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ANNUAL REPORT
2000

THALES

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THALES



● **DESCRIPTION OF BUSINESS**

● FINANCIAL INFORMATION

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HISTORY

ORIGINS

1968 : Merger of the professional electronics activities of Thomson-Brandt with *Compagnie Générale de Télégraphie Sans Fil* (CSF) to form Thomson-CSF.

1970 – 1980 : First major export contracts in the Middle East, after the 1973 and 1979 oil shocks. Diversification into telephone switchgear, silicon semiconductors, and medical imaging (CGR).

1982 : Nationalisation of parent company Thomson SA. The financial situation is very weak, with a highly diversified portfolio of businesses. Market shares in many areas are too small to be profitable. Despite the inflow of revenues from the first major contracts with the Gulf States, debt remains high.

STRATEGIC REFOCUSING

1983 – 1987 : Financial situation turned round by refocusing the portfolio on professional and defence electronics. Major divestment in civil telecommunications (1983 agreement with CGE) and medical imaging (transferred to General Electric in 1987). Merger of semiconductor businesses with those of the Italian group IRI-Finmeccanica in 1987 to form SGS-Thomson. Financial performance also benefits from the financial activities that the company developed internally from 1984 to manage cash flows from major export contracts. These financial activities are progressively taken over by Crédit Lyonnais in 1990-1993, in exchange for a stake in the bank.

GROWTH THROUGH MERGERS AND ACQUISITIONS

1987 – 1996 : As early as 1987, Thomson-CSF anticipates the inevitable cut-backs in defence spending and, as the end of its major ongoing export contracts approaches, starts to radically restructure its activities in order to maintain margins. A proactive policy of growth through mergers and acquisitions is adopted, mainly in Europe, with the acquisition of the defence electronics businesses of the Philips group in 1989. The other major operation is the acquisition of a controlling interest in Sextant Avionique (following the merger of the avionics businesses of Thomson-CSF and Aerospatiale). Many other acquisitions, including small ones, significantly expand the Group's industrial base outside France, mainly in Europe. Non-French subsidiaries' share of consolidated revenues rises from 5% to 25%.

1996 and 1997 : Divestment of holdings in Crédit Lyonnais and SGS-Thomson (now ST Microelectronics). These capital gains are used to finance further international growth.

COOPERATION AGREEMENT AND PRIVATISATION OF THOMSON-CSF

1997 : The French government announces in October its intention to "create a major professional and defence electronics platform around Thomson-CSF... open to subsequent alliances within France and the European Union". The company's scope of business is to be strengthened through asset transfers.

1998, on 14 April : Aerospatiale, Alcatel, Dassault Industries, Thomson-CSF and Thomson SA reach a cooperation agreement whereby (i) the professional and defence electronics businesses of Alcatel and Dassault Électronique are merged with Thomson-CSF, and (ii) the satellite businesses of Alcatel, Aerospatiale and Thomson-CSF become a new company owned jointly by Alcatel (51%) and Thomson-CSF (49%). This agreement enables Thomson-CSF to strengthen its scope of business, consolidate its market positions in defence and industrial electronics, and expand the Group's industrial presence in Europe, particularly in Germany, Italy and Norway.

On 22 June 1998, the majority of the capital of Thomson-CSF is transferred to private ownership. The French State's interest is reduced from 58.31% to 40.03% and remains at that level until 22 December 1999 when Alcatel acquires a further 9% holding from the State. From that date, Thomson-CSF's capital is split three ways, in roughly equal proportions, between the public sector, the private industrial sector (Alcatel and Dassault) and the float, including 2.5% held by employees.

FROM THOMSON-CSF TO THALES

1998 – 1999 : Transition years. After privatisation is finalised in June 1998, a vast restructuring plan is launched at the end of 1998 to integrate the businesses acquired from Dassault and Alcatel. Associated charges push 1998 results into deficit. The Group's move towards "multi-domestic" defence activities was pursued throughout the 1990s, then expanded beyond Europe to South Africa, Australia, South Korea and Singapore. This growth through mergers and acquisitions also profoundly modifies the Group's portfolio. In 1999 a radical strategic re-examination stresses the increasing importance of civil applications and "dual use" technologies as the Group's greatest strengths.

2000 : A take-over bid for Racal Electronics of the United Kingdom, announced in January, is finalised in June. It fits perfectly with the Group's multi-domestic and dual-use strategies: the United Kingdom becomes the Group's second largest location, and both defence businesses and information & services technology are strengthened. In July a new structure with three business areas is introduced, in line with the new strategy. In December 2000, Thomson-CSF becomes Thales and announces the formation of the first trans-Atlantic joint venture between defence contractor Raytheon of the United States. Stay tuned...

DESCRIPTION OF BUSINESSES

Thales supplies professional electronic equipment, systems and related services. These require the application of complex technologies, most of which are developed internally by Thales engineers. The main applications are in the defence, aerospace and industrial markets, and to a lesser but growing extent, in distribution and services. Thales does not target consumer markets ⁽¹⁾.

Until the end of the 1990s, Thales, or Thomson-CSF as it then was, was divided into business groups according to the basic underlying skills: activities such as air defence systems and equipment and air traffic control, were grouped together because they use allied technologies.

In 1999 Thomson-CSF undertook a strategic re-examination of its entire business portfolio. The resulting report highlighted the rapid expansion of Group businesses in civil markets over the previous ten years. It also pointed out that the defence businesses were making increasing use of technologies originally developed for civil applications. This interconnection between the two worlds, the military and the civil, the concept of "dual use" technologies, has become an essential pillar of Thales' strategy. To ensure that this dual-use, high-tech business culture is effectively translated into added value for all Thales partners, starting with our customers and shareholders, the Group has re-organised by setting up three "business areas"—namely Aerospace, Defence and Information Technologies & Services ⁽²⁾—with clearly differentiated commercial rationales.

Each business group has been redefined in this market-centred way, and assigned to one of the three business areas. There are twelve groups altogether, three under Aerospace, five under Defence, and four under IT&S.

Changing our commercial approach and, to some extent, our management style had become essential, given the wide differences between the three markets. But Thales' three business areas do share an essential common technological base, namely the management and realtime distribution of information, which is to say, the technologies for gathering information (sensors), then processing and transmitting it (voice*, text, images) securely. Digitisation has brought about massive change in all these areas in recent years.

The second point is the international scale of all Thales' businesses. The Group now operates mostly on global markets, to the point that only just over half our employees are based in France (54% of managed staff) ⁽³⁾, compared with 95% in the late 1980s. This is a direct result of growth through mergers and acquisitions outside France over ten years (see History).

In the defence sector, where our customers are government entities, local plants in which Thales has a stake help us to develop proposals meeting our customers needs, including the local production of significant work packages, plus the advanced technologies of a world-class supplier.

(1) The only exception to date is the portable GPS SP 24XC, a small handset sold to hill-walkers in France

(2) Abbreviated as IT&S

(3) The total of 64,000 "managed" staff at end 2000 includes all employees working for joint ventures managed by Thales. The "consolidated" total—the number of employees in joint ventures calculated pro rata according to Thales interest—is 57,230.

REVENUES AND ORDER BOOK

The new organisation structure with three business areas was introduced at the end of July 2000. Consequently, it is only the figures relating to fiscal 2000 that present the activities in line with operational responsibilities. The data for 1999 have been recalculated on a similar basis in order to bring out year-on-year changes.

Revenues

Revenues by business area

(in millions of euros)	2000		1999		1998	
Aerospace	1,551	18 %	1,389	20 %	1,263	20 %
Defence	4,934	58 %	3,816	55 %	3,479	56 %
Information Technologies & Services	2,058	24 %	1,615	23 %	1,320	21 %
Other	37	0 %	70	1 %	113	2 %
TOTAL	8,580	100 %	6,890	100 %	6,175	100 %

Revenues by destination

(in millions of euros)	2000		1999		1998	
France	2,246	26 %	2,205	32 %	1,900	31 %
Rest of Europe	2,864	34 %	2,220	32 %	1,696	27 %
Total Europe	5,110	60 %	4,425	64 %	3,596	58 %
Near and Middle East	1,194	14 %	911	13 %	763	13 %
North America	861	10 %	616	9 %	599	10 %
Asia & Indian subcontinent	1,029	12 %	586	9 %	878	14 %
Africa & Latin America	264	3 %	254	4 %	213	3 %
Rest of world	122	1 %	97	1 %	125	2 %
Total international	3,470	40 %	2,464	36 %	2,579	42 %
TOTAL	8,580	100 %	6,890	100 %	6,175	100 %

Order book

Order book by business area

(in millions of euros)	2000		1999		1998	
Aerospace	2,414	13 %	1,815	12 %	1,518	11 %
Defence	14,136	77 %	12,714	82 %	10,962	82 %
Information Technologies & Services	1,795	10 %	844	5 %	866	7 %
Other	21	0 %	55	0 %	57	0 %
TOTAL	18,366	100 %	15,428	100 %	13,403	100 %

The order book is equivalent to 18.5 months' output for the Aerospace business area, 34.4 months for Defence, and 10.5 months (compared with 6 months at end-1999) for IT&S, where cycles are shorter.

Order book by region

(in millions of euros)	2000	1999	1998
France	22 %	22 %	25 %
Rest of Europe	32 %	30 %	28 %
Total Europe	54 %	52 %	53 %
Near & Middle East	20 %	28 %	35 %
North America	4 %	3 %	3 %
Asia & Indian subcontinent	12 %	12 %	6 %
Africa & Latin America	3 %	4 %	2 %
Rest of world	7 %	1 %	1 %
Total international	46 %	48 %	47 %
TOTAL	100 %	100 %	100 %

An order generally counts as booked when the Group has received a downpayment from the customer. Where contracts depend for financing on budget approval voted by parliaments, the order book only records that fraction included in the government's budget, typically the tranche corresponding to the following year (European and North American countries mainly). Although they are becoming more common, multi-year orders are still relatively rare.

AEROSPACE ⁽¹⁾

Key figures

in millions of euros	2000	1999
Total revenues	1,601	1,435
Sales to other business areas	51	44
Consolidated revenues	1,550	1,391
France	312	299
Rest of Europe	563	460
Rest of world	675	632
Operating profit	83	48
<i>as % of total revenues</i>	<i>5.2 %</i>	<i>3.3 %</i>
Order intake	1,863	1,601
Order book at 31 December	2,414	1,816
Employees at 31 December*	9,165	8,610
France	5,901	5,885
Rest of Europe	2,250	1,845
Rest of world	1,014	880

* At 31 December 2000, the business area managed 10,200 employees, including those working for joint ventures.

The aerospace business area covers three major businesses: avionics, air traffic management, and simulation and training. Thales is European leader in each of these businesses and No. 3 worldwide, behind Honeywell-Allied and Rockwell-Collins in avionics, Lockheed Martin and Raytheon in air traffic management, and CAE (Canada) and Link (US) in simulation. Thales is the only company in the world active in all three businesses.

Thales' unique positioning across the whole spectrum of air transport safety and security, from airborne electronic systems to turnkey airport facilities and crew training, gives the Group valuable opportunities at a time when technological progress is increasing the synergy between these businesses. A prime example is satellite navigation, which is ideal for long-haul flights across oceans and sparsely inhabited areas. Thales has many years of experience in combining avionics and air traffic control teams to develop new projects in this field.

Market and aerospace industry trends

Air transport is a global market by definition. But local presence is critical to safety, successful customer relationships and product support. Thales has extended its global reach in recent years to offer local logistic through-life support to customers seeking ever higher standards of safety and service in the air and on the ground.

Customers include aircraft manufacturers, airlines and airport authorities. Three-quarters of revenues come from civil customers, but the same avionics and simulation technologies have many military applications. Aerospace is thus a "dual" business and leverages synergies between commercial and military applications of the Group's technologies.

The commercial aerospace market, in which Thales is a major player, is worth an estimated 7.5 billion euros per year: 4 billion for avionics and in-flight entertainment systems, and 3.5 billion for infrastructure such as air traffic management and simulation and training facilities. Growth in the overall aerospace market is driven by the worldwide development of air traffic (medium- and long-term projections point to a growth rate of 5-6% per year), partly due to flow-on benefits as a result of twenty years of air transport deregulation.

The long-term trend is favourable, even if the pattern of growth is markedly cyclical. This involves not only orders for aircraft and onboard equipment, but also demand for infrastructure (air traffic management systems, flight simulators). More stringent requirements for safety, harmonisation, punctuality and onboard and ground services are also driving demand.

(1) Information about aerospace markets, Thales' position in them and other players in this sector is based on estimates made by the company in the light of its knowledge of these markets and players, and on published data including company annual reports and economic and financial studies by public and private bodies.

During the latter half of the 1990s, the civil aviation market experienced a boom, despite the effects of the Asian crisis, which were short-lived. As airline fleets aged, new aircraft orders increased significantly in all categories, from large airliners (over 100 seats) to regional and corporate aircraft.

The two main manufacturers of large airliners, Airbus and Boeing, significantly expanded their production capacity during the recent period of growth. In 1999 and 2000, Airbus showed that it could match its rival in the long term. In 2000, the European manufacturer also launched the A380 programme, which should put the two companies' product lines on a more equal footing. Note that growth in freight volumes, at over 6%, exceeds growth in passenger miles, and will help to drive the aerospace market overall.

Although a slowdown is forecast from 2001, it is expected to be only slight. With economic conditions expected to remain good and most major airlines in better financial health as a result of sector-wide restructuring, the downturn should be quickly overcome. Furthermore, 20% of the aircraft currently in service worldwide (compared with 4% in 1990) have an average age of over 24 years of service and will need to be replaced.

The considerably smaller markets for regional and corporate aircraft are currently expanding. The regional aircraft market in particular is experiencing strong growth: most of the demand here is for jets, while demand for turboprops has levelled off since some manufacturers withdrew from this market. Most of the new orders for regional aircraft have gone to Bombardier of Canada, Embraer of Brazil and, to a lesser extent, Dornier of Germany. The market for corporate aircraft is served by the same five manufacturers, plus Gulfstream (recently taken over by General Dynamics) and Dassault Aviation of France.

The basic technologies used in avionics equipment and systems are the same for all aircraft, regardless of category or size. However, aircraft manufacturers often require custom versions that are best developed through close relations, and sometimes industrial ties, between avionics manufacturers with their customers.

Demand for air traffic management infrastructure, is increasing significantly as air transport continues to grow worldwide, particularly in Europe and the Asia-Pacific region. With aircraft numbers rising quickly while average capacity falls slightly in response to passenger demand for greater flexibility, air traffic volumes are growing very quickly indeed. This, plus strong growth in the demand for business aircraft, is having a marked impact on air traffic management and creating new needs.

To meet these new needs, major airports are expanding or replacing their air traffic management systems in an effort to overcome worsening saturation, while smaller regional airports are being upgraded and new ones built. For these regional airports, there is increasing demand for turnkey solutions.

Another factor affecting the infrastructure market is the need to harmonise airspace management, driving demand for aeronautical telecommunications systems and greater interoperability between the systems used by airlines, airports and ATM operators (Collaborative Decision Making - CDM). The concept of a single European airspace is now widely accepted and moves to harmonise air traffic management are well underway. In contrast, some other parts of the world have air traffic management systems that cannot adequately ensure the safety of aircraft in their airspace, a situation that needs to be addressed by the international community. As deregulation continues, some countries are considering privatising their air traffic control services, but so far only New Zealand and the United Kingdom have taken concrete steps in this direction.

The civil market for simulation and training follows the same trend as aircraft and reflects changes in airline practices and requirements. In the mid-1990s, demand fell sharply because airlines were going through a difficult period, and the simulation sector restructured quite substantially. Demand should now be less cyclical and the advent of families of aircraft, such as the *A320*, *A330/340*, and *B737NG* families, makes simulator use easier to optimise.

In the aerospace market as a whole, while volume dictates demand for conventional equipment, growth in air traffic and the development of new technologies are driving the emergence of new services. Many of these involve more than one type of business. This trend should favour Thales, with its positioning across all three core aerospace businesses.

Satellite navigation systems like GPS (Global Positioning System), and systems such as *Egnos* and *Galileo*, together with TCAS (Traffic Alert and Collision Avoidance System), will provide greater flexibility in establishing flight plans and greater autonomy for pilots. These developments primarily concern ground infrastructure and onboard equipment, but crews also need to be trained. Meanwhile communication services are improving both for operations and passenger convenience (e-aircraft, onboard phones, satellite data transmission). Thales' wide range of competencies positions the Group well in these new markets and makes it less exposed than other equipment manufacturers to a downturn in the civil aviation sector.

The military aerospace market (one-quarter of the business area's revenues) is growing more slowly but includes major programmes, mostly cooperation programmes, that provide medium- and long-term revenue streams. These include the European combat aircraft *Mirage 2000*, *Rafale* and *Eurofighter* and the *Tiger* and *NH90* helicopters. Thales is involved in supplying both onboard equipment and crew training equipment and services. Thales' accessible market is estimated at 5 billion euros per year for avionics and 1 billion for simulation and training.

Air traffic management

Subsidiary Thales ATM is No. 1 in Europe and No. 2 in the world in the CNS/ATM market (CNS (Communications, Navigation, Surveillance)/Air Traffic Management). Thales ATM is owned by Thales (67%) and Siemens (33%) and has a long background in air traffic management. Its range of products and services encompasses sensors, control centres, nav aids and landing equipment, and turnkey airport systems. With customers in 170 countries, Thales ATM boasts the largest installed CNS/ATM base in the world. Its capacity to provide a comprehensive response to customers' requirements is based on an efficient multi-domestic organisation: its facility in Melbourne, Australia, for example, is well positioned to benefit from new opportunities in the Asia-Pacific market. Other major players in this sector are Raytheon and Lockheed Martin, which operate mainly in their own huge domestic market. Thales ATM has built its position largely on its offering of control centres and recognised expertise as prime contractor for major complex systems of the sort that are required today and will become increasingly vital in the future.

Airsys ATM is addressing these new requirements through a new, more targeted approach to customer presence while enhancing and adapting its catalogue of products and services on a continuing basis. In particular, management of ATM installations should generate additional revenue streams as an increasingly profit-conscious customer base outsources more services. Thomson-CSF expects this worldwide trend to continue as the civil aviation sector deregulates.

The company consolidated its world leadership in export markets in 2000. At year-end, after a year of strong activity, Thales ATM's order book stood at an all-time high, reaching the equivalent of nearly two years' revenues. Contracts awarded during the year include control centres and radars for Algeria, Belgium, China, Egypt, Ireland and Mexico, validation and integration for the future European satellite navigation system *Egnos*, and numerous orders for nav aids.

A number of new control centres were brought into service in 2000, including Kuwait's new system. On-site acceptance testing was completed for a new control centre in Sweden, approach radars for the Saudi Air Force, and radio remote control systems for UK airports. A major development in Europe in October 2000 was the official opening of the new Athens international airport, for which Thales ATM supplied all the CNS/ATM equipment.

Outside Europe, the first air traffic management system fully integrated in Australia was commissioned in March 2000. This system covers 11% of global airspace and places Thales in a unique position of leadership in the whole Asia-Pacific region.

Thales has also been active in developing new technologies based on the FANS (Future Air Navigation System) CNS/ATM concept, through Thomfans, a multidisciplinary team bringing together competencies from Thales Avionics, Thales Communications and Thales ATM, in partnership with Alcatel Space. The main advances made to date are in communications (ATN), surveillance (ADS-B), navigation (Galileo study), and collaborative decision making (CDM).

Avionics systems

The avionics business serves the markets for flight electronics, in-flight entertainment systems and onboard power generation.

The global avionics market is worth an estimated 9 billion euros, split roughly equally between civil and military aviation. The commercial avionics market is on a long-term growth path, although it remains cyclical and some segments are growing more slowly than others. The overall military avionics market is stable.

With the continued growth in air traffic, orders for commercial aircraft remained strong in 2000. Airbus, Thales' main avionics customer, is performing particularly well in this buoyant market, and now has a 50% world market share. The segments of the civil avionics market recording the strongest growth rates are (a) CNS (Communications, Navigation, Surveillance) systems, which are key to security and thus in particularly high demand as traffic volumes increase, and (b) in-flight passenger entertainment systems for all types of commercial aircraft.

In the helicopter market, 2000 was a year of sustained activity for the Eurocopter consortium, both for military customers – particularly as the Tiger programme ramps up – and for civil customers.

Thales' position with Airbus and Eurocopter increased its global market share in 2000, particularly for commercial aircraft, despite fierce competition and major mergers elsewhere in the industry.

(1) In October 2000, Siemens exercised its option to sell its remaining stake in the company. At 13 March 2001, when the accounts were closed, this sale had not been finalised.

Flight electronics

Thales is the only European supplier of complete flight electronics systems. It offers the full range of capabilities needed to design integrated systems offering the highest levels of safety, and to produce complete functional subsystems. Flagship products and technologies for both civil and military markets include displays, in particular based on LCD technology, autopilots and fly-by-wire flight control systems, navigation systems, laser gyro inertial navigation systems and GPS receivers, and flight management systems (FMS) and mission management systems.

Thales is a major supplier to Airbus, which has adopted Thales-developed LCD displays for all its aircraft as well as the new FMS, a joint development with Smiths Industries offering full compatibility with future air traffic management procedures. These successes give Thales two-thirds of the market for new Airbus flight management systems. Business with this rapidly growing aircraft manufacturer will have a positive impact on profit margins. The launch of the A380 will confirm Thales' position as the European benchmark in flight electronics. Having completed preliminary research on innovative avionics for the A380, Thales is ready to move on to the next stage. The Group's experience will also be a valuable asset in the development of the A400M future military transport aircraft.

In 2000, Thales formed major alliances with L3-Communications in the United States for collision avoidance systems and with Diehl Systems VA in Germany for flight electronics. Under the agreement with L3-Com, Thales will, in 2001, acquire 30% of the collision-avoidance business that L3-Com bought from Honeywell. Thales will be responsible for commercial applications and L3-Com will serve military markets.

Thales' 50-50 subsidiary with Diehl Systems brings the Group an industrial facility in Germany and strengthens local ties with EADS, a Group customer in various markets, including helicopters (Eurocopter).

In 2000, Thales won substantial orders from major companies including British Airways and Britannia. The IESI (Integrated Electronic Standby Instrument), already selected by Airbus and Bombardier, has now been chosen by Boeing, Fairchild Dornier and Embraer.

In corporate and regional aircraft, Thales is taking part in Bombardier's *Global Express*, *CRJ700* and *Dash 8* programmes. The first production *Dash 8* was delivered in early 2000. These successes confirm the importance of Thales' strong presence close to the manufacturer's facilities in Canada.

In military aircraft, Thales is involved in a number of new programmes for French and European manufacturers, and is developing its position as a multi-platform supplier of avionics for aircraft built anywhere in the world. Orders for *Mirage 2000* (UAE, Greece), volume production contracts for the *Rafale* and *Tiger* in 1999 and 2000, and the *Agusta A109* helicopter programme, strengthen the Group's prospects in defence markets. In 2000, Thales received an order to supply 620 multi-function probes, the Group's first order for the *Eurofighter* combat aircraft. The new joint company with Diehl will strengthen the Group's involvement with other European partners in this new-generation combat aircraft programme.

In-flight entertainment

With its new subsidiary Thales In-Flight Systems, Thales Avionics has entered the high-growth market for in-flight passenger entertainment. Thales In-Flight Systems is a market leader in this field and proposes a full range of multimedia services for airline passengers, including films, games, communications and computing, and recently added a new, totally interactive product to its range. The company also produces a satellite television system called LiveTV in partnership with Harris Corporation. In 2000, contracts were signed with JAL and United Airlines, and equipment went into service on JetBlue Airlines.

Power generation

Thales designs, develops and produces onboard generators and power generation systems developing 0.5 to 120 kW. The company also produces static converters and electric motors designed for aircraft, naval vessels and selected land vehicles.

As the world's leading supplier of electrical generators for regional transport and corporate aircraft, and the main supplier of electrical generators for all French military aircraft including *Mirage* and *Rafale*, and for the complete Eurocopter range of civil and military helicopters (*AS355*, *EC155*, *NH90*, *Tiger*), Thales is one of world's top three electrical equipment suppliers to the commercial aviation community.

Simulation & training

Thales is a world leader in simulation and training and the only player to cover virtually the whole range of businesses, while the major competitors tend to focus on one or two specific sectors. In commercial aircraft simulation and training, Thales is No. 2 worldwide behind CAE; in military aircraft (transport and combat), it ranks second to Link; in helicopters, the Group is equal with Link and ahead of CAE; in land vehicles it ranks second to Lockheed Martin, and also has a leading position in the energy sector, particularly for nuclear power plant simulators. Revenues in this field come roughly equally from commercial and military applications.

Thales' operates its simulation and training business out of four facilities in France, the United Kingdom, the United States and Australia. Product lines have now been fully consolidated and cost-reduction programmes completed for both simulation and training.

For some years, Thales has been developing its business in the training market for both civil and military customers. In 1999, the Group was awarded a major contract to train pilots for the *Tornado GR4* in the United Kingdom. This success was followed in 2000 by a further contract for all *Tornado GR1* training and another for Lynx Army Air Core training for helicopters. These last two contracts began during the year.

In the commercial pilot training market, expansion into continental Europe began in 2000 with the formation of a 50-50 joint venture with Crossair of Switzerland to provide training for regional transport aircraft crews. In helicopter pilot training, Thales and Eurocopter set up the Helisim joint venture, which will be operational in 2001, using the advanced roll-on roll-off dedicated cockpit configuration for the *Super Puma* and *Dauphin*.

In the wide-body aircraft simulator segment, with over 30 simulators sold (mainly for Airbus but also Boeing), Thales has about one-third of the market. In 2000, UPS took delivery of the first PC-based full-flight simulator for the *A300-600*, a new product that once again demonstrates the extent of Thales simulation know-how.

The full-flight simulator is the latest addition to the Thales range of integrated PC-based products and web-based training systems, all based on the same software. Optimum re-use of technology has given Thales a competitive edge that is recognised by our customers across the sector.

With orders up 36% on the year before, 2000 ended with a healthy order book. This achievement followed two years during which revenues were deliberately kept low as part of the internal restructuring strategy launched in 1997. Companies placing new orders in 2000 included British Airways, Egypt Air, Gecat and Flight Safety Boeing. A *Simuflite* contract was also awarded in the booming market for corporate aircraft simulators.

In the military market, orders were received for the *F16 MLU* for a number of European air forces, the *Lynx UK* and *Tiger* for Joint Armaments Cooperation Organization OCCAr, the *KC10* upgrade in the United States, and the *Combined Army Tactical Trainer* for the French Army. Thales is well placed for sustained growth: the civil market is expected to grow in the next few years and export potential is high for military aircraft such as the *Eurofighter*, *Tiger* and Dassault combat aircraft.

Two new contracts for truck simulators have been awarded by AFT-IFTIM in France and VtenL in the Netherlands. In 2001, Thales' truck simulator business is expected to take off in the United States, where there is significant market potential.

DEFENCE ⁽¹⁾

Key figures

(In millions of euros)	2000	1999
Total revenues	5,026	3,921
Sales to other business areas	92	105
Consolidated revenues	4,934	3,816
France	1,361	1,317
Rest of Europe	1,532	1,209
Rest of world	2,041	1,290
Operating profit	337	243
<i>as % of total revenues</i>	<i>6,7 %</i>	<i>6,2 %</i>
Order intake	5,299	4,695
Order book at 31 December	14,136	12,714
Employees at 31 December*	28,781	24,495
France	16,311	16,346
Rest of Europe	10,011	7,492
Rest of world	2,459	657

* At 31 December 2000, the business area managed 32,700 employees, including all those working for joint ventures.

Market and defence industry trends

After the end of the Cold War in the late 1980s, the world defence market shrank steadily until 1996. Since then, defence spending has levelled out or risen slightly in the main Western countries and the Middle East, while the market has expanded in Asia, except during the 1998 economic crisis.

The geopolitical shift since the collapse of the Soviet bloc, and the increase in regional conflicts, such as the Gulf War and the more recent conflicts in the Balkans, have generated new needs in surveillance, particularly coastal surveillance, force "projectability", and in response to the growing number of deployments by allied coalitions the "interoperability" of defence systems.

At a time when technological change is speeding obsolescence, this shift in requirements has meant that most Western countries have begun to allocate a greater share of their defence budgets to procurement. And the proportion allocated to electronic systems is rising still faster.

The traditional segmentation into land, air and naval requirements is becoming less pronounced as demand for interoperable systems increases. At the same time, the emergence of the "digitised battlefield" calls for growing integration of different types of systems, all of which rely increasingly on software. The capacity to integrate equipment, subsystems and systems within complex, large-scale architectures has become a key competency that only a handful of major defence contractors offer.

Geographically, the major trends are as follows:

- In Europe, there has been a modest return to growth in the United Kingdom and France, whereas Germany and Sweden are still in the defence budget contraction phase, and most other countries have levelled out. Beyond these different national approaches, the Kosovo conflict demonstrated the general need for greater equipment interoperability between European and US forces.
- The US defence budget is growing significantly, and the new Administration has indicated that this trend is likely to continue.
- In the Asia-Pacific region, governments are indicating a need for renewed growth after the economic and financial crisis of 1998. There are real prospects for growth in south-east Asia and Australasia, where the total market is expected to increase from \$110 to \$140 billion between 2000 and 2005.
- Tension is continuing in the Gulf States, and security and surveillance needs are ever-present. The rise in the oil price and the continuing strength of the dollar gives these countries the necessary financial leeway.

[1] Information about defence markets, Thales' position in them and other players in this sector is based on estimates made by the company in the light of its knowledge of these markets and players, and published data including company annual reports and economic and financial studies by public and private bodies.

Within the industry, the situation continues to evolve, although the major restructuring of the 1990s is over.

In the United States, after Boeing, Lockheed Martin and Raytheon emerged as the three major players, groups such as General Dynamics and Northrop Grumman have made acquisitions to achieve the critical mass needed to seriously challenge the Big Three.

For European aerospace and defence groups, 2000 was also a busy year: BAE Systems acquired Sanders, Lockheed Martin's avionics business, and EADS formed the Airbus Incorporated Company, providing Airbus with a clear legal status and commercial and economic objectives. And Thales acquired Racal, the second-largest defence contractor in the UK.

Thales considers that the strategies of all three major European players are still evolving and will continue to affect restructuring within the European defence and aerospace sector.

Another major trend in Europe in recent years is the increasing proportion of programmes that are cross-border partnerships rather than purely national programmes. Italian and German contractors in particular have a substantial involvement in such programmes.

In other parts of the world, the sector is consolidating in a similar fashion (one example being the current restructuring in the Israeli industry) while national industries are emerging a number of "new" countries intent on achieving an export capability.

Against this backdrop, Thales is developing local partnerships and extending its "multi-domestic" industrial base to support the development of these local industries as a partner or direct player. Thales has acquired an interest in African Defence Systems of South Africa, formed the ADI joint venture in Australia, set up the Samsung Thales joint venture in South Korea, and, on a smaller scale, acquired an interest in the Brazilian aircraft manufacturer Embraer in 1999.

After a decade of continent-wide restructuring in Europe and North America, conditions are ripe for trans-Atlantic alliances, even before national consolidation is complete. The alliance between Thales and Raytheon, announced in December 2000, is a prime example. This joint venture is designed to extend and consolidate the existing partnership between the two companies as part of a strategy to strengthen ties between these two key players while enhancing the interoperability of their equipment and systems.

Airborne systems

The airborne systems market is expected to continue to expand in the years ahead: modern defence doctrines favour the development of force projection and surveillance capabilities and involve allocating more missions to airborne platforms. Furthermore, electronics is increasingly important on these platforms and is now the most costly component, ahead of airframes or engines. The focus on self-protection and surveillance is becoming sharper than ever. Technological responses to this shift in emphasis include data fusion, mission systems built around onboard computers, electronic warfare and passive detection technologies, stealth, active antennas, solid-state lasers and modular avionics.

The Group's competitors in this field are Lockheed Martin, Raytheon and Northrop Grumman in the United States and BAE Systems in Europe, as well as specialists such as Elta (radars) and Elbit (countermeasures) in Israel, and Ericsson (radars) in Sweden. Technological barriers to entry are such that these markets rarely see significant newcomers.

At the end of 2000, the Thales order book was worth nearly four years of billings, evidence of the quality and range of the Group's offering. The Racal acquisition, completed in 2000, and the increased strength it brings in maritime surveillance radars and naval electronic warfare systems, has confirmed Thales' position as the world's premier exporter of electronic warfare equipment.

The Thales offering covers four main segments: radars for combat aircraft and airborne surveillance, radar-based electronic warfare systems for airborne, naval and land platforms, mission systems, and missile electronics. In 1999, Thales set up a structure to coordinate the competencies required for logistic through-life support, competencies that are increasingly valued by customers as they extend platform life-cycles.

Radars for combat aircraft and maritime surveillance

Thales is the leading European manufacturer of radars for combat aircraft and airborne maritime surveillance missions.

In **radars for combat aircraft**, Thales is the main partner of Dassault Aviation (*Mirage* and *Rafale* programmes). The company developed the RDY multi-target radar for the *Mirage 2000-5*. Last year was particularly fruitful: the major contract awarded by the United Arab Emirates in 1998 to equip the *Mirage 2000-9* was followed in 2000 by two major new contracts, for Greece (fifteen new *Mirage 2000-5 Mark 2*, and the upgrading of the Air Force's existing ten *Mirage 2000* to the same standard), and for India (ten *Mirage 2000*). These new orders bring the number of countries flying the *Mirage 2000* to six.

For the *Rafale*, Thales has developed the *RBE2* electronic scanning radar. In 1999 the French government confirmed the continuation of the *Rafale* programme and awarded a multi-year order for 48 aircraft on top of the 13 already ordered in 1997. Since 1999, the *RBE2* has thus been in the production investment phase. In 2000, Thales began to develop an *RBE2* with an active antenna to equip a new version of the *Rafale* for export markets. This technologically advanced radar should give the *Rafale* system a significant lead over its competitors.

For maritime patrol aircraft, Racal's teams and products have further strengthened Thales' position.

The *Ocean Master*, produced jointly with EADS GmbH (formerly DASA), continued to perform well, with new contracts following previous orders from France, Pakistan, Japan and Indonesia.

A new heliborne version of the *Searchwater 2000* maritime surveillance radar developed by Racal was ordered for the British Army's *Sea King Mark 7*.

Radar-based electronic warfare systems

Thales is one of the world leaders in this field. Existing business has been expanded by the acquisition of Racal, and the Group also has strong ties with the Italian company Elettronica, which is one-third owned by Thales

Thales equipment and services meet the full range of requirements: self-protection for all platforms, neutralisation of electromagnetic threats, and electronic intelligence gathering (detection and surveillance of the electromagnetic environment). In addition to these traditional activities, Thales has developed advanced passive detection and target designation capabilities to meet new customer needs.

Thales' electronic warfare offering for **combat aircraft** has also contributed to the success of Dassault Aviation's *Mirage* and *Rafale*. Examples are the ICMS (Integrated Counter-Measure System) that equips export versions of the *Mirage 2000* and Spectra, the *Rafale*'s self-protection system. With Elettronica, Thales won the IMEWS contract to renew the United Arab Emirates' *Mirage 2000s* and equip their *Mirage 2000-9*: this programme is based on a new concept and a technological breakthrough that will affect airborne electronic warfare systems for the next 15 years.

With respect to **transport aircraft**, Thales is upgrading the self-protection systems of the French Air Force's C130-C160 fleets, and won a further contract for this programme in 2000.

For **helicopters**, Thales was selected in partnership with EADS GmbH to equip the future European *Tiger* and TTH90 helicopters, gaining access to a market of close to 1,000 aircraft. In addition, French Army light aviation (ALAT) helicopters are equipped with Thales' Fruit radar warning receiver, which is particularly suitable for upgrade programmes.

In **the naval market**, since acquiring Racal, Thales supports an extensive range of cost-effective solutions built around various versions of the DR3000 and *Sea Lion* naval ESM systems for surface combatants (in the case of *Sea Lion*, the Dutch and German *F124-LCF* frigates) and submarines (including the Royal Navy's *Astute* programme). Thales has been selected, in partnership with Elettronica, to provide a new-generation self-defence system for the Franco-Italian *Horizon* frigate class, using the latest digital receiver technology.

In **land systems**, Thales, in partnership with Elettronica, offers an improved version of the Stair system, fielded by French armed forces since 1995, for locating and identifying land-based surveillance and fire control radars.

Mission systems

Thales' know-how in medium and large-scale airborne electromagnetic **intelligence gathering** (radar and communications) is unique in Europe. As prime contractor for the Sigint (SIGnals INTelligence) system carried by French Air Force *Transall Gabriel* and *Sarigue* aircraft, the Group is one of the few non-American bidders in international competitions in this field. The Thales intelligence gathering offering includes a podded version of key elements of the Sigint system known as *Astac*. This product is already operational with the armed forces of France (*Mirage F-1*) and Japan (*F-4*), and is undergoing operational evaluation in Greece. It has been qualified for the *F-16* and *Mirage 2000*, and the corresponding ground processing stations.

Thales is also developing an integrated offering for **maritime patrol** aircraft and helicopters based on the Airborne Maritime Situation Control System (*Amascos*) family, which has been selected by Pakistan, Indonesia, Japan, Singapore and the United Arab Emirates. The Group is also developing an AEW system for the UK's Royal Air Force, to be deployed by *Sea King Mark 7* helicopters. The system will be a new version of one of Racal's most successful products, the *Searchwater 2000*.

For the Greek Air Force, Thales has teamed up with Ericsson to develop an AEW&C (Airborne Early Warning & Control) system to be installed on Embraer aircraft.

Thales is also active in the combat aircraft upgrade market. After upgrading Spain's *Mirage F1* fleet, the company is bidding for a number of other *Mirage* upgrade programmes.

Thales' mission systems business includes key system components such as central computers, interfaces and associated digital equipment for all types of military platforms (combat aircraft, tanks, missiles). In partnership with Alenia Difesa, Thales is developing the onboard computers for the *NFH-90* and *TTH-90* helicopters. It is also contributing to the ASAAC studies on modular avionics. In partnership with Dassault Aviation, Thales is defining navigation and weapon delivery systems for the *Mirage* and *Rafale*, together with their operational software. The Group's product range now includes the EMTI digital and graphical processing platform, which brings military platforms the combined power and flexibility of modular avionics. The EMTI is part of the *Mirage 2000* package ordered by the UAE and Greece. *Rafales* to the *F-2* standard will also be equipped with the system.

Missile electronics

As European leader in missile electronics, Thales covers the full range of equipment for missiles and smart weapons, leveraging the Group's microwave, infrared and laser technologies and its world-class expertise in microelectronics.

Thales equips all types of missile (air-to-air, surface-to-air, anti-ship, air-to-surface, anti-tank) that use guidance or detection systems.

In particular, Thales has developed and produced :

- Active seekers for *Exocet* (anti-ship) and *Aster* (surface-to-air) missiles made by Aerospatiale Matra Missiles (AMM), the *Mica* (air-to-air) and *Apache* (air-to-surface) missiles made by Matra BAe Dynamics (MBD), and, in partnership with Alenia Marconi Systems, the MBD *Meteor* (air-to-air) missile;
- Semi-active radio-frequency and laser seekers for the Matra *Super 530* and MBD *Eblis* bombs, and AMM *AS30* missiles ;
- Passive infrared imaging seekers for the MBD *Scalp-EG* and *Storm Shadow* cruise missiles, the AMS *Black Shaheen*, the *Trigat* anti-tank missile, in partnership with BG, the *Martel* anti-radar missile, and for guided submunitions.

Thales is also undisputed European leader in **proximity fuzes**, which it produces for *Mica*, *Aster*, *Asraam*, *Trigat*, *Alarm*, and *Seawolf* missiles. The Group is currently taking part in a large-scale programme to upgrade the *Seawolf* anti-ship missile, which is deployed by the Royal Navy's Type 23 frigates. Thales also manufactures proximity fuzes for Raytheon's *Amraam* and *Tow2B* missiles.

This area of business also includes datalinks for the *Crotale* and *Roland* air defence systems, and for anti-ship missiles such as the *AS15* and the *MM15*; radioaltimeters, for which the Group is the leading European supplier for most cruise missile and anti-ship missile programmes; munifronics (safety and arming devices); guidance computers for tactical and strategic missiles; and integrated laser gyro and GPS guidance systems for a wide range of guided munitions.

Communications

The world market for defence information and communications systems and equipment is estimated at \$10 billion, with the United States accounting for just under 45% and Western Europe accounting for around one-third.

Since the Racal acquisition in 2000, Thales' market share is estimated at around 15%. The Group is a world leader, on a par with US competitors Lockheed Martin, General Dynamics and Raytheon, and well ahead of European competitors BAE Systems and EADS.

In 2000, Thales positioned itself in growth segments of the market, leveraging the Group's network of subsidiaries in the nine European countries that account for 90% of the overall European defence budget, plus subsidiaries and joint ventures in Asia, Australia and North America. The addition of Racal operations has boosted the Group's position in the United Kingdom and its geographical coverage of export markets

The defence communications market has entered a new growth phase, following the same trend as civil communications but a few years later. Driving this growth are demand for multi-nation and tri-service interoperability, the need for greater bandwidth to exploit complex data fusion capabilities, and increasing levels of system integration. Major projects for a "digitised battlefield" are in the pipeline..

Information dominance systems

Military powers maintain information dominance by interconnecting electronic warfare, intelligence, surveillance and security systems with data acquisition, fusion and analysis to provide a shared, comprehensive picture of the operational situation.

In **command information systems**, following the success of the first version of the *SICF* command information system for major units of the French Army, Thales was awarded a contract in 2000 to produce Version 2 by 2003.

In artillery systems, the contract to produce the *Atlas Canon* (fire automation and field artillery coordination) confirms Thales' position as the systems integrator of choice for battlefield communications and command systems.

In **electronic warfare systems**, major contracts in 2000 include development of the future naval direction finder/interceptor (*FOGN*) for communications electronic warfare. In the United Kingdom, the Group was chosen to assess communications electronic warfare requirements for the *Soothsayer* programme.

Defence communication networks

Thales provides the armed forces with secure, interoperable networks for end-to-end communications between defence systems.

In **tactical networks**, Thales has been selected to build the *Aristote* network, which will provide end-to-end communications between operational units deployed in external theatres and the command centre in France. Using the experience gained on the *Rita 2000* programme, the Thales solution is based on a broadband architecture that complies with the latest commercial standards. This solution is compatible with IP (Internet Protocol) technologies, which will enable armed forces to deploy battlefield intranets while remaining fully interoperable within multi-nation operations.

Alcatel Space Industries will draw on Thales' experience for the Syracuse III military satellite telecommunications system, which will provide more bandwidth, better resistance to countermeasures, and greater flexibility from the moment it enters service in 2003. The Thales contribution covers ground segments, dedicated security equipment and operational maintenance.

Within the multi-national *Tacoms 2000* programme, Tac One, a company formed by BAE Systems, EADS GmbH, ITT Industries, Marconi Communications and Thales, has won a contract to define interoperability standards for NATO's tactical networks.

In **strategic networks**, Thales was awarded a contract in 2000 covering operational maintenance for the first seven sites in France coming under the MTBA air base communications programme.

Thales will be working alongside Alcatel Space as joint prime contractor for the *Matilde* long-distance communications network. This major programme will upgrade supreme command communications between France and its overseas possessions, and provide maritime coverage for tactical and strategic communication stations.

Secure radiocommunications

The Thales offering includes land-based, aeronautical and naval radiocommunication systems, identification systems and radionavigation systems.

In **tactical radiocommunications**, the French procurement agency has selected Thales to produce the new generation of line-of-sight radios developed jointly by Thales teams in Switzerland and France. This contract demonstrates the value of the Group's multi-domestic strategy and offers bright prospects in export markets.

Also in France, Thales won the contract to extend software services on *PR4G* radio sets, including high-speed tactical Internet capabilities. This new generation marks the first stage in Thales' software radio strategy, which the Group is pursuing under a number of R&D contracts in France, Germany, the United Kingdom and the United States.

In **aeronautical communications**, Thales is to equip the UK's Royal Air Force and Royal Navy with *Saturn V/UHF* secure communication systems. These contracts confirm the Group's position as the world's leading supplier of *Saturn* NATO-standard radios. Other successes include contracts for tactical datalinks, one of the more important being for *MIDS LV* terminals through the EuroMIDS consortium (Thales, MID Spa, Indra and EADS).

Export successes in this field include a contract from Greece to supply the CNI (Communications Navigation Identification) suite for the *Mirage 2000*, and a radio equipment contract from the United Arab Emirates for its *F-16s*. Also for the *F-16*, the Royal Danish Air Force selected Thales' *MMR* multimode receiver as an onboard landing system.

In **naval communications**, Thales is prime contractor for the new-generation *Omar HF* programme to revamp the French Navy's entire HF communications system.

For **identification products**, as part of the *NGIFF* (Next-Generation Identification Friend or Foe) programme, the German and French defence ministries have chosen the joint venture set up by Thales and EADS to produce the new-generation IFF transponder.

Naval systems

The world market for naval equipment is worth nearly \$25 billion per year, with electronic systems accounting for 40%-50%. Electronics is now worth roughly as much as the platform and propulsion system combined, or, more precisely, some 30% of the total cost of a submarine, 40%-50% of the cost of a frigate, and 60% of the cost of a patrol boat.

The naval market is also seeing significant growth in logistics and through-life support for naval fleets and an increase in outsourcing. The United Kingdom has led the field here, but the trend is likely to involve a number of other major countries and boost the market for naval systems in the decade ahead.

The United States accounts for some 35% of the world market, equal to the other NATO countries combined. The United Kingdom is the leading European NATO market and the most open to international competition.

Multi-nation cooperation has grown considerably in recent years, through programmes such as the *PAAMS* anti-air missile system, the Franco-Italian *Horizon* frigates, and the German-Dutch-Canadian frigate programme.

More cooperation programmes are likely as European needs increase and a European defence community takes shape. One idea is for Europe-wide development of a "multi-mission modular frigate", rather like a naval Airbus. If Europe organises the programme, it could start in 2010.

Thales is currently one of the world's leading exporters of integrated naval programmes and associated combat systems. The Group is also the European leader in underwater acoustics. Overall, Thales ranks third worldwide, behind BAE Systems and Lockheed Martin, but ahead of Raytheon.

Restructuring and alliances have accelerated in recent years in both naval electronics and shipbuilding, as industry players seek closer vertical or horizontal integration.

The planned joint company with French naval shipbuilder DCN is part of this trend. A memorandum of agreement was signed on 13 March 2001 to set up a company pooling the partners' skills and resources in marketing and prime contracting for warships and naval combat systems for domestic and export programmes.

Thales' strategic priority is to develop international business by establishing ongoing ties with local shipyards to offer customers all over the world solutions combining state-of-the-art technologies. The acquisition of a 50% stake in Australian company ADI when it was privatised in 2000 provides a further illustration of the Group's multi-domestic strategy. This followed the acquisition of a majority holding in African Defence Systems in South Africa in 1999, and the formation of Samsung Thales Co. Ltd. in South Korea in 50/50 partnership with Samsung Electronics.

These investments provide Thales' naval businesses with a firm base in parts of the world where the Group was previously less active, at a time when international competition is increasingly fierce.

To consolidate its position as a naval contractor, Thales intends to :

- win more business as a naval prime contractor as a result of its agreement with DCN ;
- pursue its multi-domestic strategy, and, in the United Kingdom, achieve recognition as an alternative industry partner ;
- strengthen its position in Germany through the alliance between Thales Nederland and RADS in Germany.

Maintenance and services already a significant share of defence budgets and increasingly important in the specifications on which prime contractors bid are now the Group's top growth priorities. A strong offering in this area gives a contractor a competitive edge and ensures recurring business over the long term.

Surface naval businesses

As a systems integrator, Thales has acquired extensive experience in specifying, designing and integrating complete suites of shipboard electronics. Thales' biggest current prime contractorship is for three *Sawari 2* frigates for Saudi Arabia, equipped with the *Arabel* multi-function anti-air fire control radar and the *Aster* missile system. This nine-year contract follows the *Sawari 1* programme, for which Thales is currently providing logistics support.

Other major frigate programmes, mostly conducted in partnership with other contractors, include :

- the Franco-Italian *Horizon* programme. On the French side, and until this position is taken over by the Thales/DCN joint venture, Thales is joint prime contractor with DCN. France and Italy have already ordered a batch of two frigates each.
- the *TFC* programme being conducted by the Netherlands (*LCF* frigates), Germany (*F124* frigates) and Canada. Thales Nederland is prime contractor for the air defence system and the combat system infrastructure. The programme includes most of the radar equipment, including the *Smart L 3D* long-range surveillance radar and the *APAR* multi-function radar.

- the programme to equip four *Meko A-2000* class corvettes for South Africa, in which Thales subsidiary African Defence Systems is teamed with Blohm & Voss of Germany. Thales is producing the combat management system and integrating the weapon systems. The platforms will be delivered to South Africa in 2002 and 2003 and outfitting completed in 2004 for the combat system and 2005 for the weapon system integration.
- the *PAAMS* anti-air missile system being developed jointly by France, Italy and the United Kingdom for their new-generation air-defence frigates will include a version of Thales' Smart L radar.

Major programmes at the planning or early development stage in Europe include the *FSC* (Future Surface Combatant) frigate programme in the United Kingdom, the *F125* programme in Germany, and the planned aircraft carriers for the United Kingdom. A request for tenders has already been issued for the construction of two units.

Underwater activities

In submarines, after a period of relative stability, new programmes are expected to be launched in a number of countries, including Portugal, Spain, Malaysia and India. Chile has already begun its *Scorpene* programme. Thales nevertheless believes that growth in this market will remain modest in the next few years.

Thomson Marconi Sonar (TMS), a joint company set up with GEC-Marconi⁽²⁾ in 1996, is a global front-runner in underwater combat systems and the world's leading exporter of sonar systems. With industrial facilities in Australia, France and the United Kingdom, Thales Marconi Sonar, as it is now known, supplies sonar systems for submarines and surface vessels, airborne acoustic systems, and equipment for mine warfare.

After a number of slow years, TMS was selected in early 2001 by the UK Ministry of Defence to upgrade Type 23 Duke-class frigates and Hunt-class minehunters. TMS will be prime contractor for the 2087 and 2193 sonars respectively.

Thales Marconi Sonar supplies sonar systems for all nuclear submarines operated by the British and French navies and sonar suites for Australia's Collins-class submarines. The company is also taking part in a number of export programmes, supplying sonar systems for Pakistan's *Agosta* submarines and Chile's *Scorpène* submarines.

In sonar systems for surface vessels, TMS is supplying type *2050* hull-mounted sonars for the Royal Navy, and the *Sphérion* for the Royal Australian Navy. In export markets, the Royal Norwegian Navy's new frigates will be equipped with the *Captas* low-frequency towed array and a *Sphérion NG*. Production continues of *Captas 20* sonars for the air defence frigates of the Royal Saudi Navy. TMS also supplies comprehensive torpedo alert and defence systems for surface vessels.

The company is continuing the upgrade of the Royal Australian Navy's *FFG 7* frigates under a contract awarded in 1999. This includes delivery of a *Sphérion NG*, a *Sea Defender* anti-torpedo system and a *Petrel* mine avoidance sonar for each of the six frigates. The *Sea Defender* is the world leader in the new market for anti-torpedo systems.

The Group estimates that it has fitted its systems to more than half the worldwide fleet of mine countermeasures vessels.

Since 1999, Thales has been upgrading the French Navy's 13 minehunters, replacing their current equipment with a new mine countermeasures system including the *2022 Mk 3* hull-mounted sonar, the *PVDS* propelled variable-depth sonar and a new tactical system. The *PVDS* is part of a new mine countermeasures concept designed to counter stealth mines. This is also a promising new segment.

In export markets, the type *2093* towed variable-depth sonar now equips mine countermeasures vessels in Australia, Japan, Saudi Arabia, South Korea, and the United Kingdom. It has also been selected by the Turkish Navy for its six new minehunters.

In airborne product lines, the heliborne Flash dipping sonar has been selected by the US Navy for its future *SH60R* helicopters. Over two hundred *SH60* helicopters are due to be equipped. This sonar has been in service with the Royal Navy (*EH101*) and the United Arab Emirates Navy (*Super Puma*) since 2000.

(2) GEC-Marconi 49.9% stake in TMS was acquired by BAE Systems in November 1999. As allowed by the TMS set up agreement, Thales exercised its option to buy the BAE Systems shareholding at the end of 2000. If this acquisition is finalised in 2001, Thales will be the sole owner of TMS.

Optronics

Optronics combines optics, electronics and very-short-wavelength infrared sensors to offer effective day/night imaging. In conjunction with laser technology, optronics offers superior resolution and accuracy.

The potential applications are many and various. Although optronics was initially developed for military purposes such as detection, identification and precision targeting, it is now used increasingly in medical equipment and other commercial markets.

The potential market is estimated at just over \$2 billion and is expected to be worth close to \$3.5 billion, ten years from now, this growth being largely a result of non-defence applications.

As a result of acquisitions completed in 1999, Thales now ranks third worldwide in this sector. It is on an equal footing with its two main US competitors, Lockheed Martin and Raytheon, and well ahead of European manufacturers Sagem and BAE Systems. These operations have significantly expanded Thales' international industrial presence, which was formerly concentrated in France and the United Kingdom, as well as broadening the company's skills base:

- Europe Aéro-Surveillance, France, acquired to strengthen the Group's position in airborne surveillance systems;
- the electro-optical division of AlliedSignal Aerospatiale, Canada, acquired to strengthen the Group's position in night vision systems for light armoured vehicles;
- control of Avimo Group, UK and Singapore, strengthening Thales' global position and contributes excellence in high-technology optics;
- the defence businesses of Delft Instruments, Netherlands and Italy, acquired to strengthen the Group's position on the Dutch market and broaden access to new international markets;
- the formation of the Samsung Thales Co. joint venture in South Korea, allowing Thales to compete for optronics business in this major market.

Already the European leader in optronics, Thales is also the world's largest supplier of land-based optronics products and optical components.

Defence optronic systems

As well as a broad catalogue of optronics products, Thales supplies integrated multi-mode systems (combining optronics with radar technologies, for example). Multi-mode systems offer significant added value for today's increasingly demanding customers and users.

Most **airborne** platforms now use optronic systems in roles from navigation and reconnaissance to target designation and weapon guidance. Optronics technologies play a key role in modern defence systems, and have demonstrated their effectiveness in the Balkans and other recent conflicts.

For air-to-surface strike missions, Thales Optronique is a leading specialist in attack pods used for precision day/night guidance of air-launched missiles and bombs. With several hundred pods in service or on order for the French Air Force and other customers, for use on various aircraft (including *Mirage*, *Jaguar*, *Tornado* and *F-16*), Thales Optronique ranks second worldwide in this segment behind Lockheed Martin. In 1999, France became the second country (after the United Arab Emirates) to adopt Thales' third-generation multi-function attack pod, which offers advanced features including a long-range target identification capability. Other airborne optronic equipment from Thales includes air-to-air combat systems (detection, identification and tracking) for *Rafale* and *Eurofighter* combat aircraft, as well as film and electro-optical sensors for all types of airborne reconnaissance missions. Some of these systems saw active service in Kosovo in 1999. Thales also integrates IR camera systems on board gyrostabilised platforms for observation and surveillance by helicopters and fixed-wing aircraft.

For **land-based** forces, Thales boasts a full range of day/night thermal cameras which can be integrated on a turnkey basis with modular surveillance systems for any type of fixed or mobile platform. More than 1,500 *Sophie* cameras have been sold in 26 countries to date. This camera is based on a multi-role concept and offers important features for projected forces operations. Another type of camera, designed to withstand extreme environments, is also attracting interest from a number of countries for the growing tank retrofit market. Thales also supplies surveillance, warning, target designation and combat systems for land-based forces, and is closely involved in the development of new technologies for next-generation soldier systems.

In **naval** markets, Thales is a world leader in optronic masts and periscopes for submarines, equipping the Royal Navy and other naval forces. The company has also developed a range of infrared fire control and surface surveillance systems, and in 1999 an Asian operator ordered a new maritime surveillance system for littoral operations.

High-technology optics

In this key segment of the optronics market, Thales is turning its expertise in opto-electronics to commercial applications. For example, the Group produces special protective coatings for solar panels and mirrors for various types of spacecraft. Building on its expertise in digital image processing and robotics, Thales has developed the world's first camera for digital endoscopy. In the automotive industry, Thales' military optronics technologies are now finding applications in collision-avoidance systems and driving aids for vehicles operating at night or in poor visibility. Thales Optronique's other high-technology optics businesses, cryogenics and laser technologies, are also diversifying into commercial markets. In 1999, the cryogenics business found its first civil application when it helped Thales Optronique develop a superconducting filter for mobile telephones. In lasers, similar advances have resulted in technologies for monitoring atmospheric pollution and restoring historic buildings and monuments.

Thales is a world leader in **optical and electro-optical** products for military, industrial and space applications. In wavelengths from visible to infrared, the company has the expertise to design and produce advanced optronic components and equipment to the most demanding specifications.

The Group has been in the **cryogenic** cooling market for more than 20 years and is now Europe's leading player in this field, with one of the most comprehensive product ranges available anywhere. Designed for optronic systems in military, civil or space applications, these products are widely used in infrared cameras and missile seekers.

Laser technologies are of strategic importance in optronics. Active in all aspects of laser physics, and thermal and laser engineering, Thales offers a complete family of laser rangefinders and illuminators for use in air, sea and land-based applications. Current R&D efforts focus on solid-state lasers, non-linear optics and laser diode pumping technologies for future generations of equipment. Already heavily committed to the power laser diode market, Thales is now positioned as a supplier of laser diodes for gas detection systems as well as special-purpose opto-electronic devices for professional, space and avionics applications.

Air defence systems and missile systems

Thales designs, produces and supports airspace surveillance and defence systems for customers all over the world. The company's military businesses range from detection systems, identification systems and air command and control systems (ACCS) to very short-, short- and medium-range air defence systems to defend high-value assets and protect battlefield forces. The company is also involved in armaments and propulsion.

Other European players in this field are EADS for surface-to-air missile systems, and Finmeccanica and BAE Systems for air defence and battlefield detection systems. Globally, the largest market (45%) is the United States, with Raytheon and Lockheed Martin being the world leaders.

Air defence systems

The air defence market is estimated at some \$2 billion, divided between the United States (30%), Europe (35%) and the rest of the world (35%). It covers command and control systems for air operations, and battlefield air defence systems, which combine surveillance radars and operations centres and can identify approaching air threats. These systems trigger defensive action and prepare for offensive missions, communicating with airborne sensors, surface-to-air missiles, air bases and land forces as necessary.

This market is growing partly because NATO needs to update its infrastructure to ensure allied interoperability at continental level and for force projection operations, and partly because new threats are emerging (including tactical ballistic missiles and cruise missiles). The need for new equipment is made all the more urgent by huge advances in technology, for both radars (active antennas) and information systems.

Thales is one of the top three players worldwide in air defence systems, along with Raytheon and Northrop Grumman. All offer both surveillance radars (in Thales' case, the *Master* family of 3-D radar, including a new generation using active antenna technology), and control and command centres for air operations, and all can take full responsibility for a country's defence systems, including communications

On 15 December 2000, Thales and Raytheon agreed to set up the first-ever trans-Atlantic structural partnership in this key sector, recognising that closer cooperation across the Atlantic also meets new system interoperability needs. The new company will combine the partners' competencies in air defence operations centres and air surveillance and counterbattery radars.

Thales Raytheon Systems, with facilities in France and the United States, will employ some 1,300 staff worldwide and projects fiscal 2001 revenues of 600-750 million euros (\$550-\$700 million). Both partners will have access to markets on either side of the Atlantic, benefit from a stronger global presence and serve export markets more effectively. With totally interoperable products, this partnership will provide optimal effectiveness for joint operations by US and European armed forces.

The December 2000 agreement is a logical extension of recent partnerships between Thales and Raytheon on major programmes: the *Florako* contract for Swiss airspace surveillance won jointly in 1998, and the 1999 contract to supply NATO with the first phase (*LOC1*) of the *ACCS* (Air Command & Control System), to replace *NADGE* (NATO Air Defence Ground Environment) in Europe, for a total of around \$2 billion over 10-15 years.

Exports account for 75% of Thales' revenues in this field. In France, the Group is contributing to France's *SCCOA* Air Command & Control System programme.

In addition to these large-scale air defence systems, the joint subsidiary will also cover battlefield defence businesses, such as C2 (command & control) systems and sensors (with the Thales *RAC 3-D* radar) for surface-to-air defence and ground surveillance sensors for battlefield protection. This includes artillery fire adjustment and counterbattery radars for land forces.

Thales is taking part in a number of new programmes, both in France and internationally. The company was selected by the French Ministry of Defence to develop *Rapsodie*, the French Army's future land-based surveillance radar, and is continuing to work as a member of the Euroart consortium on the *Cobra* counterbattery radar programme for three European countries. In December 2000, the French Army awarded Thales the contract to develop and produce centres for the second phase of the *Martha* programme. These centres will command and coordinate air defence and field artillery, helicopters and unmanned airborne vehicle (UAVs). The *Martha* system will be the first in the world capable of simultaneously controlling very short-, short- and medium-range weapon systems.

Surface-to-air missile systems

Thales is a leading specialist in land-based and naval anti-air systems for the very short-, short- and medium-range segments of the market. The company considers it is a world leader in airspace security systems, and offers world-class expertise in programme management and system integration. Thales' involvement ranges from missile production (the *Starstreak* missile developed by the UK subsidiary Thales Air Defence LTD, and the *Hellfire* and *Longbow* missiles being produced under US licence) to very short-, short- and medium-range missile systems and fire control radars. In addition, Thales' Airborne Systems business group is a leading supplier of missile electronics.

Medium range : Thales is taking part in major European missile system programmes, including the Franco-Italian Future Surface-to-Air Family (*FSAF*) programme, conducted by the Eurosam partnership, which entered its final phase in 2000. For this programme, Thales is developing the *Arabel* fire control system. The naval version of *Arabel* will be used to protect the aircraft-carrier *Charles-de-Gaulle* and Saudi Arabia's *Sawari 2* frigates, and the land-based version will ultimately equip the successor to the *Hawk* system. Thales is also taking part in the *PAAMS* project to develop an anti-air missile system for future French and Italian frigates.

Short range : In short-range land-based and naval air defence, Thales offers the most advanced missile system currently available on the market, the *Crotale NG* (New Generation). This system is designed for the air defence of civil and military sites as well as the protection of armoured and mechanised land forces. It is currently in service with the French Air Force and Navy and several export customers. Both the naval and land-based versions use the *VT1* hypervelocity missile, which was specially developed for the *Crotale NG*. Two major contracts were awarded in 1999: one from Greece for 11 *Crotale NG* systems, the other for a series of 48 *K-SAM* (Korean Surface-to-Air Missile) short-range air defence systems. The *K-SAM* contract will be conducted by successive technology transfers through the 50/50 joint venture set up in early 2000 by Thales and Samsung.

In the very short-range market, Thales Air Defence Ltd (formerly Shorts Missile Systems), the No. 2 missile manufacturer in the United Kingdom, became a wholly owned Thales subsidiary in 1999 when Bombardier sold its 50% stake. The company was set up in the 1960s and Thales has been a shareholder since 1993. Altogether it has supplied over 60,000 missiles to sixty armed forces worldwide. In 2000, the company was working on a £200 million contract awarded by the UK Ministry of Defence in 1999 to supply the new laser-guided *Starstreak* missile. The company has also been selected by Lockheed Martin to produce its *Hellfire* and *Longbow* anti-tank missiles, which have been selected by the United Kingdom for its *Apache* helicopters. This is the first time the US Army's primary anti-tank missiles have been produced outside the United States.

Logistic support and customer services

Following lessons learned in recent conflicts, chiefs of staff are demanding through-life logistic support for their defence systems throughout their life cycle, in peacetime and war. Responding to demands from air defence customers, Thales has combined and streamlined its industrial and human resources to create a dedicated logistics platform that provides the full range of services needed for operational deployment, support and sustainment of all types of air defence systems. The aim of this new organisation is to achieve customer satisfaction by meeting operational requirements more effectively while reducing costs. By offering major upgrades to complex systems, Thales meets customer demand for better performance, longer system lifetimes and guaranteed long-term serviceability. The logistics and support services platform gives Thales' customers all over the world access to a team of 500 highly qualified engineers and technicians and the Thales Group's extensive experience in missile systems and air defence.

With demand for these services rising, despite relatively stable defence budgets, logistics and support services offer a key development path that is expected to generate close to 25% of Thales' missile systems and air defence revenues in the coming years. In 2000 and early 2001, for example, Saudi Arabia awarded Thales two major contracts for logistic through-life support for its installed base of *Crotale* and *Shahine* systems. These were the first orders involving weapon systems to be placed by Saudi Arabia for several years.

Armaments and propulsion

TDA, a 50/50 subsidiary of Thales and EADS, specialises in four main areas: air-launched weapon systems (rockets and bombs), munifronics or munition electronics (guided munitions, fuzes for artillery shells and bombs), weapon and missile components (warheads, safety-and-arming units, non-lethal weapons), and land-based weapon systems (mortars and munitions, anti-tank systems). TDA acts as prime contractor for the design, production and marketing of its products, drawing on substantial technological resources that encompass pyrotechnics, detonics and electronics. The company's strategy is to focus increasingly on weapon systems and the leverage offered by direct access to other Thales technologies (optronics, radar, imaging, data fusion) to become the European leader in its areas of excellence. Order intake was up significantly in 2000, particularly for study contracts and development work.

Thales' propulsion business is conducted by Bayern Chemie in Germany and Protac in France. Both companies are jointly owned with EADS and supply solid-propellant rocket motors for tactical missiles made by the major European missile manufacturers (MBD, AMM). Through these companies, Thales is taking part in the *Magic*, *Mica* and *BVRAAM* (air-to-air), *Crotale*, *Shahine* and *Patriot* (air defence), *Alarm* (anti-radar), *Pars* (AC3G) and *Hot* (anti-tank) programmes. On the basis of its expertise in ramjet technology, Thales has also been shortlisted for AMM's *Meteor* (air-to-air) missile programme.

INFORMATION TECHNOLOGIES & SERVICES ⁽¹⁾

Key figures

(In millions of euros)	2000	1999
Total revenues	2,288	1,850
Sales to other business areas	229	235
Consolidated revenues	2,058	1,615
France	1,361	1,317
Rest of Europe	1,532	1,209
Rest of world	2,041	1,290
Operating profit	141	96
<i>as % of total revenues</i>	<i>6.2%</i>	<i>5.2%</i>
Order intake	2,073	1,575
Order book at 31 December	1,795	844
Employees at 31 December*	17,698	14,184
France	9,277	9,803
Rest of Europe	6,653	3,189
Rest of world	1,768	1,192

*At 31 December 2000, the business area managed 18,700 employees, including those working for joint ventures.

The businesses in the Information Technologies & Services business area (IT&S) focus on commercial high-technology markets in industry, administration and services. Most draw on the Group's expertise in electronic systems and skills sets initially developed for the defence and aerospace sectors. Some of the businesses are the result of acquisitions over the last few years – particularly those arising from the acquisition of Dassault Electronique ⁽²⁾ in June 1998, and the UK company Racal in June 2000.

The July 2000 decision to manage these businesses as a single business area is part of the Group's strategy to exploit growth potential to the full by tailoring sales, marketing and management models to targeted commercial markets.

This represents a break with the earlier organisational model based on more technical criteria. It is the result of a broad strategic review, completed in 1999, which pointed to strong growth in commercial applications of certain of the Group's technologies, particularly in mobile communications, secure electronic transactions and information systems, where there is strong demand for these advanced "dual" technologies.

The Racal acquisition significantly strengthened Thales' presence in some of these areas, improving its competitive positions and opening up new market opportunities for Group technologies. The IT&S business area now serves a broad range of markets including mobile communications, satellite systems, navigation systems, broadcasting, medical, electronic payment and toll systems, and information systems.

However, Thales does not consider that it can support the development of all the businesses in this business area. As a result, the Group is pursuing a strategy of selective development, retaining only those based on core Thales technologies and offering good potential for sustained growth and profitability. In October 2000, Thales sold its automation components subsidiary Crouzet to the Schneider group. And in March 2001, Thales announced plans to sell the instruments subsidiaries it acquired in 2000 when Racal became part of the Group.

(1) Information about IT&S markets, Thales' position in them and other players in these sectors is based on estimates made by the company in the light of its knowledge of these markets and players, as well as published data including company annual reports and economic and financial studies by public and private bodies.

(2) Ticketing and payment businesses, certain components for communications, instruments and satellite positioning equipment.

Communications components

Thales develops and produces high-technology communications components for a broad range of applications, including wireless communications, satellites, healthcare, navigation and broadcasting.

Building on cutting-edge military technologies, the Group has developed a strong position in **mobile communications** over the last few years, as a producer of components and modules for both telephone handsets and base stations.

Thales has emerged as one of the world's leading manufacturers of **surface acoustic wave (SAW)** filters for telephone handsets and supplies most of the major players in this sector. In 2000, Thales made an important breakthrough in the Japanese market for these products. The main competitors in this field are Sawtech of the United States, the European manufacturer Epcos and the Japanese companies Fujitsu and Murata.

In 2000, the Group expanded its offering in SAW filters to include products for base stations, doubling its sales in this market over the year, and adding new filters and modules for *GSM/UMTS* and *CDMA* standard systems. Thales also developed integrated front-end modules using LTCC technology (*Low-Temperature, Co-fired Ceramic*), which are currently in high demand for applications using the Bluetooth protocol, including smart buildings and office systems.

The Group has set up a subsidiary in Shanghai to expand its local presence and capitalise on the huge growth of the Chinese mobile communications market.

Building on its expertise in **millimetre-wave technology**, Thales entered the new market for wireless local loops in 1999. This includes two main types of mobile broadband communications: point-to-multi-point systems such as *LMDS (Local Multipoint Distribution Services)*, which connect base stations to users, and point-to-point systems, which transfer data between base stations. The Group has developed a highly successful series of transmission modules for the European and American wireless local-loop markets, becoming Europe's leading supplier in this fast-growing sector.

The Thales Group expects to be one of the first to introduce 100% SMT (Surface Mounted Technology) modules integrating millimetre-wave components by the end of 2001.

Gallium arsenide (GaAs) is a striking example of a dual technology. Thales teamed with EADS GmbH some time ago to work in this area and today this subsidiary is a world leader in GaAs MMIC circuits for wireless local-loop applications. Competitors in this field include Connexant and Infineon, and Triquint in millimetre-wave products.

Also for communications markets, Thales designs and manufactures **antennas for base stations** in GSM 900, PCS 1800, PCS 1900, UMTS and other 3G frequency bands. It also supplies micro and pico cell antennas and associated base station components. With a client list including the largest operators in the United Kingdom and United States, Thales is well positioned to benefit from the in-fill of GSM networks in Europe, and the new generation of network builds for GSM and UMTS operators. The main competitor in this market is Kathrein.

Some of these technologies also have growth potential in other sectors, including medical imaging (ultrasound scanners), multimedia (broadband components and subassemblies for decoders), and the automotive industry (microwave solutions for vehicle sensors), where Thales technologies are contributing to enhanced passenger comfort and road safety. Thales microelectronic technologies are also used in phone cards and numerous defence and aerospace applications in Europe.

Thales is the world's leading manufacturer of **electron tubes** for professional and defence markets, and is a broad-catalogue supplier to the radiology, scientific, broadcast and industrial markets. Number one in its markets since 1996, ahead of the American companies CPI, Boeing, Hughes and Litton, Thales consolidated its leadership in 2000 when it acquired Siemens' Berlin-based tube business. In satellite telecommunications, the Group is playing a leading role in the development of high-frequency/high-power amplifiers for direct broadcasting and mobile communications. Thales has contributed to more than 60 space programmes, mostly involving communications and direct broadcast satellites.

The Group achieved a new production record in 2000 for X-ray image intensifiers, boosting its international leadership and securing 40% of the world market. Each year, its tubes are used in millions of radioscopic exams and operations. Set up in 1996, the Thales Shanghai subsidiary confirmed its sales and production growth in the Chinese market. In 2000, the Group also started serial production of Pixium 4600 digital detectors for medical radiography systems, and recorded strong growth in ultrasound scanning products. Thales is a European leader in **satellite navigation and positioning** systems based on GPS/GNSS technology (Global Positioning System/Global Navigation Satellite System). The company designs and markets radionavigation products for professional applications, including topography, hydrography, vehicle guidance and seismic exploration. The Group already has a strong position in precision GPS products, and the acquisition in 2000 of the French company MLR, a European leader in maritime consumer products with a 70% share of the French recreational market, has strengthened its overall position in this area. GPS provides a vivid illustration of technological synergies within the Group in that the universal satellite positioning technology has applications in all three business areas. The main competitors in this field are the American companies Garmin, Magellan and Trimble.

Thales was selected in 2000 to coordinate the design of the receiver architecture for Galileo, Europe's first satellite navigation programme, which was launched in 1999 by the European Commission and the European Space Agency.

Secure operations

Thales is committed to becoming a key operator in emerging commercial markets for secure operations, building on its established reputation in the defence and professional security community. This business was initially based on the Dassault subsidiary DAT, which joined the Group in 1998 and specialises in smart card payment terminals and ticketing, and IDmatics (secure identity cards). The acquisition of Racal significantly strengthened the Group's offering in this field, expanding its capabilities across the whole spectrum of secure operations and related services.

In 2000, the Group formed a single business line dedicated to **electronic transactions** for international markets and comprising eight companies with established positions in Europe, the United States and Latin America. The new business line designs, develops and markets high-technology products and systems for electronic fund transfer, smart card and automated ticketing applications for the retail, banking, healthcare and transport sectors.

Electronic payment systems are already in widespread use throughout Western Europe, but they are just beginning to take off in many other parts of the world, including Eastern Europe, Asia-Pacific and South America. In the United Kingdom and the United States, most payment cards still use magnetic strip technology, and the transition to smart card technology is expected in the very near future.

Thales offers a full range of card payment terminals and security modules for ATMs, and a range of terminals for the healthcare market, all based on extensive installed networks in the United Kingdom, France, Germany and Spain. The company is also successfully penetrating the burgeoning smart card market in the United States and Asia. In early 2000, a major Chinese bank awarded Thales a contract to supply several thousand payment terminals.

The main competitors in this market are the French company Ingenico and the American companies Verifone and Hypercom.

Thales is also a major supplier of access management solutions for the transportation industry, producing traveller information systems, traffic management systems and **ticketing** solutions for airlines and airports. Applying smart card technology initially designed for banking applications, Thales serves the teleticketing market, which is growing rapidly in Asia and Europe, using contactless smart cards for transportation, parking and toll solutions. The Group now ranks in the top three worldwide in this field, alongside ERG of Australia and Cubic of the United States, and further strengthened its market position in 2000 through the acquisition of the Alcatel subsidiary CGA Transport.

The Thales **e-security** offering leverages the Group's world leadership in cryptographic security products and electronic payment to provide network security solutions for government and commercial networks. With a strong presence in the credit card sector, where Group solutions protect most of the world's retail card transactions, this business combines competences in network security, data management, and smart card operations with products and services supporting web-based card transactions. And for wide-area networks, Thales has developed pioneering data encryption products using soft-loadable encryption algorithms.

Thales is also applying its expertise in secure information management to enhance customer relationship management (CRM) in the burgeoning market for **call centre solutions**. In this field, the Group is making a successful transition from supplying hardware recording devices to providing the global contact centre market with sophisticated software for customer contact performance management. This business targets three vertical markets: wholesale financial trading, public safety (emergency services and security authorities), and inbound and outbound call centres, driven by the boom in customer relationship management techniques.

The Group is one of the world's leading suppliers of turnkey systems for high-security **identity document production** and management. With strong competences in card production and biometrics, this business benefits directly from the Group's smart card technology capabilities.

Responding to a shift in demand from security products to **complete security solutions** and more integrated services, Thales set up a new entity in 2001 to provide organisations with secure business solutions in web-based architectures. The new business is drawing on the Group's unique experience in security systems and trusted third party (TTP) certification to target customers in the finance, industry, government and services sectors, as well as information system integrators and value-added service providers.

The Group provides a full range of consulting, integration and security management services for enterprise customers who are starting to use the web as a critical element of their processes and need to guarantee the security of the information passing across public networks.

Information systems

With local operations in eight countries in Europe, Thales is a major player in the European IT services market, focusing on the key segments of consultancy, integration of information systems, and IT outsourcing. Its main competitors in this market in France are Atos, Cap Gemini, Logica, Sema, Steria and Unilog.

Thales has progressively shifted the focus of its IT services business from technical data processing to information systems for industry, banking and finance, government and transportation, gaining the in-depth understanding of its customers' businesses that is vital in this increasingly competitive market. Consultancy is central to the Thales approach and offers a perfect fit with the systems integration and IT outsourcing businesses.

Thales is a leading integrator of technical information systems, including supervision and control systems for the utilities and transportation sectors, and a major player in the aeronautical communications market. In business information systems, the company has a strong position in both SAP and Oracle integration in several European countries. The company supports a full service offering for every phase in the enterprise information system life cycle, incorporating clear strategies for software component re-use and specific developments.

The transport sector has been an important area of focus for Thales for a very long time, and the Group is now a world leader in IT solutions for transport system applications. Over the last thirty years, Thales has installed or upgraded control and supervision systems for close to 60 metro lines all over the world, while its fleet management solutions have been selected by operators including the Lyon city bus service. In addition, the civil aviation authorities of more than 30 countries have chosen Thales aeronautical communications solutions.

Thales has the capacity and programme management know-how to act as system prime contractor for the most complex information system solutions. For example, the company is responsible for the integrated information system at a new, ultra-modern hospital in France that opened in 2001. Thales was also retained in 2000 for a two-year project to develop and implement additional functions at France's new national library.

The Group has expanded its capability in IT services for the banking and insurance sector over recent years. In 2000, Thales acquired RIB and Horizon in France, and Holmium in Switzerland to enhance its specialist skills in this field in Europe. The Group provides consultancy services for financial institutions and insurers to help them plan for migration to new systems with a focus on e-banking and customer relationship management for the future.

Capitalising on the explosion of the e-services market, Thales has developed a range of e-business, e-procurement and e-commerce services to support its customers' transition to web-based processes. The company's proven systems integration capabilities are also a critical part of Thales' comprehensive security solutions and services offering. The acquisition of SGO in Spain in 2000 brought Thales additional expertise in the integration of new Internet technologies, particularly in the tourism, e-banking and healthcare sectors.

The operation further strengthened the company's presence in Spain and confirmed the international thrust of its strategic development. The Group is now well positioned to undertake large transnational projects in this inherently borderless sector.

IT outsourcing involves assuming responsibility for all or part of a customer's information systems and making contractual commitments on the availability of the IT infrastructure or of specific applications. With more and more companies opting to outsource their IT systems, the market is currently expanding at an estimated 15% per year.

Thales industrial-strength IT outsourcing solutions span the full spectrum of requirements, from computer networks to telecommunications, and include all types of applications to ensure the critical transition from IT system development to operational deployment.

The Europe-wide Thales network of operations is a major advantage for large multi-site corporations needing instant access to experts in various locations. Local agencies combine an in-depth understanding of their customers' areas of business with the IT outsourcing experience of the entire Thales Group, and are continuing to develop outsourcing business on this basis. In Switzerland, for example, the company was awarded a contract in 2000 to manage the IT facilities for the 700 employees of Union Bancaire Privée.

Services and Solutions

Drawing on its proven programme management experience and commercial technology expertise, Thales provides an extensive range of value-added services and turnkey solutions for the broadcasting, offshore exploration, transportation and telecommunications industries.

As the world leader in terrestrial **sound and image broadcasting systems**, Thales leverages expertise in transmission devices and high-energy tubes to design, supply and integrate equipment, systems and solutions for terrestrial transmission, digital video processing and multimedia distribution as well as broadband wireless communications. The Group has recently expanded its offering to include a range of multimedia distribution infrastructure products based on the latest consumer multimedia standards.

Customers include television and radio broadcasters, and satellite, cable and telecom operators worldwide. Systems are installed in a total of 168 countries, and the Group has a global leadership position with strong sales in Europe and the United States.

Since the acquisition of Racal, Thales has become one of the world's leading providers of "**geosolutions**" in a broad range of applications: precise positioning, integrated geosciences, remotely operated vehicle (ROV) operations, vessel and vehicle tracking and telematics for exploration, route planning, seabed mapping, inspection and maintenance applications in the offshore and telecommunications (submarine cables) industries. Thales operates in all major offshore exploration areas from 40 locations worldwide.

The acquisition in 2000 of Sage, the second-largest supplier of geotechnical services to the offshore industry, further strengthened the Group's position in both the telecoms cable and offshore industries. In the autonomous underwater vehicle (AUV) market, Thales has an alliance with the US company Bluefin, one of the world's leading vehicle developers.

Also through the Racal acquisition, Thales has become the UK's leading supplier of operational telecoms and integrated information services to the transport industry. In this "transport solutions" business, Thales specialises in the management of private circuits and radio facilities for mainline rail and the London Underground.

The Group is also part of a UK private sector consortium called Citylink which in 1999 was awarded the prestigious Connect contract, a Private Finance Initiative (PFI) programme over 20 years to replace the London Underground's current radio systems.

The Thales Group's engineering consultancy and industrial services businesses are focused on the construction and/or management of infrastructure projects, such as hospitals and airports. The Group is prime contractor on a number of complex engineering programmes for the healthcare, nuclear energy and high-tech industries. In 2000, Thales was awarded a turnkey development contract for a new distribution hub under construction for retail chain Carrefour, and signed a study contract in operational safety with Alcatel Space Industries for EGNOS, the future European satellite navigation system.

Thales is the world's leading producer of high-quality, high-performance, single-board computers and computing systems based exclusively on open hardware and software standards. This commitment to open standards ensures product scalability and long-term serviceability, and, combined with rigorous design and manufacturing practices, provides the highest level of quality and reliability for a wide range of critical real-time applications.

The Group's single-board computer operations are based in the United States and Europe and serve most of the major OEMs (original equipment manufacturers) and integrators in the defence, aerospace, transport and communications industries. Benefiting from the Group's innovative dual technology approach, these commercial-off-the-shelf (COTS) products play a critical role in military radar, sonar and C3I systems as well as meeting the needs of the latest telecoms and transport systems.

SUPPORT FUNCTIONS

HUMAN RESOURCES ⁽¹⁾

Thales modified its human resources policy in September 2000 following reorganization of the company in three business areas in July.

A key aim of this new human resources management program is give employees a greater stake in the goals of their unit and those of the Group in general. Greater weight is given to measurement of individual performance in determining compensation packages. But Thales also hopes these new mechanisms will promote greater dialogue between management and employees, including in setting individual performance targets.

Because the Group's businesses rely on cutting-edge technologies and expertise, careers for specialists are treated on an equal footing with those of managers. Encouragement is also given to mobility between the different activities and even divisions.

Finally, customer service is a priority in the Group's new strategy, as its three separate business areas are differentiated more by their markets than by the technologies they employ. This priority is amply reflected in Group employees' assigned objectives.

Thales was one of the first corporations to establish a Corporate Campus, and it broadened the Campus's international reach in 2000. As a result, on the Campus at Jouy-en-Josas near Paris, at Heckfield Place south of London, as well as through sessions held in the United States and Australia, Group employees now have access to first-class training opportunities as they pursue their careers.

Compensation

Over a period of several years, the Group has implemented a policy of personalized pay, comprising a fixed portion based on the person's skills and responsibilities, plus a variable portion dependent on the individual's performance and that of the unit to which he or she belongs.

Work force data

Change in head count

(Consolidated ⁽²⁾ work force by business group at year-end) :

December 31	2000		1999	
Aerospace	9,164	16.0 %	8,660	17.7 %
Defense	28,781	50.3 %	24,495	50.1 %
IT & S	17,619	30.8 %	12,375	25.3 %
Other	1,668	2.9 %	3,392	6.9 %
TOTAL	57,232	100.0 %	48,922	100.0 %

The 8,310 increase in head count between the end of 1999 and end-2000 stems from a) major consolidation changes (+9,395, including 8,379 employed by Racal) and b) a decline of 1,085 people on a like-for-like basis. By business group, these changes were as follows :

December 31	2000	1999	Consolidation changes	Other changes
Aerospace	9,164	8,660	+ 625	- 121
Defense	28,781	24,495	+ 5,648	- 1,362
IT & S	17,619	12,375	+ 4,964	280
Other	1,668	3,392	- 1,842	118
TOTAL	57,232	48,922	+ 9,395	- 1,085

(1) The parent company report on labor relations is available on application from Corporate Headquarters

(2) Consolidated work force figures include all employees of consolidated companies, and prorated figures for companies carried under proportionate method. They do not include the work forces of companies carried under the equity method or unconsolidated companies.

Breakdown by region

The geographic breakdown of the work force has changed considerably in recent years due to the scale of acquisitions and, to a lesser extent, disposals. Whereas France accounted for nearly 80 percent of the work force at December 31, 1993, this percentage had fallen to 75 percent at the end of 1995, and to only 57 percent of the consolidated work force at end-2000. Employees in Europe, excluding France, now represent a third of the total head count :

December 31	2000		1999	
France	32,687	57.1 %	33,571	68.6 %
United Kingdom	11,392	19.9 %	4,671	9.5 %
Rest of Europe	7,893	13.8 %	7,880	16.1 %
North America	2,172	3.8 %	1,286	2.6 %
Latin America	95	0.2 %	298	0.6 %
Africa	660	1.2 %	572	1.2 %
Asia	2,236	3.9 %	388	0.8 %
Near and Middle East	97	0.2 %	256	0.5 %
TOTAL	57,232	100.0 %	48,922	100.0 %

Change in work force in France and the rest of the world :

December 31	2000	1999	Consolidation changes	Other changes
France	32,687	33,571	- 1,208	324
Rest of world	24,545	15,351	+ 10,603	- 1,409
TOTAL	57,232	48,922	+ 9,395	- 1,085

Breakdown of "managed" work force

A total of 64,000 people were working under Group management at the end of December 2000. This figure is greater than the consolidated work force and includes all employees of joint-ventures together with those of companies that are controlled but not consolidated for reasons related to consolidation criteria.

Breakdown by business group and region :

December 31, 2000	France	Rest of Europe	Rest of World	Total
Aerospace	6,174	2,886	1,124	10,184
Defense	17,196	11,054	4,499	32,749
IT & S	9,759	6,849	2,158	18,766
Other	1,724	577	34	2,335
TOTAL	34,853	21,366	7,815	64,034

Breakdown by employee category

In an increasingly international Group, it is no longer possible to establish meaningful employee categories on a Groupwide basis, since definitions vary greatly from one country to another. The English-speaking countries make no distinction between engineers and technicians, for instance, whereas the French distinguish between the two. Consequently the table below provides data for France alone.

December 31, 2000	Total	Engineers/ Managers	Other employee categories*
Aerospace	6,174	50 %	50 %
Defense	17,196	55 %	45 %
IT & S	9,759	47 %	53 %
Other	1,724	57 %	43 %
TOTAL	34,853	52 %	48 %

* clerical, technical, blue collar

The above figures confirm the preponderance of engineer and managerial grade personnel in all Group activities, with fairly small differences between the business groups.

Main industrial sites

Figures cited under this heading refer to staff working under Group management, including all employees of companies carried under proportionate method.

Sixty percent of the work force in France, at December 31, 2000, were employed in the Paris region. Brittany came a distant second with a little over 7 percent of the total, trailed by the Rhône-Alpes region (6 percent), and in roughly equal proportions (each with 4 to 5 percent of the French work force) Aquitaine, Provence-Côte d'Azur, Centre and the Pays de Loire regions. The Paris region's predominance varies from 63 percent in Defense to 61 percent in IT and Services, and only 46 percent in Aerospace. Fifteen percent of the latter division's head count work in the vicinity of the Airbus manufacturing facilities in the Aquitaine region.

Twelve sites employed more than 1,000 people at the end of 2000 (including neighboring sites located within a single urban area), accounting for 36 percent of the total work force.

At December 31, 2000	Number of employees	Company
France		
Elancourt	3,400	Thales Systèmes Aéroportés
Bagneux	2,843	Thales Air Defence, Thales Naval France, Thales ATM
Colombes	1,811	Thales Communications
Vélizy	1,738	Thales Avionics, Thales Electron Devices
Brest	1,493	Thales Systèmes Aéroportés
Sophia Antipolis	1,170	Thomson Marconi Sonar, Thales Microsonics & divers
Gennevilliers	1,080	Thales Communications
United Kingdom		
Crawley	2,692	Thales Sensors, Thales Training & Simulation, Thales Communications
Doncaster	1,266	Thales FieldForces
Templecombe	1,162	Thomson Marconi Sonars
Australia		
Bondi Junction	2,430	ADI
Netherlands		
Hengelo	2,337	Thales Nederland
TOTAL	23,332	

RESEARCH, TECHNOLOGY AND DEVELOPMENT ("RT&D")

Thales's businesses are relatively labor intensive, with capital expenditures accounting for approximately 4 percent of revenues (345 million euros in 2000). On the other hand, its technology-rich activities demand high levels of investment in research and development.

Research, technology and development expenditures

In millions of euros	2000	1999	1998
Total expenditures	1,800	1,600	1,370
Company-funded	397	421	418
en % of total	22 %	26 %	31 %

Company-funded technology R&D expenditures represented 4.6 percent of revenues in 2000.

Thales employs more than 17,000 people in RT&D, more than 70 percent of them engineers, located in several different sites. Defense accounted for 68 percent of expenditures, Aeronautics for 21 percent and IT & Services for 11 percent.

Technology research policy

Thales has long pursued a well-resourced policy of promoting synergies between different lines of business working on identical technologies, and of continuously improving its RT&D processes. Technology strategies for each activity are consolidated at Group level. These seek to identify and harmonize technology programs considered necessary in order to enable rapid development of products and systems at some future date.

Thales devotes more than 25 percent of its RT&D spending to preparing the groundwork for subsequent development of products and systems.

Upstream technology R&D notably spans:

- basic research on semiconducting and supraconducting materials, microwave and infra-red components, algorithms for signal and image processing, and cryptography,
- studies on basic technologies and components for hardware and software,
- studies on high-performance technology modules providing functions common to several equipment and systems,
- defining new methods and tools for enhanced management and productivity of development processes in mechanical, electronic, optical, software and systems engineering,
- studies on new product and systems concepts for Aerospace, Defence, IT and Services,
- studies on real or virtual demonstrators, synthetic environment, simulation, for these new concepts.

"Corporate" research

Each business group conducts RT&D projects specific to its area of activity in its own laboratories. Research on issues of interest to the Group as a whole, meanwhile, is conducted in the corporate research laboratories.

The Corporate Research function now comprises three units, following the integration of Racal:

The Thales Central Research Laboratory (T.LCR)

Located in Orsay, south of Paris, this laboratory has a staff of 240, and more than 50 doctoral students. It comprises 5 research groups covering the following areas:

- electronic components: gallium arsenide and other III-V microwave power components,
- electronic modules and micro-interconnect: microwave modules, optical and opto-electronic connections, radiating skins, etc.,
- optronic components: IR, UV detectors, laser diodes, etc.,
- optronics and displays: laser sources, displays, micro-optics,
- IT and systems: advanced computing technologies for intelligent systems.

The Laboratory also houses :

- a joint French National Research Institute (CNRS, Centre National de la Recherche Scientifique)-Thales research unit devoted to artificial magnetic structures and critical high-temperature superconductors,
- a physical analysis laboratory,
- a technology platform to produce the materials and physical structures required for research purposes.

More recently, part of the staff from the joint Alcatel-Thales software-based system Research Laboratory was set up in the Thales Central Research Laboratory.

Thales Research Ltd (TRLtd)

This laboratory, located in Reading (north of London), has a staff of 140 and is organized in 4 research groups covering the following areas :

- signal processing for radar and electronic warfare,
- signal processing for wireless communications,
- satellite and navigation systems architecture and algorithms,
- telecommunications networks.

Thales Technologies et Méthodes (TTM)

This unit is located in Orsay and has a staff of 150. Its fields of research cover :

- definition of engineering and development tools in the Group's main technologies and industrial activities (mechanical engineering, electronics, software and systems),
- technology selection: hardware components and software to guarantee high quality standards and controlled obsolescence,
- capitalizing on Group knowledge and its distribution via the Group's intranet.

Common Efficiency Teams

For each of the Group's nine key technologies, staff from the operating units concerned maintain contact with each other via Common Efficiency Teams. These teams harmonize policies in their relevant areas, to avoid duplication and to remain competitive through continuous benchmarking. The technologies concerned are: mechanical and electronic engineering, antennas, microwave and analog signal processing, optronics, hardening and electromagnetic compatibility, data and signal processing hardware, software, synthetic environments and simulation, and systems engineering.

These Common Efficiency Teams receive support at corporate level from "Thales Technologies et Méthodes" in evaluating, selecting and defining methods, processes and best practices. This support extends to harmonizing data sets and optimizing knowledge-sharing, e.g. through a Group-wide, components database.

Since its inception, Thales Technologies et Méthodes has considerably reduced the number of people assigned to development support and is achieving significant productivity gains in the design and development of hardware and software systems.

Research and Technology cooperation

Thales has forged closed ties with major European research institutes primarily in France (CNRS, CEA, INRIA, ONERA, etc.), Great Britain (DERA, etc.), Germany (the Fraunhofer Institutes, etc.), the Netherlands (TNO, etc.), with several universities as well as numerous industrial laboratories run by major corporations and small/mid-sized companies.

Since privatization, Thales has also embarked upon substantive technological cooperation with Alcatel, a key industry partner and shareholder.

Finally, Thales is a very active participant in a wide range of European military and civilian programs (including Euclid and Eurofinder for the former, and PCRD, Eureka, etc. for the latter). It is also a member of national research networks in France, the UK and the Netherlands.

In addition, Thales is involved in scientific and technological cooperative ventures in North America, Asia and Australia, working through local Group companies and joint ventures.

Thales Corporate Ventures ⁽¹⁾

Thales is pursuing an innovative policy of seeking out partners, forging strategic relationships and selectively investing in upstream R&D. These efforts are helping it adjust to the growing complexity of professional electronic systems and hardware in response to its customers' evolving needs. Its venture capital subsidiary, created in 1986, has spearheaded the Group's cooperative ventures with high-tech start-ups while maximizing its return on investment. Thales Corporate Ventures has invested more than 100 million euros in supporting innovative companies around the world, helping to consolidate partnerships between the Group and small companies working in relevant areas. It is thus sparking a virtuous circle combining the creativity and agility of these start-ups with the industrial expertise and experience of Thales.

Thales Corporate Ventures currently owns interests in 19 listed and unlisted companies (not including venture funds) in France, Europe, North America and Asia. All these businesses form a strong strategic fit with Thales :

United States

- Canesta Man-machine interface based on capture of 3D hand movements
- Embrace Networks E-service enabling technology for a variety of appliances
- Entegrity Solutions Software development platform for deployment of securitized B2B electronic transactions on the internet
- Geneva Venture Partners Seed fund: telecom, software, Internet
- Intraspect Software Knowledge management systems
- Critical Path/Isocor * Messaging systems
- Objectstream Telecommunications management systems
- TechFund Capital II Technology incubator : semiconductors, software, Internet
- Valicert * Validation authority solutions for secure electronic transactions

Canada

- Engenuity Technologies * Formerly VPI, now with extended scope and markets (workgroup tools for ruggedized internet applications engineering)

Czech Republic

- ERA Passive detection system, ATC/electronic warfare

People's Republic of China

- Optocom Technology Laser-diode components for telecommunications

Taiwan

- Advanced Ceramic X Low-temperature cofired ceramics for high density electronics

France

- 3D PLus 3D interconnection and multichip modules
- Arkoon Network Security Firewalls and security solutions
- Fonds A. C. E. Dedicated European high-tech fund
- Bionatics 2 and 3D simulation of vegetable growth and landscapes
- Keopsys High-power optical amplifier
- Legisway Software platform for legal documents and contract management
- Photline Technologies Broadband optical modulators
- PHS MEMS Design and production of micro-mechanical systems
- Fonds PRIAM Fund for defense industry SMEs
- Simulog Service company specializing in complex system modeling, simulation and optimization
- TechFund Capital Europe Early stage / accelerator investment fund

**listed companies*

(1) Formerly Thomson-CSF. The latter changed its name to Thales Corporate Ventures in June 2001.

INTELLECTUAL PROPERTY

Thales holds a portfolio of 15,000 patents and files 1,800 new ones each year. The company also protects 250 new inventions a year.

Several key inventions at the cutting edge of developments in microwave and optronic technologies, now generate significant revenue streams for Thales and are boosting its profitability, among them :

- Radant electronic-scanning antenna used on the Rafale
- Surface acoustic wave filters used in cellphones
- Multiple quantum well infrared detectors; these have brought order-of-magnitude increases in the price performance of night vision cameras
- Optical reading techniques for CDs, a major source of licensing income.

Given the increasing importance of its intellectual assets in promoting growth and performance, Thales has developed a clear policy on intellectual property. Thales Intellectual Property was formed in 1998 to optimize the protection of technological assets and leverage its portfolio outside Group markets by negotiating licensing arrangements.

Thales tightened its policy on software protection in 1999 and now also files software patents (which the American, European and Japanese patent offices have recently begun granting), in addition to receiving royalty payments.

As part of Thales's technological partnership with Alcatel, the two companies now exchange information on their patent portfolios and are bound by a reciprocal licensing agreement. Much of this cooperation on intellectual property concerns wireless communication technologies.

New steps were taken in 2000 to promote microwave component packing technologies, together with wire and wireless network transmission technologies. Sales drives were undertaken as part of two significant agreements signed in 1999, covering :

- massively parallel data storage technology, and
- copy protection technology for optical disks.

Thales operates a system of annual awards for innovation, creating incentives for inventors. Awards went to a total of 30 inventors in 2000, six of whom received top honors for the following three inventions :

- a laser source based on stacked diodes developed by Thales Central Research Laboratory: a low-cost means to pump high power lasers such as the Megajoule;
- a method of thermal control to enhance the power of lasers, developed by Thales Optronics UK;
- new elements of linear arrays for towed sonars designed to cut operating costs for oil exploration vessels, developed by Thomson Marconi Sonar (Australia).

THALES INTERNATIONAL

Exporting has historically played a major role in the business of Thales. However, its international presence has expanded greatly in recent years, combining the activities of international subsidiaries operating within their national territories – which Thales refers to as a "multi-domestic" industrial presence – with export activities.

The signing of structural agreements with major non-French partners such as Raytheon has further boosted this international dimension.

Thales has accordingly modified its organization in response to the demands and needs of its international operations. These changes are taking place against a background of rapid geopolitical shifts and the emergence of new institutional approaches to issues subject to national sovereignty.

The Group is also subject to fast-changing, increasingly tough international trade standards and regulations. Examples include the "Code of Conduct" signed by the 15 members of the European Union concerning defense exports. Meanwhile, the members of OECD have adopted a convention to combat the active corruption of public officials.

These two examples illustrate the growing ethical demands being placed on Western firms in terms of both political conduct and business transactions. This trend is very closely bound up with the growing role of "civil society" in public life. It is thus now imperative for corporations in all areas of business to satisfy these demands for ethical conduct in both individual and collective spheres. This entails strict compliance with rules issued by governments and the new international bodies. More broadly, though, it also requires corporations themselves to set ambitious codes of conduct for internal use.

In response to these demands, Thales has set up a new organization, Thales International. This comprises a central division staffed by experts, and a series of decentralized regional divisions for each major sales area, i.e. Europe, the Near and Middle East, Asia, Latin America, North America, as well as the CIS, Central Asia-Indian sub-Continent and Africa.

The six regional divisions represent the Group in dealings with customers. They have exclusive responsibility for the business environment surrounding Group contracts over the lifetime of the latter, from upstream marketing until release of the final options and performance bonds. They also manage a network of local representatives with detailed knowledge of national conditions and needs.

The expert team based at Thales's headquarters provides support and coordination, and conducts control missions. Its remit covers international financing (e.g. arranging project finance and hedging risks), and offset transactions.

The table below summarizes 2000 revenues (by region of destination) and work forces at December 31, 2000.

%	Consolidated work force	Revenues
France	57	26
United Kingdom	20	11
Rest of Europe	14	23
North America	4	10
Asia and Pacific	4	12
Near and Middle East	0	14
Latin America and Africa	1	4
Total	100	100

Thales International Offsets (TIO)

International offset arrangements are key to the success of defense export programs, as well as that of civil professional electronics systems in some cases. These arrangements are geared to the new economic priorities of Thales's client countries. They may take the form of direct offset (where part of the equipment sold is produced in the client country) or indirect offset (which covers any other type of economic benefit to the customer country).

TIO currently handles a variety of indirect offset commitments, depending on the client country. They include:

- promoting high-tech exports from Austria, Belgium, Canada, Denmark, Finland, Netherlands, Norway, South Africa, Spain, Sweden and Switzerland.
- investment in sectors outside the Group's business areas, in Abu Dhabi, Kuwait, Saudi Arabia, South Africa and Turkey.

In the last five years, TIO has fulfilled offset commitments worth 800 million euros for Thales units selling to 25 countries in Europe, the Middle East and Southeast Asia, to the satisfaction of client countries. TIO is the leading offset operator in Europe. It also works, or has worked, on behalf of other French or foreign companies, including Eurocopter, Aerospatiale-Matra-Missiles, Cofras, Giat, Matenin, and Snecma.

International financing

Thales International also contains a structure specializing in international financing that arranges financing for international contracts ranging from a few million to several billion French francs. It uses its extensive international network to identify sources of financing as well as commercial and financial opportunities. This structure provides Thales units with a wide range of financial engineering services including financial risk assessment, conventional financing (buyer's credit, supplier's credit, soft loans), negotiation of international financing and special financing arrangements (back-to-back financing, multisourcing, tax-based leasing).

In response to the privatization of number of service activities, traditionally managed by the public sector, Thales has developed an offering of management and maintenance services and is putting in place long-term financing measures adapted to the new needs of its clients.

Thales operates in countries on every continent and needs to cover itself against the risk of non-payment due to political or commercial events in those countries. For every contract signed with an "at risk" country, Thales uses a public or private export guarantee organization (70% of the time it uses Coface, the official French agency) for suitable insurance, and, if necessary, makes provision in its accounts proportional to the level of risk involved.

Foreign-exchange risk management

In view of Thales considerable export business and the length of many of its contracts, both intrinsic characteristics of the company, there is a level of exposure to foreign exchange and interest rate risk. The Group has a treasury management department in charge of hedging monetary risks, negotiating the management of financial instruments, reporting on monetary risk, organizing and optimizing foreign exchange flows, regulating cash on hand and consolidating risk.

End-user control

In most developed countries, exports of high-technology or sensitive goods are subject to government approval. These end-user control procedures are governed by a combination of national legislation, particularly for defense equipment, and regional regulations (such as the European Council Regulation for the Export of Dual-Use Goods), as well as by international instruments such as the Wassenaar Arrangement and UN embargoes.

Failure to comply with the relevant rules can have serious penal and commercial consequences for a high-technology company like Thales. As a result, the Group has long applied strict procedures in this domain, and compliance by business units is audited regularly.

Operating personnel affected by these issues receive extensive support in the form of training seminars, as well as briefings and methodology guides on the corporate intranet. Thales is a world standard-setter in this field, and its reputation for rigor has contributed to the development of transatlantic relationships such as the joint venture formalized with Raytheon at the start of 2001.

OTHER BUSINESS INFORMATION

MANAGEMENT OF ENVIRONMENTAL RISK AT THALES SITES

Environmental issues relating to Group sites are managed by :

- an environmental steering committee comprising representatives of the operating units, which review action taken on a quarterly basis and also sets policy goals in this area,
- a network of environmental correspondents for each unit, and at each site, with day-to-day responsibility for :
 - compliance with all administrative formalities and procedures,
 - enforcing regulatory compliance in all facilities and activities,
 - ensuring that all protective and preventive measures are taken.

In France, the Group has produced a set of specific handbooks (including the Thales Environmental Guide), specialized training and a regulatory monitoring unit to assist these environmental correspondents.

Similar networks are currently being set up in the rest of Europe.

Thales is currently establishing an "Environmental Management System" in all its units, to be completed by 2002. This system should result in ISO 14 000 certification in some cases.

To date, the Group's real estate administration and facility management services have been ISO 14 000 certified, and several operating units (e.g. Thales Avionics, Thales Electron Devices and Thales Microsonics, etc.) have embarked on comparable programs.

Pollution audits have been performed on more than 40 sites in France to date, and the UK sites are now being audited.

Major programs initiated in France in 2000 include :

- audits of rainwater drainage systems and work to upgrade numerous sites in conformity with regulations. The other sites will be brought into compliance between now and 2003,
- retirement of PCB transformers, underground single-skin tanks, asbestos (even where not required by regulations),
- studies on the elimination of fuel oil in combustion installations,
- creation of waste dumps and chemical storage areas adapted to the risks incurred.

No environmental accident was recorded in 2000 and Thales was not subjected to any environment-related lawsuits or governmental warnings.

DEPENDENCE

Due to the nature of its activities and the specific features of its products, Thales conducts most of its research and development work in-house and controls the patents that are of critical importance to its businesses (see section on Intellectual Property).

Thales's three main types of businesses address the following customer categories :

- the Defense group sells exclusively to government agencies. Its largest single customer is the French Department of Defense, which accounted for approximately 20% of its revenues in 1999 and 15% in 2000. Its relative importance is diminishing as the Group's business becomes increasingly international. This business group's operations are typical of the "B2A" or business-to-administration model,
- the Aerospace group's civil customers are either public or semi-public agencies, or private-sector customers such as airlines,
- the IT & Services group serves a wide variety of private industrial customers ("B2B" or business-to-business).

LITIGATION

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

Thales was not involved in any new litigation in 2000, either as plaintiff or as defendant, liable to have affect its business or results materially.

The following developments occurred in 2000 regarding the most significant pending litigation :

- the VT1, Poaccs and Blazer disputes between the Group and Lockheed Martin, indicated last year, are being dealt with through the relevant disputes procedure of the International Chamber of Commerce (ICC).

Rulings on the VT1 and Blazer disputes are expected in the course of 2001.

A partial ruling was delivered on the Poaccs dispute in December 2000, confirming the decision by Thales to terminate the contract with Lockheed Martin. Damages due will be set at the conclusion of the procedure scheduled for the beginning of 2002,

- the Arbitration Panel issued a partial decision in the Euromissile affair in October 2000, restoring Thales's freedom with regard to the manufacture of short-range missiles.

The Arbitrators had appointed an expert to assess the loss borne by Euromissile as a result of cancellation of the exclusive license,

- the action filed by the official receiver against Thomson-CSF with respect to the liabilities of Thomainfor was still pending before the Versailles Commercial Court at the end of 2000. A decision in first instance is expected in 2001.

INFORMATION ON MAJOR SUBSIDIARIES

The companies listed below are wholly-owned subsidiaries of Thomson-CSF.

The sales figures given below correspond to total revenues reported by the subsidiary, i.e. including sales to other units belonging to the Thales group.

THALES COMMUNICATIONS SA

Equipments and systems for armed forces communications

Headquarters	160 boulevard de Valmy - BP 82 - 92 700 Colombes - France
Facilities	Colombes and Gennevilliers (functional departments and R&D) Brive, Cholet, Laval, Marcq-en Baroeul (industrial activities)
2000 sales	1 000 M€
Employees at end 2000	4,800
Holdings (partial list)	50 % of Sapura Thomson Radiocommunications Sdn Bhd (Malaysia) 33.28 % of TAC ONE

THALES SYSTÈMES AÉROPORTÉS SA

Airborne radar and countermeasures equipment and systems

Headquarters	2 avenue Gay Lussac - 78 990 Elancourt - France
Facilities	Elancourt, Saint-Quentin-en-Yvelines, Brest, Pessac
2000 sales	874 M€
Employees at end 2000	5,147
Holdings (partial list)	100% of Omega Technologies SA 50% of Ericsson Thales AEW System

THALES AVIONICS SA

Avionics

Headquarters	Zone aéronautique Louis Bréguet - 78 140 Vélizy - France
Facilities	Vélizy, Bordeaux, Toulouse
2000 sales	732 M€
Employees at end 2000	4,111
Holdings (partial list)	100 % of Thales Avionics Asia Pte Ltd Thales Avionics Canada Inc Thales Avionics Ireland Ltd 93% of Eurodisplay 49% of Diehl Avionik Systeme GmbH

THALES AIR DEFENCE SA

Ground-based detection and missile systems

Headquarters	7/9 rue des Mathurins - 92 220 Bagneux - France
Facilities	Bagneux
2000 sales	540 M€
Employees at end 2000	2,811
Holdings (partial list)	67 % of Thales ATM SAS 50 % of Air Command Systems International
	The company is also a member of the joint-venture Conception de systèmes de Défense (50%).



● DESCRIPTION OF BUSINESS

● **FINANCIAL INFORMATION**

● STATUTORY
& INVESTOR INFORMATION



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FINANCIAL HIGHLIGHTS

In millions of euros	2000	1999	1998	1997	1996
Order book at year-end	18,366	15,428	13,403	11,105	10,251
New orders	9,269	7,942	7,022	6,525	5,031
Consolidated revenues	8,580	6,890	6,175	5,874	5,529
France	26 %	32 %	31 %	29 %	37 %
Other European countries	34 %	32 %	30 %	26 %	29 %
Rest of the world	40 %	36 %	39 %	45 %	34 %
Operating profit	561	390	355	332	315
Net income (loss)	201	275	- 232	323	114
Net earnings per share (in euros)	1.21	1.64	- 1.60	2.71	0.95
Total R&D expenses	- 1,800	- 1,600	- 1,370	- 1,190	- 1,190
Company-funded R&D expenses	- 397	- 420	- 418	- 388	- 365
Operating cash-flow before working capital changes	396	335	388	351	304
Capital expenditures	- 280	- 285	- 220	- 243	- 248
Net investments (1) (2)	- 2,020	- 515	- 268	1,422	- 72
Net debt (net cash)	1,856	- 410	- 922	- 1,331	134
Shareholder's equity	2,425	2,367	2,222	2,369	2,091
Employees at year-end	57,310	48,920	48,850	44,840	46,505
France	57 %	69 %	70 %	71 %	72 %
Other European countries	34 %	26 %	26 %	23 %	22 %
Rest of the world	9 %	5 %	4 %	6 %	6 %

(1) Excluding cash and marketable securities.

(2) Disposal of SGS-Thomson and Crédit Lyonnais.

REPORT OF THE BOARD OF DIRECTORS ON BUSINESS AND CONSOLIDATED RESULTS IN FINANCIAL 2000

The past year was a turning point for our group in many ways, beginning as it did with the agreed bid for Racal Electronics plc and closing with the adoption of our new name, Thales, launched worldwide in December. Thomson-CSF, which was created by the 1968 merger of the professional electronics business of Thomson-Brandt with Compagnie Générale de Télégraphie Sans Fil - CSF - and then went from strength to strength to become a world leader in its field, has thus taken on a new identity at the dawn of the new millennium.

This change of name continues a period of sweeping change reflected in a strategy that is now structured around three businesses - Aerospace, Defense and Information Technologies & Services. Change has also come in the shape of rapid international expansion, with half the group workforce now based outside France compared with barely 10% ten years ago. In this area, 2000 was one of the most important years in the group's history, since newly consolidated companies, of which 90% are located outside France, accounted for a little over 20% of our worldwide workforce at the end of the year. This reflected in particular the acquisition in mid-year of Racal in the UK, which is now our second largest base, counting 12,300 employees or nearly 20% of our total workforce of 62,200.

These developments are what lie behind our adoption of a new name designed to unite - through a common identity equally new to all - companies from very different backgrounds. All nonetheless share a high-technology focus and a commitment to total security at the service of increasingly demanding customers.

BUSINESS TRENDS

Growth quickened in 2000, reflecting both the contributions of newly consolidated businesses and firm trends in our three business lines. Organic growth reached 8%, the strongest figure for the past ten years

In millions of euros	2000	1999	Total change	Organic growth
Consolidated revenues	8,580	6,890	+ 25 %	+ 8 %
New orders	9,269	7,942	+ 17 %	+ 4 %
Order book at year-end	18,366	15,428	+ 19 %	+ 6 %

- **Changes in the scope of consolidation** were particularly important in 2000, since the sales of companies acquired represented €1,170 million and those of companies sold €136 million. However the full impact on sales and earnings was not reflected in 2000 accounts, since Racal of the UK, the year's largest acquisition, was consolidated only from July 1 on. Similarly, for the companies sold, Crouzet - albeit not on the same scale as Racal - was sold in October and thus excluded from the scope of consolidation only over the last two months of the year.
- **Organic growth** reached 8%, more than double the 3% recorded in 1999. This confirms a return to upward trends, putting an end to steady declines in consolidated sales, which averaged 3% a year from 1990 to 1998. While this favorable trend was apparent in all our three business areas the rise was particularly vigorous in Defense, which was the most affected by declines in the previous decade.
- **Acquisition of Racal Electronics plc in the UK**

Officially opened on the London Stock Exchange on April 19, our friendly bid for Racal was already in the finalization stage by June 15, by when the necessary official approvals had been granted⁽¹⁾, in particular those from the European Commission. From that date, Thales, which already held 73% of Racal's equity, began reorganizing all its business in the UK to form Thales UK Ltd. The Racal transaction was completed on August 23, the group having then acquired all the company's shares following a compulsory buyout of shares not tendered by the end of June.

Racal is fully consolidated in financial statements for 2000 from July 1 on. These statements recognize goodwill on the acquisition in a gross amount of €1,449 million, to be amortized over 20 years, including six months in 2000.

- **Other changes in the scope of consolidation**

In Defense, other significant changes in the scope of consolidation include **joint ventures ADI** in Australia and **Samsung Thales** in Korea, both 50% consolidated with effect from January 1, 2000, and **Thales Air Defence Ltd** (formerly Shorts Missiles Systems), 100% consolidated from January 31, 2000 following the acquisition of the 50% interest held by Bombardier of Canada.

(1) The last administrative authorisation required was granted by the British Minister of Trade on October 11, 2000.

In Aerospace, Thales raised its interest in subsidiaries specialized in **air traffic control** from 60 to 67%, while Siemens held an interest of only one third in 2000⁽²⁾. These subsidiaries were consolidated in proportion to the new level of the group's interest.

Aerospace business in Europe was also extended with the acquisition of an interest in **Diehl Avionik Systeme** of Germany.

Newly consolidated companies in the Information Technologies and Services division, all of relatively modest size, are mainly involved in information systems and components.

Businesses excluded from the scope of consolidation in 2000 included Crouzet, the automation company, sold to Schneider in October, and TCS, specializing in custom semi-conductors, which was sold to US group Atmel.

At the end of the year, Thales finalized other acquisitions which will only begin to have an impact on accounts in 2001. These included in particular Sage in the UK, acquired by former Racal subsidiary Thales Survey, and CGA, an automated ticketing company acquired from Alcatel.

- A number of transactions were initiated and are to be finalized in 2001. They include an offer to buy out minority interests in Avimo, the optronics firm based in Singapore, in which Thales held a 24.9% interest from December 1999, as well as the exercise of an option to acquire the 49% interest of BAE Systems in the joint venture Thomson Marconi Sonar. Finally, on December 15, 2000, Thales announced plans to form a joint air defense company in association with Raytheon of the US.

Business by business area

1. Aerospace

In millions of euros	2000	1999	Total change	Organic growth
Consolidated revenues	1,551	1,389	+ 12 %	+ 3.5 %
New orders	1,863	1,600	+ 16.5 %	+ 11 %
Order book at year-end	2,414	1,815	+ 33 %	+ 21 %

Changes in the scope of consolidation in Aerospace included a rise in the portion of air traffic control subsidiaries consolidated from 60 to 67%, 49% proportionate consolidation of the new joint venture Diehl Avionik Systeme, and consolidation over the second half of the avionics business of Racal.

Sales trends at constant scope varied from segment to segment within the division. Thus growth in avionics and air traffic control was in double digits, while sales in simulation and training were lower than in 1999. This decline will however be temporary, since orders booked in 2000 were equal to nearly twice sector sales for the year.

- In avionics, sales growth was satisfactory in both military and civil sectors, with added momentum coming from a steep rise in our new in-flight entertainment business. This helped boost sales in North America, which accounted for a quarter of the total.
In this sector, firm trends in new orders held order backlogs high at 15 months of billings, compared with 13 months at the end of 1999.
- In air traffic control, a business where over 90% of sales are outside France, growth was particularly vigorous in 2000, which saw the operational launch of a number of control systems and centers, in particular a Eurocat center in Sweden. One of the larger contracts booked in 2000 was for the new Athens international airport, which was inaugurated at the end of the year. The order backlog at the end of the year represented nearly a year and a half's billings. The largest single order booked in 2000 was for Shannon airport in Ireland.
- Sales in simulation and training declined for the second consecutive year in both military and civil sectors. This reflects the more selective policies applied to acceptance of orders over recent years with a view to improving operating margins. The decline in 2000 was also partly a result of decisions to spread out some military spending programs, notably in the UK.

A steep rise in new orders, equal to nearly twice sales for the year, should lead to rebound in sales from 2001 on. The largest single order booked in the course of the year was for the Franco-German Tiger helicopter program, while the largest in the civil sector was from airline Saudia. The year-end order backlog represented three years of billings, compared with a year and half at the end of 1999.

(2) At the beginning of March 2001, Siemens exercised its option to sell its remaining interest in these companies. At March 13, 2001 when accounts for 2000 were approved by the Board, this sale had not been completed.

2. Defense

In millions of euros	2000	1999	Total change	Organic growth
Consolidated revenues	4,934	3,816	+ 29 %	+ 10 %
New orders	5,299	4,695	+ 13 %	- 3 %
Order book at year-end	14,136	12,714	+ 11 %	+ 3.5 %

The scope of the division was expanded significantly in 2000 with the consolidation of Racal's airborne systems and military communications business over six months and full-year consolidation of 50% of ADI in Australia and 50% of Samsung Thales in Korea.

- Momentum for organic sales growth was mainly from **naval business**, which saw a rise in billings on the Sawari II program for the construction of three Lafayette class frigates for Saudi Arabia. Our subsidiary in the Netherlands also reported a significant rise in deliveries, in particular in connection with the F124-LCF frigate program jointly conducted by the Netherlands, Germany and Canada. Thales Nederland provides the Apar multi-purpose and SmartL long-range radar systems for the program, with first deliveries made in 2000. African Defence Systems, the group's South African subsidiary, made its first billings in connection with the program for the supply of the Meko frigates to South Africa, a program in which it is associated with German shipbuilder Blohm & Voss.

Orders in the sector also showed a healthy rise, with the booking of contracts for Horizon frigates representing €350 million. Thales is joint prime contractor alongside Direction de la Construction Navale for the French side of this Franco-Italian program. At the end of the year, the order backlog in naval business held at a record high, representing over three years of billings. The largest single item included is still the Sawari 2, but there was a significant rise in the proportion of European orders. Thales is now involved in both joint European frigate programs.

- **Infrastructure** business also showed a significant rise. Florako and LOC 1 air defence programs carried out in association with Raytheon for supply to Switzerland and NATO, respectively, accounted for much of this rise. In the UK, Thales Air Defence began deliveries of Starstreak missiles to the army.

Among the larger orders booked in this sector was a major contract for the supply to China of air defence radar, as well as a new phase of FSAF, the Franco-Italian program for medium-range ground-to-air missile systems, and Martha 2, an air defence C3 system for France.

Thales Air Defence UK also booked additional orders for Starstreak missiles on its home market as well for ground-based surveillance radars in Australia. Order backlogs in infrastructure were thus equal to three years of sales at the end of 2000, with European business accounting for the largest share.

- In **communications**, largest billings in the year were for the MTBA air-base transmission systems in France, and the Valorita program for the renovation of the French army's communications network. Deliveries of PR4G radios continued in France and on export markets.

The largest orders booked during the year included the OMAR program for the renewal of HF communication systems used by the French navy, equipment for F16 jets in the United Arab Emirates and several new phases of current programs, including MTBA and Valorita. Thales received a fifth order for the latter. Thales also booked a first development contract for Syracuse, a major surveillance satellite program for which Alcatel is the prime contractor. New orders booked by Thales Defence UK included a contract for the equipment of ground segments for satellite communications within the framework of the Cheetah program. At the end of the year, order backlogs represented two years of billings, with European business accounting for the bulk.

- Sales trends in airborne systems were less favourable in 2000. This reflected in particular the completion of the initial development phase in the Spectra contract to equip the Rafale with electronic countermeasures and of the Mirage 2000 program for France and the Mirage F1 program for Spain. The impact was only partly offset by a rise in billings on the Mirage 2000-9 program for the United Arab Emirates and the RBE2 radar for the Rafale. However, slackening will be only temporary, and business in this area is expected to show a significant rebound in 2001.

New orders were booked for Mirage 2000 in India and Greece. A number of important contracts were also signed in connection with the Rafale program. These concerned in particular the production investment phase for Spectra countermeasures systems. New business from Racal included orders for maritime patrol systems. All told, order backlogs for airborne equipment were well above three years' sales at the end of 2000. Europe accounted for the biggest share, and the Middle East for roughly a third.

- In **optronics**, new orders reached record levels contrasting with nearly stagnant sales. The latter trend was due to the completion at the end of 1999 of deliveries of Challenger tanks equipping the British army

The steep rise in new orders reflected in particular orders notified to Thales Optronique by France's defence

procurement agency at the end of the year. These concerned development of the new optronic airborne reconnaissance systems for the French air force and navy, industrial production of the optronic system for the Rafale, Damocles targeting pods for the French navy's Super-Etendards, and a new batch of Sophie thermal cameras for the French army. Thales Defence UK also booked a new contract for periscopes to equip Astute submarines, now under development. The year-end order backlog thus reached a new record of over 20 months' sales, compared with 14 months at the end of 1999.

3. Information Technologies and Services

In millions of euros	2000	1999	Total change	Organic growth
Consolidated revenues	2,058	1,615	+ 27 %	+ 7 %
New orders	2,073	1,575	+ 32 %	+ 17.5 %
Order book at year-end	1,795	844	+ 113 %	+ 16 %

The scope of this division underwent major changes in the course of 2000, with related business from Racal included in the second half. The impact of other more modest acquisitions was offset by the sale of Crouzet, excluded from consolidation in the last two months of the year.

A 7% overall rise in sales at constant scope and exchange rates resulted from contrasting trends in different segments.

- Growth was strongest in **communications components**, especially in micro-electronics, where organic sales growth topped 30%. The electron tube subsidiary suffered a decline in sales early in the year but showed a modest rise over 12 months as communications-satellite business picked up in the second half.
- **Thales Information Systems** (formerly Syseca) reported a slight decline in sales. However, second-half trends were firmer, as illustrated by a 17% rise in order backlogs from the previous year.
- **Secure operations**, an area where former Racal subsidiaries accounted for approximately one-third of sales in 2000, suffered from the end of secure identity card business in Côte d'Ivoire following political upheavals in that country.
- **Solutions & Services** business benefited most from the sales contributions of Racal subsidiaries. Other sector companies reported generally favourable trends, particularly in the second half. This was in particular the case for Thales Broadcast & Multimedia, which was able to make the most of growth in digitised sound and image transmission, reflecting the benefits of investments in this area over previous years.

Business trends by geographical region

In millions of euros	2000		1999		change
France	2,246	26 %	2,205	32 %	+ 2 %
Other European countries	2,864	34 %	2,220	32 %	+ 29 %
Total Europe	5,110	60 %	4,425	64 %	+ 15 %
Middle East	1,194	14 %	911	13 %	+ 31 %
North America	862	10 %	617	9 %	+ 40 %
Asia & Indian continent	1,031	12 %	586	9 %	+ 76 %
Rest of the world	383	4 %	351	5 %	+ 9 %
Total International sales	3,470	40 %	2,465	36 %	+ 41 %
Total	8,580	100 %	6,890	100 %	+ 25 %

Sales in Europe rose 15% to over €5 billion. Reflecting consolidation of Racal in the second half, UK sales were up 70% to over €1 billion, representing 11% of the consolidated total. The contribution of France edged down to approximately a quarter.

The steep rise in sales to the Asia-Pacific region partly resulted from first consolidation of ADI and Thales Samsung, but also reflected strong organic growth in all three business areas. A third of the rise in North American sales reflects changes in the scope of consolidation relating to the acquisition of Racal, but trends were also favorable at constant structure, in particular for component and broadcasting business included in Information Technologies & Services. The rise in billings to the Middle East mainly concerns the Sawari 2 contract.

European business accounted for around 60% of sales for all business areas, coming in a little lower for Information Technologies and Services and a little higher for Aerospace. The geographical breakdown of other business varies significantly from one to the other. For Aerospace, North America is the second largest market, ahead of the Asia-Pacific region, while a fifth of Defense business is with the Middle East, 15% in the Asia-Pacific region and just 3% in North America. Finally, around 20% of Information Technologies & Services sales are in North America and nearly 10% in Asia.

FINANCIAL RESULTS

In millions of euros	2000	1999	change	% change
Sales	8,580	6,890	+ 1,690	+ 25 %
Operating profit	561	390	+ 171	+ 44 %
Restructuring costs	- 80	- 70	- 10	+ 14 %
Other operating items	117	- 44	+ 161	
Compulsory profit-sharing	- 21	- 9	- 12	+ 138 %
Financial income (expense)	- 109	0	- 109	
Equity in income of unconsolidated affiliates	- 81	- 2	- 79	
Income from operations before tax	387	265	+ 122	+ 46 %
Net capital gains on disposal of non-operating assets	27	162	- 135	- 83 %
Income tax	- 73	- 75	+ 2	- 3 %
Amortization of goodwill	- 139	- 77	- 62	+ 80 %
Minority interests	- 1	-	- 1	
Group interest in net income	201	275	- 74	- 27 %

Net income declined 27% to €201 million, reflecting the non recurrence of exceptional items booked in 1999.

Main income items reflect sustained growth in the year as well as improved margins:

- operating profit rose by €171 million or 44% to €561 million ;
- income from operations before tax rose 46%.

Operating profit up 44% to EUR 561 million

A vigorous rise in operating profit reflects not only the benefits of a 25% rise in sales but also a significant improvement in **operating margin**, up 0.8 of percentage point to 6.5% after holding steady at 5.7% in 1999. This is the first time margin has topped 6% since 1994.

At constant scope of consolidation and exchange rates, operating profit was up 23% with margin still at 6.5% of sales, indicating that acquisitions did not dilute operating profit in 2000.

Sales, marketing and administrative expense kept pace with sales growth, showing a 22% rise. It represented 12.9% of sales, compared with 13.1% in previous years.

Total **research and development expense** rose 12% from €1.6 billion in 1999 to €1.8 billion, of which 22% or €397 million was internally funded. Fundamental research accounted for approximately 5% of the total and 25% of internally-funded expense. Research and development staff represent an estimated total of 17,000 group employees.

Company funded R&D came to €397 million or 4.6% of sales in 2000, compared with €421 million or 6.1% of sales in 1999 and €418 million or 6.8% of sales in 1998. The decline in the amount is due primarily to the completion of several development programs for new-generation avionics systems. It also reflects moves to rationalize internally funded expenditures designed in particular to offset declines in gross margin sales, down from 25.6% in 1998 to 24.9% in 1999 and 24% in 2000.

All three business areas show an improvement in operating income and in operating margin :

In millions of euros	2000		1999		change
		% of sales		% of sales	
Aerospace	83	5.2 %	48	3.3 %	+ 73 %
Defense	337	6.7 %	243	6.2 %	+ 39 %
Information Technologies & Services	141	6.2 %	96	5.2 %	+ 48 %
Other			3		
Consolidated operating profit	561	6.5 %	390	5.7 %	+ 44 %

Income from operations before tax up 46% to EUR 387 million

Restructuring costs were little changed at €80 million, equal to less than 1% of sales. They represent the residual costs relating to the reorganization program announced at the end of 1998 and mostly consists of costs incurred for the departure of employees and write-offs of plant and inventories. Defense accounts for 61% of the total, Aerospace for 9% and Information Technologies & Services for 25%.

Other operating items show a net profit of €117 million, compared with a €44 million charge in 1999. Main items include the capital gain of €128 million on the disposal of Crouzet Automatismes and €15 million recognized in the year for expenses relating to the change of name, principally for press and outdoor advertising.

Interest and other financial items, which were close to balance in 1999, represented a net charge of €109 million. Main items were €64 million in interest expense relating to the acquisition of Racal and €35 million for charges relating to average debt over the year excluding the Racal transaction.

Thales has a central treasury department which consolidates information covering group exposure to exchange-rate and interest-rate risk, and makes use of the appropriate financial instruments to ensure the best possible cover for these risks.

A portion of orders booked and of other business transactions of Thales is denominated in foreign currencies ⁽³⁾. The group has adopted a clearly defined policy to cover the related risk:

- orders booked in foreign currencies are covered by forward sales, mainly denominated in US dollars and pounds sterling ;
- orders negotiated in foreign currencies are covered by reinsurance with insurance companies, in particular Coface, or through market transactions including forward exchange-rate contracts and options.

Group exposure to interest rates is covered by swaps. Interest paid and received in connection with interest-rate swaps is recognised over the life of the underlying loans.

Underlying commitments, notional values expressed in euros and maturities of these exchange rate and interest rate instruments are listed in note 22 to consolidated accounts.

Equity in the income of unconsolidated affiliates represented a net loss of €80.5 million, exceeding that in the previous year. This reflected a €93 million writedown for securities and other assets relating to interests in satellite communications operators Global Start and Loral Space. Interests in these companies are through joint venture Alcatel Space.

Net income excluding minorities down 27%

Net capital gains on disposal of non-operating assets amounting to €27 million represent a supplementary payment for the interest in CCF sold in 1999. In the previous year, net capital gains on disposals included € million from the sale of CCF shares and €62 million for the sale of 14.5% out of a total interest of 25% in Indra Sistemas.

Amortization of goodwill on acquisitions amounted to €139 million in 2000, €62 million or 80% more than in the previous years. New appropriations in 2000 included in particular :

- €36 million for amortization over six months of the €1,449 million goodwill on the acquisition of Racal, recognized in accounts from July 1, 2000 ;
- €6 million for annual amortization of €108 million goodwill on ADI, recognized in accounts from January 1, 2000 ;
- €5 million for annual amortization of €96 million goodwill relating to Thales Air Defence Ltd (formerly Shorts Missile Systems) recognized in accounts from January 1, 2000 following a rise in the interest of Thales from 50 to 100%.

(3) Foreign currency as used here means any currency other than the local currency

All goodwill on acquisitions is amortized over 20 years.

Income tax represented a charge of €73 million, an amount similar to that for the previous year. It reflects tax consolidation by the parent company of French subsidiaries in which its interest exceeds 95%, as well as similar tax consolidation of businesses in the US, the UK and Germany. The amount included €45 million in current tax and €28 million in deferred taxes. Main non-deductible income items concern amortization of goodwill on acquisitions. Capital gains on disposals were taxed at a reduced rate.

After minority interests, the **Group interest in net income** represented a profit of €201 million compared with €275 million in 1999. This corresponds to net earnings per share of €1.21 (€1.65 in 1999).

FINANCIAL POSITION

Cash flows

In millions of euros	2000	1999	variation
Operating cash flows before working capital changes and restructuring	556	443	+ 113
Net charges to costs on restructuring	- 160	- 108	- 52
Operating cash flows before working capital changes	396	335	+ 61
Net changes in working capital requirement	116	264	- 148
Change in accrued costs on long-term contracts and other costs	27	- 120	+ 147
Gross cash-flows from operations	539	479	+ 60
Net operating investments	- 280	- 285	+ 5
Net cash flows from operations	259	194	+ 65
Financial investments	- 2,337	- 526	- 1,811
Dividends and share buy-back	- 148	- 148	0
Balance for the year	- 2,226	- 480	- 1,746

Cash flow from operations before the net impact of provisions for restructuring rose by €113 million or 26% from the previous year. The change in working capital requirement reflects the sale of €261 million in claims on the French state.

Net operating investments were little changed from the previous year at €280 million, a figure which includes capital expenditures of €345 million and disposals amounting to €65 million. It includes €12.5 million in capitalized development costs.

Net cash flows from operations thus came to €259 million, showing a strong €65 million rise from the previous year.

Financial investments concluded in the course of the year totaled a high €2,337 million compared with €526 million in 1999, or €2,020 million compared with €515 million if net cash of companies acquired is factored in. The largest investment was €2,165 million or 82% of the gross total for Racal in the UK. Other significant investments included €119 million for the establishment of Thales Samsung, equally owned by Thales and Samsung, and €111 million to raise the group interest in Shorts Missile Systems from 50 to 100%.

Disposal of investment totaled €318 million compared with €223 million in 1999. Main items were €228 million on the disposal of Crouzet Automatismes and €27 million for CCF shares sold in 1999, this being a supplement to the €121 million received for the shares in 1999.

After distribution of €148 million in dividends for the 1999 financial year, the balance of cash flow for the year shows a net outlay of €2,226 million.

Financial position at year end

Following the changes in the scope of consolidation, the group's net debt amounted to €1,856 million at the end of financial 2000, compared with a net cash surplus of €410 million at the beginning of the year.

Shareholders' equity excluding minority interests amounted to €2,425 million. This represents a rise of €58 million from €2,367 million the previous year, reflecting a positive contribution of €201 million from net income combined with distribution of cash dividends in an amount of €148 million for financial 1999. The company did not buy any of its own shares as it had, in an amount of €56 million, in 1999.

Minority interests at the close of 2000 came to €7 million compared with €12.5 million at the end of 1999. They no longer include minority interests in Pilkington Optronics, since Thales bought out the 10% it did not already hold in March 2000.

At December 31, 2000, **net debt** thus represented 43% of long-term capital, including shareholders' equity and net debt.

Considering the good results for 2000 and favorable prospects for 2001, but also making allowance for the level of net debt at year end, the Board of Directors will ask the Annual General Meeting of Shareholders on May 16, 2001 to approve the distribution of a dividend of €0.62 per share, compared with €0.61 in 1999, or €0.93 per share including tax credit. If this is approved it will become payable on 11 June 2001.

2001 OUTLOOK AND RECENT DEVELOPMENTS

Revenue growth in 2001 will depend on a combination of organic growth and consolidation changes in 2000 or known at the time of writing. These changes mainly concern full-year consolidation of Racal, deconsolidation of Crouzet, and consolidation of Avimo.

Operating profit is expected to grow also, due to organic growth and the above consolidation changes.

Net income will reflect the full-year impact of interest expense and amortization of goodwill recognized on the acquisition of Racal.

These forecasts do not allow for other possible consolidation changes in the course of 2001.

Acquisition of full ownership of Avimo

In September 1999, Thomson-CSF concluded an agreement with Alvis of the UK for the acquisition of a 24.9% interest in Avimo, an optronics firm listed on the Singapore stock exchange. Under the agreement, Alvis also had an option to sell its remaining 17.1% interest in Avimo to Thomson-CSF. Alvis exercised this option on December 1, 2000, and on December 28 Thales opened a compulsory cash offer on the Singapore stock exchange for the purchase of all remaining Avimo shares.

This offer became unconditional on January 9, 2001, Thales having raised its interest in the company to over 50%, and closed on February 6, when Thales held 93.7% of equity. Avimo was suspended from trading on February 5, 2001 and shareholders not having already tendered their shares then had three months to require their purchase by Thales.

At March 30, 2001, Thales held 97.7% of Avimo equity. The shares acquired in 2001, representing 71.7% of equity and including those sold by Alvis, which were transferred to Thales on January 5, represent a total amount of €183.4 million. This will be included in financial investments for 2001.

Thales forms partnership with the Direction des Constructions Navales

On March 13, 2001, the French State and Thales concluded a memorandum of understanding for the formation of a joint venture between Thales and the Direction des Constructions Navales (DCN), the French naval shipyards. The new company will combine the marketing experience and prime-contracting expertise of Thales Naval France and DCN/DCN International in warships and naval combat systems.

The new company will focus on export markets and cooperation programs. Among others, it is expected to manage the French portion of construction in the Franco-Italian Horizon frigate program. Teams from Thales and DCN/DCN International are already working together on this program. The agreement does not cover equipment such as radar, sonar and communications, etc., which Thales and its subsidiaries will continue to develop and commercialize.

The official formation of the joint venture remains subject to completion of the negotiations still in progress at the date of publication of this report, and approval requests will be submitted to the competent authorities.

Planned sale of instrumentation subsidiaries

Pursuing its strategy of optimizing its portfolio of businesses in Information Technologies and Services, Thales announced plans on February 22, 2001 to sell its instrumentation subsidiaries, acquired along with Racal in 2000. The disposal is scheduled to take effect on the course of 2001.

Thales Instruments generates annual sales of approximately €90 million and operates mainly in the United Kingdom and the United States. Its business consists primarily in the supply and implementation of testing systems for specialized markets in radio communications, broadband communications, together with defense and civil electronics.

CONSOLIDATED REVENUES TREND IN 1ST-QUARTER 2001⁽¹⁾

SALES RISE 36% IN 1ST-QUARTER 2001

Sales to 31 March 2001 totaled €1,825 million, up 36.4% from €1,338 million in the first quarter of 2000.

This steep rise was driven by substantial organic growth of 10.5%. Other factors were changes in the scope of consolidation, including full consolidation of Racal Electronics (U.K.), acquired in June 2000, and since January 1, 2001, Avimo Group (Singapore and U.K.).

Aerospace business expanded steadily, with consolidated sales up 24%. Growth was particularly strong in avionics and simulation/training, in the wake of the strong order flow received in 2000. At constant scope and exchange rates, sales rose a substantial 15%.

In **Defense**, a 26% rise in consolidated sales includes the contribution of defense operations from Racal and joint venture Samsung Thales Co., as well as optronics operations from Avimo. Activities contributing most to the increase in this business area were communications systems, air defense and optronics. Consolidated sales rose 6.4% at constant scope and exchange rates.

Information Technologies and Services show the strongest first-quarter gains, with sales up 68%. This reflects the impact of acquisitions, notably consolidation of Racal. At constant scope and exchange rates, sales rose 15% compared with a disappointing first quarter in 2000. The increase reflects buoyant demand for electron tubes, information systems and engineering/consulting services, offsetting, in the early months of this year, a decrease in telecom components.

A geographical breakdown of Thales sales shows business in the United Kingdom accounting for nearly 20% of consolidated sales, ranking it a close second behind France.

In millions of euros	2001		2000		Total change	Organic growth
Aerospace	383	21 %	309	23 %	+ 24 %	+ 15 %
Defense	875	48 %	696	52 %	+ 26 %	+ 6 %
Information Technologies & Services	550	30 %	327	24 %	+ 68 %	+ 15 %
Other	17	1 %	6	1 %		
Consolidated sales	1,825	100 %	1,338	100 %	+ 36 %	+ 10.5 %

(1) May 15, 2000 press release

OTHER FINANCIAL INFORMATION

INTRODUCING THE EURO

All information and management systems, including payroll units, throughout the euro-zone switched to the euro on January 1, 2001. Consolidated financial statements established entirely in euros were first presented for fiscal 1999.

Most of the preparatory work for the transition to the euro was carried out in 2000. The 1999 accounts included an €11 million provision to cover external costs.

INTRODUCING THE 35-HOUR WORKING WEEK IN FRENCH SUBSIDIARIES

The Group signed a master agreement with representative French labor unions in 2000 concerning application of the 35-hour working week in its French subsidiaries. This agreement implements the French Acts of June 13, 1998 and January 19, 2000 mandating negotiated work-time reductions. The agreement commits the Group to hiring 3,000 people over two years, and to helping to preserve jobs in units or businesses where necessary.

Following signature of this agreement, decentralized negotiations were conducted in all of the Group's French companies, giving full weight to specific conditions in each unit. At the time of publication, agreements have been signed in more than 90% of the subsidiaries concerned.

The Group considers that the work-time reductions thus negotiated will not entail any additional costs. Consequently, no charge relating to work-time reductions is made in the financial statements for 2000, nor is any charge presently envisaged in the financial statements for 2001.

TREASURY MANAGEMENT

Group treasury management utilizes cash pooling via the centralization of the different units' short-term assets and liabilities. In fact, short-term assets and liabilities are centralized for each currency zone, and by country in certain cases. The main zones concerned are the euro-zone (with separate cash pooling for French units), the sterling area, and the dollar area.

The accounting impact of asset-liabilities netting varies from country to country. For instance, in UK-based units, netting of assets and liabilities of different units for a given amount is applied to notional amounts. This allows theoretical interest expense to be offset against corresponding interest receivable. However, the notional assets and liabilities thus netted do not cancel each other out in the balance sheet. Instead, they are booked in their entirety in either assets (cash in hand) or liabilities (other borrowings). These two items are thus increased symmetrically.

At December 31, 2000, total cash holdings recorded in consolidated assets amounted to 1,118 million euros, of which 334 million euros strictly corresponded to the notional cash pooling method practiced in the UK.

The balance, i.e. 854 million euros, notably comprises :

- 379 million euros in very short-term euro cash holdings connected with the hedging of financing risks due to uncertainty over collection dates for some export contracts,
- 197 million euros in cash invested directly by joint ventures (recorded amounts are proportionate to Thales's stake in the joint ventures concerned), since cash pooling does not apply to joint ventures.

MANAGEMENT OF RISKS RELATING TO FOREIGN CURRENCY-DENOMINATED ASSETS

The Group hedges part of its foreign currency-denominated assets, which mainly applies to assets that may be sold at some future date. The following criteria serve to determine the suitability of a foreign currency-denominated asset for hedging in this way :

- the nature of the operations concerned. Core business assets are excluded from this type of hedging, and
- the form of the Group's commitment. As a result, this type of hedging applies to foreign currency-denominated assets of joint ventures in which the Group holds a put option in its partner's favor (as is the case with most joint ventures).

As a general rule, these assets are hedged by contracting loans or currency swaps in the same currency as the asset hedged.

However, the following considerations are taken into account in implementing this policy :

1. hedges are optimized in light of market conditions (availability of the currency concerned, interest rates, cost of hedges, etc.),
2. risks inherent in the future value of the assets being hedged and in the nature of the business of the corresponding subsidiaries,
3. specific features of each shareholder agreement in the case of joint ventures.

FINANCIAL DISCLOSURE

It is company policy to communicate clear and accurate information to the markets concerning its financial condition, strategy and management policies, in compliance with regulations and generally accepted practice.

This policy of financial disclosure thus entails the regular publication of mandatory information in the legally-required journals (this notably includes the placing of notices in the French official bulletin, the BALO) as well as by means recommended by the market authorities (e.g. press releases, brochures and periodic reports on operations). Thales also seeks to combine regulatory compliance with publication of more qualitative information, e.g. through twice-yearly press conferences on the occasion of publication of the annual and half-yearly financial statements. The Chairman and officers use these opportunities to comment on business developments and strategy, and to give their views on market trends and Group objectives.

The most recent press conference prior to publication of this document took place on March 14, 2001, when the Chairman presented the Group's two-year consolidated revenue and operating profit growth targets. Consolidated revenue is targeted to grow by 25% between 2000 and 2002, with business group growth targets of 25% for Aerospace, 30% for IT and Services, and double-digit growth for Defense. Operating profit growth for the same period is targeted to grow by 50%. The Chairman emphasized that these targets take account of known consolidation changes at the date of the press conference, and that their fulfillment would also depend on the general business climate. Finally, these figures are not forecasts and are therefore not subject to verification by the auditors.

The next press conference is scheduled for mid-September and will report on results for the first half of 2001.

All of this information, including the slides presented at press conferences, is available for consultation on the Group's website in the "Investor Relations" section.

Financial disclosure diary, 2001

February 15	Publication of fourth-quarter and full-year revenues for 2000
March 14	Publication of consolidated results for 2000 Press conference to comment on annual results
May 15	Publication of first-quarter revenues for 2001
May 16	Ordinary and Extraordinary General Meetings of Shareholders
June 11	Payment of dividend on earnings for fiscal 2000
August 14	Publication of second-quarter and first-half revenues for 2001
September 12	Publication of first-half consolidated results for 2001 Press conference on first-half results
November 15	Publication of third-quarter revenues for 2001

Shareholder publications 2001

2000 Annual report, published in the form of a prospectus (COB "Document de Référence")

Brochure presenting the company and its operations ("Thales in 2000/2001")

Twice-yearly shareholders' newsletter

Interim report

Financial press releases (on results and all other financial information)

Notice approved by the Commission des Opérations de Bourse (the French stock market watchdog) concerning the stock buyback program (submitted to the General Shareholders' Meeting of May 16, 2001).

Thales website, "Investor Relations" sitemap

www.thalesgroup.com/ir

NB: The entire Thales website is currently being redesigned and is scheduled to go online at the end of June 2001. This sitemap reproduced below refers to the site at the time of publication of this report.

Thales share data

- General information

 - Listings

 - Indexes

- Share prices and trading volumes

Financial disclosure

- 5-year key data

- Financial disclosure diary

- Annual reports (last 3 years)

- Interim reports (last 3 years)

- Quarterly revenues (last 2 years)

- Recent presentations (last 2)

- Request form for additional information

Shareholder information

- Shareownership

- Shareholders' newsletter

- Dates for your diary

- Shareholders' meetings

- Dividend information

Press releases

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

(In millions of euros)		2000	1999	1998
Sales	(note 4)	8,579.6	6,889.5	6,174.8
Cost of sales		(6,517.4)	(5,176.6)	(4,591.0)
Research and development expenses		(397.1)	(420.6)	(418.2)
Marketing and selling expenses		(717.1)	(621.7)	(556.1)
General and administrative expenses		(386.9)	(280.8)	(254.7)
Operating profit		561.1	389.8	354.8
Restructuring costs	(note 6)	(79.8)	(69.8)	(313.9)
Other income (expense)	(note 6)	116.5	(44.1)	(123.8)
Compulsory profit sharing		(21.4)	(9.0)	(7.8)
Financial income / (expense)	(note 5)	(109.3)	(0.4)	(6.0)
Equity in income of unconsolidated affiliates	(note 11)	(80.5)	(1.5)	(16.3)
Income from operations before tax		386.6	265.0	(113.0)
Gain on disposal of non operating assets	(note 6)	27.3	161.5	-
Income tax	(note 7)	(72.6)	(74.7)	35.2
Net income (loss) before amortization of goodwill and minority interests		341.3	351.8	(77.8)
Amortization of goodwill and badwill	(note 10)	(139.4)	(77.3)	(155.5)
Minority interests		(0.5)	0.5	1.4
Group interest in net income (loss)		201.4	275.0	(231.9)
Net result per share (in euros)		1.21	1.65	(1.6)

The accompanying notes are an integral part of this consolidated statement of income.

CONSOLIDATED BALANCE SHEET

Assets

(In millions of euros)		12/31/00	12/31/99	12/31/98
Fixed assets				
Goodwill, net	(note 10)	2,743.4	974.3	524.3
Other intangible fixed assets, net		141.0	130.3	93.6
Intangible fixed assets, net	(note 9)	2,884.4	1,104.6	617.9
Property, plant and equipment	(note 9)	3,789.2	2,866.2	2,672.0
Less: accumulated depreciation	(note 9)	(2,177.7)	(1,621.1)	(1,540.0)
Property, plant and equipment, net		1,611.5	1,245.1	1,132.0
Investments and other non-current assets				
Equity in unconsolidated affiliates	(note 11)	228.1	213.0	247.7
Other investments	(note 12)	231.4	254.1	120.3
Other loans	(note 12)	214.0	168.3	213.6
Total investments and non-current assets		673.5	635.4	581.6
Total fixed assets		5,169.4	2,985.1	2,331.5
Current assets				
Inventories and work in-progress	(note 13)	3,504.6	3,240.6	3,176.9
Accounts and notes receivable		5,364.5	2,508.4	2,076.7
Current accounts with affiliated companies	(note 14)	43.4	18.4	19.1
Advances to suppliers		491.9	835.6	413.6
Other debtors and prepaid expenses	(note 7)	1,444.5	708.6	676.3
Marketable securities	(note 15)	102.2	152.4	261.0
Cash and cash equivalents		1,188.0	656.8	1,024.2
Total current assets		12,139.1	8,120.8	7,647.8
Total assets		17,308.5	11,105.9	9,979.3

Commitments and contingencies are presented in note 22.

The accompanying notes are an integral part of this consolidated balance sheet.

Liabilities and shareholders' equity

(In millions of euros)		31/12/00	31/12/99	31/12/98
Current assets				
Common stock (€3.0 per share 167,731,513 shares issued as of 12/31/00, 12/31/99 and 12/31/98)		503.2	511.5	511.5
Paid-in surplus and retained earnings		1,986.8	1,928.0	1,746.0
Cumulative translation adjustment		(8.7)	(16.3)	(35.2)
Treasury shares		(56.3)	(56.3)	-
Shareholders' equity	(note 16)	2,425.0	2,366.9	2,222.3
Minority interests	(note 17)	6.9	12.5	157.8
Total shareholders' equity and minority interests		2,431.9	2,379.4	2,380.1
Accrued pension and retirement obligations*	(note 18)	197.1	174.7	138.0
Current accounts with affiliated companies	(note 14)	74.0	34.6	190.1
Other debt	(note 20)	3,168.9	436.6	359.3
Total debt		3,242.9	471.2	549.4
Accrued contract costs and other*	(note 19)	1,104.6	1,121.3	1,254.7
Advances received from customers on contracts		5,991.1	3,935.6	2,939.4
Accounts and notes payable		1,549.8	1,378.9	1,195.8
Accrued vacation pay and payroll taxes		620.7	571.7	519.2
Other creditors and accrued liabilities	(notes 7 & 10)	2,170.4	1,073.1	1,002.7
Total current liabilities		11,436.6	8,080.6	6,911.8
Total liabilities and shareholders' equity		17,308.5	11,105.9	9,979.3

*These two captions are classified in the French version of the balance sheet under a single caption "Provisions pour risques et charges".

Commitments and contingencies are presented in note 22.

The accompanying notes are an integral part of this consolidated balance sheet.

CONSOLIDATED STATEMENT OF CASH FLOWS *

(In millions of euros)	2000	1999	1998
Cash flows from operating activities			
Net income (loss) before minority interests	201.9	274.5	(233.3)
Add (deduct):			
Equity in income of unconsolidated affiliates (net of dividends paid)	93.1	3.2	17.2
Depreciation of property, plant and equipment	238.0	220.9	208.7
Depreciation of intangible assets**	178.9	112.6	178.2
Allowances for losses on fixed assets and provision for retirement indemnities	20.5	19.7	19.4
Loss (profit) on disposals of assets	(176.6)	(187.7)	29.6
Net charges to costs on restructuring (note 19)	(160.0)	(108.1)	168.5
Operating cash flows before working capital changes ***	395.8	335.1	388.3
Change in working capital requirements	116.2	263.6	(201.1)
Change in accrued costs on long-term contracts and other costs	27.3	(119.7)	20.4
Net global change in working capital requirements	143.5	143.9	(180.7)
Total - I -	539.3	479.0	207.6
Cash flows from investing activities			
Capital expenditures (note 21a)	(345.1)	(307.8)	(220.3)
Proceeds from disposal of tangible and intangible fixed assets	64.9	22.7	18.8
Net operating investments	(280.2)	(285.1)	(201.5)
Acquisition of investment (note 21b)	(2,338.3)	(738.1)	(284.9)
Disposal of investment (note 21b)	318.0	222.7	16.9
Change in loans to affiliated companies and other financial assets	(39.4)	(10.7)	77.9
Net financial investments	(2,059.7)	(526.1)	(190.1)
Total - II -	(2,339.9)	(811.2)	(391.6)
Cash flows from operations - I + II -	(1,800.6)	(332.2)	(184.0)
Cash flows from financing activities			
Increase (decrease) in equity and minority interests (note 21c)	(148.2)	(147.3)	(64.3)
Increase in debt	2,616.5	201.2	42.2
Repayment of debt	(227.7)	(119.3)	(210.5)
Increase (decrease) in debt with affiliated companies	34.0	(135.7)	120.7
Total - III -	2,274.6	(201.1)	(111.9)
Effect of changes in exchange rates and in the reporting entity on cash (note 3) - IV -	(1.0)	33.3	41.6
Net increase (decrease) in cash			
before changes in marketable securities - I + II + III + IV -	473.0	(500.0)	(254.3)
Decrease (increase) in marketable securities	58.2	132.6	(173.6)
Total increase (decrease) in cash	531.2	(367.4)	(427.9)
Cash and cash equivalents at beginning of period	656.8	1,024.2	1,452.1
Cash and cash equivalents at end of period ****	1,188.0	656.8	1,024.2
Loans from financial institutions and partners included in caption "Other loans"	53.1	53.5	146.2
Investment in Crédit Commercial de France included in caption "Other investments"	--	--	20.6
Current account with affiliated companies	43.4	18.4	19.1
Marketable securities	102.2	152.4	261.0
Trade receivables bearing interest included in caption "Accounts and notes receivables"	--	52.9	29.9
Total debts	(3,242.9)	(471.2)	(549.4)
Net cash position	(1,856.2)	462.8	951.6

* For a description of non-cash transactions and reclassifications affecting the balance sheet as of December 31, 2000, 1999 and 1998, please refer to the statement presented in note 3.

** Includes respectively €141.7 million, €79.7 million and €158.1 million in amortization of goodwill (note 10a).

*** Including proceeds from non recourse sale of government receivables (€ + 260.9 million in 2000).

**** Includes respectively €267.0 million, €182.0 million and €364.0 million of mutual funds and negotiable notes with maturities of three months or less.

The accompanying notes are an integral part of this consolidated statement of cash flows.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY AND MINORITY INTERESTS

Period from 01/01/1998 to 12/31/2000 (In millions of euros)	Number of shares outstanding (thousands)	Common stock	Paid-in surplus and retained earnings	Cumu- lative translation adjustement	Revalua- tion reserve	Treasury shares	Share- holders' equity	Minority interests
As of January 1, 1998	119,543	364.5	2,042.7	(45.4)	7.2	0.0	2,369.0	109.0
Increase in capital	48,188	147.0	1,361.4	--	--	--	1,508.4	--
Goodwill charged against share premium (note 10c)	--	--	(1,361.4)	--	--	--	(1,361.4)	--
Foreign exchange difference	--	--	--	10.2	--	--	10.2	(0.9)
Dividends *	--	--	(65.6)	--	--	--	(65.6)	--
Change in the revaluation reserve	--	--	--	--	(7.2)	--	(7.2)	--
Other	--	--	0.8	--	--	--	0.8	0.2
Net income 1998	--	--	(231.9)	--	--	--	(231.9)	(1.4)
Changes in the reporting entity	--	--	--	--	--	--	--	50.9
As of December 31, 1998	167,731,	511.5	1,746.0	(35.2)	0.0	0.0	2,222.3	157.8
Foreign exchange difference	--	--	--	18.9	--	--	18.9	0.6
Dividends **	--	--	(91.2)	--	--	--	(91.2)	--
Purchase of treasury shares (note 16 g)	(1,921)	--	--	--	--	(56.3)	(56.3)	--
Other	--	--	(1.8)	--	--	--	(1.8)	--
Net income 1999	--	--	275.0	--	--	--	275.0	(0.5)
Changes in the reporting entity (note 17)	--	--	--	--	--	--	--	(145.4)
As of December 31, 1999	165,810	511.5	1,928.0	(16.3)	0.0	(56.3)	2,366.9	12.5
Foreign exchange difference	--	--	--	7.6	--	--	7.6	--
Dividends ***	--	--	(148.0)	--	--	--	(148.0)	(0.2)
Other	--	(8.3)	5.4	--	--	--	(2.9)	--
Net income 2000	--	--	201.4	--	--	--	201.4	0.5
Changes in the reporting entity	--	--	--	--	--	--	--	(5.9)
As of December 31, 2000	165,810	503.2	1,986.8	(8.7)	0.0	(56.3)	2,425.0	6.9

* The 1997 dividend (€65.6 million) was fully paid in cash on July 10, 1998, in accordance with the decision taken in General Meeting of Shareholders on June 22, 1998.

** The 1998 dividend (€92.1 million) was paid in cash on July 9, 1999 up to the amount of €91.2 million, in accordance with the decision taken at the Ordinary General Meeting of Shareholders on June 29, 1999. The dividends which, pursuant to Article 217-3, paragraph 4, of the Commercial Companies Act, were not paid in respect of the Thales shares held by the Company at the time of the payment of the dividend, were reallocated to retained earnings, in an amount of €0.9 million.

*** The 1999 dividend (€102.3 million) was paid in cash on July 10, 2000 up to the amount of €101.1 million, in accordance with the decision taken at the Ordinary General Meeting of Shareholders on May 23, 2000. The dividends which, pursuant to Article 217-3, paragraph 4, of the Commercial Companies Act, were not paid in respect of the Thales shares held by the Company at the time of the payment of the dividend, were added to retained earnings, in an amount of €1.2 million. Change in retained earnings includes tax on dividends (€46.9 million).

*The accompanying notes are an integral part of this consolidated statement
of changes in shareholders' equity and minority interests.*

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Warning : the note below refer to Thales, the new trade name being used since December 2000, and to Thomson-CSF, the statutory name still outstanding in most of the Group's companies when the accounts were finalised. The change of the parent company name into Thales was approved by the AGM on May 16, 2001.

All amounts included in these notes are expressed in millions of euros except for data per share.

1. Accounting principles

The consolidated financial statements of Thales are prepared in accordance with the accounting principles applicable in France (C.R.C. 99-02 regulation applicable as from January 1, 2000). Accounting for acquisitions and disposals made before January 1, 2000 has not been restated, in accordance with section V of CRC regulation. In 2000, the first adoption of CRC regulation has no significant effect on the financial statements.

The financial statements of the consolidated subsidiaries and the subsidiaries accounted for under proportionate consolidation, when prepared in accordance with the accounting principles generally accepted in their country of origin, have been restated accordingly.

a) Consolidation

The financial statements of significant subsidiaries, which are controlled, directly or indirectly, by Thales, have been consolidated.

Companies in which Thales does not have a controlling interest but in which it exercises significant influence, directly or indirectly, are carried under the equity method. Companies under common control are accounted for under proportionate consolidation.

Acquisition goodwill, whether positive or negative, is amortized over the estimated life of the goodwill not exceeding twenty years (note 10). When the fair values of assets acquired and liabilities assumed are corrected by the end of the first annual accounting period following the year of acquisition, the acquisition goodwill is adjusted accordingly. Each year, impairment tests based on the prospects of the markets in which the related subsidiaries operate are carried out by the Company. Net goodwill should at the most be equal to the future discounted cash flows estimated for the residual period of amortization, less equity.

In accordance with the option provided in Article D.248-3 of the decree dated March 23, 1967, and commented by the French Commission des Opérations de Bourse in its bulletin no.210 of January 1988, goodwill relating to acquisitions made before December 31, 1998 and paid for by the creation of shares was offset against shareholders' equity for the amount of the share premium recorded at the time of the operation (note 10c).

b) Translation of the financial statements of foreign subsidiaries

Balance sheets are translated at the exchange rates prevailing at balance sheet dates ("closing rates"). Statements of income and cash flows are translated at the average exchange rates for the period. Differences arising from changes in exchange rates are reflected as adjustments to "Shareholders' equity" (note 16).

The principal closing and average exchange rates used for translation purposes are summarized in the following :

Euros	12/31/00		12/31/99		12/31/98	
	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
In Australian Dollar	1.6770	1.6002	1.5422	1.6446	1.9010	1.7677
In Pound sterling	0.6241	0.6076	0.6217	0.6552	0.7055	0.6670
In U.S. Dollar	0.9305	0.9175	1.0046	1.0576	1.1667	1.1117

c) Accounting for foreign currency transactions

Except for the transactions described in the next paragraph, monetary assets and liabilities denominated in foreign currencies are converted at closing exchange rates. The Company records exchange gains and losses under "Financial income (expense)" in the accompanying consolidated statement of income (note 5b).

Foreign currency exposure is managed by the finance departments of Thales which commit themselves to buy or deliver foreign currencies from or to the operating units of Thales at specified exchange rates determined for each transaction; the assets and liabilities of the units are converted at such specified rates.

Premiums and discounts related to forward exchange contracts are recognized in income over the lives of the contracts on a straight-line basis. Exchange gains or losses and premiums or discounts on forward exchange contracts designated to hedge commercial bids in foreign currency are deferred until the contract becomes effective.

Exchange gains or losses related to non hedging forward exchange contracts are recognized in the income statement ; such gains or losses correspond to the difference between the forward rate at the balance sheet date for the remaining maturity of the contracts and the contracted forward rate.

d) Interest rate instruments

The Group uses financial instruments to manage and reduce its exposure to fluctuations in interest rates. When these contracts qualify as hedges, gains and losses on such contracts are accounted for in the same period as the hedged item. Otherwise, if the market value of such instruments appears to be lower than that of the original trade, the potential loss is charged to income.

e) Bond premiums and discounts

Bonds are carried at repayment value. Premiums or discounts, if any, are accounted for as assets or liabilities and amortized using the effective interest rate method.

Borrowing costs are recognized as an expense in the period in which they are incurred, regardless of how the proceeds from such borrowings are used.

f) Marketable securities (note 15)

Negotiable notes receivable with maturities of three months or less are included in "cash and cash equivalents".

Marketable securities are accounted for at cost. Related accrued interest has been classified in "other debtors and prepaid expenses". Marketable securities are valued at the lower of their aggregate acquisition cost or market value at the balance sheet date.

g) Fixed assets

Property, plant and equipment are carried at their acquisition cost.

Depreciation of tangible fixed assets is computed under the straight-line or declining-balance method so as to make an economic allocation of the cost of the related assets over their estimated useful lives (note 9).

Fixed assets acquired through capital lease arrangements are recorded as assets and are depreciated as described above ; the corresponding debt is recorded as a liability.

Gains and losses on disposal of fixed assets are included in the statement of income under "Other income (expense)" (note 6).

h) Other investments (note 12)

Investments in unconsolidated companies are valued at their acquisition cost less depreciation. The assessment of the potential depreciation takes into account, in particular, the percentage of equity interests held, the prospects for return on investment and the market value (stock exchange quotations for listed securities).

i) Inventories

Inventories are carried at the lower of their production cost or realisable value (using the first-in first-out or weighted average cost method). Work in process, semi-finished and finished goods are stated at direct cost of materials, labor and subcontracts incurred during production, plus an appropriate portion of production overhead costs and any other costs directly allocated to the contracts.

In accordance with industry practice, inventories include costs relating to contracts having production cycles longer than one year, and for which a portion of such costs will not be charged to income within one year (note 13).

j) Long-term contracts

Turnover and operating result on long-term contracts are accounted for according to the percentage of completion method, which is generally determined according to contractual clauses dealing with transfer of ownership. However, where there is a timing discrepancy between manufacturing and transfer of ownership, the percentage of completion is determined using technical criteria.

Interest income relating to long-term contracts is recorded as earned in financial income except when advances received from customers significantly exceed costs incurred in connection with the related contracts. In such case, a proportionate share of interest income is included in the contract revenues and posted to the income statement as indicated above.

Potential losses on contracts are fully recognized as soon as they are known. Selling, administrative and interest expenses are treated as period costs as and when incurred. Estimates to complete on loss making contracts include revenues from claims made by the Company only when such claims are accepted by the customer.

Progress payments under long-term contracts are shown as "Advances received from customers on contracts" under "current liabilities".

k) Research and development

A significant portion of research and development expenditures is funded by customers and governmental agencies. Internally funded research and development expenses are charged to income as incurred as "Research and development expenses", except for project development costs which comply strictly with the following criteria :

- the product or process is clearly defined, and costs are separately identified and measured reliably,
- the technical feasibility of the product is demonstrated,
- the product or process will be sold or used in-house,
- a potential market exists for the product, or its usefulness for in-house purposes, is demonstrated,
- the adequate resources required to successfully complete the project are available.

Such development costs are capitalised and amortized over the economic life of the product. The method of amortization is determined according to quantities or sales, relating to the period when future benefits are recognized. The period of amortization depends on the nature of activity, but may not exceed a maximum of 15 years (note 9).

l) Deferred tax (note 7)

Thales records deferred income tax when the tax value of an asset or liability differs from its book value.

The change in income tax rates affects the income statement for the period in which such change has been decided.

Deferred tax assets accounted for in the balance sheet are depreciated, as soon as the Company does not reasonably expect to recover the carrying amount of this asset in a foreseeable future.

m) Accrued pension and retirement obligations (note 18)

The Company has recorded a provision for pension and retirement obligations allocated to employees upon retirement. For computation purposes, the Company has adopted an accrued benefit valuation method with salary projections.

n) Statement of cash flows

"Cash and cash equivalents" include cash on hand and assets considered to be equivalent thereto. Changes in bank overdrafts are included in cash flows from financing activities. Acquisitions (disposals) of marketable securities with a maturity over three months are used by Thales as a mean to optimize cash management. Consequently, they are excluded from the cash flows from investing activities and presented on a specific line entitled "increase (decrease) in marketable securities".

o) Presentation of consolidated statement of income

Income from ordinary activities includes certain non-operating items, which are presented in note 6. Extraordinary items are clearly distinct from the ordinary activities in the consolidated statement of income. It should be noted that in the 1998, 1999 and 2000, no extraordinary items were recorded.

2. Changes in the reporting entity

As of December 31, 2000, the consolidated financial statements of Thales and subsidiaries include the accounts of the companies listed at the end of the notes. The table below presents an analysis of the changes in the number of consolidated companies:

Number of companies	12/31/00		12/31/99		12/31/98	
	French	Foreign	French	Foreign	French	Foreign
- Consolidated	93	213	90	65	90	55
- Accounted for under the equity method	2	12	2	6	3	6
- Accounted for by proportionate consolidation	18	27	13	23	10	16
Sub-total	113	252	105	94	103	77
Total	365*		199		180	

* Includes, as of 12/31/00, 140 subsidiaries of ex Racal Electronics Plc.

• Acquisition of Racal Electronics plc

In the first half of year 2000, Thales finalised its agreed bid for Racal Electronics Plc. The company's intention to make such a bid had been announced on January 13, 2000.

This take-over took the form of a recommended cash offer to Racal's shareholders, the making of this offer being pre-conditional on the resolution of certain competition jurisdictional issues. On April 19, 2000, such pre-conditions having been solved, the offer was made on the London Stock Market on the following basis: 450p in cash for each Racal Share representing, on a fully diluted basis, a total amount of about £ 1.35 billion (equivalent to EUR 2.16 billion).

On June 15, 2000, the European Commission having given its official clearance and all other conditions having also been satisfied, the offer was declared wholly unconditional. And as of June 30, 2000, about 90% of Racal issued shares had been acquired by Thales. The final step was completed by August 23, 2000, the expiry date of the compulsory acquisition of the remaining shares, in compliance with the UK Companies Act 1985.

In these financial statements, Racal has been fully consolidated as of July 1, 2000. The goodwill will be amortised over a twenty-year period, beginning July 1, 2000.

Summarized restated balance sheet, of Racal Electronics Plc and subsidiaries as of June 30, 2000 is presented below in millions of euros, using the official closing exchange rate at this date (£ 1 = €1.5815). This balance sheet includes purchase accounting adjustments, which will be finalized in 2001.

Consolidated balance sheet :

	06/30/00
Tangible and intangible assets	358.1
Investments	82.1
Inventories and work in progress	218.2
Accounts and notes receivable	355.2
Other debtors	465.8
Cash and cash equivalents	282.2
Total Assets	1,761.6
Shareholders' equity	740.8
Minority interests	2.4
Debt	234.7
Accrued contract costs and other	77.2
Advances received from customers	64.3
Accounts and notes payable	148.9
Other creditors	493.3
Total Liabilities	1,761.6

• Other acquisitions/disposals of subsidiaries

The main events, which occurred during 2000, were as follows :

- ADI Ltd (Australia) has been accounted for under the proportionate consolidation method as of January 1, 2000.

50% of this company had been acquired in November 1999, in partnership with Transfield, the Australian infrastructure specialist, which owns the remaining 50%. At the end of December 1999, the interests of Thales within ADI were presented as "other investment" on the basis of its acquisition price (AUD 174.5 million equivalent to EUR 116.3 million).

- As agreed between the two companies at the end of 1999, Thales purchased Bombardier's 50% shareholding in Shorts Missile Systems Ltd (SMS) on January 31, 2000. SMS has been fully consolidated as from February 1, 2000.
- In February 2000, Thales and the French naval shipbuilder DCN has formed a joint venture to act as prime contractor on Sawari II program. This company has been accounted for under the proportionate consolidation method.
- In March 2000, Thales's shareholding in Pilkington Optronics Ltd increased from 90% to 100%.
- In May 2000, Thales sold 60% of its subsidiary Thomson-CSF Semiconducteurs Spécifiques (TCS), which specializes in specific circuit and CCD chips production, to Atmel Corporation. The remaining 40% will be purchased by Atmel Corporation between September 2001 and September 2003. This stake has been accounted for as an investment.
- In May 2000, ANS GmbH, previously wholly owned by Thales, was sold to Thales Air Defence ATM, a joint venture with Siemens AG. Consequently, ANS GmbH has been accounted for under the proportionate consolidation method.
- In October 2000, the Franco-Italian joint venture Horizon was created, dedicated to prime contractorship, in particular of the Franco-Italian Horizon frigate programme. The first ship is due to be delivered in 2006. The joint venture has been accounted for under the proportionate consolidation method (25% stake), DCN, Fincantieri and Finmeccanica holding respectively another 25%.
- In October 2000, Thales disposed of Crouzet Automatismes, its subsidiary specialised in the design, production and marketing of automation components. This company was excluded from the scope of consolidation as from October 31, 2000.
- In October 2000, Thales sold to Barco View the majority of the shares of Texen, a supplier in ruggedised information systems for the defense market and high-resolution graphic generators for air traffic control. This company was excluded from the scope of consolidation as from October 31, 2000.
- In November 2000, Thales Survey, an ex-Racal subsidiary, acquired Sage Holding AG, whose subsidiaries specialize in geotechnical services to the offshore industry. Thales Survey, who previously held a 5.2% equity stake in the company, took full ownership of Sage through buying the shareholdings of the founder, of a financial investor, and of members of the management team. This company has been consolidated as from December 31, 2000.
- In December 2000, Thales acquired Alcatel's transport ticketing businesses (CGA). This company has been consolidated as from December 31, 2000.
- In December 2000, Thales and Alstom merged their Facility Management activities. The new subsidiary FACEO has been accounted for under the proportionate consolidation method as from December 31, 2000.
- On December 2, 1999, as agreed on September 20, 1999 with Alvis, a UK company Thales acquired from Alvis 26,379,682 shares representing 24.9% of the issued share capital of Avimo Group Ltd, listed in Singapore. As part of this agreement, Alvis had a put option in respect of additional 18,211,518 shares, representing 17.1% of the capital and exercisable from December 1, 2000.

On December 1, 2000, Alvis exercised the put option requiring Thales to purchase the shares at a price of S\$ 3.71 for each option share. Transfer and payment of the shares were completed on January 5, 2001.

On December 28, 2000, as required by local regulation, Thales launched a cash offer to acquire all remaining shares of Avimo at the price of S\$ 3.71 per share. By January 9, 2001, Thales held 50.7% of Avimo's fully diluted share capital, thus making the offer unconditional. Subsequently, ownership has increased to 93.7% as of February 28, 2001.

The company, still accounted for under the equity method as of December 31, 2000, will be fully consolidated as from January, 1, 2001.

- The owner of 50.1% in TMS, a JV created with GEC Marconi in 1996, Thales exercised on December 27, 2000 its call option to acquire the remaining 49.9% in the JV. Both partners had agreed initially that a change in ownership of either party would create, in favour of the second party, a call option to acquire the other's interest in the JV. Such a change resulted from the acquisition, in November 1999, of GEC's Marconi Electronic Systems activities by BAE Systems.

As agreed by both BAE Systems and Thales, the exercise period of this call option was postponed until November 29, 2000, for a further month. Thales exercised its option on December 27, 2000. A period of valuation thus began during which, Thales and BAE Systems will seek to agree a price for the 49.9% interest in TMS. Failing agreement, ownership will remain unchanged.

- In December 2000, Thales and Raytheon formed an equally owned transatlantic joint venture focused on air defense, command and control centers and ground-based radars. The transaction is subject to approval by the Committee on Foreign Investment in the United States, by French government, and by the appropriate antitrust enforcement agencies. The joint venture should be consolidated in 2001.

- **The main events, which occurred during 1999, were as follows:**

- Pursuant to the agreement on December 4, 1998 between Aerospatiale, Thales, Alcatel and Lagardère Groupe, Aerospatiale undertook to sell on its 50% stake in ATEV (the parent company of Sextant Avionique) to Thales. As this transaction, which took effect on February 17, 1999, was followed by a Public Offer of Withdrawal followed by a Squeeze-Out Procedure relating to Sextant Avionique's shares, Thales owns, via ATEV, 100% of Sextant Avionique.
- At the end of 1998, Thales acquired a majority shareholding in Siemens Forsvarssystemer, which combines the Siemens group's defense activities in Norway. In November 1999, this shareholding was increased to 100%. This company, which has now become Thales Nortech, has been consolidated since January 1, 1999.
- In early January 1999, Sodeteg acquired Alcatel's subsidiary, Sogelerg Ingenierie, which specializes in industrial engineering for the building, infrastructure and transport sectors.
- In early February 1999, Thales reduced its shareholding in Indra Sistemas to 10.5% by selling 14.5% of the 25% it held in Indra Sistemas to two Spanish financial investors. This transaction, which aimed to facilitate the privatization of the Spanish group, was accompanied by a strengthening of the cooperation between Thales and the Spanish company, with the agreement signed between the two partners in late 1998 confirming Thales's role as Indra Sistemas' prime industrial shareholder.

This increased influence justifies the Spanish company continuing to be accounted for under the equity method in Thales's consolidated financial statements.

- In February 1999, Thales's shareholding in African Defense System was increased from 50% to 80%. This subsidiary, which in the past was accounted for under proportionate consolidation, has been fully consolidated since January 1, 1999.
- In March 1999, Thales sold its US computer services subsidiary Syseca Inc to US company, Harmon Industries Inc.
- At the end of September 1999, Thales acquired a 24.9% stake in Singapore Optronics company Avimo, which specializes in manufacturing optronics components, equipment and systems for military and civil use. Pursuant to agreements entered into with the transferor, Thales has the possibility of increasing its stake in Avimo to 42% (note 22). This company has been accounted for under the equity method since December 31, 1999.
- In October 1999, Sextant Avionique increased its stake in Sextant In-Flight Systems to 100% having acquired 51% at the beginning of the year. This company's business is in-flight aircraft multimedia and it was previously owned by US company BE Aerospace.

• Restated operating profit

In order to improve comparability, 2000 and 1999 income statements have been restated as follows :

	2000	Less companies acquired*	2000 Restated	1999	Less companies sold**	Changes in exchange rates***	1999 Restated
Sales	8,579.6	(1,169.5)	7,410.1	6,889.5	(135.5)	119.2	6,873.2
Cost of sales	(6,517.4)	861.7	(5,655.7)	(5,176.6)	93.1	(90.0)	(5,173.5)
Research and development expenses	(397.1)	56.1	(341.0)	(420.6)	7.6	(4.4)	(417.4)
Marketing and selling expenses	(717.1)	80.6	(636.5)	(621.7)	18.2	(10.4)	(613.9)
General and administrative expenses	(386.9)	91.2	(295.7)	(280.8)	10.4	(7.0)	(277.4)
Operating profit	561.1	(79.9)	481.2	389.8	(6.2)	7.4	391.0

* Companies acquired in 2000 are excluded from 2000 restated income statement and companies acquired during 1999 are consolidated in order to impact 2000 results for the same period they have been consolidated in 1999 accounts.

** Companies sold in 1999 are excluded from 1999 results and companies sold during 2000 are consolidated in order to impact 1999 results for the same period they have been consolidated in 2000 accounts.

*** 1999 results are restated at 2000 average exchange rates.

3. Statement of changes in balance sheet from December 31, 1998 to December 31, 2000

Since non-cash transactions are excluded from the statement of cash flows, a supplementary schedule is necessary to present a complete reconciliation between opening and closing balance sheets, and to appropriately disclose effects of changes in the reporting entity and of foreign exchange differences. This schedule is shown hereafter.

	Shareholders' equity and minority interests	Reserve for retirement indemnities	Debt	Accounts and notes payable	Advances received from customers on contracts	Other current assets and liabilities	Fixed assets	Inventories	Accounts and notes receivable	Advances to suppliers	Cash and cash equivalents
Balance sheet as of 12/31/98	2,380.1	138.0	549.4	1,195.8	2,939.4	1,820.2	(2,331.5)	(3,176.9)	(2,076.7)	(413.6)	1,024.2
Cash flows											
Cash flows from operating activities	86.7	(223.3)	-	97.1	948.2	17.5	348.9	(6.0)	(371.4)	(418.7)	479.0
Cash flows from investing activities	187.6	-	-	-	-	(5.6)	(993.2)	-	-	-	(811.2)
Cash flows from financing activities	(147.4)	-	(53.7)	-	-	-	-	-	-	-	(201.1)
Changes in marketable securities	-	-	-	-	-	132.6	-	-	-	-	132.6
Non-cash transactions											
Changes in the reporting entity	(145.4)	114.2	(9.4)	39.5	12.5	(13.8)	54.1	(12.7)	(26.8)	(1.2)	11.0
Changes in exchange rates	19.5	19.8	10.3	46.5	35.5	39.0	(67.7)	(45.0)	(33.5)	(2.1)	22.3
Reclassifications	-	(7.4)	(25.4)	-	-	28.5	4.3	-	-	-	-
Other	(1.7)	-	-	-	-	1.7	-	-	-	-	-
Balance sheet as of 12/31/99	2,379.4	1,296.0	471.2	1,378.9	3,935.6	765.4	(2,985.1)	(3,240.6)	(2,508.4)	(835.6)	656.8
Cash flows											
Cash flows from operating activities	25.3	(129.3)	-	(130.3)	1917.0	431.7	510.9	12.2	(2,448.1)	349.9	539.3
Cash flows from investing activities	176.6	(0.2)	-	-	-	(30.2)	(2,486.1)	-	-	-	(2,339.9)
Cash flows from financing activities	(148.2)	-	2,422.8	-	-	-	-	-	-	-	2,274.6
Changes in marketable securities	-	-	-	-	-	58.2	-	-	-	-	58.2
Non-cash transactions											
Impact of RACAL acquisition	-	77.2	234.7	148.9	64.3	32.7	303.1	(218.2)	(355.2)	(5.3)	282.2
Other changes in the reporting entity	(5.9)	82.7	18.7	145.8	90.7	(64.4)	(441.4)	(55.1)	(46.0)	(5.1)	(280.0)
Changes in exchange rates	7.6	(2.8)	59.0	6.5	(16.5)	16.7	(68.2)	(2.9)	(6.8)	4.2	(3.2)
Reclassifications	-	(21.9)	36.5	-	-	(12.0)	(2.6)	-	-	-	-
Other	(2.9)	-	-	-	-	2.9	-	-	-	-	-
Balance sheet as of 12/31/00	2,431.9	197.1	3,242.9	1,549.8	5,991.1	2,305.6	(5,169.4)	(3,504.6)	(5,364.5)	(491.9)	1,188.0

4. Information by segment

Thales provides electronics, systems and services based on advanced technologies such as signal processing, complex system management and information system integration.

Its activities are organized in three broad categories: Defense, Aerospace and Information Technologies & Services, which have different development cycles and serve different markets.

2000	Defense	Aerospace	IT & S	Other and eliminations (a)	Total Thales
Consolidated sales	4,934.1	1,550.3	2,058.3	36.9	8,579.6
Inter-business area sales	92.0	50.9	229.2	(372.1)	-
Total sales	5,026.1	1,601.2	2,287.5	(335.2)	8,579.6
Consolidated order backlog (unaudited)	14,135.5	2,414.2	1,794.7	21.5	18,365.9
Consolidated orders (unaudited)	5,298.8	1,863.2	2,072.5	34.9	9,269.4
Operating profit	336.7	83.1	141.3	-	561.1
Working capital requirement	(493.4)	185.9	523.9	257.3	473.7
Employees (end of period)	28,781	9,165	17,698	1,668	57,312

1999	Defense	Aerospace	IT & S	Other and éliminations (a)	Total Thales
Consolidated sales	3,816.1	1,391.4	1,615.1	66.9	6,889.5
Inter-business area sales	105.0	43.4	235.0	(383.4)	-
Total sales	3,921.1	1,434.8	1,850.1	(316.5)	6,889.5
Consolidated order backlog (unaudited)	12,713.7	1,815.5	844.3	54.5	15,428.0
Consolidated orders (unaudited)	4,694.6	1,601.2	1,575.0	71.3	7,942.1
Operating profit	242.6	48.0	95.7	3.5	389.8
Working capital requirement	(295.5)	234.0	328.0	67.3	333.8
Employees (end of period)	24,495	8,679	14,184	1,564	48,922

- (a) Column "Other and eliminations" corresponds to the elimination of flows between the three business areas and includes data concerning corporate activities except for the operating profit, which is reallocated to each business area.

Sales by geographic areas

- Thales sales by geographic areas of destination (directly or indirectly as a subcontractor) are analysed below :

	2000	1999	1998
France	2,245.1	2,204.3	1,899.8
United Kingdom	970.4	569.2	506.5
Other European countries	1,894.0	1,651.1	1,190.0
North America	861.4	616.5	598.8
Africa and Latin America	264.0	253.7	213.0
Middle East	1,193.7	911.0	763.3
Asia and Indian subcontinent	1,029.1	586.3	878.4
CIS and Central Asia	121.9	97.4	125.0
Total	8,579.6	6,889.5	6,174.8

- The main customer is French Ministry of Defense and public entities (including subcontracts) which represents sales amounting to €1,480.0 million, €1,508.0 million and €1,337.6 million respectively in 2000, 1999 and 1998.

Information related to employees

	2000	1999	1998
Employees (end of period)*	57,312	48,922	48,850
Personnel expenses (In millions of €)	3,084.1	2,743.0	2,457.5

* Including in 2000, 8,457 people from the acquisition of Racal Electronics Plc.

In 1999, this figure excludes ADI (2,756 people employed in the joint venture altogether). Excluding the effect of changes in the reporting entity, the workforce was decreased by 1,361 between 12/31/1998 and 12/31/1999.

5. Financial income (expense)

Financial income (expense), amounting to €(109.3) million, €(0.4) million and €(6.0) million respectively in 2000, 1999 and 1998, is analysed below :

a) Interest income (expense), net:

	2000	1999	1998
Interest income :			
- on financial receivables*	36.1	53.4	63.4
- on interest rate swaps	46.0	27.9	57.6
	82.1	81.3	121.0
Interest expense :			
- on financial payables*	(150.1)	(60.1)	(64.3)
- on interest rate swaps	(45.4)	(23.9)	(45.6)
	(195.5)	(84.0)	(109.9)
Total	(113.4)	(2.7)	11.1

* Including interest income on cash and cash equivalents, and marketable securities, and the gain or loss on disposal of marketable securities.

Unrealized gains on marketable securities amount to €7.1 million at the end of 2000, €6.6 million at the end of 1999 and €5.6 million at the end of 1998.

b) Other financial income (expense), net :

	2000	1999	1998
Exchange gains	65.7	28.7	21.2
Exchange losses	(62.7)	(24.1)	(23.2)
Exchange income (expense)	3.0	4.6	(2.0)
Interest income on non-financial receivables	10.8	7.9	12.0
Dividends received	7.0	4.7	7.0
Share in income of Economic Interest Grouping	(1.1)	(0.5)	(0.6)
Interest expense on non-financial payables	(2.9)	(5.9)	(6.9)
Allowance on investments and securities	(3.1)	(6.5)	(9.7)
Debt forgivenesses	(1.4)	(0.8)	(7.6)
Other	(8.2)	(1.2)	(9.3)
Total	4.1	2.3	(17.1)

6. Restructuring costs, other income (expense) and gain on disposal of non operating assets

		2000	1999	1998
Restructuring costs	(a)	(79.8)	(69.8)	(313.9)
Gain (loss) on disposal of fixed assets	(b)	145.9	10.3	(35.5)
Other	(c)	(29.4)	(54.4)	(88.3)
Other income (expense)		116.5	(44.1)	(123.8)
Gain on disposal of Crédit Commercial de France	(d)	27.3	99.5	-
Gain on partial disposal of Indra		-	62.0	-
Gain on disposal of non operating assets		27.3	161.5	-

- (a) **The restructuring costs** include dismissal costs and write-off of fixed assets and inventories, net of reversals, the latter being the use of reserves for the year

In 1998, significant reorganisation decisions were taken concerning a number of subsidiaries. The costs corresponding to the planned measures have been estimated, and the required accruals reported on the balance sheets of the related subsidiaries.

The nature of the costs involved is as follows :

1. Direct and indirect social costs :

- Direct social costs are principally costs of legal or contractual dismissal indemnities in the case of redundancy schemes, transactional amounts in the case of individual measures or, in the case of a transfer of business activity, allowances paid, under certain conditions, to employees accepting such transfer,
- Indirect social costs correspond to wages and salaries paid to the employees concerned, for their period of anticipated non-activity (in particular in the case of a notice period not applied).

2. Other costs include :

- depreciation for tangible assets, covering the net book value at December 31, 1998 of tangible assets considered as non-reusable as a result of restructuring decisions,
- direct removal costs corresponding to external services planned in connection with these operations,
- other costs principally concerning external training of personnel scheduled to leave the company, and also counselling assistance (assistance looking for new employment).

- (b) **Principal capital gains and losses:**

- In 2000, the sale of Crouzet Automatismes (€127.9 million), the sale of the 60% share in Thomson-CSF Semiconducteurs Spécifiques (€3.1 million) and the sale of Berenisce (€2.2 million).
- In 1999, the sale of Syseca Inc. (€3.7 million).
- In 1998, the sale of Thomson Passive Components (€ -14.5 million), Aonix (€ -9.5 million), as well as 16.66% of ATEV (€ -10.7 million).

- (c) Including principally :

- In 2000, the organisation and communication of the name change (€15.2 million).
- In 1999, the additional amount to be borne by Thales within the context of the employee stock ownership plan connected to the decrease of the French State interest in the capital of Thales (€ -19.4 million).
- In 1998, the additional amount borne by Thales in connection with employee shareholding, and corresponding costs (€ -15.7 million) and accruals relating to excess costs for the year 2000 and transition to the Euro (€ -52.4 million) but excluding eventual future expenses which the Group will bear in connection with its normal activities.

- (d) Additional price related to 1999 disposal has been received in 2000.

7. Income tax

Income tax calculation takes into account specific local tax rules used by Thales, such as tax integration system in France, Group relief in Great Britain, tax consolidation in the USA and "Organschaft" in Germany.

• Analysis of the tax charge :

	2000	1999	1998
Currently payable	(44.5)	(30.9)	(33.4)
Deferred tax	(28.1)	(43.8)	68.6
Total	(72.6)	(74.7)	35.2

• Reconciliation of the tax charge :

The difference between the theoretical tax expense and the actual net tax expense is broken down as follows :

	2000	1999	1998
Net income (loss)	201.9	274.5	(233.3)
Income tax	72.6	74.7	(35.2)
Less : equity in income of unconsolidated affiliates (note 11)	80.5	1.5	16.3
Pre-tax income/(loss)	355.0	350.7	(252.2)
Average tax rate *	34.9 %	37.9 %	36.6 %
Theoretical tax income/(expense)	(123.9)	(133.0)	92.3
Reconciliation :			
Permanent differences and transactions subject to lower tax rates **	64.4	69.8	(33.4)
Change in accrual on deferred income tax assets	(11.2)	(11.9)	(15.8)
Tax credits	1.0	2.1	4.6
Other ***	(2.9)	(1.7)	(12.5)
Actual net tax income/(expense)	(72.6)	(74.7)	35.2

* Average income tax rate is the sum of income before taxes multiplied by the local statutory rate for each subsidiary, divided by consolidated income before taxes and equity in income of unconsolidated affiliates.

** The permanent differences correspond primarily to non-deductible goodwill amortization and capital gains taxed at lower rates.

*** Principally specific foreign taxation and lower rates income tax.

• Deferred tax assets and liabilities :

"Other debtors and prepaid expenses" and "Other creditors and accrued liabilities" shown on the balance sheet include, respectively, the following amounts :

	12/31/00	12/31/99	12/31/98
Impôt différé actif :			
. Gross	668.0	627.2	637.7
. Allowance (a)	(374.5)	(440.3)	(438.9)
Net deferred tax assets	293.5	186.9	198.8
. Deferred tax liabilities	(11.2)	28.7	27.1
Deferred tax assets, net (b)	282.3	158.2	171.7

(a) See note 19 for analysis of allowance evolution.

(b) Includes respectively €224.5 million, €74.6 million and €53.5 million of tax loss carry forward.

8. Earnings per share

Earnings per share were calculated by dividing net income, Group share, by the weighted pro rata temporis average of the number of outstanding shares during the relating periods.

Primary and fully diluted earnings per share do not differ (note 16b).

	2000	1999	1998
Earnings per share (in euros)	1.21	1.65	(1.6)
Average number of outstanding shares (in thousands)	165,810	166,547	144,566

9. Fixed assets

	Gross	12/31/00 Amortization	Net	12/31/99 Net	12/31/98 Net
Intangible fixed assets:					
Goodwill (note10)	3,489.8	746.4	2,743.4	974.3	524.3
Patents and trademarks	99.1	57.5	41.6	39.9	36.6
Other (a)	241.1	141.7	99.4	90.4	57.0
Total	3,830.0	945.6	2,884.4	1,104.6	617.9
Property, plant and equipment :					
Land	124.0	2.8	121.2	119.7	113.1
Buildings	1,297.2	562.1	735.1	581.9	582.8
Plant and equipment	1,859.8	1,337.5	522.3	304.8	254.9
Other	508.2	275.3	232.9	238.7	181.2
Total	3,789.2	2,177.7	1,611.5	1,245.1	1,132.0
Out of which items acquired under the terms of capital lease agreements :					
Land	26.7	-	26.7	26.2	23.6
Buildings	243.6	119.9	123.7	131.4	92.0
Plant and equipment	16.2	15.0	1.2	2.6	0.5
Other	-	-	-	-	-
Total	286.5	134.9	151.6	160.2	116.1

(a) Including development costs amounting to €40.3 million as of December 31, 2000 compared to €35.5 million as of December 31, 1999 and €42.2 million as of December 31, 1998. The changes in net development costs for 2000 are as follows:

	Net 12/31/99	Recorded as assets	Amortization	Write-off	Net 12/31/00
Development costs	35.5	12.5	(5.7)	(2.0)	40.3

Economic lives used in computing depreciation are as follows :

- 20 years for buildings,
- 1 to 10 years for plant and equipment,
- 5 to 10 years for other fixed assets (transport equipment, fixtures, etc.).

Maintenance and repair expenses in 2000, 1999 and 1998 amounted to €106.4 million, €122.7 million and €105.0 million respectively.

10. Goodwill and badwill

a) Goodwill

Acquisition goodwill on subsidiaries and associated companies is analysed below :

	Maximum depreciation (years)	12/31/00			12/31/99	12/31/98
		Gross	Amortization	Net	Net	Net
Racal Electronics Plc	20	1,449.3	36.2	1,413.1	-	-
Former Philips defense activities	20	518.0	284.6	233.4	259.3	285.2
Sextant Avionique	20	329.2	35.7	293.5	305.8	17.0
Thomson Training & Simulation Ltd	20	194.4	153.8	40.6	44.2	45.4
Former Alcatel, Dassault and Aerospatiale, defense/space activities (note 10c)	20	139.9	17.6	122.3	137.1	57.1
Other computer activities	5 to 20	109.2	39.0	70.2	33.6	6.1
ADI Ltd	20	108.3	5.9	102.4	-	-
Shorts Missile Systems SMS	20	106.2	9.4	96.8	6.3	6.7
Samsung	20	75.1	3.5	71.6	-	-
Former ABB group activities	20	61.1	56.8	4.3	4.7	5.0
CGA Transport	20	60.7	-	60.7	-	-
Pilkington Optronics	20	53.7	12.4	41.3	38.4	38.5
Avimo	20	40.7	2.0	38.7	40.7	-
Airsys/ATM	20	34.6	14.4	20.2	16.1	18.2
Ingeniera Subacuatica SA de CV	20	21.0	-	21.0	-	-
Sage	20	19.8	-	19.8	-	-
Elettronica S.p.A.	20	19.1	3.8	15.3	16.2	17.3
Other	-	149.5	71.3	78.2	71.9	27.8
Total		3,489.8	746.4	2,743.4	974.3	524.3

- In 2000, the change in goodwill gross amount and accumulated amortization are set forth in the tabulations below :

	Gross value			12/31/00
	12/31/99	Acquisitions	Other movements	
Racal Electronics Plc	-	1,449.3	-	1,449.3
Former Philips defense activities	518.0	-	-	518.0
Sextant Avionique	343.9	(a) 18.3	(b) (33.0)	329.2
Thomson Training & Simulation Ltd	194.4	-	-	194.4
Former Alcatel, Dassault and Aerospatiale defense/space activities (note 10 c)	148.2	-	(e) (8.3)	139.9
Other computer activities	67.7	(c) 43.2	(1.7)	109.2
ADI Ltd	-	108.3	-	108.3
Shorts Missile Systems SMS	10.4	95.8	-	106.2
Samsung	-	75.1	-	75.1
Former ABB group activities	61.1	-	-	61.1
CGA Transport	-	60.7	-	60.7
Pilkington Optronics	48.2	5.6	(0.1)	53.7
Avimo	40.7	-	-	40.7
Airsys/ATM	29.4	(d) 5.2	-	34.6
Ingeniera Subacuatica SA de CV	-	21.0	-	21.0
Sage	-	19.8	-	19.8
Elettronica S.p.A.	19.1	-	-	19.1
Divers	119.8	(f) 25.4	4,3	149.5
Total	1,600.9	1,927.7	(38.8)	3,489.8

(a) Acquisition of 49% interest in Diehl Avionik

(b) Including disposal of Crouzet (€ - 76.6 million) and reclassification from intangible asset to goodwill,

(c) Including acquisition of SGD (€18.7million), RIB (€15.1 million), Horizon (€4.4 million) and additional price on Syseca Suisse (€4.5 million),

(d) Increase by 6.65% of Thales interests in ATM, further to ANS restructuring,

(e) Impact of modifications on the balance sheets of companies acquired in 1998,

(f) Including acquisition of Quintec (€11.5 million), Faceo (€7.0 million) and MLR Electronique (€4.5 million).

	12/31/99	Amortization		12/31/00
		2000 Charges	Other movements	
Racal Electronics Plc	-	36.2	-	36.2
Former Philips defense activities	258.7	25.9	-	284.6
Sextant Avionique	38.1	19.1	(a) (21.5)	35.7
Thomson Training & Simulation Ltd	150.2	3.6	-	153.8
Former Alcatel, Dassault and Aerospatiale defense/space activities (note 10 c)	11.1	6.5	-	17.6
Other computer activities	34.1	5.4	(0.5)	39.0
ADI Ltd	-	5.7	0.2	5.9
Shorts Missile Systems SMS	4.1	5.3	-	9.4
Samsung	-	3.9	(0.4)	3.5
Former ABB group activities	56.4	0.4	-	56.8
Pilkington Optronics	9.8	2.6	-	12.4
Avimo	-	2.0	-	2.0
Airsys/ATM	13.3	1.1	-	14.4
Elettronica S.p.A.	2.9	0.9	-	3.8
Other	47.9	(b) 23.1	0.3	71.3
Total	626.6	141.7	(21.9)	746.4
Reversal of badwill in 2000		(2.3)		
Net allocation in 2000		139.4		

(a) Including disposal of Crouzet (€ -21.1 million),

(b) Including write-off of goodwill recorded on Nortech (€16.1 million).

- Changes in acquisition goodwill and related amortization on subsidiaries and associated companies for 1999 were as follows:

	12/31/98	Gross value		12/31/99
		Acquisitions	Other movements	
Former Philips defense activities	518.0	-	-	518.0
Sextant Avionique	39.6	(a) 304.3	-	343.9
Thomson Training & Simulation Ltd	192.0	-	2.4	194.4
Former Alcatel, Dassault and Aerospatiale defense/space activities (note 11c)	58.5	-	(c) 89.7	148.2
Other Computer Activities	37.7	(b) 31.8	(1.8)	67.7
Former ABB group activities	61.1	-	-	61.1
Pilkington Optronics	45.4	-	2.8	48.2
Avimo	-	40.7	-	40.7
Airsys/ATM	30.5	-	(1.1)	29.4
Elettronica S.p.A	19.1	-	-	19.1
Shorts Missile Systems SMS	10.4	-	-	10.4
Other	61.6	(d) 59.6	(1.4)	119.8
Total	1,073.9	436.4	90.6	1,600.9

	12/31/98	Amortization		12/31/99
		1999 Charge	Other movements	
Former Philips defense activities	232.8	25.9	-	258.7
Sextant Avionique	22.6	15.5	-	38.1
Thomson Training & Simulation Ltd	146.6	3.6	-	150.2
Former Alcatel, Dassault and Aerospatiale defense/space activities (note 11c)	1.4	9.7	-	11.1
Other Computer Activities	31.6	6.3	(3.8)	34.1
Former ABB group activities	56.1	0.3	-	56.4
Pilkington Optronics	6.9	2.3	0.6	9.8
Airsys/ATM	12.3	1.0	-	13.3
Elettronica S.p.A	1.8	1.1	-	2.9
Shorts Missile Systems SMS	3.7	0.4	-	4.1
Other	33.8	13.6	0.5	47.9
Total	549.6	79.7	(2.7)	626.6
Reversal of badwill in 1999		(2.4)		
Net allocation in 1999		77.3		

(a) Including acquisition of 50% interest in ATEV (€198.5 million) and acquisition of Sextant In-Flight Systems (€105.8 million),

(b) Including acquisition of Syseca Switzerland (€24.8 million) and Sogelerg (€7.0 million),

(c) Impact of modifications on the opening balance sheets of companies acquired in 1998,

(d) Including acquisition of Nortech (€16.6 million), Thales Belgium (€9.5 million), and additional acquisition of Thomson Tubes Electroniques (€6.3 million).

b) Badwill

"Other creditors and accrued liabilities" includes deferred revenues representing badwills analysed below :

	Gross	12/31/00 Amortization	Net	12/31/99 Net	12/31/98 Net
Thomson Marconi Sonars	35.6	8.1	27.5	29.5	31.0
Armaments and Propulsion	6.7	2.0	4.7	5.0	5.3
Other	5.6	1.6	4.0	4.4	2.7
Total	47.9	11.7	36.2	38.9	39.0

c) Goodwill charged against shareholders' equity

Goodwill relating to Alcatel, Dassault and former Aerospatiale 1998 contributions (see 1998 reference document), and remunerated by new Thales shares issued in June 1998, has been charged against Group shareholders' equity to the extent of the share premium resulting from these transactions.

As of December 31, 2000, this goodwill is broken down as follows :

	12/31/00	12/31/99	12/31/98
Defense Activities	680.1	691.1	626.4
Space Activities	818.5	818.5	793.5
Total	1,498.6	1,509.6	1,419.9
Allocation to shareholders' equity	(1,358.7)	(1,361.4)	(1,361.4)
Goodwill accounted for as an asset*:	139.9	148.2	58.5
Cash acquisition of Dassault Electronique shares from minority interests	22.4	22.4	21.6
Part of goodwill exceeding the share premium	117.5	125.8	36.9

If the goodwill had been recorded as an asset, and amortized over a period of 20 years, the additional amortization charge of goodwill would have amounted to €67.7 million for 2000, €68.1 million for 1999 and €34.0 million for the second half of 1998.

11. Equity in unconsolidated affiliates

Companies in which Thales exercises significant influence, directly or indirectly, but which it does not control (excluding joint ventures), are carried under the equity method.

The share of Thales in the equity and income of these companies, after consolidation adjustments, is summarized below :

		% owned at Dec. 31			Investment at Dec. 31			Equity income		
		2000	1999	1998	2000	1999	1998	2000	1999	1998
Alcatel Space	(a)	49	49	49	78.4	169.5	211.6	(91.1)	(4.9)	(7.0)
Amper Programas		49	49	49	6.7	5.8	4.4	2.3	2.0	0.3
Avimo		25	25	-	18.9	15.7	-	3.7	-	-
Camelot plc	(b)	27	-	-	67.7	-	-	10.4	-	-
Elettronica		33	33	33	6.1	5.5	4.6	0.7	0.8	0.3
Gecat		34	-	-	40.8	-	-	0.6	-	-
Global Telematics	(b)	50	-	-	(4.4)	-	-	(2.5)	-	-
Indra Sistemas		11	11	25	14.0	10.7	22.4	3.3	2.9	5.5
TCl Compensation		40	40	40	2.9	1.7	0.3	1.2	1.4	(9.1)
Stesa		49	49	49	(3.8)	2.0	(3.5)	(12.2)	(4.1)	(6.3)
Other		-	-	-	0.8	2.1	7.9	3.1	0.4	-
Total					228.1	213.0	247.7	(80.5)	(1.5)	(16.3)

(a) Thales's interest in Alcatel Space amounts to 49%, of which 2.7% is held through its subsidiary Sextant Avionique. In 1998, as the contributions were made as of June 22, only restated income for the second half of 1998 is consolidated in the financial statements of the Group.

(b) Affiliates of ex Racal Electronics Plc are included in Thales equity income as from July 1, 2000.

12. Other investments and loans

a) Other investments

		12/31/00	12/31/99	12/31/98
		Net	Net	Net
ADI Ltd	(a)	-	116.3	-
Crédit Commercial de France		-	-	20.7
Embraer	(b)	75.6	66.3	-
Investments held by Thales Corporate Ventures	(c)	43.2	19.5	41.9
Other (individual net value less than €15.0 million)		112.6	52.0	57.7
Total		231.4	254.1	120.3

(a) ADI Ltd has been accounted for under the proportionate consolidation method as of January 1, 2000.

(b) Corresponds to an investment of 5.7 % in the common stock of Embraer, in October 1999.

(c) As of December 31, 1998, corresponds to investment in "Thales Corporate Ventures", as the company has been consolidated on January 1, 1999.

b) Loans

Loans include essentially loans to financial institutions and partners (€53.1 million, €53.5 million and €146.2 million as of December 31, 2000, 1999 and 1998 respectively) as well as the loan to a company holding ADI Ltd shares (€37.6 million in 2000 and €40.8 million in 1999).

13. Inventories and work-in-progress

	12/31/00	12/31/99	12/31/98
Raw materials	569.3	340.4	342.6
Work in-progress and costs on contracts in process	2,810.8	2,676.9	2,649.6
Semi-finished and finished products	608.2	624.9	577.3
Finished goods for resale	117.6	108.8	64.3
Total, gross	4,105.9	3,751.0	3,633.8
Less valuation allowance (note 19)	(601.3)	(510.4)	(456.9)
Total, net	3,504.6	3,240.6	3,176.9

14. Related parties transactions

In addition to information on this subject set forth in other notes, the principal transactions between Thales and related parties are summarized below :

a) Cooperation agreement

On November 5, 1999, Thales and Alcatel announced the strengthening of the strategic partnership between the two companies, which had been announced in principle in July 1999. Cooperation was broadened in 5 fields : military networks using Internet protocols, digital television and radio broadcasting, microwave microelectronics, payment electronics and cryptology. The industrial agreement of April 1998 was adapted to this new situation as of November 18, 1999.

b) Current accounts

Current accounts receivable from affiliated companies primarily relate to joint ventures (€29.1 million as of December 31, 2000, €7.0 million as of December 31, 1999 and €9.5 million as of December 31, 1998).

Current accounts payable to affiliated companies primarily relate to Thomson S.A. (€39.6 million as of December 31, 2000, €8.2 million as of December 31, 1999 and €143.1 million as of December 31, 1998) and Thales Ventures (€22.4 million as of December 31, 1998), consolidated in 1999.

c) Sales to related parties

Sales and purchases to and from affiliated companies that are included in the financial statements of the group represent non-significant amounts, with the exception of: sales to the Dassault Group, made by Thales Avionics S.A. and Thales Systèmes Aéroportés S.A. which amount to €121.0 million in 2000 (€122.0 million in 1999).

d) Acquisition of CGA Transport

In December 2000, Thales acquired Alcatel's transport ticketing activities (see note 2).

15. Marketable securities

	12/31/00	12/31/99	12/31/98
Negotiable notes	0.3	5.6	45.7
Medium term notes	101.1	97.9	106.1
Mutual funds	-	48.9	106.7
Other	0.8	-	2.5
Total *	102.2	152.4	261.0

* Excludes unrealized capital gains which are not recorded in the accounts (€7.1 million, €6.6 million and €5.6 million respectively at the end of 2000, 1999 and 1998 - see note 5a).

These notes, the initial maturity of which is over 3 months, are excluded from cash equivalents.

16. Shareholders' equity

a) Common stock

- The Board of Directors duly authorised by the shareholders general meeting, decided on May 10th, 2000, to convert the common stock into Euros. The common stock of Thomson-CSF consequently amounts to €503,194,539 divided into 167,731,513 shares of €3.0 nominal value, compared to 167,731,513 shares of FRF 20 par value as of December 31, 1999 and December 31, 1998.
- The transfer of 9.45% of Thomson-CSF capital stock from the public sector to Alcatel, finalised in December 1999, allowed the French State to offer the employees and former employees of Thomson-CSF and its subsidiaries an opportunity to buy Thomson-CSF shares under favourable terms, in accordance with articles 11 and 12 of the law dated August 6, 1986. Shares made available for this offer represented one-ninth of the shares transferred to Alcatel and thus totalled 1,761,181 shares or 1.05% of the capital stock. The reference price was set up at €36.0 per share, the price paid by Alcatel to the French State. This offer was made available from March 30 to April 12, 2000. Pursuant to this operation, the French State's direct holding in Thomson-CSF consists of one "golden share" and 2,021 shares ultimately not attributed to employees.
- The "golden share" carries the following rights :
 - prior approval by the Minister for the Economy for any increase over a direct or indirect ownership ceiling, representing one or a multiple of one tenth of the capital or voting rights in the company, by an individual or legal entity, whether acting alone or in concert ;
 - appointment by decree, at the proposal of the Ministry of Defense, of a permanent State representative as a member of the Board in a non voting capacity ;
 - right of the Minister for the Economy to veto any decisions relating to transfer or assignment for purposes of guarantee, of assets listed in the appendix to decree n°97-190 of March 4, 1997.
- Each share confers on its holder the right to one vote, except that holders of registered shares who are nationals of France or a member state of the European Economic Community have two votes per share for shares registered for at least two consecutive years. As of June 26, 2000, total double-voting rights amounted to 248,361,845.

b) Outstanding securities giving their holders access to the Company's capital

As of December 31, 2000, there are no outstanding securities giving their holders access to the company's capital.

c) Ownership of capital

		12/31/00		12/31/99		12/31/98	
		Number of shares	In %	Number of shares	In %	Number of shares	In %
Public	(a)	57,663,957	34.37%	55,904,797	33.33%	57,784,149	34.45%
French State	(b)	55,992,344	33.38%	57,751,504	34.43%	67,150,928	40.03%
Thomson-CSF	(c)	1,921,730	1.15%	1,921,730	1.15%	-	-
Aerospatiale	(d)	-	-	-	-	6,493,582	3.87%
Alcatel		42,413,109	25.29%	42,413,109	25.29%	26,562,481	15.84%
Groupe Industriel Marcel Dassault		9,740,373	5.81%	9,740,373	5.81%	9,740,373	5.81%
Total		167,731,513	100.00%	167,731,513	100.00%	167,731,513	100.00%

- (a) Including shares held by employees directly or via mutual funds.
- (b) Indirectly, via 100% State-owned companies (Thomson S.A. 32.74% and SOGEP A 0.64%) and including one directly-owned golden share.
- (c) Treasury shares.
- (d) Transfer of stake held by Aerospatiale to the French State, Sogepa and a group of institutional shareholders, within the scope of the privatization of Aerospatiale.

d) Paid-in surplus and retained earnings

	12/31/00	12/31/99	12/31/98
Paid-in surplus	1,342.9	1,340.2	1,340.2
Retained earnings	741.3	685.2	503.2
	2,084.2	2,025.4	1,843.4
Paid-in surplus included in common stock	(97.4)	(97.4)	(97.4)
Total	1,986.8	1,928.0	1,746.0

e) Cumulative translation adjustment

This item reflects, the exchange differences arising from the translation of the financial statements of foreign subsidiaries. The principal closing and average currency rates used for translation purposes are summarized in the table set forth in note 1b.

As of December 31, 2000, the cumulative translation adjustment shown in the shareholders' equity related to the Euro zone currencies amounted to € -1.4 million compared to € -1.7 million as of December 31, 1999 and € -1.7 million as of December 31, 1998.

f) Revaluation reserve

This item represents the Company's share in the revaluation reserves related to tangible fixed assets and investments in unconsolidated affiliates.

g) Treasury stock

As of December 31, 2000, the treasury stock (1,921,730 shares for an amount of €56.3 million) unchanged since December 31, 1999, were subtracted from consolidated shareholders' equity.

17. Minority interests

		12/31/00	12/31/99	12/31/98
Sextant Avionique	(a)	-	-	144.2
Thomson-Tubes Electroniques	(b)	-	-	5.9
Pilkington Optronics	(c)	-	5.8	4.1
Other		6.9	6.7	3.6
Total		6.9	12.5	157.8

(a) As Thales acquired Aerospatiale's interest in ATEV early in 1999, the Sextant Group is wholly owned since this date.

(b) In 1999, Thales exercised its option to purchase Daimler-Benz AEG's interest in Thomson Tubes Electroniques.

(c) In March 2000, Thales's shareholding in Pilkington increased from 90% to 100%.

18. Accrued pension and retirement obligations

	12/31/00	12/31/99	12/31/98
Pension costs	120.2	91.0	88.2
Retirement obligations, net of external funded assets	76.9	83.7	49.8
Total	197.1	174.7	138.0

a) Pension plans

Upon retirement, Thomson-CSF employees receive such benefits as provided by pension plan arrangements; these plans conform with local regulations of the countries which the company operates. Accrued benefits have been accounted for.

In some countries (mainly in France), Thales pays contributions to governmental entities covering the costs of retirement benefits. Such contributions are charged to expense, when and as incurred.

b) Contractual retirement obligations and other

• Contractual retirement obligations

Mainly in France, contractual retirement obligations are due upon retirement, but only if the employee is on the Company's payroll at the time of retirement. Such obligations are based on the employee's level of compensation and seniority on the retirement date.

The assumptions relating to the discount rates and rates of increase in future salaries used to calculate the commitments were 5% and 2% in 2000, 1999 and 1998. The impact of changes in actuarial assumptions is spread over the mean residual period of the active life of the employees. As of December 31, 2000, there was an actuarial assumption variance of €38.9 million to be amortised over 15 years compared to €40.4 million as of December 31, 1999 and €24.4 million as of December 31, 1998.

	Reserve	less Fund	Net
January 1, 2000	166.5	(82.8)	83.7
Charge of the period	19.6	(3.9)	15.7
Restructuring	(18.5)		(18.5)
Change in the reporting entity	(4.9)	0.9	(4.0)
December 31, 2000	162.7	(85.8)	76.9
Charge of the period			2000
Service cost			9.9
Interest cost			11.7
Benefit paid			(3.1)
Expected return on plan assets			(3.9)
Amortization of actuarial loss/gain			1.1
Net			15.7

As of December 31, 2000, the provision was determined assuming a voluntary departure of the employee where his or her rights to pension benefits under French social regulations have been fully acquired.

In the event that employees are forced to retire by the employer, they are entitled to either a contractual retirement indemnity or a contractual dismissal indemnity. Provisions for such amounts in excess of the retirement obligations as determined above that become due in these circumstances are recorded as and when the corresponding dismissal decisions are taken.

Nonetheless, based on what has been observed in previous years, it appears that the number of voluntary retirements and forced retirements is significantly less than the assumption used for the retirement obligation determination because of the restructuring plans by the group. The scenario of the observations from previous years being repeated would have the effect of reducing to a negligible amount the obligation in respect of contractual retirement or dismissal indemnities as described above. However, the group would be required, as in the past, to pay dismissal indemnities which, in accordance with the group's accounting regulations, would be provided for as and when the restructuring decisions are taken.

• Early retirement indemnities

Early retirement indemnities are paid upon the early retirement of employees and are accrued in the period in which the decision of early retirement is made.

• Specific French obligations called "Médailles du travail"

Bonus paid in relation with "Médailles du travail" are charged to profit and loss account as and when incurred.

19. Valuation allowance, reserves relating to long-term contracts and other reserves

	Balance at beginning of period	Changes in reporting entity ex- -change rates and other	Charges to costs and expenses	Deductions	Balance at end of period
Valuation allowances					
December 31, 2000					
Investments and other non-current assets	148.0	37.1	13.4 *	-	198.5
Inventories	510.4	92.5	(1.6) *	-	601.3
Doubtful accounts	190.3	27.4	2.8 *	-	220.5
Deferred tax	440.3	(77.0)	11.2 *	-	374.5
December 31, 1999					
Investments and other non-current assets	118.6	18.4	11.0 *	-	148.0
Inventories	456.7	23.0	30.7 *	-	510.4
Doubtful accounts	179.2	6.6	4.5 *	-	190.3
Deferred tax	438.9	13.4	(12.0) *	-	440.3
December 31, 1998					
Investments and other non-current assets	118.9	(14.2)	13.9 *	-	118.6
Inventories	412.2	25.2	19.3 *	-	456.7
Doubtful accounts	180.7	12.3	(13.8) *	-	179.2
Deferred tax	356.4	0.5	82.0 *	-	438.9
Provisions on contracts and other reserves					
December 31, 2000					
Estimated losses on long-term contracts	218.2	17.8	148.1	(126.7)	257.4
Accrued costs on completed contracts	19.1	7.9	8.2	(6.8)	28.4
Accrued penalties claims	94.7	7.1	43.7	(33.8)	111.7
Litigation	104.4	(7.4)	52.2	(32.6)	116.6
Guarantees	165.6	9.2	58.0	(68.8)	164.0
Restructuring reserves	329.9	61.5	70.5	(230.5)	231.4
Other	189.4	20.0	77.8	(92.1)	195.1
Total	1,121.3	116.1	458.5	(591.3)	1,104.6
December 31, 1999					
Estimated losses on long-term contracts	281.7	18.3	38.2	(120.0)	218.2
Accrued costs on completed contracts	38.0	(19.4)	7.4	(6.9)	19.1
Accrued penalties claims	79.4	15.1	33.7	(33.5)	94.7
Litigation	107.6	9.0	29.9	(42.1)	104.4
Guarantees	174.2	15.1	41.4	(65.1)	165.6
Restructuring reserves	373.8	64.2	55.5	(163.6)	329.9
Other	200.0	(7.8)	84.7	(87.5)	189.4
Total	1,254.7	94.5	290.8	(518.7)	1,121.3
December 31, 1998					
Estimated losses on long-term contracts	281.4	11.4	80.7	(91.8)	281.7
Accrued costs on completed contracts	19.8	21.0	7.3	(10.1)	38.0
Accrued penalties claims	73.9	5.5	21.6	(21.6)	79.4
Litigation	99.5	8.7	39.3	(39.9)	107.6
Guarantees	162.7	7.6	63.5	(59.6)	174.2
Restructuring reserves	148.2	57.2	266.6	(98.2)	373.8
Other	150.7	18.3	95.6	(64.6)	200.0
Total	936.2	129.7	574.6	(385.8)	1,254.7

* Allocations net of reversals.

A subsidiary of Thales is currently litigating with one of its suppliers ; such litigation is presently subject to an arbitration the decision of which initially expected in the second semester 2000, has been postponed to the first quarter of 2001. The company is not currently in a position to estimate the outcome of this proceeding and the amount of such risk.

Moreover Thales and its subsidiaries are involved in a certain number of litigations and lawsuits in the ordinary course of their business. The Company considers that the risks that are not subject to accrual related to such litigations and lawsuits should not substantially impact the Group financial condition.

20. Other debt (short- and long-term)

None of the debt set forth below is collateralized except for capital lease obligations.

a) By category:

	12/31/00	12/31/99	12/31/98
Debt to financial institutions *	1,377.6	23.3	100.8
Commercial paper	757.5	–	–
Euro Medium Term Note (E.M.T.N.) **	500.0	–	–
Capital lease obligations	146.0	125.5	141.6
Bank overdrafts	145.9	56.9	46.5
Subordinated debentures	–	–	0.8
Total ***	2,927.0	205.7	289.7
Other debts ****	241.9	230.9	69.6
Total	3,168.9	436.6	359.3

* As of December 31, 2000, debt to financial institutions mainly includes a borrowing in £ subscribed for Racal Electronic Plc acquisition (equivalent to €1,293.9 million).

Thales and its subsidiaries have lines of credit with a certain number of banks, primarily in France.

The interest rates are calculated based on the basic bank rate or the monetary market rate

** E.M.T.N. of €500.0 million issued by Thales with maturity date on November 2005 at interest rate of 6.125%.

*** Among which, as of December 31, 2000, 35% are bearing fixed interest rate after impact of interest rate swaps.

**** Including, as of December 31, 2000, principally "loan notes" (£ 44.0 million, equivalent to €70.6 million) issued for Racal Electronics Plc acquisition and redeemable at the option of the holders before 2005.

Other debts also include Thales's share in the debt incurred by one of the local holding company set up by Thales and Transfield to acquire ADI Ltd (€55.2 million as of December 31, 2000 and €63.9 million as of December 31, 1999), deferred payments on acquisition price of companies purchased (€40.2 million as of December 31, 2000, and €41.5 million as of December 31, 1999) and borrowing from Thomson S.A. in 1999 (€80.0 million).

b) By maturity date :

	31/12/00	31/12/99	31/12/98
1999			142.1
2000		81.8	28.5
2001	2,239.8	19.8	26.7
2002	24.8	19.2	14.5
2003	23.1	13.6	77.9
2004	20.3	71.3	
2005 and after	619.0		
Maturities over one year	687.2	123.9	147.6
Total	2,927.0	205.7	289.7

c) By currency :

	31/12/00	31/12/99	31/12/98
Pound sterling	1,467.2	0.5	2.6
Euro	1,404.5	175.1	201.8
US dollar	50.4	20.9	21.6
New Zealand dollar	–	–	58.2
Other	4.9	9.2	5.5
Total	2,927.0	205.7	289.7

21. Statement of cash flows

a) Capital expenditures

Acquisition of fixed assets as part of financial lease arrangements is not presented in the statement of cash flows (€2.5 million in 2000, €2.9 million in 1999 and €0.3 million in 1998).

b) Net financial investments

1 Investments in subsidiaries and affiliated companies are broken down as follows:

	2000	1999	1998
Acquisition of Racal	(2,164.9)		
Acquisition of 50% Interests in Samsung	(118.9)		
Additional acquisition of Shorts Missile Systems (50%)	(111.1)		
Acquisition of CGA Transport	(78.0)		
Acquisition of Sage Holding AG	(22.2)		
Additional acquisition of Ingeniera Subacuatica Sa de CV	(24.1)		
Acquisition of Ressource Informatique Bancaire (RIB)	(19.8)		
Acquisition of 49% of Diehl Avionik Systeme	(18.7)		
Additional acquisition of Pilkington (10%)	(11.4)		
Embraer price complement	(9.3)		
Acquisition of Quintec	(8.6)		
Additional acquisition of ATEV		(339.5)	
Acquisition of 50% of Australian Defence Industries		(108.1)	
Acquisition of interest in Embraer		(66.3)	
Acquisition of Sextant In-Flight Systems		(58.7)	
Acquisition of Avimo		(55.9)	
Additional acquisition of Thomson S.I N.V		(30.5)	
Acquisition of Sogelerg Ingénierie		(16.0)	
Acquisition of Syseca Switzerland		(12.5)	
Additional acquisition of TTE		(11.7)	
Subscription to the capital of Thomson Torn 48		(6.1)	
Subscription to the capital of Alcatel Space			(190.5)
Additional acquisition of Pilkington Optronics			(35.3)
Cash acquisition of Dassault Electronique securities			(28.4)
Subscription to the capital of TCI Compensation			(12.2)
Other	(68.4)	(44.4)	(18.8)
Acquisition of investment	(2,655.4)	(749.7)	(285.2)
- Cash position of companies acquired	317.1	11.6	0.3
Acquisition of investment, net	(2,338.3)	(738.1)	(284.9)

1 Disposals of investments are broken down as follows :

	2000	1999	1998
Disposal of Crouzet Automatismes	227.7		
Partial disposal of Gecat	30.3		
Disposal of 60% of Thomson Semiconducteurs Spécifiques	18.2		
Disposal of Crédit Commercial de France securities	27.3	121.2	
Partial disposal of Indra		77.7	
Disposal of Syseca Inc		8.8	
Disposal of 16.6% of ATEV			45.0
Disposal of Aonix			6.9
Cancellation of Aonix debts			(39.0)
Other	20.5	15.0	9.8
Disposal of investment	324.0	222.7	22.7
- Cash position of companies sold	(6.0)	-	(5.8)
Disposal of investment, net	318.0	222.7	16.9

c) Increase (decrease) in equity and minority interests

	12/31/00	12/31/99	12/31/98
Dividend	(101.1)	(91.2)	(65.6)
Tax on dividend payments	(46.9)	-	-
Purchase of treasury stock	-	(56.3)	-
Other	(0.2)	0.2	1.3
Total	(148.2)	(147.3)	(64.3)

22. Commitments and contingencies

Commitments set forth, excluding financial commitments and warranties given in connection with disposal of investments, amounted to €6,251.1 million as of December 31, 2000, €4,605.3 million as of December 31, 1999 and €3,477.5 million as of December 31, 1998. These commitments consist principally of bank guarantees given to clients as guarantees on long-term contracts (including downpayment reimbursement bonds amounting to €2,586.6 million as of December 31, 2000, €1,854.6 million as of December 31, 1999 and €1,155.4 million as of December 31, 1998, and performance bonds amounting to €1,750.6 million as of December 31, 2000, €1,332.4 million as of December 31, 1999 and €942.4 million as of December 31, 1998). Commitments received amount to €130.6 million, €152.4 million and €104.3 million.

a) Lease contracts

The Company leases land, buildings, plant and equipment under non-cancellable operating lease agreements having terms in excess of one year. The rents payable under these leases are subject to re-negotiation at various intervals specified in the lease contracts. Non cancellable rental commitments outstanding as of December 31, 2000 concern financial lease contracts for an amount of €171.6 million (capitalized interest included in an amount of €28.4 million) and operating lease contracts for an amount of €116.4 million.

b) Financial instruments

Thales uses various financial instruments for the purpose of reducing foreign exchange and interest rate risks.

1 Gestion du risque de change

Thales hedges exchange risks arising from the negotiation of contracts denominated in currencies different from the main production currency, exchange risks generated by normal commercial operations, and risks relating to its net investments in foreign currencies. As of December 31, 2000, 1999 and 1998, Thales principally held forward exchange contracts.

Nominal forward buy and sell contract amounts as converted into Euro at closing rates, are detailed below by currency. Insofar as options are concerned, the amounts indicated correspond to nominal values for underlying exchange transactions and are mentioned in "buy/lend" or "sell/borrow" columns according to the nature of the operation at maturity.

	2000		1999		1998	
	buy/ lend	sell/ borrow	buy/ lend	sell/ borrow	buy/ lend	sell/ borrow
FORWARD EXCHANGE CONTRACTS						
USD	213.8	1,166.7	174.2	1,123.1	155.2	412.5
GBP	222.7	320.8	120.4	272.6	81.9	132.6
CHF	58.5	144.7	2.1	150.6	11.1	75.5
DEM	-	-	* 1.2	* 5.2	3.0	8.8
ATS	-	-	-	-	3.7	6.6
XEU	-	-	N/A	N/A	13.6	17.7
Other	27.3	37.2	52.3	39.2	53.1	89.0
	522.3	1,669.4	350.2	1,590.7	321.6	742.7
FOREIGN EXCHANGE SWAPS						
• hedge of investment						
USD	-	71.2	-	65.9	-	37.4
GBP	-	129.3	3.0	132.9	-	205.0
CHF	-	11.1	-	23.0	-	10.5
DEM	-	-	-	-	-	28.1
Other	-	126.1	-	70.1	-	76.1
	-	337.7	3.0	291.9	-	357.1
• hedge of commercial commitments						
USD	311.3	1,061.7	133.5	643.8	66.2	510.7
GBP	273.2	153.1	175.8	113.3	98.2	128.5
CHF	48.3	38.7	25.5	48.0	30.5	93.3
DEM	-	-	11.3	26.8	22.6	46.8
ATS	-	-	-	-	5.0	2.7
XEU	-	-	N/A	N/A	6.1	38.1
Other	39.2	141.8	41.1	131.6	55.5	121.7
	672.0	1,395.3	387.2	963.5	284.1	941.8
FOREIGN EXCHANGE OPTIONS						
BUY OF CALL/SELL OF PUT						
USD	-	-	-	-	-	42.8
PUT						
USD	71.4	-	1.7	-	-	42.8
CALL						
USD	28.3	4.3	-	-	-	-

* Balance of positions taken prior to the changeover to the Euro.

The corresponding market values are analysed as follows :

	2000		1999	
	buy/ lend	sell/ borrow	buy/ lend	sell/ borrow
Forward exchange contracts	2.2	(63.6)	20.7	(86.6)
Foreign exchange swaps :				
- hedging of investment	-	9.8	-	(9.9)
- hedging of commercial commitments	24.2	21.0	(3.5)	(10.8)
Foreign exchange options				
- PUT	(0.5)	-	-	-
- CALL	(1.5)	-	-	-

Maturity dates are presented below :

	2000		1999	
	Minimum	Maximum	Minimum	Maximum
Forward exchange contracts	Jan-01	May-05	Jan-00	Oct-03
Foreign exchange swaps :				
- hedging of investment	March-01	May-01	March-00	March-02
- hedging of commercial commitments	Jan-01	July-06	Jan-00	Nov-01
Foreign exchange options				
- PUT	Jan-01	Feb-01	Apr-00	Apr-00
- CALL	Jan-01	June-01	-	-

1 Interest rate risk management

As of December 31, 2000, 1999 and 1998, Thales principally held interest rate swap contracts intended to reduce the sensitivity of the group's position to interest rate movements. These financial instruments allow to hedge the net cash position of the group, so as net cash flows generated by substantial contracts, signed or in negotiation. The current nominal values by type of interest rate instrument are broken down as follows and correspond to the fixed part of the swaps :

	2000		1999		1998	
	buy/ lend	sell/ borrow	buy/ lend	sell/ borrow	buy/ lend	sell/ borrow
Interest Rate Swaps	1,008.1	550.6	763.3	164.6	905.2	372.9
Currency swap	-	13.1	-	-	-	-
Floors	110.0	-	-	-	-	-
FRA *	-	-	-	30.0	-	25.8

* Hedge of Interest Rate Swaps.

The corresponding market values are analysed below :

	buy/ lend	2000		closed positions	buy/ lend	1999	
		sell/ borrow				sell/ borrow	closed positions
Swaps de Taux	0.7	(10.2)	(1.0)	2.9	-	0.3	
Currency swap	-	0.4	-	-	-	-	
Floors	(0.1)	-	-	-	-	-	

Maturity dates extend up from January 2001 to October 2005.

1 Counterpart risk management

Trading operations are conducted exclusively with banks or first quality institutions in terms of rating, and within the authorization limits set by General Management for each counterpart.

Interest rate swap transactions matched with the same counterpart were as follows :

	2000	1999	1998
Total nominal amount	362.6	928.0	1,279.7
Including matched transactions with the same counterpart	45.7	137.2	259.2

c) Other commitments and contingencies

1 ATM SAS

Thales had a purchase option for all ATM S.A.S. shares held by Siemens AG. The exercise period was from September 30, 2000 to November 30, 2003.

Siemens AG had an option for the sale of its total holding in ATM SAS to Thales. The exercise period was from September 30, 2000 to November 30, 2003.

Siemens AG exercised on October 6, 2000, its option for the sale of its stake in ATM SAS to Thales. In order to reach agreement on the price of this stake, the parties submitted said valuation to an expert in accordance with the provisions of their joint-venture agreement of June 5, 1997. The valuation is still in process.

1 Australian Defence Industries

Thales stood guarantor for a debt contracted by Transfield, the Thales Australian partner for the acquisition of ADI (see note 2), in an amount of AUD 39.0 million. Thales also stood guarantor for one of the lines of credit established to finance the operations of ADI. This credit facility granted to ADI is approximately of AUD 160.0 million.

The detailed information relating to the financial conditions of these commitments is limited by the confidentiality restrictions contained in these agreements.

1 Warranties given in connection with disposal of investments

In the sale contracts of its investments Aonix, CEPE, Crouzet Automatismes, GECAT, Syseca Inc., Texen, Thomson-CSF Semiconducteurs Specifiques, Thomainfor and Thomson Passive Components, Thales is committed to make up for liabilities in excess of what was recorded in the books of companies disposed of and/or as represented by Thales.

23. Compensation of senior corporate officers

a) Compensation of the Chief Executive Officer

The compensation paid in 2000 to Mr Denis Ranque, Chief Executive Officer, by companies of the Group amounted to €535 thousands, as in 1999.

The variable part to be paid, depending upon the evolution of qualitative and quantitative criteria, amounts to €365 thousands.

b) Compensation of senior corporate officers

In line with the reorganization of the Group along three business areas, as announced on 25 July 2000, the Chief Executive Officer formed an executive committee of 12 members, CEO included.

The total compensation paid to the 11 members of this committee who were present over fiscal year 2000 amounts to €5.5 million, of which 33.06% represent the variable part. As indicated for the compensation paid to the CEO, this variable part depends on qualitative and quantitative performance criteria.

The total compensation paid in 1999 to the same people, all senior corporate officers, amounted to €5.1 million.

LIST OF MAIN CONSOLIDATED SUBSIDIARIES * (IN ADDITION TO THOMSON-CSF)

New name	Former name	% Control		% Stake	
		31/12/00	31/12/99	31/12/00	31/12/99
1. CONSOLIDATED SUBSIDIARIES					
AEROSPACE					
Thales ATM Navigation (Germany, Italy)	Airsys Navigation Systems (Germany, Italy)	-	100 %	-	100 %
Thales Avionics In-Flight Systems Llc	Sextant In-Flight Systems (U.S.A.)	100 %	100 %	100 %	100 %
Thales Training & Simulation (France, U.S.A., United Kingdom)	Thomson Training & Simulation (France, U.S.A., United Kingdom)	100 %	100 %	100 %	100 %
Thales Avionics Electrical Systems (France)	Thomson-CSF Auxilec	100 %	100 %	100 %	100 %
Thales Avionics Inc (U.S.A.)	Thomson-CSF Avionics Inc (U.S.A.)	100 %	100 %	100 %	100 %
Thales Avionics (France, Canada, Singapore, Republic of Ireland)	Thomson-CSF Sextant (France, Canada, Singapore, Republic of Ireland)	100 %	100 %	100 %	100 %
Thales Avionics Ltd	Racal Avionics Ltd	100 %	-	100 %	-
DEFENCE					
African Defence Systems (South Africa)	African Defence Systems (South Africa)	80 %	80 %	60 %	60 %
Quintec Associates Ltd (United Kingdom)	Quintec Associates Ltd (United Kingdom)	100 %	-	100 %	-
Thales Air Defence Ltd	Shorts Missile Systems (United Kingdom)	100 %	-	100 %	-
Thales Air Defence SA	Thomson-CSF Airsys	100 %	100 %	100 %	100 %
Thales Angénieux SA	Angénieux SA	100 %	100 %	100 %	100 %
Thales Communications GmbH	SEL Verteidigungssysteme GmbH (Germany)	100 %	100 %	99 %	99 %
Thales Communications SA	Thomson-CSF Communications	100 %	100 %	100 %	100 %
Thales Defence Holding UK		100 %	-	100 %	-
Thales International	Thomson-CSF International	100 %	100 %	100 %	100 %
Thales Missile Electronics Ltd	Thomson-Thorn Missile Electronics Ltd (United Kingdom)	100 %	100 %	100 %	100 %
Thales Naval France SA	Thomson-CSF NCS France	100 %	100 %	100 %	100 %
Thales Nederland B.V.	Hollandse Signaalapparaten B.V. (Netherlands)	99 %	99 %	99 %	99 %
Thales Optronics Ltd	Pilkington Optronics Ltd (United Kingdom)	100 %	90 %	100 %	90 %
Thales Optronique SA	Thomson-CSF Optronique	100 %	100 %	100 %	100 %
Thales Systèmes Aéroportés SA	Thomson-CSF Detexis	100 %	100 %	100 %	100 %
Thales Systems Canada Inc	Thomson-CSF Systems Canada Inc	100 %	100 %	100 %	100 %
Wilcox Electric Inc (U.S.A.)	Wilcox Electric Inc (U.S.A.)	100 %	100 %	100 %	100 %
INFORMATION TECHNOLOGIES & SERVICES					
Alcatel CGA Transport SA	Alcatel CGA Transport Crouzet Automatismes (France, Italy, Switzerland, Netherlands, U.S.A., Germany, United Kingdom, Morocco, Spain, Belgium)	100 %	-	100 %	-
MLR Electronique SA	MLR Electronique SA	-	100 %	-	100 %
Sage Engineering	Sage Engineering (Switzerland, Belgium, Singapore...)	100 %	-	100 %	-
Thales Antennas (United Kingdom, U.S.A.)	Racal Antennas (United Kingdom, U.S.A.)	100 %	-	100 %	-
Thales Broadcast & Multimedia	Thomcast (France, Switzerland, U.S.A., Germany)	100 %	100 %	100 %	100 %
Thales Computers	Cetia (France, U.S.A.)	100 %	100 %	100 %	100 %
Thales Contact Solutions	Racal Recorders (United Kingdom, U.S.A.)	100 %	-	100 %	-
Thales Electron Devices (France, Germany)	Thomson Tubes Electroniques (France, Germany)	100 %	100 %	100 %	100 %
Thales Engineering & Consulting SA	Sodeteg	100 %	100 %	100 %	100 %
Thales eSecurity	Zaxus (United Kingdom, U.S.A., Canada, Asia)	100 %	-	100 %	-
Thales eTransactions SA	Dassault Automatismes et Télécommunications	100 %	100 %	100 %	100 %
Thales Geosolutions BV	NE SA BV	100 %	-	100 %	-
Thales Identification (France, Ivory Coast)	Idmatics (France, Ivory Coast)	100 %	100 %	100 %	100 %
Thales Industrial Services SA	Inxel SA	100 %	-	100 %	-
Thales Information Systems	Syseca (France, Switzerland, Belgium, Italy, Spain, United Kingdom ...)	100 %	-	100 %	-
Thales Information Systems RIB SA	Ressource Informatique Bancaire	100 %	-	100 %	-
Thales Instruments	Racal Instruments	100 %	-	100 %	-
Thales MESL Ltd	Racal MESL Ltd	100 %	-	100 %	-
Thales Microelectronics SA	Sorep-Erulec	100 %	100 %	100 %	100 %
Thales Microsonics SA	Thomson Microsonics	100 %	100 %	100 %	100 %
Thales Microwave SA	Thomson-CSF Microélectronique	100 %	100 %	100 %	100 %
Thales Navigation SA	D.S.N.P.	100 %	100 %	100 %	100 %

New name	Former name	% Control		% Stake	
		31/12/00	31/12/99	31/12/00	31/12/99
Thales Security & Supervision	Thomson-CSF Sécurité	100 %	100 %	100 %	100 %
Thales Services Industrie SA	Thomson-CSF Services Industrie SA	100 %	100 %	100 %	100 %
Thales Support Services Ltd	Thomson-CSF Support Services Ltd	100 %	100 %	100 %	100 %
Thales Survey	Racal Survey (United Kingdom, Singapore, Australia, Brazil, Canada, Indonesia...)	100 %	-	100 %	-
TTSL - Racal Fieldforce	RSCL - Racal Fieldforce	100 %	-	100 %	-
TTSL - Translink	RSCL - Translink	100 %	-	100 %	-
OTHER					
	Thomson-CSF Semiconducteurs Spécifiques	-	100 %	-	100 %
Faceo Systems	Thomson Gestion Immobilière	-	100 %	-	100 %

2. ACCOUNTED FOR BY PROPORTIONATE CONSOLIDATION

AEROSPACE					
Diehl Avionik Systeme GmbH	Diehl Avionik Systeme GmbH (Germany)	49 %	-	49 %	-
Thales ATM	Airsys ATM (France, U.S.A., United Kingdom, Australia, Germany)	67 %	60 %	67 %	60 %
Live TV (U.S.A.)	Live TV (U.S.A.)	51 %	51 %	47 %	47 %
DEFENCE					
Aircommand Systems International SAS (ACSI)	Aircommand Systems International SAS (ACSI)	50 %	50 %	50 %	50 %
Australian Defence Industries	Australian Defence Industries (Australia)	50 %	-	50 %	-
Ericsson Thales AEW System (Sweden)	Ericsson Thomson AEW System (Sweden)	50 %	50 %	50 %	50 %
Horizon SAS	Horizon SAS	25 %	-	25 %	-
Samsung Thales Company Ltd (Korea)	Samsung Thomson-CSF (Korea)	50 %	-	50 %	-
TDA Armement S.A.S.	TDA Armement S.A.S.	50 %	50 %	50 %	50 %
Thomson Marconi Sonar	Thomson Marconi Sonar (France, United Kingdom, Netherlands, Australia)	50 %	50 %	50 %	50 %
INFORMATION TECHNOLOGIES & SERVICES					
Dassault A.T. Nixdorf Systèmes Bancaires S.A.S.	Dassault A.T. Nixdorf Systèmes Bancaires S.A.S.	50 %	50 %	50 %	50 %
United Monolithic Semiconductors	United Monolithic Semiconductors (France, Germany)	50 %	50 %	50 %	50 %
Citylink Ltd	Citylink Telecommunications Ltd	33 %	-	33 %	-
OTHER					
Faceo Systems	Thomson Gestion Immobilière	70 %	-	70 %	-

3. ACCOUNTED FOR UNDER THE EQUITY METHOD

AEROSPACE					
Gecat (United Kingdom)	Gecat (United Kingdom)	34 %	-	34 %	-
DEFENCE					
Amper Programas (Spain)	Amper Programas (Spain)	49 %	49 %	49 %	49 %
Avimo Group SA (Singapore)	Avimo Group SA (Singapore)	25 %	25 %	25 %	25 %
Elettronica S.p.A. (Italy)	Elettronica S.p.A. (Italy)	33 %	33 %	33 %	33 %
Indra (Spain)	Indra (Spain)	11 %	11 %	11 %	11 %
Stesa (Saudi Arabia)	Stesa (Saudi Arabia)	49 %	49 %	49 %	49 %
INFORMATION TECHNOLOGIES & SERVICES					
Camelot	Camelot	27 %	-	27 %	-
Global Telematics	Global Telematics	50 %	-	50 %	-
OTHER					
Alcatel Space	Alcatel Space	49 %	49 %	49 %	49 %
TCl Compensation	TCl Compensation	40 %	40 %	40 %	40 %

REPORT OF THE STATUTORY AUDITORS ON THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED DECEMBER 31, 2000

TRANSLATED FROM FRENCH:

To the Shareholders of the Company Thomson-CSF,

In compliance with the assignment entrusted to us by your shareholders' annual general meeting of, we hereby report to you, for the year ended December 31, 2000, on the audit of the accompanying consolidated financial statements of the Company Thomson-CSF reported in Euro.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the professional standards applied in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the group's financial position and of its assets and liabilities as of December 31, 2000, and of the results of its operations for the year then ended in accordance with accounting principles generally accepted in France.

We also performed the verification of the information given in the management report of the Board of Directors. We have no comment as to its fair presentation and its conformity with the consolidated financial statements.

Neuilly-sur-Seine and Paris-La-Défense, April 2, 2001

The Statutory Auditors

BARBIER FRINAULT & AUTRES

Christian CHIARASINI Gilles PUISSOCHET

MAZARS & GUERARD

Thierry COLIN Thierry BLANCHETIER

REPORT OF THE BOARD OF DIRECTORS ON THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

RESULTS AND FINANCIAL POSITION

Business review

In 2000, revenues of Thomson-CSF were €704 million (compared to €653 million in 1999), relating to commissions awarded on contracts signed by operational subsidiaries, Thomson-CSF being the contractor. Most of these revenues were generated by outstanding contracts with Middle-East countries.

As the parent company of the Thales group, Thomson-CSF provides the whole Group with a wide range of services. Subsidiaries pay back royalties based upon their revenues, in addition to fees paid for specific services provided by the corporate departments. These royalties and fees form the major part of the €167.5 million other operating income (€167.9 million in 1999).

Results

Thomson-CSF reported a €50.4 million operating loss in 2000, compared to a €18.7 million operating profit in 1999. This unfavourable evolution was mainly due to charges incurred by the acquisition of UK company Racal.

Net financial expense amounted to €304 million in 2000 (a €27.6 million income in 1999) and included :

- a rise in the average net debt position over the year, resulting in an increase of interest expense and financial charges (the main part of which coming from the financing of Racal acquisition) ;
- a strong increase in allowance on investments and securities, including a €211 million extraordinary depreciation on Alcatel Space securities.

Thomson-CSF has a corporate treasury department that collects and monitors all information on the Group's exposure to foreign exchange and interest rate risks, in order to implement the best hedging policy for those risks.

The parent company hedges against exchange risks issued from the negotiation by its subsidiaries of contracts denominated in an other currency than the main production currency, exchange risks generated by the operating activities of its subsidiaries, and risks related to its net assets in foreign countries. At December 31, 2000 and 1999, Thomson-CSF mainly held forward exchange contracts :

- 1 every order booked in foreign currencies is covered by forward exchange contracts (mainly US dollars and pounds sterling hedges) ;
- 1 underlying foreign exchange risks attached to bids under negotiation are managed either through insuring by Insurance institutions such as the French Coface, or through financial instruments (forward exchange contracts and options).

The interest rate exposure is also hedged through financial instruments such as interest rate swaps. Interests paid or received in connection with interest rate swaps are recognised over the life of the corresponding loans.

Extraordinary income amounted to €8 million, much lower than the €162 million income booked in 1999 and mainly corresponding to capital gains yielded on the disposal of CCF and Indra shares.

The income tax was a profit of €155 million, of which €160 million resulting from the fiscal integration of Thomson-CSF and subsidiaries⁽¹⁾ (article 223A from Code Général des Impôts)

The net result for year 2000 was a loss of €191 million, compared to a profit of €243 million in 1999.

(1) In 2000, expenses excluded from deductible charges amounted to - 76,700, compared to -90,900 in 1999 (article 223 quater and 39,4 in Code Général des Impôts).

Balance sheet at December 31, 2000

Financial fixed assets rose from €4,747 million at December 31, 1999 to €7,503 million at December 31, 2000, mainly coming from the acquisition of Racal, through Thomson-CSF Invest, and of 50% of Samsung, through Thomson-CSF International.

Advances to suppliers are related to the financing of inventories and work-in-progress. They reached €2,077 million (€1,612 million a year before), and mainly corresponded to the Sawari 2 frigates contract with Saudi Arabia.

Accounts and notes receivable sharply increased from €357 million at the end of 1999 to €2,868 million at the end of 2000, relating to contracts signed by operational subsidiaries, Thomson-CSF being the contractor. Current liabilities showed the same evolution at the end of 2000.

Similarly, other creditors and accrued liabilities reached €3,014 million at December 31, 2000, a strong rise over the €498 million at the end of 1999. €2,798 million concern Thales Naval France and particularly the Sawari 2 contract.

Financial debt soared to €2,679 million (compared to €121 million at December 31, 1999) and included borrowings with financial institutions (€1,794 million) and commercial papers (€758 million), mainly corresponding to the financing of the Racal acquisition.

At December 31, 1999, the common stock of Thomson-CSF amounted to €503.2 million and was divided into 167,731,513 shares of €3 each.

OUTLOOK FOR 2001 AND RECENT DEVELOPMENTS

Expected activity and results in 2001

In 2001, the net result of the Company will correspond to the 2000 dividends received from certain subsidiaries, to the interest expense on a yearly basis related to the financing of the Racal acquisition, and to the changes in allowances for securities depreciation and for contingencies, depending on the trend in activities and performance.

Recent developments

The main recent events occurred since the closing of the 2000 financial statements and likely to impact the financial situation of the Company in 2001 were :

- 1 The acquisition of full ownership of the optronics company Avimo. At March 30, 2001, Thales held 97.7% of Avimo equity. This €183.4 million deal will be included in financial investments for 2001.
- 1 The project to establish a joint company in association with Direction des Constructions Navales, in the area of warship and combat system programs. The new company will be equally owned by DCN and Thales Naval France, a subsidiary of the Company.
- 1 Planned sale of the instrument subsidiaries. These companies focus on the supply and implementation of test systems for specialised markets in radio communications, broadband communications and electronics for defence and other applications ; they were acquired along with Racal in 2000, and generate annual sales of approximately €90 million. This planned disposal, which Thales announced on February 22, 2001, should become effective in the course of 2001.

NEW SHAREHOLDINGS AND THRESHOLD CROSSING IN FRENCH COMPANIES

	Amount of investment (Eur 000')	At 12/31/99					At 12/31/00				
		>5%	>20%	>33%	>50%	>66%	>5%	>20%	>33%	>50%	>66%
1. Increasing											
Sextant Avionics	442,089	-	-	-	-	-	-	-	-	-	100.00
170 centelec	40	-	-	-	-	-	-	-	-	-	99.85
172 centelec	40	-	-	-	-	-	-	-	-	-	100.00
173 centelec	40	-	-	-	-	-	-	-	-	-	100.00
174 centelec	40	-	-	-	-	-	-	-	-	-	100.00
175 centelec	40	-	-	-	-	-	-	-	-	-	99.85
176 centelec	40	-	-	-	-	-	-	-	-	-	99.85
177 centelec	40	-	-	-	-	-	-	-	-	-	99.85
Alcatel CGA Transport	48,007	-	-	-	-	-	-	-	-	-	96.89
Dassault Electronique Dev	78	-	-	-	-	-	-	-	-	-	-
DassaultAT	78,636	-	-	-	-	-	-	-	-	-	100.00
Thales Microelectronics	39,635	-	-	-	-	-	-	-	-	-	99.99
Thales Navigation	19,817	-	-	-	-	-	-	-	-	-	100.00
Sysec Holding	74,039	-	-	-	-	-	-	-	-	-	79.90
Eurosinav	20	-	-	-	-	-	-	-	-	50.00	-
Sofremi	165	5.98	-	-	-	-	-	26.65	-	-	-
Faceo	7,479	-	-	-	-	-	-	-	-	50.00	-
Faceo Property Management	1,454	-	-	-	-	-	-	-	-	51.00	-
2. Decreasing											
TT48	-	-	-	-	-	99.76	-	-	-	-	-
ATEV	-	-	-	-	-	100.00	-	-	-	-	-
Gemplus Thomson Industrie	-	-	-	-	50.00	-	-	-	-	-	-
Euromids	-	-	-	-	-	99.96	-	-	-	-	-
Exameca Precision	-	-	-	-	-	100.00	-	-	-	-	-
ATMEL Grenoble	-	-	-	-	-	100.00	-	-	40.00	-	-
Dassault Electronique Dev	-	-	-	-	-	-	-	-	-	-	-
Sysec France	-	-	-	-	-	100.00	-	-	-	-	-
Barcoviev Texen	-	-	-	-	-	99.76	-	-	-	53.96	-
145centelec	-	-	-	-	-	99.96	-	-	-	-	-
Sysec sa	-	-	-	-	-	100.00	-	-	-	-	-
Sysec SEI	-	-	-	-	-	96.52	-	-	-	-	-
Osiatis -	-	9.99	-	-	-	-	-	-	-	-	-
SFCS -	-	-	-	-	-	99.96	-	-	49.00	-	-
SM5 Automation	-	15.00	-	-	-	-	-	-	-	-	-
139centelec	-	-	-	-	-	99.96	-	-	-	-	-
Cashware	-	-	-	-	-	99.98	-	-	36.59	-	-
Optim -	-	-	-	-	-	99.76	-	-	-	-	-
Thomnet	-	-	-	-	-	99.99	-	-	-	-	-
162centelec	-	-	-	-	-	100.00	-	-	-	50.00	-
GSA Velidon	-	-	-	-	-	100.00	-	-	-	-	-
Faceo system	-	-	-	-	-	99.95	-	-	39.96	-	-
ThomsonCompensationInternationale	-	-	-	-	-	99.98	-	-	-	-	-

LIST OF MARKETABLE SECURITIES HELD

1. Investment and marketable securities which net book value is over €15,245		As of December 31, 2000	
Number of securities	Company	% held	Net book value (Eur 000')
50,581,112	Alcatel Space	46.14%	794,914
11,527,808	Thomson-CSF DETEXIS	100.00 %	706,107
12,295,353	Thomson-CSF Sextant	100.00 %	442,089
9,627,367	Thomson-CSF Communications	100.00 %	296,147
8,088,115	Thomson-CSF Airsys	100.00 %	261,828
12,099,994	Thomson-CSF International	100.00 %	188,371
1,783,207	Syseca Holding	79.90 %	74,039
519,182	ISR	100.00 %	62,998
2,002,491	Thomson-CSF Optronique	100.00 %	54,887
934,521	Alcatel C.G.A Transport	96.89 %	48,007
2,199,991	Thomson-CSF Ventures	100.00 %	41,914
174,593	Thales Microelectronics	99.99 %	39,635
2,066,588	Thales Electron Devices	100.00 %	39,227
2,503,544	Thomson-SIEG	100.00 %	38,581
1,002,492	Thomson-CSF NCS France	100.00 %	26,840
2,039,992	Dassault	100.00 %	23,602
1,314,992	Thomson Microsonics	100.00 %	20,047
349,994	Thales Navigation	100.00 %	19,817
449,392	Thomson-CSF Sextant Auxilec	100.00 %	18,599
1,354,079	Thales Engeneering & Consulting	99.84 %	15,246
595,358	ATMEL Grenoble	40.00 %	12,194
123,492	Thales Training & Simulation	99.99 %	11,944
1,354,079	Thales Microwave SA	100.00 %	7,539
38,832	Faceo	50.00 %	7,479
183,393	Idmatics SA	100.00 %	5,761
100,000	Thomson Marconi Sonar SAS	10.00 %	5,376
166,023	Thomintex	100.00 %	4,345
81,058	Safare Crouzet	99.99 %	4,054
14,984	Thomson Technologies et Services	99.89 %	3,137
21,625	Office Général de l'Air	16.20 %	3,099
319,994	Cetia	100.00 %	3,024
1,030,248	TCI Compensation	40.00 %	2,877
160,000	Sofradir	40.00 %	2,439
91,492	Université Thomson	99.99 %	1,578
61,194	Faceo Property Management	51.00 %	1,454
11,018	Sofresa	11.02 %	1,338
99	Thomson VP	99.00 %	1,306
74,492	Angenieux	100.00 %	1,136
69,994	ASA (Architecture Systèmes Avancés)	99.99 %	1,067
22,086	Cashware	36.59 %	1,053
2,494	Socari	99.76 %	1,044
66,651	Cryotechnologies S. A.	66.65 %	1,016
7,181	Sofema	9.57 %	897
618	Saram	99.04 %	808
41,131	Societe M5	99.99 %	610
2,494	Geris Consultant	99.76 %	213
19,994	Thomson Recherche	99.97 %	173
5,502	IPO	0.25 %	156
1,000	TDA	50.00 %	152
947	Paris le Bourget Parc d'Expositions	2.29 %	148
95,437	Arianespace Participation	0.05 %	145
5,994	Faceo Systems	39.96 %	91
4,994	Gerac	99.88 %	77
407	IRDI	0.23 %	62
2,494	Thomson-CSF Cooperation	99.76 %	53

2,700	Thomson-CSF Invest SAS	100.00 %	44
2,694	Thomson-CSF Inexel	99.78 %	41
3,834	169centelec	99.84 %	38
2,500	Morlaix Creation d'Entreprises	16.67 %	38
2,699	148centelec	99.96 %	38
2,699	149centelec	99.96 %	38
2,694	155centelec	99.78 %	38
2,694	156centelec	99.78 %	38
2,694	157centelec	99.78 %	38
2,694	158centelec	99.78 %	38
2,494	159centelec	99.78 %	38
2,700	154centelec	100.00 %	38
2,700	152centelec	100.00 %	38
3,894	Thomson-CSF Idatys	1.32 %	38
2,700	150centelec	100.00 %	37
4,000	173centelec	100.00 %	37
4,000	174centelec	100.00 %	37
3,994	175centelec	99.85 %	37
3,994	176centelec	99.85 %	37
3,994	177centelec	99.85 %	37
2,699	146centelec	99.96 %	37
3,994	170centelec	99.85 %	37
4,000	172centelec	100.00 %	37
2,494	Thomson-CSF Surveillance et Prevention	99.76 %	36
3,840	161centelec	100.00 %	33
3,840	163centelec	100.00 %	33
3,840	164centelec	100.00 %	33
3,834	165centelec	99.84 %	33
3,834	166centelec	99.84 %	33
3,834	167centelec	99.84 %	33
3,834	168centelec	99.84 %	33
1,349	Barcoviev Texen	53.96 %	21
1,250	UDSI	50.00 %	19
23	SCI Assomption	0.26 %	18
2,000	Eurosynav	50.00 %	17
1,920	162centelec	50.00 %	16
1,225	S F C S	49.00 %	15

2. Investment and marketable securities which net book value is less than €15,245	25
3. Investment in property management companies	322,887
4. Investment in foreign companies	3,297,544
Total	6,922,445

FINANCIAL STATEMENTS OF THE PARENT COMPANY (EXTRACTS)

The summarised financial statements of the parent company Thomson-CSF presented below have been prepared in accordance with the accounting principles generally applicable in France for legal accounts. The extensive financial statements are available on request at the company's head office.

STATEMENT OF INCOME

(in millions of euros)	2000	1999	1998
Sales	703.9	653.4	584.8
Reversal of reserves	7.2	0.9	2.6
Transfer of charges	25.5	16.3	24.5
Other operating income	167.5	167.9	158.1
Operating income	904.1	838.5	770.0
Purchases and changes in inventory	(655.2)	(607.4)	(538.9)
Other charges	(154.4)	(101.2)	(98.8)
Taxes	(11.7)	(11.0)	(11.1)
Personnel expenses	(119.3)	(91.0)	(109.5)
Amortisation expenses	(5.6)	(4.0)	(4.7)
Reserve allowances	(8.3)	(5.3)	(2.1)
Operating expenses	(954.5)	(819.9)	(765.1)
Net operating profit	(50.4)	18.7	4.9
Financial income			
Interest income and income on financial instruments	138.9	103.4	158.7
Income on marketable securities	78.0	32.5	81.3
Other financial income	79.5	145.7	41.5
Financial expenses			
Interest expense and expense on financial instruments	(219.5)	(92.1)	(133.7)
Other financial expenses	(380.9)	(161.9)	(356.4)
Net financial income (expense)	(304.0)	27.6	(208.6)
Income (expense) from operations before tax	(354.4)	46.2	(203.7)
Restructuring costs	(3.2)	(7.0)	(2.0)
Gain on disposal of fixed assets	25.1	198.3	1.4
Other extraordinary expenses	(13.7)	(29.4)	(39.2)
Net extraordinary income (expense)	8.2	161.9	(39.8)
Net income before tax	(346.2)	208.1	(243.5)
Income tax	155.0	35.1	20.7
Net income	(191.2)	243.2	(222.8)

BALANCE SHEET

(In millions of euros)	12/31/00	12/31/99	12/31/98
ASSETS			
Intangible assets	6.9	5.3	6.1
Less : accumulated depreciation	(6.5)	(4.9)	(6.1)
Intangible assets, net	0.4	0.4	0.0
Property, plant and equipment	73.8	75.5	74.2
Less : accumulated depreciation	(63.4)	(65.3)	(63.9)
Property, plant and equipment, net	10.4	10.2	10.3
Investment securities	6,922.4	4,257.1	3,902.2
Other securities	56.3	56.3	-
Other investments	524.5	434.2	245.0
Total investments and non-current assets	7,503.2	4,747.6	4,147.2
Total fixed assets	7,514.0	4,758.2	4,157.5
Inventories and work in-progress	6.6	4.3	3.2
Advances to suppliers	2,077.1	1,612.5	746.7
Accounts and notes receivable	2,867.9	356.7	289.5
Current accounts with affiliated companies	510.8	761.0	635.6
Other debtors and prepaid expenses	345.1	150.8	131.4
Marketable securities	92.8	139.5	258.6
Cash and cash equivalents	381.9	271.5	628.4
Total current assets	6,282.2	3,296.3	2,693.4
Total assets	13,796.2	8,054.5	6,850.9

(In millions of euros)	12/31/00	12/31/99	12/31/98
LIABILITIES AND SHAREHOLDERS' EQUITY			
Common stock	503.2	511.5	511.5
Paid-in surplus	2,724.3	2,724.3	2,724.3
Retained earnings	1,154.4	1,051.0	1,365.0
Net income (loss)	(191.2)	243.2	(222.9)
Cumulative translation adjustment	0.7	-	-
Shareholders' equity	4,191.4	4,530.0	4,377.9
Provisions for liabilities and charges	150.2	146.2	164.5
Current accounts with affiliated companies	1,625.3	1,091.8	810.4
Current account with Thomson S.A.	-	8.2	143.1
Other debt	2,679.0	120.7	164.6
Total debt	4,304.3	1,220.7	1,118.1
Advances received from customers on contracts	2,074.6	1,614.7	711.5
Accounts and notes payable	61.4	45.1	73.5
Other creditors and accrued liabilities	3,014.3	497.8	405.4
Total current liabilities	5,150.3	2,157.6	1,190.4
Total liabilities and shareholders' equity	13,796.2	8,054.5	6,850.9

STATEMENT OF CASH FLOWS

(In millions of euros)	2000	1999	1998
Cash flows from operating activities			
Net income (loss)	(191.2)	243.2	(222.9)
Depreciation of intangible assets, and property, plant and equipment	5.6	4.0	3.0
Allowances for losses on fixed assets and provisions for retirement indemnities	289.8	(20.3)	222.0
Dividends payable	(4.9)	-	-
Loss (profit) on disposal of assets	(28.3)	(205.5)	(7.0)
Operating cash flows before working capital changes	71.0	21.4	(4.9)
Change in accrued non-operating costs	(0.5)	(6.4)	(4.0)
Change in working capital requirements	(81.1)	49.7	15.1
Total	(10.6)	64.7	6.2
Cash flows from investing activities			
Capital expenditure	(6.7)	(3.7)	(4.0)
Proceeds from disposal of tangible and intangible fixed assets	0.1	0.0	0.9
Net operating investments	(6.6)	(3.7)	(3.1)
Disposal of CCF shares	27.3	121.2	-
Disposal of INDRA shares	-	77.9	-
Other disposal of investment	59.6	9.8	112.7
Investment in Thomson-CSF Invest Ltd common stock	(1,468.6)	-	-
Increase in common stock of Thomson-CSF Invest Ltd	(620.5)	-	-
Increase in common stock of Thomson-CSF International	(182.9)	-	-
Increase in common stock of Thomson UK	(136.1)	-	-
Acquisition of ATEV shares	-	(339.5)	-
Investment in Alcatel Space common stock	-	-	(190.6)
Other investments in affiliated companies	(386.4)	(244.1)	(206.1)
Other financial investments	55.2	(268.3)	(15.4)
Total	(2,659.0)	(646.7)	(302.4)
Cash flows from financing activities			
Decrease in equity (a)	(148.0)	(91.2)	(65.6)
Increase in debt	2,692.0	81.4	2.4
Repayment of debt	(93.3)	(50.0)	(68.5)
Increase in debt with affiliated companies	277.2	150.9	117.8
Total	2,727.9	91.1	(13.9)
Net (decrease) increase in cash before changes in marketable securities	58.3	(490.9)	(309.9)
Decrease (increase) in marketable securities	52.1	134.0	(177.5)
Total (decrease) increase in cash	110.4	(356.9)	(487.4)
Cash and cash equivalents at beginning of period	271.5	628.4	1,115.8
Cash and cash equivalents at end of period	381.9	271.5	628.4

(a) In 2000, payment of dividend for €101.1 million and tax on dividend payment for €46.9 million. In 1999, payment of dividend for €91.2 million.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FROM JANUARY 1, 1998 TO DECEMBER 31, 2000 (IN MILLIONS OF EUROS)

	Number of shares outstanding (thousands)	Common Stock	Paid-in surplus	Retained earnings	Net income (loss)	Revaluation reserve	Share- holders' equity	Other equity	Total equity
As of December 31, 1997	119,543	364.5	1,362.9	761.8	668.9	1.1	3,159.2	0.0	3,159.2
Increase in capital	48,188	147.0	1,361.4	--	--	--	1,508.4	--	1,508.4
Allocation of 1997 net result	--	--	--	668.9	(668.9)	--	0.0	--	0.0
Payment of dividend	--	--	--	(65.6)	--	--	(65.6)	--	(65.6)
Foreign exchange difference	--	--	--	(0.2)	--	(1.1)	(1.3)	--	(1.3)
1998 net income (loss)	--	--	--	--	(222.9)	--	(222.9)	--	(222.9)
As of December 31, 1998	167,731	511.5	2,724.3	1,365.0	(222.9)	0.0	4,377.9	0.0	4,377.9
Allocation of 1998 net result	--	--	--	(314.0)	314.0	--	0.0	--	0.0
Payment of dividend	--	--	--	--	(91.2)	--	(91.2)	--	(91.2)
1999 net income (loss)	--	--	--	--	243.2	--	243.2	--	243.2
As of December 31, 1999	167,731	511.5	2,724.3	1,051.0	243.1	0.0	4,529.9	0.0	4,529.9
Conversion of the common stock into Euros	--	(8.3)	--	8.3	--	--	0.0	--	0.0
Allocation of 1999 net result	--	--	--	243.1	(243.1)	--	0.0	--	0.0
Payment of dividend	--	--	--	(101.1)	--	--	(101.1)	--	(101.1)
Tax on dividend payments	--	--	--	(46.9)	--	--	(46.9)	--	(46.9)
Foreign exchange difference	--	--	--	--	--	0.7	0.7	--	0.7
2000 net income (loss)	--	--	--	--	(191.2)	--	(191.2)	--	(191.2)
As of December 31, 2000	167,731	503.2	2,724.3	1,154.4	(191.2)	0.7	4,191.4	0.0	4,191.4

RESULTS OF THE COMPANY OVER THE LAST FIVE FISCAL YEARS

(in millions of euros)	2000	1999	1998	1997	1996
1. Common stock at end of period					
Common stock	503.2	511.5	511.5	364.5	364.5
Number of issued ordinary shares	167,731,513	167,731,513	167,731,513	119,543,119	119,543,119
Number of existing non-voting preference shares	--	--	--	--	--
Maximum number of future shares to be issued :					
. from conversion bonds	--	--	--	--	--
. from equity warrants	--	--	--	--	--
2. Operations and results for the fiscal year					
Net sales (a)	703.9	653.4	584.8	1,072.6	1,218.2
Net income before tax, employee profit-sharing, and depreciation	(52.9)	181.1	42.4	774.0	105.8
Income tax	155.0	35.1	20.7	62.8	56.6
Employee profit-sharing	--	--	--	--	--
Net income after tax, employee profit-sharing, and depreciation	(191.2)	243.2	(222.9)	668.9	(2.0)
Net result distributed	--	101.1	91.2	65.6	51.1
3. Earnings per share (in euros)					
Net income after tax, employee profit-sharing, and before depreciation	0.6	1.3	0.4	7.0	1.4
Net income after tax, employee profit-sharing, and depreciation	(1.1)	1.4	(1.3)	5.6	--
Net dividend per share	--	0.6	0.5	0.5	0.4
4. Personnel					
Average staff over the period	856	807	880	910	843
Amount of payroll over the period	79.6	66.9	72.0	72.4	66.3
Amount of welfare benefits paid over the period	39.6	24.2	37.5	27.7	26.5

1996 : Capital increased from €355,796,212.3 to €364,484,620.2 after the conversion of 22,204 bonds into 698,566 new shares and the payment of 1995 dividend in shares (2,151,045 shares).

1998 : Capital increased from €364,484,620.2 to €511,410,086.3 after contribution operations.

2000 : Capital increased from €511,410,086.3 to €503,194,539 after conversion of the common stock into Euros.

(a) Not including other revenues

LIST OF AFFILIATED COMPANIES AND EQUITY INTERESTS

As of December 31, 2000

(in millions of euros)	Book value of securities held		% held	Equity	Last fiscal year result	Sales
	Gross	Net				
A. Affiliated companies and equity interests which gross book value is over 1% of the capital of the company						
1. AFFILIATED COMPANIES						
Thomson-CSF Invest	2,525,272	2,525,272	100.00 %	2,523,181	5,072	-
Thomson-CSF Detexis	706,107	706,107	100.00 %	70,585	55,311	874,398
Thomson-CSF Sextant	442,089	442,089	100.00 %	551,317	210,977	731,628
Thomson North America	353,612	222,374	100.00 %	249,549	3,415	163
Thomson-CSF Communications	296,147	296,147	100.00 %	58,917	5,672	201,218
Thomson-CSF Airsys	261,828	261,828	100.00 %	126,242	35,547	540,197
Hollandse Signaalapparaten B.V.	235,174	235,174	99.00 %	64,838	(10,024)	345,635
Thomson-CSF International	188,371	188,371	100.00 %	173,312	(2,052)	-
Thomson International GmbH	161,077	118,078	99.13 %	73,874	1,825	430
Thomson-SIEG	111,755	38,581	100.00 %	41,079	966	-
Alcatel Informatique Système Réseaux	88,914	62,998	100.00 %	11,127	(267)	103,200
Dassault AT	78,636	23,602	100.00 %	66,074	26,269	97,232
Syseca Holding	74,039	74,039	79.90 %	90,535	(1,290)	-
Thomson-CSF Service Industries	71,839	-	100.00 %	(65,552)	(3,278)	20,600
S.A.I. Elancourt	61,018	61,018	100.00 %	49,427	852	22,024
Thomson-CSF Optronique	54,887	54,887	100.00 %	31,091	10,067	202,503
S.A.I. Guyancourt	53,982	53,982	100.00 %	55,913	1,439	5,054
Thomson-CSF Holding Norway	50,462	-	100.00 %	50,877	(3)	-
Thomson Marconi Sonar NV	49,019	49,019	50.10 %	14,727	3,351	-
Alcatel CGA Transport	48,007	48,007	96.89 %	(5,936)	(14,509)	62,844
S.A.I. Bagneux	45,946	45,946	100.00 %	50,263	3,552	9,861
Atmel Grenoble	43,667	12,194	40.00 %	-	-	-
Thomson-CSF Ventures	41,914	41,914	100.00 %	52,723	7,004	-
Thales Microelectronics	39,635	39,635	99.99 %	19,874	3,209	124,570
Thomson Tubes Electroniques	39,227	39,227	100.00 %	(48,913)	28,396	999,702
Thomcast	38,895	-	99.84 %	1,499	550	74,188
Thomson-CSF Electronics Belgium	34,616	7,010	100.00 %	1,947	(3,239)	42,790
Thomson-CSF NCS France	26,840	26,840	100.00 %	23,437	53,301	811,713
SAS Valdolines	26,689	26,689	100.00 %	27,257	505	2,541
Cetia	25,701	3,024	100.00 %	4,230	1,083	22,173
Société Immobilière des Boutries	20,906	15,093	100.00 %	12,889	(1,448)	1,285
Thomson-CSF Microélectronique	20,057	7,539	100.00 %	4,395	(1,761)	42,960
Thomson Microsonics	20,047	20,047	100.00 %	24,352	3,338	113,045
Thales Navigation	19,817	19,817	100.00 %	6,859	811	17,725
Thomson-CSF Sextant Auxilec	18,599	18,599	100.00 %	20,669	4,042	62,492
S.A.I. Vélizy Latecoere	16,792	16,792	100.00 %	5,261	118	2,488
Thomson-CSF Electronics Systems	15,265	2,105	100.00 %	10,570	(27)	16,164
Thales Engineering & Consulting	15,246	15,246	99.84 %	32,826	(129)	93,021
S.A.I. Gennecab	14,477	14,477	100.00 %	15,972	1,546	3,934
Thomcast AG	13,130	13,130	99.90 %	4,755	895	20,096
Thomson Training & Simulation	11,944	11,944	99.99 %	10,485	3,949	106,177
SEERI	10,199	7,082	100.00 %	7,034	(36)	850
UMS Holding	9,268	-	50.00 %	2,786	920	-
S.A.I. Egrevedeux	8,270	8,270	100.00 %	-	1,854	278
SAS Vache Noire	8,013	5,064	100.00 %	6,151	(368)	1,125
Faceo	7,479	7,479	50.00 %	7,896	-	-
Thomson-CSF Laser	7,271	-	99.76 %	(14,071)	(4,194)	12,058
Thomson-CSF Idmatics S.A.	5,761	5,761	100.00 %	(3,414)	(6,874)	26,865
Safare Crouzet	5,640	4,054	99.99 %	3,126	560	17,039
Thomson csf Equipamentos do Brasil	5,624	373	100.00 %	405	(560)	4,012
S.A.I. Ferté	5,603	5,603	100.00 %	5,733	145	1,211
S.A.I. Sartrou	5,226	5,226	100.00 %	2,752	(27)	774
S.A.I. Chatou	5,151	5,151	99.99 %	(2,080)	(1,029)	1,326
S.A.S Saintapo	5,069	5,069	100.00 %	3,973	213	727
Total of affiliated companies	6,550,218	5,917,972				

(in millions of euros)	Book value of securities held		% held	Equity	Last fiscal year result	Sales
	Gross	Net				
2. EQUITY INTERESTS						
Alcatel Space	1,028,129	794,914	46.30%	1,052,861	(1,224,139)	1,346,000
TCl Compensation	73,525	2,877	40.00%	47,187		
Embraer	75,579	75,579	5.67%			
Elettronica S.p.A.	26,724	21,633	33.33%	18,448	2,177	
Amper Programas S.A.	11,190	11,190	49.00%	13,595	4,745	
Indra	7,730	7,730	10.50%	133,615	31,696	560,219
Thomson Marconi Sonar SAS	5,376	5,376	10.00%	(18,752)	2,052	67,061
Total of equity interests	1,228,253	919,299				

B. Additional information concerning the other affiliated companies and investments

1. Affiliated companies not included in paragraph A

French subsidiaries	74,702	66,695
Foreign subsidiaries	8,841	8,128

Total	83,543	74,824
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2. Other investments not included in paragraph A

In French companies	11,847	9,601
In foreign companies	17,344	749

Total	29,191	10,350
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Grand total	7,891,205	6,922,445
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- DESCRIPTION OF BUSINESS
- FINANCIAL INFORMATION
- **STATUTORY & INVESTOR INFORMATION**



c o n t e n t s

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STATUTORY INFORMATION ON THE COMPANY AND ITS COMMON STOCK

IDENTIFICATION

Name and registered address

Thomson-CSF, 173 boulevard Haussmann, 75008 Paris – France

The business name of the Company and Group was changed to "Thales" on December 6, 2000. This name change will be submitted for approval to the General Meeting of Shareholders on May 16, 2001.

Legal form and relevant legislation

Thomson-CSF is a public limited company governed by French law (specifically the Law of July 24, 1966 on Commercial companies).

Duration

The Company was formed on February 11, 1918 for a period of 99 years. The expiration of this period consequently being set at February 11, 2017, unless the period is extended or the Company is wound up at an earlier date.

Corporate aims (summary of article 2 of the Corporate By-Laws)

Study, design, fabrication, sale and hire of all components, hardware, equipment and systems implementing all applications of electronics, radio, optics, optronics and information technologies to telecommunications, detection, identification, navigation and all other industrial and commercial activities; the holding of all securities in companies engaged in these activities.

Companies registry

The Company is registered in the Paris Registry of Trade and Companies under the number 552059024. Its "APE" code is 332 A.

Consultation of legal documents

Corporate documents and information may be consulted at the offices of the Secretary to the Board, at the corporate headquarters.

Fiscal year

The fiscal year of the Company lasts twelve calendar months. It commences on January 1 and terminates on December 31.

Statutory distribution of profits

Profits are shared in compliance with current legislation.

Under the Corporate By-Laws, the Shareholders' Meeting voting on the financial statements for the fiscal year elapsed is empowered to grant each stockholder the option to receive payment of all or part of the dividend declared in cash or in stock.

SHAREHOLDERS' MEETINGS

Convening of meetings

General meetings of stockholders are called and vote as provided by law; the date and place of the meeting are stated on the notice of meeting as published in the Bulletin des Annonces Légales Obligatoires (BALO) and in the national press.

General Meetings of Shareholders comprise all shareholders, irrespectible of the number of shares held, provided said shares paid up in accordance with calls.

Conditions for attendance

Any shareholder can attend a General Meeting of Shareholders, on proof of their identity and share ownership, either in the form of a registered share entry, or by provision of a certificate drawn up by the intermediary holding their account. These formalities must be completed not later than five days before the date set for the General Meeting of Shareholders.

The right to attend and vote in ordinary Shareholders' Meetings belongs to the beneficial owner, and to the bare-owner in extraordinary Shareholders' Meetings. Owners of pledged stock retain their voting rights. Co-owners of stock are represented in Shareholders' Meeting by one of the said co-owners or by a joint proxy, the latter being appointed by the court at the request of the first co-owner to apply, in case of disagreement among the co-owners.

Each member of the Shareholders' Meeting has one vote for each share owned or represented, provided said stock are paid up as called, and subject to the exceptions provided by law.

Dual voting rights

French stockholders and stockholders who are nationals of a European Union member state are entitled to dual voting rights for each share held, provided they can show proof of having been present in the share registers of the Company for a minimum of two years without interruption.

All stock transferred (except as a result of inheritance, whether testate or intestate, division of property between spouses or gifts inter vivos between spouses or in favor of a relative) will automatically terminate the dual voting rights attached thereto.

Statutory shareownership thresholds

Any natural person or legal entity acquiring a number of shares representing 1% of the total number of shares representing the share capital of the Company, is required to inform the Company of the total number of shares held, within 15 days from the date on which this threshold or any thresholds specified by law is exceeded.

This obligation to inform the Company applies, under the same conditions, as and when the holding falls below one of the thresholds mentioned in the previous paragraph.

In the event of failure to observe the obligation to declare the number of shares held, as stipulated in this Article, the Shareholder shall be deprived of the voting rights attaching to any shares exceeding the threshold in question, subject to the conditions and limits defined by law.

INFORMATION ON COMMON STOCK AND SHAREOWNERSHIP

Statutory information

Changes in the common stock and rights of stockholders are governed by existing legislation.

Company stock exists in either registered or bearer form, at the stockholders' discretion. The register of stockholders is kept by Société Générale (Département Titres & Bourse, BP 81312 Nantes CEDEX 3 – France), as mandated by the Company.

The common stock is fully paid up and includes a "golden" share resulting from the conversion of an ordinary share held by the French State, as decided by Decree n° 97-190 of March 4, 1997 in application of Section 10 of the French August 6, 1986 Privatization Act.

The Company is entitled at all times, and as provided by law, to seek to ascertain the identity of, and number of stock held by, holders of bearer stock presently or in future representing a specified fraction of its common stock.

Change in common stock – 5-year summary

Year-end	2000	1999	1998	1997	1996
Euros	503,194,539	511,410,086	511,410,086	364,484,620	364,484,620
French francs	n/a	3,354,630,260	3,354,630,260	2,390,862,380	2,390,862,380
Number of stock	167,731,513	167,731,513	167,731,513	119,543,119	119,543,119

On May 10, 2000, the Board of Directors, as empowered by the Shareholders' Meeting, decided to convert the common stock to euros and to set the par value of each share in the Company at 3 euros, as against FRF 20 previously. The common stock therefore amounts to 503,194,539 euros, after creating a reserve of 8.2 million euros which shall remain intangible except for the purpose of capitalization or reducing losses.

The increase in share capital during fiscal year 1998 was due to the capital increases approved by the General Meeting of June 22, 1998 in consideration of the contribution of assets from Aerospatiale, Alcatel and Dassault Industries, and of the indemnity of the minority shareholders in Dassault Electronique who opted for a share exchange as part of the simplified public offering made by Thomson-CSF in July 1998.

Securities carrying immediate or future equity entitlements

There were no securities outstanding at December 31, 2000, other than the aforementioned stock, carrying immediate or future rights to a share in the Company's equity.

At that date, the Shareholders' Meeting had granted no authority to issue such securities.

A resolution before the Shareholders' Meeting of May 16, 2001 proposes to authorize the Board of Directors of issue securities directly or indirectly entailing rights to a share in the Company's equity.

Stock purchase or subscription options

The Company had not issued any stock subscription options at December 31, 2000, the Board of Directors having no authority at that date to grant such options, contrary to stock purchase options within a limit of 8 million stock. The Shareholders' Meeting of June 29, 1999 raised the maximum lifetime of these options to 10 years. However, these options may not be exercised for the first five years following their granting.

At the date of registration of this annual report (May 15, 2001), the Board of Directors had utilized this authority as follows :

Date of Board decision	April 2, 2001	May 10, 2000	September 14, 1999
Option type	Purchase	Purchase	Purchase
Exercise period	April 2, 2000 to April 1, 2011	May 2005 to May 9, 2010	September 14, 2004 to September 13, 2009
Exercise price	€44.93	€40.00	€34.56
Discount granted	nil	nil	nil
Number of options granted	145,000	274,300	1,604,700
Number of options cancelled*	-	-	112,000
Number of options outstanding	145,000	274,300	1,492,700
Number of beneficiaries	12	92	220
Of which, number of options held by :			
the Chairman	-	-	60,000
other officers (Executive Committee)	55,000	20,000	180,000

* Notably due to termination of the contract between the beneficiary and the Group since the date of granting.

Shareownership at December 31, 2000

	Number of stock	%
Public sector		
Thomson SA* and its subsidiary Sofivision	54,909,066	32.73
Sogepa*	1,081,256	0.64
French State**	2,022	-
Industrial partner		
Alcatel and subsidiary	42,413,109	25.29
Groupe Industriel Marcel Dassault (GIMD)	9,740,373	5.81
Thomson-CSF	1,921,730	1.15
General public***	57,663,957	34.38
Total number of stock in common stock	167,731,513	100.00

* 100% French State

** including 1 "golden" share (see page 120)

*** Including stock held by employee stockholders (see page 131)

Changes in shareownership – 3-year summary

- **2000**: On the occasion of the transfer of 9.45% of the capital of Thomson-CSF from the public sector to Alcatel, in December 1999, the French State offered present and former employees of the Group the opportunity to purchase stock in Thomson-CSF on preferential terms, pursuant to Sections 11 and 12 of the French August 6, 1986 Privatization Act.

The offer was open from March 30 to April 12, 2000 and concerned 1,761,181 stock, representing 1.05% of the common stock, at a reference price of 36 euros per share, the price at which the French State had sold its stock to Alcatel.

At December 31, 2000, in addition to its "golden" share, the State's direct holding comprised those shares of stock that had not been transferred to employees, partly through reductions in the allocation of stock – the offer was oversubscribed 3.3 times – and partly due to the return of certain stock to the State for reasons of non-payment. The number of shares of stock actually purchased by employees under this offer totaled 1,759,160.

- **1999**: In May 1999, Aerospatiale, which had held 6,493,582 shares of stock in Thomson-CSF since June 22, 1998, was privatized and transferred its stake to its stockholders, i.e. the French State (5,411,431 stock), Sogepa (1,081,256), and others (895).

In December 1999, Alcatel acquired 15,850,628 additional stock in Thomson-CSF (representing 9.45% of the capital stock) in a strengthening of the strategic partnership between Alcatel and Thomson-CSF announced in July 1999.

Making use of the authorization given by the Shareholders' Meeting to trade in its stock on the stock exchange, in 1999 the Company bought back 1,921,730 shares of its own stock, representing 1.15% of the capital stock.

- **1998**: As part of the privatization of Thomson-CSF, a cooperation agreement was signed in April 1998 between Thomson SA, Thomson-CSF, Alcatel and Groupe Industriel Marcel Dassault (GIMD), then called Dassault Industries; Aerospatiale was also a party to this agreement.

The Shareholders' Meeting of June 22, 1998 approved the terms of remuneration for the various transfers of Thomson-CSF stock (26,562,481 shares of stock to Alcatel, 9,740,373 to GIMD, and 6,493,582 to Aerospatiale). The Company ceased to be part of the public sector as that date. At December 31, 1998, the State thus indirectly held 43.9% of the capital stock (versus 58.3% at December 31, 1997), after having transferred 1.53% of the capital stock to present and former employees of the Group on preferential terms, pursuant to the French August 6, 1986 Privatization Act.

Voting rights

The number of voting rights at the last Annual Shareholders' Meeting, on May 23, 2000, totaled 165,886,571.

Because the number varied by more than 5% in June 2000, i.e. before the following Shareholders' Meeting, a new declaration of the number of voting rights was made on June 26, 2000, when they totaled 248,361,845 following the acquisition of dual voting rights by certain shares of stock held by the main stockholders and registered after the close of the Shareholders' Meeting of June 22, 1998.

This number had varied by only 0.1% at December 31, 2000.

The distribution of voting rights at June 26, 2000 was as followed :

Public sector	44.6%
Industrial partner	32.1%
Alcatel	27.8%
GIMD	4.3%
General Public	23.3%

Main stockholders

Thomson SA is a holding company whose capital stock is held entirely by the French State. It holds 46,800,783 Thomson-CSF stock directly. Sofivision, which holds 8,108,283 Thomson-CSF stock, is a wholly-owned subsidiary of Thomson SA.

Sogepa is a holding company and a wholly-owned subsidiary of the French State, which holds equity interests in the defense and aerospace sectors.

The French State holds a "golden" share that notably carries the following rights (Article 3 of the French Decree no. 97-190 of March 4, 1997) :

- "Any increase in the direct or indirect holding of securities, of whatever nature or legal form, beyond a threshold of one-tenth, or multiple of one-tenth, of the capital or voting rights of the Company, by natural person or legal entity, whether acting singly or in concert, must be approved in advance by the minister in charge of the economy [...]."
- "At the proposal of the Minister of Defense, a representative of the State sits on the Board as a non-voting director."
- "[...] Decisions to assign or allocate by way of guarantee the assets specified in the annex to this Decree may be opposed ⁽¹⁾."

The assets referred to concerned the majority of the capital of eleven subsidiaries of Thomson-CSF. As a result of transactions since 1997, these are :

Thales Systèmes Aéroportés S.A.
Thales Microwave S.A.
Thales Optronique S.A.
Thomson UK Holdings Ltd.
Thales Communications S.A.
Thales Air Defence S.A.
Thales Nederland B.V.
Thales Naval S.A.
Thales Avionique S.A.
Thales Training & Simulation S.A.
Thomson Marconi Sonar NV

Alcatel is a joint stock company whose capital is owned by the investing public. It is listed on the Paris Stock Exchange, the London SEAQ, on several other European exchanges, as well as on the New York Stock Exchange and in Tokyo.

GIMD, Groupe Industriel Marcel Dassault, is a holding company with interests primarily in aerospace (Dassault Aviation) and information technology (Dassault Systèmes).

Thomson-CSF held 1,921,730 shares of its own stock at December 31, 2000, which it had purchased in 1999 in a stock buyback program authorized by the Shareholders' Meeting. As required by law, these shares are ineligible to vote and do not qualify to receive a dividend.

To best of the Company's knowledge, no stockholder other than those mentioned in this section holds 5% or more of the common stock or voting rights.

Stockholder pact

A stockholder pact exists between Thomson SA on the one hand, and Alcatel and GIMD on the other, within the framework of the cooperation agreement between the Company and its Industrial Partners (i.e. Alcatel and GIMD). This was initially concluded on April 14, 1998 and was submitted to the Conseil des Marchés Financiers (French financial markets watchdog), which announced the main points of the agreement to the public on April 21, 1998. The agreement was revised on November 18, 1999 following Aerospatiale's exit from the arrangement and from the raising of Alcatel's stake in Thomson-CSF.

(1) The assets mentioned in the annex to Decree 97-190 comprise most of the capital of sixteen Thomson-CSF subsidiaries.

The main points of the pact concern :

- membership of the Board of Directors (see page 127);
- a commitment to seek approval by a majority of the directors representing the Industrial Partner for decisions by the Board of Directors of Thomson-CSF concerning :
 - the appointment and dismissal of the Chairman and Chief Executive Officer
 - adoption of the annual budget
 - significant acquisitions and disposals, or decisions liable to impair cooperation between Thomson-CSF and the Industrial Partner;
- a commitment by the public sector to ensure the Industrial Partner is in a position to hold at least 20% of the capital of Thomson-CSF and to retain its position as the latter's leading private sector stockholder. The public sector, meanwhile, has pledged not to raise its holding above 49.9% of the Company's capital stock;
- a recognized right of preemption for the public sector concerning stock held by Alcatel in the event that the latter loses its pre-eminence within the "Industrial Partner" concert party.

Moreover, Alcatel and GIMD have signed a stockholder pact whereby they declare themselves to be acting in concert in their capacity as the "Industrial Partner," with GIMD acknowledging Alcatel's pre-eminence within this concert party.

Analysis of other stockholders (general public)

Based on the most recent inquiry on identifiable bearers carried out by Euroclear France (previously Sicovam), the French clearing and settlement body, on December 29, 2000, ownership of Company stock is estimated as per the table below :

	% of total	% of float
Non-resident stockholders	13.9 %	40.3 %
French institutional investors and mutual funds	14.7 %	42.7 %
Individuals*	5.8 %	17.0 %
	34.4 %	100.0 %

* including stock held by employee stockholders (see page 131)

TRADING IN THALES STOCK

STOCK DATA

Trading on the Paris Stock Exchange

Thales stock is listed on the Paris Bourse premier marché ("SRD" – Code AFC 12 132) and as an underlying security on the Paris traded options market, MONEP.

	nb of trading days	nb of shares traded	total traded values (M€)	average trading volume per day	average weighted price (€)	high	price per share (€) low	closing
2001								
January	22	6,702,695	319.36	304,667	47.65	55.00	42.75	45.54
February	20	6,638,584	296.27	331,930	44.63	46.69	42.48	43.61
March	22	5,964,632	268.99	271,120	45.10	48.00	42.63	47.65
1st quarter 2001	64	19,305,911	884.62	301,655	45.82	55.00	42.48	47.65
2000								
January	21	8,903,006	326.78	423,950	36.70	40.40	32.00	38.00
February	21	9,613,683	429.96	457,790	44.72	52.60	37.00	41.00
March	23	6,811,082	314.83	296,140	46.22	50.10	38.40	42.50
1st quarter	65	25,327,771	1,071.57	389,660	42.31	52.60	32.00	42.50
April	18	3,692,458	147.68	205,140	40.00	46.00	37.00	39.10
May	22	6,219,149	244.65	282,690	39.34	42.05	36.86	41.60
June	21	5,593,161	240.66	266,340	43.03	45.24	39.60	41.26
2nd quarter	61	15,504,768	632.99	254,180	40.83	46.00	36.86	41.26
July	20	4,369,629	194.03	218,480	44.40	48.00	40.58	47.00
August	23	6,586,366	316.27	286,360	48.02	50.90	42.75	46.60
September	21	4,655,469	228.95	221,690	49.18	53.90	44.11	47.74
3rd quarter	64	15,611,464	739.25	243,930	47.35	53.90	40.58	47.74
October	22	7,212,668	346.64	327,850	48.06	53.30	40.00	52.90
November	22	5,954,430	306.60	270,660	51.49	57.75	48.21	50.00
December	19	3,764,439	197.47	198,130	52.46	55.00	49.20	51.05
4th quarter	63	16,931,537	850.71	268,760	50.24	57.75	40.00	51.05
Year 2000	253	73,375,540	3,294.54	290,020	44.90	57.75	32.00	51.05
1999								
January	20	5,292,761	177.38	264,640	33.51	37.50	31.09	35.50
February	20	5,377,148	170.10	268,860	31.63	36.50	27.00	27.00
March	23	6,385,876	180.45	277,650	28.26	30.79	25.20	28.30
1st quarter	63	17,055,785	527.93	270,730	30.95	37.50	25.20	28.30
April	20	6,697,766	190.46	334,890	28.44	31.00	26.80	31.00
May	20	5,188,336	162.37	259,420	31.30	33.19	29.70	31.50
June	22	6,548,704	219.56	297,670	33.53	36.50	30.71	33.70
2nd quarter	62	18,434,806	572.39	297,330	31.05	36.50	26.80	33.70
July	21	5,276,700	181.14	251,270	34.33	36.85	30.50	30.95
August	22	4,626,399	151.54	210,290	32.76	36.44	30.15	34.60
September	22	6,125,952	205.24	278,450	33.50	36.50	30.60	31.90
3rd quarter	65	16,029,051	537.92	246,600	33.56	36.85	30.15	31.90
October	21	6,271,203	197.74	298,630	31.52	33.18	29.63	32.30
November	21	7,030,402	216.14	334,780	30.74	34.04	28.30	28.81
December	22	6,186,207	188.28	281,190	30.53	33.00	28.60	32.79
4th quarter	64	19,487,812	602.16	304,500	30.93	34.04	28.30	32.79
Year 1999	254	71,007,454	2,240.31	279,560	31.55	37.50	25.20	32.79

Thales stock price performance in Paris versus the CAC40 index⁽¹⁾

	Q1 2001	2000	1999
Thales stock performance over the period *	- 6.66 %	+ 55.7 %	- 10.4 %
CAC40 performance over the period *	- 12.59 %	- 0.54 %	+ 51.5 %
Thales stock performance within CAC40	18th	4th	40th
Volatility high/low, %	n.a.	+ 5.23/+ 1.98	+ 4.08/+ 1.63
<i>(average per session : Thales / CAC40)</i>			
Trading volume (in number of shares traded) over the period	19,305,911	73,375,540	71,007,454
Trading volume in euros over the period	884.62	3,294.54	2,240.31
Number of shares traded (monthly average)	6,435,304	6,114,628	5,917,288
Trading volume in euros (monthly average)	294.87	274.54	186.69
Total Shareholder Return **	Not applicable	57.6 %	- 8.9 %

* Closing price

** Differential between closing prices at December 31 of each year, plus net dividend paid in the course of the year in respect of the previous years and relative to the opening price.

Thales's stock experienced a highly volatile period between the beginning of 1999 and end-March 2000. Its performance versus the CAC40 was characterized by three sharply contrasting phases :

- Phase one, which predated 1999, ended at the start of 2000. During that period, market perceptions of the stock were negative, a fate shared by most defense/aerospace stocks in Europe and the United States. Meanwhile, the leading markets were heading upward, buoyed especially by the tech-stocks boom. Paris was no exception to the rule, surging 51% over the year in 1999. Thales, as part of a sector (defense) with a reputation for slow or even flat growth, actually fell 10%, with the worst performance in the CAC40.
- The second phase set in at the beginning of 2000 with a total reversal of the situation, following a number of positive announcements and events: 1) the announcement in early-January of plans to acquire the UK firm Racal Electronics, which broke the market's impression that Thales was isolated in Europe at a time when several of its rivals had completed acquisitions in the previous months; 2) the announcement of good sales figures (revenues and new orders in 1999, published in February 2000), confirmed in March by the publication of satisfactory financial results, signaling a return to growth; 3) finally, reorganization of Thales into three main business groups, and the emergence of a dual strategy allowing Thales to project its high-tech competencies in both the growing commercial markets and in the supposedly less dynamic military markets. Performance over the year was driven primarily by the Group's civilian technologies. Then, in the second half of the year, market optimism returned as the defense and aerospace sectors appeared to have bottomed out, and investors appreciated the good visibility their long product cycles afford.
- At the beginning of 2001, Thales was unable to escape the generally downward trend in the market, although its stock retreated only moderately. The Company's fundamentals are perceived to be sound by comparison with the increasing surrounding volatility.

Other stock exchanges

Thales has been traded on the official list of the London Stock Exchange since December 19, 2000, and is listed on the SEAQ. Thales has also been listed on the Deutsche Börse in Germany since 1972.

It was listed on the NASDAQ in the United States from July 1, 1986 until June 30, 1996 in the form of sponsored ADRs (1 ADR for 1 share). The NASDAQ listing was halted on July 1, 1996. At April 30, 2001, 37,919 ADRs had still not been cancelled.

NB : Trading volumes in Thales stock on the other exchanges are negligible by comparison with those on the Paris Bourse. Detailed stock price and volume data are therefore not supplied for these exchanges

(1) Source : Euronext Monthly Statistics

Stock indices

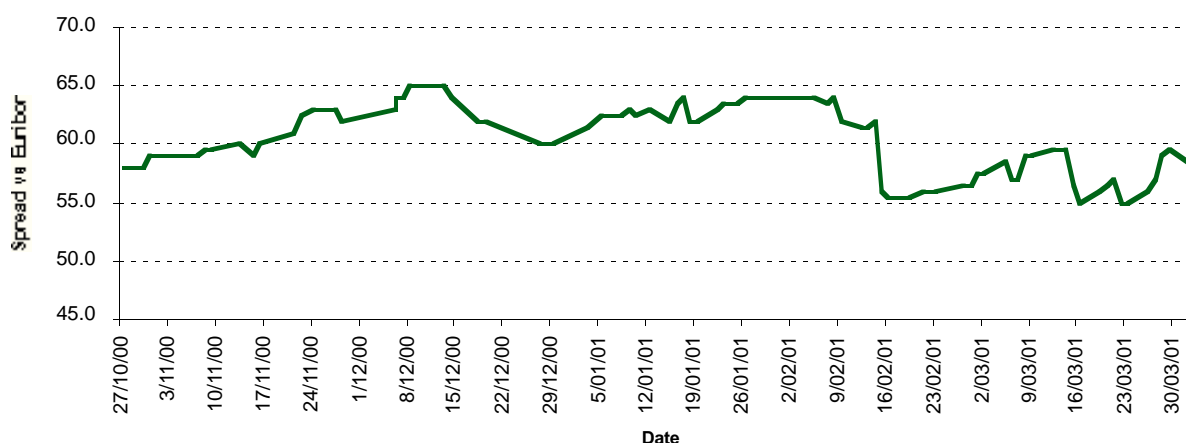
Thales stock enters into the composition of the following market indices :

- Paris: CAC40 (since December 31, 1987), SBF120 (since December 31, 1990)
- London: Eurobloc 100, Eurotop 300
- Euronext: Euronext 100
- International: DJ Eurostoxx

NON-EQUITY SECURITIES

Under the powers granted to it by the Board of Directors at its meeting of September 12, 2000, and in the framework of the authorization granted by the Shareholders' Meeting of May 23, 2000, Thomson-CSF has put in place a 1.5 billion euros global EMTN (Euro Medium Term Notes) program. This program was inaugurated with the launch, on October 27, 2000, of a 6.125% fixed-rate debenture loan with a face value of 500 million euros, maturing November 14, 2005. These debentures are traded on the Paris and Luxembourg Bourses.

Change in spread versus Euribor between October 27, 2000 and April 2, 2001



The main characteristics of this debenture loan are described in note 20 to the consolidated financial statements.

The above chart plots the spread between the rate paid on this debenture and the benchmark Euribor. These spreads are averages based on the prices offered by market makers, i.e. actively trading financial institutions (observed, unofficial data). Statistical data are not compiled on underlying trading volumes.

AUTHORITY FOR THE COMPANY TO TRADE IN ITS SECURITIES

Authority to trade in the Company's stock on the Stock Exchange

Following the General Meeting of February 6, 1990, the Company was given the authority, regularly renewed by annual meetings of shareholders, to trade in its own stock in order to regulate the market. This authority expired at the end of December 1998 without ever having been used.

The Shareholders' Meetings of March 10, 1999, June 29, 1999 and May 23, 2000 approved the new authorizations granted to the Company to trade on the Stock Exchange or otherwise in its stock, in order to stabilize the market in them. Power to utilize these authorizations was vested in the Board of Directors (COB certificates no. 99-142 February 18, 1999, no. 99-621 May 18, 1999, and no. 00-703 May 4, 2000).

The authorization approved on May 23, 2000 for a period of 18 months will serve the following purposes :

- to stabilize the stock price by trading on the stock market as required,
- to retire stock in order to optimize earnings per share,
- to utilize stock as a means of exchange or payment in external growth transactions,
- for the granting of stock purchase options to employees.
- for the granting of stock to employees under Company profit-sharing plans,
- for the sale of stock of employees of Group companies as part of an employee shareownership plan governed by sections 208-18 and 208-19 of the French July 24, 1966 Act,
- for the sale of stock to the members of a Group employee savings plan, as provided in Articles L.443-1 and after of the French Labor Code.

The number of shares bought not exceed 10% of the total number of shares making up the capital stock at the date of the Stockholders' Meeting, i.e. 16,773,151 on May 23, 2000. The purchase price shall not exceed 65 euros per share. Minimum sell price of stock purchased under this authority: 30 euros per share.

Between March 15, 1999, and October 1999, the Company bought 1,921,730 of its own shares, amounting to 1.15% of share capital. These purchases were declared each month to the French financial markets council and the VCOB. No treasury stock was bought or sold between November 1999 and March 2001.

A resolution (no. 8) before the Stockholders' Meeting of May 16, 2000 moves the renewal of this authorization in accordance with the terms of COB note no. 01-432 dated April 24, 2001.

Authority given to the Company to retire its own stock

The Stockholders' Meeting of May 23, 2000 granted the Board of Directors authority for twenty-four months to retire stock bought under the stock buyback program. This stock retirement may be carried out in one or more tranches, up to a limit of 10% of the capital, with authority to reduce the capital accordingly.

Renewal of this authority is moved in resolution 12 before the Stockholders' Meeting of May 16, 2001.

Authority given to the Company to issue debentures or equivalent securities

The Stockholders' Meeting of June 29, 1999 authorized the Board of Directors to issue debentures or equivalent securities, or all other straight or hybrid securities, in particular redeemable or perpetual subordinated notes in France or in the international market or foreign markets, in euros or in all currencies or a basket of currencies, and on such terms (notably fixed or floating-rate) of issue or amortization as it may consider appropriate, up to a ceiling of 1.5 billion euros or equivalent value in all other currencies. The above securities may be issued in one or more tranches. This authority was renewed by the Stockholders' Meeting of May 23, 2000 for a period of five years.

The Board of Directors shall have full powers, with the power to sub-delegate its powers to the Chairman within the above limits, to determine all modalities and terms of the said loan or loans, which may notably comprise variable redemption or interest rates, and in particular to set the period or periods of issuance, to enter into all agreements with all banks, financial institutions or other bodies, and to take all measures designed to complete successfully the transaction or transactions in question, together with the listing of debentures or other securities thus issued and generally to take all requisite measures.

DIVIDEND POLICY

Dividends are legitimately paid to the holder of the share. Any dividend unclaimed after five years lapses by law and is paid to the French tax authority.

Dividends paid over the last five fiscal years and the overall dividend yield as a percentage of the year-end share price for that year as follows

Euros**	2000	1999	1998	1997	1996
Net Dividend	0.62	0.61	0.55	0.55	0.43
Tax credit (Avoir fiscal)	0.31	0.30	0.27	0.27	0.21
Total Dividend	0.93	0.91	0.82	0.82	0.64
Year-end closing price	51.05	32.79	36.59	28.92	25.66
Total yield	1.8 %	2.8 %	2.3 %	2.8 %	2.5 %

* Subject to approval by the Stockholders' Meeting of May 16, 2001 called to approve the financial statements for 2000. If approved by this Meeting, the dividend will be made payable as from June 11, 2001.

** The 1996-1999 dividends were paid in French francs and amounted to FFR 2.80 in 1996, FFR 3.60 in 1997 and 1998, and FFR 4.00 in 1999.

CORPORATE GOVERNANCE

The Board of Directors of Thomson-CSF has appointed three specialized committees :

- an Audit Committee
- a Nomination and Remuneration Committee, and
- a Strategy Committee.

The Group is managed by an Executive Committee led by the Chairman of the Board of Directors.

In 2000 Thomson-CSF adopted a Code of Ethics based on the Charter of Values applicable to all Group companies. The Code embodies a set of rules of good conduct covering key aspects of Group life, e.g.:

- relations with external partners such as customers and suppliers,
- human resources management,
- safeguarding of physical and intangible assets,
- relations with stockholders and the financial community,
- corporate citizenship.

In 2001, the Group has established an Ethics Committee chaired by the Group's Corporate Secretary. The mission of this Committee is to assist management in enforcing the Code of Ethics. It will submit an annual report on its activities to the Executive Committee and Board of Directors.

BOARD OF DIRECTORS

Standing rules of the Board of Directors

Under the Corporate By-Laws, the Board of Directors consists of nine to twenty-four directors appointed by the General Meeting of Stockholders, three directors elected by the employees of the Company and of French companies controlled by it, and one director representing the employee stockholders, appointed by the General Meeting of Stockholders.

The stockholder pact (see page 118) between the "Industrial Partner" (Alcatel and GIMD) and the Public Sector has set the number of directors at sixteen as follows:

- **Directors appointed by the General Meeting of Stockholders :**
 - 5 proposed by the Public Sector (Messrs. Ranque, Dufourcq, Gallois, Lebègue, and Thomson SA),
 - 4 proposed by the "Industrial Partner" (Messrs. Tchuruk, Barth, Dassault, and Dunogué),
 - 3 outside directors (Messrs. Cromme, Freeman, and Roger),
 - 1 employee-elected director (Mr. Hanotte).

- **Employee-elected directors :**

- 3 representatives of French companies (Mrs. Delpierre and Legendre, and Mr. Gladieu).

Moreover, pursuant to French Decree 97-190 of March 4, 1997 concerning the "golden" share held by the French State, a non-voting representative of the State also sits on the Board.

The Corporate By-Laws require each director to hold a least 50 Thales shares throughout the duration of his or her term. However, specific provisions in the French Commercial Code require the director representing the employee stockholders to hold at least one share either directly or via a mutual fund.

The Chairman may invite members of the Executive Committee to attend meetings of the Board in a consultative capacity.

The Board of Directors meets at least six times a year. It met nine times in 2000, with near-100% attendance at each of its meetings.

As laid down in the Code of Ethics, the directors of Thomson-CSF are required to safeguard the interests of all stockholders within the Board of Directors. They take part in the Board committees, and are supplied with all necessary information for the discharge of their duties.

Members of the Board

The sixteen members of the Board of Directors of Thales at the date of this annual report are as follows (except where otherwise stated, their terms expire at the end of the Ordinary General Meeting of Stockholders called to approve the financial statements for fiscal 2003) :

Directors appointed by the General Meeting of Stockholders:

- **Denis Ranque, 49**, Chairman and Chief Executive Officer of the Company since January 20, 1998 and Chairman of the Board of Directors. Owns 2,655 Thales shares and 324 shares in the company mutual fund.
- **Jean-Paul Barth, 58**, Senior Executive Vice-President of Alcatel and Chairman and Chief Executive Officer of Alcatel CIT. Also Chairman of Compagnie Financière Alcatel, Générale Occidentale, Electro Ré, Château Malescasse and Alcatel Participations. He is a director of Alcatel Standard AG, Electro Banque and Locatel. Owns 50 Thales shares.
- **Gerhard Cromme, 58**, Chairman of the Executive Board of ThyssenKrupp AG, also a member of the Supervisory Boards of ABB AG, Allianz Versicherungs-AG, Suez, Ruhrgas AG, E. ON AG and Volkswagen AG. Owns 50 Thales shares.
- **Serge Dassault, 75**, Chairman and Chief Executive Officer of Groupe Industriel Marcel Dassault (GIMD), and Honorary Chairman of Dassault Aviation. Also Vice-Chairman of Société de Gestion de Participations Aéronautiques (Sogepa), and director of Dassault Falcon Jet, Dassault Multimedia, Dassault Développement and Erbe. Owns 50 Thales shares.
- **Bertrand Dufourcq, 67**, Ambassadeur de France, also Chairman of the Fondation de France and the Centre de musique baroque de Versailles, Chairman and Executive Director of Trans Pacific Fund and director of Banque Transatlantique. Owns 50 Thales shares.
- **Jacques Dunogué, 50**, appointed by the General Meeting of Stockholders of May 23, 2000. Term expires at the close of the Ordinary General Meeting of Stockholders called to approve the financial statements for fiscal 2005. He is Corporate Secretary of Alcatel, and a director of Alcatel CIT, Thomson Multimedia, Thirdspace and Nextream. Owns 100 Thales shares.
- **Roger Norman Freeman, 59**, Chairman of Thales Plc and Thales Air Defence Systems Ltd, Thomson (UK) Holdings Ltd, Thomson-CSF Plc, British Titanium Plc, Racal Senior Management Trustee Ltd, Racal Staff Trustee Ltd, Racal-Decca Pension Trustee Ltd, Racal Executive Trustee Ltd, and director of Avimo Group Ltd (Singapore). Former UK Minister for Defense Procurement 1994-1995. Also consultant to PricewaterhouseCoopers in the UK. Owns 129 Thales shares.
- **Louis Gallois, 57**, Chairman of SNCF, also director of the Ecole Centrale des Arts et Manufactures, Air France, EADS and Société de Gestion de Participations Aéronautiques (Sogepa). Owns 50 Thales shares.
- **Michel Hanotte, 61**, Vice President Strategy and Development, Naval Business Group, was elected to represent the employee stockholders by the General Meeting of Stockholders of March 10, 1999. Term expires at the close of the Ordinary General Meeting of Stockholders called to approve the financial statements for fiscal 2004. Owns 22 Thales shares and 188 shares in the company mutual fund.
- **Daniel Lebègue, 57**, Chief Executive Officer of the Caisse des Dépôts et des Consignations, also Chairman of the Supervisory Board of CDC IXIS, director of CDC Marchés, CDC Participations, C3D, Dexia and Gaz de France, member of the Supervisory Boards of the Caisse Nationale de Prévoyance and Club Méditerranée. Owns 50 Thales shares.

- **Bruno Roger, 67**, Member of the Executive Committee of Lazard, Senior Manager of Lazard Frères, Chairman and Chief Executive Officer of Général de Financière et Industrielle Gaz & Eaux, Vice-Chairman and Chief Executive Officer of AZEO, Vice-Chairman and CEO of Eurafrance, director of Cap Gemini Ernst & Young, Compagnie de Saint-Gobain, SOFINA, and member of the Supervisory Boards of Pinault-Printemps-Redoute and AXA. Owns 500 Thales shares.
- **Serge Tchuruk, 63**, Chairman – Chairman and Chief Executive Officer of Alcatel, also Chairman of Alcatel USA Holdings Corp., member of the Supervisory Board of Alcatel Deutschland GmbH, director of Alstom, TotalFinaElf, Société Générale and Vivendi Universal, and a member of the Board of Governors of the Ecole Polytechnique. Owns 50 Thales shares.
- **Société Thomson SA**, represented by Marcel Roulet, 68, former Chairman of Thomson SA, Thomson-CSF and France Telecom. Owns 46,800,783 Thales shares.

Employee-elected directors

- **Marie-Paule Delpierre, 52**, manager in the Naval and Aeronautical Communications business group of Thales Communications S.A. Owns 50 Thales shares and 74 shares in the company mutual fund.
- **Didier Gladieu, 43**, contract manager in the commercial department of Thales Naval S.A., also director of Thales Naval S.A. Owns 50 Thales shares.
- **Annie Legendre, 52**, wiring fitter at Thales Air Defence S.A. Owns 50 Thales shares.

The following also attend meetings of the Board of Directors in a non-voting capacity :

Representing the French State's "golden" share:

- **Yves Gleizes, 58**, Director of Arms Procurement, French Department of Defense. Representing the French State on the Board of Directors of Thales, in application Decree 97-190 of March 4, 1997 concerning the French State's "golden" share.

Government Commissioner:

- **Bertrand Le Menestrel, 60**, Controller-General of the French Army. Appointed Government Commissioner to the Company and its subsidiaries by decision of the Minister of Defense dated January 14, 1997, in virtue of the law and regulations concerning defense contractors and companies engaged in the manufacture and supply of defense equipment.

Representing the Company Central Works Council:

- **Christian Motreff, 50**, labor union representative. Appointed in December 1998 by the Central Works Council to represent it on the Board of Directors of Thales, pursuant to Article L. 432-6 of the French Labor Code.

BOARD COMMITTEES

The Board committees meet whenever necessary, depending on their specific remit and such decisions as the Board of Directors may place on its agenda. Each committee reports back to the Board, makes proposals concerning the issues before it, expresses any opinions or suggestions it may consider appropriate, and draws the Board's attention to any points that it considers may raise difficulties or require a decision by the Board.

Audit Committee

The Audit Committee reviews the adequacy and consistency of the accounting policies applied to prepare the Company's financial statements, and the Group's systems of internal control and collection of relevant information, and monitors the quality of information delivered to the shareholders. In particular, the committee meets before approval by the Board of the annual and interim financial statements. The Statutory Auditors are invited to attend the meetings of this committee.

- The members of the Audit Committee are Daniel Lebègue (chairman), Jean-Paul Barth, Roger Freeman and Annie Legendre. The committee met twice in 2000.

Nomination and Remuneration Committee

The Committee monitors the composition, organization and administration of the Board of Directors, and the remuneration of the Chairman and directors. In addition, the committee examines the remuneration policies applying to executive directors, studies stock option schemes, and makes proposals on profit-sharing incentives for the Group's employees, particularly the development of employee stock ownership.

- The members of the Nomination and Remuneration Committee are Serge Tchuruk (chairman), Bertrand Dufourcq, Didier Gladieu, Bruno Roger and Marcel Roulet.
The committee met twice in 2000.

Strategy Committee

This committee reviews the draft budget within the framework of the Group's strategic plan, prior to its submission to the Board of Directors. It monitors application of the cooperation agreement between the Company and its main stockholders, and reviews progress of specific cooperation programs covered by the said agreement in the technical, industrial, commercial and intellectual property spheres. It examines significant acquisition and divestment plans together with plans for strategic alliances and cooperation in the technological and industrial spheres.

Strategy Committee members:

- Messrs. Denis Ranque, Chairman, Serge Dassault, Mrs. Marie-Paule Delpierre and Messrs. Louis Gallois, Michel Hanotte and Serge Tchuruk.
The committee met twice in 2000.

EXECUTIVE COMMITTEE

The Executive Committee of the Company and Group is a collegiate body chaired by the Chairman, and comprising eleven members in charge of the main operating and corporate functions. At the date of registration of this report, the members of the Executive Committee were, in addition to the Chairman :

Bernard Rézat	Vice-Chairman
Yves Barou	Senior Vice-President, Corporate Human Resources
Alex Dorrian	Senior Vice-President, Defense business group, Manager Naval Systems
John Hughes	Executive Vice-President, Information Technologies and Services business group
Alexandre de Juniac	Senior Vice-President, Corporate Secretary
François Lureau	Executive Vice-President, Aerospace business group
Jean-Robert Martin	Executive Vice-President, Defense business group
Ross McInnes	Senior Vice-President, Finance
Jean-Paul Perrier	Senior Vice-President, Marketing and Sales
Jean-Loup Picard	Senior Vice-President, Strategy and Development
[Senior Vice-President, Chief Operating Officer. Function held by the Chairman since the departure of Marc Véron, March 1, 2001.
]	

DIRECTORS' AND CORPORATE OFFICERS' COMPENSATION

Compensation and benefits in kind paid to directors and senior executives for the year-ended December 31, 2000

Directors' fees

The total amount of annual fees allocated to directors was reassessed at FRF 1,600,000 by the General Meeting of Shareholders of June 29, 1999. Since June 1977 it had been FRF 725,000. The Board of Directors decided on February 16, 1999, to split this sum into two, one fixed part amounting to FRF 1,060,000, and a variable part of FRF 540,000, distributed according to the number of meetings attended by each director. The Board decided also that the Chairman would be entitled to the same attendance fees as any other director, and the Chairman informed the Board that he would waive these fees. Mr Louis Gallois also waived his fees.

At the same meeting, the Board of Directors decided to pay an additional annual fee of FRF 20,000 (3,049 euros) per committee to each member of the various Board committees. Each director is paid in proportion to the number of sessions attended.

Total such payments represented an aggregate figure of FRF 280,000 (42,686 euros) in respect of 2000 for all members of the different committees, compared with FRF 295,000 in 1998. The Chairman and Mr. Louis Gallois have waived their right to receive this payment also.

A resolution before the Stockholders' Meeting of May 16, 2001 proposes to raise total directors' fees to 400,000 euros a year in recognition of the quality of the Board's work and the increased number of meetings. The Board of Directors has already decided that 50% of this total will be variable.

Compensation paid to members of the Executive Committee

• Chairman and Chief Executive Officer

The gross fixed portion paid by Group companies to the Chairman, Mr. Denis Ranque, in respect of 2000, totaled 535,000 euros, unchanged from the figure paid in 1999.

The variable portion of the Chairman's compensation in 2000 was calculated on the basis of :

- a quantitative criterion, namely EBIT (earnings before interest and tax), excluding net interest expense and the results of companies accounted for under the equity method, and
- qualitative criteria, including Thales's stock price performance, backlog, and the successful integration of consolidated companies, Racal in particular.

The gross variable portion of the Chairman's compensation, to be paid to him by Group companies in 2001 in respect of his performance in fiscal 2000, totals 365,000 euros.

• Compensation paid to corporate officers

A total of 5.5 million euros was paid to the eleven members of the Executive Committee present in the course of 2000.

One third of this amount took the form of variable compensation. As for the Group Chairman, this variable portion is indexed on a set of quantitative and qualitative performance criteria.

The members of the Executive Committee were formerly members of the Group Management Committee, its previous executive organ. Total compensation paid to these same people in respect of 1999 amounted to 5.1 million euros.

Stock options granted to the Chairman and to the other members of the Executive Committee

Stock options granted to the Chairman and the other members of the Executive Committee are listed on page 116.

EMPLOYEE PROFIT-SHARING AND INCENTIVE PLANS

Since 1999, each Group subsidiary has been responsible for formulating the profit-sharing and incentive plans best-suited to its specific circumstances. As a matter of Group policy, compensation packages are increasingly personalized. For senior managers, this entails precisely defining their role and performance evaluation criteria. Consequently, variable pay represents a growing proportion of employees' total compensation, in the form of bonuses linked to individual and group objectives.

PROFIT-SHARING AND INCENTIVE PLANS

Most of the Group's French companies have signed or renewed incentive and profit-sharing agreements in recent years. In 2000, 11.5 million euros were paid to employees eligible for the incentive plan, and 9.1 million euros to those eligible for the profit-sharing plan. Beneficiaries are entitled to invest these sums in the Group's mutual funds.

STOCK OPTIONS

- The General Meeting of Stockholders of March 10, 1999 authorized the Board of Directors to grant selected employees options to buy the Company's existing stock in one or more tranches (see also "Statutory information on the Company and its share capital" page 116).

The Board of Directors utilized this authorization to introduce a stock option plan in September 1999, granting 1,604,700 options, representing 0.97% of the Company's capital stock. This figure includes 60,000 options granted to the Chairman and the 180,000 options granted to the other members of the Executive Committee (see page 116).

The options are valid for ten years, vesting after five years. The purchase price is set at the average opening price over the twenty trading sessions preceding the Board Meeting (34.56 euros) with no discount.

- On May 10, 2000, the Board of Directors decided on an additional stock option plan concerning 274,300 options representing 0.16% of the capital stock. The main beneficiaries of this plan are high-caliber executives selected without regard to rank.

These new options were granted on the same terms as previously, with the exception of the exercise price. This was determined according to the same method as previously and amounted to 40 euros.

On April 2, 2001, the Board of Directors decided to grant 145,000 options to twelve beneficiaries, most of whom had joined the Group subsequent to the previous round of stock options. These options are granted for a period of 10 years, and their exercise price is 44.93 euros, with no discount.

- A resolution before the Stockholders' Meeting of May 16, 2001 moves that the Board of Directors be authorized to grant options to subscribe to the Company's stock pursuant to Articles L. 225-177 and after of the French Commercial Code, within a limit of 7.5 million shares. Under this plan, options are to be granted to a minimum of 6,000 beneficiaries each year.

EMPLOYEE STOCK OWNERSHIP

Issues of stock to employees

- On the occasion of the Company's privatization in June 1998, the Group launched its first large-scale employee stock ownership program, in France and in five other countries, pursuant to the French August 6, 1986 Act (law no. 86-912),
- The sale by the French State of a block of shares to Alcatel in December 1999 gave rise to a further offering of stock to present and former employees of the Company and its subsidiaries, also pursuant to the French August 6, 1986 Act.

This offer took place in the first half of 2000 and was carried out in France. Employees of subsidiaries in fifteen other countries also qualified to take part.

Nearly 80% of those entitled to do so applied to buy stock in the Company, confirming the interest they had shown on the occasion of the first offer in 1998. The offer was similarly successful in the other countries to which it was extended.

As a result, personnel purchased 1,759,160 shares representing 1.05% of the common stock in response to the 2000 offering.

Structure of employee stock holdings

Of the 4.3 million shares sold to members of personnel under the plans described above, 2.7 million were purchased under the Group employee savings plan set up in 1998. This plan comprises the two corporate mutual funds, Thomactions 1 and Thomactions 2.

- stock purchased on the occasion of the 1998 and 2000 offers is held in Thomactions 1, within the framework of the Corporate Employee Savings Plan. It is also intended to receive the stock to be allocated free of charge pursuant to the aforementioned August 6, 1986 Act, in respect of stock purchased under the Corporate Employee Savings Plan. At December 31, 2000, Thomactions 1 held 2,696,977 shares representing 1.61% of the capital,
- Thomactions 2 notably collects dividends and tax credits from stock held by Thomactions 1. It held 73,143 shares at the same date,
- another mutual fund, originally set up by Dassault Electronique, contributed its stock in that company in exchange for Thales stock. This fund too is now invested exclusively in Thales stock, holding 37,651 shares at December 31, 2000.

Employees' common stock holdings (Article L.225-103 of the French Commercial Code)

Pursuant to Article L.225-103 of the French Commercial Code, stockholders are informed that at December 31, 2000, the personnel of the Company and affiliated companies within the meaning of Article L.225-180 of the above Code held 1.94% of the common stock of Thomson-CSF, either directly or through corporate employee savings plans and mutual funds. The August 6, 1986 Act places certain restrictions on the sale of this stock.

Change in employee stock ownership arising from the 1998 and 2000 offers

After allocation of the free shares of stock attached to the 2000 offer, and in the absence of any further offer of stock to employees, it is expected that employees will hold approximately 3.9% of the Company's capital in June 2003. This expectation is based on the assumption that present and former employees will hold on to all of the stock thus purchased together with the free shares allocated in respect of the 1998 offer.

A resolution before the Stockholders' Meeting of May 16, 2001 proposes to authorize the Board of Directors to issue stock reserved for employees in accordance with Articles L.443-5 of the French Labor Code and L.225-138 of the Commercial Code, up to a limit of 6.6 million new shares, representing more than 3.9% of the existing common stock.

GENERAL MEETING OF STOCKHOLDERS, MAY 16, 2001

RESOLUTIONS WITHIN THE AUTHORITY OF AN ORDINARY GENERAL MEETING

1. Approval of the audited financial statements for the year ended December 31, 2000

The General Meeting approves the parent company accounts of Thomson-CSF for fiscal 2000, resulting in a loss of 191 million euros. The General Meeting notes that the consolidated financial statements for the year show net income of 201 million euros.

2. Appropriation of result and payment of dividend

The General Meeting decides to charge the loss for fiscal 2000 to retained earnings brought forward, now in credit (2 million euros), and the balance (189 million euros) to the extraordinary reserve. The General Meeting further decides to transfer the sum of 154 million euros from the extraordinary reserve in order to pay a dividend of 0.62 euros per share and the pre-paid tax due on this payout. The dividend, together with the attached tax credit (avoir fiscal), will be made payable on June 11, 2001.

Year	Dividend (paid in FRF)	Tax credit (avoir fiscal) (ditto)	Gross dividend (ditto)
1997	3.60 (€0.55)	1.80 (€0.27)	5.40 (€0.82)
1998	3.60 (€0.55)	1.80 (€0.27)	5.40 (€0.82)
1999	4.00 (€0.61)	2.00 (€0.30)	6.00 (€0.91)

3. Appropriation to the legal reserve

The General Meeting decides to transfer 11 million euros from the special long-term capital gains reserve in order to bring the legal reserve up to its maximum, i.e. 10% of the capital stock.

4. Approval of related-party transactions covered by article 225-38 of the Commercial Code

The General Meeting approves the acquisition by Thomson-CSF of Alcatel CGA Transport from Alcatel Participations (common director: Mr. Jean-Paul Barth).

5. Re-appointment of a statutory auditor

The General Meeting decides to reappoint Cabinet Mazars & Guérard as statutory auditor for a six-year period.

6. Re-appointment of an alternate statutory auditor

The General Meeting decides to reappoint Mr. Patrick de Cambourg as alternate statutory auditor for a six year period.

7. Approval of directors' fees

The General Meeting approves the payment of aggregate directors' fees of 400,000 euros per year, with effect from fiscal 2001.

8. Authority to the Board of Directors to purchase and sell shares of the company

The General Meeting authorizes the Board of Directors to trade in the company stock by all means for an eighteen-month period within the following limits: maximum purchase price 65 euros, minimum sell price 30 euros, maximum number of shares to be held by the Company: 10% of the capital stock. This authorization cancels and supersedes the one given by the General meeting held on May 23, 2000.

RESOLUTIONS WITHIN THE AUTHORITY OF AN EXTRAORDINARY GENERAL MEETING

9. Change of corporate name

The General Meeting approves the change of corporate name from Thomson-CSF to "Thales".

10. Amendment to the Corporate By-Laws to enable the Board of Directors to meet by "all other means authorized by law, and in particular by video-conference"

The General Meeting approves an amendment to the Corporate By-Laws to enable the Board of Directors to meet by all means authorized by law (and in particular by video-conference, as provided under the French "Loi sur les Nouvelles Régulations Economiques").

11. Amendment to the Corporate By-Laws to take into account the new numbering of the sections of the Companies Act in the French Commercial Code

The General Meeting decides to replace the references to the French Companies Act in the Corporate By-Laws by the numbers of the corresponding articles in the Commercial Code.

12. Authorization of the Board of Directors to reduce the capital stock by retirement of stock purchased under a stock buyback program

The General Meeting authorizes the Board of Directors for a two-year period to cancel treasury stock, within a limit of 10% of the capital stock. This authorization cancels and supersedes the one given by the General Meeting held on May 23, 2000.

13. Authority to the Board of Directors to grant options to subscribe to stock

The General Meeting authorizes the Board of Directors for a thirty-eight-month period to grant options to subscribe to stock within the limit of 7.5 million shares to be issued.

14. Authority to the Board of Directors to issue stock reserved for subscription by employees

The General Meeting authorizes the Board of Directors for a five-year period to issue stock reserved for subscription by employees within the limit of 6.6 million shares to be issued.

15. Authority to the Board of Directors to issue securities carrying equity rights, while maintaining preferential subscription rights

The General Meeting authorizes the Board of Directors for a twenty-six-month period to issue all types of securities directly or indirectly carrying rights to existing or future Company stock, while maintaining existing preferential subscription rights, within the following limits :

- maximum number of shares to be issued: 12 million
- maximum amount of debentures to be issued: 500 million euros

16. Authority to the Board of Directors to issue securities as stated in resolution 15, with waiver of preferential subscription rights

The General Meeting authorizes the Board of Directors for a twenty-six-month period to issue the same types of securities as in Resolution 15 and within the same limits, but waiving preferential subscription rights.

17. Global limitations on powers granted under Resolutions 15 and 16

The limits stipulated in the previous two resolutions (on the maximum number of new shares and the ceiling on debentures) shall be treated as global limitations in the event that one or the other of the said authorizations is utilized.

18. Powers to perform all legal formalities

DETAILS OF PERSONS RESPONSIBLE FOR THE REFERENCE DOCUMENT AND AUDITORS

PERSON RESPONSIBLE FOR PREPARING THE REFERENCE DOCUMENT

"To my knowledge, the data presented in this document correspond to the Company's actual situation; they include all the information required to enable the investors to base their judgment on the Company and group's assets, business activities, financial position, results and future prospects; they do not contain any omission liable to undermine their scope or significance."



Denis RANQUE
Chairman and Chief Executive Officer

NAMES, ADDRESSES AND QUALIFICATIONS OF AUDITORS

STATUTORY AUDITORS

Mazars & Guérard, Le Vinci, 4 allée de l'Arche, 92075 Paris la Défense Cedex, represented by Thierry Colin and Thierry Blanchetier. First appointment begun on June 30, 1983; extended for six fiscal years by the General Meeting of Shareholders of June 30, 1995.

Barbier, Frinault & Autres, 41 rue Ybry, 92576 Neuilly sur Seine Cedex, represented by Christian Chiarasini and Gilles Puissechet, appointed by the General Meeting of Shareholders of June 30, 1997 for six fiscal years.

ALTERNATE AUDITORS

Patrick de Cambourg, Le Vinci, 4 allée de l'Arche, 92075 Paris la Défense Cedex, appointed by the General Meeting of Shareholders of June 30, 1997 to complete the term of his predecessor, namely until the end of the General Meeting called to approve the financial statements of the fiscal year ending December 31, 2000.

Aldo Cardoso, 41 rue Ybry, 92576 Neuilly sur Seine Cedex, appointed by the General Meeting of Shareholders of June 30, 1997 for six fiscal years.

CERTIFICATION BY THE PERSON RESPONSIBLE FOR AUDITING THE FINANCIAL STATEMENTS

As statutory auditors of Thomson-CSF (the "Company") and pursuant to the COB regulation 98-01, we have verified the information relating to the Company's financial position and the accounts presented in this reference document in accordance with professional standards applicable in France.

This reference document was prepared under the responsibility of the Chairman of the Board of Directors of the Company. Our role is to issue an opinion on the fairness of the information included in such document and relating to the financial position and the accounts of the Company.

Our work consisted, in accordance with professional standards applicable in France, of assessing the fairness of the information on the company's financial position and the accounts, verifying that it agrees with the accounts on which we issued an audit report and reading the other information contained in the reference document in order to identify any material inconsistencies in relation to the accounts on which we issued a report and to point out any manifestly erroneous information which we would have been aware of on the basis of our general knowledge of the Company as obtained during the course of our audit.

We have audited the parent Company only and consolidated financial statements for the years ended December 31, 2000, 1999 and 1998.

On the basis of the work described above, we have no comments to make on the fairness of the information presented in this reference document and relating to the company's financial position and the accounts.

Neuilly-sur-Seine and Paris-la-Défense, May 14, 2001

BARBIER, FRINAULT & AUTRES :

Christian CHIARASINI



Gilles PUISSOCHET



MAZARS & GUÉRARD :

Thierry BLANCHETIER



Thierry COLIN



PERSONS RESPONSIBLE FOR FINANCIAL INFORMATION

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