

# 2018 Integrated Report

## Corporate responsibility







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# CHAIRMAN'S MESSAGE



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The digital revolution is both  
a challenge and a key innovation  
accelerator

**Patrice Caine**

Chairman & Chief Executive Officer

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Economic, political and strategic instability is now a permanent feature of the environment in which industrial technology groups must evolve. With the world undergoing so much change, there is no doubt that a clear strategic vision addressing new societal challenges is key to securing our long-term growth.

In 2018, we defined our strategic objectives for the next four years. Our goal is to become the leader in each of our markets through profitable and sustainable growth while continuing to increase our investment in research and technology, especially digital technologies. The only way to ensure that this growth, which has already been boosted by the acquisition of Gemalto, is sustained over the long term is to place an even greater emphasis on ethics and corporate responsibility.

**The digital revolution is both a challenge and a key driver of innovation** for a high-tech group like Thales. Digital technologies impact all the markets in which we operate – aerospace, space, ground transportation, defence and security – and allow us to invent new solutions to better help our customers achieve their mission and ambition: to make the world a safer and better place.

This revolution also presents **new responsibilities that we must anticipate, in order to take them on**. I have, therefore, taken steps to ensure that we examine how these new digital technologies, and artificial intelligence in particular, might impact our business and our stakeholders. This research and its conclusions will form the basis of a “Digital Ethics and Transformation” charter, reaffirming our values and commitments in this new digital world.

**This approach is fully in line with the corporate responsibility policy our Group has pursued for many years**, most notably via our adherence to the 10 principles of the United Nations Global Compact, our zero tolerance approach to corruption and bribery, our application of the duty of care vis-à-vis our suppliers’ practices, and our compliance with national and international regulations, such as the Sapin II law, the European directive on non-financial risk management and the General Data Protection Regulation (GDPR).

This rigorous policy is reflected in Thales’s positions in global rankings. For instance, in 2018, we were ranked first worldwide in the Dow Jones Sustainability Index (DJSI) in the Aerospace & Defence sector for the second consecutive year. Thales was also recognised for its corporate responsibility policy with the Global Compact Advanced level – the highest level of distinction conferred by the United Nations Global Compact – for the 7th consecutive year.

**In addition to being a responsible business, Thales also aims to be a good corporate citizen. We pursue an active and proactive diversity and inclusion policy.** Indeed, our creativity, development and sustainability hinges on our ability to hire and retain the top talent, regardless of origin.

The commitment of our employees is paramount to Thales’s success. We see this in their involvement with the Thales Foundation, which we recently decided to streamline to make its initiatives more focused and its goals clearer in order to increase its impact.

Lastly, **climate change and its consequences concern us both as a company and as citizens who want the best for future generations. This is especially important to us**, not only because we want to keep on improving our environmental footprint, but also because of our desire and ability to develop cutting-edge solutions to better understand climate change and anticipate its consequences. In this respect, 2018 was an opportunity to set ambitious new objectives in the areas of environment, health and safety for the period 2019-2023.

Ultimately, our commitments and initiatives, which are detailed in this report, **aim to keep people at the heart of our mission, our operations and our solutions**.







## **GROUP PROFILE**

Technology solutions  
for a safer world



# KEY FIGURES 2018

## REVENUES

€15.9 billion

+5.3%

organic growth<sup>(1)</sup>

## EBIT<sup>(2)</sup>

€1.7 billion

10.6%

of revenues

## FREE OPERATING CASH FLOW<sup>(2)</sup>

€0.8 billion

69%

of adjusted net income<sup>(2)</sup>

## ORDER INTAKE

€16 billion

+9%

organic growth<sup>(1)</sup>

## NUMBER OF EMPLOYEES

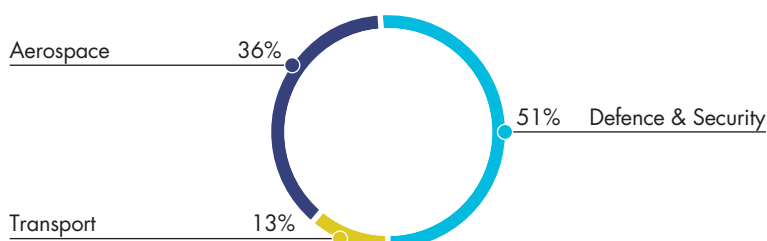
66,000

## SELF-FUNDED R&D<sup>(2)</sup>

€879 million

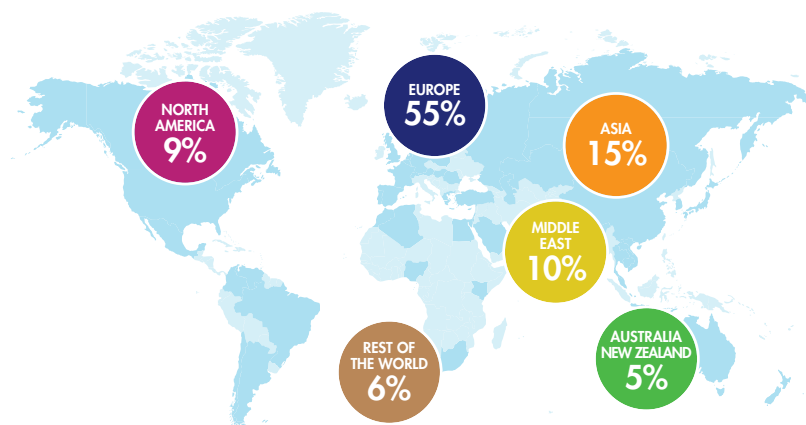
## 3 OPERATING SEGMENTS

(breakdown of revenues by operating segment)



## A DIVERSIFIED GEOGRAPHIC FOOTPRINT

(breakdown of revenues by geographic area)



## TOTAL SHAREHOLDER RETURN, OVER 3 YEARS (TSR)

(as at 31/12/2018)

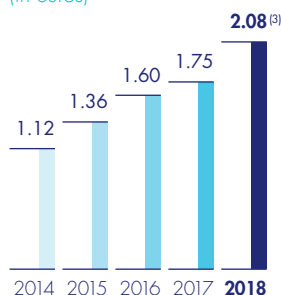
+55%  
Thales shares

+13%  
CAC 40

+35%  
Aeronautics and Defence  
segment in Europe

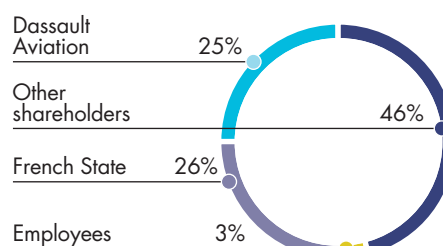
## DIVIDEND

(in euros)



## STRUCTURE OF SHARE OWNERSHIP

(as at 31/12/2018)



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

(2) Non-GAAP financial indicators. See definitions on page 27 of the 2018 Registration Document.

(3) Put to the General Meeting on 15 May 2019.



# OUR MISSION, OUR VALUES, OUR STRATEGY

## OUR MISSION

At Thales we develop solutions that help our customers think smarter and act faster – mastering ever greater complexity at every decisive moment along the way.

## OUR VALUES

Five values underpin the actions of Thales and its employees on a daily basis :

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

## OUR STRATEGY

Thales's exceptionally high levels of technical expertise are the result of the creativity and commitment of its teams. This gives the Group a unique competitive advantage with which to achieve **profitable growth in its five markets: aeronautics, defence, security, space and ground transportation**. These are markets in which intelligent systems focused on the critical decision-making chain play a key role.

## CRITICAL DECISION-MAKING CHAIN



### Sensing and data collection

- Radar, sonar
- Optronic, electromagnetic and inertial sensors
- Passive detectors
- Network surveillance sensors
- Observation and electronic surveillance satellites
- Ground surveillance and intelligence systems
- Unmanned air vehicles and airborne reconnaissance systems



### Data transmission and storage

- Secure and resilient communications networks
- Software-defined radio
- Tactical data links
- Satellite communications
- Secure data centres
- Digital security solutions



### Data processing and decision making

- Command and control systems
- Air and Rail traffic monitoring systems
- Mission systems
- Advanced information processing (images, video, semantics)
- Data merging, big data
- Jamming
- Missiles, armaments

## THALES'S FOUR STRATEGIC ASSETS

### Exceptional Research & Development based on a global innovation ecosystem

Thales devotes more than €3 billion – almost 20% of its revenues – to R&D, of which €879 million is self-funded. This is a daily focus for the Group's 25,000 engineers. This investment in R&D is part of an innovation ecosystem based on academic and entrepreneurial partnerships and initiatives developed jointly with customers and their ecosystems.

### A unique portfolio of digital competences

Thales builds and develops its digital expertise around four major digital technologies which play a key role in critical decision-making chains: connectivity and mobility, big data, artificial intelligence and cybersecurity. Over the past few years, Thales has significantly strengthened its expertise in these domains by making targeted acquisitions and recruiting digital experts.

### An in-depth knowledge of its markets

Thales focuses on five markets that have many technologies and areas of expertise in common: aeronautics, space, defence, security and ground transportation. In virtually all its business activities, Thales is in the top 3 worldwide or ranks number 1 in Europe.

### A global footprint

Thales operates in over 50 countries and has customers in more than 100 different countries. Its longstanding experience of international markets and complex partnerships is proving to be a key commercial asset.

# OUR ACTIVITIES

## AERONAUTICS & SPACE

### > AERONAUTICS

Onboard electronic equipment designed to increase flight safety and reliability; civil and military aircraft simulators; onboard connectivity and multimedia.

Onboard equipment and functions for aircraft piloting, navigation and control.

**Customers:** aircraft manufacturers, airlines, armed forces.

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

### > SPACE

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

**Customers:** space agencies, telecommunications operators, satellite operators, armed forces, scientific institutions.

**Missions:** to design, develop and deploy orbital infrastructure, satellite systems, ground segments and related services for space programmes.

### Contribution to performance

**€5,780 million**  
in revenues (36%  
of total revenues)

**€580 million**  
in EBIT  
(10.0% of revenues)

### Growth levers

- Average long-term growth of international air traffic (+3.5% p.a. from 2017 to 2036, according to IATA)
- 37,400 new airliners placed on the market by 2037 (Airbus forecast)
- Unique role of smart systems to meet increased expectations in terms of operational and environmental efficiency
- Strong demand for in-flight internet connectivity solutions
- Unique positioning of space systems to meet new communication and observation requirements
- Military space: a growing priority for many countries

## GROUND TRANSPORTATION

Rail signalling, control and supervision of urban and mainline rail transport networks.

Ticketing solutions.

**Customers:** rail transport operators.

**Missions:** to optimise the capacity and efficiency of ground transportation networks under optimal safety conditions at low cost, while providing travellers with better services.

### Contribution to performance

**€2,001 million**  
in revenues  
(13% of total  
revenues)

**€88 million**  
in EBIT  
(4.4% of revenues)

### Growth levers

- 60% of the world's population will be living in towns or cities by 2030 (UN-Habitat)
- Greater citizen and government interest in more efficient and eco-friendly means of transportation
- Critical CO<sub>2</sub> reduction climate challenges which encourage public transport
- A strong trend towards rail transport solutions that are more automated or even autonomous
- Renovation of signalling systems: a major lever in increasing the efficiency of existing infrastructures

## DEFENCE & SECURITY

Sensors and mission systems.

Communications, command and control systems, networks and infrastructure systems, security and cybersecurity solutions.

**Customers:** armed forces, security forces, major corporations.

**Missions:** to support the armed forces in gaining and sustaining decision-making and operational superiority in conventional theatres, urban combat and cyberspace.

Providing integrated solutions resilient networks and high added-value services which protect the public, sensitive data, and critical infrastructures.



### Contribution to performance

**€8,020 million**  
in revenues (51%  
of total revenues)

**€1,007 million**  
in EBIT (12.6%  
of revenues)

### Growth levers

- Confirmation of the increase in defence spending in mature markets in the face of growing geopolitical tensions and the return of symmetrical threats
- Rapidly increasing digitalisation of the armed forces
- Increasingly strong convergence of the defence and security segments
- Strong demand for cybersecurity, specifically protection of corporate data

<p><b>Strengths, areas of expertise</b></p> <ul style="list-style-type: none"> <li>The only global aerospace company with leadership positions in both onboard equipment (e.g. avionics and cabin systems) and ground equipment (e.g. radar and air traffic management systems)</li> <li>Present in all types of civil and military aircraft and all major new aerospace programmes</li> </ul>	<p><b>Sub-segments</b></p> <p>Flight avionics (~ €2,100 million in revenues)</p> <hr/> <p>In-flight entertainment and connectivity (IFEC) (~ €750 million in revenues)</p>	<p><b>Civil/military</b></p>  <hr/> 	<p><b>Competitive position</b></p> <p><b>No. 3 in the world</b> (commercial avionics)</p> <hr/> <p><b>No. 2 in the world</b></p>
<ul style="list-style-type: none"> <li>Thales Alenia Space is the prime contractor for the largest constellation of communication satellites currently in service: Iridium Next</li> </ul>	<p>Space solutions for telecoms, observation, navigation and exploration (~ €2,500 million in revenues)</p> <hr/> <p>Microwave tubes for satellite markets and civil and military applications (~ €450 million in revenues)</p>	 <hr/> 	<p><b>No. 2 in the world</b> (civilian satellites)</p> <hr/> <p><b>No. 1 in the world</b></p>
<p><b>Strengths, areas of expertise</b></p> <ul style="list-style-type: none"> <li>Unrivalled experience: signalling implemented for 85 underground lines in more than 40 cities</li> <li>Inventor of major rail signalling standards: CBTC (Communication-Based Train Control) for underground trains and ETCS (European Train Control System) for mainline trains</li> <li>Leader in driverless underground signalling</li> </ul>	<p><b>Sub-segments</b></p> <p>Railway signalling and supervision (~ €2 billion in revenues)</p>	<p><b>Civil/military</b></p> 	<p><b>Competitive position</b></p> <p><b>No. 2 in the world</b></p>
<p><b>Strengths, areas of expertise</b></p> <ul style="list-style-type: none"> <li>Long-standing partner of armed forces in numerous countries</li> <li>Global specialist in secure communication networks, central to collaborative combat solutions</li> <li>World leader in radar and sonar technologies</li> <li>Presence throughout the value chain, from equipment through to systems and systems of systems, as well as logistical support and related services.</li> <li>Mastery of the new differentiating digital technologies: connectivity, big data, artificial intelligence and cybersecurity</li> <li>The air traffic control centres equipped by Thales cover more than 40% of the earth's surface</li> </ul>	<p><b>Sub-segments</b></p> <p>Mission sensors and systems – radars, optronics, mission systems for combat aircraft, ships and submarines, missiles and armoured vehicles (~ €4 billion in revenues)</p> <hr/> <p>Communications, command and control systems – military communications and networks, military command and control systems (C4I), civil and military cybersecurity, air traffic management, and security solutions for countries, cities and critical infrastructure (~ €4 billion in revenues)</p>	<p><b>Civil/military</b></p>  <hr/> 	<p><b>Competitive position</b></p> <p><b>No. 1 in Europe</b> (defence electronics)</p> <hr/> <p><b>No. 2 worldwide</b> (defence and tactical communications)</p> <p><b>No. 1 in the world</b> (air control management)</p>

# SOME SUCCESSES OF 2018

In 2018, thanks to the engagement of its 66,000 employees, Thales enjoyed many successes in all of its business areas. The examples below demonstrate how these strengthen the Group's four strategic assets: R&D at the highest level, a unique portfolio of digital skills, a deep knowledge of its markets, and its global footprint.

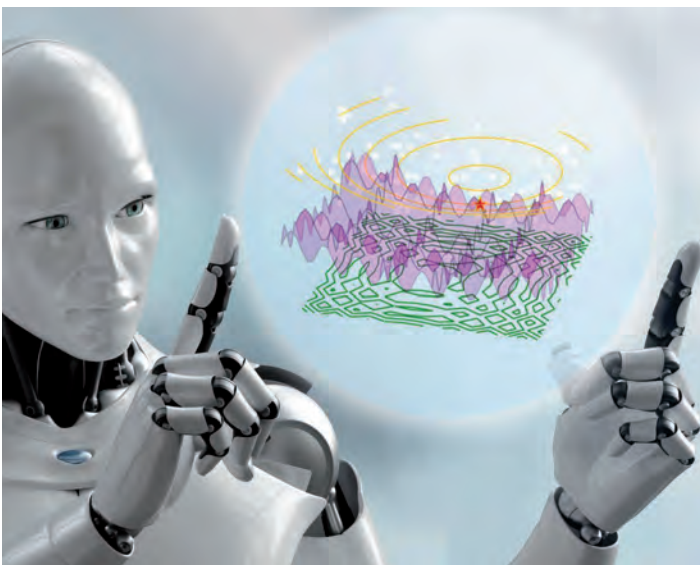
## Research & Development

### Thales in Nature's Top 100

Thales is ranked 27th in the world ranking of the most outstanding companies in terms of the quality of their scientific research, published by the prestigious journal Nature. Another list in the same magazine, ranking the 100 best collaborations between companies and academic institutions, puts Thales in **7th place for its partnership with Paris-Sud University** and 50th place for its work with Singapore's Nanyang Technological University (NTU).

### At the cutting edge of research into AI

A team of researchers from the Thales research centre, INRIA<sup>(1)</sup> and the *École Polytechnique*, which has been working for three years to improve optimisation algorithms, won the "main track" of the international black-box optimisation competition at the GECCO 2017 conference in Berlin. The team's new approach paves the way for **a new method of designing AI algorithm engineering.**



## Recognition and Events

### Best employers of 2018: Thales tops the tables

The Group topped the table in several categories of the Best French Employers of 2018 awards, as determined by the Statista Institute (which examined 500 French companies) and published by Capital magazine. Thales ranks number one in creativity, work-life balance and in-job training and placed in the top five for working conditions, caring workplace and career progression. The Group was also certified as a "Top Employer 2018" in Spain by the Top Employers Institute.



### #ThalesMediaDay: a whole day dedicated to cybersecurity

The first #ThalesMediaDay took place on 11 April 2018 at the Thales Learning Hub in Paris, and was aimed at the French and international media. With **an investment of over one billion euros over the last three years** in the four key digital technologies (connectivity, big data, artificial intelligence and cyber security), the group also confirmed its role as a digital innovation laboratory and a world leader in cybersecurity.

(1) Inria, the French National Institute for computer science and applied mathematics.



### OneSKY: the world's largest air traffic control system

Australia and Thales launched the OneSKY programme, aimed at modernising and integrating Australian airspace. OneSKY will become **the world's largest civil and military air traffic control system**, managing 11% of global air space using Thales's four key technologies: connectivity, big data, artificial intelligence and cybersecurity. By optimising the flight routes, OneSky will reduce travel times and delays, therefore resulting in a **reduction in CO<sub>2</sub> emissions** thanks to lower kerosene consumption.



### Thales embarks on the Grand Paris Express project

Société du Grand Paris (SGP) has selected Thales and its partner SMEs to design and deploy the onboard systems for the new lines (15, 16 and 17) of the Grand Paris Express urban rail network, **one of the largest projects of its kind in Europe**. The systems installed on board the trains will enhance passenger safety and improve the passenger experience by providing uninterrupted access to travel information and all connectivity services. The 20-year contract involves equipping 159 trains to serve a total of 125 km of new lines.

### Deployment of Galileo thanks to Thales

On 18 October 2018, Thales Alenia Space and the ESA signed a €324 million contract to develop and deploy the next version of the ground-based Galileo Mission Segment (GMS) and the Galileo Security Facility (GSF). The main challenges to be addressed are the **modernisation of infrastructure and the improvement of security**, including cybersecurity. This will enable Galileo to deal with the growing problem of interference faced by GPS systems.

### SYNAPS – a new generation of tactical radios for the armed forces

SYNAPS, Thales's new range of tactical high-speed software radios, is designed to support the digitalisation of the battlefield and C4I<sup>(1)</sup> systems, thereby enabling real-time sharing of the tactical situation and providing a unique collaborative combat capability which speeds up manoeuvres. SYNAPS provides the ground commander with information superiority thanks to its unparalleled performance, particularly in terms of scope, and makes no compromises when it comes to speed, security and connectivity. By removing the silos that previously hampered the flow of information amongst inter-service and joint units, **SYNAPS radios contribute to the improved protection and effectiveness of forces on the ground**.

### Thales strengthens the sonar capability of Australian submarines

**This AUD230 million contract, signed in June 2018**, aims to modernise the sonar equipment of the six Collins class submarines owned by the Australian Navy.

The submarines' legacy cylindrical array will be replaced with a Modular Cylindrical Array (MCA) based on Sonar 2076 submarine technology developed by Thales teams in the UK. The existing flank array will be replaced by the latest generation flank array developed by Thales teams in France.



### Thales-Gemalto: a year dedicated to obtaining authorisations and preparing for integration

On 27 March 2018, Thales officially launched its public offering to acquire Gemalto shares at a price of €51 per share. **The integration of Gemalto significantly accelerated Thales's digital technology strategy**, strengthening its offer in its five markets (aerospace, space, ground transportation, defence and security).

The 2018 financial year was devoted to obtaining the necessary national administrative authorisations and competition approvals in order to be able **to complete the acquisition in the first quarter of 2019 as planned**.

(1) C4I : Command, Control, Communication, Computer and Intelligence





## **VISION AND STRUCTURE OF THE GROUP**

An organisation that  
can handle ever more  
complex environments

# A PERMANENTLY EVOLVING ECOSYSTEM

The economic, political and societal environment of companies has never been so uncertain, complex and ambiguous. Despite the increasing interdependence of national economies, the factors dividing the world have intensified. The year was characterised by inward-looking national policies and trade wars between major global powers.

At the same time, 2018 saw the emergence of a new sense of urgency mobilising large segments of the world's population in the face of new global challenges such as curbing global warming, protecting the environment or strengthening

Human Rights. These major trends, which are sometimes contradictory but increasingly significant, give rise to new challenges to which Thales can provide effective and innovative technological responses.

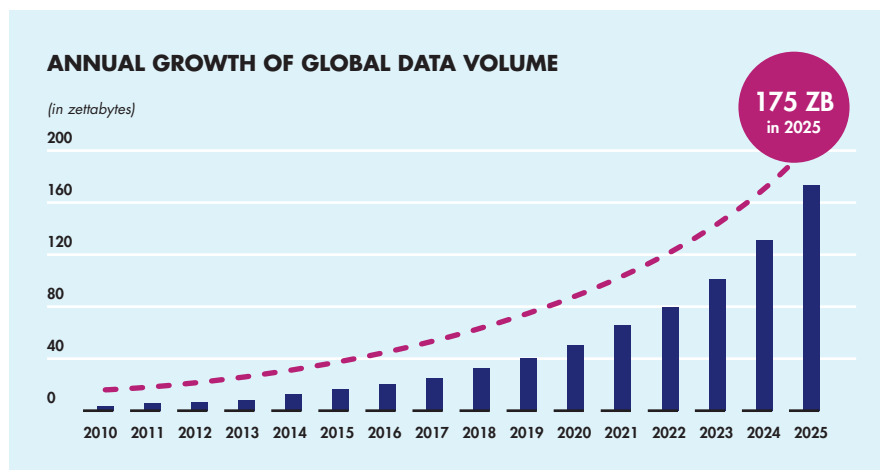
## Data Deluge and multiplication of cyberthreats

### Challenge – to restore confidence

According to the International Data Corporation (IDC), **the amount of data generated by internet users, particularly via connected devices, will increase five-fold between 2018 and 2025**. Nearly half (49%) will be stored on the Cloud. With this considerable mass of data circulating continuously and being used (for the most part) in real time, it is not without significant challenges in terms of safety and security.

In addition, the recent phenomenon of “fake news” – intentionally manipulative information, which is increasingly sophisticated and primarily shared on social networks with the intention of destabilising companies or governments – has tested certain Western democracies.

This instillation of permanent doubt may go on to generate a general decline in the trust of citizens, businesses and administrations, primarily resulting in the increasing complexity of relations and the weakening of governments. **It is therefore more essential than ever to be able to verify information, identities and data in order to ensure that they have not been manipulated or diverted.**



Source: Data Age 2025, sponsored by Seagate, November 2018.



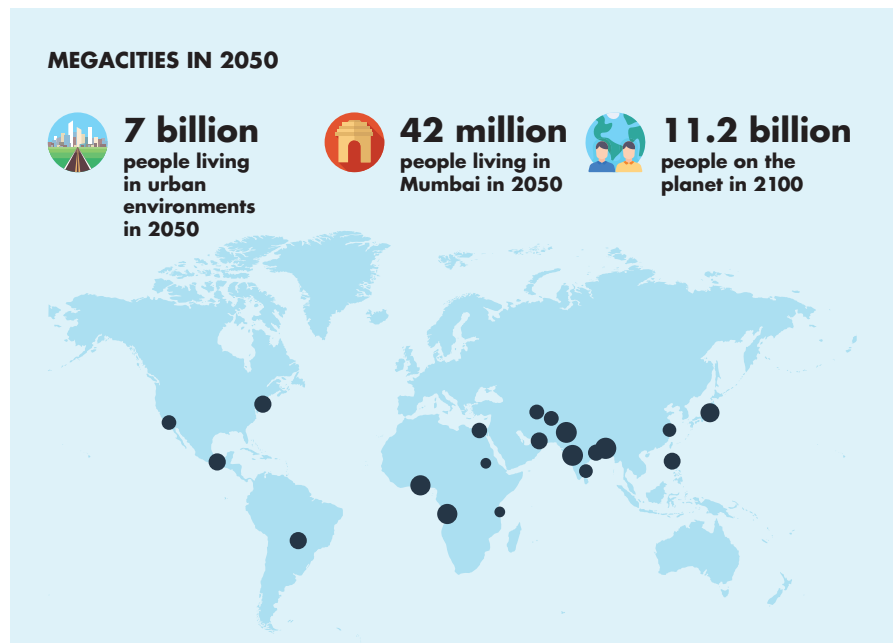
## Growth and urbanisation of the population and global warming

### Challenge – to make cities smarter

The continued growth of the world's population – particularly in Africa and Asia – coupled with increasing urbanisation is resulting in the **proliferation of "mega cities", i.e. urban areas with more than 10 million inhabitants**. These population concentrations present major challenges in terms of safety, transport, the environment and general quality of life with ever-increasing population densities.

"Smart city" solutions are based on the ability to agglomerate – in real time, if possible – the greatly varied data from

heterogeneous sources. This data includes metro frequency, passenger flow, road traffic, power consumption and CO<sub>2</sub> emissions etc. and is used to best adapt the infrastructure and public services to the immediate needs of citizens. This ever-closer and more integrated management of cities is becoming an essential part of their development and helps them to **combat global warming effectively**.



## Increased mobility of individuals and a need to be permanently connected to the internet

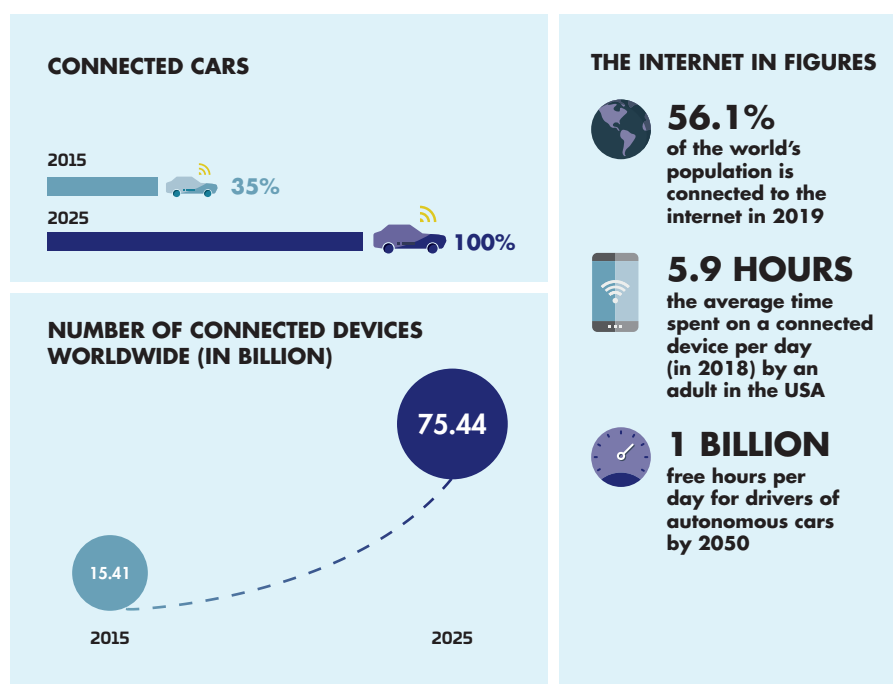
### Challenge – to develop continuous, safe and secure connectivity

Today, **more than half of the world's population is connected to the internet**. Whether for work or leisure, the people of the world want access to a high-performance connection at all times throughout their movements and activities. In addition, there is exponential growth in the number of connected devices – from watches to autonomous vehicles or trains – the efficiency and reliability of which depend on almost permanent access to the global network.

In this context, **the ability to ensure a safe and secure connection becomes an essential issue**, whether on the train or the metro, in an aeroplane or a car, or in the city or a rural area. By ensuring the integrity and reliability of the transfer of this data, cybersecurity is the key element of this permanent connectivity.

The strategy developed by Thales responds perfectly to these challenges. Thanks to its strong technological commitment, the Group asserts itself as a

trusted partner that allows its customers to make the right decisions at each decisive moment.



Sources: BNP Paribas (connected cars), pcmag.com (the internet in figures), forbes.com (number of connected devices in the world).

## Rapid development of artificial intelligence (AI) across all human activities

### Challenge – to set up a trusted AI

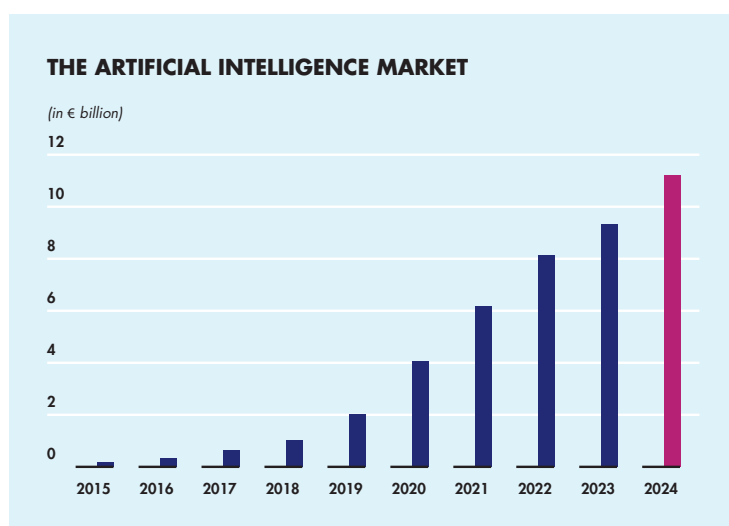
The rapid increase in the processing power of processors and in data storage capacity has enabled artificial intelligence to take flight. This concept, which combines many different technologies, is attracting increasing interest from governments and companies.

In the course of a few years, over USD 15 billion have been invested in start-ups specialising in the domain of artificial intelligence, in order to master this breakthrough innovation.

However, in years to come, this expansion could collide with the growing concerns expressed by citizens about these

technologies. These social and ethical fears are being expressed more and more frequently, even if they sometimes prove themselves to be irrational in origin. It therefore seems essential to **integrate responses to legitimate questions from citizens into the development strategies of artificial intelligence.**

Thales works to develop artificial intelligence systems which are able to meet the challenges of the future, i.e. which can help humans to make the best decisions at key moments, and always keep control of – and take responsibility for – the decisions made. **For Thales, artificial intelligence must be trustworthy, comprehensible and verifiable.**



Source: Tractica.



#### ATTRACTIVENESS OF COMPANIES: THE TOP 10 CRITERIA FOR YOUNG ENGINEERS

- 1) **High future earnings**
- 2) **Innovation**
- 3) **Professional training and development**
- 4) **A creative and dynamic work environment**
- 5) **A friendly work environment**
- 6) **Good reference for future career**
- 7) **Leaders who will support my development**
- 8) **Secure employment**
- 9) **Competitive base salary**
- 10) **Respect for its people**

Source: World's Most Attractive Employers 2018, Universum.



## 13.2%

Average turnover  
rate in the  
high-tech segment

## 7.9%

Turnover rate  
at Thales  
in 2018

## Increased mobility and high demand for specific skills

### Challenge – to enhance the attractiveness of companies

Due to the sustained growth of investment and exchanges and the internationalisation of R&D, the mobility of human resources in the science and technology segment has become an essential aspect of globalisation. Roles in electronics, cybersecurity or artificial intelligence are particularly scarce on the job market, and are sought by many participants in the new technologies segment. For a company, the inability to recruit employees with the right skills can indeed have major consequences in terms of innovation capacity or commercial development.

The implementation of policies to attract talent is therefore a major challenge for companies. In addition to the establishment of attractive compensation policies and dynamic internal mobility, potential candidates (and particularly new generations) are increasingly sensitive to the company's economic and social role within society. In this context, companies developing integrity and inclusion policies, while

demonstrating their responsible approach on an environmental level as much as on a societal or ethical level, have an increasingly competitive advantage.

Furthermore, the assertion of an active policy for gender diversity and the valuation of scientific and technical careers for women is an important issue.

Through the implementation of a proactive recruitment policy (27.5% of its new recruits worldwide are female), Thales intends to involve women more in its development. Despite its efforts, the Group is confronted with a smaller proportion of women in engineering schools, from where it recruits a large portion of its workforce. To address this, Thales is working in partnership with the main projects aimed at attracting young girls towards scientific and technical careers, via the Women's Forum or the Elles Bougent ("Girls on the Move") Association.

# OUR VALUE CREATION PROCESS

## ASSETS AND RESOURCES



### INTELLECTUAL CAPITAL

€879 million in self-funded R&D

A portfolio of over 16,000 patents

One-third of the workforce in R&D

6 Innovation Hubs

3 Digital Factories

Over 50 academic partnerships



### HUMAN CAPITAL

66,000 employees

More than 31,000 employee shareholders

€6,5 billion in payroll

76.5% of employees received training during the year



### ENVIRONMENTAL CAPITAL

A rigorous strategy and commitments to green growth

Signatory to business proposals for COP21 and the French Business Climate Pledge



### SOCIAL CAPITAL

A business ecosystem based on long-term relationships

A strong ethics policy

Purchases accounting for 44% of the revenue

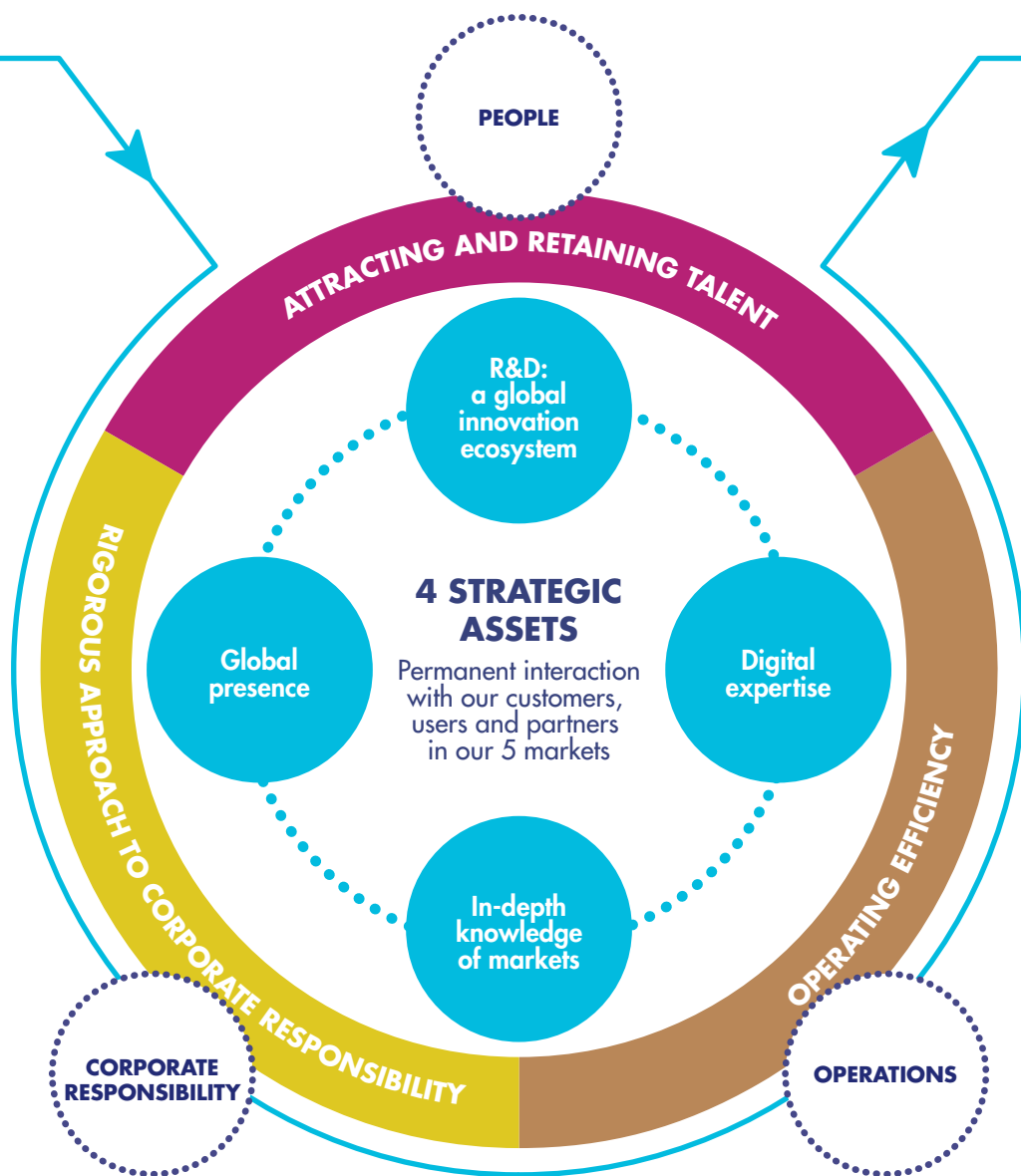


### FINANCIAL CAPITAL

A healthy balance sheet of €5.7 billion in shareholders' equity (as at 31 December 2018)

€3,181 million net cash (as at 31 December 2018)

Very sound credit profile, S&P rating: A-



## FOCUSED ON OUR 5 MARKETS



Aeronautics



Defence



Security



Ground transportation



Space



## 2018 PERFORMANCE



### INTELLECTUAL CAPITAL

**330** new patent applications

**5.5%** of revenues invested in self-funded R&D, +10% compared to 2017

Thales once again ranked in the **top 100** most innovative companies in the world by Clarivate Analytics



### HUMAN CAPITAL

**8,100** new recruits, including **5,200** permanent jobs

**93.1%** full-time contracts

**50%** women on the Board of Directors

**2.4%** absenteeism rate at global level

**7.9%** turnover

**Best Employer 2018** (Capital Magazine)



### ENVIRONMENTAL CAPITAL

**-16%** CO<sub>2</sub> emissions (scope 1 and 2) compared to 2015 (in t CO<sub>2</sub>/€ millions)

**Rated A-** by the Carbon Disclosure Project

**-14%** of water consumption per € of revenue, compared to 2015

**59%** of non-hazardous waste is recycled (excluding one-offs)



### SOCIAL CAPITAL

**74%** of purchases made with EU suppliers, including 41% with suppliers in France

**€314 million** in tax, i.e. an average tax rate of 26%

**€21 million** invested in the Social Outreach Economy by more than 20,000 employees who are members of the Thales Group savings scheme and the collective retirement savings plan

At the end of 2018, **75%** of the 2,000 customers surveyed said they were satisfied or very satisfied with Thales

**Advanced level of the UN Global Compact** for the past 7 years

Ranked 1st in the "Defence and Aerospace" category by the DJSI for the 2nd year running

Leading French corporate contributor to microDON's "Round Off Your Pay" initiative (in terms of amount raised and number of donors)



### FINANCIAL CAPITAL

(2018 versus 2017)

Organic growth in revenues: **+5.3%**

EBIT growth: **+23%**

Increase in dividend per share<sup>(1)</sup>: **+19%**

(1) Put to the General Meeting on 15 May 2019.

## VALUE CREATION SHARED WITH OUR STAKEHOLDERS

### 2018 REVENUES

**€15.9 billion**

### SUPPLIERS PURCHASES AND OTHER

**€7.0 billion**

### EMPLOYEES COMPENSATION PAID IN 2018

**€6.5 billion**

### GOVERNMENTS INCOME TAX (2018)

**€314 million**

### SHAREHOLDERS DIVIDENDS PAID IN 2018

**€382 million**

### ABILITY TO FINANCE FUTURE GROWTH

### SELF-FUNDED R&D IN 2018

**€879 million +10%**

### TOTAL ACQUISITIONS 2016-2018

**€584 million**

# OUR FIVE STRATEGIC PRIORITIES BETWEEN NOW AND 2021



Launched in 2013 for 10 years, the “Ambition 10” strategic plan embodies a simple goal: to make Thales a leader in each of its business activities. The strategic plan was updated in June 2018. Over the period 2014-2017, the plan achieved all its objectives. Thales returned to a growth trajectory, becoming both more global and more profitable. Over the period 2018-2021, the Group’s leadership goal must be reflected in **the growth of each activity** at a rate that outpaces the market and **ensures long-term profitability**. With this end in mind, the Group has set itself **five strategic priorities** to be achieved by 2021.

## IMPLEMENT POWERFUL OPERATIONAL PERFORMANCE LEVERS

### 1 STRENGTHEN THE GROUP’S CUSTOMER-CENTRIC CULTURE

The Group will further strengthen its customer-centric culture by introducing new marketing and sales initiatives to bring it closer to its customers, optimise its sales opportunity portfolio, and boost exports from its main host countries.

### 2 RELENTLESSLY OPTIMISE OPERATIONAL PERFORMANCE

The Group will continue to focus its competitiveness initiatives on four major domains:

- **procurement performance**, driven by a new worldwide integrated organisation and the introduction of powerful new methods;
- **engineering competitiveness**, notably through the further deployment of agile methods, state-of-the-art digital engineering tools and the further reinforcement of skills and capabilities;
- **support-function efficiency**, with the implementation of standard worldwide operating models across every support function, fostering process standardisation, digitisation and further resource platforms;
- **excellence in project execution**, focusing in particular on continually improving operational excellence, specifically in the management of invitations to tender and in project implementation, against a backdrop of sustained business growth.

Complemented by the positive impact on product competitiveness arising from increased R&D, these four initiatives are expected to generate a 200 to 240 basis point improvement in EBIT<sup>(1)</sup> margin by 2021.

## INVEST TO SUSTAIN LONG-TERM GROWTH

### 3 ACCELERATE R&D INVESTMENTS TO DRIVE TECHNOLOGICAL EXCELLENCE

To drive technological excellence and lead the digital transformation of its markets, Thales plans to further increase its self-funded R&D investments. These are expected to **reach approximately €1 billion per year by 2021 (excluding Gemalto)**, an increase of between 25% and 30% compared to 2017.

### 4 POSITION THALES AS A LEADER IN THE DIGITAL TRANSFORMATION OF ITS MARKETS

Over the next 5 to 10 years, the accelerated pace of digital innovation will transform and upend the activities of Thales’s customers.

With its focus on critical decision chains, which are digital by nature, its large integrated network of digital native talents, and its unique portfolio of digital capabilities, notably in the domains of connectivity, big data, artificial intelligence and cybersecurity, Thales is ideally positioned to lead the digital transformation of its markets.

To execute this strategy and form partnerships with its customers through their **digital transformations**, Thales will capitalise on its recent acquisitions in these domains and the launch of its **Digital Factories**, while focusing its R&D investments on developing “dream products” incorporating breakthrough digital technology and new digital services.

### 5 EXECUTE ON THE TRANSFORMATIVE ACQUISITION OF GEMALTO

The acquisition of Gemalto, a major accelerator of Thales’s digital strategy, was completed on 2 April 2019.

By combining the assets of Thales and Gemalto in these domains, **this merger creates a major player and a world leader in digital security and cybersecurity**, based on a portfolio of solutions including security software, expertise in biometrics, multi-factor authentication and the issue of secure physical and digital certificates. These technologies, which combine a variety of uses which are constantly evolving, are intended to generate plentiful business opportunities and income synergies in the coming years.

By integrating Gemalto’s expertise in identity verification and security of property, Thales is also bolstering its distinctive positioning in its five major markets by becoming the **only player in the world able to offer comprehensive solutions for securing critical decision-making chains** all the way from data generation by sensors through to real-time decision making.

(1) Versus reported EBIT margin of 9.8% in 2017.

# OUR MEDIUM-TERM OBJECTIVES

## FINANCIAL OBJECTIVES

### THALES WITHOUT GEMALTO

Organic growth in revenues	+3 to +5%	on average over the period 2018-2021
EBIT margin <sup>(1)</sup>	11 to 11.5%	by 2021 while simultaneously increasing R&D expenses significantly

### ACQUISITION OF GEMALTO

Annual cost synergies	€ 100 to € 150 million	by 2021
Accretion of adjusted net EPS <sup>(1)</sup>	15 to 20%	as of the first year
Return on capital employed for the transaction including synergies	Greater than Thales's capital cost	3 years after implementation of the transaction

## NON-FINANCIAL OBJECTIVES

Percentage of new suppliers committed to the principles of the new Purchasing charter	100%	by 2023
Frequency rate of accidents at work with stoppage (Thales employees)	-30%	by 2023 (reference year: 2018)
Reduction in CO <sub>2</sub> emissions (scopes 1 and 2) and tCO <sub>2</sub> /€ million in revenues	-3%	in 2019 (reference year: 2018)
Non-hazardous waste recycling rate	>75%	by 2023
Percentage of women among new hires	40%	
Percentage of women in top positions	30%	
Percentage of Management committees <sup>(2)</sup> with at least 3 women	100%	

(1) Non-GAAP financial indicators. See definition on page 27 of the 2018 Registration Document.

(2) Management committees for Global Activities, Business Lines and Key Countries.

# AN ORGANISATION GEARED TOWARDS INNOVATION

Renowned for being an innovative organisation, Thales plays a central role in French, European and global innovation ecosystems. In order to invent tomorrow's products today, the Group invests heavily in R&D and relies on a technological and strategic structure that combines decentralised operations with close coordination.

Designing and developing critical information systems calls for comprehensive expertise in a range of increasingly sophisticated technologies, particularly detection, analysis and decision-making technologies. Thales's innovative solutions serve its customers in the aerospace, space, ground transportation, defence, security and digital identity markets.

## A strong involvement in local innovation ecosystems

In all the countries in which it operates, **Thales seeks to build partnerships within innovation ecosystems**, with academic institutions, design centres, high-tech firms and manufacturers, in order to innovate together on applications, business models and technologies.

To develop the technologies the Group needs, close ties between its research teams and the academic world are essential. Thales Research & Technology (TRT), an international network of central laboratories, was set up to establish such relations with academic partners. TRT has bases in France, the United Kingdom, the Netherlands, Singapore and Canada. In France, the Palaiseau laboratory on the *École*

*Polytechnique* campus is part of the world-class Paris-Saclay science and technology cluster. Similarly, the Singapore centre has partnered with Nanyang Technological University and the CNRS<sup>(1)</sup> in one of the few international joint units to have an industrial partner. In France, Thales has numerous strategic partnerships, including with the CNRS, the CEA<sup>(2)</sup>, *École Polytechnique*, Télécom ParisTech and Sorbonne University to name just a few.

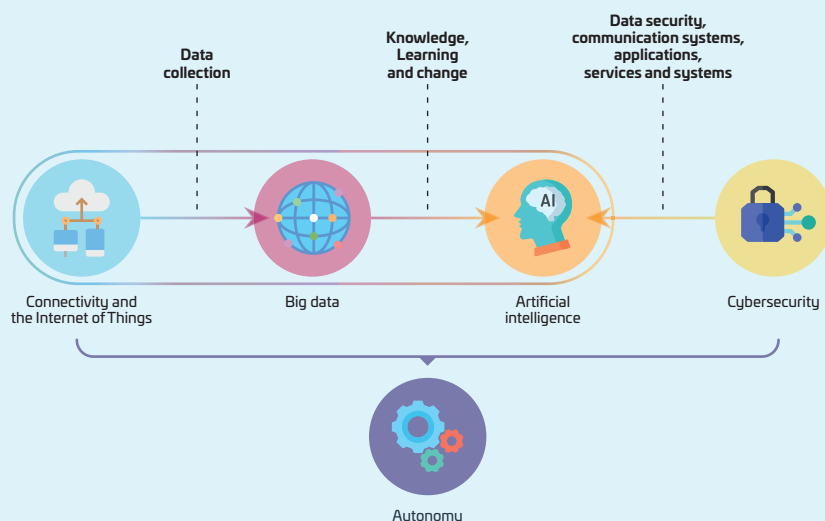
The most successful form of collaboration is the joint laboratory and, to this end, Thales has partnered with CNRS in the field of physics, with CEA-LETI as part of the III-V Lab (an EIG made up of Nokia, Thales and CEA-LETI), with CEA-IIST in the area of artificial vision and formal approaches to the development of critical software, and with Sorbonne University in the field of artificial intelligence, etc.

**Thales is a major player in various international competitive cluster** and a founding member of the *Institut de Recherche Technologique Saint-Exupéry* technological research institute.

In the United Kingdom, TRT is directly linked to several major British universities through the TRT-UK research centre, including strategic partnerships with the universities of Southampton and Bristol. **Thales also has strong relationships in AI and autonomy**, most notably with Digital Catapult and the Alan Turing Institute. In cyber, Thales UK has also established a number of partnerships that will give it access to new ideas and fundamental research in cybersecurity. In aerospace, Thales UK is a full partner in the Digital Aviation Research and Technology Centre (DARTeC), alongside Cranfield University. Thales is still a full member of the Defence Growth Partnership (DGP) and continues to lead the Defence Academic Pathways (DAP) cluster to develop relationships between industry and academic research. The Group is also a member of the Rail Research Innovation Network, which provides access to cutting-edge research at the universities of Birmingham, Huddersfield and Southampton.

In Canada, the Group regularly works with research networks and institutions

## THE PILLARS OF DIGITAL TRANSFORMATION



(1) Centre National de la Recherche Scientifique (The French National Centre for Scientific Research).

(2) Commissariat à l'énergie atomique et aux énergies alternatives (the French Alternative Energies and Atomic Energy Commission).



such as CRIAQ (Consortium de Recherche et Innovation en Aérospatiale du Québec), the University of Toronto, McGill University, the Polytechnique Montréal, and Laval University, with whom Thales has entered into an agreement for a joint research unit in urban sciences.



### Work with the best AI experts

In 2017, Thales created cortAlx, an artificial intelligence laboratory with some 50 researchers, to develop the use of AI in Thales systems. The laboratory is located in Montreal, in the heart of one of the world's leading artificial intelligence ecosystems. The Thales cortAlx researchers are developing partnerships with MILA (the Quebec Artificial Intelligence Institute), IVADO (Institute for Data Valorisation), the INRS (Quebec National Institute of Scientific Research) and the Vector Institute in Toronto. **The Group employs some 200 researchers dedicated to artificial intelligence**, mostly based in the French Plateau de Saclay campus and Montreal. Their work focuses on predictive maintenance for commercial aircraft in-flight entertainment systems, traffic regulation and urban transit in Hong Kong, aircraft arrival time prediction, and automatic video analysis for detecting violence on urban transport or for detecting items of interest in aerial reconnaissance images.

### An innovation policy which integrates start-ups

Since 2017, Thales has further increased and boosted its involvement with start-ups. For example, the Group's businesses in France are heavily involved with the founding members of Starburst, an incubator specialising in aerospace. Thales is also the cybersecurity advisor for Station F, the largest incubator in the world, where around 20 start-ups – more than half of which are not French – have been able to participate in the acceleration programme and develop, in some cases, pilot projects with Group units.

With almost €3 billion invested in R&D annually, Thales has made innovation a strategic priority

### FOCUS

#### Thales: a renowned innovator

Thales's R&D activities are supported by an aggressive intellectual property management policy. **The Group filed almost 350 new patent applications in 2018**, approximately 20% of which were for key digital technologies. The ever-increasing number of patents filed in recent years reflects Thales's commitment to innovation and its focus on translating its teams' research results into competitive advantages. **The Thales portfolio, which includes more than 16,000 patents and applications**, is regularly adapted to operational requirements, particularly to protect Thales's market share.

In 2018, Thales was once again included in the Top 100 Global Innovators ranking compiled by Clarivate Analytics (formerly Thomson Reuters Intellectual Property & Science), with the Group standing out for the volume, success and influence of its patents. This achievement underlines Thales's commitment to innovation, to protecting its ideas and to bringing its inventions to market. Thales has featured in this prestigious ranking six times since 2011, a testimony to the importance it places on implementing an active and ambitious intellectual property management strategy.

### DID YOU KNOW?

Training also forms part of the overall strategy of linking the Group with the academic world. **Thales supports more than 200 doctoral students worldwide**. They work on topics directly related to operational technical issues, which strengthens the group's appeal to young scientists. Thales also supports six teaching chairs in subjects that are in line with its technical priorities.

## Thales and ground-breaking innovations

### The world's most powerful laser

In Romania, the ELI-NP (Extreme Light Infrastructure for Nuclear Physics) project recently reached a significant milestone. This laser will support research in nuclear physics and help **advance human understanding of the physics of matter**. At the end of 2016, after an initial phase of development, manufacturing and preliminary verification of the performance of the subsystems in France, Thales started the implementation of the world's most powerful laser system in Magurele (near Bucharest), which can generate **two laser beams – each with a power rating of 10 petawatts**. This system will be the core instrument of a unique new advanced technology and fundamental research facility in nuclear physics. After demonstrating a beam delivering pulses of 7 petawatts during over 4 hours of continuous operation, the Thales system delivered its first impulses with a record power of 10 petawatts on 7 March 2019. Thanks to this new technology, Thales has achieved an unprecedented level of performance, and the Romanian National Institute of Physics and Nuclear Engineering (IFIN-HH) and ELI-NP now have the most powerful laser in the world.

#### FOCUS

#### Professor Gérard Mourou, winner of the 2018 Nobel Prize in Physics and founder of the ELI infrastructure

*"This 10 PetaWatts laser is a tenfold leap from the power level demonstrated at the start of the ELI-NP project. It's been a huge challenge for Thales and Romania – on a par with a lunar landing, where failure is not an option. I've hardly been able to catch my breath in the last two years. Hats off to Thales and Romania. Congratulations and thanks, because the scientific community will now be able to use this magnificent instrument."*

### Artificial intelligence enters the factory

Artificial intelligence is already being used in Thales in its drive for industrial optimisation. This is particularly the case with the manufacture of telecommunication satellites for which radio frequency filters are key components. Their adjustment, which requires exceptional precision, is carried out by highly experienced technicians who adjust the filter response by fine-tuning the parameters to obtain the most perfect filtering function possible.

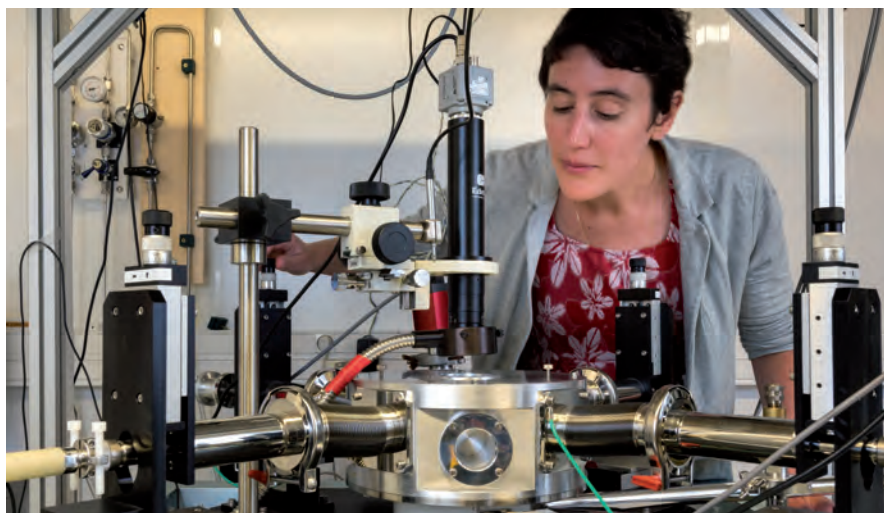
Working with a Polish start-up, Thales Alenia Space Spain has introduced a totally original approach to this, whereby the operator is assisted by an intelligent system. This artificial intelligence patiently learns the consequences of the multiple parameter combinations and once trained, helps the operator by analysing the filter curves in real time and advising him/her on the settings sequence. **Already operational, this artificial intelligence solution saves operators 40% in tuning time.**

### The first artificial nano-neuron

Thales researchers, together with the CNRS, as part of the Joint Physics Unit, have developed the world's first artificial nano-neuron with the ability to **recognise numbers spoken by different individuals with 99.6% accuracy**. Just like the recent development of electronic synapses, this electronic nano-neuron, which was featured in a Nature Article, is a breakthrough in artificial intelligence and its potential applications. This innovation led to the award of the **CNRS Silver medal** to Julie Grollier, a researcher at the CNRS and a member of the CNRS-Thales Research unit. This is a very strong acknowledgement of our advanced research. Until now, it had not been possible to produce an artificial nano-neuron that could process information reliably.

### Quantum sensing and quantum technologies

Thales's ASTERIS project was selected from amongst the 19 scientific projects shortlisted as part of the Quantum Flagship initiative, which was launched in 2017 by the European Union to facilitate the emergence of quantum technologies. **This European research programme has benefited from a billion euro investment over ten years.** It marks the start of a new era in this field, thanks to recent research that has made it possible to control quantum phenomena and imagine new technological applications. For example, the DIADEMS (DIAMond Devices Enabled Metrology and Sensing) project aims to develop high-sensitivity atomic-scale magnetometers. This project, led by Thales, plans to **use synthetic diamonds to develop sensors the size of an atom.**



Julie Grollier, Director of Research at the UMR de Physique CNRS/Thales.

# RISK CONTROL – THE DNA OF THE GROUP

All over the world, Thales provides complex systems, products and equipment – the nature of which is often critical for its customers: States, administrations or large companies. The Group distinguishes between three major risk categories: operational and strategic risks, legal and regulatory risks and financial risks.

There are many risks that could affect Thales's business activities, reputation or profitability, or its ability to achieve its objectives. The Group therefore makes every effort to identify these risks as early as possible in order to better manage the consequences. It relies on a consistent and proactive risk identification system that includes regularly updated risk maps covering all of its business activities throughout the world.

## Securing decision-making and operational processes

Risk management is integrated into the Group's decision-making and operational processes and is also one of the tools used to manage and guide decision-making. It provides managers with an overall, objective vision of the threats to which the Group is exposed, allowing them to take measured and considered risks and to inform their decisions regarding the allocation of human and financial resources.

## A scheme rising to meet challenges

The risk management system, supervised by the Audit, Risks & Internal Control Department (DARCI), is based on several systems set up at all levels of the Group:

- the **internal repository Chorus 2.0**, which defines the processes applicable to all entities;
- the **insurance and risk prevention function**, which is responsible for managing and optimising the coverage of insurable risks for all Group companies;
- the **internal control system**, drawn up primarily from 2 self-check questionnaires:
  - the **YAL (Yearly Attestation Letter)**, an internal control questionnaire sent to the directors of operational entities with more than 50 people (113 YAL questionnaires completed in 2018, of which 17 were the subject of an internal audit),
  - the **ICQ (Internal Control Questionnaire)**, a questionnaire focussing specifically on the reliability of financial and accounting data and on the prevention of fraud (135 questionnaires completed in 2018, of which 4 were audited by the DARCI),
- **internal audit**: In 2018, the DARCI, certified by the French Institute of Internal Audit and Control (*Institut Français de l'Audit et du Contrôle Interne* – IFACI), carried out 61 internal audits of all kinds (offers, projects, product policy, supply chain, IT security, export control, anti-corruption, post M&A, etc.) worldwide, which stemmed from the analysis of risks and topical subjects. The internal audit also includes an overall and independent assessment of the entire scheme described above and ensures that the Group's governance and processes are properly implemented.

Thales updates the risk maps to which its activities are exposed twice a year, based on a grid of 18 risk factors that have been identified and then distilled into 55 independent, measurable risk scenarios that are attributable to the governance.

## CLEARLY IDENTIFIED RESPONSIBILITIES: THREE MAIN STRANDS OF RISK GOVERNANCE

### Expertise Entrepreneurship Compliance



#### Corporate (6 functional departments)

Governance and organisation, risks, pooled at Group level (cash-flow, exchange rate, lack of insurance, etc.)



#### 6 global business units and their 24 business lines

Major bids and projects, product policy, business strategy



#### 110 local operational entities

Compliance with laws, regulations and internal processes (Chorus 2.0)

# GOVERNANCE ADAPTED TO CHALLENGES

Thales's governance is distinguished by a Board of Directors which is made up of members with both diversified and relevant experience, and which mainly centres on the representatives of its two reference shareholders – the French State and Dassault Aviation.

## An experienced and representative Board of Directors

In addition to the representatives of its two reference shareholders, it includes independent directors and employee representatives, contributing to **balanced governance**. Thanks to the professional experience of its members, the Board of Directors has collective skills covering all the business segments in which the Group is present, as well as the various main functional domains. The diversity of directors' points of view, their actual involvement in meetings, and the balance in terms of seniority of directors make it possible to ensure the richness of discussions for the benefit of Thales's strategy. Three specialised committees – the Audit and Accounts Committee, the Governance and Compensation Committee and the Strategic & CSR Committee – prepare the decisions of the Board of Directors.

## Dynamic, dedicated governance

In 2018, in addition to the recurring topics covered by the Board of Directors, the agenda of the meetings mainly included the monitoring of the implementation of the Gemalto acquisition project and the preparations for its integration, the implementation of the annual LTI plan (long-term incentive) with performance conditions beneficial to certain Group employees, as well as the triennial assessment of the Group's retirement commitments in the United Kingdom, and the associated financing plan.

### FOCUS

## A permanent shareholder agreement at the heart of governance

The Company is a *société anonyme* (French public limited company) with a Board of Directors. Under the terms of the shareholders' agreement between the Public Sector and the Industrial Partner (Dassault Aviation), as published by the French financial markets authority (*Autorité des marchés financiers* – AMF), the Board of Directors is composed of 16 directors, 14 of whom are appointed by the General Meeting and two of whom are appointed by the trade unions, in accordance with the law (Article L. 225-27 *et seq.* of the French Commercial Code) and the Articles of Association (Article 10).

Of the 14 directors appointed by the General Meeting, four are "external directors" selected jointly by the Public Sector and Dassault Aviation. One(1) is the representative of employee shareholders, and the others are recommended to the General Meeting by the Public Sector(5) and by Dassault Aviation(4).

## Board of Directors at 31 December 2018

### Appointed by the Annual General Meeting

#### Proposed by the Public Sector

- Patrice Caine, Chairman & Chief Executive Officer
- Laurence Broseta
- Bernard Fontana
- The French State, represented by Odile Renaud-Basso
- Delphine de Sahuguet d'Amarzit

#### Proposed by the Industrial Partner (Dassault Aviation)

- Charles Edelstenne
- Loïc Segalen
- Éric Trappier
- Marie-Françoise Walbaum

#### External directors

- Yannick d'Escaatha, independent director
- Armelle de Madre, independent director
- Anne-Claire Taittinger, independent director
- Ann Taylor, independent director

#### Representing employee shareholders

- Philippe Lépinay

#### Appointed by the trade unions

- Anne-Marie Hunot-Schmidt
- Frédérique Saint

On 31 December 2018, the **percentage of women on the Board of Directors was 50%** (seven out of 14 directors), excluding employee representatives, and 56% (nine out of 16 directors) when account is taken of employee representative directors. There is also gender balance on the Committees.

**16**  
directors

**4 years**  
term of office

**31%**  
independent  
directors

**10**  
meetings per  
year

**93%**  
average  
participation  
rate



## Steering the Group on a daily basis

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.

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.

## Executive Committee at 31 December 2018



**Marc Darmon**

Executive Vice President,  
Secure Communications  
and Information Systems



**Alex Cresswell**

Executive Vice President,  
Land & Air Systems



**Philippe Duhamel**

Executive Vice President,  
Defence Mission Systems



**Gil Michielin**

Executive Vice President,  
Avionics



**Jean-Loïc Galle**

Executive Vice President,  
Space



**Millar Crawford**

Executive Vice President,  
Ground Transportation  
Systems



**Patrice Caine**

Chairman and CEO



**Pierre Éric Pommelot**

Senior Executive  
Vice President,  
Operations & Performance



**Pascale Sourisse**

Senior Executive  
Vice President,  
International Development



**David Tournadre**

Senior Executive  
Vice President,  
Human Resources



**Pascal Bouchiat**

Senior Executive  
Vice President,  
Finance and  
Information Systems



**Isabelle Simon**

Executive Vice President,  
Group Secretary and  
General Counsel



**Philippe Keryer**

Executive Vice President,  
Strategy, Research and  
Technology

## A compensation system that aligns interests

### Compensation of the Chairman & Chief Executive Officer

The annual fixed and variable compensation for 2018 for Patrice Caine was established in accordance with the compensation policy for the Chairman & Chief Executive Officer of Thales, approved by the General Meeting of 23 May 2018. It comprises:

- fixed compensation of €700,000 (gross amount);
- a target annual variable compensation of €700,000 in the event of achieving objectives and that is capped, in the event of exceeding these objectives, at a maximum of €962,500 (137.5% of the target).

The criteria for determining the variable compensation are set at an overall level of 75% financial and 25% non-financial. In order to reward over-performance of the financial criteria, the amount of the

payment relative to these criteria may exceed the target up to 150%. This is not the case for the non-financial portion which is capped at 100%. Consequently, annual variable compensation is capped at 137.5% of the target.

The Chairman & Chief Executive Officer also benefits from long-term variable compensation. This is subject to a condition of 4 years' presence, as well as performance conditions monitored over three years, 40% of which is based on a growth objective, with another 40% based on a competitiveness objective and 20% based on Thales's performance on the stock market. The long-term compensation granted in 2018 may reach a maximum of €510,000 (amount valued against the share price at 31/12/2018). See page 88 of the Registration Document for more information.

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# ETHICS, INTEGRITY AND RESPONSIBLE BUSINESS CONDUCT – CENTRAL TO OUR MODEL

Ethics, integrity and corporate responsibility are crucial to the relationship of trust the Group has developed with all of its stakeholders. Thales takes a “zero tolerance” approach to compliance issues and promotes a culture of commitment, developed over many years at all Group levels.

## Ethical considerations befitting business and social challenges

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.

**Thales’s ethical considerations take into account its stakeholders’ concerns, which can sometimes be contradictory, in order to reconcile their different challenges and interests.** This leads to the signing of undertakings and charters that evolve out of a process of collaborative dialogue.

In France, for instance, under MEDEF and GIFAS, Thales helped draft common practices for the sector with regard to the implementing procedures for law No. 2016-1691 of 9 December 2016 (“Sapin II law”) and law No. 2017-399 of 27 March 2017 regarding the duty of care of parent companies and contracting companies.

On an international level, Thales contributes to the work carried out in the context of the International Forum on Business Ethical Conduct (IFBEC), a structure shared by the AeroSpace and Defence Industries Association of Europe (ASD) and the Aerospace Industries Association of America (AIA). Thales also actively participates in the working groups of intergovernmental organisations (OECD, United Nations, etc.). In 2018, the Group took part in the UN Forum on Business and Human Rights in Geneva.

## A structured and enhanced “zero tolerance” anti-corruption policy

To prevent corruption and bribery, which represent a major risk for multinationals, Thales introduced a **corruption risk prevention policy** at the end of the 1990s that is **constantly being improved**. This policy is regularly evaluated and has been readjusted to take into account the entry into force in June 2017 of the Sapin II law, which relates to transparency, anti-corruption and the modernisation of economic activity. It is based on:

- **principles clearly defined by the Chairman and Chief Executive Officer** and shared with all employees;
- **the publication and dissemination of a Code of Conduct – Prevention of corruption and influence peddling**, defining the various types of behaviour to be prohibited;
- **a corruption risk map**, drawn up in accordance with the Group’s general methodology for mapping risks;
- **a system for evaluating third parties** (mainly customers, suppliers, subcontractors and partners), including preventive measures proportionate to the risks;
- **accounting audits** integrated into the Group’s internal control rules to prevent and detect acts of corruption and fraud;
- **an employee training programme, revised in 2018**, providing each employee with a training track tailored to their level of exposure to corruption risk. In 2018, a total of 4,563 individuals had enrolled in the new e-learning training module;
- **an extensive alert system** that falls within the scope of France’s Sapin II law and Duty of Care law.

The main pillars of this anti-corruption compliance programme are integrated into the various operating processes of Thales’s Chorus 2.0 management system.

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The main pillars of the anti-corruption compliance programme are integrated into the various operating processes of Thales’s management system

## A dedicated organisation

Thales has established a dedicated organisation for implementing this corruption risk prevention policy. It is responsible for designing and managing solutions to ensure that the whole Group complies with corruption risk prevention regulations. It also helps develop a culture of corporate responsibility within Thales.

### FOCUS

In 2018, the Group's whistleblowing systems has received 15 alerts, 11 of them considered admissible. Of those 11 alerts, 8 were related to human resources and 3 to compliance. Of the alerts that triggered a specific follow-up, 8 resulted in additional investigations. No alerts about corruption were sent via this system.

### FOCUS



Thales has been a member of the United Nations Global Compact since 2003 and has integrated its 10 universal principles into its strategy. In 2018, thanks to its high standard

of reporting, Thales's Communication on Progress (COP) was awarded the Global Compact's "Advanced" level for the seventh consecutive year. Thales is the only French aerospace and defence company to achieve this level of reporting.

In 2018, for the second consecutive year running, Thales received the highest score in the Aerospace & Defence category of the World version of the Dow Jones Sustainability Index.

Lastly, in 2018 Thales was awarded an AA rating for its ESG policy by the non-financial rating agency MSCI.

## Compliance with export control: a critical issue

The Group exports its equipment and systems according to very strict rules designed to protect the national security of democratic states and combat the proliferation of weapons of mass destruction throughout the world. In 2018, defence activities accounted for 50% 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 to international laws and conventions regulating the production, sale, export, re-export and import of dual-use components, equipment and technologies that may be used for military or terrorist purposes. Such conventions include the United Nations Arms Trade Treaty, which came into force in late 2014 and was strongly supported by Thales during the drafting process.

### 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 affecting purchased goods**, 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.

### A rigorous internal regime

Alongside corruption, export control violations have been identified as one of the major risks facing the Company.

The Group has set up an **ISO 9100-certified process to ensure compliance with applicable export control regulations and current economic sanctions**. The 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 for legislative and regulatory changes 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.







# AMBITION OF THE GROUP

Creation of sustainable  
value for our stakeholders



# THALES'S COMMITMENTS TOWARDS THE SUSTAINABLE DEVELOPMENT GOALS

In 2015, the United Nations adopted a new sustainable development programme, based on 17 goals (SDGs) to be achieved by 2030 in order to promote prosperity while protecting the planet. As a member of the Global Compact, Thales – a trusted partner for a safer world – is involved in this process, which aims to make the world a better place. Through the engagement of its 66,000 employees around the world and thanks to the active support of its Foundation, Thales is taking concrete action to change the world and improve the lives of people through its activities and innovations.



## Promoting the emergence of peaceful societies open to all for sustainable development, ensuring access to justice and setting up responsible, effective and open-ended institutions at all levels

- Put into place a Human Rights vigilance plan to identify situations of infringement or complicity in Human Rights violations and at-risk situations, internally and within its value chain.
- Set up a plan to combat corruption and train employees to identify risk situations, and to support them so that they know how to behave, act and react.
- Mobilise corporate governance on the Sustainable Development Goals.
- Support the implementation of effective, accountable and transparent institutions.



**113**

operational entities conducted an assessment of the risk of corruption in 2018 (compared to **110** in 2017)

## Examples of Thales's contributions

The solutions developed by Thales allow countries, international organisations and companies to better combat terrorism and crime while protecting the individual freedoms and Human Rights of citizens.

**Since 2001, Thales has implemented an active policy to combat corruption** and influence peddling. This was enhanced in 2018 by the publication of a new Code of Conduct – Prevention of corruption and influence peddling and the deployment of a more structured internal policy (see page 28). **In 2018, Thales also defined its vigilance plan** designed to assess the impact of its activities and those of its suppliers and sub-contractors in terms of potential violations of Human Rights and fundamental freedoms, the health and safety of personnel, and environmental protection (see page 37).

**4,563**

training sessions on anti-corruption in 2018 (compared to **1,035** in 2017)



## Establishing sustainable production and consumption patterns

- Develop an eco-design initiative relating to its products and services, in order to make innovation sustainable, and make more responsible choices of materials and production processes.
- Develop and support research programmes for responsible production.
- Work with customers and suppliers engaged in a sustainable development process.



**84%**

of class A<sup>(1)</sup> suppliers assessed in terms of maturity (compared to **67%** in 2017)

## Examples of Thales's contributions

Thales is committed to a deliberate, responsible approach to protection of the environment. This commitment has been a driver for the Group for over 15 years and is reflected in a policy to reduce environmental impacts and risks in its various activities worldwide.

In 2018, the Group set ambitious objectives, such as **100% of new developments incorporating eco-design by 2023**, and 75% of Product Line Architects and Product Line Managers being trained in or aware of eco-design.



## Take urgent action to combat climate change and its repercussions

- Reduce the impact of transport.
- Optimise its production and mobilise its value chain.
- Anticipate the impacts of climate change on its activities.
- Participate in the implementation of the global agreement to combat climate change signed by the COP21 in Paris in 2015.



Monitoring of CO<sub>2</sub> emissions (scopes 1 & 2):  
**-5% in millions of tCO<sub>2</sub>**  
in 2018 (compared to **+4%** in 2017)

## Examples of Thales's contributions

Climate change is a major issue in which Thales is involved, on the one hand through the reduction of its own CO<sub>2</sub> emitting sources, but also through the development of innovative and eco-friendly solutions that enable its customers to better control their own emissions. **Between 2015 and 2018, the Group's energy intensity decreased by 11.2%** (energy consumption/ revenue), and its use of fossil fuels (gas, fuel, coal) by 34%, by revenue.

**-5% in tCO<sub>2</sub>/€ millions**  
in 2018 (compared to **-6%** in 2017)

(1) All suppliers accounting for 80% of purchasing volume.



### Building resilient infrastructure, promoting sustainable industrialisation that benefits all and encouraging innovation

- Increase the investment in R&D and develop public research partnerships.
- Sustainable industrialisation that benefits all.
- Train and qualify the industrial workforce and ensure that expertise is maintained.



**€879 million**  
investments in self-funded R&D

**78.9%**  
of Thales employees occupying  
positions at a level equivalent to engineer,  
specialist or manager

**76.5 %**  
of employees trained

### Examples of Thales's contributions

As a key factor in competitiveness and a strategic pillar of the Group, **R&D relies on a global innovation ecosystem**. This involves 25,000 employees, i.e. 40% of the Group's staff, for a total investment of €3 billion. In 2018, Thales was once again featured in the Top 100 Global Innovators list published by Clarivate Analytics. Over 1.2 million hours of training were clocked up in 2018 – an average of 18.7 hours per employee.



### Achieving gender equality and empowering all women and girls

- Educating its employees on gender equality and the action to be taken within the Company.
- Ensuring that hiring practices and policies, compensation, conditions of employment, access to training and advancement are based solely on requirements relating to work, skills and results, and are free from discrimination on the basis of gender.
- Regularly assessing the impact of its policies and activities on the promotion of equal opportunities and non-discrimination.



**32%**  
of women among new recruits (permanent,  
temporary and work-study contracts)

**16.5%**  
of women in top positions  
(grades 10 to 12)

**49%**  
of management committees with  
at least 3 female members

### Examples of Thales's contributions

Thales is determined to combat all forms of discrimination. The Group is therefore committed to having its employees work in teams that are open to diversity and that promote differences and career paths in order to bring out the best in everyone.

Since 2016, Thales has defined voluntary diversity objectives that are the subject of a quarterly monitoring dashboard. **Thales encourages the creation of networks that promote gender equality in the workplace**. In 2018, seven new networks joined the 11 existing networks. Similarly, at the end of 2018, around 300 Thales employees are involved in the Elles Bougent ("Girls on the Move") Association, which aims to attract women towards careers in the scientific and technical segments.



### Promoting continuous, shared and sustainable economic growth, full productive employment, and decent work for all

- Participate in employment development by guaranteeing equal opportunities and by promoting stable and sustainable jobs, with fair wages and employment contracts.
- Promote safety in the workplace and ensure the protection of all workers.
- Prohibit forced labour and guarantee compliance with major international declarations.



**2.01**  
Frequency rate of accidents at work in 2018  
(compared to **2.19** in 2017)

### Examples of Thales's contributions

Aware that its success depends on innovation, expertise and collective performance, Thales has chosen to invest in sustainable and responsible relations with its employees, as well as with its suppliers and subcontractors. **In 2018, 97.4% of jobs were permanent and over 93.1% of these were full-time.**

Thales also gives special attention to valuing both the employment of seniors (35.6% of employees are 50 years and over) and the integration of young people (34.6% of employees are under 40 years). Thales's risk mapping includes risks relating to the duty of vigilance and risks associated with forced labour. **The Group systematically requests that its suppliers and sub-contractors undertake to comply with the rules of the ILO on this subject.**

**8,133**  
new recruits with permanent contracts in 2018  
(compared to **5,220** in 2017)



### Effective partnerships between governments, the private sector and civil society

- Encourage companies in its value chain to contribute to the SDGs and to support its suppliers who have made commitments.
- Set up a dashboard and indicators to monitor its contributions to the SDGs and communicate them in full transparency, particularly by means of reporting, to the Global Compact.



**15,610**  
suppliers and sub-contractors having signed the charter in 2018  
(compared to **12,700** in 2017)

### Examples of Thales's contributions

**Thales has adhered to the principles of the Global Compact since 2003**, and in 2018 (for the 7th consecutive year) achieved the Global Compact Advanced level of the Global Compact differentiation programme. Through its Purchasing and Corporate Responsibility Charter, the Group also encourages its suppliers and sub-contractors to commit to the principles of the Global Compact and the OECD. Finally, Thales participated in the 2018 edition of the UN Forum on Business and Human Rights, which took place at the United Nations in Geneva.



### Ensuring access to quality education for all, on an equal footing, and promoting lifelong learning opportunities

- Form partnerships with local universities and schools, to contribute to the training of professionals.

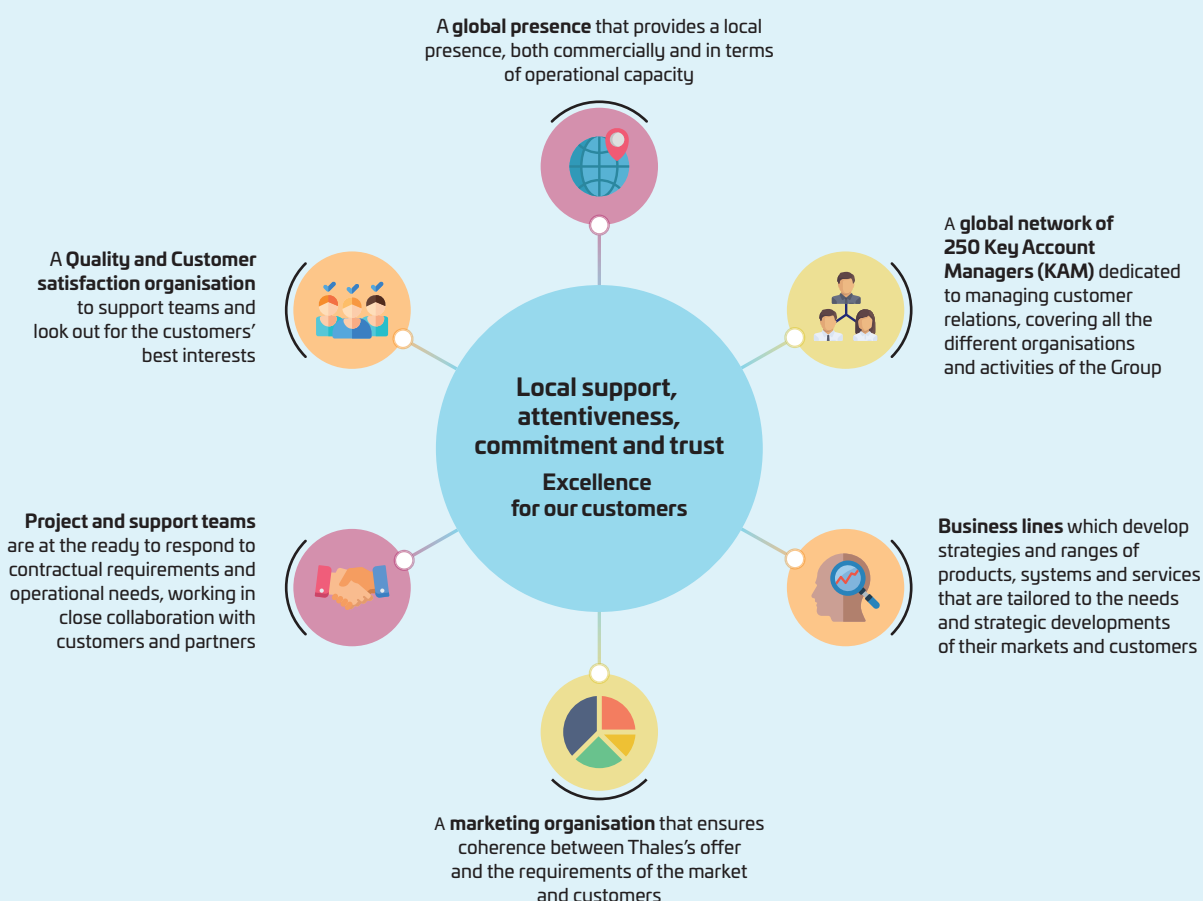
### Examples of Thales's contributions

In 2018, through its Foundation, Thales funded science-related educational projects that benefited more than 4,000 students and teachers worldwide (see page 44).

# CREATING VALUE FOR OUR CUSTOMERS

Thales's main goal is to help its customers manage ever more complex environments to make decisions quickly, efficiently and appropriately at every decisive moment. This can only be achieved if there is a strong relationship of trust and a solid, long-term commitment, based on an in-depth understanding on the part of Thales of its customers' challenges, strategic objectives and operating needs.

## AN ORGANISATION FOCUSED ON FOSTERING GOOD CUSTOMER RELATIONS



## Listening, engaging and collaborating with our customers

Thales maintains a relationship of trust and proximity with its customers, within **the framework of a true partnership relationship**. The three examples below illustrate Thales's commitment to working collaboratively with its customers and its desire to address their key concerns as effectively as possible, both now and in the future.



### Engaging in strategic dialogue with customers to prepare for the future: 2018 Military Avionics Seminar

The 3rd edition of the Military Avionics Seminar, organised by the "Flight avionics" department of Thales Paris, took place in October 2018 and welcomed around 100 customers – mainly from military branch headquarters, the armed forces and the Directorate General of Armaments – to share with the Group's teams their strategic vision for the contribution of military avionics to collaborative combat.

These constructive, highly informative exchanges with customers and users were a practical opportunity for Thales to illustrate the value created by its innovations, particularly those based on the use of artificial intelligence.

For example, during the Military Avionics Seminar, a discussion of technical, programming, practical and ethical issues led to a healthy **exchange of viewpoints** and, ultimately, to a **stronger customer relationship, something that is essential when designing the solutions of the future**.

### Designing solutions and services collaboratively with users: PartEdge

The PartEdge solution is a mobile application offering an innovative service that significantly optimises equipment deliveries and exchanges for airlines in any location and at any time.

Developed through Thales's Digital Factory, PartEdge is the result of a **totally new approach to collaborative design between the Group and its customers**. This collaborative approach isn't just used when designing the solution; all user feedback is continually shared, whether it pertains to functionality, performance, ergonomics or even price.

### Improving the user experience: Performance-Based Logistics

Organised around 4 pillars – integration of the logistics chain, proximity to the end user, industrial efficiency, performance management – Thales's Performance-Based Logistics (PBL) approach meets the requirements of the Armed Forces and **implements solutions and systems at the right level at the right time and in the right place**.

Already deployed for Rafale fleets around the world – and, more recently, for platforms such as the Atlantic 2, the Tigre helicopter and the Mirage 2000 – the Performance Based Logistics service will soon evolve to incorporate predictive maintenance solutions based on the heavy use of big data and artificial intelligence, with only one objective: to optimise the availability of aeronautical fleets and to maximise the success of missions.

## The key figures from the 2018 "Customer satisfaction and trust" survey

**100**  
countries

**600**  
customer accounts

**2,000**  
customer contacts

**75%**  
of customers satisfied or very satisfied with Thales

**86%**  
of customers asked would recommend Thales



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# CREATING VALUE FOR OUR PARTNERS

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 half of its revenues on purchasing (44%). 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.

## A stringent purchasing policy

Thales's purchasing policy is designed such that the company works with a base of efficient, reliable suppliers who comply strictly with the domestic and international laws and regulations that apply to them, including international trade rules (including those relating to export control) and their environmental, personal health and safety, ethical and social obligations.

In 2010, Thales signed a Responsible Supplier Relations Charter which outlines **10 practices for responsible purchasing**. The aim of the charter is to develop a balanced relationship between suppliers and customers based on mutual trust and both parties' awareness of, and respect for, their respective rights and obligations. A mediator has been appointed internally to listen to the suppliers, with the aim of avoiding any conflicts which may arise, or at least resolving them as quickly as possible. The Thales mediator also bases its work within the framework of initiatives controlled by the mediator of the aerospace and space segment of the French Aerospace Industries Association (Groupement des Industries Françaises Aéronautiques et Spatiales – GIFAS).

Thales's commitment in this area in France was recognised in 2012 when it was awarded the **Label Relations Fournisseur Responsables** (Responsible Supplier Relations Label) by the *Médiation des Entreprises* (French business mediator) and the *Conseil National des Achats* (French purchasing board). Awarded for a three-year period, it distinguishes companies that undertake to build a structured collaborative relationship with their suppliers, based on mutual respect. Thales was awarded this label again for the period 2015-2018.

These best practices apply in particular to the relationships forged with the 3,200 small and medium-sized enterprises (SMEs) and mid-sized businesses (MSBs) to which Thales has awarded nearly 65% of its purchasing volume in France. In 2012, Thales also signed the French **Charte des PME innovantes** (Innovative SME charter) and has since actively

participated in several multi-sectoral initiatives to help SMEs with their innovation projects and to contribute to their future development. Lastly, Thales is still heavily involved with the French non-profit association Pacte PME, established in 2010 to facilitate the growth of SMEs and the emergence of new MSBs. The Group sits on the association's Board of Directors. Thales's actions towards SMEs also target the Defence segment, particularly as part of a bilateral agreement signed in France with the Ministry of the Armed Forces.

## A responsible supply chain

Thales requires its suppliers around the world to adhere to its corporate responsibility approach by signing its Purchasing and Corporate Responsibility Charter. The charter requires them to uphold the principles of its Code of Ethics and those of the United Nations Global Compact and of the OECD, particularly with regard to Human Rights, labour standards, the environment and the prevention of corruption.

Thales suppliers must also complete a **self-assessment questionnaire** that evaluates their corporate responsibility performance; they are then awarded an overall score which reflects their non-financial performance.

A specific questionnaire also assesses the maturity of their environmental management. This self-assessment may be checked during the supplier audits carried out by Thales, following which the Group may request an improvement plan or even decide to remove a supplier from its list if certain essential criteria are not met. In this regard, Thales has already been working closely with certain suppliers for a number of years, in order to jointly define and implement progress plans.

To achieve the goal of a responsible supply chain, the Group Purchasing Department has set itself the objective of assessing the environmental maturity of all its class A suppliers (a group of suppliers accounting for 80% of purchasing volume) as well as each of its new suppliers by the end of 2018.

## FOCUS

### Duty of care

During the 2018 financial year, Thales established an internal and multi-disciplinary working group to define the key features of its vigilance plan, which was made mandatory by the French law of 27 March 2017 on the duty of care of parent companies and contracting companies, and by the French Commercial Code. The tasks of this working group are also based on the work of professional associations, such as the GIFAS, of which the Group is a member (see section 8.3.2 of the 2018 Registration Document).

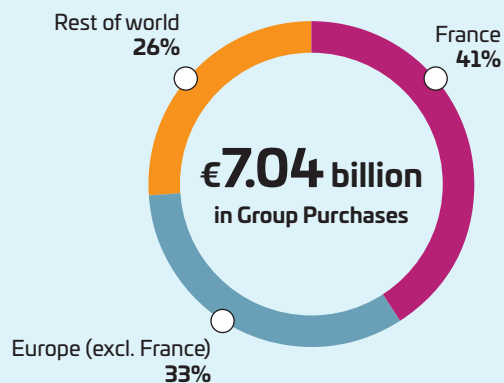
## FOCUS

### Conflict minerals: constant vigilance

Although Thales is not subject to section 1502 of the US Dodd-Frank Act since it is not listed on the US financial market, the Group nevertheless exercises due diligence when it comes to conflict minerals, to meet customer expectations and comply with its commitments. Thales submits these queries to its supply chain to ensure that the origin of the metals covered by these regulations (tin, tantalum, tungsten and gold) can be verified. When Thales identifies suppliers likely to supply items containing these metals, the Group checks whether those suppliers have a policy on conflict minerals and/or an appropriate body to respond to questions on the matter.

## Our suppliers

### PERCENTAGE OF PURCHASES



### KEY FIGURES AT THE END OF 2018



**15,610**

suppliers were signatories to the Purchasing and Corporate Responsibility Charter



**8.7/10**

suppliers' ESG performance<sup>(1)</sup>



**84%**

of class A<sup>(2)</sup> suppliers assessed in terms of environmental maturity

**10,400**

supplier sites

(1) Supplier performance in domains of corporate responsibility (labour standards, the environment, corporate governance, business ethics and export control) (average score /10).

(2) All suppliers accounting for 80% of purchasing volume.



### Thales Suppliers Conference

Three hundred strategic suppliers from around the world attended the first Group Suppliers Conference, held on 20 November 2018 in Vélizy-Villacoublay (France). This global, cross-functional event was an opportunity for Thales to present its vision and missions, and to address the important role that Purchasing and suppliers play in the Group's competitiveness. The conference allowed Thales to bring together the key partners in its ecosystem and to share its challenges and expectations regarding competitiveness, innovation and supplier performance. Received very positively by the participants, the 2018 Supplier Conference will remain a key step in the context of Thales's procurement transformation plan.

# EMPLOYEES: CENTRAL TO THALES'S COMMITMENTS

Thales knows that its success relies on innovation, expertise and collective performance; that's why it has made its employees the key focus of the Group's long-term development. This strategic vision is based on a human resources policy that befits the challenges faced by the Group.

## Three areas of major commitments

Jointly developed with Group employees, Thales's commitments are organised into the following three strands, which address the needs of each individual and the changing work environment:

- allow each employee to **give their best**, through a policy of skills development and the equitable recognition of individual contributions to collective performance.
- **develop together in a changing world**. Thales is committed to ensuring that its employees have constant access to stimulating career opportunities, and that they benefit from a digital environment and a culture of experimentation that favours innovation.
- be **"attentive to everyone"** by ensuring that employee benefits are among the best on the local market, and that employees have the trust and necessary support of their management.

These Commitments form a pact between Thales and its employees, and between each employee and his or her peers.

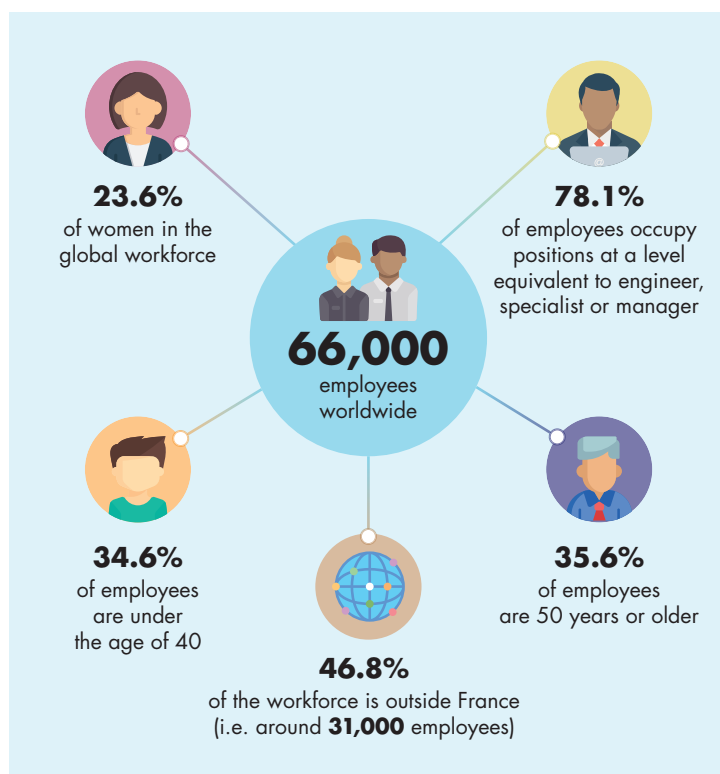
## A revised candidate attraction policy

Thales's success and performance depend on its ability to find and attract – in all of its markets – top talent with diverse profiles in terms of gender, training, experience and culture.

Thales continues its innovative measures aimed at attracting candidates, such as for example, its proactive involvement in events and challenges including the "Cybersecurity Challenge" (European Cyber Week) and BattleDev, a hackathon organised by the company HelloWork.

Thales also continues to enhance its presence on social media. **At the end of 2018, the Group had more than 375,000 followers on LinkedIn.**

In a bid to promote interest in science and technology careers, in 2018 Thales's companies in France relaunched their "First Internship with a Company" campaign in partnership with the French non-profit organisation Elles Bougent. ("Girls on the Move"). As part of the campaign, internships were offered to female Year 10 students, giving them the opportunity to learn more about the Group's businesses. This year, the Group also awarded **24 Prix Thales Éducation ("Thales Education Award") grants to young people** in France taking the Professional Baccalaureate (BEP), who alternate between work and their studies.



## RANKINGS

In the rankings published by Le Figaro & Cadremploi in 2018, Thales took the top spot among the most attractive employers for students and young engineering graduates.

## FOCUS

### Thales Learning Hub: "to share knowledge and transform Thales"

Thales believes that the individual development of each employee is a prerequisite for the Group's success as a whole.

With a presence in 10 countries (representing approximately 90% of the global workforce), the Thales Learning Hub contributes to employee training and professional development in the various countries in which the Group does business, while ensuring a common culture. In 2018, Group employees completed an average of 18.7 hours of training, with 76.5% attending at least one training course. In total, 1,214,970 training hours were delivered in 2018.

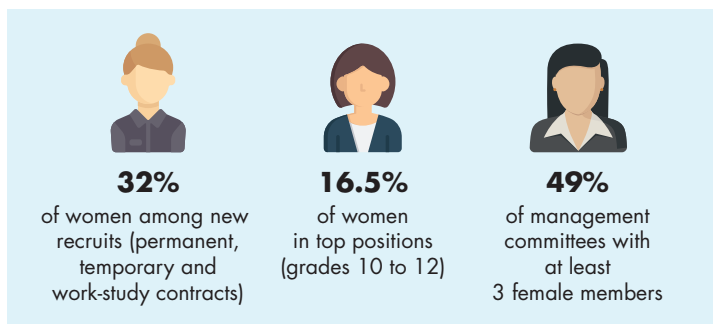
## Diversity and inclusion

Thales is committed to having its employees work in **teams that are open to diversity in order to bring out the best in everyone**. These commitments are also formalised in its Code of Ethics.

### A proactive policy for gender diversity

In early 2016, the Group's Chairman announced ambitious commitments for the next few years in terms of the percentages of female recruits (40%), access for women to the highest positions of senior responsibility (30%) and the presence of at least three women on each management committee.

In an effort to meet these objectives, the Group has adopted a dedicated governance system structured around a Steering Committee, a Diversity and Inclusion Council and a central Diversity and Inclusion function which was established in January 2018.



At 31 December 2018, **women made up 23.6% of the global workforce**, 23.5% of the European workforce and 24.9% of employees in France. Within the Group, women are predominantly employed in long-term, highly skilled positions: 96.2% of female employees work under open-ended employment contracts and 68.2% hold positions at a level equivalent to engineer, specialist or manager (grades 7 to 12).

In 2018, 1,442 women were recruited with permanent contracts, i.e. 27.6% of all employees offered permanent contracts, compared to 26.4% in 2017.

### Promoting cultural and generational diversity

As an international group, Thales respects and encourages a range of cultures in the workplace and for the past two years has been actively working to strengthen the international dimension of its teams. **Thales also strives to prevent any risk of age-related discrimination**, and to facilitate the continued employment, professional development and inclusion of people with disabilities within the Group.

### A high-quality, safe and healthy work environment

Thales is committed to being attentive to everyone's needs, making sure that employees have the trust and support of their managers and benefit from resources that allow them to have **a healthy work-life balance**.

### Constructive social dialogue

In all areas of shared interest, Thales advocates cooperation with its employees and their representatives and provides them with high-quality information, in particular by supporting and encouraging employee relations.

At the Group level, a European Works Council is composed of employee representatives from Thales's thirteen main European countries.

By the end of 2018, **86% of Thales employees worldwide were covered by collective agreements**. Nearly 50 new collective bargaining agreements were signed in France in 2018, demonstrating the importance and dynamism of social dialogue.

### Practical measures to improve quality of life and well-being in the workplace

The third Group **agreement on quality of life and well-being at work** at Thales in France was signed on 20 April 2018 with the unanimous backing of the unions. It defines the framework of the Thales health and safety policy, and establishes common preventive measures ensuring the identification, evaluation and handling of situations that may cause occupational hazards.

A Group framework agreement relating to teleworking, signed on 23 March 2018 and complemented by corporate agreements, is one of the measures taken to improve the quality of working life.

### Constant focus on employee safety

Thales also takes a proactive, responsible approach to preventing risk and protecting the safety of its employees. This commitment is reflected in the policy to reduce health and safety impacts and risks in its activities worldwide, in its products and at the various levels of the organisation. It is structured around two fundamental principles:

- providing a safe and healthy working environment for its employees at its own premises and at external sites;
- designing, purchasing, producing and providing solutions, products and services that meet health, safety and environmental requirements.

To that end, **Thales produces risk analyses at all its sites** and updates them on a regular basis according to its business activities, scientific and technical developments and emerging challenges.

Cross-disciplinary steering committees comprising specialist doctors and/or officers from the HSE network meet several times a year.

# 83%

of employees work on an  
OHSAS 18001/ISO 45001 certified site

Lost-time workplace accident frequency rate:

# 2.01 per every 1,000

(down 8% compared to 2017)

# BUILDING SUSTAINABLE GROWTH: CREATING VALUE FOR OUR SHAREHOLDERS

Thales's very solid financial results for 2018, which exceeded the targets set at the beginning of the year, bolstered our positioning and demonstrated the relevance of our strategy. This performance, driven by the ongoing commitment of the Group's 66,000 employees, was also a reflection of our increasingly strong sales momentum, numerous competitiveness initiatives and major investment in technological innovation.

## A rise in order intake

Sales momentum remained robust, with order intake reaching €16 billion, exceeding the annual target. New orders for the financial year 2018 **increased by 7% compared to 2017** (9% based on a constant scope and exchange rate). Sales were particularly strong in the Defence and Security sector.

At 31 December 2018, **the Group's order book was valued at €32.3 billion**, representing two years' worth of sales.

## Revenue growth once again above 5%

For the third consecutive year, organic revenue growth exceeded 5%, driven by an exceptional year in Transport (+17.9%) and strong growth in the Defence & Security sector (+5.6%). Revenues totalled €15,855 million, up 4.1% from 2017 and restated for the application of IFRS 15, and up 5.3% on a like-for-like basis and at a constant exchange rate ("organic" change).

## Record levels of operating profitability

Our operating profitability across all sectors increased to 10.6%, a new level never before achieved by the Group. Thales posted EBIT of €1,685 million in 2018 (10.6% of revenues), versus €1,365 million in 2017 (9.0% of revenues) – an increase of 23% compared to the 2017 EBIT, restated for the application of IFRS 15. All Thales business sectors improved their EBIT margin while also increasing their investments in R&D.

## Investors Day: well received

On 6 June 2018, Thales hosted an investors day for investors and financial analysts, during which management presented the Group's goals, key strategic priorities and main financial objectives for the period 2018-2021.

Afterwards, a number of financial analysts shared their appreciation of the event. They particularly underlined the Group's digital transformation objectives and expressed their confidence in the prospects displayed by Thales for 2021.

*"This event demonstrated the soundness of the Thales business model. Apart from growth, what came out of the presentation was the consistency of the management team."* (Kepler Cheuvreux)

*"The day was packed with positive information about business activities, the direction of the markets and the predicted results."* (Natixis)

*"We like Thales's low capital consumption business model, its focus on digital technology and its management."* (Redburn)

## 2019 OBJECTIVES

**€16 billion**  
Order intake<sup>(1)</sup>

**between 3% and 4%**  
Organic growth in revenues<sup>(1)</sup>

**€1,780  
to €1,800 million**  
EBIT<sup>(1)</sup>

<sup>(1)</sup> Scope: Thales without Gemalto. The objectives will be updated to take into account the integration of Gemalto, effective on 2 April 2019.





### Employee share ownership: a pillar of Thales's corporate governance

Since Thales's privatisation in 1998, **employee share ownership has played a key role within Thales's governance structure**. As of 31 December 2018, 41,150 employees and former employees owned 2.62% of the Company's share capital and held 3.37% 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 objectives, successes and performance of the Group. Employee shareholders are represented on the Thales Board of Directors by a director nominated by the Supervisory Committee of the Thales Employee Shareholding Fund (FCPE) and then elected by all the shareholders at the General Meeting. This director is also a member of the Strategic, Environmental and Corporate Social Responsibility Committee of the Board of Directors.

### FOCUS

#### Thales is doubly rewarded

- Patrice Caine took 2nd place in the category "Best Investor Relations by a CEO" (2018 Investor Relations Prize).
- Acquisition of Gemalto by Thales: Merger and Technological Acquisition of the Year 2018, EMEA.



## 2018 – A VERY SOLID YEAR

### ORDER INTAKE

**€16.0 billion**

**+7%**

(+9% in organic variation)

### REVENUES

**€15.86 billion**

**+4.1%**

(+5.3% in organic variation)

### EBIT

**€1,685 million**

**+23%**

(+25% in organic variation)

### ADJUSTED NET INCOME, GROUP SHARE

**€1,178 million**

**+40%**

### CONSOLIDATED NET INCOME, GROUP SHARE

**€982 million**

**+44%**

### FREE OPERATING CASH FLOW

**€811 million**

69% of adjusted net income

### DIVIDEND

**€2.08<sup>(1)</sup>**





**+19%**

(1) Put to the General Meeting on 15 May 2019.

# CREATING VALUE FOR THE ENVIRONMENT

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 own and its customers' environmental impact, and to better understand the challenges of climate change.

## OUR PRIORITY AREAS

-  Prevent the impact of our activities on people and the environment
-  Significantly reduce our climate footprint and that of our customers
-  Integrate eco-design into our product engineering
-  Foster a spirit of innovation with regard to the environment

### 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.

### 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 and trained in environmental issues so they can integrate them into their daily work.

In another reflection of its commitment, Thales requires its suppliers around the world to comply with the environmental

principles of its Purchasing and Corporate Responsibility Charter. Consideration of these principles is one of the criteria used to assess bids, while audits carried out on suppliers include an environmental component relevant to their activities. Thales is always interested in hearing from its customers, and organises regular discussion and working sessions to ensure that their approaches and needs can be aligned to benefit the environment.

Lastly, as a responsible company, Thales strives to provide full and transparent information about its own environmental performance on a regular basis.

### Meeting the challenges of climate change

Climate change is a major issue to which Thales wishes to provide a coherent response through its activities and services. The Group has two major goals, firstly to reduce at source its own CO<sub>2</sub> emissions and those of its customers, and secondly to contribute to a better understanding of the effects of climate change through the development of innovative or eco-responsible solutions.

The signing of the French Business Climate Pledge in 2017 confirmed Thales's commitment to and involvement in this long-standing fight against climate change. In 2018, the Thales group further honoured its commitment by setting up new multidisciplinary working groups to define a new carbon strategy, with the aim of setting targets for reducing its CO<sub>2</sub> emissions in line with the trajectory of the Paris Agreement all whilst supporting sustainable growth. Lastly, Thales was awarded an A- rating by the Carbon Disclosure Project. This is the third consecutive year it has been ranked as one of the most transparent and effective companies involved in the fight against climate change.



# 89%

of employees work on one of the **118** ISO 14001 – certified sites. This is the reference standard for environmental management, and takes into account the environmental impact of products

## 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, its SWOT oceanography technology provides higher resolution measurements of ocean surface and wave height, while models of the interactions between oceans and the atmosphere highlight the thermohaline circulation of the world's oceans – the engine that drives the world's climate – as well as the rise in sea levels due to global warming.

## Eco-designed or low-impact products






Thales is committed to developing products and systems that create **value for its customers while also reducing their environmental impact throughout their lifecycle.**

## DID YOU KNOW?

### Creating the conditions for sustainable transit in towns and cities

Against a backdrop of growing urbanisation, creating the conditions for sustainable transit within and between cities is one of the most effective ways to combat CO<sub>2</sub> emissions. Thales provides operators with transport systems that simplify access to transport through interconnected public transport, improve traffic flow, reduce consumption and increase network capacity by reducing journey times. In 2018, Thales finalised the acquisition of the Danish company Cubris – a market leader in driver advisory systems for main-line trains, and an essential technology for the autonomous train of the future. DAS allows for the real-time, fully secured exchange of information between the railway system and the train driver in order to optimise the driving of the train and reduce CO<sub>2</sub> emissions.

### CHANGE IN ENVIRONMENTAL INDICATORS (2016-2018)

-  Electricity consumption/Revenues (toe/€m): **-11%**
-  Energy consumption/Revenues (toe/€m): **-15%**
-  Water consumption/revenue (thousands of m<sup>3</sup>/€ million): **-14%**
-  Total waste production/Revenues (kg/€m): **-10%**
-  Emission of CO<sub>2</sub>/revenue scope 1, 2 and 3 (tCO<sub>2</sub>/€ million): **-15%**

## Solutions for a low-carbon society

Thales leverages advances in research and technology to **reduce its customers' carbon footprint.** A few examples that combine "ecology" and "innovation":

### Reducing the environmental impact of aviation

For more than 30 years, Thales has been developing features to optimise flight paths and take-off and landing phases, and to make air traffic management smoother. These solutions also **reduce noise, greenhouse gas emissions and energy consumption** during all flight phases.

### Making trains more energy efficient

Thales's 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.

### Promoting the use of public transport

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.**

### Optimising the energy efficiency of artificial intelligence processors

In the field of artificial intelligence, optimising the processors used and the associated neural networks **reduces their consumption significantly (by up to a factor of 100)** and also helps reduce their size and mass for use in embedded solutions. In 2017, a team from the joint CNRS/Thales laboratory conducted the first cognitive experiment using an artificial nano-neuron. In 2018, it launched a new experiment that made 200 neurons interact with each other.

### Using satellite technology to predict the weather

Thales has been involved in the development of satellites, optical instruments and high-efficiency radar to monitor the environment and climate change since 1974. As such, it is a **key player in observing the earth**, understanding climate change and monitoring the environment. Every day, satellites built by Thales Alenia Space provide weather data to more than half of the world's population.

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# CREATING VALUE FOR COMMUNITIES

Ever since its establishment in 2014, the Thales Foundation has been drawing on the commitment, motivation and skills of Thales employees to tackle two key challenges: education and humanitarian crises. In four years, it has thus supported more than 60 projects in 20 countries around the world, including 15 projects in 2018.

## Innovation for education

The Foundation undertakes projects that promote science and innovation in education, aimed at children and their teachers. The goal is to give **young people a taste for innovation and help them to be more adaptable** in an increasingly fast-changing world. In 2018, the Foundation funded seven innovative educational projects benefiting more than 4,000 pupils and teachers. For example, in France, the *Savanturiers du Numérique et des Technologies* (Smart Digital and Technological Adventurers) programme – in partnership with the Interdisciplinary Research Centre – introduced over 1,400 primary and secondary school pupils to research-based learning through programmes combining computer programming, robotics and new scientific fields.

## FOCUS

### Employees committed to social outreach

Every year, Group employees can suggest a charitable project to be supported by the Foundation, take part in a volunteer mission within a project selected by the Foundation, or join a collective initiative. Since 2015, a total of 41 sponsors, including 7 in 2018, have supported projects funded by the Foundation. In four years, Group employees have been involved in more than 300 volunteer missions.

### Round Off Your Pay: more than 4,000 micro-donors

In 2018, the “Round Off Your Pay” operation attracted 4,086 micro-donors within the Group’s French companies and raised **€287,000 to support six associations**. Donations were up by 22%, attesting to the enthusiasm for the programme and the generosity of Thales’s employees. Launched in May 2016 and designed by social and solidarity enterprise microDON, the initiative lets Thales employees in France round down their pay to the nearest euro and donate the excess to an outreach project, with an option of giving up to €10 extra. 100% of the amount collected in donations from employees is paid to charities, after being matched by Thales.

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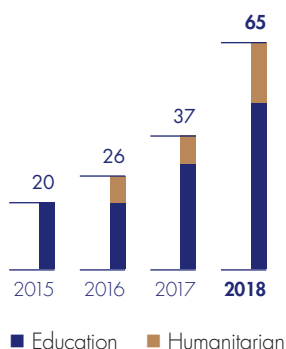
**The endowment of the Foundation and the expenses incurred by Thales in sponsorships in eight key countries amounted to almost €1 million**

## Reducing the impact of climate disasters

One of the ways to reduce the vulnerability of populations living in areas subject to high climate risk is to encourage the local population to learn first aid. To this end, the Thales Foundation supports a number of projects designed to anticipate and reduce the impact of natural and environmental disasters. In 2018, two projects educated more than 1,200 young people in India and Nepal about the risks of earthquakes and environmental damage. In Kathmandu (Nepal), the English Rescue Global Association consequently trained 400 pupils and scouts aged 8 to 16 years in first aid in the event of a natural disaster, in order to strengthen the resilience of the local population and to ensure the ability to take action as quickly as possible.

## NUMBER OF INDIVIDUALS BENEFITING FROM THALES FOUNDATION PROJECTS

(IN THOUSANDS OF PEOPLE)



### DID YOU KNOW?

#### Local engagement worldwide

Group companies also support local and national organisations in the areas of education and outreach. In Australia, the UK, the US, China and Singapore, for example, these contributions boost Thales's local impact in terms of education in the fields of science, technology, engineering and mathematics.



## Employees take part in social impact investing

Two Thales Solidarity Funds are among the funds offered to employees under the employee savings and retirement schemes.

The Thales Group's employee savings schemes in France consist of a Group savings scheme (PEG) set up in 1998 and a collective retirement savings plan (PERCO) established in 2007.

**As at 31 December 2018, more than half of French Thales employees – i.e. 20,000 people – contributed to Thales's Solidarity Funds, which represents a cumulative amount of €242 million.** More than 8.5% of this amount was directly invested in social and outreach projects, i.e. €21 million in 2018.

In terms of impact, more than 100 families were rehoused in France, more than 800 jobs were created or preserved in France, and more than 40,000 people were helped worldwide (24,000 refugees and 1,600 micro-loan beneficiaries, in addition to individuals who received care or training).

### FOCUS

#### Thales's Solidarity Funds are managed by Amundi and Humanis

- The Amundi solidarity fund represents a total amount of €124 million, of which 8.85% (i.e. EUR11 million) is directly paid into a solidarity allowance.
- Humanis solidarity savings represent €118 million, of which 8.5% – i.e. €10 million – is earmarked for solidarity projects managed by solidarity associations or companies such as The solidarity tie, Lemon Tri, Enercoop, Habitat and Humanism, etc. This is either direct or via specialised structures (Inco, France Active, Adie, etc.).



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# ABOUT THIS REPORT

In a group as global and diversified as Thales, corporate responsibility is inseparable from the concepts 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. Resulting from the implementation of the best professional practices and the maturity acquired in this domain, this integrated report details the strategy, governance and financial and non-financial performance (environment, social security, governance and societal) of the Group with a view to creating value. Thales believes this document will contribute to a **better understanding of its business activities**, the complexity of its working environments. It is also a testament to 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 2018 Registration Document<sup>(1)</sup> and refers to it in many instances.

The purpose of this report is to detail the way in which Thales interacts with its ecosystem and uses capital to create short, medium and long-term value.

## Scope

The report covers the 2018 financial year (1 January 2018 to 31 December 2018). 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



**For more information**

[ethics.cr@thalesgroup.com](mailto:ethics.cr@thalesgroup.com)

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

## OTHER THALES PUBLICATIONS

### 2018 Registration Document

[www.thalesgroup.com](http://www.thalesgroup.com) under the "Investor" heading



**Equities/credit investors – SRI investors – Individual shareholders – NGOS – National authorities**

Document compliant with French and European regulations, notably including the annual financial report, the management report of the Board of Directors, and the declaration of non-financial performance.

### Overview of Thales

[www.thalesgroup.com](http://www.thalesgroup.com) –  
"Global > Group > Overview"



**SRI investors – NGOS – Customers and partners – Suppliers – Shareholders – Employees – Civil society**

Presentation of Thales's missions, values, principles and business activities.

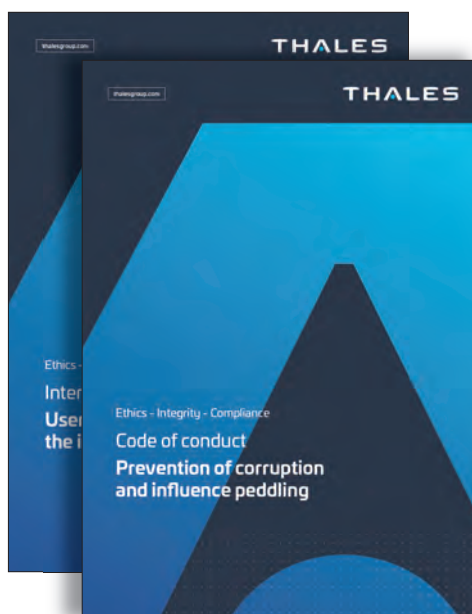
### Thales's responsibility: key documents

[www.thalesgroup.com](http://www.thalesgroup.com) – heading:  
"Corporate Responsibility > Key Documents"



**SRI investors – NGOS – Customers and partners – Suppliers – Shareholders – Employees – Civil society**

Code of Ethics



**NGOs – Customers and partners – Suppliers – Employees – Civil society**

Code of Conduct - Prevention of corruption and influence peddling;  
User guide to the internal alert system

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

# PRINCIPLES OF RESPONSIBILITY



Launched in 2000, the United Nations Global Compact<sup>(1)</sup> 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. Over 9,900 companies in 159 countries have joined 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. Thales is one of 636 companies in the world which are classified as Global Compact Advanced (6% of total companies adhering to the Global Compact).

## Human Rights

### Principle 1

Businesses should support and respect the protection of internationally proclaimed Human Rights within their sphere of influence Pages 3, 32-33, 36-37, 44-45

### Principle 2

Businesses should make sure they are not complicit in Human Rights abuses Pages 3, 28-29, 32-33, 38-39

## Labour

### Principle 3

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining Pages 32-33, 38-39

### Principle 4

The elimination of all forms of forced and compulsory labour Pages 29, 32-33, 36-37, 38-39

### Principle 5

Businesses should uphold the effective abolition of child labour Pages 32-33, 36-37

### Principle 6

Businesses should uphold the elimination of discrimination in respect of employment and occupation Pages 21, 32-33, 38-39

## Environment

### Principle 7

Businesses should support a precautionary approach to environmental challenges Pages 3, 32-33, 36-37, 42-43

### Principle 8

Businesses should undertake initiatives to promote greater environmental responsibility Pages 21, 32-33, 36-37, 42-43

### Principle 9

Businesses should encourage the development and diffusion of environmentally friendly technologies Pages 3, 32-33, 42-43, 45

## Anti-corruption

### Principle 10

Businesses should work against corruption in all its forms, including extortion and bribery Pages 3, 25, 28-29, 32-33

(1) [www.unglobalcompact.org](http://www.unglobalcompact.org).

## FOR MORE INFORMATION

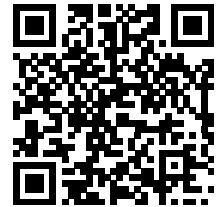
[THALESGROUP.COM/EN/GLOBAL/CORPORATE-RESPONSIBILITY](http://THALESGROUP.COM/EN/GLOBAL/CORPORATE-RESPONSIBILITY)

### or contact the **Ethics, Integrity & Corporate Responsibility Department**

**By e-mail:** [ethics.cr@thalesgroup.com](mailto:ethics.cr@thalesgroup.com)

**By telephone:** +33(0)1 57 77 86 49

Thales would like to thank Group employees for their contributions.



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Agence Marc Praquin

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# THALES

Tour Carpe Diem – Place des Corolles – Esplanade Nord  
92400 Courbevoie  
France  
Tel.: +33 (0)1 57 77 80 00  
[www.thalesgroup.com](https://www.thalesgroup.com)