224,160	—	(7,890)	(750)	215,520
25/09/2019	25/09/2019 to 25/09/2023	154,575	—	(10,884)	(855)	142,836
27/09/2018	27/09/2018 to 27/09/2022	45,062	—	(3,252)	(507)	41,303
28/09/2017	28/09/2017 to 28/09/2021	46,961	—	(19)	(46,942)	—
						500,619

* after adjustment.

d) Expenses related to share-based payments

Following the decision of the Board of Directors on 24 November 2020, the Group implemented a Thales share purchase plan reserved to its employees with a discount compared to the average market price plus an employer contribution.

The subscription price of €66.46, set on 28 October 2021, corresponds to the average of the opening price of Thales shares on Euronext Paris from 30 September to 27 October 2021, discounted by 20%. The employees also received an employer contribution corresponding to one free share for four acquired shares, within the limit of 10 bonus shares.

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

Thus, in 2021, 454,953 shares were subscribed by employees at the subscription price of €66.46 and 108,583 bonus shares were received. The delivery of shares to UK based employees has been finalised in early 2022.

In the consolidated financial statements, the cost of this plan is €6.7 million, before social contributions.

e) 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 2021	2021 expense	2020 expense
Free shares	47.4	(18.3)	(13.4)
Phantom shares and other schemes ^(a)	21.8	(8.4)	(1.3)
Employee share purchase plan	—	(6.7)	—
Social contributions related to the plans	11.3	(6.0)	(0.6)
TOTAL	80.5	(39.4)	(15.3)
Of which, offsetting entries:			
• Shareholders' equity		25.0	13.4
• Debt		14.4	1.9

(a) 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, following the non-achievement of the performance conditions.

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:

	2021	2020
Short-term benefits:		
• Fixed compensation	6.8	6.7
• Variable compensation	8.5	3.3
• Severance payment	0.7	2.4
• Employer social security contributions	5.5	4.0
• Board attendance fees	0.6	0.6
Other benefits (including social contributions):		
• Post-employment benefits	3.2	3.8
• Share-based payments	4.0	1.5

At 31 December 2021, the share of directors in net Group pension obligations (Note 9.3) amounted to €17.2 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:

Change for the period	01/01/20	Changes in WCR and reserves	Scope, exch. rate and reclass.	31/12/20	Changes in WCR and reserves	Scope, exch. rate and reclass.	31/12/21
Inventories, work in progress and set-up costs	3,731.3	(129.9)	(92.9)	3,508.5	(65.8)	(106.7)	3,336.0
Contract assets	3,088.9	(69.5)	(84.2)	2,935.2	(42.6)	(415.0)	2,477.6
Advance to suppliers	549.5	(96.5)	(19.1)	433.9	(9.4)	(13.5)	411.0
Accounts, notes and other receivables	5,239.5	(113.1)	(88.1)	5,038.3	1,100.2	(695.6)	5,442.9
Current derivatives – assets	109.6	162.0	(17.4)	254.2	(248.3)	93.8	99.7
Contract liabilities	(6,414.9)	(195.9)	157.3	(6,453.5)	(1,174.5)	559.5	(7,068.5)
Reserves for contingencies	(1,960.0)	82.6	(174.8)	(2,052.2)	82.4	198.0	(1,771.8)
Accounts, notes and other payables	(6,813.7)	788.2	27.5	(5,998.0)	(364.0)	295.4	(6,066.6)
Current derivatives – liabilities	(150.5)	–	16.5	(134.0)	–	(100.1)	(234.1)
WCR and reserves, net	(2,620.3)	427.9	(275.2)	(2,467.6)	(722.0)	(184.2)	(3,373.8)
Restructuring provisions		58.7			(54.1)		
INCREASE (DECREASE) IN WCR AND RESERVES		486.6			(776.1)		

10.1 Inventories, work in progress, and set-up costs

	31/12/21	31/12/20
Goods	66.9	105.4
Raw materials	977.2	1,018.2
Semi-finished and finished goods	1,835.0	1,876.4
Work in progress	964.3	1,079.0
Gross value	3,843.4	4,079.0
Depreciation	(754.9)	(745.0)
Inventories and work in progress, net	3,088.5	3,334.0
Gross	905.1	757.3
Depreciation	(657.6)	(582.8)
Set-up costs, net	247.5	174.5
TOTAL	3,336.0	3,508.5

10.2 Contract assets and liabilities

	31/12/21	31/12/20
Unbilled receivables, gross	9,363.6	11,176.6
Unbilled receivables, depreciation	(7.5)	(16.9)
Advances received from customers	(6,878.5)	(8,224.5)
Contract assets	2,477.6	2,935.2
Advances received from customers	(10,857.9)	(9,929.1)
Unbilled receivables	6,256.6	5,331.3
Deferred income	(2,467.2)	(1,855.7)
Contract liabilities	(7,068.5)	(6,453.5)

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

	01/01/21	Utilisation	Additions	Reversal (surplus)	Exch. Rate and other	31/12/21
Restructuring	162.3	(61.1)	45.3	(38.3)	(7.7)	100.5
Technical and other litigation	373.8	(61.2)	86.1	(31.7)	(13.0)	354.0
Guarantees	351.5	(87.9)	88.3	(21.3)	(63.4)	267.2
Losses at completion	547.4	(88.2)	88.2	(37.8)	(66.4)	443.2
Provisions on contracts	392.1	(41.0)	71.5	(19.3)	(16.2)	387.1
Other ^(a)	225.1	(63.0)	109.8	(20.8)	(31.3)	219.8
TOTAL	2,052.2	(402.4)	489.2	(169.2)	(198.0)	1,771.8

	01/01/20	Utilisation	Additions	Reversal (surplus)	Exch. Rate and other	31/12/20
Restructuring	100.7	(27.9)	93.4	(6.8)	2.9	162.3
Technical and other litigation	212.0	(50.6)	39.4	(12.3)	185.3	373.8
Guarantees	370.4	(81.5)	85.8	(21.4)	(1.8)	351.5
Losses at completion	658.2	(179.5)	94.0	(7.3)	(18.0)	547.4
Provisions on contracts	397.7	(60.4)	84.5	(26.0)	(3.7)	392.1
Other ^(a)	221.0	(48.5)	53.7	(11.2)	10.1	225.1
TOTAL	1,960.0	(448.4)	450.8	(85.0)	174.8	2,052.2

(a) This line includes technical provisions of insurance companies, provisions for labour-related risks, vendor warranties, environmental guarantees and other.

The breakdown of restructuring costs is as follows:

	2021	2020
Additions for the period	(45.3)	(93.4)
Utilisation for the period	61.1	27.9
Reversals for the period	38.3	6.8
Net	54.1	(58.7)
Expenses for the period	(145.9)	(106.4)
Restructuring costs	(91.8)	(165.1)

10.4 Maturity of current receivables and payables

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

		31/12/21		31/12/20
	Total	< 1 year	> 1 year	Total
Accounts and accrued receivables gross	3,659.7	3,517.6	142.1	3,439.1
Accounts and accrued receivables depreciation	(130.7)	(83.6)	(47.1)	(153.7)
Accounts and accrued receivables, net	3,529.0	3,434.0	95.0	3,285.4
Tax receivables (excluding income tax)	1,292.6	1,109.5	183.1	1,167.9
Other receivables, gross	623.6	531.9	91.7	594.6
Other receivables, depreciation	(2.3)	(2.3)	–	(9.6)
Other receivables, net	1,913.9	1,639.1	274.8	1,752.9
Account, notes and other receivables	5,442.9	5,073.1	369.8	5,038.3
Accounts and notes payable	2,069.2	2,055.0	14.2	2,215.1
Accrued holiday pay and payroll taxes	2,023.7	1,966.3	57.4	1,810.9
Tax payables (excluding income tax)	1,239.6	1,239.6	–	1,211.9
Other creditors and accrued liabilities	734.1	594.4	139.7	760.1
Accounts notes and other payables	6,066.6	5,855.3	211.3	5,998.0

The changes in provisions on accounts and notes receivable break down as follows:

	01/01/21	Additions/ reversal	Exchange rate and scope	Assets held for sale	31/12/21
Provisions on accounts and notes receivable	(153.7)	3.3	9.1	10.6	(130.7)

The Group may assign trade receivables, mainly from the French State, and commercial paper. At 31 December 2021, outstanding derecognised receivables amounted to €336.4 million (€294.1 million at 31 December 2020).

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 2021, bid bonds issued amounted to €21.2 million (€24.5 million at 31 December 2020).
- **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 2021, performance bonds amounted to €1,350.8 million (€1,926.5 million at 31 December 2020). 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 2021, advance payment bonds amounted to €2,018.8 million (€2,310.2 million at 31 December 2020).
- **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 2021, warranty retention bonds amount to €77.6 million (€217.1 million at 31 December 2020).

The maturity dates of these commitments are:

	< 1 year	1 to 5 years	> 5 years	31/12/21	31/12/20
Bid bonds	17.5	2.2	1.5	21.2	24.5
Performance bonds	406.2	648.9	295.7	1,350.8	1,926.5
Advance payment bonds	917.7	717.8	383.3	2,018.8	2,310.2
Warranty retention bonds	9.6	33.2	34.8	77.6	217.1
Other bank bonds	104.3	102.0	21.8	228.1	331.8
TOTAL	1,455.3	1,504.1	737.1	3,696.5	4,810.1

Moreover, 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 (with possible extension until 2033) for an annual program to purchase bandwidth for a predefined amount. To date, this commitment is considered to be covered on the basis of a number of aircraft to be equipped, 25% of which have already been contractually notified.

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.

Parent company guarantees may also be issued to financial institutions, in order to improve the conditions of supports they grant to some subsidiaries.

At December 2021, the notional maximum amount of these guarantees was €15,014.9 million (€14,148.9 million at 31 December 2020).

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 of the 2021 Universal Registration Document.

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

Following Russia's invasion of Ukraine, the Group initiated a survey of the operational and financial consequences of this crisis. The impact of this crisis on 2022 revenues from these two countries is currently estimated

at around EUR 100 million. Other possible impacts, including on the space business supply chain, are being assessed.

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-i. 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 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 of the 2021 Universal Registration Document describes the main provisions concerning the shareholders' agreement governing relations between the French State ("Public Sector") and Dassault Aviation ("Industrial Partner") within Thales, the convention on the protection of national strategic interests and the specific convention binding the State and Thales.

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

- sales with the French State (mainly with 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 2021. 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 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 contractual 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 2021 and 2020 (including Transport segment) 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		E Y		Total	
	2021	2020	2021	2020	2021	2020
Certification of accounts	5,654	5,427	5,029	5,327	10,683	10,754
• Issuer	896	896	248	398	1,144	1,294
• Subsidiaries	4,758	4,531	4,781	4,929	9,539	9,460
Other services	734	785	1,034	893	1,768	1,678
• Issuer	206	251	254	58	460	309
• Subsidiaries	528	534	780	835	1,308	1,369
TOTAL	6,388	6,212	6,063	6,220	12,451	12,432

Note 15. List of main consolidated companies

(excluding Thales SA, the parent company)

Company name	Country	% Interest 31/12/2021	% Interest 31/12/2020
1. Consolidated subsidiaries^(a)			
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 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 Brasil Cartões e Soluções de Tecnologia Ltda	Brazil	100%	100%
Thales DIS CPL USA, Inc.	United States	100%	100%
Thales DIS France SAS	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 International Saudi Arabia	Saudi Arabia	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)			
Airtanker Ltd	United Kingdom	15%	15%
Arab International Optronics	Egypt	49%	49%
Aviation Communications & Surveillance Systems	United States	30%	30%
Diehl Aerospace GmbH	Germany	49%	49%
Electronica SpA	Italy	33%	33%
Lynred	France	50%	50%
Naval Group	France	35%	35%
Telespazio SpA	Italy	33%	33%

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 EUR 699.7 million, compared with EUR 684.1 million in 2020. Revenue amounted to EUR 245.2 million compared with EUR 237.8 million in 2020.

Activities are described by sector in the accompanying Notes.

Revenues mainly consist of rents and construction work re-invoiced to operating subsidiaries as well as sales of research chiefly conducted by the Thales Group's Central Research and Technology Department. The increase in revenues is primarily due to higher invoicing for research in 2021.

Other operating income amounted to EUR 424.3 million, compared with EUR 418.6 million in 2020. This includes royalties paid by direct operating subsidiaries as well as expenses re-invoiced to those subsidiaries, including for general and specific centralized services provided by the parent company and for capitalized production.

Net operating loss amounted to EUR 101.3 million, compared with EUR 90.0 million in 2020.

Net financial income amounted to EUR 462.0 million, compared with EUR 529.2 million in 2020.

Provisions for equity investments and subsidiary risks totaled EUR 72.7 million in 2021, compared with EUR 134.7 million in 2020. Reversals of provisions for equity investments and subsidiary risks represented EUR 41.8 million in 2021, compared with 127.3 million in 2020.

Income from investments amounted to EUR 519.1 million in 2021, compared with EUR 579.0 million in 2020.

Net non-recurring income amounted to EUR 41.2 million, compared with EUR 8.8 million in 2020. This consists mainly of an indemnity received following a settlement agreement relating to a former dispute.

The company recorded a corporate income tax benefit of EUR 50.3 million (EUR 78.9 million in 2020). This represents the net total of (i) the amount to be received from fiscally-integrated profitable subsidiaries and (ii) the tax expense payable to the State.

In 2021, nondeductible expenses (pursuant to Articles 223 and 39.4 of the French General Tax Code) amounted to EUR 0.2 million.

Net profit for 2021 financial year amounted to EUR 452.2 million, down compared with the result for financial year 2020 (EUR 509.3 million).

7.2.1.2 Balance sheet as at December 31, 2021

The balance sheet total was EUR 21,845.9 million at year-end 2021, down EUR 173.0 million from the balance sheet total at year-end 2020 of EUR 22,018.9 million.

The total non-current assets of EUR 15,021.7 million, compared with 15,310.9 million in 2020, were primarily composed of financial investments.

The EUR 48.3 million increase in investments in subsidiaries and affiliates was primarily due to a capital increase at Thales Europe SAS.

Other financial assets decreased by EUR 318.5 million, corresponding to the repayment of a loan previously granted to Gemalto Holding BV.

Current assets, at EUR 6,824.2 million at the end of December 2021, increased by EUR 116.2 million in connection with sight and fixed-term bank deposits or UCITS funds.

The balance of current accounts with respect to Group companies corresponded to a net debt of EUR 6,614.6 million at year-end 2021, compared with EUR 5,312.9 million at year-end 2020.

Financial debt amounted to EUR 5,112.7 million at year-end 2021, compared with EUR 6,506.5 million at year-end 2020. This included bond issues for a total amount of EUR 3,800.0 million, commercial paper totaling EUR 530.0 million, as well as foreign currency- and euro-denominated liabilities to Group subsidiaries and affiliates.

At year-end 2021, share capital stood at EUR 640.2 million, while total equity totaled EUR 7,476.9 million, compared with 7,440.6 million at year-end 2020.

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 modernization of the economy [Loi de Modernisation de l'Economie, LME].

The table below presents the aging of receivables and payables by invoice date :

• **INVOICES RECEIVED AND ISSUED AS AT THE CLOSING DATE OF THE FINANCIAL YEAR WHICH HAS JUST ELAPSED (TABLE PROVIDED FOR IN ARTICLE D. 441-4, SECTION I)**

	Article D. 441, section 1 (1): Invoices received and not settled at the closing date of the financial year just elapsed						Article D. 441, section 1 (2): invoices issued but not paid at the closing date of the financial year just elapsed					
	0 days (indicative)	1 to 30 days	31 to 60 days	61 to 90 days	91 days or more	Total (1 day or more)	0 days (indicative)	1 to 30 days	31 to 60 days	61 to 90 days	91 days or more	Total (1 day or more)
A. Late payment tranches												
Number of invoices concerned	943					111	530					370
Total value of invoices concerned (incl. tax)	22.2	0.5	0.1	0.0	0.2	0.8	60.0	4.3	1.5	6.8	6.1	18.7
Percentage of total purchases during the year (incl. tax)	3.92%	0.08%	0.01%	0.01%	0.04%	0.14%						
Percentage of total sales during the year (incl. tax)							8.08%	0.58%	0.20%	0.92%	0.83%	2.53%
B. Invoices excluded from A corresponding to payables and receivables in dispute or not posted												
Number of posted invoices in dispute (incl. tax)						64						—
Value of unposted invoices						251						—
Total value of posted invoices in dispute (incl. tax)						0.6						—
Total value of unposted invoices (incl. tax)						5.5						—
C. Reference payment periods used (contractual or legal periods – Articles L. 441-6 or L. 443-1 of the French Commercial Code)												
Payment periods used for calculating late payments	Contractual periods: 45 days from end of the month					Contractual periods: 45 days from end of the month						

7.2.1.3 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.

7.2.1.4 Outlook for the current financial year

The Company results for 2022 are expected to reflect the dividends paid by certain subsidiaries for financial year 2021 as well as changes in provisions for the impairment of equity investments and subsidiary risks as a consequence of trends in their business and performance in 2022.

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:

net profit for fiscal year 2021	EUR 452,246,810.12
less allocations to legal reserve	(EUR 13,605.30)
plus retained earnings as at 31 December 2021	EUR 2,106,512,464.99
plus interim dividend in the amount of EUR 0.60 per share, paid on December 9, 2021, and deducted from retained earnings	EUR 127,406,081.4
For a total amount of	EUR 2,686,151,751.21

The Annual General Meeting decided⁽¹⁾ to allocate this distributable profit as follows.

Distribution of a dividend of EUR 2.56 per share on 213,411,309 shares bearing rights as at January 1, 2021 (including the interim dividend of EUR 0.60 per share paid on December 9, 2021, charged to the 2021 dividend)	EUR 546,332,951.04
Retained earnings after dividend	EUR 2,139,818,800.17
TOTAL EQUIVALENT TO DISTRIBUTABLE EARNINGS	EUR 2,686,151,751.21

The Annual General Meeting Notes that taking into account the interim dividend of EUR 0.60 per share paid on December 9, 2021 and deducted from retained earnings, the balance of the dividend to be paid amounts to EUR 1.96 per share.

The ex-dividend date is May 17, 2022 and the payment date for the balance of the dividend will be May 19, 2022.

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 ^(a)	Total amount paid out
2018	EUR 2.08	EUR 442,018,319.00
2019	EUR 0.60	EUR 127,316,769.00
2020	EUR 1.76	EUR 374,777,030.32

(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 May 11, 2022.

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 2021 Universal Registration Document:

Management report French Commercial Code	Chapters/Notes	Pages
1. Thales parent company financial statements as at December 31, 2021	Chapter 7.2	267
Table of subsidiaries and equity affiliates	Note 23	298
Table of investments made and shareholding disclosures in French companies	Note 23	298
Table showing the company's earnings in the last five financial years	Note 24	301
Table of outstanding stock purchase and subscription options as at December 31,	Note 15	289
Change in number and in value of the treasury shares of the Company	Note 14	288
Write-back of general expenses following tax adjustment	Note 6	281
Events after the reporting period	Note 22	297
Information on existing branches (Article L. 232-1.II of the French Commercial Code)	Note 24	301
2. Risk control and management system	Chapter 3	44
3. Management report and consolidated financial statements of the Group as at December 31, 2021	Chapters 2 & 7	14, 217
Presentation of the activities of the Company, its subsidiaries and its controlled companies	Chapter 2.1	16
Description of the main risks and uncertainties facing the Group	Chapter 3	44
Information on the use of financial instruments (supplementing the Notes to the financial statements)	Note 6	236
Information on research and development activities	Chapter 2.2	28
4. Corporate governance	Chapter 4	68
Compensation of other executives	Chapter 4.5	114
Share-based payments	Chapter 6.2.2 & 9.4	199, 256
5. Company and Share Capital	Chapter 6	194
Breakdown of shareholders and changes made during the financial year	Chapter 6.2.1.3	198
Employee stake in the share capital	Chapter 6.2.3.7	208
Awards of free shares and performance units made during the financial year	Chapter 6.2.3.5	206
Description of the share repurchase program adopted by the Annual General Meeting	Chapter 6.2.3.4	203
Transactions involving treasury shares during the financial year	Chapter 6.2.3.4.3.2	204
Summary statement of transactions carried out during the financial year by directors, nonvoting directors and related persons	Chapter 4.6	115
Regulated agreements (continuation of existing agreements, with the exception of the assistance agreement between Thales and TSA, which is now governed by the rules governing current agreements (Article L. 225-39 of the French Commercial Code)	Chapter 6.3	209
Thales share price trend over the past two financial years	Chapter 6.4.1	211
6. Non-Financial Performance Statement, including	Chapters 1, 3 and 5	4, 44, 116
Business model	Chapter 1	4
Main risks identified	Chapters 3 and 5.2	44, 119
Policies and measurements of associated results	Chapters 5.3 to 5.7	123 to 182
Report of independent third parties	Chapter 5.9	185
Cross-reference table for the Non-Financial Performance Statement	Chapter 8.7	321
Other social and environmental information in the management report (Articles 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)	Chapter 5.4 & 5.5	125, 141
Duty of Care Plan	Chapter 5.7.6	175

7.2.2 Thales parent company financial statements

7.2.2.1 Income statement by type

(in millions of euros)	Notes	2021	2020
Re-invoicing of rent and construction work		216.8	219.0
Research		28.4	18.8
Sales		245.2	237.8
Royalties		224.8	210.2
Re-invoicing of expenses		199.5	208.4
Other operating income		424.3	418.6
Reversals of provisions		17.8	17.0
Transfer of expenses		12.4	10.7
TOTAL OPERATING INCOME		699.7	684.1
Purchases and changes in inventories and work in progress		(45.2)	(63.5)
Other external charges		(487.4)	(454.2)
Taxes		(11.1)	(14.3)
Personnel expenses		(222.4)	(212.7)
Depreciation and amortisation		(18.1)	(17.0)
Allowances for provisions		(16.8)	(12.4)
Total operating expenses		(801.0)	(774.1)
OPERATING INCOME/LOSS	Note 3	(101.3)	(90.0)
Net financial interest		(18.2)	(22.5)
Income from investments		519.1	579.0
Other financial income		49.3	139.0
Other financial expenses		(88.2)	(166.3)
Financial income	Note 4	462.0	529.2
PROFIT/LOSS FROM ORDINARY ACTIVITIES, BEFORE INCOME TAX		360.7	439.2
Non-recurring income	Note 5	41.2	(8.8)
PROFIT/LOSS BEFORE INCOME TAX		401.9	430.4
Corporate income tax	Note 6	50.3	78.9
NET INCOME		452.2	509.3

The Notes to the financial statements constitute an integral part of the parent company's financial statements.

7.2.2.2 Balance sheet

Assets

(in millions of euros)	Notes	12/31/21	12/31/20
Intangible assets and property plant, and equipment, net	Note 7	72.7	79.9
Equity investments	Note 8	14,288.0	14,246.6
Treasury shares not assigned to plans	Note 14	33.5	38.3
Other financial investments	Note 9	627.5	946.1
Total non-current assets		15,021.7	15,310.9
Inventories and work in progress		5.6	11.0
Advances to suppliers	Note 16	0.1	0.1
Trade receivables	Note 16	189.6	149.3
Other receivables	Note 16	256.4	301.0
Current account payables of Group companies	Note 10	2,098.1	2,151.1
Treasury shares allocated to employee share ownership	Note 14	3.0	–
Accrued interest		–	0.1
Cash and cash equivalents	Note 11	4,271.4	4,095.4
Total current assets		6,824.2	6,708.0
TOTAL ASSETS		21,845.9	22,018.9

Shareholder equity and liabilities

(in millions of euros)	Notes	12/31/21	12/31/20
Share capital		640.2	640.1
Additional paid-in capital		4,076.5	4,075.5
Reserves and retained earnings		2,308.0	2,215.7
Result		452.2	509.3
Total shareholder equity	Note 13	7,476.9	7,440.6
Reserves for contingencies	Note 17	212.6	208.5
Financial debt	Note 12	5,112.7	6,506.5
Current account payables of Group companies	Note 10	8,712.7	7,464.0
Advances received for orders in progress	Note 16	25.4	23.3
Trade payables	Note 16	70.5	99.9
Other liabilities	Note 16	235.1	276.1
Total liabilities		14,156.4	14,369.8
TOTAL SHAREHOLDER EQUITY AND LIABILITIES		21,845.9	22,018.9

The Notes to the financial statements constitute an integral part of the parent company's financial statements.

7.2.2.3 Cash flows statement

(in millions of euros)	Notes	2021	2020
Net income		452.2	509.3
Add/deduct:			
Net depreciation amortisation and impairment charges on intangible assets and property, plant and equipment	Note 7	18.0	17.0
Provisions for post-employment and other employee benefits	Note 17	(3.4)	17.0
Net provisions for impairment of investments and subsidiary risks	Note 4	30.9	7.5
Other items		24.8	25.7
Operating cash flow		522.5	576.5
Change in working capital and provisions for operating contingencies and losses		(76.2)	53.6
NET CASH FLOW FROM OPERATING ACTIVITIES	- I -	446.3	630.1
Payments for acquisitions of intangible assets and property, plant and equipment		(10.8)	(4.0)
Proceeds from disposal of intangible assets and property plant and equipment		–	–
Net operating investment		(10.8)	(4.0)
Investments in subsidiaries and affiliates	Note 8	(69.7)	(35.1)
Disposals of subsidiaries and affiliates	Note 8	–	110.8
Decrease/increase in other investments		–	(2.1)
Decrease/increase in other financial investments and treasury shares		324.8	8.7
Decrease/increase in current accounts receivable		113.7	113.4
Net financial investment		368.8	195.7
NET CASH FLOW FROM INVESTMENT ACTIVITIES	- II -	358.0	191.7
Dividend distributions	Note 13	(417.0)	(85.2)
Increase in share capital exercise of subscription options		1.2	1.2
Increase in borrowings		179.1	2,435.8
Decrease in borrowings		(1,595.3)	(783.6)
Increase/decrease in current accounts payable		1,182.3	(214.2)
NET CASH FLOW FROM FINANCING ACTIVITIES	- III -	(649.7)	1,354.0
TRANSLATION ADJUSTMENT FOR ACCOUNTS DENOMINATED IN A FOREIGN CURRENCY	- IV -	21.4	(41.9)
INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	I+II+III+IV	176.0	2,133.9
Cash and cash equivalents at the beginning of the period		4,095.4	1,961.5
Cash and cash equivalents at the end of the period		4,271.4	4,095.4

The Notes to the financial statements constitute an integral part of the parent company's financial statements.

7.2.2.4 Statement of changes in equity

(in millions of euros)	Number of shares outstanding (thousands)	Share capital	Issue premiums	Retained earnings	Profit for the financial year	Total shareholder equity
As at January 1, 2020	213,317	640.0	4,074.3	1,798.9	501.9	7,015.1
Allocation of 2019 earnings	—	—	—	501.9	(501.9)	—
Dividends	—	—	—	(85.1)	—	(85.1)
Capital increase	49	0.1	1.2	—	—	1.3
2020 results	—	—	—	—	509.3	509.3
As at December 31, 2020	213,366	640.1	4,075.5	2,215.7	509.3	7,440.6
Allocation of 2020 earnings	—	—	—	509.3	(509.3)	—
Dividends (Note 13.2)	—	—	—	(417.0)	—	(417.0)
Capital increase	45	0.1	1.0	—	—	1.1
2021 results	—	—	—	—	452.2	452.2
As at December 31, 2021	213,411	640.2	4,076.5	2,308.0	452.2	7,476.9

The Notes to the financial statements constitute an integral part of the parent company's financial statements.

7.2.2.5 Notes to the parent company financial statements

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Note 1. Accounting principles applied

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

Thales' annual financial statements have been prepared in accordance with accounting principles generally accepted in France and in accordance with the provisions of the French General Chart of Accounts, as defined in ANC regulation no. 2014-03 (consolidated version as at January 1, 2019). These principles are detailed in each Note hereafter.

In May 2021, the IFRS Interpretations Committee (IFRIC IC) issued a decision on the allocation of service costs associated with a defined benefit plan with the following characteristics:

- the definitive acquisition of such benefits is conditional on presence in the company at the time of retirement;

- the amount of such benefits depends on seniority; and
- this amount is capped at a specified number of consecutive years of service.

The application of this decision results in the distribution of the planned rights on the basis not of the duration of the employees' presence in the company, but of the last years of acquisition of such rights, taking into account, if necessary, the stages of acquisition.

In France, the French Accounting Standards Authority has also amended ANC recommendation no. 2013-02 to include this accounting method. The company has opted for this new method (non-significant impact).

Note 2. Change in Thales' directly owned investments

2021

In March 2021, Thales financed the acquisition of Vitrociset's space business by Telespazio for EUR 8.1 million.

In June 2021, Thales subscribed to the capital increase of Thales Europe SAS for EUR 45 million.

In July 2021, Thales subscribed to the capital increase of Thales Security Solutions & Services Company for EUR 12.8 million.

Lastly, in September and December 2021, Thales acquired additional Crystal SAS shares for EUR 3.2 million, thereby increasing its stake from 97.10% to 100%.

2020

In March 2020, Thales acquired additional shares in Crystal SAS for EUR 7.6 million, raising 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 remaining capital of Thales Digital Factory SAS for EUR 35.6 million, then subscribed to a new capital increase for EUR 107 million, of which EUR 80.2 million was not paid up.

Lastly, in December 2020, Thales carried out a capital reduction of EUR 104.9 million in Thales Canada Inc.

Note 3. Operating profit/loss

In addition to its functions as a holding company (holding equity investments and managing central support functions and cash flow) 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-invoiced to operating subsidiaries and sales of research, which represent the revenues (EUR 245.2 million in 2021, compared with EUR 237.8 million in 2020), primarily generated in France;
- royalties paid by subsidiaries for shared services and re-invoiced 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.

Note 4. Financial income

4.1 Accounting principles

The financial income 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

	Notes	2021	2020
NET FINANCIAL INTEREST		(18.2)	(22.5)
Interest and financial income on financial receivables		18.1	25.1
Interest on Group company current account receivables and loans to subsidiaries and affiliates		6.4	8.7
Interest on cash and cash equivalents		11.7	16.4
Interest and financial expenses		(30.6)	(38.2)
Interest on current accounts and loans to subsidiaries and affiliates		(1.1)	(2.7)
Interest on bonds and other borrowings		(29.5)	(35.5)
Interest on interest rate swaps hedging borrowings		(0.8)	2.1
Interest on foreign exchange swaps hedging subsidiary financing		(4.9)	(11.5)
INCOME FROM INVESTMENTS	Note 23	519.1	579.0
OTHER FINANCIAL INCOME		49.3	139.0
Reversal of provisions related to investments ^(a)		41.8	127.3
Reversals of provisions for impairment of treasury shares		0.2	6.0
Reversals of provisions for termination payments and other benefits	Note 17	1.1	–
Foreign exchange gains		3.5	1.2
Other		2.7	4.5
OTHER FINANCIAL EXPENSES		(88.2)	(166.3)
Increase in provisions related to investments ^(a)		(72.7)	(134.7)
Increase in provisions for impairment of treasury shares		(1.2)	(0.3)
Increase in provisions for termination payments and other benefits	Note 17	–	(22.8)
Increase in current account provisions		–	(1.5)
Loss on disposal of SICAV		(11.4)	(2.0)
Other		(2.9)	(5.0)
FINANCIAL INCOME		462.0	529.2

(a) Provisions related to subsidiaries and affiliates	2021		2020	
	Reversal	Provisions	Reversal	Provisions
Provisions for impairment of equity investments:	24.7	(53.0)	78.9	(128.8)
Thales Avionics Electrical Systems SAS	—	(26.6)	—	(17.8)
Thales Digital Factory SAS	—	(23.0)	—	(84.0)
Crystal SAS	—	—	—	(25.5)
Avimo Group Ltd	10.4	—	2.1	—
Sifelec SAS	—	—	73.1	—
Other	14.3	(3.4)	3.7	(1.5)
Provisions for subsidiary risks (see Note 17.2):	17.1	(19.7)	48.4	(5.9)
Thales Digital Factory SAS	—	(16.9)	46.3	—
Thales SESO SAS	—	(2.8)	—	(0.6)
Thales Global Services SAS	10.2	—	—	(5.3)
Thales Security Solutions & Services Company	6.9	—	2.1	—
TOTAL	41.8	(72.7)	127.3	(134.7)

Note 5. Non-recurring income

5.1 Accounting principles

The non-recurring income 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. All these costs and the costs directly linked to restructuring measures (removal costs, training costs for transferred employees etc.) are recognized as 'restructuring costs' in the income statement;
- capital gains or losses on the disposal of assets, in particular 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

	2021	2020
Restructuring costs	(11.3)	(10.3)
Reversal of provisions	—	4.6
Litigation ^(a)	50.6	—
Other	1.9	(3.1)
NON-RECURRING INCOME	41.2	(8.8)

(a) Compensation received as a result of a settlement agreement relating to a former dispute.

Note 6. Corporate income tax

6.1 General framework and accounting principles

Since January 1, 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 from the use of the tax losses of subsidiaries are recorded by the parent company and recognized 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 2021 was 28.41%, compared with 32.02% in 2020, including the social contribution on profits. Tax losses carried forward may be offset up to 50% of taxable income for the portion exceeding EUR 1 million.

The Company benefits from a tax credit related to the research efforts undertaken at its Palaiseau facility. This tax credit is recorded as a reduction in the corporate income tax charge.

6.2 Tax payable

The net corporate income tax breaks down as follows:

	2021	2020
Income tax on profits received from profitable subsidiaries	175.4	134.9
Income tax due to the French State	(138.4)	(62.0)
Tax consolidation income for corporate income tax purposes	37.0	72.9
Research tax credit	8.7	7.4
Prior period adjustments and other taxes	4.6	(1.4)
TAX INCOME	50.3	78.9

6.3 Deferred tax situation

The company has available future tax savings arising from timing differences between the tax and accounting treatment of income and expenses (EUR 192.9 million as at December 31, 2021, compared with EUR 202.5 million at year-end 2020). These mainly reflect provisions for contingencies and losses, in particular provisions for pensions which are not deductible for tax purposes. There were no remaining tax losses carried forward as at December 31, 2021.

The corresponding deferred tax is not recognized.

Note 7. Property plant and equipment and intangible assets

7.1 Accounting principles

Intangible assets (mainly software and property plant and equipment) are recognized 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 recognized and are reported in off-balance sheet commitments.

7.2 Breakdown by type

	12/31/21			12/31/20		
	Gross value	Cumul. amort. and deprec.	Net	Gross value	Cumul. amort. and deprec.	Net
Intangible assets	20.9	(20.5)	0.4	20.8	(20.1)	0.7
Buildings	217.7	(175.1)	42.6	215.5	(161.5)	54.0
Industrial plant equipment and machinery	59.9	(44.5)	15.4	58.1	(41.6)	16.5
Other	23.9	(9.6)	14.3	17.8	(9.1)	8.7
Property, plant and equipment	301.5	(229.2)	72.3	291.4	(212.2)	79.2
TOTAL	322.4	(249.7)	72.7	312.2	(232.3)	79.9

7.3 Change in net fixed assets

	Intangible assets	Property, plant and equipment	Total
Net value as at 01/01/2020	1.0	94.4	95.4
Acquisitions	—	4.0	4.0
Disposals	—	(2.5)	(2.5)
Provision for amortisation	(0.3)	(16.7)	(17.0)
Net value as at 12/31/2020	0.7	79.2	79.9
Acquisitions	0.1	10.7	10.8
Reversal of provisions for depreciation	—	0.1	0.1
Provision for amortisation	(0.4)	(17.7)	(18.1)
NET VALUE AS AT 12/31/2021	0.4	72.3	72.7

Note 8. Equity investments

8.1 Accounting principles

Equity investments are recorded at historical cost. Acquisition-related transaction costs are recognized 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.

For year-end 2021, the cash flows used are based on a two-year forecasting exercise, drawn up in accordance with Group procedures and extended for a further year. These flows reflect management's best estimate in the current economic environment.

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 (terminal value is usually 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 2024.

8.2 Change in equity investments

A breakdown of equity investments is presented in Note 23. The changes therein are presented below:

	Notes	Gross value	Provisions	Net
VALUE AS AT 01/01/2020		15,549.9	(1,257.7)	14,292.2
Acquisitions/subscriptions and capital transactions		35.1	—	35.1
Purchase of Crystal SAS shares		7.6	—	7.6
ACE Aéro Partenaires fund subscription		0.7	—	0.7
Capital increase of Thales Digital Factory SAS		26.8	—	26.8
Capital increase of Thales Digital Factory SAS, non-paid-up share		80.2	—	80.2
Disposals/capital transactions		(110.8)	—	(110.8)
Capital reduction of Thales Canada Inc.		(104.9)	—	(104.9)
Other disposals		(5.9)	—	(5.9)
Allowances for provisions	Note 4	—	(128.8)	(128.8)
Reversal of provisions	Note 4	—	78.9	78.9
Other		(3.6)	3.4	(0.2)
VALUE AS AT 12/31/2020		15,550.8	(1,304.2)	14,246.6
Acquisitions/subscriptions and capital transactions		69.7	—	69.7
Capital increase of Thales Europe SAS		45.0	—	45.0
Capital increase of Thales Security Solutions & Services Company		12.8	—	12.8
Financing of a business acquisition from Telespazio		8.1	—	8.1
Purchase of Crystal SAS shares		3.2	—	3.2
ACE Aéro Partenaires fund subscription		0.6	—	0.6
Allowances for provisions	Note 4	—	(53.0)	(53.0)
Reversal of provisions	Note 4	—	24.7	24.7
VALUE AS AT 12/31/2021		15,620.5	(1,332.5)	14,288.0

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 affiliates. 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 recognized according to the risk of non-recovery.

9.2 Breakdown by type

	Notes	12/31/21			12/31/20		
		Gross value	Impairment	Net value	Gross value	Impairment	Net value
Loans to direct subsidiaries and affiliates	Note 23	539.4	—	539.4	879.6	—	879.6
Loans to other Group subsidiaries		51.9	—	51.9	55.8	—	55.8
Other financial investments		37.9	(1.7)	36.2	12.4	(1.7)	10.7
Total		629.2	(1.7)	627.5	947.8	(1.7)	946.1

9.3 Breakdown by maturity and by currency

Breakdown by maturity	12/31/21	12/31/20
Less than 1 year	50.9	903.2
From 1 to 5 years	576.5	38.8
More than 5 years	0.1	4.1
TOTAL	627.5	946.1

Breakdown by currency	12/31/21	12/31/20
Euro	62.6	406.4
Pound sterling	523.6	489.4
South African rand	12.6	10.7
Thai baht	28.7	29.4
Offshore Chinese yuan	—	10.2
TOTAL	627.5	946.1

Note 10. Current accounts of Group companies

10.1 General framework and accounting principles

The current accounts of Group companies 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 management system.

Under this centralized 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.

The current account receivables and payables of Group companies are always recognized as due within one year.

10.2 Current account receivables

		12/31/21	12/31/20
Amounts due from direct subsidiaries and affiliates	Note 23	1,333.4	1,391.5
Amounts due from Thales Alenia Space (France and Italy)		458.4	326.9
Amounts due from other subsidiaries		306.3	432.7
TOTAL		2,098.1	2,151.1

10.3 Current account payables

		12/31/21	12/31/20
Amounts deposited by direct subsidiaries and affiliates	Note 23	6,164.7	5,215.0
Amounts deposited by Thales Alenia Space (France and Italy) with Thales		446.1	436.9
Amounts deposited by Thales Australia Ltd with Thales		190.1	203.6
Amounts deposited by other Group subsidiaries with Thales		1,911.8	1,608.5
TOTAL		8,712.7	7,464.0

Note 11. Cash and other investments

11.1 Accounting principles

Cash and cash equivalents include bank accounts and 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 EUR 4,271.4 million as at December 31, 2021, compared with EUR 4,095.4 million at year-end 2020. These amounts include EUR 3,406.0 million (EUR 2,870.9 million at year-end 2020) in sight and fixed-term bank deposits or UCITS funds.

Note 12. Financial debt

12.1 Accounting principles

Bonds are recognized at their redemption value. Any issue or redemption premiums are recognized under the corresponding balance sheet heading and amortised *pro rata temporis* to the financial income. Bond issue expenses are recognized on a straight-line basis over the term of the bond.

12.2 Breakdown of borrowings

	Nominal rate	12/31/21	12/31/20
Bonds maturing in May 2028	Fixed rate 1%	700.0	700.0
Bonds maturing in January 2027	Fixed 0.25%	500.0	500.0
Bonds maturing in March 2026	0	500.0	500.0
Bonds maturing in January 2025	Fixed 0.75%	500.0	500.0
Bonds maturing in April 2024	Fixed 0.875%	500.0	500.0
Bonds maturing in June 2023	Fixed 0.75%	600.0	600.0
Bonds maturing in May 2022	0	500.0	500.0
Bonds maturing in September 2021	Fixed 2.125%	—	386.7
Bonds maturing in March 2021	Fixed 2.25%	—	300.0
Commercial paper		530.0	1,195.0
Other borrowings		765.2	802.2
Accrued interest		17.5	22.6
GROSS BORROWINGS		5,112.7	6,506.5

In addition, the EUR 800 million bank bridge loan, undrawn as at December 31, 2020, matured in April 2021.

As at December 31, 2021, the Group has a confirmed bank credit line of EUR 1.5 billion maturing in December 2026, with the possibility of an extension until December 2028. This line does not include an early repayment clause.

12.3 Breakdown of borrowings by maturity and by currency

Breakdown by maturity	12/31/21	12/31/20	Breakdown by currency	12/31/21	12/31/20
Less than 1 year	1,170.1	2,105.8	Euro	4,436.6	5,873.6
From 1 to 5 years	2,742.6	2,700.7	Singapore dollar	33.5	32.3
More than 5 years	1,200.0	1,700.0	Pound sterling	642.6	600.6
TOTAL	5,112.7	6,506.5	TOTAL	5,112.7	6,506.5

Note 13. Shareholder equity

13.1 Share capital

Thales' share capital amounts to EUR 640,233,927 and comprised of 213,411,309 shares with a par value of EUR 3, compared with 213,365,958 shares at December 31, 2020, representing an increase of 45,351 shares resulting from the exercise of stock options. The breakdown of share capital is set out below:

	12/31/21			12/31/20		
	Shares	% of capital	% of voting rights	Shares	% of capital	% of voting rights
T.S.A.	54,786,654	25.67%	34.75%	54,786,654	25.68%	34.84%
French State (including 1 golden share)	2,060	–	–	2,060	–	–
Public Sector ^(a)	54,788,714	25.67%	34.75%	54,788,714	25.68%	34.84%
Dassault Aviation ^(b)	52,531,431	24.62%	29.79%	52,531,431	24.62%	29.79%
Thales ^(c)	493,175	0.23%	–	497,596	0.23%	–
Employees ^(d)	6,899,087	3.23%	3.99%	6,356,208	2.98%	3.66%
Other shareholders	98,698,902	46.25%	31.47%	99,192,009	46.49%	31.71%
TOTAL^(e)	213,411,309	100.00%	100.00%	213,365,958	100.00%	100.00%

- (a) Under the terms of the shareholders' agreement with Dassault Aviation (the "Industrial Partner"), the "Public Sector" is represented by TSA, directly excluding the French State. Since January 29, 2018, the public institution EPIC Bpifrance has held all TSA capital, apart from one preferred share 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 January 16, 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 as at December 31, 2021.
- (b) As at December 31, 2021, Dassault Aviation holds 42,154,349 directly registered shares, of which 41,154,349 have been held for more than two years and therefore have double voting rights as at December 31, 2021, and also holds 10,377,082 bearer shares.
- (c) Treasury shares comprise 119,745 bearer shares held under a liquidity contract and 373,430 directly registered shares.
- (d) This line shows total employee share ownership. For information purposes, since law No. 2019-486 of May 22, 2019, employee share ownership within the meaning of the French Commercial Code (Article L. 225-102) excludes shares granted free of charge under the LTI Plans prior to 2016 (in the absence of an amendment to the bylaws to include such shares) and amounted, as at December 31, 2021, to 5,257,265 shares and 9,301,119 voting rights, i.e., 2.46% of the capital stock and 3.23% of the exercisable voting rights, respectively.
- (e) During the year 2021, the exercise of stock options led to the creation of 45,351 new shares, with rights as from January 1, 2021.

As at December 31, 2021, there were no securities giving access to the Company's capital.

13.2 Reserves and retained earnings

	12/31/20	Allocation of 2020 earnings	2020 dividend balance	2021 interim dividend	12/31/21
Legal reserve	64.0	–	–	–	64.0
Blocked reserve	8.3	–	–	–	8.3
Ordinary reserve	128.9	–	–	–	128.9
Other reserves	0.3	–	–	–	0.3
Retained earnings	2,014.2	509.3	(289.6)	(127.4)	2,106.5
TOTAL	2,215.7	509.3	(289.6)	(127.4)	2,308.0

For financial year 2020, Thales distributed EUR 374.7 million in dividends (or EUR 1.76 per share), including EUR 85.1 million in interim dividends in December 2020, and EUR 289.6 million in the balance paid in June 2021.

For the financial year 2021, Thales distributed an interim dividend of EUR 127.4 million in December 2021.

Note 14. Treasury shares

14.1 Accounting principles

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

At year-end, these shares are recorded and valued according to their allocation:

- Treasury shares that have not been assigned are recorded under other financial investments at their acquisition cost. At year-end, an impairment loss is recorded if the book value is higher than the average market price for the month of December;
- Treasury shares assigned to a free share plan and to employee share ownership are recorded under marketable securities either at their acquisition cost (if the shares were allocated from the beginning of the plan) or at their net carrying value at the reclassification date (if they were allocated 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:

- a provision for expenses is recorded in liabilities for shares granted to employees of Thales (the parent company) on a straight-line basis over the duration of the plan (i.e., 48 months). A provision is also recorded in liabilities for plans not covered by allocated shares;
- 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-invoiced to the relevant subsidiaries for the same amount.

14.2 Change in treasury shares

Change in the number of treasury shares

	2021			2020		
	Freely transferable treasury shares	Treasury shares assigned to plans	Total treasury shares	Freely transferable treasury shares	Treasury shares assigned to plans	Total treasury shares
As at January 1	497,596	—	497,596	517,381	43,485	560,866
Purchases under the liquidity contract	1,413,610	—	1,413,610	1,310,502	—	1,310,502
Disposals for liquidity purposes	(1,494,365)	—	(1,494,365)	(1,285,002)	—	(1,285,002)
Transfer to employees (employee share purchase plan)	—	(563,536)	(563,536)	—	(42,645)	(42,645)
Stock market purchases	190,000	600,000	790,000	180,000	—	180,000
Delivery of free shares	(150,130)	—	(150,130)	(226,125)	—	(226,125)
Reclassified shares	—	—	—	840	(840)	—
Net change	(40,885)	36,464	(4,421)	(19,785)	(43,485)	(63,270)
As at December 31	456,711	36,464	493,175	497,596	—	497,596

Change in the value of treasury shares

Freely transferable treasury shares	2021	2020
As at January 1	38.6	52.2
Purchases under the liquidity contract	112.9	93.9
Disposals for liquidity purposes	(118.9)	(94.8)
Stock market purchases	15.9	12.4
Delivery of free shares	(13.8)	(25.2)
Reclassified shares	–	0.1
As at December 31	34.7	38.6
Impairment	(1.2)	(0.3)
Net as at 31 December	33.5	38.3
Average share price for December	73.4	77.0
Cost of outstanding plans (Thales SA share)	2021	2020
Provisions for contingencies and losses	(8.9)	(11.1)

Treasury shares assigned to plans	2021	2020
As at January 1	–	4.3
Transfer to employees (employee share purchase plan)	(46.8)	(4.2)
Stock market purchases	49.8	–
Reclassified free shares	–	(0.1)
As at December 31 ^(a)	3.0	–

(a) shares allocated to UK employees under the employee share ownership plan.

Note 15. Employee share/option plans

As at December 31, 2021, the following were outstanding:

- 1,034,399 free shares;
- 500,619 *phantom shares*, cash-settled at the end of a 4-year vesting period.

All these plans are subject to internal performance conditions over the three years following the assignment date. Their characteristics are described in Chapter 6.2 of the 2021 Universal Registration Document.

15.1 Outstanding share subscription option plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding as at 12/31/20 ^(a)	Options exercised in 2021	Options canceled in 2021	Number of options outstanding as at 12/31/21
09/15/2011	from 09/15/2015 to 09/14/2021	EUR 26.34	45,351	(45,351)	–	–

(a) After adjustments.

Options granted and exercised in 2021

	Number of options granted/shares subscribed or purchased	Exercise price	Date of plan
1. Directors			
Options allotted in 2021		None	
2. Ten largest option awards granted to employees			
Options allotted in 2021		None	
3. Eight largest exercises of options by employees^(a)			
Options exercised in 2021	2,500	EUR 26.34	09/15/2011
	1,214	EUR 26.34	09/15/2011
	1,315	EUR 26.34	09/15/2011
	1,093	EUR 26.34	09/15/2011
	1,093	EUR 26.34	09/15/2011
	900	EUR 26.34	09/15/2011
	470	EUR 26.34	09/15/2011
	450	EUR 26.34	09/15/2011

(a) All Group companies combined, eight due to the reduced number of options remaining to be exercised in 2021.

15.2 Allotment of free shares

Date of Board decision	Vesting period	Share price at grant date	Number of free shares as at 12/31/20*	Shares allotted in 2021	Shares canceled in 2021	Shares delivered in 2021	Number of free shares as at 12/31/21
07/01/2021	from 07/01/2021 to 07/01/2025	EUR 86.04	—	303,360	(1,410)	—	301,950
11/24/2020	from 11/24/2020 to 11/24/2024	EUR 79.60	375,235	—	(3,185)	—	372,050
09/25/2019	from 09/25/2019 to 09/25/2023	EUR 104.50	239,693	—	(7,736)	(121)	231,836
09/27/2018	from 09/27/2018 to 09/27/2022	EUR 121.75	132,510	—	(3,653)	(294)	128,563
09/28/2017	from 09/28/2017 to 09/28/2021	EUR 94.66	153,028	—	(2,218)	(150,810)	—
							1,034,399

* After adjustments.

15.3 Allotment of phantom shares indexed to the value of Thales shares

Date of Board decision	Vesting period	Balance of phantom shares as at 12/31/20*	Phantom shares allotted in 2021	Phantom shares canceled in 2021	Phantom shares delivered in 2021	Balance of phantom shares as at 12/31/21
07/01/2021	from 07/01/2021 to 07/01/2025	—	103,880	(2,920)	—	100,960
11/24/2020	from 11/24/2020 to 11/24/2024	224,160	—	(7,890)	(750)	215,520
09/25/2019	from 09/25/2019 to 09/25/2023	154,575	—	(10,884)	(855)	142,836
09/27/2018	from 09/27/2018 to 09/27/2022	45,062	—	(3,252)	(507)	41,303
09/28/2017	from 09/28/2017 to 09/28/2021	46,961	—	(19)	(46,942)	—
						500,619

* After adjustments.

Note 16. Inventories, receivables and payables

16.1 Inventories

At year-end 2021, inventories included work-in-progress in connection with the Company's real estate and research activities. The change in inventories between 2020 and 2021 corresponds mainly to protective equipment (masks, gels, etc.) purchased due to Covid-19. This inventory has been valued at 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 (the parent company) hedges foreign exchange risks related to contracts or normal commercial transactions on behalf of its subsidiaries.

Temporary cash flow differences between amounts received from/paid to subsidiaries and Thales' receipts/disbursements to banks in connection with the management of foreign exchange derivatives are recognized in the balance sheet under 'Translation adjustment', in accordance with the principle of symmetry applicable to hedging transactions.

16.3 Breakdown of receivables and payables

			12/31/21	12/31/20
	Gross	Provisions	Net	Net
Advances to suppliers	0.1	–	0.1	0.1
Trade receivables	191.8	(2.2)	189.6	149.3
Other receivables	260.5	(4.1)	256.4	301.0
French state, corporate income tax	128.0	–	128.0	114.5
Tax and social security receivables	31.9	–	31.9	30.2
Other ^(a)	100.6	(4.1)	96.5	156.3
TOTAL	452.4	(6.3)	446.1	450.4
Advances received on orders in progress	25.4	–	25.4	23.3
Trade payables	70.5	–	70.5	99.9
Other liabilities	235.1	–	235.1	276.1
Tax liabilities towards consolidated subsidiaries	55.8	–	55.8	89.4
Tax liabilities excluding corporate income tax and social security	96.7	–	96.7	78.3
Other ^(b)	82.6	–	82.6	108.4
TOTAL	331.0	–	331.0	399.3

(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 as at December 31, 2021

	Net	Maturity		
		< 1 year	1 to 5 years	> 5 years
Advances to suppliers	0.1	0.1	—	—
Trade receivables	189.6	189.6	—	—
Other receivables	256.4	238.9	8.1	9.4
TOTAL RECEIVABLES	446.1	428.6	8.1	9.4
Advances received on orders in progress	25.4	25.4	—	—
Trade payables	70.5	70.5	—	—
Other liabilities	235.1	142.3	68.0	24.8
TOTAL LIABILITIES	331.0	238.2	68.0	24.8

Note 17. Provisions for contingencies and losses

17.1 Accounting principles

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

Provisions for post-employment and other employee benefits

The financing of pensions mainly involves statutory retirement schemes (social security supplementary schemes such as ARRCO and AGIRC, etc.) for which the recognized 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 no. 2013-02, a provision is recognized 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, which consists of assessing, for each employee, the present value of the benefits to which he or she will be entitled at the due date, incorporates assumptions concerning financial discounting, inflation, mortality and employees turnover.

These plans are recognized in the company's financial statements as follows:

- the service cost, corresponding to the increase in the obligation during the reporting period, is recognized in operating income/expense;
- 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 recognized in financial income;
- the impact of plan amendments following renegotiations of employee benefits is recognized in non-recurring income.

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 shareholder equity of the subsidiary or affiliate becomes negative, a provision for subsidiary risks may be recognized when necessary.

Provisions for restructuring

Provisions for restructuring costs are recorded when a restructuring program 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 costs.

17.2 Breakdown of provisions

	12/31/20	Provisions	Reversal	12/31/21
Post-employment and other employee benefits (see Note 17.3).	131.7	11.8	(15.2)	128.3
Subsidiary risks	22.4	19.7	(17.1)	25.0
Restructuring	1.5	–	–	1.5
Free shares	11.1	3.0	(5.2)	8.9
Other	41.8	8.1	(1.0)	48.9
TOTAL	208.5	42.6	(38.5)	212.6

17.3 Post-employment and other employee benefits

The provisions in the balance sheet may be broken down as follows:

	2021		
	pensions	Other benefits	Total
Provision as at December 31, 2020	(127.6)	(4.1)	(131.7)
Net reversal of provisions, of which:	3.1	0.3	3.4
Current service cost:	(5.4)	(0.2)	(5.6)
Financial expense:	0.9	0.2	1.1
• Net interest cost	(0.4)	–	(0.4)
• Actuarial gains/losses	1.3	0.2	1.5
Benefits and contributions paid	4.9	0.3	5.2
Plan amendment	0.5	–	0.5
Other	2.2	–	2.2
Provision as at December 31, 2021	(124.5)	(3.8)	(128.3)
Of which:			
• Commitments	(171.8)	(3.8)	(175.6)
• Investments	47.3	–	47.3

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

	12/31/21	12/31/20
Discount rate	0.74%	0.35%
Inflation rate	1.50%	1.00%

Note 18. Legal risks

As at the date of publication of this document, there are no governmental, 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	12/31/21	12/31/20
Guarantees given by Thales under commercial contracts signed by operating entities	9,902.4	9,813.7
Guarantees given to banks for facilities granted to subsidiaries	3,497.7	2,824.0
Counter-guarantee given to the trustees to cover Thales' pension obligations in the UK	1,161.3	1,069.4
Other guarantees given to Group subsidiaries	635.7	688.7
Other guarantees given	453.4	441.8
Total^(a)	15,650.5	14,837.6
Of which, relating to Thales direct subsidiaries (see Note 23)	3,453.2	2,862.0
Of which, related to other Group subsidiaries	11,950.6	11,580.1
Of which, related to direct and indirect affiliates	246.8	395.5

Commitments received	12/31/21	12/31/20
Debt write-offs granted to related companies with clawback provisions	4.3	6.7

(a) The increase in guarantees between 2020 and 2021 is explained at EUR 558.3 million by changes in exchange rates.

19.2 Property leasing commitments

	12/31/21	12/31/20
Operating leases	760.7	822.3
Less than 1 year	105.8	108.1
From 1 to 5 years	380.5	378.2
More than 5 years	274.4	336.0

Note 20. Market risks

20.1 Accounting principles

The Thales parent company's 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 recognized in the same period as the hedged item.

Currency derivatives

Thales hedges foreign exchange risks arising on commercial offers entered into by its subsidiaries and 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 recognized in income at the same rate as the gains and losses realized 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 as isolated open positions. In this case, the market value of the derivative is recognized 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' 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 recognized in income at the same rate as the gains and losses realized 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 management 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

As at December 31, 2021 and 2020, the Company holds the derivative instruments described below. All these instruments are qualified as hedges.

INTEREST RATE DERIVATIVES	12/31/21		12/31/20	
	Nominal	Market value	Nominal	Market value
Fixed-for-floating interest rate swaps				
• swaps backing bonds maturing in 2023	400.0	4.0	400.0	7.9
• swaps backing bonds maturing in 2021	—	—	300.0	5.1
Floating-for-fixed interest rate swaps				
• refixing swaps/bonds maturing in 2023	400.0	(5.7)	400.0	(10.4)
• refixing swaps/bonds maturing in 2021	—	—	300.0	(1.0)
• pre-hedging swap related to bonds maturing in 2024 ^(a)	—	(1.6)	—	(2.1)
• cross-currency swap backing a loan	—	—	—	—
• swaps backing a loan	0.9	—	1.2	—

(a) Swaps of EUR 500 million put in place prior to the issue, returned on the issue date (April 2018).

20.3 Foreign exchange risk management

As at December 31, 2021 and 2020, the derivatives subscribed by Thales with bank counterparties were as follows:

	12/31/21					12/31/20	
	USD	GBP	Other	Total	Market value	Total	Market value
Hedges of commercial offers and transactions:							
Forward currency sales	3,170.5	1,032.4	1,846.1	6,049.0	(99.6)	5,977.4	88.4
Forward currency purchases	1,084.5	945.3	1,841.5	3,871.3		3,578.7	
Currency sales (call and put options)	23.6	10.1	3.7	37.4	0.4	83.9	5.6
Currency purchases (call and put options)	11.9	—	23.6	35.5		365.0	
Hedges related to cash management:							
Currency sales: foreign exchange swaps	1,356.0	—	246.0	1,602.1	(36.4)	1,574.7	25.3
Currency purchases: foreign exchange swaps	75.1	1,188.1	435.0	1,698.1		1,313.9	

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 respective contract.

Note 21. Related parties

21.1 Definition

The Group's related parties are: the shareholders of the parent company Thales (notably the French State and Dassault Aviation), companies controlled by these same shareholders, companies under joint control, companies under significant influence, and management.

21.2 Agreements with Thales shareholders

Section 6.2.3.3 of the 2021 Universal Registration Document describes the main provisions relating to the shareholders' agreement governing the relationship between the French State (the "Public Sector") and Dassault

Aviation (the "Industrial Partner") within Thales, the agreement on the protection of national strategic interests, and the specific agreement between the French State and Thales.

21.3 Agreements with Naval Group

Since December 2011, Thales has held a 35% stake in Naval Group, a subsidiary jointly controlled with the French government.

Thales and Naval Group have also signed an industrial and commercial cooperation agreement designed to optimize the two groups' activities in the naval sector (market access, R&D, procurement).

21.4 Executive compensation (a)

The compensation, benefits, and social security contributions relating to the Directors and the Executive Committee break down as follows:

	2021	2020
Short-term benefits:		
• Fixed remuneration	5.2	5.5
• Variable remuneration	6.7	2.7
• Severance pay	0.8	2.4
• Employer's social security contributions	4.3	3.2
• Directors' fees	0.6	0.6
Other benefits (b):		
• pensions	3.2	3.8
• share-based payments ^(c) (see Note 15)	3.4	1.5

(a) The items retained correspond to costs recorded in the parent company's accounts.

(b) Including social security contributions.

(c) Valued in accordance with IFRS 2 – share-based payments.

As at December 31, 2021, the share of pension liabilities for senior executives (see Note 17.3) amounted to EUR 17.2 million.

Note 22. Events after the reporting period

Following Russia's invasion of Ukraine, the Group initiated a survey of the operational and financial consequences of this crisis. The impact of this crisis on 2022 revenues from these two countries is currently estimated at around EUR 100 million.

Other possible impacts, including on the space activity supply chain, are being assessed.

Note 23. Subsidiaries and affiliates

(in millions) Company data (in local currency)

			Previous financial year revenues, excluding tax	Previous financial year earnings	Share capital	Shareholder equity, other than share capital
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A. Detailed information on subsidiaries and associates whose gross value exceeds 1% of the Company's share capital

1. Subsidiaries	GEMALTO B.V	EUR	12.6	216.3	88.6	2,535.8
	THALES HOLDING UK PLC	GBP	—	(1.3)	726.8	400.3
	THALES AVS FRANCE	EUR	1,309.9	60.5	213.1	113.5
	THALES DMS FRANCE SAS	EUR	1,899.1	318.5	122.2	353.0
	THALES LAS FRANCE	EUR	1,908.9	179.0	199.8	505.5
	THALES USA Inc.	USA	55.7	(75.5)	381.0	558.9
	THALES ALENIA SPACE SAS	EUR	—	43.2	918.0	569.5
	THALES DIS FRANCE SA	EUR	—	202.7	669.5	148.0
	THALES MANAGEMENT & SERVICES DEUTSCHLAND GMBH	EUR	—	(1.3)	27.1	264.5
	THALES INTERNATIONAL SAS	EUR	—	27.7	313.0	44.0
	AVIMO GROUP Ltd	SGD	—	0.1	22.1	34.5
	THALES NETHERLAND BV	EUR	474.8	19.2	29.5	299.9
	THALES DIGITAL FACTORY	EUR	12.7	(32.0)	40.1	20.8
	THALES UNDERWATER SYST NV NETHERLANDS	EUR	—	—	4.5	4.1
	THALES SERVICES NUMERIQUES SAS	EUR	486.0	20.0	1.5	212.7
	SIFELEC	EUR	—	—	38.3	4.5
	CRYSTAL SAS	EUR	—	—	18.4	15.2
	THALES AVIONICS ELECTRICAL SYSTEMS S.A.S	EUR	98.9	(9.2)	6.9	18.7
	THALES EUROPE SAS	EUR	—	(9.2)	23.2	1.3
	THALES HOLDING NORWAY AS	NOK	—	—	419.8	(186.9)
	THALES CORPORATE VENTURES SAS	EUR	—	(0.3)	15.0	8.4
	THALES CANADA Inc.	CAD	499.8	16.9	20.8	(96.3)
	THALES BELGIUM S.A.	EUR	102.1	10.3	31.9	(14.4)
	THALES IMMOBILIER GROUPE	EUR	—	2.7	20.0	13.8
	THALES SESO SAS	EUR	10.0	(1.8)	0.4	7.3
	THALES GLOBAL SERVICES SAS	EUR	647.2	4.1	0.5	12.5
	THALES SUISSE SA	CHF	45.1	10.4	40.0	8.9
	CMT MEDICAL TECHNOLOGIES LTD	USD	15.6	(1.4)	1.0	27.5
	THALES COMMUNICATIONS Ltda	BRL	—	—	—	—
Subsidiaries total						
2. Affiliates	NAVAL GROUP	EUR	4,052.9	196.6	563.0	158.3
	TELESPAZIO SpA	EUR	605.0	37.5	50.0	218.8
	ELETTRONICA SPA	EUR	—	13.5	—	92.5
	LYNRED	EUR	232.0	25.9	6.0	143.6
	UNITED MONOLITHIC SEMICONDUCTORS HOLDING	EUR	—	—	33.9	12.9

Affiliates total

TOTAL (A)

B. Detailed disclosures concerning other subsidiaries and affiliates

1. Subsidiaries not listed in section A

French subsidiaries

Foreign subsidiaries

Total

2. Affiliates not listed in section A

In French companies

In foreign companies

Total

TOTAL (B)

OVERALL TOTAL (A+B)

Information concerning related companies

Direct subsidiaries of Thales^(A)

Direct subsidiaries of Thales^(B)

Other Group subsidiaries

Contribution of subsidiaries and affiliates to Thales' financial statements (EUR)							
Carrying amount (gross value)	Carrying amount (net value)	Share capital held	Loans and advances granted by Thales not yet paid	Receivables	Liabilities	Deposits and guarantees given by Thales	Dividends received by Thales during the financial year
4,762.4	4,762.4	100%	–	442.5	250.1	–	–
2,571.7	1,870.1	100%	523.6	5.3	433.3	–	–
1,016.0	1,016.0	93%	–	–	628.4	185.8	–
802.6	802.6	100%	–	17.1	2,385.2	531.2	255.8
754.9	754.9	100%	–	–	1,390.4	117.8	65.4
710.6	710.6	100%	–	156.8	–	1,103.7	–
683.1	683.1	67%	–	–	34.4	–	–
590.8	590.8	82%	–	39.8	216.9	46.3	131.2
545.0	545.0	100%	–	–	98.9	240.3	–
398.5	398.5	100%	–	163.4	–	6.0	21.3
250.7	116.8	100%	–	–	–	–	0.8
235.2	235.2	99%	–	5.8	451.6	132.5	–
155.7	–	100%	–	90.8	–	–	–
129.2	8.5	100%	–	–	–	–	–
126.4	126.4	100%	–	–	64.1	38.8	12.4
113.8	113.8	100%	–	–	32.1	–	–
111.0	85.5	100%	10.0	–	–	–	–
94.6	50.2	100%	–	24.4	1.6	–	–
88.2	88.2	100%	–	133.2	–	–	–
77.1	77.1	100%	–	–	–	–	–
73.3	14.6	100%	–	–	10.1	–	–
63.7	63.7	100%	–	3.7	150.5	819.5	–
53.2	53.2	100%	–	37.1	0.7	48.0	–
40.0	36.6	100%	–	90.2	4.3	–	0.7
36.4	–	100%	–	5.6	–	–	–
33.4	–	100%	–	37.1	0.2	–	–
26.4	26.4	100%	–	2.4	1.5	–	7.4
21.8	21.8	100%	–	–	–	–	–
11.0	–	100%	–	–	–	–	–
14,576.7	13,252.0		533.6	1,255.2	6,154.3	3,269.9	495.0
833.7	833.7	35%	–	–	–	–	–
89.8	89.8	33%	5.8	–	–	–	10.6
26.7	26.7	33%	–	–	–	–	3.7
26.4	26.4	50%	–	–	–	–	9.0
24.3	23.4	50%	–	–	–	–	–
1,000.9	1,000.0		5.8	–	–	–	23.3
15,577.6	14,252.0		539.4	1,255.2	6,154.3	3,269.9	518.3
9.4	6.5		–	5.1	10.2	–	0.7
0.7	0.1		–	–	–	–	–
10.1	6.6		–	5.1	10.2	–	0.7
12.7	12.7		–	–	–	–	–
20.1	16.7		–	73.1	0.2	183.3	0.1
32.8	29.4		–	73.1	0.2	183.3	0.1
42.9	36.0		–	78.2	10.4	183.3	0.8
15,620.5	14,288.0		539.4	1,333.4	6,164.7	3,453.2	519.1
			533.6	1,255.2	6,154.3	3,269.9	495.0
			–	5.1	10.2	–	0.7
			5.8	73.1	0.2	183.3	23.4

Investments made and thresholds crossed in French companies in financial years 2020 and 2021

Percentage of Investment owned (in thousands of euros)	As at 12/31/20					As at 12/31/21				
	>5%	>20%	>33%	>50%	>66%	>5%	>20%	>33%	>50%	>66%
1. Increases										
194 Centelec SAS	—	—	—	—	—	—	—	—	—	100%
195 Centelec SAS	—	—	—	—	—	—	—	—	—	100%
193 Centelec SAS	—	—	—	—	100%	—	—	—	—	—
Crystal SAS	—	—	—	—	97.1%	—	—	—	—	100%
2. Decreases										
192 Centelec SAS	—	—	—	—	—	—	—	—	—	100%
193 Centelec SAS	—	—	—	—	—	—	—	—	—	100%
195 Centelec SAS	—	—	—	—	—	—	—	—	—	100%
SAS Châtelleraut Brelandière	—	—	—	—	—	—	—	—	—	100%
SAS Etreilles	—	—	—	—	—	—	—	—	—	100%
Cholet Parc SAS	—	—	—	—	—	—	—	—	—	100%
SAS Immeubles Pour l'Electronique	—	—	—	—	—	—	—	—	—	100%
SAS Saint Heand	—	—	—	—	—	—	—	—	—	100%
Gerac SAS	—	—	—	—	100%	—	—	—	—	—
SAS Pessac	—	—	—	—	100%	—	—	—	—	—
MIG Sud	—	—	—	—	99.90%	—	—	—	—	—
Eurotradia	16.53%	—	—	—	—	—	—	—	—	—
Sofresa	11.02%	—	—	—	—	—	—	—	—	—

Note 24. Information on existing branches (Article L. 232-1 II of the French Commercial Code)

As at December 31, 2021, Thales had a secondary facility registered in France with the Companies Register and indicated on its Kbis company registration certificate.

7.2.2.6 Company financial summary for the last five years

	2017	2018	2019	2020	2021
1. Share capital at year-end					
Share capital	638.0	639.3	640.0	640.1	640.2
Number of ordinary shares outstanding	212,658,725	213,104,081	213,317,506	213,365,958	213,411,309
Maximum number of shares to be created in future by exercise of share subscription options	783,204	309,738	93,803	43,305	0
2. Operations and results for the year					
Revenues excluding tax	258.5	228.6	252.5	237.8	245.2
Earnings before tax, employee profit sharing, depreciation, amortisation and provisions	337.4	443.4	479.9	462.7	450.3
Income tax	9.8	61.4	43.1	78.9	50.3
Earnings after tax, employee profit sharing, depreciation, amortisation and provisions	383.8	453.4	501.9	509.3	452.2
Distributed net profit	371.0	442.0	127.3	374.7	127.4 ^(a)
3. Earnings per share					
Earnings after tax and employee profit sharing but before amortisation, depreciation and provisions	1.63	2.37	2.45	2.54	2.35
Earnings after tax, employee profit sharing, depreciation, amortisation and provisions	1.80	2.13	2.35	2.39	2.12
Net dividend per share	1.75	2.08	0.60	1.76	2.56 ^(b)
4. Employees					
Average headcount during the year, of which:	812	828	876	873	849
• Engineers and managers	723	736	790	792	779
• Technicians and supervisors	89	92	86	81	70
Personnel expenses, of which:	207.7	226.4	232.1	212.7	222.4
• Total wage bill for the financial year	151.2	164.5	165.0	151.5	156.6
• Social security and other social welfare benefits paid during the financial year	56.5	61.9	67.1	61.2	65.8

2017: Capital increased from EUR 636,584,298.0 to EUR 637,976,175.0 following a capital increase.

2018: Capital increased from EUR 637,976,175.0 to EUR 639,312,243.0 following a capital increase.

2019: Capital increased from EUR 639,312,243.0 to EUR 639,952,518.0 following a capital increase.

2020: Capital increased from EUR 639,952,518.0 to EUR 640,097,874.0 following a capital increase.

2021: Capital increased from EUR 640,097,874.0 to EUR 640,233,927.0 following a capital increase.

(a) Interim dividend.

(b) Subject to approval by the Annual General Meeting of May 11, 2022.

7.3 Statutory auditors' reports

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 regulations 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, 2021.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2021 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 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 Consolidated Financial Statements* section of our report.

- **Independence**

We conducted our audit engagement in compliance with the independence requirements of the French Commercial Code (*Code de commerce*) and the French Code of Ethics for statutory auditors (*Code de déontologie de la profession de commissaire aux comptes*) for the period from January 1, 2021 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.

Emphasis of Matter

We draw your attention to the matter described in Note 1.1 to the consolidated financial statements relating to a change in accounting policy following the decision of the IFRS Interpretations Committee regarding the principles to be applied when attributing retirement benefit to periods of service for a defined benefit plan. Our opinion is not modified in respect of this matter.

Justification of Assessments – Key Audit Matters

Due to the global crisis related to the Covid-19 pandemic, the financial statements for this period have been prepared and audited under special circumstances. Indeed, this crisis and the exceptional measures taken in the context of the health emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties regarding their future prospects. Some of these measures, such as travel restrictions and remote working, have also had an impact on companies' internal organization and on the performance of audits.

It is in this complex, 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 (CGU)

Risk identified

As at December 31, 2021, goodwill amounts to M€5,202.9 and other tangible and intangible assets amount to M€5,350.

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 "main sources of estimations" and 4.1 b) "impairment tests" to the consolidated financial statements, taking into account the consequences of the Health crisis related to Covid-19.

The valuation of 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 annual impairment tests of cash-generating units (CGU) to be a key audit matter.

Our response

With our valuation experts integrated to the audit team, our work mainly 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 assets' value in use 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 and the financial performance of the fiscal year;
- examining the consistency of the first-two-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' value in use 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 "Property, plant and equipment and intangible assets" to the consolidated financial statements.

Recognition of revenue and contract costs

Risk identified

A significant part of your 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 (M€10,830.4 as at December 31, 2021). Regarding contracts whose transfer of control is carried out at completion, revenue is recognized at the time of such completion (M€5,361.6 as at December 31, 2021).

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, 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 your Group and the level of estimates required by Management to determine results at completion.

Our response

Our work mainly consisted in:

- evaluating your 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 significant contracts due to their financial impact and risk profile, and interviewing the account managers and the managements of the Global Business Units, 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, your 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 your Group;
 - assess 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.

Lastly, we also assessed the appropriateness of the information provided in Note 13-d "Operating assets and liabilities" and 10.2 "Contract assets and liabilities" to the consolidated financial statements regarding contract assets and liabilities.

Litigation

Risk identified

Your 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 technical and commercial litigation.

Your 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 your 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 your Group's income and the shareholders' equity, should these estimates change.

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 said 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 preparation of the consolidated financial statements intended to be included in the annual financial report**

We have also verified, in accordance with the professional standard applicable in France relating to the procedures performed by statutory auditors regarding the annual and consolidated financial statements prepared in the European single electronic format, that the preparation of the consolidated financial statements intended to be included in the annual financial report mentioned in Article L. 451-1-2, 1 of the French Monetary and Financial Code (*Code monétaire et financier*), prepared under the Chief Executive Officer's responsibility, complies with the single electronic format defined in Commission Delegated Regulation (EU) No. 2019/815 of December 17, 2018. Regarding consolidated financial statements, our work includes verifying that the tagging thereof complies with the format defined in the above-mentioned regulation.

Our response

The procedures relating to commercial contracts litigation are included in our response presented in the previous key audit matter.

Regarding the other technical and commercial litigation, our work mainly consisted in:

- familiarizing ourselves with ongoing procedures within your 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 your 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.

On the basis of our work, we conclude that the preparation of the consolidated financial statements intended to be included in the annual financial report complies, in all material respects, with the European single electronic format.

We have no responsibility to verify that the consolidated financial statements that will ultimately be included by your Company in the annual financial report filed with the AMF (*Autorité des marchés financiers*) agree with those on which we have performed our work.

- **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, 2021, MAZARS was in the thirty-ninth year and ERNST & YOUNG Audit in the nineteenth year of total uninterrupted engagement.

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 and Accounts Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk 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 made 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 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 significant deficiencies, if any, 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 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 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 as set out in particular in Articles L. 822-10 to L. 822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics for statutory auditors (*Code de déontologie de la profession de commissaire aux comptes*). 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.

Paris-La Défense, March 3, 2022

The statutory auditors French original signed by

Mazars

Grégory Derouet
Dominique Muller

Ernst & Young Audit

Vincent Gauthier
Jean-François Ginies

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 Meetings 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, 2021.

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, 2021 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, 2021 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.

Emphasis of Matter

We draw attention to the following matter described in Note 1 to the financial statements relating to a change in accounting policy regarding the principles to be applied when attributing retirement benefits to period of service for a defined benefit plan, in accordance with the first implementation of the ANC (*Autorité des Normes Comptables*) recommendation n° 2013-02 of November 7, 2013, modified on November 5, 2021. Our opinion is not modified in respect of this matter.

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 special circumstances. Indeed, this crisis and the exceptional measures taken in the context of the state of health emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Some of these 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, 2021 for a net amount of M€14,288 represent 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 annual financial statements, the inventory value is determined based on profitability forecasts, the underlying assets, recent transactions or the market price of any listed securities.

The inventory value estimate of these equity investments requires the exercise of the Management's judgment in the choice of the information 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 expert in our audit team:
 - appreciating 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 comparing the consistency of:
 - the first two years cash flow projection;
 - the first year budget with the Group's budget submitted to the Board of Directors;
 - the following two-years cash flow projections with the recent management's estimates;
- evaluating the 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 its consistency with the financial statements of the information given in the Board of Directors' management report 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 et 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 the 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 voting rights has been properly disclosed in the management report.

Report on Other Legal and Regulatory Requirements

- **Format of preparation of the financial statements intended to be included in the annual financial report**

We have also verified, in accordance with the professional standard applicable in France relating to the procedures performed by statutory auditors regarding the annual and consolidated financial statements prepared in the European single electronic format, that the preparation of the financial statements intended to be included in the annual financial report mentioned in Article L. 451-1-2, 1 of the French Monetary and Financial Code (*Code monétaire et financier*), prepared under the Chief Executive Officer's responsibility, complies with the single electronic format defined in Commission Delegated Regulation (EU) No. 2019/815 of 17 December 2018.

On the basis of our work, we conclude that the preparation of the financial statements intended to be included in the annual financial report complies, in all material respects, with the European single electronic format.

We have no responsibility to verify that the financial statements that will ultimately be included by your Company in the annual financial report filed with the AMF (*Autorité des marchés financiers*) agree with those on which we have performed our work.

- **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, 2021, MAZARS was in the thirty-ninth year and ERNST & YOUNG Audit in the nineteenth year of total uninterrupted engagement.

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 and Accounts Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk 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 made 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.

Paris-La Défense, March 3, 2022

The statutory auditors French original signed by

Mazars

Grégory Derouet
Dominique Muller

Ernst & Young Audit

Vincent Gauthier
Jean-François Ginies

7.4 Statutory auditors

For the period covered by the historical financial information, Thales' statutory auditors were as follows:

7.4.1 Regular statutory auditors

Mazars

61, rue Henri Regnault
92400 Courbevoie
Represented by Dominique Muller and Gregory Derouet.

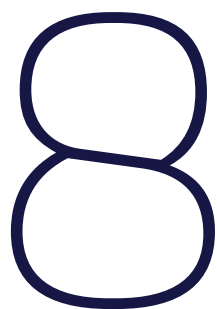
Current term of office conferred by the Annual General Meeting of May 15, 2019, expiring with the audit of the financial statements for the year 2025.

Ernst & Young Audit

1/2, place des Saisons
92400 Courbevoie – Paris-La Défense 1
Represented by Vincent Gauthier and Jean-François Ginies.
Current mandate conferred by the General Meeting of May 6, 2021, expiring with the audit of the financial statements for the year 2026.

7.4.2 Honorary statutory auditors

The amount of fees paid to the statutory auditors of the Thales parent company and to the members of their networks and expensed over the years 2020 and 2021 is detailed in Note 14 of the Consolidated Financial Statements (page 267).



Appendices

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8.1 Attestation of the person responsible for the Universal Registration Document

I hereby attest that, having taken all reasonable care to ensure that such is the case, the information contained in this Registration Document is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its scope.

I hereby attest that, to the best of my knowledge, the financial statements have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and of all the companies included in the consolidation, and that the information included in this Universal Registration Document which is part of the management report, as listed in the cross-reference table on pages 315 and 317, presents a true and fair view of the development of the business, the results and the financial position of the Company and of all the companies included in the consolidation, as well as a description of the principal risks and uncertainties they face.

I have obtained a letter from the statutory auditors indicating that they have completed their audit of the information relating to the financial position and the financial statements, as well as the historical financial statements included by reference herein, and that they have read the entire document.

Paris-La Défense, April 6, 2022

Patrice Caine

Chairman and Chief Executive Officer

8.2 Changes to the structure of the 2021 Universal Registration Document

There are no significant changes in the structure of the 2021 Universal Registration Document as compared to the 2020 Universal Registration Document.

8.3 Historical financial information included by reference

Pursuant to Article 19 of European Commission Regulation 2017/1129, the following information is included by reference in this Universal Registration Document :

- the consolidated financial statements and related audit reports on pages 204 to 254 and 286 to 289 of the 2020 Reference Document, filed with the *Autorité des marchés financiers* (AMF) on April 12, 2021;
- the financial information, key figures, description of the main activities and presentation of the Group's results and situation on pages 6, 8 and 9, and 323 to 41, respectively, of the 2020 Reference Document filed with the *Autorité des marchés financiers* (AMF) on April 12, 2021;
- the consolidated financial statements and related audit reports on pages 182 to 232 and 264 to 267 of the 2019 Reference Document, filed with the *Autorité des marchés financiers* (AMF) on April 08, 2020;
- the financial information, key figures, description of the main activities and statement of the Group's results and position on pages 6, 15 and 32 to 40, respectively, of the 2019 Reference Document filed with the *Autorité des marchés financiers* (AMF) on April 8, 2020.

The parts of these documents which are not included by reference in this document are either not applicable to the investor or are covered by another part of the Universal Registration Document.

8.4 Cross-reference table for the annual financial report and the management report

The cross-reference table below identifies the information in this Registration Document that constitutes the annual financial report required by Articles L. 451-1- 2 of the French Monetary and Financial Code and 222-3 of the AMF General Regulation. It includes the information required for the annual management report to be prepared by the Board of Directors in accordance with Articles L. 225-100 et seq. of the French Commercial Code.

For more details, please refer to the cross-reference table of the Extra-Financial Performance Statement in section 8.7 below.

	Section of the 2021 Universal Registration Document	Page(s)
Article L. 225-100-1 of the French Commercial Code:		
Analysis of the development of the business	1, 2.1, 2.2, 2.3	4, 16, 28, 30
Analysis of results	2.3	30
Analysis of the financial situation, including debt	2.3.7	38
Key financial and non-financial performance indicators (relating to the specific activities of the Company and the Group)	1, 2.3, 5.3	4, 30, 123
Main risks and uncertainties	3	45
Objectives and policy with respect to the coverage of each major category of transactions	3.1.2, 3.3.1, 7.1.6, Note 6	49, 60, 236
Exposure to price, credit, liquidity and cash risks	3.1.2, 3.3.1, 3.4, 7.1.6, Note 6	49, 60, 62, 236
Information on the use of financial instruments	3.3.1, 7.1.6, Note 6	60, 236
Article L. 22-10-35 of the French Commercial Code:		
Information on the financial risks related to the effects of climate change and measures taken to reduce them	3.1.7, 5.2, 5.5.2, 5.5.3	55, 119, 145, 159
Main features of internal control and risk management procedures relating to the preparation and processing of accounting and financial information	3.4	62
Article L. 225-102 of the French Commercial Code:		
Employee shareholding as of the last day of the fiscal year (proportion of capital represented)	1, 6.2.1.2, 6.2.3.1, 6.2.3.7, 7.2.2.5, Notes 14 and 15	4, 198, 200, 208, 288, 289
Article L. 225-102-1 of the French Commercial Code:		
Non-Financial Performance Statement	8.7	
Art. L. 225-37-1 of the French Commercial Code:		
Equal opportunity and equal pay policy	5.4.1, 5.4.2	125, 129
Art. L. 225-102-4 of the French Commercial Code:		
Vigilance plan	5.7.6	175
Art. L. 225-102-2 of the French Commercial Code:		
Information on "Seveso" classified sites	5.5.1.3.2	143
Article L. 232-1 of the French Commercial Code:		
Situation during financial year 2021	2.3	30
Foreseeable evolution of the situation and future prospects	2.3.9	38
Significant events after the end of the 2021 financial year	7.1.6, Note 12, 7.2.2.5, Note 22	261, 297
Research and development activities	2.2	28
Existing branches	7.2.2.5, Note 24	300
Article L. 233-6 of the French Commercial Code:		
Significant equity investments in companies headquartered in France	7.2.2.5, Note 23	298
Activities and results of Thales SA, the parent company	2.5.1.2, 2.5.1.3, 7.2	42, 269
Activities of Thales SA subsidiaries in financial year 2021	7.2.2.5, Note 23	298
Article L. 233-13 of the French Commercial Code:		
Identities of the principal shareholders and holders of voting rights at General Meetings, and changes during the financial year	6.2.1.2, 6.2.3.2	198, 201
Structure, changes in the Company's capital and crossing of thresholds in the Company in 2021	6.2.1.2, 6.2.3.3.3	198, 202

	Section of the 2021 Universal Registration Document	Page(s)
Article R. 225-102 of the French Commercial Code: Table of results for the last 5 financial years	7.2.2.6	301
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	204, 288
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, 6.2.2.1.2, 6.2.3.5.1, 4, 7.1.6, Note 9.4, 7.2.2.5, Note 15	199, 206, 207, 256, 289
Articles L. 233-7 and L. 233-13 of the French Commercial Code: Shareholder information	6.2	197
Article R. 228-90 (1) of the French Commercial Code: Mention of possible adjustments for securities giving access to capital in the event of share buybacks or financial transactions	N/A	
Article D. 441-4 of the French Commercial Code: Information on the payment terms of suppliers and customers	7.2.1.2	269
Articles L. 233-29, L. 233-30 and R. 233-19 of the French Commercial Code: Disposal of cross-holdings	N/A	
Articles L. 511-6 and R. 511-2- 1-3 of the French Monetary and Financial Code: Amount of loans with a maturity 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 Regulation: Information on transactions in the Company's shares by directors and related persons	4.6	115
Article 243a of the French General Tax Code: Dividends distributed for the last 3 financial years	6.4.1.4	213
Article 223c of the French General Tax Code: Amount of non-deductible expenses and charges and the resulting tax	7.2.2.5, Note 6	281
Article 464-2 of the French Commercial Code: Injunctions or financial penalties for anti-competitive practices	N/A	
Law no. 2016/1691 of December 9, 2016 known as "Sapin 2"	5.7.6.5	178
Anti-corruption mechanism	5.6.1	165
Regulation (EU) 2020/852 of June 18, 2020 and Delegated Regulations (EU) 2021/2178 of July 6, 2021 and 2021/2139 of June 4, 2021 "Environmental taxonomy" statement	5.5.4	163
Financial Statements:		
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Parent company management report	7.2.1, 7.2.2.5, Note 9	269, 283
Statutory auditors' report on related-party agreements	6.3.4	210

8.5 Cross-reference table for the Corporate Governance Report

On the recommendation of the Governance and Compensation Committee, the Board of Directors approved the Corporate Governance Report at its meetings of March 2 and 30, 2022, and instructed its Chairman to report to the Annual General Meeting of May 11, 2022 on the same. Before being submitted to the Governance and Compensation Committee, this report was prepared by representatives of the Corporate Secretary's Office, the Finance Department, and the Group Human Resources Department.

The following cross-reference table identifies, in this Registration Document and in order to facilitate the interpretation hereof, the information that constitutes the aforementioned Board's Corporate Governance Report, as provided for in Articles L. 225-37 last indent, L. 22-10-8 to L. 22-10-11, and L. 225-37-4 of the French Commercial Code.

Type of information	Section of the 2021 Universal Registration Document	Page(s)
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Composition and operation of the Board of Directors	4.2.1	80
Methods for the exercise of General Management	4.2.1	80
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Allocation and retention of options by corporate officers	N/A	
Allocation and retention of free shares to executive directors	N/A	

8.6 Cross-reference table – Annexes I and II of Commission Delegated Regulation (EU) 2019/980

To facilitate the reading of the Universal Registration Document, the following cross-reference table identifies the principal information required by Annexes I and II of Commission Delegated Regulation (EU) 2019/980 of March 14, 2019 and refers to the pages of this Universal Registration Document where the information relating to each of these headings is mentioned.

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Description of the risk related to “vigilance regarding suppliers’ compliance with corporate responsibility issues”	5.2, 5.7.5, 5.7.6	119, 172, 175
Policies, due diligence procedures and results related to regarding suppliers’ compliance with corporate responsibility issues.	5.7.6	175
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<ul style="list-style-type: none"> Measures to combat discrimination and promote diversity and measures taken in favor of people with disabilities 	5.4.2	129
<ul style="list-style-type: none"> Fight against tax evasion 	5.6.3	168
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THALES

Building a future we can all trust

Tour Carpe Diem – Place des Corolles – Esplanade Nord
92400 Courbevoie
France

Tél. : +33 (0)1 57 77 80 00

www.thalesgroup.com

