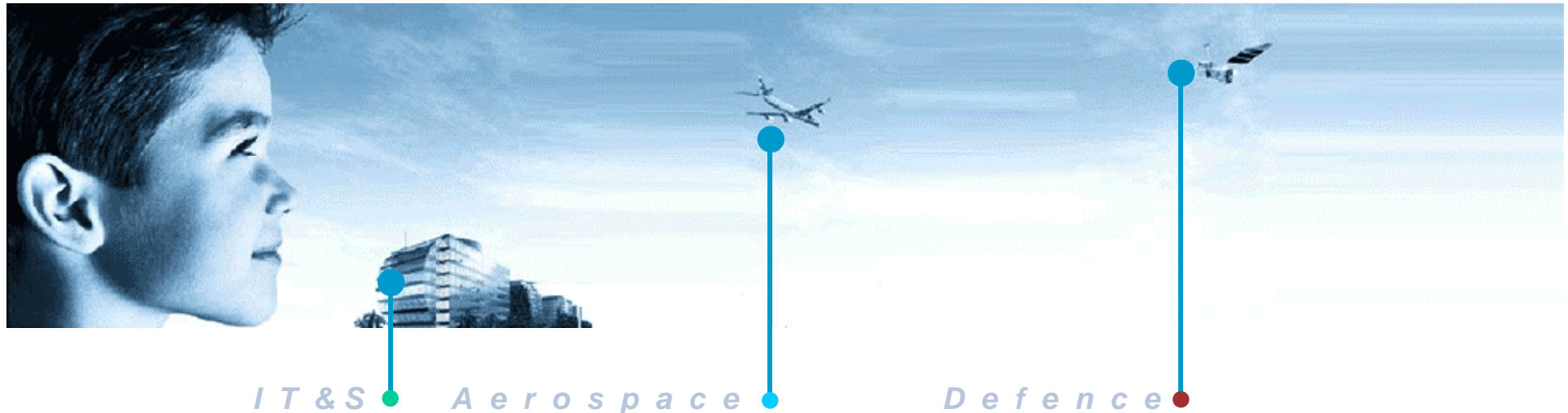


THALES EMPLOYEE SHAREHOLDING SCHEMES

By René VEROT
THALES SA



THALES Employee Shareholding policy

Offers history

Share price evolution

FCPE

Leverage formula

APRIL 2004



“ I am very strongly committed to employee stock ownership as a federating force and a way of including employees personally and purposefully with their company.....”

Denis Ranque
Chairman & CEO





THALES has implemented, for the benefit of its employees, an Employee Shareholding Scheme Policy based on strong commitments by

- the French state
- THALES

to employees participation in the company's share capital.

Subscriptions to the different offers have clearly proved the personal interest and involvement of employees worldwide.





THALES Employee Shareholding Schemes



THALES has made its best efforts to implement these schemes as widely as possible

They have been introduced in 17 countries:

Australia, Belgium, Canada, France, Germany, Greece,

Italy, Japan, Korea, Germany, Norway, Singapore,

Spain, South Africa, Switzerland, United Kingdom, United States

They have enabled a further feeling of participation to develop amongst employees in the Company. Presented through global communication they have re-inforced the common awareness of belonging to the same group.

For example, employees in Korea have received the same message as Norway, South Africa or US employees and they have the same information and finally share the same expectation in their company.

Whenever « equal treatment » was possible THALES has gone as far as possible to offer it, while being always compliant with legal and fiscal local constraints.





THALES policy of employee investment in its capital, has been developed:

- first through privatisation offers made by the French State, in 1998 and 2000
- then through a capital increase reserved for employees in 2002.

These offers were designed with different formulas answering the main attitudes toward investment in shares:

- **A traditional “shareholder risk taking” attitude**, associated with a discount on the share price
- **and a more cautious attitude**,
for which the formula proposed to employees limited the risk taken, either in improving the price with a company special contribution or in, guaranteeing the refund of personal investment in case of a negative evolution of the share.





THALES Employee Shareholding Schemes



THALES schemes have been widely subscribed by its employees:

- A total of 10.8 million shares were transferred to employees.
- Today about 8.6 million are held by employees:
representing more than 5% of the company's capital

2 employees out of 3 own THALES shares

- Average individual assets invested in THALES shares amount to 3000 euros
- THALES shares are mainly held through a dedicated mutual fund*
- All shares benefit from the normal rights, dividend**, voting...

* *in some countries legal constraints did not allow the implementation of a fund.*

** *except those under the leverage formula*





Take up rate 29% ≈ 19 000 subscribers

France : 35 % ≈ 12 000 subscribers, International : 22 % ≈ 7 000 subscribers

27% in countries where both formulas were possible (Netherlands 44%, UK 29%, Germany 15%)

8% in countries where only one formula legally possible (Australia 7%, USA 7%)

Employees demand : 34 M€ of which 15 M€ Classic formula
19 M€ Leverage formula

Demand including leverage demand : above 200 M€ representing 9,7 M shares

- Strong motivation for « classic formula » requested in more than 40% of the initial reservations for an average amount of 2000 €
- Leverage formula met a large success being requested by 95% of the subscribers (average request 200€)

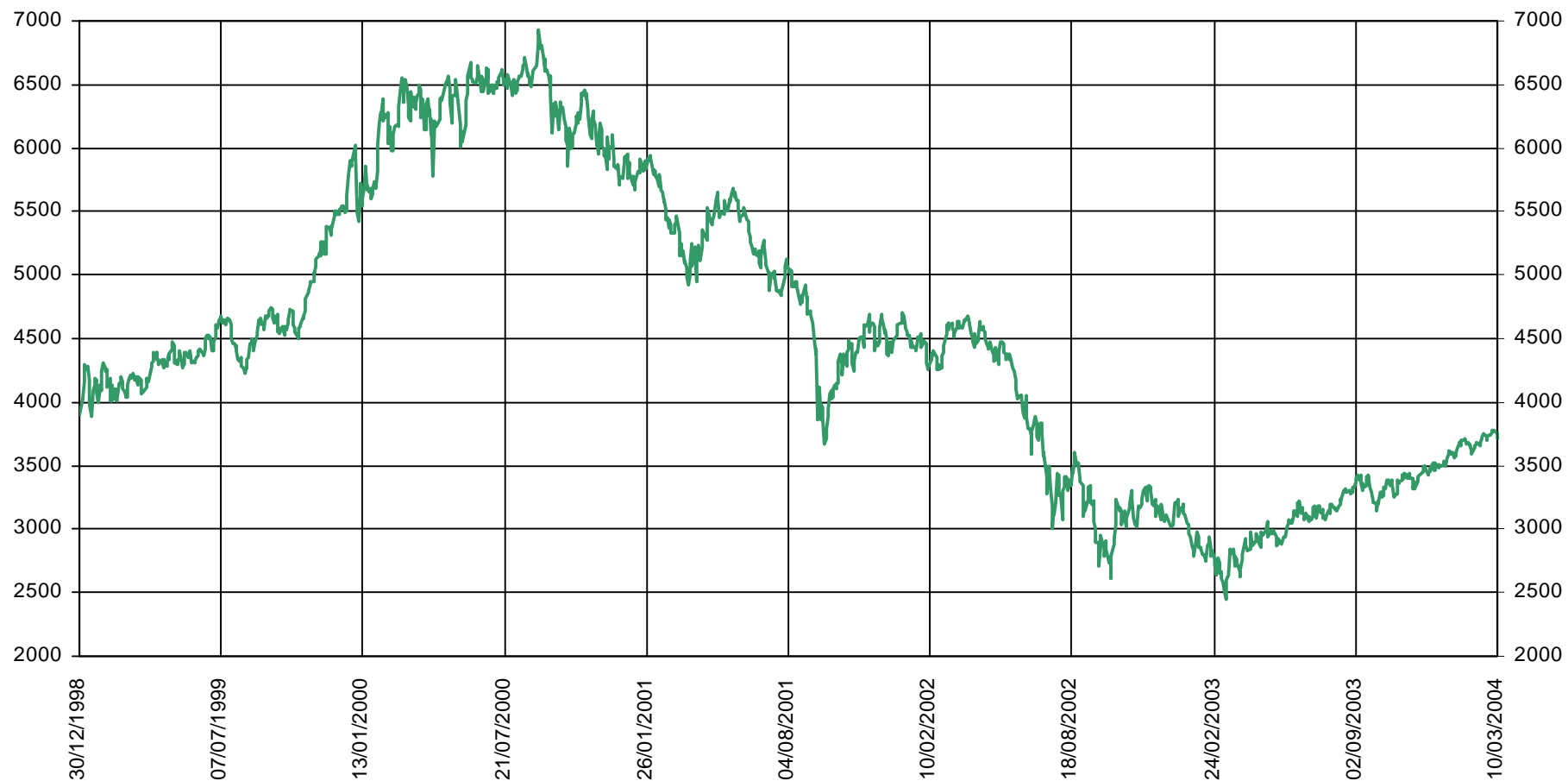
Allocations

- Classic formula was not scaled back, the average number of shares allocated was 95.
- Leverage formula has been allocated fully up to a ceiling of 400€ i.e. about 200 shares leverage included.





CAC 40 in € since 1998



— CAC 40 (dividendes non réinvestis) : 3717.93

SG AS/RV/01-04



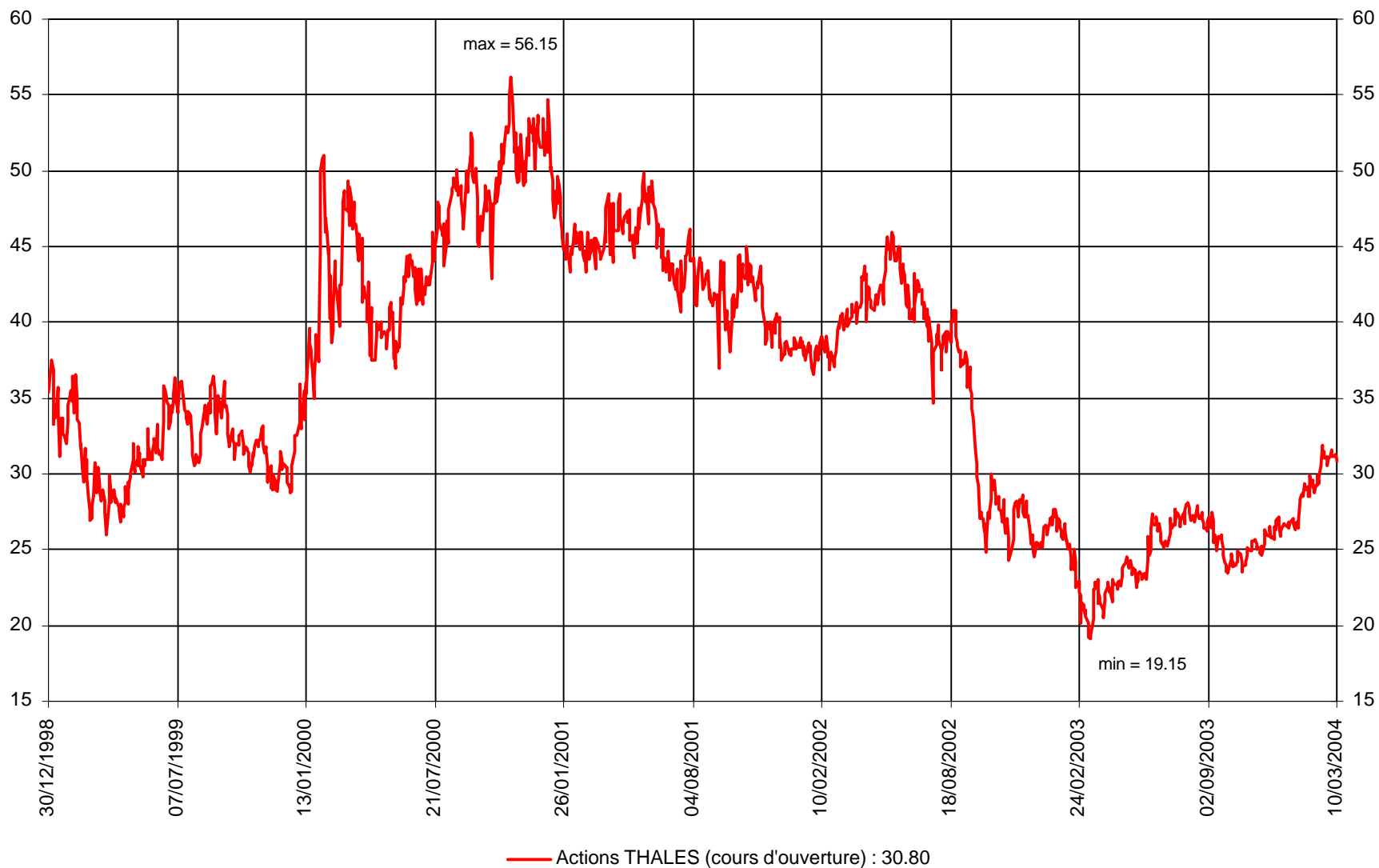
Corporate Secretary



THALES



THALES share in € since 1998

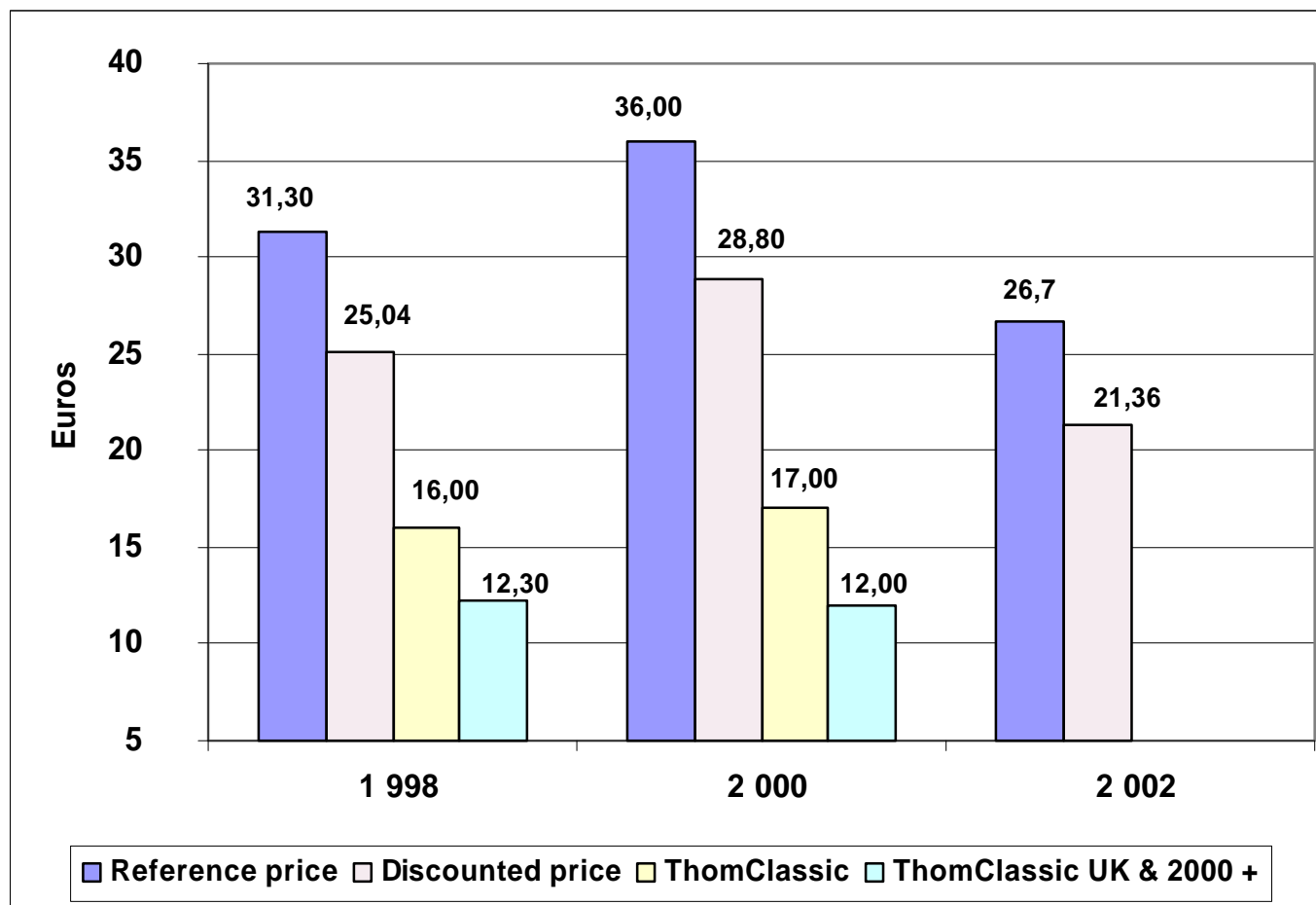


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Offers benefits and average share prices paid



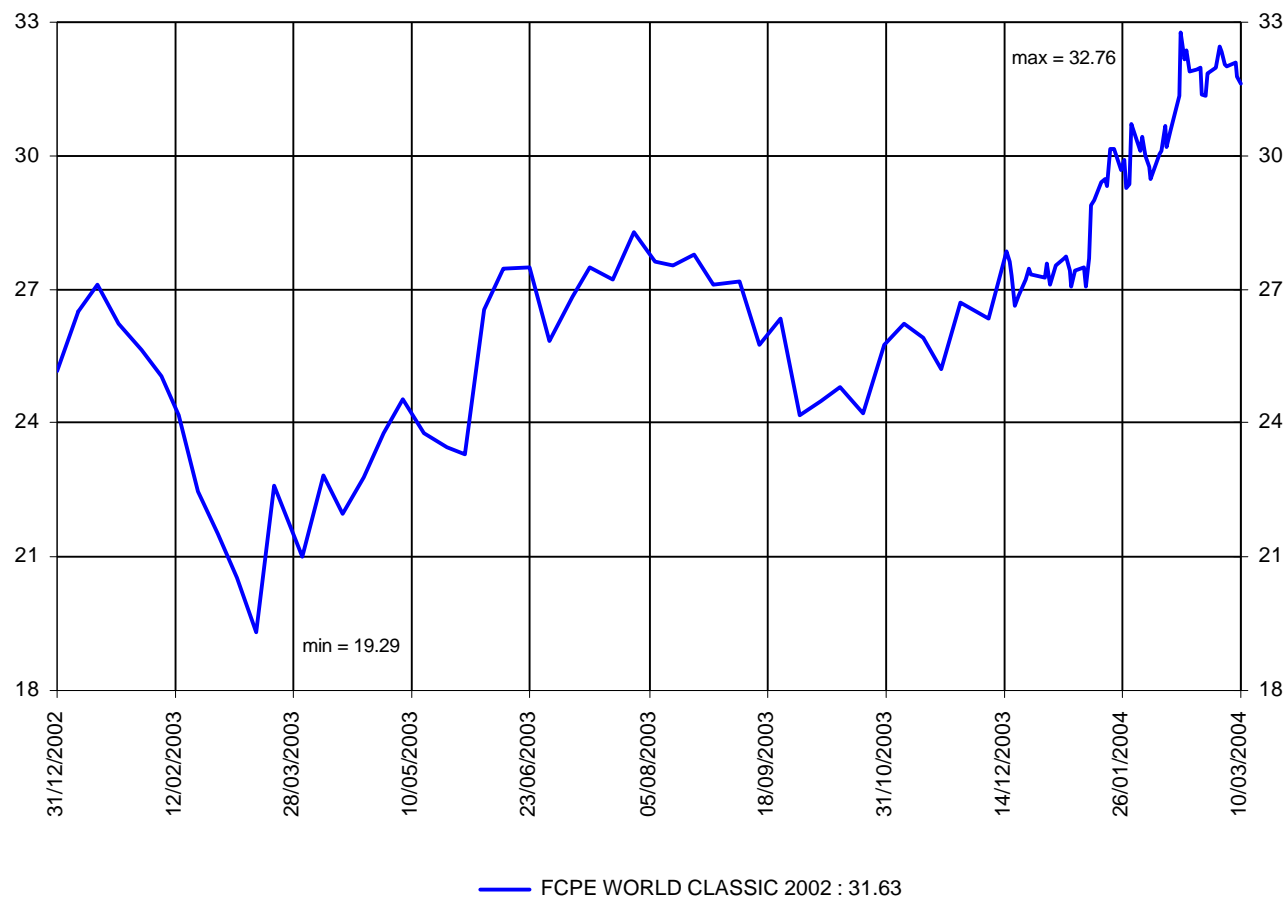
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Unit value (€) *between 31/12/2002 and 27/02/2004*

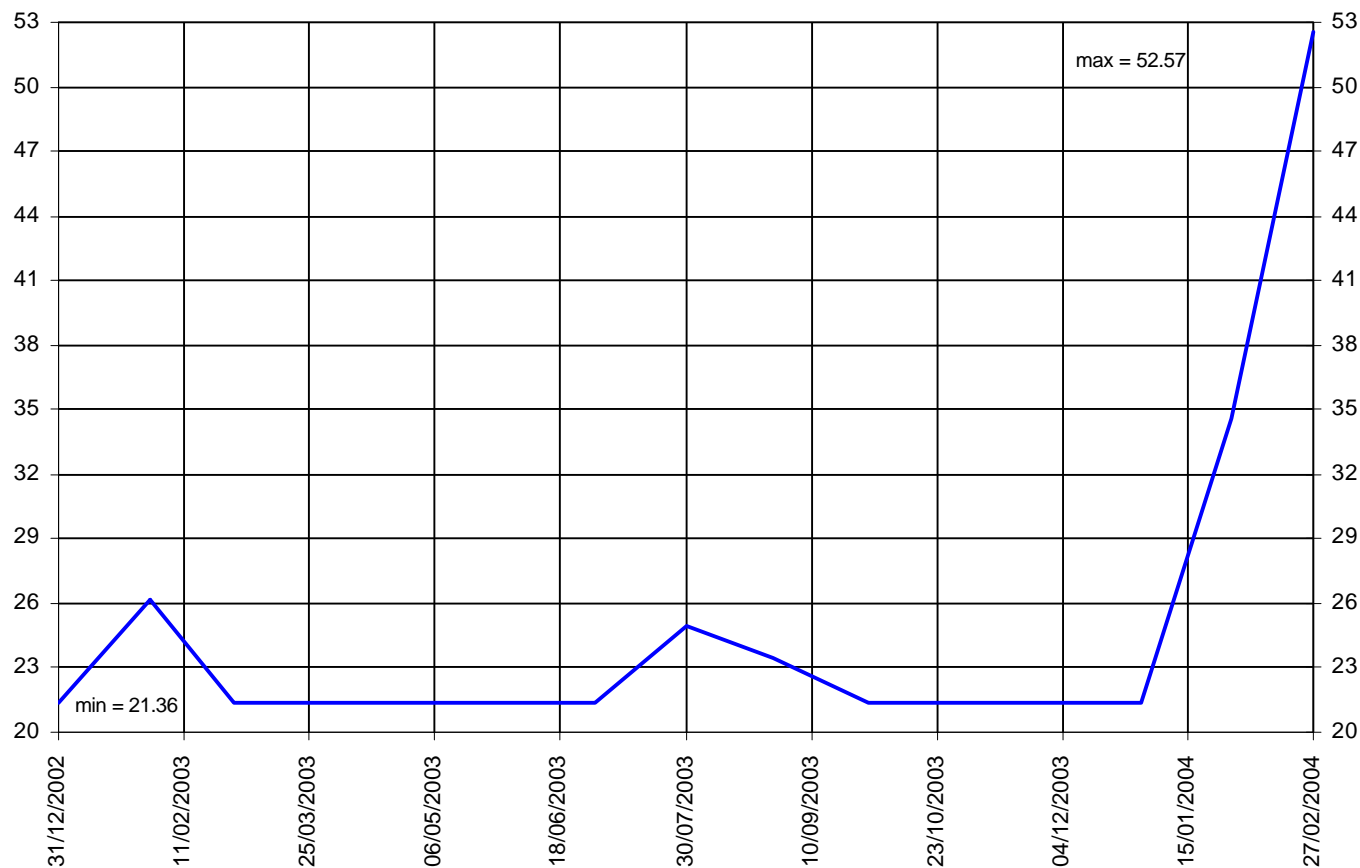
Date	Value €	Value %
31/12/2002	25.17	100.00
31/12/2003	27.12	107.75
10/03/2004	31.63	125.67





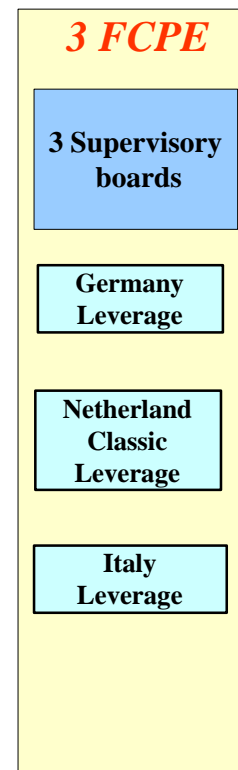
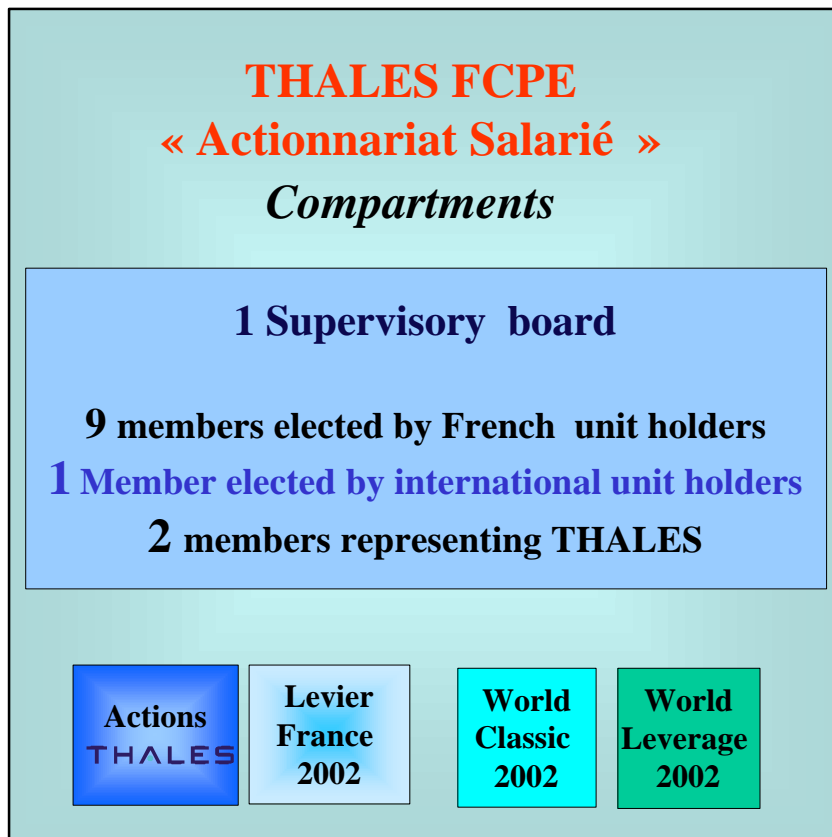
Unit value (€) *between 31/12/2002 and 27/02/2004*

Date	Value €	Value %
31/12/2002	21.36	100.00
31/12/2003	21.36	100.00
27/02/2004	52.57	246.11



— FCPE WORLD LEVERAGE 2002 : 52.57





The FCPE is a French legal Trust or common fund, it exercises the voting rights attached to the shares.

The FCPE Supervisory board meets usually every quarter.

SG AS/RV/01-04



Leverage formula: French mathematics



I - Example if the share price has risen

For a personal contribution of 100.00 € Number of allocated units $100.00 \text{ €} / 21.36 \text{ €} = 4.6816 \text{ units}$

If the computed average share price is 30.00 € (above offer reference price 26.70 €):

Capital gain is $30.00 \text{ €} - 26.70 \text{ €} = 3.30 \text{ €}$ per share/unit

The unit value shown on the statement is **45.12 €** i.e. the addition of:

21.36 € corresponding to refund of initial payment

Plus

23.76 € which is compounding the 72% participation in the capital gain and the leverage 10 times multiplier (i.e. $3.30 \text{ €} * 72\% * 10$)

Payment to be received the participant will be equal to:

Number of units * unit value, i.e. : $4.6816 * 45.12 \text{ €} = \underline{211.24 \text{ €}}$

Statement example:

FCPE compartment	Unit value	Availability on 02/04/2007
World leverage 2002		
Number of units	45.12 €	4.6816
Value in euros		211.24 €





II - Example if the share price is below reference price

For a personal contribution of 100.00 € $\text{Number of allocated units } 100.00 \text{ €} / 21.36 \text{ €} = 4.6816 \text{ units}$

If Computed average share price is 25.00 € (below offer reference price 26.70 €):

There is no capital gain according to the formula rules.

Consequently unit value remains on the statement : 21.36 €

in order to allow computation of the personal contribution refund

i.e. $4.6816 \text{ units} * 21.36 \text{ €} = 100.00 \text{ €}$.

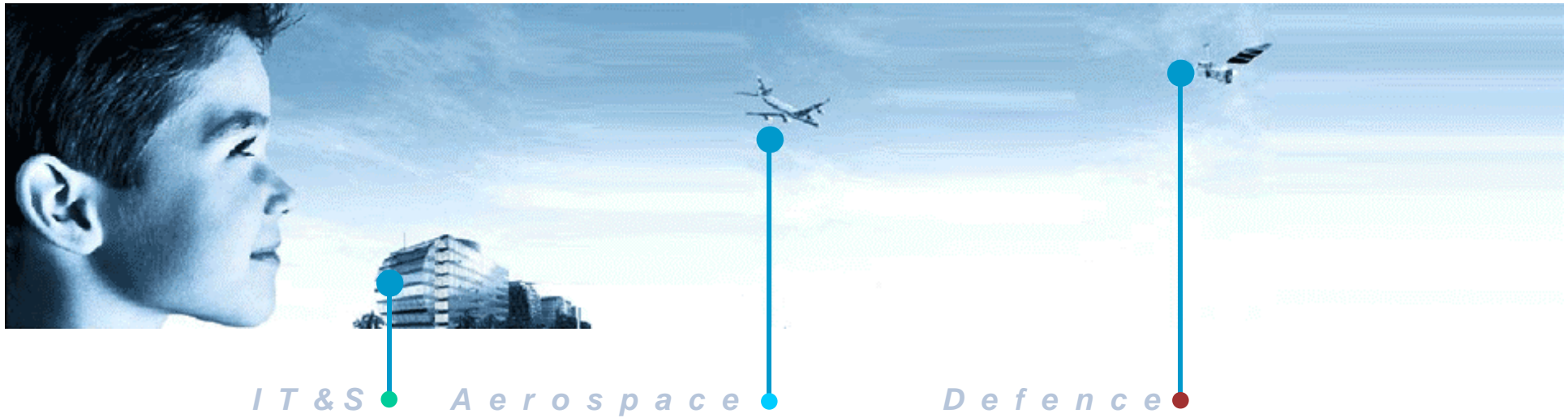
The payment to be received the participant will be equal to: 100.00 €

Statement example:

FCPE compartment	Unit value	Availability on 02/04/2007
World leverage 2002		
Number of units	21.36 €	4.6816
Value in euros		100.00 €



THALES EMPLOYEE SHAREHOLDING SCHEMES





French Privatization Schemes *(a reminder)*



French privatisation law provides for a balanced set of benefits and conditions to enhance employees interest in purchasing their Company stock.

- French State benefits:
 - A discount up to 20% of a reference share price for the offer,
 - A lock-in period of 2 years, was a compulsory as a counter part of the discount under which no sale is allowed,
 - Free shares allocated provided purchased shares are kept a further year after beyond the lock-in period, this allocation is computed to enhance employees with limited financial resources, and capped.
 - Delayed payments over a maximum period of 24 months.
- A Company contribution:
 - more favourable to the smallest subscriptions (often up to 40% of personal investment)
 - The French legal “Corporate Saving Plan” framework provides for tax minimisation (10% social taxes) attached to a no-sale period of 5 years (although 10 cases of early redemption are allowed).





Capital increases reserved to employees
Within a “Corporate Saving Plan”
(the only* legal framework in France since 2001).

French law allows the following benefits to be granted by a Company:

- A discount up to 20% of a reference share price for the offer
- A Company contribution (usually more favourable to the smallest subscriptions and capped by a maximum)
- Delayed payments over a maximum period of 12 months

Two formulas have been developed:

- A “**Classic**” formula with a discount aiming at motivating employees with a regular investor profile
- A special “**leverage**” formula designed for the less prone to risk employees: multiplying the personal investment (by 10) to offer a participation in the gain over the total and guaranteeing in case of non performance of the share re-payment of the initial investment

- The French legal “ Corporate Saving Plan” framework provides for tax minimisation in France attached to a no-sale period of 5 years (cases of early redemption are allowed)

* *except privatisation legal system*

