

2017 INTEGRATED REPORT

Corporate Responsibility



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CHAIRMAN'S MESSAGE



**THE PEOPLE
WHO MAKE
THE WORLD GO
ROUND HAVE
GOOD REASON
TO TRUST
THALES**



PATRICE CAINE

Chairman & Chief Executive Officer, Thales

All over the world, as geopolitical instability grows, issues related to ground and air transport, defence, security and space-based systems are becoming more pressing. Today more than ever, Thales has a key role to play in all these areas, helping those with big ambitions to make life better and keep us all safer.

This third edition of our corporate responsibility integrated report, organised along the lines proposed by the International Integrated Report Council, highlights the steps we are taking to support the ambitions of our customers while creating value for all of our stakeholders.

Thales scaled up its digital transformation in 2017, in particular through the acquisition of the big data specialist Guavus, the creation of a Digital Factory and the announcement of our plan to acquire Gemalto. The digital transformation of Thales, and of governments and companies in general, calls for a radical review of the operational processes in place, and it raises new questions related to corporate responsibility and ethics. As part of our transformation plan, therefore, and as a matter of internal policy, I have taken steps to ensure that we specifically examine how these new digital technologies, and artificial intelligence in particular, might impact our business and our stakeholders.

This policy is the logical extension of the Group's long-standing efforts to step up to the growing challenges of corporate responsibility. In 2017, Thales was ranked first in the Aerospace & Defence sector in the World version of the Dow Jones Sustainability Index, and, in an endorsement of our continuing efforts to fight climate change, we were rated A- by the Carbon Disclosure Project for the second consecutive year. Also in connection with climate change, I signed the French Business Climate Pledge on behalf of Thales at the One Planet Summit in December 2017. In addition, for the sixth consecutive year, Thales achieved Advanced level in the United Nations Global Compact.

To move our Group further forward in this direction, I have taken additional steps, detailed in this year's integrated report, to align our financial, social, societal and environmental objectives even more closely with the 17 Sustainable Development Goals of the United Nations.

All these measures reflect a determination on the part of Thales to tie our success to an unwavering respect for Human Rights, environmental stewardship and corruption prevention.

Indeed, the fact that questions of social and environmental responsibility have been included since 2017 in the remit of the Strategic Committee of the Thales Board of Directors is a clear indication that these concerns are being addressed at the highest level of the organisation.

Our policies are also a response to growing demand from investors and the financial markets for a company that consistently delivers better performance, innovates more and demonstrates a greater awareness of its responsibilities.

This notion of assuming responsibility and paying constant attention to fundamental rights confirms that the people who make the world go round have good reason to trust Thales.

PATRICE CAINE

Chairman & Chief Executive Officer,
Thales





GROUP PROFILE

**The people we all rely
on to make the world
go round – they rely
on Thales**

2017 KEY FIGURES

€15.8bn

REVENUES

+7.2% of organic growth⁽¹⁾

€1.5bn⁽²⁾

EBIT⁽³⁾

+16% of organic growth⁽¹⁾
9.8% of revenues

€1.4bn⁽²⁾

FREE OPERATING CASH FLOW

139% of adjusted net income
+43% of organic growth⁽¹⁾

€14.9bn⁽²⁾

ORDER INTAKE

-9% in 2017

65,118

EMPLOYEES

30.6% of new hires are women

€797m

SELF-FUNDED R&D

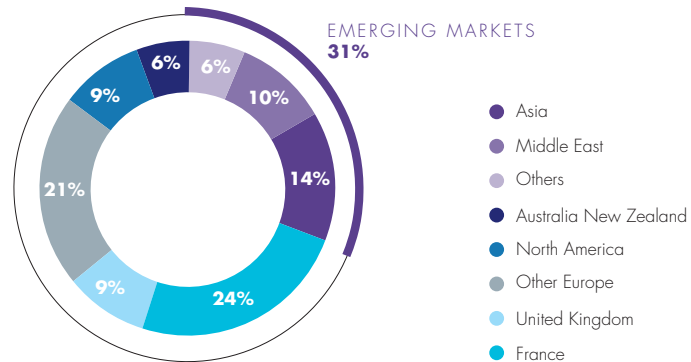
5.2% of revenues
(+25.4% in 4 years)

€3.0bn

NET CASH

+26% in 2017

DIVERSIFIED GEOGRAPHICAL FOOTPRINT



19 orders

VALUED AT MORE THAN €100m EACH

+102%

Total shareholder return over 3 years

+25% CAC 40

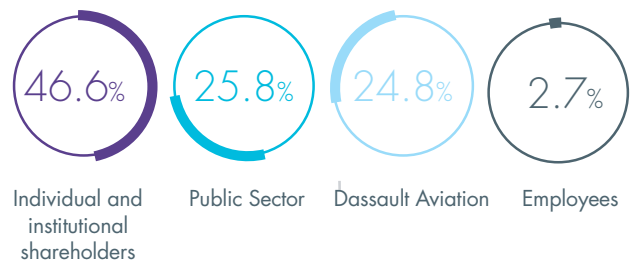
+63% Dow Jones Defence & Aerospace sector

€1.75

DIVIDENDS

+9% in 2017

SHAREHOLDER STRUCTURE



(1) Organic: with constant scope and exchange rates.

(2) Definitions of non-GAAP indicators can be found in the 2017 registration document, section 1.1.1.2.

(3) EBIT : Earnings Before Interest and Taxes.

THALES'S PURPOSE AND VALUES

From the bottom of the oceans to the depth of space and cyberspace, we help our customers think smarter and act faster – mastering ever greater complexity and every decisive moment along the way.



OUR FUNDAMENTALS

Thales is an international powerhouse of talent and human endeavour, combining a unique diversity of expertise, talents and cultures. Throughout the world, our multicultural teams are driven by the same spirit of innovation, performance, responsibility and ethics in their pursuit of customer satisfaction. By adopting a holistic approach and leveraging the collective intelligence of our employees and customers, Thales is able to design and deliver solutions that make tomorrow possible today.



OUR STRATEGIC SHAREHOLDERS

Joint ownership by the French State and Dassault Aviation provides a high degree of stability for Thales. In 2016, these two strategic shareholders extended their shareholders agreement until 2021.

Employee shareholder opportunities have been available since privatisation and are an integral part of the Group's governance. Employee shareholders are represented by a director, who is also a member of the Strategic and Corporate Social Responsibility Committee of the Thales Board of Directors.



OUR LONG-TERM VISION

The purpose of Ambition 10, the ten-year strategic plan launched in 2013, is to grow the business and build a more profitable, more international Group. Ambition Boost, the performance programme developed by operating units for operating units, enables Thales to achieve the objectives set out in Ambition 10 and provides a common roadmap to support employee engagement on a day-to-day basis.



OUR FIVE KEY VALUES

Thales has built its success on five key values that guide the Company and its employees in everything they do (see p. 25):

- Customer trust;
- Developing our talents;
- Agile and innovative;
- Accountable and committed to excellence;
- One team, one Thales.

THALES



CIVIL AND DEFENCE: A BALANCED APPROACH

Civil and defence markets each account for half of Thales's revenues. This is one of the Group's key strengths: the civil and defence businesses draw on the same underlying technologies and their business cycles are complementary, enhancing the resiliency of the Thales business model.

The ever-increasing interaction between the civil and defence sectors in areas such as cyberdefence, avionics, space, big data and artificial intelligence helps to drive innovation within the Thales organisation and provides a competitive advantage that is increasingly important in all the Group's markets.

In addition, while long-term growth in civil markets is structurally higher than in the defence sector, the last three years have also seen a return to growth in defence markets. These complementary market cycles are delivering steady, sustainable growth for Thales.

OUR MISSIONS OUR BUSINESSES

OUR MISSION

Help customers to manage ever more complex environments to make decisions efficiently and quickly at every decisive moment.

OUR STRATEGY

Drive profitable growth in diversified markets where safety and security are critical, by developing the technical expertise that gives us a competitive advantage.

AEROSPACE & SPACE

Aerospace

On-board and ground-based electronics for air traffic control and management, flight safety and reliability; civil and military simulation systems; in-flight entertainment and connectivity.

Customers: aircraft manufacturers, airlines, air traffic control agencies, airports, civil aviation authorities.

Missions: support the growth, security, cost-effectiveness and environmental responsibility of civil aviation, and improve flight safety and the passenger experience.

Space – Thales Alenia Space

Equipment, payloads, satellites, systems and services for space programmes.

Customers: telecom operators, satellite operators, armed forces, scientific institutions.

Missions: meet the requirements of major civil and military programmes for defence, future air, rail and road traffic management systems, scientific research (meteorology and ocean observation) and space exploration.

GROUND TRANSPORTATION

Rail signalling, control and supervision of urban and mainline rail transport networks; fare collection solutions.

Customers: rail transport operators.

Missions: help rail infrastructure operators and providers to offer the best possible services to passengers and master the growing complexity of their networks.

DEFENCE AND SECURITY

Secure communications and information systems and equipment, logistic support and services; radio communications products, networks and infrastructure systems, protection systems, critical information systems and cybersecurity.

Customers: armed forces, security services and critical infrastructure providers (healthcare, water, energy, communications, etc.).

Missions: protect armed forces units as effectively as possible and maximise their operational efficiency; secure telecom networks, cities, airports, borders and critical infrastructure.

Contribution to performance

€5,985 m
of revenues
(39% of 2017 revenues)

€601 m
EBIT
(10.0% of revenues)

€1,761 m
of revenues
(11% of 2017 revenues)

€72 m
EBIT
(4.1% of revenues)

€7,983 m
of revenues
(50% of 2017 revenues)

€869 m
EBIT
(10.9% of revenues)

Growth drivers	Strengths, areas of expertise	Sub-sectors	Civil/ Defence	Competitive position and market share
<ul style="list-style-type: none"> ➤ Air traffic set to double by 2030 ➤ Ramp-up in production of new aircraft types ➤ Environmental performance of aircraft ➤ Strong growth in in-flight entertainment and connectivity (IFEC) ➤ Growing demand for innovative satellite solutions: high-throughput satellites (HTS), constellations, high-resolution Earth observation satellites, etc. 	<ul style="list-style-type: none"> ➤ Only company in the world able to offer complete, end-to-end air transport solutions ➤ Expertise spanning the entire value chain ➤ Synergies with other Group businesses 	<p>Flight avionics (Revenues ~ €1,700m)</p>		<p>No. 3 worldwide (commercial aviation)</p>
		<p>In-flight entertainment and connectivity (IFEC) (Revenues ~ €800m)</p>		<p>No. 2 worldwide</p>
		<p>Satellite solutions for telecoms, Earth observation, navigation and space exploration (Revenues ~ €2,600m)</p>		<p>No. 3 worldwide (civil satellites)</p>
		<p>Other aerospace businesses (Revenues ~ €900m)</p>		<p>No. 1 worldwide in microwave systems</p>
<ul style="list-style-type: none"> ➤ Rapid urbanisation worldwide ➤ Growing awareness among populations and governments of the need for more efficient, more environmentally responsible transport systems ➤ Ambitions to stabilise CO₂ emissions worldwide ➤ Increased digitalisation of rail transport products, solutions and operations 	<ul style="list-style-type: none"> ➤ Ability to leverage know-how in critical information systems and cybersecurity to offer integrated, secure, rolling-stock agnostic solutions ➤ Creating standards that are structuring the rail sector: CBTC (Communication-Based Train Control) for metros and ETCS (European Train Control System) for mainline rail 	<p>Rail signalling and supervision (Revenues ~ €1,750m)</p>		<p>No. 2 worldwide</p>
<ul style="list-style-type: none"> ➤ Return to growth in defence budgets in mature markets ➤ Defence-security convergence ➤ Commercial successes in emerging markets ➤ Rapidly increasing digitalisation of the armed forces ➤ Growing awareness among companies and infrastructure providers of online risks and cyberthreats 	<ul style="list-style-type: none"> ➤ Long-standing partner of armed forces in numerous countries ➤ Presence throughout the value chain, from equipment through to systems and systems of systems, as well as logistical support and related services. ➤ Mastery of new digital technologies: Big Data, Artificial Intelligence, cloud computing, cyberdefence, etc. 	<p>- Advanced defence systems - Air defence, missiles, surface radars, optronics, armoured vehicles, equipment for combat aircraft, naval warfare (Revenues ~ €4,750m)</p>		<p>No. 1 in Europe (defence electronics)</p>
		<p>- Secure Communications & Information Systems - Radiocommunications products, networks and protection systems for armed forces, countries, cities and infrastructure providers - Cybersecurity (Revenues ~ €2,700m)</p>		<p>No. 2 worldwide (defence and tactical communications)</p>
		<p>Air Traffic Management (Revenues ~ €500m)</p>		<p>No. 1 worldwide</p>

OUR ACHIEVEMENTS 2017

FIVE MAJOR MARKETS

JANUARY

France's defence procurement agency chooses Spy'Ranger mini surveillance and reconnaissance drone

The latest-generation mini-UAVs developed by Thales in partnership with SMEs Aviation Design and Merio will give French forces a key tactical advantage, with long-endurance day/night observation capabilities at ranges up to 30 km.



MAY

In Hong Kong, Thales opens its fifth Cyber Security Operations Centre

The global managed security services market will reach \$35.8 billion by 2020, and Asia-Pacific accounts for 18.2% of the total. With its new CSOC, Thales can respond to the cyberthreats faced by organisations such as banking and financial institutions, government agencies, critical infrastructure operators and multinational companies based in Asia.



JUNE

New York's JFK International Airport enhances security with Thales

JFK is one of the 15 busiest airports in the world. Thales will provide an Airport Operations Control Centre to give operators enhanced situational awareness of terminal activities by collecting information from all the different subsystems, enabling security staff to respond faster and more effectively to situations. JFK joins a long list of world-class airports with security systems from Thales, including Bahrain, Doha, Dubai, Durban, Lyon, Muscat, Pisa, Salalah and Singapore.



AUGUST

Thales security evaluation of Samsung Pay contactless app on Galaxy S8 and S8+ leads to certification



This payment method is currently being rolled out worldwide for Samsung users and is supported by over 1,000 banks.



TWO OUT OF THREE AIRCRAFT

WORLDWIDE TAKE OFF
AND LAND USING THALES
EQUIPMENT



AUGUST

Royal Canadian Navy selects Thales fleet support for 35 years

The contract includes an initial service period of eight years for up to CAD 800 million (approx. €540 million) with options to extend services up to 35 years, for a total value of CAD 5.2 billion (approx. €3.5 billion), making it the largest in-service support contract in Canada's history.

OCTOBER

Thales selected by Saudi Railway Company to maintain signalling, telecommunication and electromechanical systems on 2,400 km of track

The Northern Train Project is the longest railway in the world equipped with the state-of-the-art European Train Control System (ETCS) signalling and communications solution. The two-year contract includes skills transfer to the customer's local teams, who will be trained in rolling stock maintenance and train driving operations at laboratories set up by Thales.

**UK Royal Navy chooses Thales to support communication systems for future aircraft carriers**

The seven-year contract, worth €110 million, calls for through-life maintenance, support and management of the communication systems on most platforms across the fleet. These systems enable crew members to communicate securely with all partners and allies anywhere in the world.

Thales Alenia Space is the world leader in satellite meteorology and altimetry.

Around the world, Thales equips more than 50 land forces, over 70 aircraft types and over 40 naval forces.

Thales has designed and operated the French Defence Ministry's information systems for 30 years.

DECEMBER

Thales wins \$37 million contract to supply US Army with tactical radios

The Thales radio solution provides soldiers with Special Operations equivalent equipment, enabling them to make the right decisions in real time.

Thales and Gemalto to create world leader in digital security

Thales's offer, recommended to Gemalto's shareholders by the Gemalto Board of Directors, would combine Thales's digital assets with Gemalto to form the Group's Digital Security global business unit. The planned operation reflects Thales and Gemalto's shared vision of the digital transformation and would combine the talents of two companies with the same DNA and culture to serve a common strategy.

Qatar orders 12 more Rafale combat aircraft, designed and built by Dassault Aviation, Thales and Safran in France

The Rafale is a highly versatile aircraft and meets the full spectrum of requirements, thanks in part to the many types of sophisticated on-board equipment and systems provided by Thales, including the nose-mounted radar, countermeasures, front-sector optronics, CNI suite (communications, navigation, identification) and most of the cockpit display systems.

THALES'S COMMITMENTS TOWARDS SUSTAINABLE DEVELOPMENT GOALS (SDGs)



In 2015, the United Nations adopted a new sustainable development program based on 17 goals (SDGs) to be achieved by 2030.

As a signatory to the United Nations Global Compact, Thales – a trusted partner for a safer world – was keen to participate in this unique initiative, which is aimed at eradicating poverty, protecting the planet, and ensuring prosperity for all by 2030.

This represents a concrete commitment by the Group to support transformation and help improve lives at a global level through its business activities, underpinned by the expertise of its 65,000 employees around the world, and with the support of the Thales Foundation.

GOALS TO BE ACHIEVED BY 2030



Thales helps governments to strengthen their sovereignty by offering solutions that provide security for citizens and public spaces, support the fight against terrorism, and help protect their territory while keeping civilian populations safe. The Group has also implemented a comprehensive integrity programme (see p. 8, 10, 28 to 30).



Diversity lies at the heart of Thales's commitments. In 2016, the Company set ambitious objectives in terms of the percentage of women hired (40%), women in positions of senior responsibility (30%) and the presence of at least three women on each management committee (see p. 39-40).



In 2015, Thales signed the Business proposal for COP21, confirming its commitments on climate. These commitments were reaffirmed in December 2017 with the signing of the French Business Climate Pledge (see p. 45). Thales also helps its customers reduce their environmental footprint through its innovations in the fields of transport and aerospace (see p. 44 to 47).



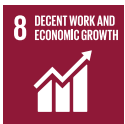
Innovation is part of the Company's DNA. With nearly €800 million invested in R&D, Thales ranks among the world's top 100 most innovative companies. The Group operates an Open Innovation policy which aims to involve start-ups and SMEs in the Company's innovation effort, while building partnerships to drive innovation on uses, business models and technologies (see p. 32 to 35).



Thales has an active policy of managing and reducing consumption, based on energy efficiency, optimised water use, reuse of materials, and reduction of waste (see p. 47).



Thales's security and mobility solutions are designed to meet the new challenges posed by increasing urbanisation, enabling cities and rail or air transport networks to operate more safely and securely (see p. 8 to 11). In Mexico City, for example, solutions implemented by Thales have cut crime rates by 48.9%, while average emergency response times have been reduced by a factor of six.



Thales has chosen to invest in sustainable and responsible relations with its employees. 97.8% of employees have open-ended employment contracts, and 93.4% work full-time. In 2017, 77.4% of employees completed at least one training course. At the end of 2017, 86.3% of Group employees were covered by collective agreements. Thales also pursues an active disabilities policy (see p. 39 to 41).



The Thales Foundation supports an array of science and technology training initiatives. In addition, with support from Group employees, the Foundation has financed the distribution of school kits in Africa, as well as a project to combat school dropout in Cambodia. These actions highlight Thales's commitment to sharing knowledge, a key component of the fight against poverty and exclusion (see p. 48-49).



The Group is implementing an active policy of replacing hazardous or harmful substances in its products. In 2017, Thales devoted over €5m to programmes and studies in this area. The Group additionally supports a number of initiatives relating to the management of natural hazards via the Thales Foundation (see p. 46, 48).



Thales pays special attention to protecting biodiversity.



Several Australian sites have put in place habitat management plans with the aim of restoring the original characteristics of their respective regions.

The Group also pays particular attention to its water consumption (see p. 44 to 47).



The Thales Foundation is developing a number of education and humanitarian aid actions with NGOs and local institutions (see p. 48-49).





KEY CHALLENGES

**Our challenges,
our stakeholders**

THE DIGITAL TRANSFORMATION: A MAJOR OPPORTUNITY

Every day, Thales's products securely collect, transfer, analyse and process data in order to extract essential information. The core technologies of the digital transformation – the Internet of Things (IoT), artificial intelligence (AI), big data and cybersecurity – therefore sit right at the heart of the Group's solutions today. Looking beyond the technological issues, the digital transformation also has the potential to be a powerful growth driver, and as such is likely to have a profound impact on the Group's business model, and those of its customers.

The digital transformation of Thales

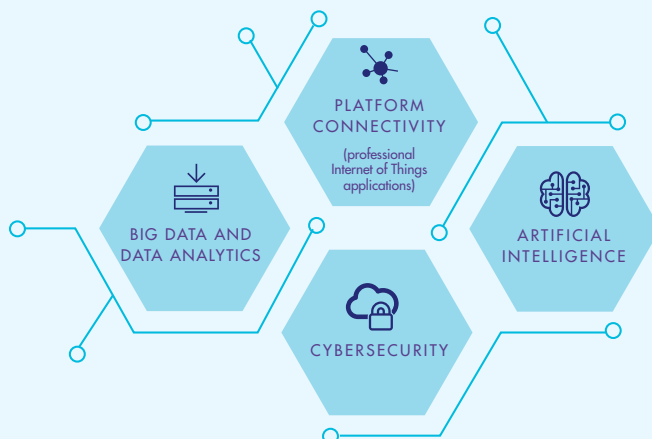
The Group's digital transformation is one of the five initiatives that are central to our **Ambition 10** strategy (see p. 52). It has the capacity to act as an innovation booster and a source of **profitable growth and genuine cultural change**. In a company which has digital hardwired into its DNA, it has the power to deliver breakthroughs in all areas by giving the Group the opportunity to completely redefine its value proposition, its corporate culture and its management practices. It requires agile development processes that are centred on the user experience (for example proof-of-concept demonstrations), and provides a stronger underpinning for "as-a-service" economic models that generate value from data. **The Digital Factory** (see p. 35) acts as the cornerstone of the Group's digital transformation, providing operational support for the process.

1 BILLION EUROS IN INVESTMENT TO BOOST THE DIGITAL TRANSFORMATION IN 2017

The creation of the **Digital Factory** (see p. 35), the acquisition of **Guavus** (see p. 17), the establishment of the **cortAlx** artificial intelligence laboratory in Canada (see p. 34) and the creation of a new laboratory at **Palaiseau**, as well as the financial, organisational and technological support provided to the **Station F** and **Starburst** incubators (see p. 33), are all examples of the Group's commitment to strategic investment in support of the digital transformation.

FOUR PILLARS OF THE DIGITAL TRANSFORMATION

Thales is building and developing its digital expertise in four major areas of technology



Comprehensive technological expertise differentiates Thales in the eyes of customers

Thales is building its digital expertise around **four major digital technologies**. Expertise in all of these technologies creates a **unique offering for customers**. Making the Group's digital transition a success means not only mastering the technologies needed for **connectivity** and managing the **risks and cyberthreats** inherent in today's hyperconnected world, but also leveraging the power of big data analytics and **artificial intelligence** to extract meaning and value from the huge volumes of data generated.

As a critical infrastructure operator, Thales has **direct access to its customers' data and systems**. The Group offers a **unique combination of advanced expertise** in big analytics, security management and secure cloud computing, **plus an in-depth understanding** of each customer and its business processes.



Cybersecurity key to connectivity and the Internet of Things (IoT)

The connectedness of objects and platforms in **critical systems** (one of Thales's key areas of operation) can drive unprecedented gains in performance and efficiency; however, it also makes systems more vulnerable to cyber-threats. IoT, the cloud and mobile represent the new frontiers in this sector. Against this backdrop, **Thales's expertise** stands out from that of other global players thanks to the **exacting standards** that it applies. The Group handles critical and confidential data in highly secure (as opposed to "supposedly secure") private or government clouds. Predicting the behaviour of complex systems (as opposed to consumers) is a current area of focus.

Thales's **1,500 cybersecurity experts** offer proactive and needs-responsive protection for information systems, including security auditing and penetration testing by Thales's teams of ethical hackers, Security Operations Centres currently used by **130 major customers**, and mobilisation of a Rapid Reaction Team in the event of an attack.

Artificial intelligence and big data to support decision-making

GUAVUS BRINGS GENUINE EXPERTISE IN BIG DATA MANAGEMENT

Few companies can match the sheer scale of the artificial intelligence laboratories operated by Thales. The April 2017 acquisition of the US company Guavus, one of the pioneers of real-time big data analytics, added a further 160 engineers to the Group's teams. In addition, Guavus' core expertise in big data streaming analytics will further round out Thales's technological offering.

Sensor technologies form part of the Group's DNA. Combining physics, electronics, signal processing and imaging, in the future these devices will be embedded with an increasing amount of intelligence as close as possible to raw data. The quantities of data produced today far outstrip the current capacity of database software. Having first become involved in the field in 2009, Thales sees big data as a natural development of its core business. The Group's expertise encompasses **not only data capture, but also complex decision-making processes**, which require robust AI that can be subjected to qualification or certification – an area in which Thales has **genuine potential to become a world leader**. The Group's portfolio includes:

- predictive maintenance solutions for rail and air transport;
- identification of hostile signals by new-generation radar systems;
- target detection, automatic recognition and smart tracking;
- the Thales data processing infrastructure for the GAIA satellite has the capacity to handle 1 petabyte (10^{15} bytes) of data, the aim being to observe and catalogue over 1 billion objects in our galaxy.

OVER A MILLION CYBERATTACKS REPORTED EVERY DAY AROUND THE WORLD (1)

THALES PROVIDES SECURITY SOLUTIONS TO 19 OF THE WORLD'S 20 LARGEST BANKS AND 9 OF THE TOP 10 INTERNET GIANTS

AT END 2017, THALES EMPLOYS AROUND 200 ENGINEERS AND DATA SCIENTISTS WITH EXPERTISE IN ARTIFICIAL INTELLIGENCE

(1) Symantec Internet Security Threat Report 2017.

CONSTRUCTIVE EXCHANGES WITH STAKEHOLDERS

Thales's teams are committed to interacting constructively with their ecosystem in the firm belief that listening to stakeholders is a precious source of knowledge, and that different points of view enrich the decision-making process.

Dialogue with each stakeholder is organised as a function of key challenges by identifying the most effective channels of communication and ensuring that interactions take place at the appropriate level of the organisation. Given the Group's size and international scope as well as the diversity of its business lines, dialogue may take place at the level of headquarters, global business units, country operations or sites, depending on the specific situation. The **dialogue policy** and the identification of key stakeholders are structured by categorising stakeholders according to the following criteria:

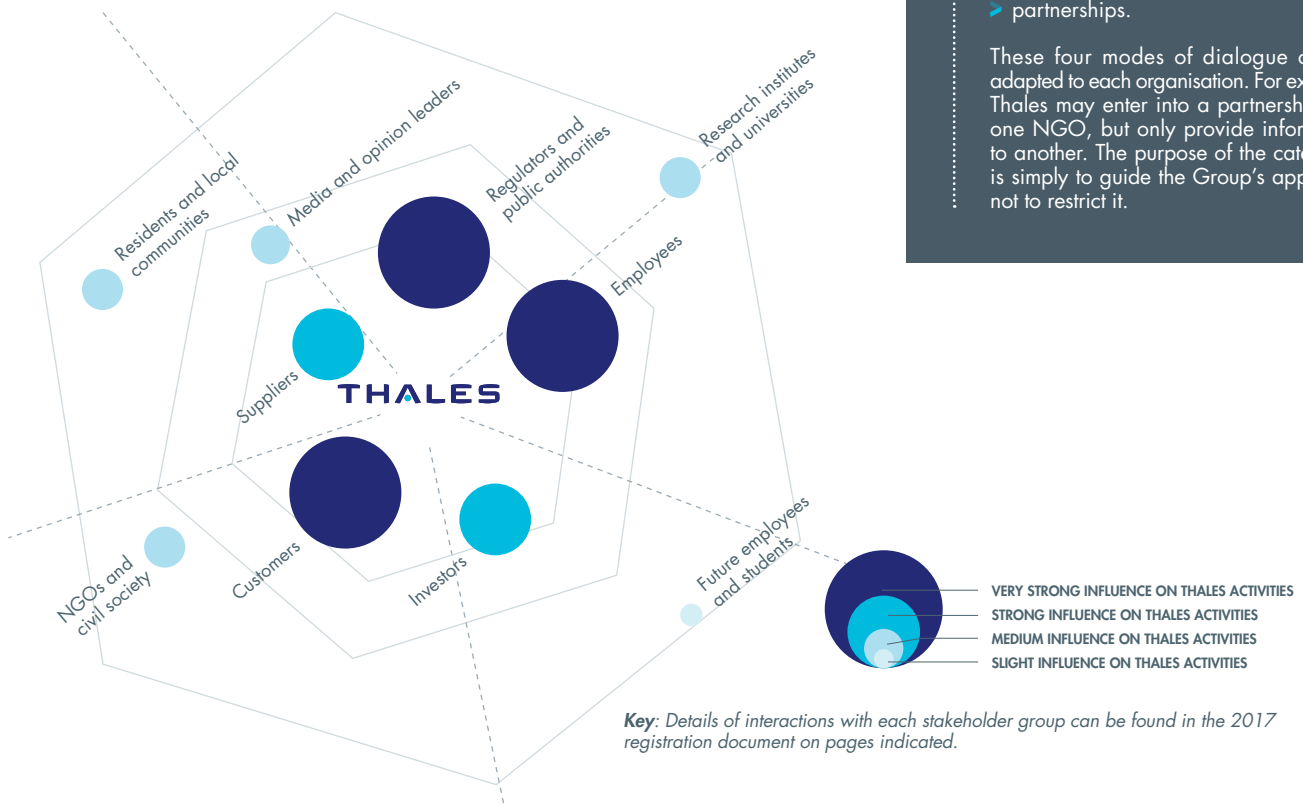
- their role as influencers: the capacity of the stakeholder to influence and impact the Group's decisions;

- the level of engagement that Thales hopes to develop with them.

To manage this process more effectively and **improve feedback** about stakeholders' expectations, while also making sure that these expectations are optimally aligned with Thales's long-term objectives, groups of stakeholders are defined for each key challenge.

For many years, a climate of trust and **constructive dialogue** has been established between Thales and its principal stakeholders, who are also represented on the Group's Ethics and Corporate Responsibility Committee (see p. 29).

THALES STAKEHOLDERS



DIFFERENT MODES OF DIALOGUE

Listening to stakeholders is a major part of Thales's corporate responsibility strategy. In particular, stakeholders' expectations were taken into account when prioritising challenges as part of the materiality assessment (see p. 19).

There are many channels of communication that can be selected to meet the needs of each stakeholder. For the sake of clarity, the various strategies have been grouped into four categories:

- intelligence/information;
- communication;
- obligations;
- partnerships.

These four modes of dialogue can be adapted to each organisation. For example, Thales may enter into a partnership with one NGO, but only provide information to another. The purpose of the categories is simply to guide the Group's approach, not to restrict it.

Listening to stakeholders to identify key issues

In 2016, Thales, with the support of an external consultant (EY), drew up a materiality matrix to provide a more in-depth assessment of the Group’s risks and challenges in terms of social responsibility. This analysis was conducted in several different stages. First, Thales identified its main challenges based on institutional publications (annual report, corporate responsibility report, social report, etc.). Next, these choices were validated through dialogue with stakeholders and by running special internal workshops.

This enabled the Group’s most important environmental, social and economic challenges to be identified and classified based on:

- stakeholder expectations;
- impact on Group activities.

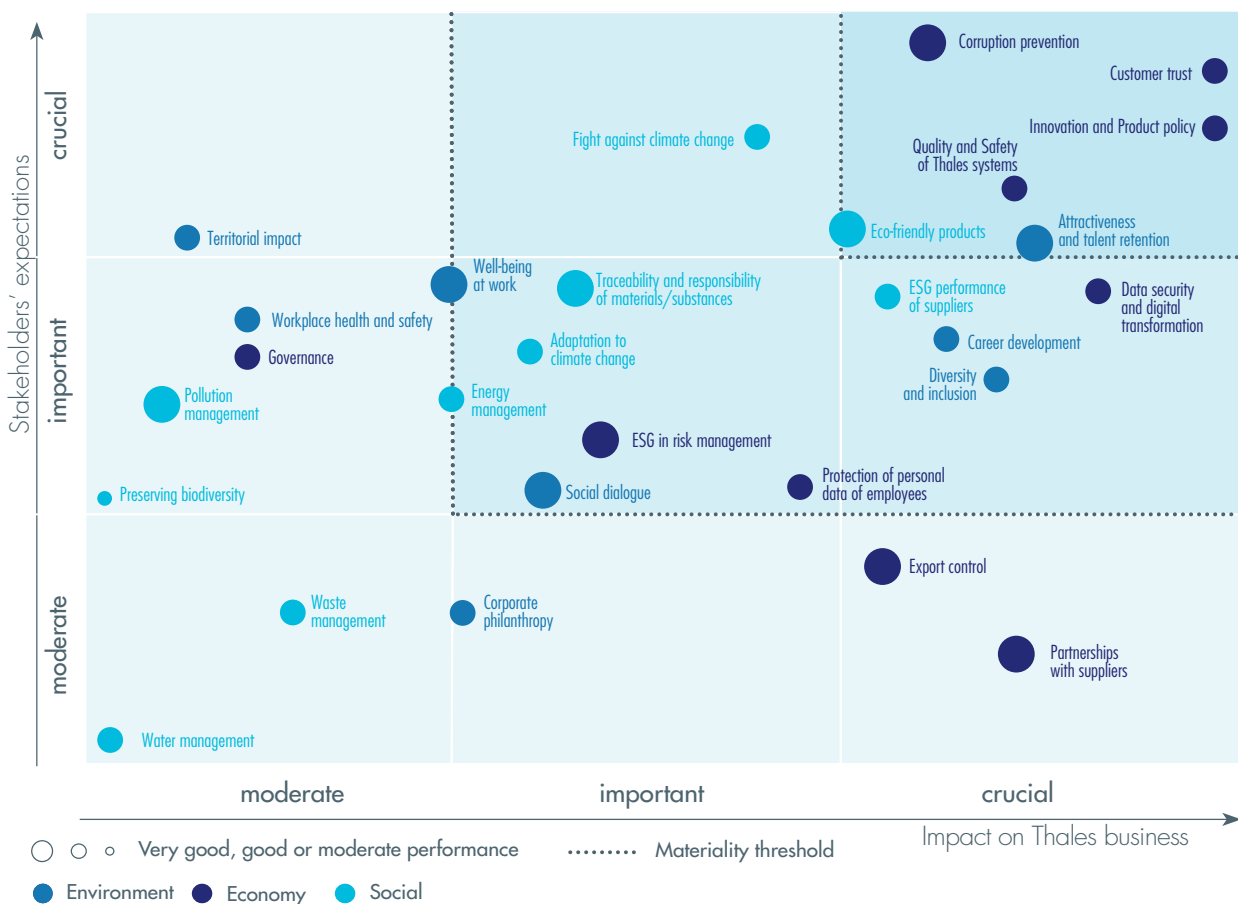
In addition, **Thales’s level of performance against each of the challenges** was determined. Adding this third aspect to the materiality matrix allows the Group’s strategy and policies to be further refined by focusing on the most important challenges, so that stakeholder expectations can be more effectively anticipated, and opportunities more readily seized.

The matrix was updated in 2017 to take account of the following:

- the critical nature of different challenges;
- the work already done to reduce the materiality of challenges (for example, replacement of materials and substances in purchased items).

Thales aims to further develop the analysis to arrive at a detailed identification of potential sources of shared value as part of a long-term vision.

THALES MATERIALITY MATRIX



Analysis of the items that appear in the “**priority challenges**” section of the matrix reveals the **convergence** between **stakeholders’ key expectations** and **Thales’s strategic vision** (Ambition 10 plan, see p. 52-53): customer value and mindset, customer-driven competitive innovation, attractiveness and talent retention, excellence in delivery, etc.

The matrix additionally shows that **the basic principles of Thales’s corporate responsibility policy** – business ethics, risk management, ESG (environment, social and governance) – **are also aligned** with stakeholders’ expectations.

Megatrends and societal expectations

An increasingly interconnected and interdependent world

Increasing urbanisation and globalisation, as well as the rapid spread of new technologies, are shaping a world that is increasingly interconnected and interdependent, in which the security of people and goods, infrastructure and nations depends on leaders and organisations, and their ability to decide and act in a timely fashion in complex environments.

Against this backdrop, the currently ongoing **digital transformation** brings new challenges. Driven by the emergence of **major technological breakthroughs** such as the **Internet of Things**, **big data**, **artificial intelligence** and **cybersecurity**, the digital transformation demands an increasingly robust level of technical and technological excellence to ensure that huge (and still growing) volumes of data can be collected, stored and exchanged safely and securely.

A world of opportunities

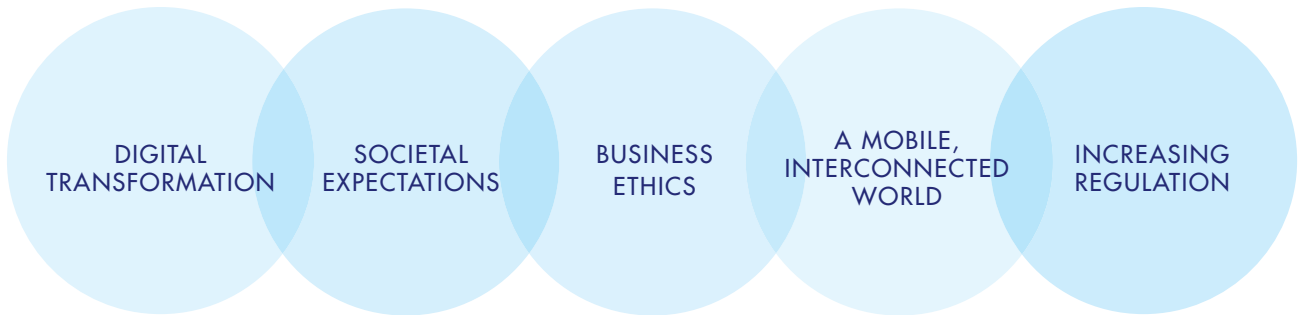
These trends position Thales as a key player in respect of future developments. With digital already hard-wired into its DNA, the Group is able to build these new expectations into its solutions in order to seamlessly support the operation of vital infrastructure. Today, more than ever, emerging countries as well as mature markets need **trusted partners** to help them build a safe, resilient society capable of adapting to citizens' new expectations.

A world of ever-increasing demands

As an array of environmental, political, economic and societal challenges becomes increasingly intense at global level, **companies** are finding themselves faced with **new responsibilities**. Governments, international institutions and civil society are increasingly turning to major economic players to play an active role in joint efforts to develop responses to these new challenges.

The recent increased focus on transparency and **ethics** in the public and corporate spheres has also resulted in a significantly more complex legislative and regulatory environment at the level of individual states (for example the French "Sapin 2" law on transparency and the fight against corruption, and the UK Modern Slavery Act) as well as internationally (notably via the EU's General Data Protection Regulation (GDPR) and its Directive on reporting of non-financial data).

MEGATRENDS



THALES STRATEGY DRIVEN BY MEGATRENDS AND SHAREHOLDER EXPECTATIONS

AEROSPACE, SPACE

DEFENCE AND SECURITY

GROUND TRANSPORTATION



Risk management: heart of Thales's DNA

see p. 26-27

Ethics, integrity and responsible business conduct: an assertive approach

see p. 28-30

Excellence in project execution to guarantee system quality and safety

see p. 31

Research and innovation: key drivers of competitiveness and growth

see p. 32-35

SHARED VALUE CREATION

Customer intimacy as a basis for real partnership

see p. 36-38

Thales's commitment to its employees

see p. 39-41

Responsible, sustainable supplier relations

see p. 42-43

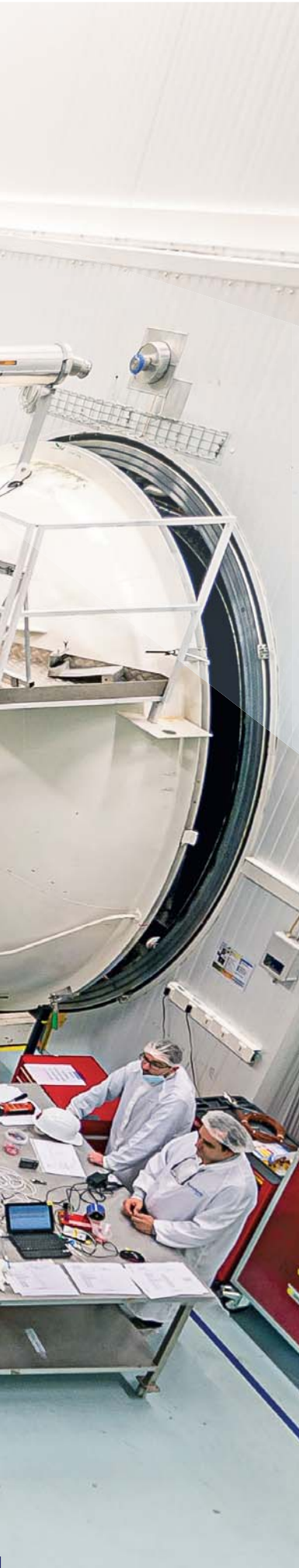
Long-standing commitment to environmental protection

see p. 44-47

Thales's community engagement through the Thales Foundation

see p. 48-49

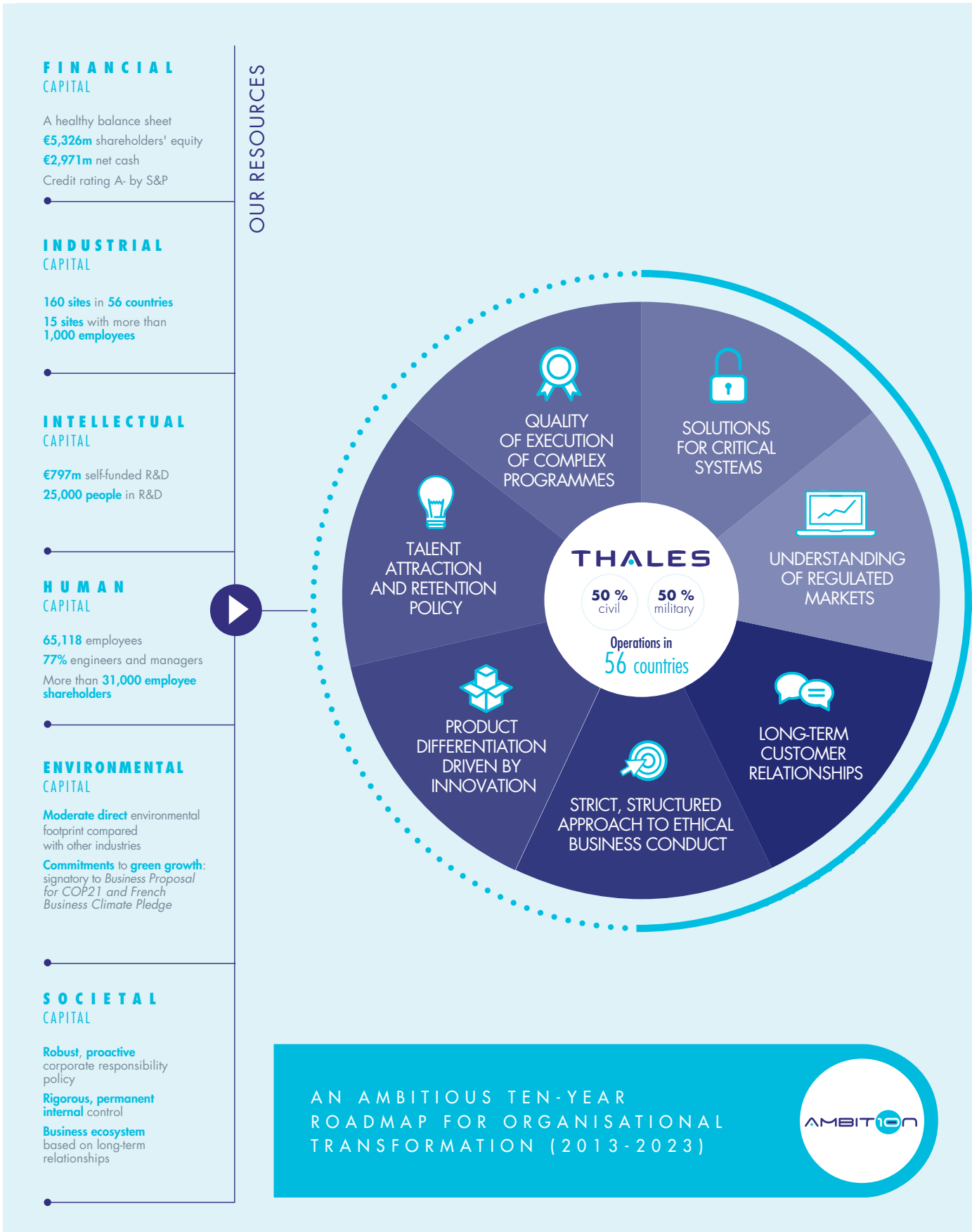




STRATEGY

**Organisation,
commitments
and solutions
to create shared value**

A model of shared value creation with our stakeholders



OUR RESULTS AND ACHIEVEMENTS

FINANCIAL CAPITAL

Organic revenue growth **+7.2%**
 EBIT growth **+16%**
 Increase in dividend per share **+9%**
€91m in acquisitions

INDUSTRIAL CAPITAL

New sites to promote innovation
We Work Innovation Hub
3D printing site in Morocco

INTELLECTUAL CAPITAL

262 new patents filed in 2017
 Thales included in Top 100 Global Innovators by Clarivate Analytics (formerly Thomson Reuters) in 2017
€1bn invested in digital transformation of the Group

HUMAN CAPITAL

7,233 new hires, including **4,708** on long-term contracts
97.4% of staff on long-term contracts
93.4% of staff on full-time contracts
 22 Thales education scholarships granted
77.4% of employees received training in 2017

ENVIRONMENTAL CAPITAL

Energy per unit of revenue: **-10%**
 Water per unit of revenue: **-7%**
 Waste recycled: **55%**
 Solutions to reduce **environmental footprint** of our customers

SOCIETAL CAPITAL

€403m tax (average rate of taxation: 31%)
€17m invested in social outreach projects through Thales PEG and PERCO funds
1st in its sector in DJSI ranking
Advanced Level of UN Global Compact for 6 years

SOLID VALUES



CUSTOMER TRUST

To succeed, we must work as partners with our customers, listening to them, anticipating their needs and finding solutions together. We work to achieve long-term customer satisfaction by delivering on our promises and assuring the quality of our solutions and services.



DEVELOPING OUR PEOPLE

Supporting the professional development of each employee is fundamental. We respect diversity and promote knowledge-sharing. We encourage dialogue. We promote collective achievements and individual talents.



ONE TEAM, ONE THALES

We share responsibilities in a culture of loyalty, partnership and transparency. We encourage solidarity and cooperation at every level of the organisation. We are all on the same team and united in our actions.



AGILE AND INNOVATIVE

We aim to continually improve quality and work more efficiently. This means being ready to take risks, always demonstrating leadership, deciding quickly and acting on our decisions immediately. We strive to build on new ideas to achieve a competitive advantage.



ACCOUNTABLE AND COMMITTED TO EXCELLENCE

We strive to achieve excellence by acting with integrity, loyalty, accountability and professionalism in everything we do.

SHARED VALUE CREATION WITH OUR SHAREHOLDERS

REVENUES IN 2017
€15,795m

SUPPLIERS: PURCHASING AND OTHER
€6,690m

EMPLOYEES: COMPENSATION
€5,292m

STATE: INCOME TAX
€403m

SHAREHOLDERS: DIVIDENDS
€349m

CAPACITY TO FINANCE FUTURE GROWTH

SELF-FUNDED R&D
€797m

ACQUISITIONS
€91m

MANAGING RISK: THE HEART OF THALES'S DNA

Thales supplies complex – often critical – systems, products and equipment for governments and major companies around the world. The Group is therefore exposed to a wide range of risks which could affect its business, its reputation, its profitability and its objectives. To mitigate these risks, Thales has put in place a coherent risk management system encompassing all of its functions.

A proactive approach to identifying and managing risk

In view of the complexity and criticality of its activities, Thales has had a dedicated organisation in place for many years tasked with assessing, managing and assigning responsibility for risk at a day-to-day level. The Group takes steps to identify sources of risk at an early stage in order to manage potential consequences as effectively as possible.

AUDIT AND ACCOUNTS COMMITTEE (6 MEETINGS IN 2017)

Board Committee

Responsible for ensuring the effectiveness of internal control and risk management systems.

RISK MANAGEMENT COMMITTEE (1 MEETING IN 2017)

Chaired by the Chairman & CEO

Meetings are attended by the Senior Vice President, Finance and Information Systems; the Senior Vice President, Operations & Performance; and the Company Secretary. The committee is responsible for:

- Defining acceptable levels of risk;
- Assigning responsibilities for managing and controlling risks;
- Verifying that risk management measures are fully comprehensive.

RISK ASSESSMENT COMMITTEE (5 MEETINGS IN 2017)

Chaired by the Senior Vice President, Audit, Risks & Internal Control

Meetings are attended by the directors with responsibility for Risks, Quality and Insurance. The committee is responsible for:

- Analysing risks and evolving threats;
- Updating and prioritising risk levels (risk mapping);
- Drawing up a cohesive policy of prevention, internal control, audit and, where appropriate, transfer of risk to insurance companies;
- Making recommendations to the Risk Management Committee.

AUDIT, RISKS & INTERNAL CONTROL DEPARTMENT

Certified by IFACI, reports to the Group Secretary

Based on its risk assessments, the department is responsible for ensuring that:

- risks are managed via the performance of audits and the provision of guidance and advice across the Group;
- adequate internal controls are maintained.

The Group's statutory auditors are in regular contact with the Audit, Risks & Internal Control Department

NETWORK OF 18 RISKS ADVISORS

- Oversee main risk factors;
- Characterise risks;
- Monitor major incidents;
- Ensure continuous improvement of the risk management system.

ENTERPRISE RISK MANAGEMENT

Operations directors act as the key contacts for the Audit, Risks & Internal Control Department within Global Business Units and Major Countries.

EXTERNAL AUDITS AND CERTIFICATIONS

For most of its operations, the Group is subject to a control environment imposed by its customers and regulatory authorities, which require strict certification and controls. These specific constraints are in addition to its statutory obligations.

In 2017, the scope of Thales's risk management system was updated to take account of new and amended legislation, standards and regulations (such as Sapin 2, IFRS 15, GDPR⁽¹⁾, etc.).

(1) General Data Protection Regulation (European regulation on protection of personal data).

Group-wide measures

- The **Chorus 2.0 internal reference system**, accessible to all Group employees, defines the business processes applicable to all entities.
- The **insurance and risk prevention function** is responsible for managing and optimising the coverage of insurable risks for all Group companies.
- The **Group's internal control regime** is overseen by the Audit, Risks & Internal Control Department.

It is based mainly on **two annual self-assessment questionnaires**:

- a risk assessment questionnaire in the form of a Yearly Attestation Letter (YAL) addressed to the directors of each Thales stand-alone entity (110 questionnaires completed in 2017);
- a specific Internal Control Questionnaire (ICQ) sent to the financial management teams of all stand-alone and shared service entities, focused on the reliability of financial and accounting data as well as fraud prevention (132 questionnaires completed in 2017).

Internal Audit

The internal audit and advisory plan is updated on a half-yearly basis and draws from risk analysis as well as current issues (bids and projects, product policy, supply chain, etc.) in respect of which specific risk

factors have been identified. Corruption prevention, export control and Business Continuity Management audits are also conducted (see text box).

In 2017, **63 audit** and advisory **missions** were conducted by teams from the Audit, Risks & Internal Control Department. These missions focused on the following topics:

- **Operations**: bids and projects, product policy, engineering and industry, information system security, business continuity plans;
- **Compliance**: corruption prevention, export control;
- **Governance**: organisation, shared services, joint ventures, monitoring of acquisition and divestment transactions;
- Auditing the accuracy of risk assessment questionnaires (YAL) and internal financial control questionnaires (ICQ).

18 risk factors identified, and applied to 56 independent, measurable risk scenarios, responsibility for which is assigned within the governance structure

Each year, Thales maps its operational, strategic, compliance and financial risks. Each risk factor is set out in risk scenarios prioritised on the basis of two criteria, before and after mitigation: likelihood of occurrence and financial impact. Responsibilities for each risk factor are specifically assigned.

CLEARLY IDENTIFIED RESPONSIBILITIES: THREE MAIN STRANDS OF RISK GOVERNANCE



ETHICS, INTEGRITY AND RESPONSIBLE BUSINESS CONDUCT AN ASSERTIVE APPROACH

Business ethics and corporate responsibility are key to the relationship of trust the Group has built with all of its stakeholders. The importance attached to these areas, reflected in the materiality matrix (see p. 19), translates into a zero tolerance policy on compliance issues and a culture of engagement developed over a number of years at all levels within the Group.

Placing ethical considerations at the heart of Thales's business

The rapid transformation and increasing globalisation of our society, together with the spread of digital technologies, are creating new ethical challenges for Thales and its stakeholders.

The design of solutions based on new technologies such as artificial intelligence and big data, for example, only serves to broaden the focus on such issues at a day-to-day level. As an employer, major purchaser, key player in civil society, and leader in its sector, Thales continuously assumes the social, societal and environmental responsibilities

incumbent upon it. Looking beyond the strict application of compliance and approval rules, notably with regard to defence exports, ethical considerations also encompass the sales and marketing of systems and equipment.

As part of its ethical considerations, Thales has to take account of, and arbitrate between, sometimes contradictory stakeholder concerns. This leads to the signing of undertakings and charters that evolve out of a process of collaborative dialogue.

Thales's contributions to the International Forum on Business Ethical Conduct (IFBEC), the joint body of the AeroSpace and Defence Industries Association of Europe (ASD) and the Aerospace Industries Association of America (AIA) led to a draft proposal for a model Code of Conduct for suppliers, as well as an analysis of anti-corruption practices in terms of offsets, aimed at establishing global standards of integrity.

RECOGNITION FOR THALES'S COMMITMENTS

Since 2003, Thales has been a member of the **United Nations Global Compact**. It defends the Global Compact's 10 universal principles, and has integrated them into its strategy. In 2017, for the sixth consecutive year, thanks to high standards of reporting, Thales successfully submitted its Communication on Progress (COP) at the Global Compact Advanced level. Thales is the only French aerospace and defence company to achieve this level of reporting.

The **NGO Transparency International** ranks Thales in the **top four European defence companies** in its anti-corruption index (most recent ranking published in 2015).

In 2017, Thales was ranked first in the Aerospace & Defence sector in the World version of the **Dow Jones Sustainability Index** (see p. 55).

Thales is also extensively involved in professional, inter-governmental and non-governmental organisations as part of its commitment to the sharing and dissemination of best practice.

The Group also **actively participates in national⁽¹⁾ and international⁽²⁾ professional organisations dealing with business ethics**, and has an active presence within the working groups of inter-governmental organisations (OECD, United Nations, etc.).

(1) MEDEF, GIFAS, Cercle d'Éthique des Affaires (Business Ethics Circle), etc.

(2) ASD (AeroSpace and Defence Industries Association of Europe), ICC (International Chamber of Commerce), B20 (international affairs community of 22 business organisations), IFBEC (International Forum on Business Ethical Conduct).



Zero tolerance on compliance issues

In spite of international conventions such as the United Nations Global Compact, corruption is still endemic in many countries today, exposing companies, as well as their employees and managers, to severe legal and financial consequences that could seriously harm their reputations. In light of this fact, Thales has for many years been developing an extremely rigorous

compliance policy, enforced at the very highest levels of the organisation. For over 15 years, Group management has consistently reaffirmed the principle of “zero tolerance” for all forms of bribery and corruption, including active and passive corruption as well as direct and indirect bribery, involving both public officials and private parties.

Continuously updated processes and procedures

The **Code of Ethics**, which is personally sent to each Thales employee, includes a foreword by the Chairman & CEO, and provides details of the integrity programme. In 2017, the Group updated its programme to ensure full compliance with the French law on transparency, the fight against corruption and modernisation of the economy (known as the Sapin 2 law), which came into effect during the year. A Code of Conduct on the Prevention of Corruption and Influence Peddling

was published in 2017 and made available to all Company employees. Thales also reinforced procedure governing its existing **internal ethics alert system**, added greater depth to its **mapping of the risks** of corruption and influence-peddling, and implemented an enhanced process for **assessment of first-tier customers and suppliers**. Finally, an extensive training plan is to be introduced in 2018, together with new materials designed to support the rollout of these tools.

A robust organisation

Thales created an Ethics & Corporate Responsibility Committee in 2001. The committee helps to define Thales’s policy on ethics and corporate responsibility, based on monitoring of the expectations of the Group’s principal stakeholders carried out by the functional departments. It also ensures that the Code of Ethics, together with appropriate training, is implemented across the Group. Finally, it acts as a

forum for discussions on experience, best practice, and any ethical issues submitted to it.

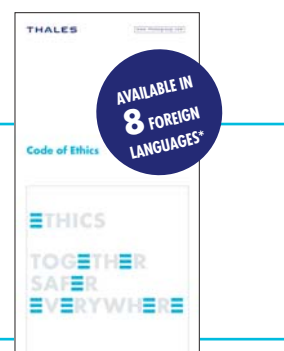
The Ethics & Corporate Responsibility Department implements the policy defined by the committee. It helps to change behaviours by implementing best practice and setting internal standards and processes.

94% OF ENTITIES HAVE CONDUCTED AN ASSESSMENT OF CORRUPTION RISKS

1,035 EMPLOYEES HAVE RECEIVED TRAINING IN CORRUPTION PREVENTION



In addition to the Code of Ethics, several guides are posted for employees on the Group intranet. The guides can also be downloaded from Thales’s website: <https://www.thalesgroup.com/en/global/corporate-responsibility/key-corporate-responsibility-documents>



Commercial compliance: a critical challenge

The Group exports its systems and equipment in accordance with strict rules that are designed to protect the national security of democratic States, and combat the proliferation of weapons of mass destruction around the world. In 2017, defence and security business accounted for half of Thales's revenues.



Products subject to strict export controls

The countries in which Thales manufactures systems and equipment for civil and military applications have strong governance, and exercise strict control over manufacturing and sales/marketing processes.

They are signatories of international laws and conventions regulating the production, sale, export, re-export and import of dual-use components, equipment and technologies, such as the United Nations Arms Trade Treaty, which came into force in late 2014, and which was strongly supported by Thales during the drafting process.

As a result, they ensure that all companies, and in particular those operating in the defence sector, are subject to strict laws governing the prevention of corruption and export control.

Vigilance in manufacturing and purchasing

Many of Thales's business activities are therefore subject to strict compliance with export regulations in various countries. In addition, a significant proportion of the Group's products and solutions rely on items that are purchased from external suppliers. The Group therefore takes steps to ensure that it remains constantly aware of changes in legislation, particularly in the United States, where the Group spends over €1 billion every year on goods and services that are liable to be subject to US export controls with extraterritorial reach.

Failure to comply with regulations could lead to delays in deliveries – frequently accompanied by financial penalties – and, in the most serious cases, to a range of severe sanctions, such as prohibitively large fines, prison sentences for company directors, embargoes, or even a temporary or permanent ban on imports or exports.

A rigorous internal regime

Alongside corruption, export control violations have been identified as one of the major risks facing the Company. They are therefore included in Thales's comprehensive risk management system (see p. 19).

The Group has put in place an ISO 9100 certified process to ensure compliance with export control regulations and applicable economic sanctions. This process includes procedures, dedicated IT tools and training and awareness programmes with dedicated e-learning modules, as well as an annual internal audit plan and alerts on legislative and regulatory changes relating to export controls and restrictions resulting from economic sanctions affecting Thales's areas of business.

Operating units are supported in these areas by a network of specialists, who are responsible for tracking requests for the required authorisations and ensuring compliance in their implementation.

QUALITY AND SAFETY OF SYSTEMS EXCELLENCE IN DELIVERY

Thales's programme delivery, in terms of punctuality, cost and quality, is the very foundation of its success. For many years now, the Group has been reinforcing its organisation and procedures in this area.

Thales's products and systems are highly complex due to their advanced technology content, the requirement for extremely high levels of reliability, and the harsh environments in which they operate.

In addition, the contractual arrangements surrounding their sale (generally based on fixed, all-inclusive prices, and including performance and/or schedule-based requirements) mean that there is no room for error in the management of bids and projects.

Thales therefore takes special care to tailor risk management and assessment processes to the specific needs of each project. Risks are classified at Group level according to their criticality. Bids and projects identified as critical are specifically monitored at the management level of the operational entities and, as needed, by corporate management.

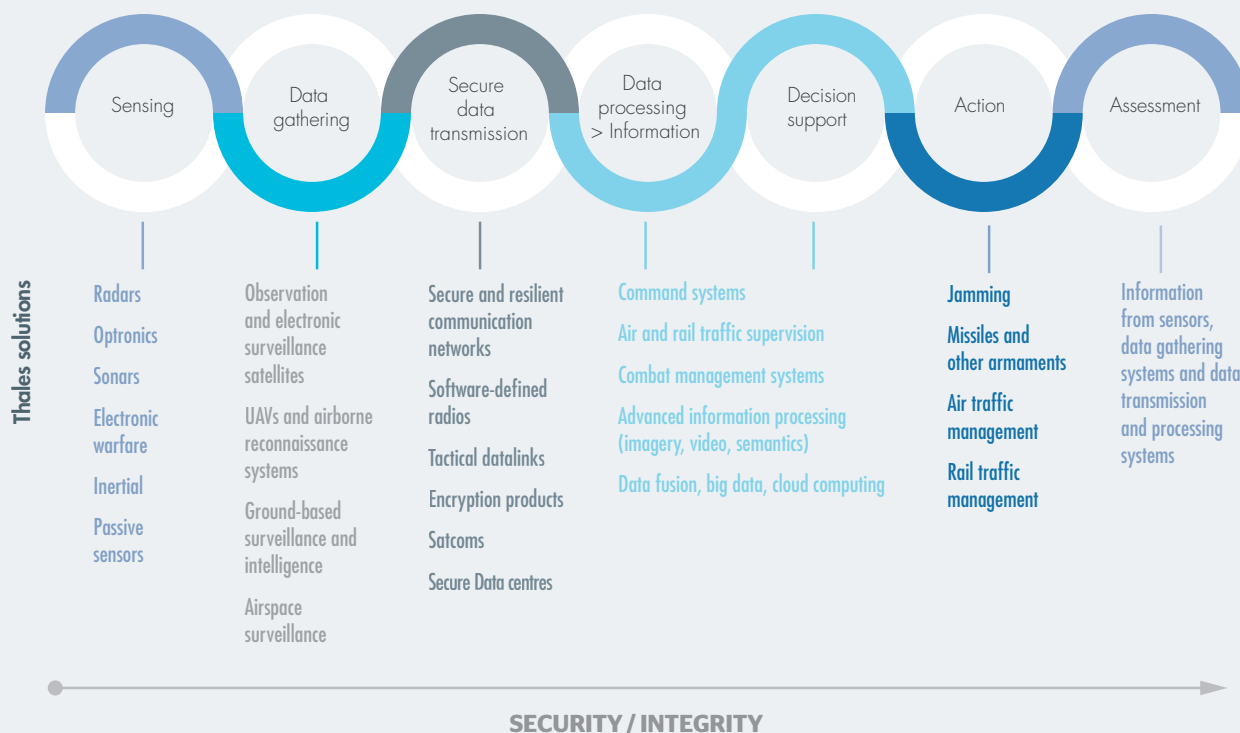
Chorus 2.0: a unified process

The Group Quality Department defines the quality assurance policy and

objectives and drives **improvements in customer satisfaction**. It steers the process management framework – Chorus 2.0 – applicable to all Group entities.

Chorus 2.0 precisely defines what employees do, and how they do it, via a common set of roles, rules, practices, methods and operating procedures. The procedures, instructions, templates and forms which need to be used are easily accessible via the intranet. This system gives the entire Group a shared language.

THE RIGHT DECISION AT THE RIGHT TIME: OUR SOLUTIONS HELP CUSTOMERS TO MASTER THE CRITICAL DECISION CHAIN



RESEARCH AND INNOVATION: THE KEY TO COMPETITIVENESS AND GROWTH

“Inventing tomorrow’s products, today”: since the Company’s earliest days, Thales has been renowned for its capacity for innovation, underpinned by significant ongoing investments in R&D. This powerful technological capability is based on a combination of the decentralised nature of Thales’s operations, and close coordination on strategic topics.

1/3 OF
WORKFORCE MADE
UP OF ENGINEERS
AND RESEARCHERS

5% OF TURNOVER
INVESTED IN
SELF-FINANCED R&D
Up by 25% since 2013

5 GLOBAL
RESEARCH CENTRES
In France, Canada, the
Netherlands, the United
Kingdom and Singapore

MORE THAN **10**
INNOVATION HUBS
IN OPERATION
AROUND THE
WORLD
(see p. 34.)

Delivering innovative, effective solutions

Thales needs to be able to offer increasingly sophisticated technologies, particularly in the detection, analysis and decision-making fields, in order to design and develop critical information systems for the aerospace, space, ground transportation, defence and security markets.

The business lines that make up the Group’s offering are the result of a process of continuous innovation which drives **Thales’s growth as well as delivering performance benefits for customers** in their respective domains. New technologies that make the journey from laboratory concept to finished product have to demonstrate their **technological and scientific** value as well as their operational and economic impact for Thales and its customers.

THE FIRST ARTIFICIAL NANO-NEURON

Work carried out by teams from **Thales and CNRS**, in collaboration with American and Japanese researchers, led in 2017 to the creation of the **first artificial nano-neuron** with the ability to recognise numbers spoken by different individuals. The long-term goal of this collaboration is to produce extremely energy-efficient miniature smart chips, enabling smart capabilities to be added to sensors, or artificial intelligence solutions to be incorporated into business lines.

MORE THAN **1,000**
TECHNOLOGY REVIEWS⁽¹⁾
SINCE 2012

80 NEW TECHNOLOGIES
ADDED TO THE PRODUCT
OFFER IN 2017

THALES RANKED AMONG
THE WORLD’S **TOP 100**
MOST INNOVATIVE
COMPANIES IN 2017
(FOR THE FIFTH TIME
SINCE 2012)

 **Clarivate**
Analytics

TOP 100 GLOBAL
INNOVATORS⁽²⁾.

(1) On the journey from laboratory concept to finished product, every new technology passes through nine different stages of maturity. A review of its technological, scientific and economic value is carried out at each stage.

(2) The global ranking compiled by Clarivate Analytics rates companies based on the volume, success and influence of their patents.

FOUR KEY RESEARCH AREAS



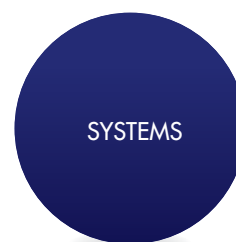
Electronics, electromagnetics, optonics, acoustics, radiofrequency techniques and heat stresses.



Signal and data processing, real-time embedded systems, distributed systems, service-oriented architectures, model-driven engineering, engineering tools and information system security.



Signal and image processing in a smart sensor-oriented approach, data mining and analysis, big data analytics, decision support and optimisation, autonomous systems and artificial intelligence, human factors, etc.



Centred on systems design and architecture, research in this area provides support in terms of methodology and tooling processes, as well as specialist expertise.

At the heart of innovation ecosystems

Thales bases its vision of innovation on **openness and partnership** across multiple dimensions:

- > a technological dimension, through collaboration with **academic laboratories**;
- > an entrepreneurial dimension, by forging closer ties with **SMEs and start-ups**;
- > a “market” dimension, through **joint innovation with customers** and their ecosystems to create new uses.

Over 50 partnership agreements with universities and research centres

In 2017, Thales was ranked 2nd in France and 27th worldwide by the journal Nature for the high quality of its R&D work in close partnership with the public research sector⁽¹⁾.

Thales’s laboratories are firmly embedded at the heart of academic research ecosystems all around the world (including the Saclay complex in France, the University of Delft (Netherlands), Nanyang Technological University (Singapore), leading Canadian research institutions, and technological centres of excellence in the UK).

In emerging countries, the Group is developing its R&D activities by establishing innovation platforms locally, using the tried and tested principles of joint innovation with local players and, in so doing, building long-term, trust-based relationships.

Start-ups: harnessing innovation at its most dynamic

In recent years, Thales has stepped up its open innovation policy with start-ups, with the aim of identifying new technologies as well as new services and business models with the potential to round out its offering. In the last three years, Thales has analysed over **500 start-ups** and breathed life into more than **30 new projects** in conjunction with Group operating units, notably in avionics, optronics and cybersecurity. Start-ups are potential partners and suppliers, and may offer some benefit in terms of acquiring an equity stake.

Thales is also a founding member of the Paris-based Starburst accelerator, which specialises in aerospace and space applications. The Group provides support for Starburst’s global development. In the United States, Thales has also forged links with innovation ecosystems in Boston and Silicon Valley.

PARTNERING THE WORLD’S LARGEST INCUBATOR

As the lead **cybersecurity partner for the Paris-based incubator Station F**, Thales tests solutions proposed by start-ups who have joined the programme. One such start-up, Keeex, a French firm founded in 2014, has developed a unique universal embedded digital signature technique which relies on distributed **blockchain** architecture. This innovation guarantees the integrity and authenticity of the data and documents exchanged, which is a major breakthrough in the digital transformation.

200 DOCTORAL STUDENTS AND 6 TEACHING CHAIRS SUPPORTED AROUND THE WORLD

(1) Top 100 Corporate research institutions: the leading corporate institutions for high-quality science, Nature Index.

More than 10 innovation hubs enabling joint innovation with customers

Thales continues to develop innovation hubs around the world, where its teams engage in discussions on specific topics with customers who use the Group's products. The hubs act as a focus for innovation based on new collaborative design approaches that combine simulation, visualisation and rapid prototyping.



The annual **Thales Innovation Awards** provide an opportunity for employees to demonstrate their rich innovative potential.

The **InnovDays** event is a chance for Thales to present its latest technological advances to customers, decision-makers, investors and the media.

ECOSYSTROLAB
Army applications laboratory

EcoSystrolab by Thales, launched at the Group InnovDays in March 2017, brings together start-ups, SMEs, research laboratories and competitiveness clusters. In 2017, this innovation hub was the venue for nine experiments in joint innovation between Thales, specifiers, end users and suppliers of innovative technologies. The aim is to test new concepts and assess their operational benefits.

**JOINT LABORATORY:
THE MOST
ADVANCED FORM
OF PARTNERSHIP**

In 2017, Thales created cortAlx, an artificial intelligence laboratory with around fifty people, to develop the use of AI in systems.

Thales researchers at the Montreal-based lab are developing collaborations with MILA (the Quebec Institute of Artificial Intelligence), IVADO (The Institute for Data Valorization), the Quebec Artificial Intelligence Institute and the Vector Institute in Toronto.



Patents: enabling dynamic management of intellectual property

The continued large number of patent applications in recent years reflects Thales's commitment to innovation and its ability to translate research results into **competitive advantages**. The Thales portfolio is regularly adapted to operational requirements, particularly to protect Thales's market share.

A PORTFOLIO OF OVER
15,000 PATENTS

**MORE THAN 260 NEW
PATENT APPLICATIONS
FILED IN 2017**



WeWork, Paris (9th arrondissement).

The Digital Factory: an investment of €150 million to capitalise on Thales's digital assets

The Digital Factory was launched in June 2017 to accelerate the digital transformation of Thales and its customers, and deliver breakthroughs across all areas:

- **technology**, with the roll-out of connectivity (Internet of things), big data, artificial intelligence and cybersecurity;
- **development processes** for products and services, which must be agile and centred on the user experience;
- **corporate culture and management practices**;

➤ “as a service” **business models** that generate value from data.

4 pillars supporting agile operational roll-out

Thales is implementing a complete digital ecosystem centred on the customer experience, optimised data utilisation, agility and security.

➤ A **Centre of Excellence** bringing together a critical mass of world-class talent and expertise in the four key digital technologies;

➤ The **Digital Platform “foundry”** – providing a common base in order to maximise synergies and economies of scale;

➤ A **Digital Academy**, to disseminate digital culture and technologies across the Group via training, events, coaching, “hackathons”, etc;

➤ An **incubator** to support internal and external start-ups.

GETTING CLOSE TO CUSTOMERS: THE KEY TO GENUINE PARTNERSHIP

By their very nature, Thales's activities require a sustainable relationship and engagement with customers. Acting as a trusted partner means understanding customers' challenges, their strategic objectives, and their specific operational needs, and responding to them by providing solutions and services that meet their expectations.

An organisation focused on fostering good customer relations

The Thales strategy of local operations based on working in close proximity with customers, listening to their needs and providing support in the long term makes the Group a major industry player in its "traditional" countries of operation, and helps expand its business in countries with strong economic growth.



Creating value together through listening and dialogue

For Thales, assessing the satisfaction and confidence of its customers is a key indicator of its **operational performance** and a **source of constant progress**.

Thales relies on a **worldwide system for listening to customers and managing the quality** of its relations with customers, comprising:

- a two-year cycle of satisfaction surveys, providing opportunities for open, fruitful exchanges;
- a network of independent consultants meeting with customers in more than 100 countries;
- a centralised digital platform for customer data and feedback;
- indicators and analysis on the different market segments, types of customers, business lines, etc.;
- action plans to address the specific needs of each customer;
- cross-cutting analyses that feed into performance plans.

The **global scale** of this system provides Thales with a **comprehensive picture of the quality of its relationships** with customers:

- commercial, technical and operational relationships;
- proposed bids and solutions, as well as contract execution;
- products, systems and services delivered;
- alignment with operational needs and strategic challenges;
- strategy, innovation and preparation for the future;
- quality of communications, etc.

Looking beyond the numbers, the system also provides an array of opportunities for **constructive exchanges**. Feedback from customers indicates a **shared commitment to finding the best solutions** for their own customers and users, **creating long-term relations** and sharing strategy goals, and cooperating to **find solutions for the future**. Such exchanges are an important part of **delivering value** for customers throughout the entire chain (from specifier to end user) and **strengthening Thales employees' commitment** to the customer experience.

KEY FIGURES: CUSTOMER SATISFACTION AND CONFIDENCE IN 2017

74% OF CUSTOMERS SATISFIED OR VERY SATISFIED WITH THALES

84% OF CUSTOMERS ASKED WOULD RECOMMEND THALES

2,000 CONTACTS

650 ACCOUNTS

100 COUNTRIES

BUILDING A COMMUNITY OF INTEREST TO FOSTER IMPROVEMENT: USERS GROUPS

Thales Users Group (TUG) conferences, which began in 1991, bring together users of Thales's Air Traffic Management solutions (corporate senior managers as well as technical and operational managers) every 18 months. The seventeenth TUG conference, held in Singapore in 2016, involved representatives from 31 countries. Conferences like this provide an ideal forum for informal exchanges, with intensive peer-to-peer discussions on best practice and future opportunities taking place in a series of seminars and workshops extending over a period of four days. Thales also takes the opportunity to present its product policy and the result of satisfaction surveys for the year. The most recent survey indicated a satisfaction rate of 83%. These unique events drive improvements for all participants, and enable Thales to ensure that the expectations of the customers and users sector are being fully met.



Singapore Thales Users Group conference.



Open and fruitful discussions with defence and security sector customers in France

In November 2017, Patrice Caine, Chairman and CEO of Thales, invited the French Armed Forces Ministry to a briefing on the results of the satisfaction survey conducted every two years for the past decade or so.

This initiative illustrates the Group's commitment to developing a relationship of trust based on fruitful dialogue. Thales shared areas of satisfaction as well as areas of improvement for the Company in a totally transparent way, thereby giving customers an insight into the initiatives and action plans that arise out of the survey and feed into the Group's overall strategy.

The 2017 survey revealed an overall satisfaction rate of 80%, confirming the high rating obtained in 2015. Improvements have been made in respect of all partnership criteria (quality of relationships, commercial interactions, and execution of contracts and associated services). In overall terms, Thales is considered a reliable, committed, innovative high-tech partner. However, it is also striving to deliver improvements across all aspects of its relationships with customers in order to place this trust on a sustainable footing.

Digital technologies were discussed extensively during the 2017 briefing; the defence sector, like every other sector of industry, has high expectations of digital technologies in terms of their potential to drive disruptive innovation. More broadly, the discussions were an opportunity for employees to better understand the value of Thales's potential for innovation, recognise the importance of high-quality deliverables, and gauge the strategic dimension of their responsibilities from the customers' perspective.

**AN IN-DEPTH ASSESSMENT
EVERY TWO YEARS**

**250 INTERVIEWS
CARRIED OUT**

**80% OF CUSTOMERS
SATISFIED OR VERY
SATISFIED**

THE GROUP'S COMMITMENTS TOWARDS ITS EMPLOYEES

Aware that its success depends on innovation, expertise and collective performance, Thales has chosen to invest in sustainable and responsible relations with its employees. The Group's long-term strategic vision, **Ambition 10**, places employees at the heart of the Group's growth plans.

65,118
EMPLOYEES
(+5.4% since 2013)

77.7%
ENGINEERS,
SPECIALISTS
AND MANAGERS

97.8%
OF EMPLOYEES HAVE
PERMANENT EMPLOYMENT
CONTRACTS

1/3
OF EMPLOYEES
ARE UNDER 40

46.5%
IN INTERNATIONAL
MARKETS

23%
OF EMPLOYEES
ARE WOMEN

93.4%
OF EMPLOYEES HAVE
FULL-TIME EMPLOYMENT
CONTRACTS

16 YEARS
AVERAGE SENIORITY
IN FRANCE

Convinced that innovation is the product of an interdisciplinary approach and a diversity of backgrounds, the Group also strengthened its diversity and inclusion strategy during the year.

Placing people at the heart of our strategic vision, Ambition 10

GOING GLOBAL

Focus on three countries:
USA, China and India



In the last five years of its **Going Global** initiative, the Group has accelerated the deployment of different mechanisms to encourage international mobility (755 Thales

employees in positions outside their home countries in 2017) and local recruitment, particularly in emerging countries, in order to develop the Group's local industrial footprint

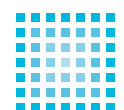
DIVERSITY & INCLUSION



The **Diversity & Inclusion** initiative, sponsored by Patrice Caine, sets ambitious objectives for strengthening diversity, which helps drive innovation and creativity by fostering

a greater variety of approaches, perspectives and ideas. With this in mind, the aim of the inclusion programme is not to ignore differences but to see them as an asset, particularly in fighting stereotypes.

LEADERSHIP & GOVERNANCE



The **Leadership & Governance** initiative, launched in 2014, is based on management excellence. New programmes are launched each year to strengthen managers' people

skills, which are an essential complement to their technical skills. These programmes make teams more agile and support the Group's digital transformation.

The Thales Commitments: a shared ambition for all employees in all countries

With employee cohesion and engagement playing a decisive role in the Group's ability to achieve its objectives, in 2017, Thales wanted to formalise nine commitments towards its employees based around three unifying ideas:

- giving everyone the opportunity to be their best;
- evolving together in a changing world;
- and caring about everyone.

At workshops bringing together people with diverse backgrounds, Group employees were asked to suggest programmes and initiatives for working together to define Thales's future identity and ensuring the actual implementation of these Commitments.

Investing in our employer brand to build the Thales of tomorrow

Unveiled in 2014, the Group's employer brand plays a key role in attracting new talent around the world and increasing diversity within teams. Thales maintains an active presence on social media, university campuses and at major events, such as the 2017 Paris Air Show, to introduce the brand to key audiences and promote the Group's future growth.

A high number of applications are now received via social media, online recruitment sites and the Thales website. In France, these channels account for nearly 70% of applications (or more than 135,000).

For this reason, Thales is continuing to enhance its presence on social media (LinkedIn, Twitter, Viadeo, Facebook and Instagram) to meet the new expectations of young graduates.



Thales is ranked the third most attractive employer by engineering school students in France (according to Universum).

Developing skills

In a highly competitive economic environment, employees' technical skills are a major advantage. To this end, the Group has developed a "skills management" approach for its key job families centred on the identification and sharing of available technical skills. The objective of the approach is to maintain **every employee's expertise** at all times, take account of employees' individual aspirations in terms of their job or their professional mobility and meet the needs of Group companies, based on a diverse training policy led by Thales Learning Hub, the Group's new university.

IDENTIFYING SKILLS TO BETTER ANTICIPATE NEEDS

The Group recognises the essential role of anticipating and sharing information on the evolution of job families, both with employee representatives (when negotiating workforce and skills planning agreements) and employees (during professional development discussions). An annually updated catalogue of **750 skills** provides a comprehensive view of employee expertise in different practices, tools, technologies and products. By the end of 2017, nearly 28,000 employees worldwide had already listed their skills on the platform, which is helping to anticipate **the Group's future needs** – particularly in terms of new technologies – and growth.

THE ARDUINO PROJECT: A SUCCESSFUL INTERNATIONAL CHALLENGE

With few electronics and cybersecurity experts on the labour market, Thales organised the fifth consecutive annual Arduino challenge for engineering students around the world to develop an innovative project related to Thales's businesses using a printed circuit board with a programmable microcontroller. After challenges in the United States, the United Kingdom, Singapore, the Netherlands, China and Hong Kong, several new countries (Portugal, Canada, UAE and Australia) took part in the initiative in 2017. The competition has also been organised in partnership with the Girls on the Move association, which encourages girls to become interested in science and technology.

IN 2017, GROUP EMPLOYEES COMPLETED AN AVERAGE OF **18.5 HOURS OF TRAINING**, WITH **77.4% FOLLOWING AT LEAST ONE TRAINING COURSE.**

CREATING A LEARNING ORGANISATION: THALES LEARNING HUB

When Thales University moved to the Hélios site in Vélizy in July 2017, the Thales Learning Hub concept was developed to offer a new, more digital and more participative vision of the learning process, based on working together and sharing. It uses innovative teaching methods while reinforcing the idea that every employee, with their abundance of knowledge, contributes to the development of their colleagues and the Group in general. The Thales Learning Hub has developed new learning methods such as the "Quick Apply" service, which allows operational departments to participate in creating digital content directly related to their training objectives. The number of digital learning hours completed rose 12.3% from 2016 to 2017. These initiatives reflect the key importance of the digital transformation in the strategic priorities of the Thales Learning Hub.

Constructive social dialogue

In all areas of common interest, Thales promotes cooperation with its employees and their representatives and provides them with high-quality information, in particular by supporting and encouraging employee relations through different bodies: the European Works Council, European Anticipation Commission, trade union coordination body at Group level in France and Group Works Council in France.

By the end of 2017, 86.3% of Thales employees worldwide were covered by collective agreements.

In France, the Group started new negotiations in 2017 that led to the signing of a framework agreement on Growth and Workforce Evolution, with three areas of focus: social cohesion and solidarity, the organisation of working time and fostering growth, and adapting skills and job profiles for growth.

Encouraging diversity

One of the objectives of the Group's "Ambition 10" strategic vision is to build a global, diversified company. The Group is particularly committed to promoting an inclusive approach and making everyone feel fulfilled in

their roles, without discrimination with respect to origins, gender, age, sexual orientation, political opinions, religion, union membership or disability.

A safe and healthy working environment

For more than 15 years, Thales has taken steps to ensure that the men and women employed directly or indirectly by the Group enjoy a safe and healthy working environment. This commitment has helped to foster a culture of safety within the Group, for example by identifying, anticipating and preventing future risks and challenges:

- deployment of safety management systems (OHSAS 18001), with **107 sites certified, representing 82% of the workforce;**
- **annual road safety campaign conducted in countries** around the world to help raise awareness and reduce risks of road accidents;
- consolidation of the role of safety managers and leadership in the deployment of Lean culture;
- **marked reduction in accident frequency rate** (accidents with working days lost) over five years despite slight uptick in 2017;
- **sharp drop in serious accidents** related to technical or technological risks.

Tools and actions

A COMMUNICATION CAMPAIGN TO BREAK DOWN STEREOTYPES

In 2017, Thales conducted a Group-wide campaign to battle stereotypes and unconscious biases and make all employees aware of issues related to diversity and inclusion. The Thales Learning Hub also helped develop an awareness module, which was deployed in a number of countries (1,450 managers have participated since 2013).

A CSR **DIVERSITY** OBJECTIVE MAKES UP **10% OF VARIABLE COMPENSATION** FOR THE MOST SENIOR MANAGERS.

Learn more: "Human Resources" section 5.1 of the 2017 registration document, see page 200 and following.

AMBITIOUS DIVERSITY AND INCLUSION GOALS

Group Commitments

30% OF WOMEN IN SENIOR MANAGEMENT

15.6%	15.2%
2017	2016

40% OF HIRED EMPLOYEES ARE WOMEN

30.6%	28.1%
2017	2016

3 WOMEN ON EACH MANAGEMENT COMMITTEE

33.6%	26%
2017	2016

NON-FRENCH EMPLOYEES IN FRANCE TO DOUBLE (TO 900) BY 2019

536	515
2017	2016

A HISTORY OF COMMITMENT TO GENDER EQUALITY



The Group multiplied its efforts to promote the recruitment and career development of women employees during the year, with co-development measures to encourage women's career growth, a mentoring programme, monitoring of promotions, efforts to promote work-life balance, etc.

Given that women's participation in engineering careers is determined early in life, when they make choices in school, Thales continues to partner with the Elles Bougent association, which works with elementary, middle and high school girls. The Group's 218 female employee sponsors speak at schools, lead workshops and conduct site visits. As part of the programme, 150 girls visited the Paris Air Show in June 2017. This initiative is also supported internationally by Girls on the Move.

RESPONSIBLE, LASTING SUPPLIER RELATIONS

Thales develops and manufactures integrated solutions comprising equipment, subsystems or complete systems, most of which are purchased from external partners. The Group spends the equivalent of around 43% of its revenues on purchasing. As a result, the quality and reliability of the supply chain make a substantive contribution to Thales's added value and ability to deliver customer satisfaction.

OUR SUPPLIERS

€6.79bn

GROUP PURCHASING

% OF GROUP REVENUES:
43%

% OF PURCHASING FROM
EUROPEAN UNION SUPPLIERS:
71%

INDUSTRIAL
SUBCONTRACTING: **€1.62bn**

CHANGE vs 2016:
-1.5%

% OF PURCHASES FROM
SUPPLIERS IN FRANCE:
41%

% OF PURCHASES FROM SMEs
IN FRANCE: **65%**

A sustainable value chain

Starting in the bid phase, Purchasing participates in selecting suppliers and monitoring supplier relations. This is even more important given Thales's collaborative approach of involving purchasers as early in the process as possible, even in the design phase (design-to-buy), to improve competitiveness. The Group makes particular efforts to forge balanced, long-term relations with its partners and suppliers.



SMEs: a key link

In France, over 3,200 SMEs (small and medium-sized enterprises) and MSBs (mid-sized businesses) account for nearly 65% of all Thales purchasing. In 2010, Thales signed a best practices charter between customers and SMEs called the **Responsible Supplier Relations Charter**, which aims to develop a balanced relationship based on trust between suppliers and customers in the knowledge and respect of their respective rights and obligations. In 2012, Thales was one of the very first large companies to be awarded the "Responsible Supplier

Relations Label" by the Médiation des Entreprises (business mediator) and the Conseil National des Achats (French Purchasing Board); the various audits conducted on an annual review (2013, 2014, 2016 and 2017) or triennial renewal (2015) basis have consistently confirmed the awarding of this label to Thales since it was first obtained.



In 2012, Thales also signed the "Innovative SME charter" and since then has actively participated in several multi-sectoral actions taken by its

signatories (primarily publicly-funded French companies) to help SMEs in their innovation projects and contribute to their future development.

As part of its Purchasing strategy, Thales also pursues a **collaborative innovation approach** with its suppliers. An **internal application** was developed to assess the potential in terms of R&T and the offer of innovative start-ups and SMEs to Thales's prescribers and buyers; at the end of December 2017, almost 500 start-ups had already been added to the database.

Thales organises or participates in **events** which are an opportunity to meet leaders in innovation, such as the Thales InnovDays (dedicated to micro-enterprise, SME and start-up partners involved in ongoing projects) or the Thales Open Innovation Day (an event which was a springboard for some 50 European start-ups during pitches or BtoB meetings).

Thales is also involved in many incubators, such as Starburst, the world's largest aerospace start-up accelerator.

The SME Pact: bringing large companies and SMEs together

The Group has also been highly involved with the SME Pact organisation since its creation in 2010 and still sits on its Board of Directors. As part of a proactive initiative to develop good practices, the SME Pact aims to facilitate the growth of SMEs and the emergence of new medium-sized companies. In 2017 for instance, the Group actively participated in the design, implementation and support of an experimental reinforcement programme for 30 SMEs from the aerospace sector, particularly on subjects relating to growth and competitiveness. Since 2013, the SME Pact has produced a

supplier relations quality barometer for its "subcontracting company" members, with the objective of involving them in a continuous improvement approach. In 2015, 2016 and 2017, the barometer conducted on behalf of Thales of a panel of 330 suppliers highlighted a very high level of satisfaction with the quality of relations between the Group and its partners and allowed Thales to undertake a continuous improvement approach by identifying areas for improvement.



Purchasing & Corporate Responsibility Charter

Thales has introduced a number of measures to promote responsible practices and behaviours throughout the supply chain.

Thales asks its suppliers around the world to support its corporate responsibility policy by signing the Group's Purchasing & Corporate Responsibility Charter. In doing so, they commit to adopting the principles of the Thales Code of Ethics, the United Nations Global Compact and the OECD, particularly in the areas of Human Rights, labour, the environment and corruption prevention.

Suppliers must also complete a self-assessment questionnaire measuring their performance in areas of corporate responsibility, with nine questions on labour standards, five on environmental protection, two on corporate governance, one on business ethics and one on export control.

A separate self-assessment questionnaire focuses on their environmental maturity. These questionnaires also aim to help suppliers align their policies and internal processes with the set of principles that Thales has adopted.

This self-assessment may be subsequently verified during supplier audits. If a supplier fails to meet one of its obligations, it may be required to implement an improvement plan, with support from the Group, or may even be removed from the supplier list if certain essential criteria are not met.

These measures complement the processes in place to ensure compliance with the law on due diligence by parent companies and subcontracting companies.

12,700 THALES SUPPLIERS HAVE SIGNED THE GROUP'S PURCHASING & CORPORATE RESPONSIBILITY CHARTER (AN INCREASE OF 21% ON 2016)

60% OF CLASS A SUPPLIERS (REPRESENTING 80% OF PURCHASING VOLUMES) PERFORMED SELF-ASSESSMENTS OF THEIR CSR PERFORMANCE

8.3/10: SUPPLIERS' ESG PERFORMANCE⁽¹⁾

PAYING PARTICULAR ATTENTION TO CONFLICT MINERALS

While Thales is not subject to section 1502 of the American Dodd-Frank Act, as it is not listed in the United States, the Group performs due diligence with respect to conflict minerals in order to meet the expectations of its customers and uphold its commitments, particularly with regard to the UN Global Compact.

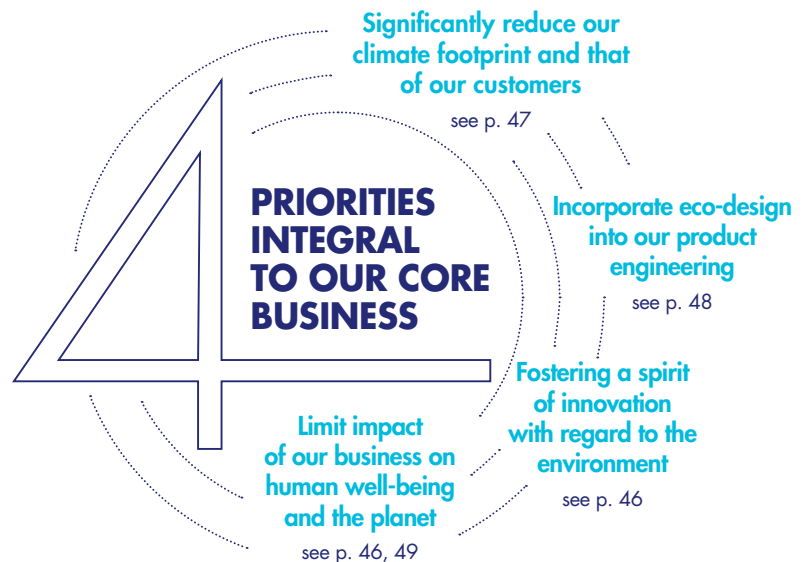
Thales relays these requirements to its supply chain so the origin of metals governed by these regulations (tin, tantalum, tungsten and gold) can be verified whenever possible.

In 2017, Thales identified some 1,200 suppliers that may supply parts containing these metals and was able to verify that over 70% of them had a conflict mineral policy and/or appropriate organisation for answering questions about such minerals. Thales continues to question its suppliers about these requirements and monitors those who are already engaged in the process.

(1) Self-assessment questionnaire on environmental, social and governance criteria.

A LONG-STANDING COMMITMENT TO ADDRESSING ENVIRONMENTAL CHALLENGES

As an industry leader with 160 sites in 56 countries, Thales has been committed to protecting the environment throughout its value chain for over 15 years. The Group helps protect the planet by designing innovative solutions to reduce its customers' environmental impact and better understand the challenges of climate change.



A proactive organisation

For Thales, protecting the environment is a basic principle that forms part of the Group's broader commitment to creating a safer world. In the early 2000s, the Group adopted a proactive environmental policy for all of its sites, activities and products, at every level of the organisation.

A dedicated health, safety and environment department at corporate level defines the Group's environment

strategy and develops **processes** to implement it on a daily basis. A network of around 40 Health, Safety and Environment managers for sites and operations, who are divided among operational teams and most of whom combine the role with other assignments in property, security, safety, maintenance or human resources, are responsible at country and entity level for managing the environmental impacts of **buildings**,

industrial processes, waste and other environmental impacts. In addition to this network, around 200 "product and service environmental managers", who are divided among technical teams and most of whom combine the role with other assignments in engineering, technology or quality, ensure environmental protection is integrated **before and during the bid and product development phases** within Global Business Units and Business Lines.

Working with stakeholders

Because any environmental policy must include the sharing of good practices and behaviour change, **education and communication** are key factors for success and progress.

Thales employees are informed of, educated and trained in environmental issues (through e-learning sessions, a dedicated intranet, competitions, day-long events, etc.) so they can integrate them into their daily work. Specific training programmes are developed mainly for purchasers, engineering managers and product developers, who are all stakeholders in the environmental policy.

With purchases making up nearly half of Thales's revenues, obtaining **supplier** agreement to meet the environmental requirements of our Purchasing & Corporate Responsibility Charter (see p. 43) is an essential part of the Group's overall approach. At the end of 2017, 12,700 supplier sites around the world had signed the charter. Environmental protection is also a criterion in assessing bids, and supplier audits include an environmental component corresponding to their activities.

Finally, as a responsible company, Thales strives to communicate transparently, not only with **local authorities** but also

with **local populations and civil society**. Specific procedures are also in place to swiftly receive, handle and communicate reports and requests.

A total of **124 Thales sites**, accounting for **89% of its workforce**, have achieved **ISO 14001 certification**, the gold standard in environmental management. 86 entities are certified to ISO 14001:2015, which covers the management of environmental impacts of products.



A commitment to fighting climate change

In joining the **French Business Climate Pledge**⁽¹⁾ in December 2017, Thales reaffirmed its commitment to fighting climate change, a major issue to which it aims to provide a consistent response, both by reducing its own greenhouse gas emissions at the source and by providing innovative solutions to help its customers and civil society reduce their impacts on the climate. With its technological innovations, Thales is also contributing to a better understanding of the effects of climate change.

Thales received an **A- rating** from the Carbon Disclosure Project, confirming its ranking as one of the most transparent and effective companies in the fight against climate change.



Making progress for the years ahead

Thales has developed a comprehensive environmental policy, including:

- > a **comprehensive carbon strategy** for the entire value chain;
- > **carbon emission mapping extended to Scope 3** (including purchases, travel and the use of goods, services and products);
- > a study of existing **carbon pricing and/or offset** initiatives.

Playing a key role in major programmes to understand the climate

For over 30 years, Thales has participated in almost all European climate missions by providing high-resolution optical and radar imaging systems.

For example, the accuracy of measurements obtained using its Poseidon technology, developed in partnership with the CNES, has highlighted the **thermohaline circulation of the world's oceans** – an energy transport system as regards the global climate – as well as the rise in sea levels due to global warming.

Cleaner skies, more sustainable transport and smarter cities

Everywhere human beings travel, Thales technologies and innovations (lighter aircraft, optimised flight paths, energy-saving trains and metros, smoother urban traffic flows) help make people safer and more comfortable while improving the environmental performance of equipment.

REDUCING THE WEIGHT OF AIRCRAFT EQUIPMENT BY **1 KG REDUCES CO₂ EMISSIONS BY 100 TO 150 TONNES**: IN AVIATION, EVERY GRAM COUNTS.

EVERY DAY, SATELLITES BUILT BY THALES ALENIA SPACE PROVIDE **WEATHER DATA TO MORE THAN HALF OF THE WORLD'S POPULATION**.

SOLUTIONS FOR A LOW-CARBON SOCIETY

Thales's Flight Management System calculates **optimised flight paths** based on aircraft data, weather data and the scheduled arrival time, reducing noise, emissions and energy use during all phases of a flight.

Its ATSoft Energy Saving solution takes advantage of **interactions between trains** to save energy by optimising real-time traffic management: use of slow speed profiles when the operating circumstances permit and optimisation of current recovery from train braking by synchronising the acceleration of some trains with the braking of others.

Thales's PRESTO electronic system allows residents of the Greater Toronto area to travel by train, underground or bus using a single ticket, in the form of an electronic contactless card. Analysis of the data collected can be used to design new services, thereby encouraging the use of public transport.

(1) *French Business Climate Pledge: On the eve of the One Planet Summit on 12 December 2017, 91 French companies of all sizes and from all sectors announced the signature of a shared commitment to the climate. Each of these companies put forward its actions as a committed player in the fight against global warming.*

Using our expertise to help customers meet environmental challenges

Thales's systems and products must meet the stringent safety and reliability requirements of the aeronautics, space, defence, transport and security markets. But given that "green innovation" is a source of creativity and growth that creates real opportunities, the Group does everything it can to integrate the environment when designing its products.

Because Thales supplies many solutions to customers for integration in other systems, it is difficult to measure their specific environmental footprint – particularly as concerns CO₂ – as the conditions of use and decommissioning are unknown. Examples include equipment embedded on-board aircraft and trains. However, knowing that reducing its **environmental impact truly sets it apart**, the Group uses **eco-design principles** and **specific**

life cycle analysis methods for all of its solutions. Given the long life cycle of many Thales solutions (from several years to several decades), about 90% of their **environmental impact occurs in the use phase**. Any reduction in the weight of equipment placed on-board mobile systems and any improvement in their energy efficiency therefore represents significant progress for the value chain.

ECO-DESIGNED SATELLITES

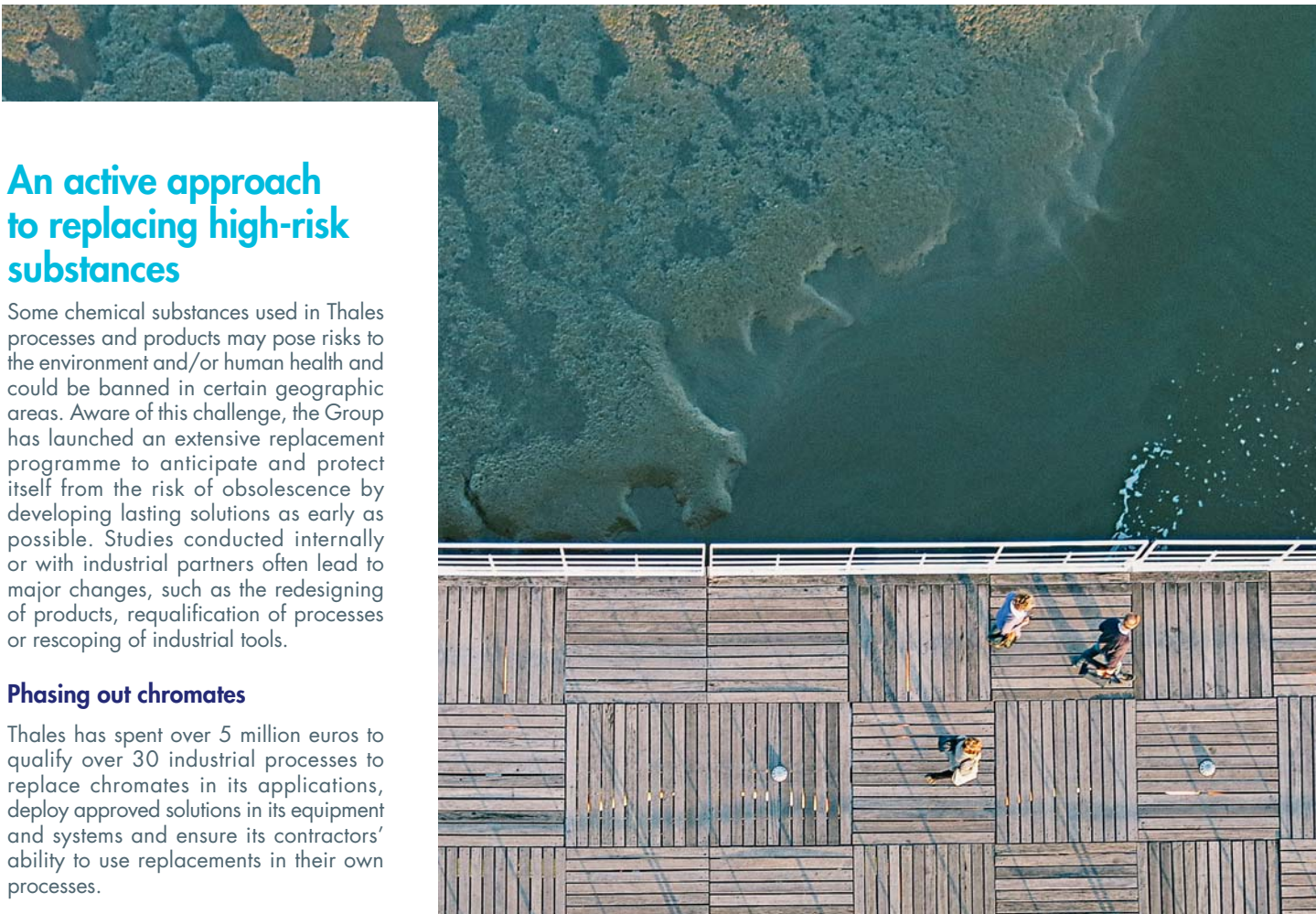
Thales was selected by the ESA (European Space Agency) to participate in the GreenSat study focused on creating an eco-designed satellite to reduce its environmental impact to a minimum. The study will include material aspects and manufacturing processes, as well as methods for the management of operations and the implementation of a mission in space. The eco-design approach will be compared to the conventional design approach to estimate differences in environmental impacts and in costs and planning.

An active approach to replacing high-risk substances

Some chemical substances used in Thales processes and products may pose risks to the environment and/or human health and could be banned in certain geographic areas. Aware of this challenge, the Group has launched an extensive replacement programme to anticipate and protect itself from the risk of obsolescence by developing lasting solutions as early as possible. Studies conducted internally or with industrial partners often lead to major changes, such as the redesigning of products, requalification of processes or rescoping of industrial tools.

Phasing out chromates

Thales has spent over 5 million euros to qualify over 30 industrial processes to replace chromates in its applications, deploy approved solutions in its equipment and systems and ensure its contractors' ability to use replacements in their own processes.



Managing a minimal direct impact on the environment

For years, Thales has analysed its impacts on the environment in terms of the associated risks. This analysis measures the materiality of the existing impact, ensures activity and product compliance, and anticipates the impact of new regulations. The 15 incidents that occurred in 2017 were managed to ensure they had no significant impact on health or the environment.

MATERIALITY OF IMPACTS	INDUSTRIAL ACTIVITIES	TERTIARY ACTIVITIES	COMMENTS
Water consumption	Low ⁽¹⁾	Minimal	
Water emissions	Low ⁽¹⁾	None	Tertiary sites discharge their sanitary wastewater into local authority water networks like any municipal resident. Industrial sites collect and process their wastewater before discharge.
Atmospheric emissions	Minimal ⁽¹⁾	None	Industrial activities emit very few atmospheric pollutants.
Energy consumption	Low	Minimal	Few energy-intensive processes. Research into alternative energy optimisation and promotion of the development of eco-efficient products.
Greenhouse gas emissions (scopes 1, 2 and 3)	Moderate	Moderate	Contribution mainly to scope 3 (business travel).
Production of non-hazardous waste	Low	Minimal	Waste sorting in place.
Production of hazardous waste	Low	Minimal	Some exceptions at industrial sites using hazardous substances or primarily producing electrical and electronic equipment waste, which is collected and disposed of through authorised channels.
Management of chemical products (obsolescence)	Low	None	Anticipation and qualification of industrial processes in accordance with regulatory timetables.
Soil pollution	Moderate	Minimal	A few sites with a legacy of historically polluted soil are being managed and treated.

(1) With the exception of an Australian industrial site for which this is significant (see paragraph 5.2.3.1.1 of the 2017 registration document).

2015-2018 ACTION PLAN: CONTINUING TO MAKE POSITIVE CHANGE

The environmental risk assessment comprises an overall vision of areas for improvement and has monitored the Group's multi-year action plans since 2008. In 2015, Thales set targets for 2015-2018. In 2019, a new multi-year plan will mobilise all of the Group's employees and partners around new targets.

For 2017, indicators are generally lower in relative value. However, in absolute value, significant growth in the Group's business and exceptional business at two sites had a certain environmental impact, but which still remains limited.

The main indicators for assessing improvements in Thales's environmental performance in detail are included in section 5.2.7, p. 229 of the 2017 registration document.

Environmental performance: 2015-2017

		2015-2018 targets	2015-2017 reduction per unit of revenues	2015-2017 absolute increase/decrease
ENERGY	Total consumption	-3%	-9%	1.4%
CO₂ EMISSIONS	Scopes 1 & 2	-5%	-11%	-1%
Energy			-10%	0.8%
Substances			-23%	-14%
Business travel			-12%	-2%
WATER	Total consumption		-7%	3%
	Quantity per person	-5%		11%
ORDINARY WASTE	Recycling rate	> 60%		55%

GROUP-WIDE COMMUNITY ENGAGEMENT: THE THALES FOUNDATION

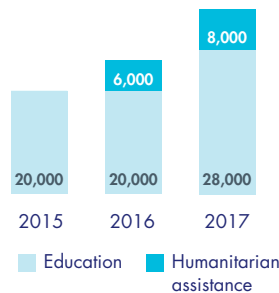
In three years, the Thales Foundation has mobilised a network of nearly 200 employee volunteers who use their motivation and skills to make a difference in two focus areas: science education for youth and natural disaster risk prevention. Their engagement reflects Thales's belief in using innovation and technology to create a safer world. The Foundation has worked with over 40 partners and supported more than 50 projects on every continent.

Eight new employee projects supported in six countries in 2017

Each year, a call for projects allows Group employees to submit projects to the Foundation's selection Committee. In 2017, the Foundation supported **six education projects** for children ages 5 to 18 and their teachers in an effort to arouse children's interest in scientific subjects, encourage their curiosity and improve their capacity to learn about science and technology. By providing business and digital education, the aim is also to get them interested in innovation and make them more agile and curious in a rapidly changing world.

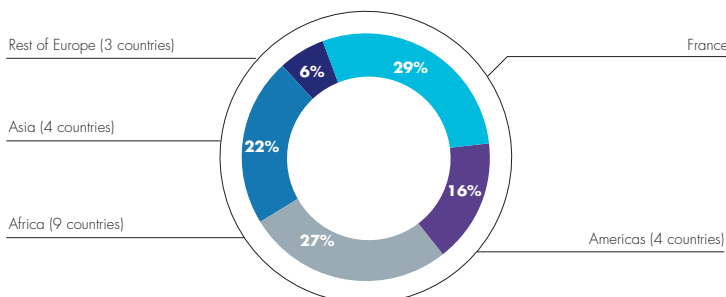
Two humanitarian assistance projects were also selected in Sri Lanka and Nepal, with the aim of limiting material, economic and human losses in the event of natural disasters by using anti-seismic construction techniques or planting vegetation barriers to resist climate hazards.

A DIRECT IMPACT ON MORE THAN 82,000 BENEFICIARIES IN THREE YEARS



In 2017, two humanitarian risk reduction projects directly impacted over 13,000 people living in at-risk areas. Thales has conducted activities in a total of over 20 countries.

GEOGRAPHICAL BREAKDOWN OF FOUNDATION SUPPORT SINCE 2015



AN INTERNATIONAL COMMITMENT TO NEPAL



After the earthquakes in April and May 2015, the remote mountain villages of the Rasuwa district suffered irreparable damage. The association ORCHE Nepal, whose president, Maria-Belen Sanchez-Esguevilla, is an engineer at Thales Alenia Space, in Spain, supports a project to rebuild homes and schools using anti-seismic technology and local materials. The association shares its expertise with villagers so the process can be easily replicated. Jeroen Van der Lugt, a sales director in the Netherlands, and Jeffrey Chuanzee, an engineer in Madrid, volunteered to help with the project.

To follow Jeroen's journey and learn more about his experience, visit: foundation.thalesgroup.com/jeroen_fr



AN ENRICHING EXPERIENCE FOR ALL

“Personally, I learned a lot about both the human and technical aspects of project management, because a number of people worked on this education project.” (Adama Diarra, sponsor of a project in Mali, 2016)

“Learning to talk to young people with no professional experience, from underprivileged neighbourhoods, who are not necessarily interested in science or technology, is extremely rewarding.” (Antonin Caors, Ile-de-France, sponsor of a project in 2015)

Ambitious, innovative pilot programmes

Co-developed by the Foundation and its partners, pilot programmes aim to test innovative initiatives and expand good practices throughout the Group to make a local impact and mobilise employees.

Third year for the Les Savanturiers (Knowledge Adventurers) learning through research project

Partnering with teachers, Thales engineers work with French students from preschool through secondary school. Their classrooms are transformed into small laboratories, and students experiment and learn about the engineering approach using innovative methods and collaborative problem solving. They learn about science using critical, creative and responsible thinking, which has been a great success.

Since the project began in 2015, 34 Thales employees have mentored 38 classes, benefiting 860 children and their 40 teachers.

Les Savanturiers conference: <http://foundation.thalesgroup.com/congres-jeunes-chercheurs-savanturiers-2017-a-cannes-gennevilliers/>

Payroll giving: charitable donations matched by Thales

The payroll giving programme was designed by social enterprise microDON. Supported by Thales and advertised by the Foundation to employees in France since 2016, the innovative initiative lets employees round down their pay to the nearest euro and donate the difference



to one of **five outreach projects**, with an option of giving up to €10 extra. Thales matches employee contributions and all proceeds are donated to the employee’s selected association.

In 2017, micro-donations were received from 3,300 employees, collecting €240,000 in support of:

- > Planète Urgence;
- > Aide et Action;
- > Libraries Without Borders;
- > Télécoms Sans Frontières;
- > Pour un sourire d’enfant (PSE).



2017 results: foundation.thalesgroup.com/bilan-2017-de-larrondi-salaire-ambition-collective-solidaire-a-poursuivre-2018/

LOCAL ENGAGEMENT WORLDWIDE

Group companies also support local and national organisations, particularly in the areas of education and outreach. In Australia, the UK, Singapore, the US and Mexico, for example, these contributions increase Thales’s local contribution to education in science, technology, engineering and mathematics.





OVERALL PERFORMANCE

AMBITION 10 A 10-YEAR VISION FOR PEOPLE, GROWTH AND COMPETITIVENESS

With organic growth of 7.2% in 2017, 10.3% of which came from emerging countries, a unique engineering platform, Orchestra, and a talent pool that is more diverse and dedicated than ever, the Ambition 10 strategic plan has been producing results since 2013.

FIVE INITIATIVES IN FAVOUR OF THREE PILLARS OF PERFORMANCE



Launched in 2013 for 10 years, the Ambition 10 strategic plan is built on three pillars.

Its implementation is structured by Ambition Boost, a roadmap shared by all entities that was developed with the Group's units to integrate both short-term financial objectives and a long-term strategic vision.



Sales **growth** is supported by three major factors:

- opportunities in **emerging countries**, which all have rapidly increasing urbanisation, significant infrastructure requirements, a boom in air traffic and a need to address defence, security and environmental issues. Thales can rely on a historic presence that dates back more than 60 years in some cases, such as in India;
- the capacity to deliver **large contracts worth over €100 million** each, a key differentiator for Thales;
- expansion of **services**, which by their nature offer more potential for repeat business than equipment contracts. Thales is working every more closely with its customers to propose innovative solutions that create real value.



Efforts to improve **competitive performance** are centred on three strategic priorities:

- expansion of the Group's **international industrial footprint**, to gradually increase the percentage of revenues from emerging countries (31%) and its percentage of local employees (less than 7%);
- the deployment of **agile engineering and R&D methods**. The Orchestra engineering platform makes it easier for Thales's 25,000 engineers (one-third of the workforce) to share the best tools and good practices. To help drive innovation, partnerships with academic research institutes and start-ups, and co-innovation with customers, speed the development of "dream products" — totally new solutions with the potential to become benchmarks;
- the **efficiency of structures**, to improve competitiveness and the efficiency of corporate functions, by rationalising and improving sites and optimising purchases (design-to-buy).



➤ **Talent development** is an essential component of the **Ambition Boost** programme. The Group is committed to giving employees opportunities to be their best so they can evolve together in a changing world. Thales cares about all of its employees, all over the world.

A PERFORMANCE PROGRAMME



LOCAL AMBITION BOOST INITIATIVES

FIVE GROUP-WIDE INITIATIVES

GOING GLOBAL
Focus on three countries: USA, China and India



DIGITAL TRANSFORMATION



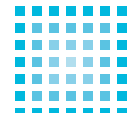
COMPETITIVENESS
Focus on excellence in products and project delivery, engineering, purchasing and support functions



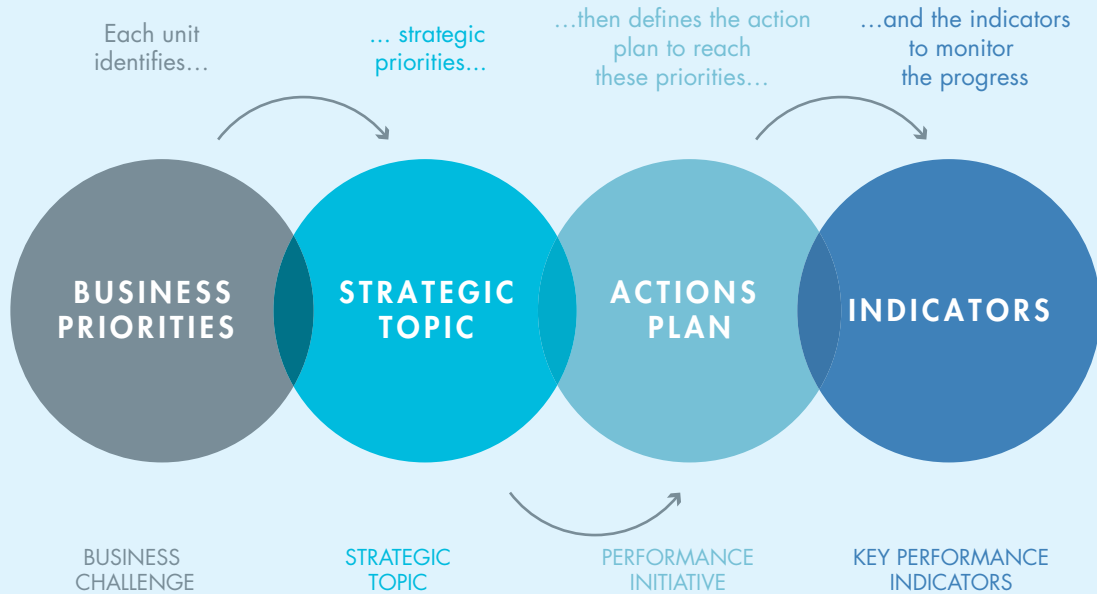
DIVERSITY & INCLUSION



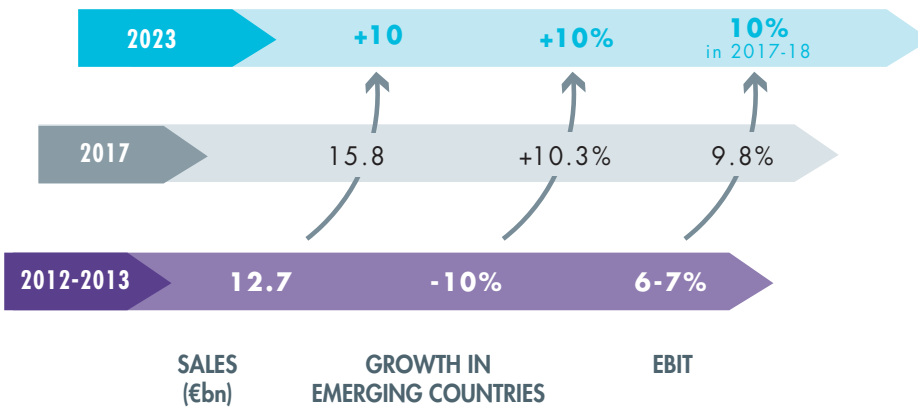
LEADERSHIP & GOVERNANCE



THE AMBITION BOOST DYNAMIC



STRONG PERFORMANCE IN 2017



27%: PERCENTAGE OF ORDER INTAKE FROM EMERGING MARKETS

19 ORDERS WORTH MORE THAN €100 MILLION IN 2017

7,233 NEW HIRES IN 2017

€120m REDUCTION IN GENERAL AND ADMINISTRATIVE COSTS SINCE 2012



Since Ambition 10 was launched, I've seen the Group undergoing a transformation. We've taken a whole range of practical steps on the ground through Ambition Boost. All of them — whether they focus on growth, competitiveness or people — are delivering results today. We need to keep pushing forward in this direction.

Pierre Éric Pommellet, Senior Executive Vice-President, Chief Operating Officer and Chief Performance Officer

FINANCIAL AND EXTRA-FINANCIAL PERFORMANCES

Another record year

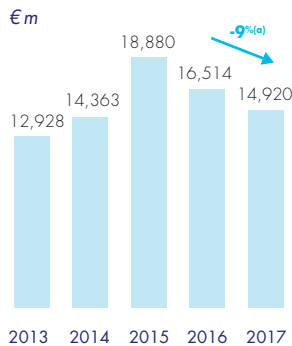
Results in 2017 far exceeded all annual objectives, thanks to dynamic sales activity, the continued implementation of action and competitiveness plans and the development of technological innovation. Order intake remained high again this year, and for the second year in a row, organic sales growth exceeded 5%, powered by all our businesses. Thales reached a record 9.8% profitability.

At the same time, Thales is preparing for the future and accelerating its development strategy, increasing R&D investments by 9% in 2017. The Group reinforced its expertise in artificial intelligence with the creation of a new research centre and added to its big data knowledge with the acquisition of Guavus.

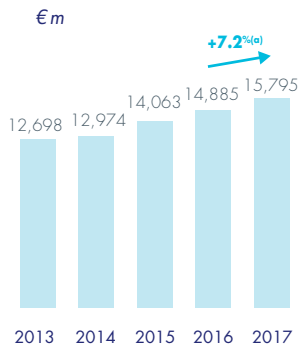
The acquisition of Gemalto is expected to become final in the second half of 2018. This project should boost the revenues of Thales's digital businesses by approximately €3 billion and add a broad range of technologies and skills of direct relevance to all the Group's markets.

For five years in a row, Thales's financial performance has been improving:

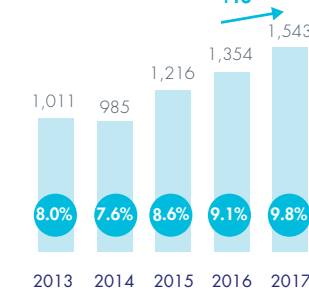
ORDER INTAKE



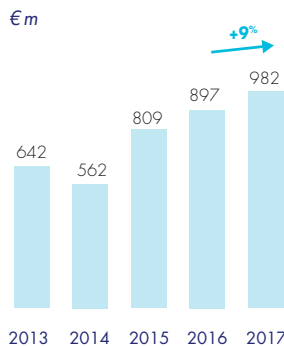
REVENUES



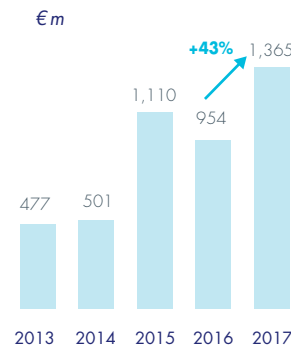
EBIT AND OPERATING MARGIN



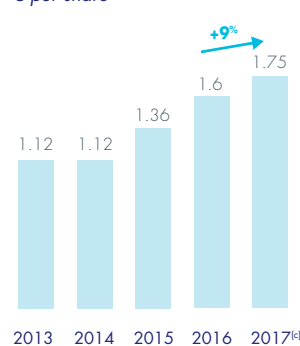
ADJUSTED NET INCOME^(b)



FREE OPERATING CASH FLOW



DIVIDEND^(c)



OBJECTIVES FOR 2018

EBIT

BETWEEN
€1,620m
AND €1,660m

ORGANIC REVENUE GROWTH

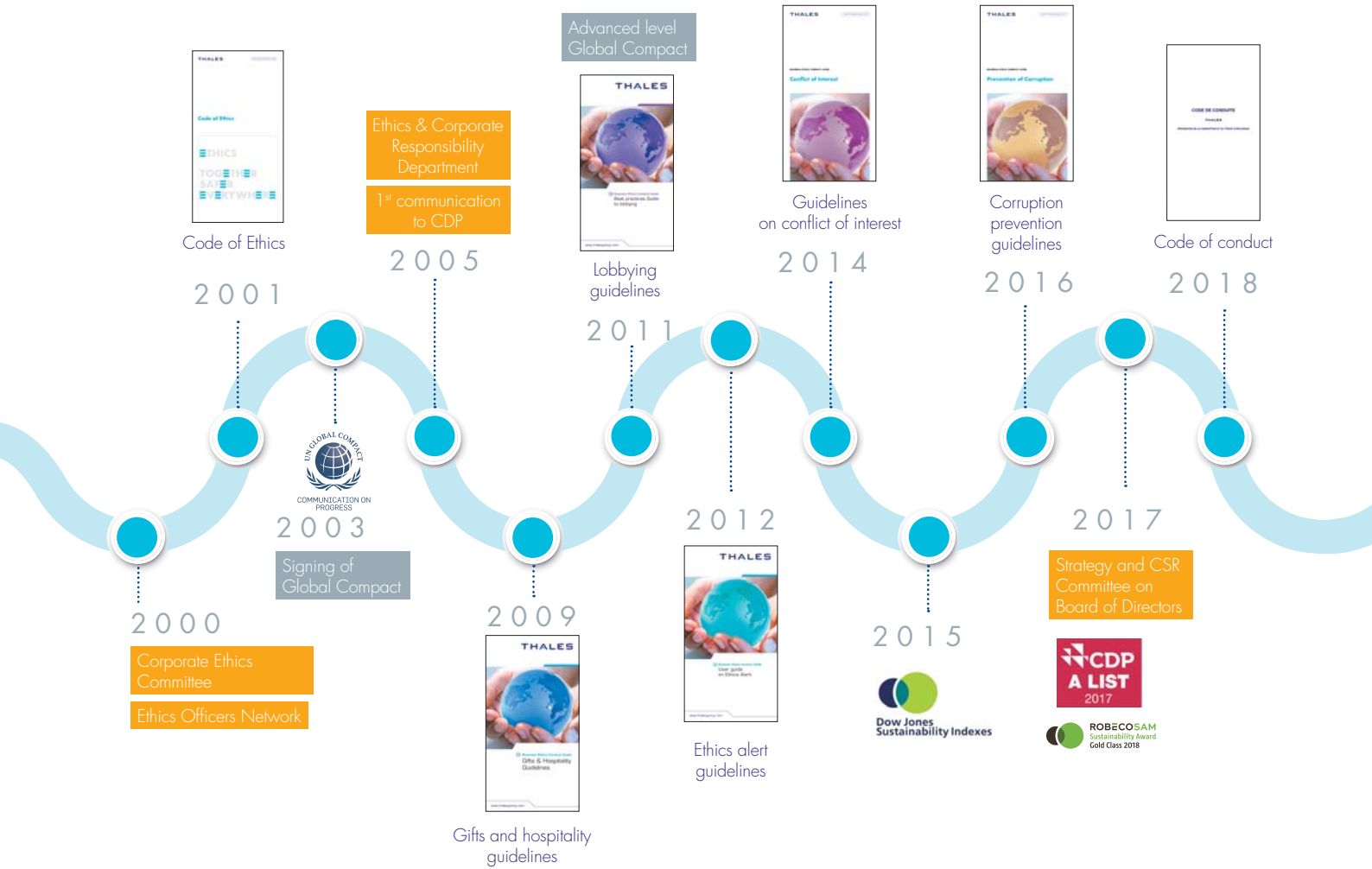
BETWEEN
4% AND 5%

ORDER INTAKE

APPROX.
€15.5bn

(a) Organic: with constant scope and exchange rates
(b) Definitions of non-GAAP indicators can be found in the 2017 registration document (see p. 8)
(c) Recommended to the Shareholders' Meeting on 23 May 2018.

Long-standing engagement



Recognised performance



Thales's approach is embodied by its involvement in the **UN Global Compact**; the Group has been a **signatory since 2003**. Thales is one of 8% of companies around the world that has successfully submitted its Communication on Progress (COP) to the UN at the **Global Compact Advanced level** since 2011.



In 2017, **Thales** received the highest score in the Aerospace and Defence sector of the **Dow Jones Sustainability Indices (DJSI)** created by the asset management company RobecoSAM, specialised in sustainable investment. With 80 points, Thales ranks no. 1 worldwide in the Aerospace and Defence sector, in all three dimensions (economic, environmental and social) that make up the final score. Based on this **excellent performance**, RobecoSAM once again included Thales in its Sustainability Yearbook 2017, which features 15% of the best-performing companies in terms of corporate responsibility, and ranked Thales in the "Gold" category.



Since 2005, Thales has transparently communicated about its climate strategy to the **Carbon Disclosure Project (CDP)**, an association which aims to inform the investment decisions made by its institutional investor members by informing them of the consequences of climate change for companies. In 2017, **Thales** was awarded a rating of A- for its "climate change" performance, making it one of the **best-performing companies listed**.

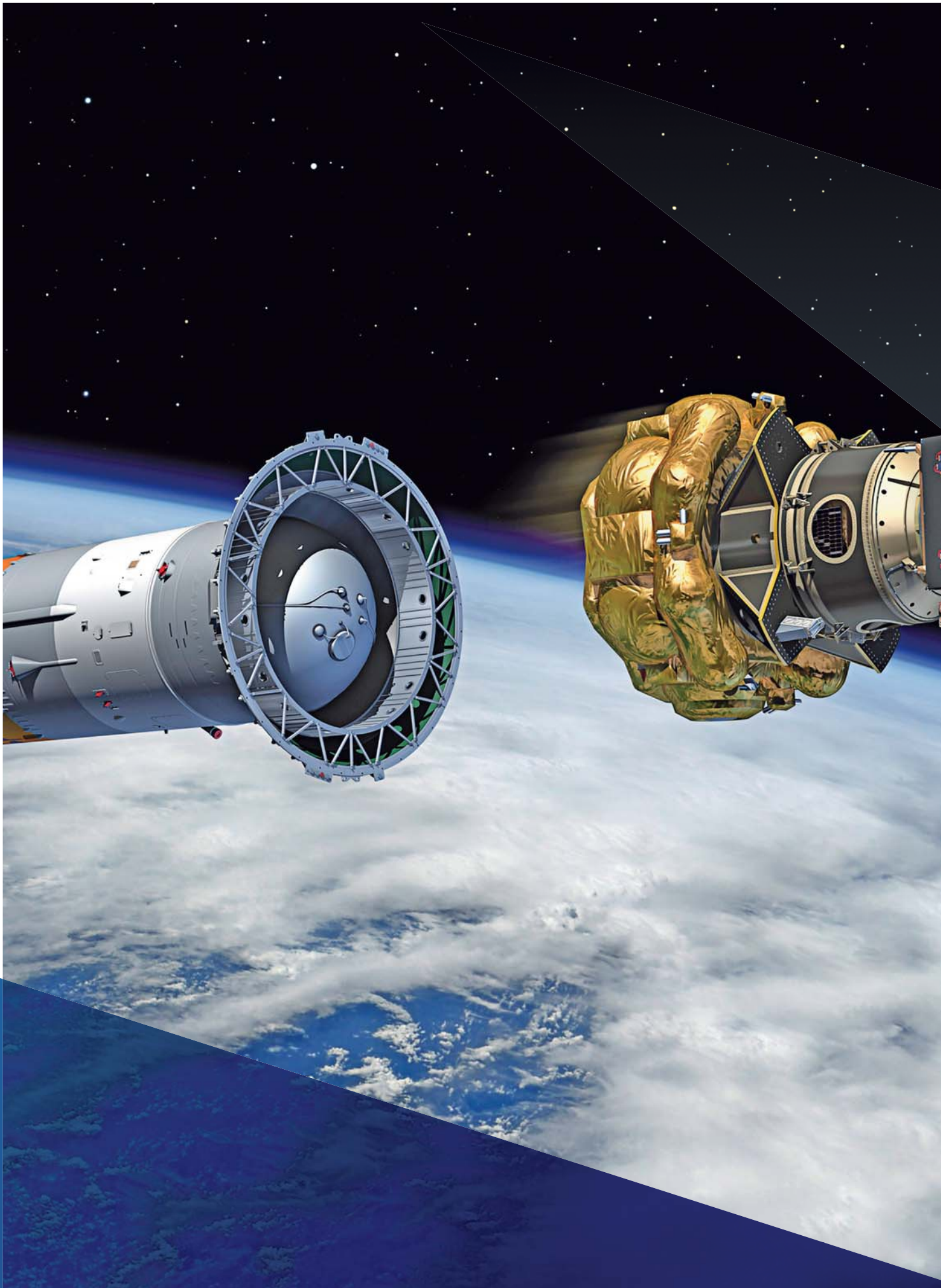


As a result of its corruption risk prevention programme, **Thales** is now **one of the four leading European companies in Transparency International's "Anti-Corruption Index"** covering companies in the defence sector (latest ranking in 2015⁽¹⁾).

(1) companies.defenceindex.org



For over 15 years, Thales has implemented a **strong, proactive corporate responsibility policy** based on the highest international standards. It is also a **leading player** in the international effort to **promote best practices** with professional associations in the **Aerospace and Defence** sector, international organisations and non-governmental agencies.



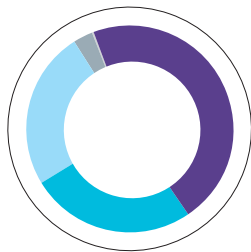


GOVERNANCE AND ORGANISATION

OWNERSHIP STRUCTURE AND CORPORATE GOVERNANCE

Shareholder structure as at 31 December, 2017

SHAREHOLDERS (%)



- 46.36%
INDIVIDUAL AND INSTITUTIONAL SHAREHOLDERS
- 25.76%
PUBLIC SECTOR^(a)
- 24.7%
DASSAULT AVIATION
- 2.91%
EMPLOYEES^(b)
- 0.27%
TREASURY STOCK

VOTING RIGHTS (%)



- 32.31%
INDIVIDUAL AND INSTITUTIONAL SHAREHOLDERS
- 35.75%
PUBLIC SECTOR^(a)
- 28.44%
DASSAULT AVIATION
- 3.5%
EMPLOYEES^(b)

(a) Directly and indirectly through TSA, a company wholly owned by the French state⁽¹⁾.

(b) Shares owned by employees through a company savings plan or company investment fund.

THREE AGREEMENTS SETTING OUT HOW THALES IS GOVERNED

The shareholders' agreement, the agreement on the protection of strategic national interests and the specific agreement contain the following main provisions:

- definition of corporate governance and composition of Thales corporate governing bodies;
- veto right and commitments of Dassault Aviation to the Public Sector;
- restrictions concerning the transfer or disposal of 'strategic interests';
- a shareholders' agreement valid until December 2021, tacitly renewed in 2016 for a period of 5 years.

Employee share ownership: an integral part of corporate governance

Since privatisation in 1998, Thales has offered nine **employee shareholder** opportunities. The latest offer was in October 2017. As of 31 December 2017, 31,300 employee and former employee shareholders owned **2.91% of the Company's share capital** and held 3.5% of voting rights.

The aim of employee share ownership is to strengthen Thales's existing relationship with its employees by allowing them to become more closely associated

with the future targets, successes and performance of the Group. Employee shareholders are represented on the **Thales Board of Directors** by a **director** nominated by the joint Supervisory Board for election by the General Meeting of Shareholders. This director is also a **member of the Strategic and Corporate Social Responsibility Committee** of the Thales Board of Directors.

Long before it became a legal requirement, **Thales was one of the few**

major companies in France to have a representative of employee shareholders on its Board of Directors.

Several shareholder associations have been formed to help promote employee share ownership in **23 countries** throughout Europe, North America and the Asia-Pacific region. The employee shareholder associations are members of **FAST**⁽²⁾ (Federation of Associations of Staff Shareholders of Thales).

(1) Since 29 January 2018, TSA has been owned by Établissement Public Industriel et Commercial Bpifrance.

(2) www.fast-thales.org

An experienced and representative Board of Directors

BOARD OF DIRECTORS (AS OF 12 APRIL 2018)

	Age	M/F	First appointed	Current term expires	Committees
Directors appointed by the General Meeting (14)					
Proposed by the Public Sector (5)					
Patrice Caine Chairman & Chief Executive Officer ^(a)	48	M	12/23/2014	AGM 2018	Strategy & CSR (Chair)
Laurence Broseta Chief Executive Officer France, Transdev	49	F	05/14/2014	AGM 2021	
Bernard Fontana ^(b) Chairman of the Managing Board, Framatome (formerly Areva NP)	57	M	01/30/2018	AGM 2021	Audit and Accounts
Odile Renaud-Basso ^(c) Director-General of the Treasury	52	F	07/19/2017	AGM 2021	Strategy & CSR Governance & Remuneration
Delphine de Sahuguet d'Amarzit ^(d) Deputy Chief Executive Officer, Orange Bank	44	F	04/12/2018	AGM 2021	
Proposed by the Industrial Partner (Dassault Aviation) (4)					
Charles Edelstenne ^(a) Chief Executive Officer, Groupe Industriel Marcel Dassault Chairman of the Board of Directors, Dassault Systèmes	80	M	05/19/2009	AGM 2018	Strategy & CSR
Loïk Segalen ^(a) Chief Operating Officer, Dassault Aviation	58	M	05/19/2009	AGM 2018	Audit & Accounts
Éric Trappier ^(a) Chief Executive Officer, Dassault Aviation	57	M	05/19/2009	AGM 2018	Governance & Remuneration
Marie-Françoise Walbaum ^(a) Non-executive director on the boards of several companies	68	F	09/17/2013	AGM 2018	
Representing employee shareholders (1)					
Philippe Lépinay Vice President, International Relations, Thales	64	M	04/01/2007	AGM 2021	Strategy & CSR
Independent directors (4)					
Yannick d'Escatha Former President of the French space agency (CNES), advisor to the Chairman of EDF	70	M	05/19/2009	AGM 2020	Governance & Remuneration (Chair)
Armelle de Madre Human Resources Director, Arkadin	47	F	06/28/2017	AGM 2019	
Anne-Claire Taittinger ^(a)	68	F	05/15/2012	AGM 2018	Audit & Accounts (Chair)
Ann Taylor ^(a) Member of the House of Lords	70	F	05/15/2012	AGM 2018	
Directors elected by employees					
Anne-Marie Hunot-Schmit In charge of financial controlling for bids and projects within the Ground Transportation Business Unit at Thales	53	F	12/09/2016	12/08/2020	Strategy & CSR
Frédérique Saint Technical expert with the "In-Orbit Operations" division of Thales Alenia Space	59	F	12/09/2016	12/08/2020	Audit & Accounts Governance & Remuneration

(a) Current term ends at the General Meeting of 23 May 2018 and will be proposed for renewal at that meeting.

(b) Seat vacant on 31 December 2017 and filled on 30 January 2018 by Bernard Fontana, co-opted on the proposal of the State, in application of Article 6 of Order No. 2014-948 of 20 August 2014 relating to governance and transactions on the capital of publicly owned companies.

(c) Odile Renaud-Basso, who resigned as a director on 29 January 2018, was confirmed as representative of the French State, which was co-opted in her place on 30 January 2018, on the proposal made in application of Article 4 of Order No. 2014-948.

(d) Seat vacant on 31 December 2017 and filled on 12 April 2018 by Delphine de Sahuguet d'Amarzit, who was co-opted on the proposal of the State, in application of Article 6 of Order No. 2014-948.

16
DIRECTORS

50%
WOMEN*

4 YEARS
TERM OF
OFFICE

31%
INDEPENDENT
DIRECTORS

59.6 YEARS
AVERAGE
AGE

* 56.2% including directors representing employees

Dynamic, dedicated governance

BOARD OF DIRECTORS

Nine meetings with an average participation rate of 86% in 2017

In addition to recurring items within the remit of the Board of Directors, the agendas of these meetings included the following items in 2017:

- the monitoring of strategic decisions and sensitive issues;
- the review of various M&A projects, including the intended public offer for Gemalto;
- the revision of the Board's rules of procedure;
- the introduction of an annual long-term incentive (LTI) plan with performance conditions and that includes Group employees;
- the annual assessment of the Board's performance;
- Human Resources.

THREE SPECIALISED ADVISORY COMMITTEES

THE STRATEGIC AND CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

Patrice Caine
Chairman and CEO

Three meetings
100% attendance

The Board of Directors, at its meeting on 27 February 2017, decided to add corporate social and environmental responsibility to the duties of the Strategic Committee.

In 2017, the committee:

- examined the Group's strategic approach in each of its major fields of operation, before they were submitted to the Board of Directors;
- examined the framework for submitting the budget and the three-year rolling plan to the Board, and examined the proposed annual budget in the context of this plan;
- examined major acquisitions and asset disposal plans (in excess of €150 million), as well as proposed strategic agreements or partnerships.

AUDIT AND ACCOUNTS COMMITTEE

Anne-Claire Taittinger
Independent director

Six meetings
100% attendance

In addition to the annual and half-year financial statements, in 2017 the committee also reviewed:

- the execution of difficult contracts and their accounting implications;
- the follow-up of the main disputes;
- the external audit plan and statutory auditors' fees;
- the organisation of internal control, updates to the risk mapping and assessment of the implementation of the annual audit plan;
- the audit plan for 2018;
- the independence of a statutory auditor ahead of the rotation of audit partners;
- the implementation of IFRS 15, a new revenue recognition standard, applicable as from 2018;
- as well as the section of the Chairman's report for the 2016 financial year covering internal control and risk management.

GOVERNANCE AND REMUNERATION COMMITTEE

Yannick d'Escatha
Independent director

Six meetings
100% attendance

The items reviewed by the committee in 2017 included:

- the Group's long-term incentive (LTI) policy and the preparation of a free share plan with performance conditions according to the level of responsibility of the beneficiaries;
- the examination of the compensation package for the Chairman and CEO, and in particular the qualitative criteria applicable for his variable compensation;
- the revision of the Board's rules of procedure;
- independence of directors;
- the terms for the annual assessment of the performance of the Board of Directors, the choice of the external consultant to conduct the assessment and the related report presented to the Board;
- as well as the section of the Chairman's report on corporate governance at end-2016.

Under the provisions of the shareholders' agreement, a representative of each of the two shareholders that are parties to the agreement sits on each committee.

In 2017, the Board decided to conduct an external assessment, given both the length of time since the last external assessment (six years) and the opportunity to combine this exercise with the end of the three-year term of office of the Chairman and CEO

in anticipation of its renewal at the end of the 2018 General Meeting.

The directors were unanimous in acknowledging that the Board and its committees are working well and a majority of them consider that its operation has improved even further since they became Board members.

Concerning the composition of the Board, the directors issued a positive assessment:

the expertise and experience of its members are varied, complementary and cover the majority of the business sectors in which Thales is present (aerospace, defence, space, transport, etc.) as well as finance, industry, human resources and digital. In addition, its composition is deemed appropriate in terms of gender balance and the proportion of long-serving members to those appointed more recently.

Corporate management

The **Executive Committee**, comprising the main operational and functional managers, is responsible for general management of the Company and the Group, under the authority of the Chairman and Chief Executive Officer.

Executive Committee (as of 1 March 2017)

Thales's **13-member** Executive Committee is responsible for Group governance.

It meets every two weeks and implements strategic decisions in accordance with the strategic objectives defined by the Board of Directors.



- 1** **Patrice Caine**
Chairman and Chief Executive Officer
- 2** **Pascal Bouchiat**, Senior Executive Vice-President, Chief Finance Officer
- 3** **Pierre Eric Pommellet**, Senior Executive Vice-President, Chief Operating Officer and Chief Performance Officer
- 4** **Pascale Sourisse**, Senior Executive Vice-President, International Development
- 5** **David Tournadre**, Senior Executive Vice-President, Human Resources
- 6** **Isabelle Simon**, Group Secretary and General Counsel
- 7** **Philippe Keryer**, Executive Vice-President, Strategy, Research and Technology
- 8** **Alex Cresswell**, Executive Vice-President, Land and Air Systems
- 9** **Millar Crawford**, Executive Vice-President, Ground Transportation Systems
- 10** **Marc Darmon**, Executive Vice-President, Secure Communication and Information Systems
- 11** **Jean-Louis Galle**, Executive Vice-President, Space
- 12** **Gil Michielin**, Executive Vice-President, Avionics
- 13** **Philippe Duhamel**, Executive Vice-President, Defence Mission Systems

COMPENSATION POLICY FOR THE CHAIRMAN AND CEO

The annual fixed and variable compensation for 2017 for Mr Patrice Caine was established in accordance with the compensation policy approved by the General Meeting of 17 May 2017.

Pursuant to Article L.225-37-2 of the Commercial Code, this proposal is subject to approval by the General Meeting of Shareholders on 23 May 2018. A table summarising the components of the Chairman & CEO's compensation package is provided to shareholders in the meeting documents (see section 3.2.2.1 p. 156 and following of the 2017 registration document).

PERFORMANCE CRITERIA

Fixed

Not subject to performance criteria

Variable

- 75% based on three financial criteria (operating margin, order intake, free operating cash flow)
- 25% based on four non-financial criteria (globalisation, leadership, diversity-gender equality, digital)

Long-term compensation (three years)

- 40% based on average order intake
- 40% based on free cash flow accumulated during the period
- 20% based on Total Shareholder Return

Additional pension

- Subject to performance conditions over the last three years

ABOUT THIS REPORT

In a diversified global organisation like Thales, acting responsibly is more than a compelling narrative. It is integral to the notions of security and performance. Beyond its obligation to comply with laws and standards of ethical conduct, Thales sees corporate responsibility as a key strategic advantage for the business.

In line with **professional best practice** and based on the Company's experience in this area, this integrated report is based on the guiding principles of the International Integrated Reporting Council (IIRC) and was presented to French representatives of the organisation for their comments before printing. It explains how Thales's strategy, governance, and financial as well as extra-financial (environmental, social, governance and societal) performance create value for stakeholders. Thales believes this document will contribute to a **better understanding of its business activities**, the complexity of its working environments and the **Company's commitment** to all of its stakeholders.

Methodology

An internal working group under the guidance of the Ethics and Corporate Responsibility Department, and comprising members from several functional departments, was involved throughout the process to provide the underlying structure for this information. Several members of Thales's Executive Committee also participated in producing the report.

From the outset, the aim has been for the report to focus on the **strategic priorities at Thales**, and to select and explain only the most important facets of these. The integrated report supplements the 2017 registration document⁽¹⁾ and refers to it in many instances.

The report also includes the results of the **materiality assessment of Thales's goals**, which was carried out internally in 2015 on the basis of studies and cross-functional workshops devoted to environmental, social and economic issues. The materiality assessment was also reviewed by stakeholders and a consensus was reached, and the results were updated in 2017.

This integrated report is part of Thales's long-term improvement approach.

Scope

The report covers the 2017 financial year (1 January 2017 to 31 December 2017). It includes medium- and long-term outlooks and thus provides a **forward-looking view of the Group within its environment**.

AcceDe
Accessibility of PDF Documents



ethics.cr@thalesgroup.com

(1) Can be downloaded from: www.thalesgroup.com/en/investors

OTHER THALES PUBLICATIONS

REGISTRATION DOCUMENT 2017

www.thalesgroup.com
Under the 'Investor' heading



Shares/credit investors • SR investors • Individual shareholders • NGOs • National authorities

Document complies with French and European regulations, and includes, in particular, the annual financial report and the Board's management report, as well as social, environmental and societal information and information on corporate governance.

ENVIRONMENTAL REPORT 2017

www.thalesgroup.com
Under 'Global/Corporate Responsibility/Key documents' headings

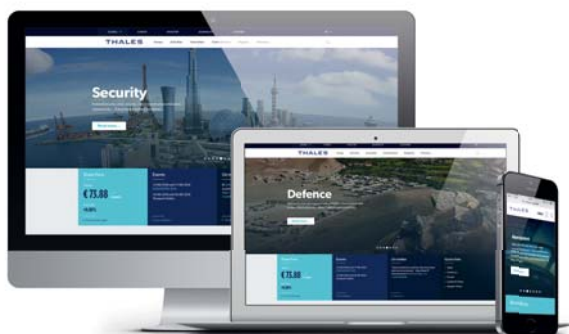


SR investors • NGOs • Customers and partners • Suppliers • Shareholders • Employees • Civil society

Presents Thales's main human resources and environmental policies.

THALES GROUP PRESENTATION

www.thalesgroup.com
Under 'Global/Group/Overview' headings



SR investors • NGOs • Customers and partners • Suppliers • Shareholders • Employees • Civil society

Presents Thales's missions, values, principles and business activities.

THALES MAGAZINE

www.thalesgroup.com
Under 'Global/Magazine' headings



SR investors • NGOs • Customers and partners • Suppliers • Shareholders • Employees • Civil society

Presents the technological, geopolitical and economic developments likely to affect Thales's markets.

PRINCIPLES OF RESPONSIBILITY



Launched in 2000, the United Nations Global Compact⁽¹⁾ (UNGC) is both a policy platform and a practical framework for companies that are committed to sustainable business practices. It seeks to align business operations and strategies everywhere with 10 universally accepted principles. Nearly 13,000 organisations in 170 countries have signed the Global Compact. Thales has been a **member since 2003** and has adopted the 10 principles of the Global Compact.

In 2012, through its annual Communication on Progress (COP), **Thales** reached the **Global Compact Advanced** level under the United Nations Global Compact Differentiation Programme, which evaluates companies on the basis of 21 specific criteria and represents the highest standard of sustainability performance and reporting. We are one of just **8%** of member companies worldwide to have achieved Global Compact Advanced level.

HUMAN RIGHTS

- Principle 1** 12-13, 18-19, 28-29, 41, 42-43, 48-49, 55
Businesses should support and respect the protection of internationally proclaimed Human Rights.
- Principle 2** 12-13, 18-19, 28-29, 41, 48-49, 55, 60
Businesses should make sure they are not complicit in Human Rights abuses.

LABOUR

- Principle 3** 12-13, 39 to 41
Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
- Principle 4** 12-13, 39 to 41, 42-43
The elimination of all forms of forced and compulsory labour.
- Principle 5** 12-13, 39 to 41, 42-43
Businesses should uphold the effective abolition of child labour.
- Principle 6** 12-13, 18-19, 39 to 41
Businesses should uphold the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

- Principle 7** 12-13, 18-19, 26-27, 44 to 47, 55, 60
Businesses should support a precautionary approach to environmental challenges.
- Principle 8** 12-13, 18-19, 26-27, 42-43, 44 to 47, 55
Businesses should undertake initiatives to promote greater environmental responsibility.
- Principle 9** 12-13, 44 to 47
Businesses should encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

- Principle 10** 12-13, 19, 28 to 30, 55
Businesses should work against corruption in all its forms, including extortion and bribery.

(1) www.unglobalcompact.org

FOR MORE INFORMATION

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Thales would like to thank Group employees
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