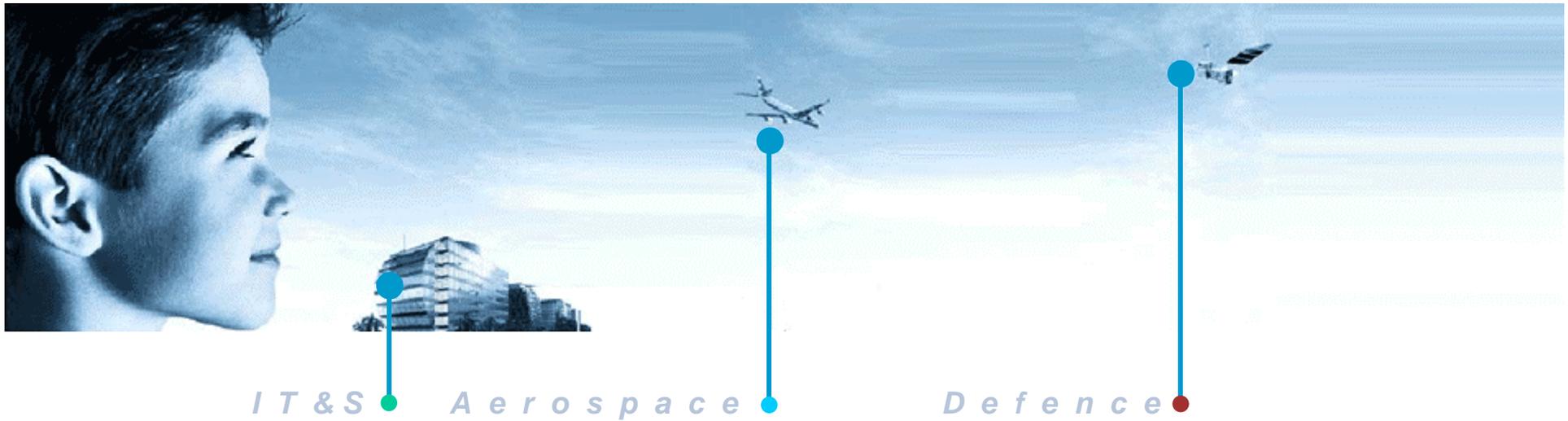


All Employee Share Scheme 2004 offer



IT&S

Aerospace

Defence

- Mike Seabrook
- November 2004

THALES

UK Legislation – A Share Incentive Plan

- All employees – no restrictions

- Tax effective
 - No income tax & NI*
 - Pre-tax salary contributions through PAYE
 - Dividend re-investment
 - No Capital Gains Tax*

*subject to holding shares for certain lengths of time

- Accumulation Period – in effect the period in which contributions are made and accumulated to buy shares at lower of opening price or closing price at the end of the period.

- Employee Contributions: Maximum £1,500 in any one tax year

- Free shares issued (Matching Shares) – tax free

2004 Offer in UK – Key features

- Will be offered to all UK employees via a Share Incentive Plan (“SIP”) - currently only tax effective method in UK.
- All employees employed on 19 November 2004.
- Participants must be ordinarily resident in UK for tax purposes.
- Participants must work for UK Participating Companies.
- Thales will give participating employees 1 free share (“Matching Share”) for every 6 shares purchased (“Partnership Shares”).
- Up to £1,500 or 10% of Pre-Tax salary (whichever is lower) can be saved over 3 Months (Jan-March 2005).

2004 Offer in UK – Key features (cont....)

- Contributions taken from Salary through Payroll.
- No income tax and NI payable if shares held for five years (unless transferred out of SIP).
- Offer will be posted to employees at their home addresses on 19 November 2004.
- As with 2002 offer there will be a two week Subscription period - this will run from 25 November to 6 December 2004.

2004 Offer in UK – Key features (cont....)



- The opening price for the offer will be the Thales S.A. opening price on Euronext Paris on a date to be determined between 20 and 31 December 2004.
- The closing price will be the Thales S.A. opening price on 31 March 2005.
- As with the previous offers, Mourant ECS Trustees Limited will be Trustee/custodian of the shares.

- The “Accumulation Period” will start on a date between 20 and 31 December 2004. We will inform Participants of the start date and the Opening Price.

- During Accumulation Period:
 - Contributions will be deducted from Payroll in 3 equal monthly instalments in Jan, Feb and Mar 2005* (or equivalent weekly instalments if paid weekly)
 - Participants can elect to cease contributions
 - Participants can elect to revoke Agreement

* to take full advantage of the limit of £1,500 for the 2004/05 tax year and to preserve the £1,500 limit for the 2005/06 tax year.

Acquisition of Shares in March 2005

- At end of Accumulation Period (31 March 2005), the Company and the Trustees will calculate number of whole Partnership shares that can be bought (any cash balance will be paid back in next pay).
- If employees across whole Group subscribe for more than aggregate number of shares available (approx. 800,000) then allocations will be scaled down.
- Participant will receive 1 Matching Share for every 6 Partnership Shares acquired.
- The shares will be held by the Trustees (Mourant) on behalf of Participant (who is the beneficial owner).

Acquisition of Shares in March 2005 (cont....)



- Trustees will send each Participant a statement showing the number of Partnership Shares and Matching Shares held by him/her (probably in April 2005) and annually thereafter.
- Participant will be entitled to any dividends in respect of his/her shares from Day One (i.e. March 2005).
- Any dividends will automatically be re-invested to purchase additional Thales S.A. shares (“Dividend Shares”) up to maximum £1,500 per tax year.
- The reinvestment of the dividend will mean that it will suffer no UK tax, just a French withholding tax deduction (unless dividend received is greater than £1,500).
- Participant can elect to receive any voting papers and can vote at Thales S.A. shareholders meetings.

- If Participant leaves due to resignation or dismissal:
 - s/he must immediately remove his/her shares from the Plan;
 - the shares must be sold or transferred into his/her own name; and,
 - if within 5 years tax and NICs payable.

- If Participant leaves due to a Special Reason (including injury, disability, redundancy and retirement):
 - s/he must immediately remove his/her shares from the Plan;
 - the shares must be sold or transferred into his/her own name; and,
 - there will be no income tax and NICs to pay.

- If Participant dies, his/her shares will be transferred or sold according to instructions of their legal reps and there will be no income tax or CGT to pay (but may be inheritance tax liability).

- Cost to Participant (or legal reps) on transfer is nil, but on sale cost will be €22.87 (to SocGen) + 0.30% (commission).

A reminder: Benefits to UK employee Participants



- Can contribute up to £1,500 of pre-tax and pre-NI salary thus ensuring a tax saving at marginal rate.
- Will receive 1 free share for every 6 shares acquired which equates to a 16.7% saving on buying in the open market.
- Unlike 1998 and 2000 offers, no income tax and NICs payable on purchase or receipt of free shares.
- Will incur no dealing costs on purchase in respect of the Plan.
- The share price will be the lower of the Market Price at the beginning and end of the of the Accumulation Period.
- No Capital Gains tax payable on increase in value of share when transferred or sold directly from the Plan at end of the 5 year period.



- The tax benefits can be lost if a Participant leaves the Group due to resignation or dismissal, or possibly on a takeover (dependant on its terms) within the 5 year period.
- Due to the constraints of UK tax legislation, the UK Offer has differed to the Global Offer.
- Share prices can go down as well as up and employees should consider how much they can afford to subscribe, especially as deductions will be taken over a short period (3 months).
- The exchange rate fluctuation risk will be the employee's and so they should consider this when deciding to participate.

- A free decision
- A responsible decision
- A personal choice

