

HOW THE THALES MATERIALITY ANALYSIS WAS CONDUCTED?

METHODOLOGY

The Thales ESG Strategy is defined from the materiality analysis. This analysis allows Thales to identify major materiality stakes and to rank them according to their importance for our stakeholders and to their influence on the company's performance.

This materiality analysis must take into consideration the fact that Thales is a dual company – both on defense and civil markets – that has a presence on 56 countries around the world.

Through this analysis, we aim to identify which are the value creation processes and how they impact our business over the long term.

THE ROLE OF OUR STAKEHOLDERS IN THE MATERIALITY ANALYSIS

Thales is fully aware of these societal changes and the new responsibilities that accrue to organizations like ours. For more than 15 years, Thales has developed a policy of corporate responsibility and engagement with respect to all the company's stakeholders.

As stated Patrice Caine, Chairman and CEO of Thales, *“In times of uncertainty, it is more important than ever to have convictions. Our conviction is that Thales's success, based on performance, innovation and responsibility, can only be achieved through positive, strong, sustainable interactions with all our stakeholders”*.

These interactions are various and address all kind of stakeholders:

- **Investors (see page 196 of the 2017 Registration document)**
 - Regular meetings between Thales executives and institutional investors are held in Europe and North America, typically as part of roadshows, Investor days or visits to operational sites. These include a more detailed presentation of the Company's business activities and strategy;
 - Thales also regularly exchanges information on its corporate social responsibility policy with the Socially Responsible Investor (SRI) community. These reports cover corporate, social, environmental, governance and international trade issues, especially regarding anticorruption measures and the control over the export of defence equipment and technologies or dual-use goods and technologies.

- ***Professional, international and non-governmental organizations (see page 238 of the 2017 Registration document)***

Thales works closely with numerous bodies, including:

- The United Nations, and in particular the United Nations Global Compact. In 2016, for the fifth year in a row, Thales achieved the Advanced level of the Global Compact differentiation programme which, with its 21 specific criteria, is the highest reporting and performance standard for responsible development;
- the Organisation for Economic Co-operation and Development (OECD); the European Commission; the International Chamber of Commerce (ICC)...;
- The US-based ethics and integrity body Defense Industry Initiative (DII); various forums set up by the main British companies in the defence industry, including UK National Defence Business Ethics Forum, ADS, Supply Chain 21 Task Force and Institute of Business Ethics; the Ethics Network Australian Defence Industry (ENADI); the Observatoire sur la Responsabilité Sociétale des Entreprises (Centre for Corporate Social Responsibility (ORSE))...;
- Entreprises pour l'Environnement (Companies for the Environment (EpE)); the Association pour la promotion de la Conformité Réglementaire Santé Sécurité Environnement (Association for the Promotion of Compliance with Health, Safety and Environmental Regulations (ACORES))...;
- The Group is a founding member and joint chair of the International Forum on Business Ethical Conduct (IFBEC), whose last worldwide forum took place in Washington in October 2017;
- Thales actively participated in the work of the Business 20 Anti-Corruption Taskforce at the most recent G20 summit in Germany, and is helping to draw up an action plan for the next summit, which will take place in Argentina in 2018;
- Thales maintains regular contact with NGOs such as Transparency International, particularly on matters related to business ethics, and Amnesty International and Saferworld on the question of Human Rights.

- ***Suppliers (see page 234 of the 2017 Registration document)***

- Thales is certified by the "Responsible Supplier Relations" label that recognizes companies committed to responsible and virtuous purchasing practices; it is a continuation and implementation of the ten commitments for responsible procurement defined by the Charter of inter-company relations of which Thales was one of the first signatories in 2010;
- Thales has signed a bilateral agreement to support SMEs through the SME Defense Pact;

- On a yearly basis Thales assessed its relations with nearly 330 of its French SME and MSB suppliers using a Pacte PME developed survey. Proving that it listens attentively to its suppliers, Thales committed to improving any areas identified as wanting.
- **Customers (see page 233 of the 2017 Registration document)**
 - Thales conducts a worldwide Customer Satisfaction survey based on a two-year cycle. The last one conducted in 2017 interviewed 700 customers in 100 countries; Thales develops a series of workshops bringing together major defense customers. These meetings aim to encourage a forward looking dialogue.
- **Employees (see page 200 of the 2017 Registration document)**
 - In all areas of common interest, Thales promotes cooperation with its employees and their representatives, and provides them with high-quality information, in particular by supporting and encouraging employee relations;
 - Created by an anticipation agreement, the European Works Council (EWC) comprises representatives from Thales' 11 main European countries;
 - Thales is taking innovative measures to attract experts with skills in electronics and cyber security, who are scarce on the job market. In 2016, the Group jointly organised a cyber security challenge as part of European Cyber Week, and the Projet Arduino student contest.

THALES'S METHODOLOGY (page 19 of the 2017 Integrated Report)

The Materiality Analysis has been elaborated in January 2016 with the help of external consultants (EY) and is reviewed on a yearly basis (last revision on January 2018).

On a first step, an in-house analysis of major stakes has been done by the Corporate Responsibility Department from existing documents (Registration Document, Environmental Report, Social Reports, Corporate Responsibility Report ...).

Then by interacting with stakeholders and running special internal workshops, Thales has been able to identify and classify the Group's most important environmental, social and economic challenges, based on:

- stakeholder expectations,
- impact on Group activities.

These challenges have been formally categorised using the materiality matrix presented below. In addition, in-depth studies have been conducted to determine Thales’s level of performance against each of the challenges. The stakeholders’ point of view regarding each point of materiality has been privileged in the search for a consensus in the assessment of the stake.

Adding this third aspect to the matrix allows the Group’s strategy and policies to be further refined, so that expectations can be more effectively anticipated, and opportunities more readily seized.

Analysis of the items that appear in the “priority challenges” section of the matrix reveals the convergence between stakeholders’ key expectations and Thales’s strategic vision (customer value and mindset, customer-driven competitive innovation, attractiveness and talent retention, excellence in delivery, etc.) (see p. 52 of the 2017 Integrated Report for the Ambition 10 plan).

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

THALES MATERIALITY MATRIX

