

UK SHARE OFFER 2004 - FREQUENTLY ASKED QUESTIONS

1. What is a Share Incentive Plan and how does it work?

A Share Incentive Plan (“SIP”) gives employees tax advantages when they buy and/or are given shares in the company they work for. The Thales SIP (the “Plan”) offers to you a combination of Partnership Shares and Matching Shares. The shares will be kept in a trust for you until you either leave your job or you decide to take the shares from the Plan - however, the shares must be kept in the Plan for a specified number of years in order to give you the full tax benefits.

2. What are Partnership Shares and Matching Shares?

Partnership Shares are Thales S.A. shares that you buy and Matching Shares are the Thales S.A. shares that Thales shall give to you depending on how many Partnership Shares you buy. Under the Plan, for every 6 Partnership Shares that you buy, Thales shall give to you 1 free Matching Share.

3. How much can I spend on Partnership Shares?

Under SIP legislation, in any tax year, you can spend up to 10% of your gross salary (i.e. your monthly salary before income tax and national insurance are deducted) on Partnership Shares, subject to a statutory limit of £1,500 per tax year and a minimum of £10. This Offer runs to the end of the current tax year (i.e. up to 05 April 2005) and therefore the above limits apply to the Offer.

4. How many Partnership Shares will I receive?

This depends on a number of factors such as the value of the shares and the exchange rate (as the shares are bought in euros and your contribution is in pounds) and you will receive as many whole shares that can be bought for the amount that you have contributed, but this may be ‘scaled down’ if the Global Offer is over-subscribed. Any money that is left over after buying as many whole shares as possible, or as a result of scaling down, will be returned to you in your next pay.

5. How many Matching Shares will I receive?

You will receive 1 free Matching Share for every 6 Partnership Shares that you purchase.

6. When will I know how many Partnership Shares and Matching Shares I will be getting?

You will not know the exact number of Partnership Shares until after 31 March 2005 (the close of the Accumulation Period) as the shares will be purchased at the lower of the market rate of Thales S.A. shares at either:

- (i) the beginning of the Accumulation Period; or,
- (ii) the day of purchase of the shares which will be on a day not later than 30 days after the close of the Accumulation Period.

Once the number of Partnership Shares that you will receive is known, the Matching Shares can be duly allocated on the 1 for 6 basis and Mourant will send to you a statement detailing your shareholding under the Plan.

7. What if the number of Partnership Shares that I purchase are not in exact multiples of 6?

Matching Shares will only be given on a 1 for 6 basis so, if for example, your contributions are enough to purchase 11 Partnership Shares, then you will still only receive 1 Matching Share.

8. At what price will I be buying the Partnership Shares?

The price will be the market value of Thales S.A. shares on the Euronext Paris stock exchange at either:

- (i) the beginning of the Accumulation Period (i.e. on a date falling between 20 and 31 December 2004); or,
- (ii) the day of purchase of the shares which will be on a day not later than 30 days after the close of the Accumulation Period,

whichever works out to be the lower (which may be affected by the exchange rate).

9. How will I Pay for my Partnership Shares?

Payment for the Partnership Shares will be deducted directly from your gross salary in 3 equal instalments in January, February and March 2005 and each such deduction will be shown on your payslip. (Unless you are paid weekly in which case payment shall be deducted on a weekly basis during these 3 months). However, you must complete the relevant section in the Partnership Share Agreement to authorise the deduction from your salary and you must consider how much you can afford during this period.

10. What is scaling down and how does it work?

The Plan is part of the Thales Global Share Offer for which approximately 800,000 shares are available for acquisition. In the event that the Offer is over-subscribed, the amount of shares that participants will receive will be 'scaled down'. To do this, Thales will meet subscriptions up to the average level of requests and then anything above this will be reduced proportionately.

11. Who can take part in the Plan?

The Plan is open to all employees, regardless of length of service, who satisfy the following criteria; They:

- work for a UK Participating Company as at 19 November 2004; and,
- are ordinarily resident in the UK for tax purposes.

12. What if I participated in a SIP at with a previous employer?

If you have already participated in a SIP with another employer during the 2004/05 tax year then this may affect your eligibility to join the Plan. If this is the case then you should seek independent financial/tax advice before applying to join the Plan.

13. I am a Contract / Temporary worker – can I join the Plan?

If you are a contract or temporary worker, then you may not be eligible to join the Plan. You should speak to your local HR representative before applying to join.

14. I have joined Thales after 19 November 2004 – can I join the Plan?

No, you must have been employed on 19 November 2004.

15. Can a UK employee working overseas, or vice versa, (i.e. on secondment) participate in the Plan?

Anybody can join the Plan as long as they meet the necessary criteria as set out in 11 above.

16. What do I have to do to take part in the Plan?

A pack of documents was sent to you at your home address on or around 19 November 2004, which includes an Explanatory Guide and a Partnership Share Agreement. It is essential that you read and understand these documents. If you wish to join the Plan, you must complete the Partnership Share Agreement carefully, fully and legibly ensuring that you provide all of the information requested. The Agreement should then be signed and returned to Mourant in the pre-paid envelope provided.

17. What happens if I don't received my pack?

If you haven't received your pack you should immediately contact your HR Department.

18. What happens if I am working overseas and my pack is sent to my UK residential address?

You should do whatever you can to address this issue, such as notifying your local HR Department and anybody who is living at your UK residential address so that the documents and Partnership Share Agreement can be forwarded to you.

19. What is the deadline for returning the Agreement?

The fully & legibly completed and signed Agreement must be received at Mourant by no later than Monday 6th December 2004. This is a strict deadline. Please be aware that Agreements received after this date shall not be accepted and neither Mourant nor Thales can be held responsible for any delays in the postal system.

20. What happens if Agreements are incomplete or received late by Mourant?

If an Agreement is either incomplete or is received late it will not be accepted.

21. Will my Agreement be accepted if the post mark date is 6th December?

As mentioned above, Agreements will only be accepted if received by Mourant by no later 6th December 2004, irrespective of the postmark date.

22. Can I fax my Agreement?

All completed Agreements should be sent to Mourant in the pre-paid envelope provided. In exceptional circumstances a faxed copy may be accepted (provided the signed original follows immediately). You should set out in a fax cover note why you have had to send in your application by fax and each so received Agreement will be accepted or rejected then on merit of the given reason(s).

23. Will receipt of my Agreement be acknowledged in writing?

Yes, Mourant shall write to you to acknowledge receipt of your Agreement as soon as possible after receipt.

24. After I have returned my Agreement, can I change my mind and pull out of the Plan?

You can change your mind and pull out of the Plan at any time.

If it is during the Accumulation Period, you should tick box 'B' on a 'Plan Change Form' before completing and returning it to Payroll. Any contributions that you had made would be returned to you in your next pay and shall be subject to tax and NICs in the usual manner.

If it is after the Accumulation Period and if you are not leaving Thales, you would need to send Mourant a Share Sale or Share Transfer Form. You will be liable for any tax or NICs that are payable as well as and costs/fees relating to the sale/transfer of your shares.

25. After I have returned my Agreement can I change my mind and suspend my contributions to the Plan?

Yes, you can elect to suspend the contributions that you are making at any time during the Accumulation Period by ticking box 'A' on a 'Plan Change Form' before completing and returning it to Payroll. Any contributions that you had already made would still be used to buy Partnership Shares under the Plan.

26. After I have returned my Agreement can I increase or decrease the amount that I have elected to contribute to the Plan?

No, you cannot increase the amount that you have elected to contribute to the Plan. You can only decrease the amount by suspending or pulling out of the Plan as mentioned above.

27. What happens if my personal circumstances change, such as change of address or marital status?

If your personal circumstances change, it is essential that you immediately complete & sign a Change of Circumstances Form and return it to both Mourant and your local HR Department. This is an important procedure and is a requirement under the Partnership Share Agreement.

28. If my personal circumstances have changed and I have participated in previous Thales Share Offer(s), do I need to complete a different Change of Circumstances Form for each Offer/Plan?

No, Mourant has administered all of the Thales Share Offers and your personal details are held on one database therefore you would only need to complete, sign and return a Change of Circumstances Form and this will cover all of the Share Offers/Plan. In the event that you have notified us of a change of status and you participated in the 2002 Offer, we will automatically write to you with the options available to you in respect of the shares acquired under the Offer.

29. When can I take my shares out of the Plan?

You can take your Partnership shares out of the Plan at any time. However, you will be liable for tax and NICs if you are not leaving Thales due to a ‘special reason’ or otherwise leaving within 5 years or joining the Plan.

You cannot take your Matching Shares or Dividend Shares out of the Plan within 3 years of receiving such shares, unless you are leaving due to a ‘special reason’.

30. Will I have to automatically remove my shares from the Plan in 2010 (i.e. on the 5 year anniversary of the Plan)?

No, the Plan will continue to run beyond 2010 whilst shares remain in the Plan.

31. What happens if I leave the Company?

If you leave the Company your shares will automatically come out of the Plan and Mourant will write to you to seek your instructions as to whether you wish to sell or transfer your shares.

32. Will I have to pay tax and NICs when the shares are sold or transferred out of the Plan?

If you leave at any time due to a ‘special reason’, such as injury or disability, redundancy, retirement after the age of 50 or death, you will not have to pay income tax or NICs on the shares.

If you leave within 5 years of joining the Plan for reasons such as resignation or dismissal, you will be liable for the income tax and NICs relating to your shares and you can elect to sell enough shares to cover any such liability.

33. Will I have to pay Capital Gains Tax (“CGT”) on the shares?

If you sell the shares directly from the Plan, then you will not have to pay any CGT.

If you decide to keep the shares after they have been taken out of the Plan, then you could be liable for CGT (subject to your CGT personal allowance for that tax year) on the gain made.

34. Am I entitled to receive dividends on my shares?

As a shareholder you will be entitled to receive a dividend if a dividend is declared. Any such dividend will automatically be used to buy more shares on your behalf, to be held in the Plan, and these are known as ‘Dividend Shares’. Any remaining dividend that is paid to you that cannot be used to purchase a whole Dividend Share will be rolled over to the next time a dividend is declared.

Dividend Shares must normally be left in the Plan for at least 3 years from acquisition in order to avoid paying income tax and NICs on them (unless you leave for a ‘special reason’).

35. If it takes me several years, say to 2009, to earn a 'earn' a full Dividend Share - how does the tax work on this share (as a proportion if it was bought with the 2006 dividend and with the 2007 dividend, etc.)?

Shares acquired with dividends must be held for three years from acquisition. Dividends must be reinvested in shares within 30 days of receipt by the trustee. Any amount not reinvested can be carried forward and reinvested following the next cash dividend for up to a maximum of three years following the payment of the original cash dividend. If the dividend has not be reinvested by that time or by the time the participant leaves it must be paid to him in cash taxable as a dividend.

So if the 2006 dividend is rolled-over until a Dividend Share is bought in, say, 2009, then this Dividend Share is effectively locked-in for the 3-year holding period (i.e. until 2012) for a Dividend Share in order to enjoy the tax benefit.

36. Am I entitled to receive notices of shareholder meetings?

Mourant will write to Participants to ask if they want to receive notices of shareholder meetings.

37. Am I entitled to attend and vote at Thales S.A. shareholder meetings?

A Trustee holds the Thales S.A. shares that are in the Plan on trust for you, therefore, it is the Trustee that is entitled to attend and vote at shareholder meetings on your behalf.

The Trustee will write to you to ask if you wish to vote and the Trustee will vote according to the instructions of the participants in the Plan. In the event that a participant does not vote, the Trustee shall not vote the number of votes that the participant in question holds.

38. What are the benefits of joining the Plan?

You can contribute up to £1,500 of your pre-tax and pre-NIC salary to purchase Partnership Shares which means you will have a tax saving at your marginal rate, provided that you keep your shares in the Plan or you leave due to a 'special reason'.

You will be given 1 free Matching share for every 6 Partnership Shares that you buy, which equates to a saving on buying the shares on the open market.

You will not have to pay income tax or NICs on the value of the free Matching Shares awarded to you, provided that you keep your shares in the Plan for at least 5 years or you leave for a 'special reason'.

If any dividends are declared these will be re-invested as Dividend Shares and you will not have to pay income tax or NICs (although your dividend will have French Withholding Tax deducted from it) on these Dividend Shares as long as they are held in the Plan for at least 3 years or you leave for a 'special reason'.

If you keep your shares in the Plan until you sell them, you will not have to pay Capital Gains Tax ("CGT") on any gain you make however much the shares grow in value.

39. What are the risks of joining the Plan?

Buying Partnership Shares under the Plan may affect your entitlement to certain benefits, tax credits and work-related payments as you may not have paid enough NICs for certain benefits. This may only affect a small number of people. Please contact the National Insurance Office if you think you may be affected (tel: 0191 213 5000).

Buying shares is always a risk and the value can go down as well as up. So if you are thinking of participating in the Plan then you should consider whether you could afford to make a loss if the shares do not perform as well as you hope.

The shares are traded in Euros and you will bear the risk of any fluctuations in exchange rates between Euros and Pounds.

The tax benefits associated with participating the Plan could be lost if you leave the Group within 5 years.

The Plan is based on current UK legislation which could change.

40. In previous schemes it has been possible to claim back tax paid in France. Is it possible to re-claim the French withholding tax relating to dividend payments?

French legislation has changed so the ability to re-claim French Withholding tax no longer applies.

41. On what date will the shares be purchased?

Purchase of the shares is presently intended to take place on 31 March 2005 or thereabouts. Legislation gives the company up to 30 days to acquire the shares after the end of the Accumulation Period.

42. Will the purchase price be publicised?

The price will be publicised as soon as possible after purchase.

43. What happens if I am not happy with the buying price, can I take my investment back?

No, you cannot take your investment back if you are not happy with the price – but you should remember that: (i) the shares will be bought at the lower of the price at the beginning of the Accumulation Period (market price on a day between 20 and 31 December) and the end of the Accumulation Period (intended to be 31 March) so you know that the price at which the shares are purchased won't be higher than the December price; and (ii) you can track the share price/trend during the Accumulation Period which should give you a rough idea of what the price will be at the end of March.

44. In the event of a takeover, what will happen to my shares – will my shares be sold/transferred without my permission?

The shares will be subject to the terms of any offer and you will be able to accept/reject such terms. However, if enough shareholders accept the terms of an offer, then your shares may be subject to a compulsory purchase at the offer price.

45. The Explanatory Guide states that 'if you leave due to disability, redundancy or retirement on or after the age of 50' you wont be subjected to tax and NIC's. Does the same apply if you are under 50?

This part of the Explanatory Guide may have been misinterpreted - the wording 'on or after the age of 50' only applies to retirement. So just to clarify that the 'special reason' leavers are those who leave for any of the following reasons:

- disability; or,
- redundancy; or,
- retirement on or after the age of 50.

46. What rate is French withholding tax made at?

25% of gross dividend paid.

47. Does the SIP automatically close after 5 years?

No, it will continue all the time there is something in it.

48. If I sell shares at the end of the 5 year period from the SIP do I have to pay the sales fees/brokerage fees?

Yes.

49. If I sell shares before the 5 year period is complete is it correct that I pay income tax on the capital growth of the share from purchase to release price?

See the table on page 8 of the Explanatory Guide.

50. Is via Mourant the only way to sell shares?

Whilst the shares are part of the SIP then Mourant are the only ones who can sell, but if you transfer out of the SIP then you can sell via anyone you want but Mourant is probably the cheapest way to sell.

51. Is the 800,000 shares quoted the UK or global pool?

800,000 is the global pool.

52. Can the amount realised on sale of shares be paid by Mourant in Euros not £'s?

There is no facility at present to do so, but we will look into it.

53. What tax liabilities/treatment would apply to the dividend cash?

If a dividend is declared and paid then the tax treatment under SIP legislation would be as follows:

- (i) On declaration of a dividend – to tax liability.
- (ii) On payment of a dividend – the dividend will be automatically be re-invested and used to buy as many Dividend Shares as possible so that there will be no UK tax to pay on the monies used to buy these shares, however French Withholding Tax (currently 25%) will be payable on the dividend.
- (iii) Excess monies (not used to buy Dividend Shares) will be rolled-over for up to 3 years and used to buy Dividend Shares. Any monies not used within 3 years to buy Dividend Shares will be paid to you in cash and will be subject to UK income tax, which will have to be declared in self-assessment.

54. How often does Thales S.A. pay dividends?

Usually Thales S.A. pays one dividend per year at the end of May.

55. What are the key dates?

- 06 December 2004 - last day on which Mourant can receive Partnership Share Agreements.
- 20 to 31 December 2004 - the Accumulation Period will commence on a day between these dates and the first possible share price will be known.
- 31 January 2005 - the first of the monthly instalments will be deducted from salary
- 28 February 2005 - the second of the monthly instalments will be deducted from salary
- 31 March 2005 - the third of the monthly instalments will be deducted from salary and this is also the end of the Accumulation Period

30 April 2005

- the date by which the second possible share price will be known and the shares will have been bought (i.e. 30 days from 31 March)

56. How will the prices, scaling back, etc be announced?

These and other matters will be announced via the blue posters that you will find on the notice boards at your site.

57. What is the procedure for withdrawing from the Plan?

- (i) Withdrawal during salary deductions: the Plan Change Form provides that instructions to suspend salary deductions, where they are received at least 12 days before the next salary deduction (i.e. payroll run), will be actioned in that month.
- (ii) Withdrawal after salary deduction but before shares are bought: instructions will be actioned to withdraw from the Partnership Share Agreement (and arrange to have all monies deducted returned to you (after deduction of tax and NI) in the following Payroll) provided that you notify Mourant in writing **SO IT IS RECEIVED BY THEM NO LATER THAN 18 March 2005.**
- (iii) Withdrawal after the shares have been bought: If you wish to withdraw from the Plan after the Partnership Shares are bought, at any time in the next five year period, you should notify Mourant in writing of this decision. They will then write to you with the options available to you. Withdrawals due to your leaving Thales will be notified to Mourant by Payroll/HR.

<p>Please note employees are invited to participate in the Thales UK Share Plan 2004 at their own free will and if in any doubt they should seek independent tax and/or financial advice before deciding to do so.</p>
